

Valorification of the potential of liberal foreign trade policy for Republic of Moldova

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Abstract

The work refers to the issue of valorification of the potential of liberal foreign trade policy via the prism of achievement the benefits for entrepreneurship development, engaged in external economic activity. The study emphasis is on the analysis of trade policy instruments used in the post-accession period to the World Trade Organization. In this analysis we should state that our country has used external trade advantages offered by the liberal trade, after the accession to the WTO insufficiently, as well as the European economic integration. The implementation of reforms in the foreign trade sector, which began with accession to the WTO, was not supported by reformation of other economic sectors. Among the main obstacles are the following: the weakness of state institutions, inconsistency and non completing the reforms started, the lack of political will, the high level of corruption etc.

Keywords: *liberal trade policy, advantages, entrepreneurship development, economic reforms.*

Introduction

The Government of the Republic of Moldova has started the process of accession to the World Trade Organization (WTO) yet in 1993, in the period of economic reformation and the integration of the economy of the Republic of Moldova in the world economic system. At that time the legislative framework and the economic situation has been such that our country was unprepared to join this organization. The process of accession to the WTO required a scrupulous preparation and it was a long and complicated issue that ended in 2001, when Moldova became a full member of the WTO.

For more than 10 years the Republic of Moldova is in compliance with and in a implementation phase of the obligations, when it was possible to gain from the advantages obtained from the process of accession.

From that time, both the Government and producers are placed in front of new requirements, which are to a large extent compliance with laws that do not allow an arbitrary attitude with respect to the rules laid down by the organization. In this context, the valorification of the potential of the WTO member country directly depends on the

existence of ongoing cooperation between the Government and entrepreneurs who are engaged first of all in foreign economic activity.

The purpose of this paper is to assess the extent to which the country has used the advantages of liberal foreign trade after WTO accession and further European economic integration.

1. Two trends in external trade

Moldova as a country with small and open economy is highly influenced by the imbalances that are recorded in the world economy, such as global and regional economic crises, increasing competition in the international market, disrupting the balance of payments, external debt increasing, economical and political instability of Central and Eastern European countries and, first of all, the Commonwealth of Independent States (CIS) countries. These problems have been intensified last time for Republic of Moldova, taken into account the vulnerability and fragility of the country's economy under the weight of external economic shocks, the latest of which took place in 2009-2010, caused by decreasing demand at Moldavian export from developed markets and key partners (such as the EU, Russia). Currently the country is going through the economical and political regional crisis under the pressure of Russian and Ukrainian economies decrease of 3.8% and 5.5% respectively, according to IMF estimates for 2015. [1]

In turn, these problems generate a stable interaction between two contradictory tendencies in the foreign trade: protectionism and liberalism. These trends reflect both countries' reaction to the processes occurring in the global economy and changes in the international division of labor.

Over the past decades Moldova practice a liberal foreign trade policy. In its choice the country considered the following global trends that influence economic development.

Protectionism is a defense policy of the internal market from external competition. Adepts of protectionism considered appropriate to limit imports in order to support local producers, preserve jobs, which would ensure sustainable social stability. Reducing import would also contribute to increased demand in the country for

production of local entrepreneurs, stimulating simultaneously the rise in production and utilization of labor.

At the same time, limiting competition, market protectionism creates conditions for decreasing the efficiency of production, the increase in prices on the domestic market, leading to adverse effects.

Protectionism followers also believe that young industries need time to affirm and strengthen the market position, therefore require support and defense. It is assumed that, during the development of these branches, the protectionism would fall gradually. In reality, however, protectionism reduces incentives to increase effectiveness of market and, consequently, the process of formation of the industry may take longer. The practice shows that the protectionism application requires careful examination and a thorough check in advance.

The policy of liberalization, contrary to that of protectionism, supports the opening of the internal market for goods, capital and foreign work force, which contributes to the enhancement of competition in the internal market. Free trade requires placing the technological and technical innovation and provides consumers with a wider choice of goods at affordable prices and offers entrepreneurs the opportunity to use fully the advantages from international labor division (low-costs of raw material and work force, etc.).

