The Relationship Between Institutions and Trade, Empirical Analysis from the Republic of Moldova Case

Ion MUŞCHEI[1]

Abstract

Starting from the fact that the Republic of Moldova has signed the Association Agreement with the European Union and moreover creates a Deep and Comprehensive Free Trade Area, the current paper aims to analyse the relationship between institutions and trade. The existing theory of institutionalism pointed out that country with the same level of institutions tend to trade more and also trade might produce institutional change. Based on a mix of methods analyses like reports, data and survey, this paper concludes that the correlation between institution and trade in this case is law. This is relevant because in this way we can change, enrich or enhance the strategy of the EU towards Eastern countries especially the Republic of Moldova.

Keywords: Formal institutions, Trade, the European Union, Republic of Moldova.

JEL Code: D02, C33, F53, O43, P33

1. Introduction

The current bilateral relationship between the Republic of Moldova (RM) and the European Union (EU) is based on the Association Agreement (AA) which pursues two essential elements: political association and gradual integration into the single European market. The economic integration of the Republic of Moldova into the European market is foreseen to be achieved through the Deep and Comprehensive Free Trade Area (DCFTA). Thus, DCFTA offers to the Republic of Moldova the necessary framework for the modernization of its commercial relations and a solid basis for the economic development through the progressive

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elimination of customs tariffs and quotas, through an extended harmonization of laws, norms and regulations in various commercial sectors. DCFTA implies a gradual liberalization of trade (up to 10 years from the moment of signing), but the liberalization will not be complete, Moldova limits the import without taxes for meat and meat products, dairy products and sugar, quantitative quotas being established. *De Jure* has been 5 years of signing and the establishment of the DCFTA, a sufficient time to draw some preliminary conclusions regarding the impact of AA. Expectations were high but the results were not tailored, however, some areas performed and recorded very good results. Such a field is trade, which is the subject of the present study. The AA expressly sets out objectives to be achieved in areas such as*: Political Dialogue and Reforms, Cooperation in the field of Foreign and Security policy, Freedom, Security and Justice, Economic Cooperation and other types of Sectorial Cooperation*, however, trade remains the main purpose of AA and is actually the basis of the Moldovan-EU relationship. This is one of the first reasons why I choose the trade as a field of analysis. The entry into force of the AA produced significant changes in the trade profile of the Republic of Moldova, especially among the trading partners. Currently about 70% of the total commercial flows is oriented towards EU member states, however, only 48% of the total population has a positive perception about the EU (ECORYS, 2018). In this context this article aims to find out to what extent the implementation of the European norms and institutions provided in the AA have boosted trade flows. Thus, this article aims to establish a correlation between the institutions envisaged in the AA and the trade between the two actors and to test the hypothesis that the institutions influence the trade. The relationship between institutions and trade has been analysed by theorists belonging to the international economic theory of institutionalism. And the general hypothesis accepted is that the states with the same institutions tend to intensify their trade flows. For this reason, the development of a qualitative institutional framework will have a significant effect on the indicator of trade openness. To test this hypothesis, and to achieve the proposed goal, we set the following objectives:

O.1 To analyse the evolution and dynamics of Moldovan institutions;

O.2 To analyse the intensity of trade flows between Moldova and the EU;

O.3 To make a comparative analysis of the institutional framework in the Republic of Moldova with the institutional framework in the EU but also in the Commonwealth of Independent States (CIS)

So that in the end there is a conclusive and relevant answer to the following questions of the present research:

1. How much it matters the institutions in trade relations between the EU and Moldova?

2. Which institutions most influence the commercial relations?

3. Is the relationship of trade institutions unified or bidirectional?

The article is structured into several sections and subsections. The first part of the article will frame the chosen subject in an international economic theory, named institutionalist theory. Also, this part will include an exposition on the main hypotheses of this theory and a brief analysis into the specialized literature on the concepts of institutions and especially the relationship between institutions and trade, as well as the main experts who have studied and developed this theory. The following section entitled the methodology of research, describes the indicators and variables I have chosen as well as the analysis method by which I propose to test the research hypotheses. This approach will also be useful to interpret the results obtained and to have relevant and well-argued answers to the questions proposed by this paper. The research involved in this article is useful and relevant in order to understand better how it works and how effective the EU action tools are in the Eastern Neighbourhood, especially in Moldova and how much the institutional framework influences bilateral trade. The article is also important for the small contribution to the institutionalist theory, and the results obtained can be used for decision-making factors for the elaboration of future strategies.