Moreover, free trade sets up dynamic forces that accelerate the pace of growth of the economy due to improvements and innovations.

Market protectionism hampers the development of these forces.

To be mentioned that the advantages of the application of liberal foreign trade regime are felt only in the case when trading partners follow the same principles.

In this context we shall notice, that the world economy started on the path to a more free trade after World War II.

In 1948 under the auspices of the United Nations was created the General Agreement on Tariffs and Trade (GATT), whose mission was to put into question the issues of world trade, and to contribute to the reduction of customs taxes. In 1995 GATT is reformed and transformed into the WTO, the latter serving as the basis for all other multilateral agreements concluded under the GATT.

The significance of the agreement establishing the WTO lies in creating a system of contract law on the regulation of trade between member countries. This agreement substantially broadened the field of GATT, and extends its action on the trade in services and the commercial aspects of intellectual property rights. Over 90% of world trade in goods and services shall be governed by the rules and regulations of WTO.

2. The advantages of a liberal trade policy for the Republic of Moldova

The compliance with the WTO rules, as well as intensifying European economic integration open new possibilities for the development of foreign trade of the Republic of Moldova.

These possibilities are related to obtain potential advantages, the most important being the following:

- Strengthening of national economic policy and institutions responsible for foreign trade in goods and services;
- Ensuring greater access to the markets of member countries;
- Ensuring access to international mechanisms for resolving of trade disputes.

2.1. Strengthening of national economic policy and institutions responsible for the promotion of foreign trade

At the date of application for membership to the WTO, the policy and the national institutes responsible for the development of international trade were not yet market-oriented. The State had a dominant role in foreign trade. National institutions managing intellectual property rights, technical standards, phytosanitary measures, and the Government procurement were considerably different from those international. Some of the necessary legal acts were totally absent. The WTO membership requires that national policies and institutions, which manage the trade in goods (GATT), services (GATS) and the related aspects of intellectual property rights (TRIPS), should be brought into line with the basic international agreements. The need for such action is related to ensuring the country's external trade performance in line with the principles of the market. It is a fundamental condition for the ability of the institutions concerned, to fulfill their obligations assumed by country during the accession.

It should be emphasized that in the sphere of activity of the WTO are numerous problems related to economic development. In this context, economic reform, generated by the external trade sector, can have a multiplier effect in reforming other sectors of the economy. In turn, all these phenomena contribute to sustainable economic policy and to the improvement of the methods of economic management of the country.

By the time of accession of Moldova to the WTO the country reached significant progress in bringing national economic policy in line with the main WTO agreements.

Norms and legal acts are pertaining to the custom assessment of goods, using of sanitary and phytosanitary measures, standardization, certification, protection of intellectual property, and other issues impacting directly or indirectly on trade have been modified in accordance with the international rules.

Since 1994 has been enabled the free trade of goods, except for goods subjected to quotas for export which was necessary to obtain licenses. Later these quotas were excluded. The registration of economic operators for the right to participate in foreign economic activities has been canceled.

At present, there are low customs duties applied in the country. Non-tariff barriers in the trade, such as sanitary rules which go beyond the limits of necessity and safety of public health, the conditions of production certification, and the specific technical standards are not imposing. These measures and actions have been introduced in accordance with the requirements of the WTO within the framework of the liberalization of foreign trade and speeding up customs operations. External trade liberal regime, introduced in the country beginning with conclusion of the negotiations on the accession of the Republic of Moldova to the WTO, should be followed. At the same time, membership in the WTO provides new opportunities for economic development. The need of compliance with obligations of the process of accession to the WTO and further alignment with the EU are accelerating the process of reforming the economy.

The WTO membership offers to the Government an opportunity to defend itself from local protectionist pressures which persist and have a greater or less then extent in all market economies. However, not all protectionist tendencies in Moldova are related to a desire to avoid intensifying competition in the domestic market of the

country, as happens in some developed countries. In Moldova they are conditioned, first of all, by the general economic crisis and the inability of the country's power to pull out the country from this state.