2.　Theory and literature review

The AA represents a set of well-defined European norms and institutions, the community institutions not only have the role of arbiter or mediator, but they are also key actors, who offer solutions, set the working agenda, draw the strategic guidelines. The configuration of the community institutions and the atypical range of political instruments used, constrains the EU to certain types of actions, but limits the extent of others because of the communautaire budget and the limited possibilities of financial transfers. The national state is not excluded, more than this, it is the key actor, being a negotiator, co-regulator, implementer but also financer. Its merits are when it manages to coagulate the resources needed to fulfill these functions, especially the financial ones (Prisecaru, 2008, p. 17). James March and Johan Olsen, representatives of neo-institutionalism, have emphasized the importance of the specific norms and associated values of the institutions and which models the actions and behaviour of institutional officials. Conceptually, the implementation of the AA can be associated with the Europeanization process, in

the sense of defining the latter as a transposition of the acquis communautaire   and of the European institutional structures at the level of the national structures of the Republic of Moldova. However, we can point out that the process refers to the impact that community governance and its methods have on national governance, which implies, interactive relationships or relationships between community and national institutions within the multilevel governance system. Thus, on an institutional level, the implementation of the AA implies the construction, dissemination and institutionalization of rules, norms, procedures, styles, modalities, values, all being the creation of the community level and being subsequently incorporated in the national structures and policies. But this does not mean the uniformity or replacement of national cultural values with European ones. The relationship between institutions and economic growth is a topic of major interest to economists starting point in this approach. Although the specialized studies that analyze the effect of institutions on trade are not quite generous, however, there are a significant number of studies that are a good starting point in this approach.

The prevailing general assumption is that states with the same quality of institutions tend to trade more. For example, Marion Jansen and Hilegum Kyvik Nordas (2004) concluded that a qualitative institutional framework has a significant positive effect especially on the indicator of openness of trade. National tariffs on productivity are not statistically significant but combined with bad institutions have a major impact on trade flows. Subramanian, Linders, Rietveld, De Groot, (2005) using the gravitational model calculated whether the quality of institutions and their homogeneity have an independent effect on trade. Following this study, they concluded that the states with the same institutional framework can increase their trade flows by an average of 13%, the correlation between institutions and trade being validated and highly significant. Another important feature of the study is that the authors say that the states with inefficient formal institutions are avoided by the states with efficient institutions, due to the insecurity and especially the high transaction costs. For this reason, these states with inefficient institutions tend to trade with states with the same level of institutions, giving up the benefits that the more developed states would have brought. David Dollar and Aart Kraay (2003) also have an important contribution to the specialized literature in this field. Their studies are based on three main assumptions, the states with higher quality institutions and the trading states tend to develop better and faster than it follows that states with better institutions tend to have larger trade flows. Therefore, between growth and economic development, high trade and institutions have a very

strong correlation. His studies (Linders Slangen, de Groot, Beugelsdijk, 2005) applied on 92 countries between 1999 and 2000 conclude that better quality of institutions increases trade flows for both importing and exporting states.

Other studies that aimed to analyze the relationship of trade institutions have gone further and, after demonstrating the positive link between trade and institutions, they have come to the conclusion that one of the institutions that affects trade the most in a negative way is very high corruption. (Zelekha, Sharabi, 2012). There are also some articles by Knack and Keefer (1995), concerned with the relations of trade institutions, they concluded that the institutions that have the greatest impact on trade in a positive sense are: private property and contract compliance. The same opinion can also be found in the studies of Andrei Levchenko and Olivier Jeanne (2004), with the mention that a very important institution, namely the protection and security of the shareholders, appears alongside the private property and the observance of the contract. Analyses of another study (Gylfason, Martinez-Zarzoso, Wijkman, 2015) conducted in the Eastern Partnership countries show a clear evidence of the commercial benefits of these states, especially after the Association Agreement was signed, and the institutional framework improved (the analysed institutions were the democracy and corruption) have played an important role in promoting trade.

Moreover, the analyses made by (Alvarez, Barbero, Rodriguez-Pose, Zofio, 2017) in addition to the fact that institutions are relevant in bilateral trade, they say that over time the states tend to trade with those states that have the same quality of the institutions and not necessarily with the states that have the highest level of quality of the institutions, except for other factors that influence the trade such as: infrastructure, distance, culture, language and diplomatic conflicts.

3. Research methodology
3.1 The choice of the institutions

The institutions do not have a clear and precise definition, they are rules of the game, it is almost impossible to give a clear definition of institutions. The objectives of the analysis of the heterogeneity of the environment to which they refer (economic, political, social) as well as the philosophical direction from which the defining attempts occur explain the multitude of acceptations in which the term was received and used. Over time, the definition of institutions has been influenced by the paradigms of the respective period. In order to avoid any form of confusion as there was a tendency in the past, we must note that institutions are not the same

as organizations, institutions are not organizations. The distinction between institutions and organizations is major, and it must always be made to understand things in the right way. While the institutions define the rules of the game, the organizations designate the players. While the institutions set the framework for conducting the action, the organizations are agents of institutional change. But the connection between institutions and organizations is symbiotic: it is difficult to conceive the meaning of players without rules or rules without players. Clearly, organizations appear and develop within a certain institutional framework whose footprint is a gateway. (Pohoață, 2009)

In Douglass North's conception*, institutions represent the constraints (formal or informal) created by people to shape human relations.* The rules of the game are the ones that determine the structure of the incentives, they, the institutions define and limit the set of individual choices*. Institutions represent laws, rules, which reflect codes of behaviour that most individuals impose and by their own will* (Sugden, 1986) *Institutions are formal rules, compliance procedures and standard operating modes that structure the relationship between individuals on a political and economic level* (Hall, 1986) *or Institutions are a set of persistent and connected rules (formal and informal) that prescribe behavioural roles, constrain statutes and shape expectations.*(Keohane, 1989) More recently contemporary of our time Daron Acemoglu defines institutions *as a broad grouping of arrangements that influence diverse economic interactions between individuals, including economic, political and social relationships between households, individuals and firms, state actors or actors. international. Institutions are still the rules, regulations, laws and policies that influence economic incentives, so the incentives to invest in technology, physical and human capital.* (Acemoglu, 2008) Another definition that outlines institutionalism as well is given by Masahiko Aoki, whose vision is *that institutions represent a self-sustaining system of shared beliefs that is in a state of Nash-type play.* (Aoki, 2001) What is common to all definitions and interpretations, and which also sets the boundaries of the concept of institutions are: laws, rules, behaviour, constraints and cooperation. Due to its complexity, most of the institutions are classified according to three criteria: the degree of formalization, the hierarchical level and the area of analysis. Depending on the degree of formalization, the institutions can be: formal, informal and their implementation mode. The formal institutions that I will focus on in this study, refer to written rules, usually the rules adopted by the state, the legislative framework, laws. From this point of view, AA represents a set of rules and rules characteristic of formal institutions. These include written behavioural rules, such as laws adopted by the

authorities, to which are added rules codified and adopted by private institutions and organizations. (Baciu, 2009) It is impossible to choose and subject all the existing institutions to the analysis, however, in order to cover the widest spectrum of the institutional framework, I have chosen to use the database entitled World Governance Indicators formulated by Daniel Kaufmann Aart Kraay and Massumo Mastruzzi. In the methodology used by these theorists, governance is defined as a series of institutions through which the state exercises its authority. This series of institutions is divided into six indicators, namely: *participation and accountability, political stability and absence of violence, government effectiveness, and quality of regulation, rule of law and control of corruption*. The resulting indicators add up to 30 different sources of data collection both nationally and internationally.