From the moment of obtaining independency Moldova has been going through period of systemic social-economic and political crisis, related with transformations of transitional period. Also, the Republic of Moldova is very vulnerable to the global economic and regional crisis, displaying a poor resistance, as there were in period of 2009-2010 crises and the current crisis and the insufficient capacity of the governance of crisis situation.

In the study elaborated by the OECD is indicated that economic instability and weakness of the institutions are regarded as some of the dimensions of a fragile state which raises obstacles to fulfilling the agenda of further economic development (after 2015) [2].

However, belonging to the WTO contributes to the development of entrepreneurship because it involves bringing the work's regulatory system in line with international practice. Since independence entrepreneurial environment is always in attention of the State. In the last decade, during the post-accession to the WTO, in the country was carried out regulatory reform of the entrepreneurial activity, recording some steps: "Guillotine 1" included the detection and cancellation of unnecessary regulations"; "Guillotine 2" was dedicated to the reviewing the regulatory framework of the level of laws; "Guillotine 2+" focused at the analysis of regulatory impact assessment to establish a more rational system for rule makers). Currently is implementing the step of reform involving the creation of a regulatory system more intelligent, determined by clear criteria for competitiveness, which will generate social and environmental benefits, while improving the conditions for transition to a knowledge economy. [3] In the field of small and medium enterprises over the past few years has been applied the mechanism savings to boost investment in business development by implementing of the EU program to attract remittances into the economy "PARE 1 + 1".

However more than half a decade after the global financial and economic crisis, entrepreneurs continue to face challenges in obtaining funding as a key element for their development. The access to finances will be lower both for the real sector and for

carrying out planned reforms in the public sector, as a result of doubtful loans granted by three banks placed under special administration in the period from the end of November – middle December (Bank of Economies, Unibank and Social Bank) amounted to 13.3 billion MDL.[4] This amount constitutes over 30% of the loan portfolio throughout the banking sector, according to data from the month of March 2015.

Moreover, in times of economic crisis, the responsible institutions implemented a restrictive fiscal policy for entrepreneurial activity by increasing four times the basic interest rate in the period from January to February (from 4.5% to 13.5%), motivating its decision by the need to stabilize the quotation for the major currencies. In consequence, the loan portfolio throughout the banking sector in March has been reduced with over 857 million MDL, representing 41.97 billion MDL, according to the National Bank. The reduction of the loan portfolio occurred in all commercial banks in the country except a bank.

Trade liberalization does not exclude the protection of domestic producers. WTO member countries may resort to protective measures creating barriers to a excessive import if it causes or may cause harm to specific branches of the national economy. The same measures can be applied in the case of new branches, of perspective, passing through temporary difficulties of development. Their implementation must be transparent and have to work as long and in so far as it is necessary for the prevention or removal of a serious damage. The use of protective measures against imports, which is an object of dumping or subsidized by the country of origin of goods, as well against imports the amount and conditions of supply of which harms or may harm domestic producers, is governed by the law of the Republic of Moldova " On the measures of anti-dumping, compensation and safeguard", which entered into force when ratified documents Moldova's accession to the WTO. So far, the government did not have such possibilities prescribed by law to protect domestic producers. The provisions of this law were implemented only in order to protect domestic producers of sugar industry by introducing special safeguarding measures. Since August 1, 2003 was introduced an exceptional charge of 40% on imports of cane sugar, that costed on the market with about 50% less than domestic product, initially for 200 days in order to protect domestic

production of sugar. During the following years, for instance, in 2008, the measures to safeguard domestic production of sugar were extended still to four years. [5]

The protection of the domestic market (both consumers and producers) against the importation of goods of poor quality, dangerous or counterfeit is guaranteed by the Law "On Technical Barriers to Trade", which provides for the possibility to use some non-tariff measures to this end. Since the approval of this law, the Moldovan authorities used this instrument of trade policy to imports of products packaged in plastic or tetra pack, collecting an ecological tax. The eco fee is introduced from 2008, in the amount of 0.8 to 3 lei per package, depending on the volume of containers. The main trading partners considered discriminatory the procedure of collecting this tax only from importers of listed products. Accepting the domestic producers from it could cause similar steps, on their part, in respect of domestic sensitive products. In early 2011 Ukraine has started a legal action against the Republic of Moldova within the World Trade Organization demanding to stop the environmental tax [6], but the dispute was then left to the discretion of parties. All the major partners of Moldova, the WTO members, confirmed the need to introduce the tax in accordance with international obligations of the Republic of Moldova.

Simultaneously appeared some other problems related to the imperious necessity to raise competitiveness and quality of domestic products, reduce production costs and administrative burdens, modernization of production processes.

It is appropriate here to note that so far are not used yet all the possibilities to apply fully tariff measures for the protection against imports from abroad. During the years after joining the WTO, the average tariff applied on imports of goods did not exceed 5%, while consolidated average tariff negotiated with WTO is 12.5%. Given the bonds on customs tariff, there is the possibility of fixing the perspective of higher taxes at this position.

The stability and predictability of WTO rules and the provisions of the association agreement with the EU in general create favorable conditions for the development of local entrepreneurship. So, since joining the WTO and EU alignment, some consensus on bringing foreign trade to market rules and principles may be attested in the country,

but the institutions involved in foreign trade activities still do not reach the required standards, which has a negative effect on stage to use the given advantages.

The formation of an appropriate institutional structure of the market, including one tangentially as is that of foreign trade for both Moldova and other countries in transition, is a complicated and lengthy process which practically has no precedents. In developed countries such institutional structures are formed over years or even generations. The countries with economies in transition found themselves face to face with the need for the formation of such institutional structures in a very short period. That is why a simple copy or direct loan experience from developed countries in creating institutional structures are not always suitable for countries with economies in transition.

In fact, compliance with WTO law in the sphere of national policy and institutional activity related to the conduct of foreign trade should encourage economic reform in the country and accelerate its integration into the international economic system. The membership of the WTO provides a beneficial opportunity to defend the interests of entrepreneurs in the markets of member countries of this organization, what was missing until WTO accession.

2.2. Change in market access

After joining the WTO two significant changes regarding the access to the markets of WTO members took place.

The first concerns the establishment of a permanent and non conditional status of a country favored in its trade with other member countries of this organization. Before joining the WTO, Moldova benefited from a preferential trade regime in its relations with some developed countries only in accordance with the General System Preference (GSP), including: the European Union, the USA, Sweden, Japan and Canada. GSP is a special regime customs-tariff regulation, the essence of which is to grant unilaterally, on behalf of developed countries, certain customs-tariff incentives on imports of some goods from developing countries and CIS. This scheme, however, besides being limited to certain goods can be stopped at any moment, even canceled in case of any difficulties of local producers in these countries. Some GSP beneficiary

countries risk to be excluded from the list of beneficiaries of preferential trade arrangements from certain economic or political considerations. Similarly, there is no guarantee that the developed countries will continue to provide this regime further, because there is not a specific legislative framework obliging them to do likewise.

After joining the WTO Moldovan exporters obtained stable preferential access expressed by setting lower duties taxes than previous ones, on markets of member countries of this organization, which currently represent 161 countries. During Moldova's accession to WTO many markets were absolutely new for Moldovan goods. Further, this preference will be set for all kinds of goods exported from Moldova on the markets of member countries of the WTO. During the years after the joining of the Republic the WTO and other CIS main trading partners have achieved this status. At the moment the country's trade is developed mainly with WTO members. In 2013 the foreign trade of the Republic of Moldova increased 5.4 times, including export over 4 times in comparison 2001.[7] Obviously, the accession to the WTO is a prerequisite for its complete integration into the world economy and first of all in that of the European Union.

Moldova's WTO accession has already contributed to strengthening economic relations with the countries of the European Community. Almost every point of the Partnership and Cooperation Agreement between Moldova and the EU and that of the Association Agreement with the EU is based on GATT / WTO legislation what simplifies considerably the process of EU alignment.