In addition to the fact that these indicators comprise a wide range of institutions, these indicators have been used in numerous specialized studies, in different reports of the World Bank (Jansen and Nordas, 2004) (Dollar and Kraay, 2002) or the International Monetary Fund, but also by a large number of experts (De Groot et al., 2003) (Mauro, 1995) (Gylfason et al., 2015) (Subramanian et al., 2004) (Bergh et al., 2014) (Alvarez et al. (2017) (Linders et al., 2005) (Slangen et al., 2005) (Zelekha and Sharabi, 2010) (Rietveld et al., 2005) I would like to mention these issues because when a study is based on the analysis of the institutions is very difficult to choose the right institutions due to the complexity and the general character. This is especially noted in an article by Stefan Voight (2013) entitled "*How to (not) measure institutions*" The article is valuable through criticism of those trying to quantify and measure institutions. Although the database prepared by Daniel Kaufmann, Aart Kraay and Massumo Mastruzzi that I will use in the analysis does not escape the criticism of the author, however this database is recommended for those who want to undertake analyses that have their institutions. For these reasons listed above I have chosen to use this database.

3.2 Quantification

As mentioned above, the method I have chosen to calculate and measure the effect of institutions on trade flows is the method of multiple linear regressions, I will use panel data for each country, for each year, the value of the institutional indicator as well as the value of trade flows. The comments cover all EU Member States and as well CIS states. I included in the analysis also the states of CIS due to the fact that Moldova was part of the USSR and nowadays it is also part of the CIS even though it has signed an AA, from this point of view the quality of the

institutions tends to be closer to this organization than to the EU. This will allow to make a comparative analysis of the quality of the institutional framework between the two blocks. In total, the quality of the institutions from 39 states plus the commercial flows that Moldova has with each state are analysed. The time period runs over the years 2002-2017, largely due to the fact that before 2002 some data do not exist but also because of this way I can have a symmetry taking as a reference point the year 2009 when it was Eastern Partnership launched. Even if the AA was signed in 2014, its effects can be calculated from 2009 at least at the political level.

3.3 Description of institutions

The Global Governance indicators are aggregate indicators and are defined as a series of institutions; in the present case these indicators represent independent variables.

1. Participation and responsibility / accountability (Voice and Accountability) - concerns the perception of the extent to which the citizens of a state have the opportunity to participate in the election of the government, as well as the freedom of expression, the freedom of association or the freedom of the press and human rights.

2. Political Stability and Absence of Violence - aims to measure the perception of the possibility of a government being destabilized or overthrown by violent or unconstitutional means (including politically motivated violence or acts of terrorism)

3. Government Effectiveness - measures the quality of public services, the quality of the civil servants' body and its independence from political pressures, as well as the quality of the formulation and implementation of public policies or the government's credibility regarding its commitment to these policies. This indicator also refers to the level of bureaucracy, in other words the government's ability to formulate and implement good policies, in this case the government's ability to implement in the national legislation the Community acquis.

4. Regulatory Quality - measures the government's ability to formulate and implement viable policies and regulations that allow but also promote the development of the private sector. The ability to ensure fair competition, facilitate the opening of a new business and deregulate policies that inhibit the free market mechanism but also the excessive regulation of foreign trade and the business environment.

5. Rule of Law - refers to the quality and independence of the legal system, it concerns the perception regarding the extent to which the state agents respect the norms of the company, especially regarding the quality of the execution of contracts, property rights, police and courts as well as the likelihood of crime and violence.

6. Control of Corruption - represents the absence of the law, the unfair behaviour in the public-private relationship. It targets the indicators regarding the quality of regulation, the rule of law, with reference to the impact of bad governance on the economy. Corruption as the regulation of intrusion, the involvement of a third actor usually the state, which leads to increased transaction costs. Selective justice pursues the perception regarding the extent to which public power is exercised for personal gain (both small and high corruption) as well as the "capture" of the state by elites and private interests.

Each of the above indicator has a numerical value between -2.5, which is the most negative value and +2.5, the value associated with the quality of the best institution.

In terms of trade, it is evaluated by import plus export, and represents the total value of bilateral trade between the RM and each state partly calculated in the amount of money (the reference currency being US dollars, thousands USD). In this case, trade is a dependent variable because the objective of this chapter is to analyse the impact of institutions on trade. Data for the value of trade flows were obtained from the Statistical Database of Moldova. For validation of the results we used robustness tests and as variables chosen for testing were: GDP growth%, Inflation and Foreign Direct Investment (FDI) data being collected from the World Bank and the International Monetary Fund's website.

5. Results and interpretation

Although the implementation of the AA with the EU is declared a national priority, the results are not as expected. If we talk about the totality of AA then the AA institutions were transposed in a proportion of 34% and if we talk about the Association Agenda and the Action Plan on the Implementation of AA in the 2014-2016 period it was implemented in a proportion of 70% with large overdrafts, especially in the field of justice. There are more pronounced delays especially in the government apparatus, following the reform of the government some ministries lost qualitative human resources that participated in the negotiation of AA but also of the Free Trade Agreement and at this moment the civil servants are not able to

implement the provisions of AA. According to the Alternative Report No.4 Year 2018, regarding the Implementation of the AA in the 2016-2018 period elaborated by the Institute for European Policies and Reforms, the total degree of implementation of PNAIAA II towards the end of 2018 is 31.9%. Accordingly, by the end of 2019, the authorities must significantly increase their implementation effort to successfully complete the remaining 969 measures out of a total of 1459 (Groza, Rusu, & Ghilețchi, 2019) before analysing each institution separately, in Figure 1. we portrayed a general evolution of the institutional framework in the Republic of Moldova, the EU and the CIS as well as the evolution of trade. From this graph we can see several aspects relevant to the present study.

First of all, the quality of the institutions in the EU member states is clearly superior to those of the Republic of Moldova and especially those of the CIS. The values of the institutions of the EU register positive values between 1.14 in 2002 and 1.02 in 2017, with a slightly negative evolution. The evolution of the quality of the institutions in the Republic of Moldova registered negative values from -0.53 units in 2002 to -0.34 units in 2017, a modest progress of the quality of the institutions of 0.19 units, insignificant, however the quality of the institutions of the Republic of Moldova is 0.42 units higher than those in the CIS. An explanation for the fact that the quality of the institutions was not considerably improved can be found in the passivity with which RM transposed the provisions of AA. Regarding the quality of the institutions in the CIS, the values are also negative, from -0.88 in 2002 to -0.76 in 2017. From this point of view the quality of the institutions in the Republic of Moldova is much closer to the quality of the institutions of the CIS. By referring to these data we can draw several conclusions. First of all, there is no significant progress in the quality of institutions in the Republic of Moldova. Second, total trade flows have grown dramatically from 1.4 billion in 2002 to 5.653 billion in 2017. Moreover, the worsening of the institutional framework in 2014 with -0.10 units coincided with a decrease in trade from 6 billion to 4.6 billion with a growth trend in the coming years. But it is obvious that after signing AA, the total commercial flows of the Republic of Moldova did not increase in nominal terms, rather they reoriented from the market of the Russian Federation to the European market, phenomenon known as reorientation of trade.