The appearance of enhancing export opportunities will create in turn favorable incentives to increase volume of production and modernization of the industrial potential of the country.

The second change relates to the acquisition of qualifier of country with market economy principles, with the accession to the WTO.

The qualifier that the market economy is missing is often used for applications to another type of anti-dumping measures than those of market-based economy principles, namely of protectionist procedures, non-transparent and potentially discriminatory, as well as of some technical barriers to trade barriers introduced by developed countries against imports from CIS countries that are not WTO members. In

accordance with Article VI of GATT / WTO anti-dumping measures can be applied to imported items whose export price is lower than the "normal price". Moreover, for the WTO member countries under the "regular price" is understanding the cost of domestic goods on the market of exporting country, when for the countries that are not members of this organization is using cost on the internal market of importing country.

Such comparisons are often not in favor of transition countries that are not WTO members. In these countries the cost of labor resources is substantially lower than in countries with developed economy. Ultimately the phenomenon reflects on a lower price of goods in these countries compared with those WTO countries. The countries that are not WTO members do not have sufficient arguments to demonstrate the presence of competitive advantages such as lower cost of labor resources.

In line with WTO practice, the award of the qualifier of market economy country is achieved de facto as part of a system of control levers in the accession process.

2.3 Access to the mechanism of resolving commercial disputes

In line with WTO law each member has equal access to the mechanism of resolving commercial disputes. Most countries in transition are relatively small and highly dependent on international trade. These countries need access to an impartial and binding mechanism for resolving trade disputes. Since obtaining the status of country-member of the WTO in 2011 Moldova initiated the trade dispute against Ukraine in connection with application of a duty tax on imports of alcoholic beverages that has been considered discriminatory in respect with drinks of Ukrainian origin [8]. The measure has affected distilled spirits exports from Moldova to Ukraine.

It seems that achieving the above advantages will enable Moldova to increase exports to WTO countries, what will have a positive influence will posse the negative balance of trade with these countries and enable it to become an active participant to the mechanism of resolving commercial disputes.

3. Conclusions

The country's membership to the WTO and the signing of the Association Agreement with EU offer favorable conditions for promotion Moldovan goods and increase the volume of exports to the markets of states concerned. Also, this status

opens new possibilities to the Moldovan government protect the interests of exporters to the markets of member countries of this organization and access to the mechanism for resolving international commercial disputes. So, liberal foreign trade policy regime has created favorable conditions for economic entities involved in foreign economic activity. However, our country has used insufficiently the liberal trade policy instruments after accession. In this context, it can be detected two groups of specific and general issues.

The first one is related to the lack of collaboration between the government and business on screening to problems both domestic and on the external markets and the existence of sufficient analytical capacities in the formulation and argumentation positions in commercial litigation and enforcement trade policy instruments in order to protect domestic producers. Today, as during Moldova's accession to the WTO, many entrepreneurs are worried about the effects that could occur domestically in the European integration process, not knowing the benefits of liberalized trade. They were not and are not able to accurately estimate the impact of accession and identify new opportunities to assert themselves on markets recently opened. In context, it should be resolve some issues related to the need to raise competitiveness and quality of local products and modernizing production processes.

General issues related to the need to reform the economy. Reform of sphere of foreign economic relations, which began with accession to the WTO, should accelerate the economic and other fields contributing to sustainable economic policy and improving methods of managing the country's economy in general. However, reforming foreign economic policy it has not occurred together with the reform of the financial sector, of the implementation of fiscal policy stimulating economic development, reforming the benefits of entrepreneurial activity still have to be valued, etc. Frequent changes of governments in recent years, high levels of corruption brought upon stopping initiated reforms. The external economic relations remains one of the most developed in all sectors of national economy. Boosting of economic reforms under the Association Agreement between Moldova and the EU is vital for the development of the state.

The weakness of state institutions, associated with fragile state, can create almost insurmountable obstacles in the way of fulfilling the country's economic development agenda in the future.

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