Figure 1. The evolution of institutions and commercial flaws
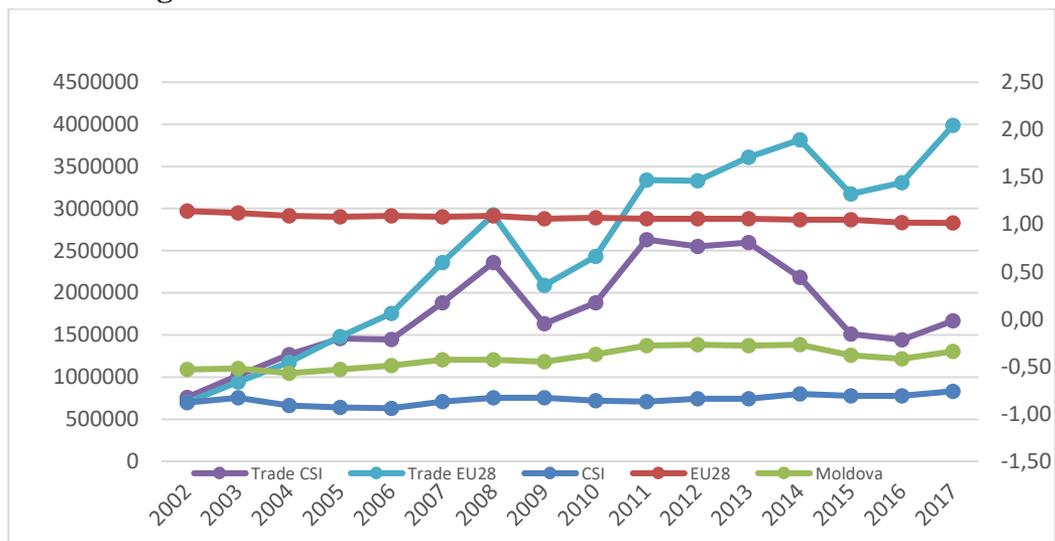
Source: Elaborated by author based on Statistical database Moldova.

Statistical analysis confirms that institutions influence trade. In this case, the quality of the institutional framework influenced the trade variation in the proportion of R^2 - 0.53% on a scale from 0 to 1. However, no statistically significant correlations were established between all institutions and trade. The most significant institutions that have influenced the trade are: Political Stability, Quality of Regulations and the Rule of Law.

There is a strong connection between the rule of law and trade flows, but in a negative sense that is, the more the institutional quality of the rule of law registers negative values, the less the trade flows diminish.

Of all the institutions analysed, the indicator Political Stability and Absence of Terrorism influences trade the most, it is the most statistically representative result. A strong correlation can be observed between these variables. Although the quality of this indicator only exceeded once a positive value in 2012, the evolution of this indicator coincides with the evolution of trade. And if we describe the political context of the Republic of Moldova from 2006 to 2016, we will realize that Moldova has faced political instability. The crisis began in 2009 when, through a revolt, the youths removed the Communist Party from the government by the so-called "twiter revolution". The early elections of that year bring to the fore the so-called pro-European parties which, in order to have the majority, form a pro-Western alliance called the Alliance for European Integration.

Table 1. Linear multiple regression

VARIABLES	**(1)** ltrade Winsorized fraction .01	**(2)** ltrade Winsorized fraction .01	**(3)** ltrade Winsorized fraction .01	**(4)** ltrade Winsorized fraction .01
Voice and Accountability	-0.439	-0.453	-0.487*	-0.417*
	(0.295)	(0.283)	(0.271)	(0.242)
Political Stability	0.329***	0.261*	0.230	0.215
	(0.121)	(0.133)	(0.137)	(0.128)
Government Effectiveness	-0.222	-0.171	-0.120	-0.136
	(0.249)	(0.252)	(0.267)	(0.272)
Regulatory Quality	0.901*	0.866*	0.972**	0.989**
	(0.461)	(0.457)	(0.464)	(0.460)
Rule of Law	-0.966*	-0.870	-0.789	-0.836
	(0.571)	(0.550)	(0.579)	(0.574)
Control of Corruption	0.059	0.059	-0.115	-0.120
	(0.407)	(0.409)	(0.397)	(0.398)
GDP ANNUAL %		0.021*	0.024*	0.024**
		(0.012)	(0.012)	(0.012)
FDI			-0.009	-0.010
			(0.039)	(0.039)
INFLATION				-0.008
				(0.007)
Constant	8.944***	8.852***	9.012***	9.096***
	(0.200)	(0.218)	(0.816)	(0.817)
Observations	570	570	532	532
R-squared	0.533	0.539	0.556	0.559
Number of countries	38	38	38	38
Year FE	YES	YES	YES	YES
Country FE	NO	NO	NO	NO
Cluster	country	country	country	country
Robust standard errors in parentheses				
*** p<0.01, ** p<0.05, * p<0.1				

Source: Elaborated by author

But the political crisis continued in 2010 when elections were held again for the election of the president, the third legislative election in less than a year, also in the same year a referendum is held on changing the way the president is elected fails due to the poor presence of Moldovans, it took another 2 years to elect a

president, which actually resulted in the dissolution of Parliament in two rows and triggered early elections. The political crisis continued with the dismissal of Vlad Filat's pro-European government through a censorship motion, a crisis that lasted 3 months because the parliamentary parties could not agree on the appointment of a joint prime minister. President Nicolae Timofte twice denying the appointment of Vladimir Plahotniuc as prime minister because of the integrity of the person. This year AA was initialled at the Vilnius Summit. The political crisis blossomed in 2014 when, due to political causes, an economic crisis was built by the disappearance of one billion dollars, the Chisinau press calling this disappearance the "theft of the century" because all these transactions happened even with the help of the government and the Central Bank of Moldova. Also, this year a Russian businessman, Renato Usatâi, and Ilan Shor appear as the main suspect in the theft of the billion. The crisis culminated in the arrest of former prime minister Vlad Filat and the dismissal by censure motion of the third prime minister of that year, namely Valeriu Streleț. After 4 months of intense negotiations Moldova had a new prime minister in the person of Chiril Gaburici but since the prosecutor's office started an investigation in the case of his baccalaureate diploma, this government did not last more than 4 months. The political crisis ended with the establishment of the government of Paul Philip. Throughout this period, the indicator of political stability has experienced an intense fluctuation, reaching even positive values. Even under these conditions, trade followed the course of this indicator.

Figure 2. Political Stability and Trade
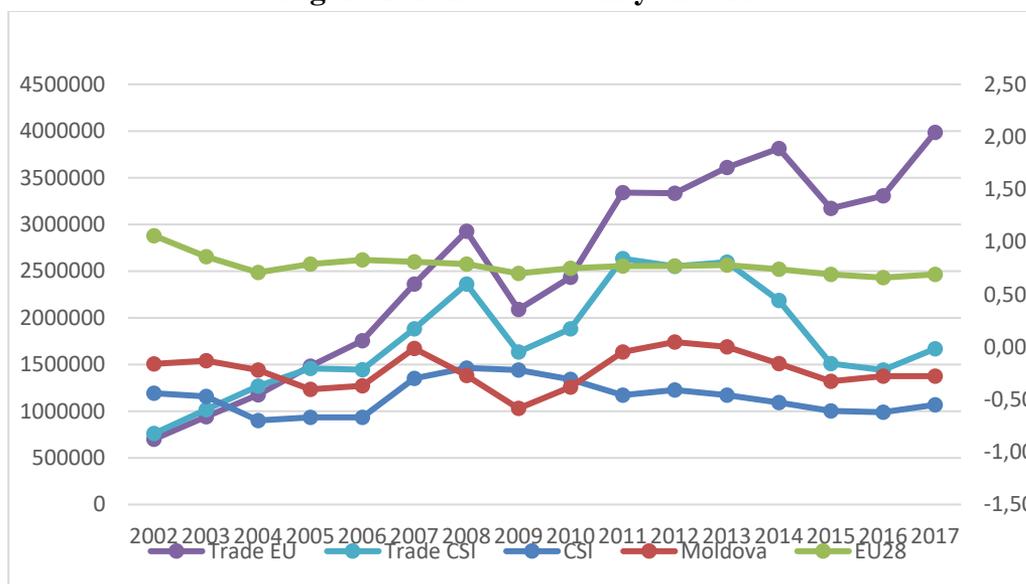
Source: Elaborated by author based on Statistical database Moldova.

The correlation between political stability and trade flows can be seen below in Figure 2. All these events characteristic of political stability have negatively influenced trade flows.

Another institution that has significantly influenced the trade from a statistical point of view is the Quality of the regulation. This validates the institutionalist hypothesis that states that have a qualitative institutional framework tend to trade more, visible in Figure no. 3. This indicator has an upward trend and a positive trend, this indicator measures the effectiveness of the institutions envisaged in the AA because the Moldovan government did not come with its own policies and regulations that allow the development of the private sector. They just transposed acquired community that tries to ensure a fair competition to encourage the business environment and entrepreneurship but also to create a legal framework that facilitates trade. We hypothesize that the states with qualitative institutions tend to trade at the level of 2013 when the quality of this institution increased and trade flows with the EU increased while trade flows with the CIS countries decreased.

The law rule is a very important institution for the functioning of the state itself, therefore it is equally important for the size of the commercial flows. The relationship between this institution and trade has a strong correlation, only this time and with an adverse effect. If this institution has a negative value, then immediately and the commercial flows undergo changes.

Figure 3. **Regulatory Quality and Trade**
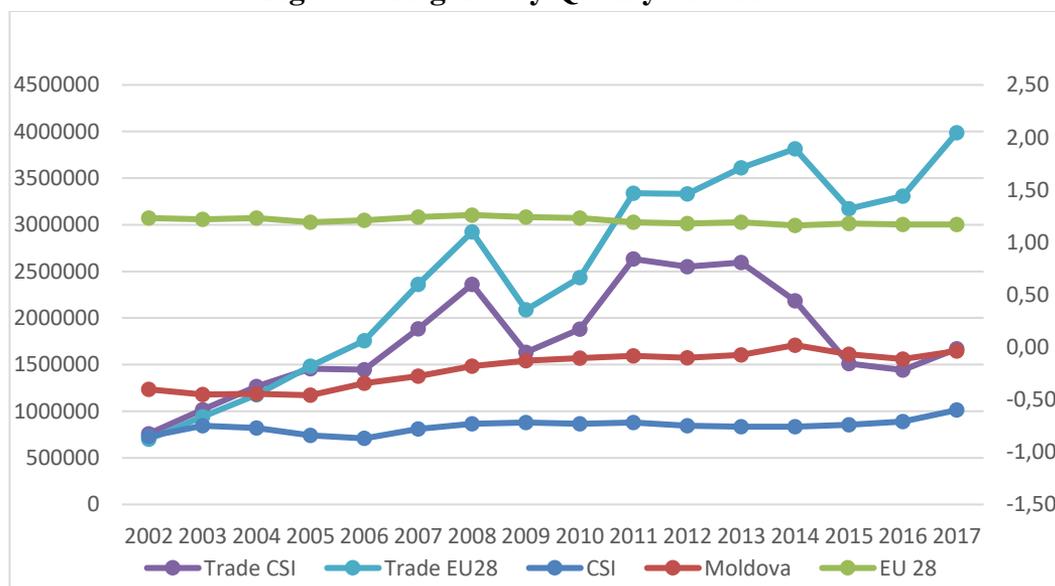
Source: Elaborated by author based on Statistical database Moldova.

In fact, in the specialty literature, the observance of the contract and the private property are considered the most important institutions of the development of a state / companies. If the state cannot guarantee the private property and the observance of the contract then the producers are not encouraged, being less producers the quantity destined for the export or even the domestic consumption will be smaller. As for the other institutions such as Government Effectiveness, Corruption Control or Participation and Accountability in the case of trade relations between the Republic of Moldova and the EU or the CIS, they do not have a statistically significant influence.

Although in the specialized literature (Mauro, 1995) (Yaron and Sharabi, 2010) through their studies they have clearly demonstrated the effect of these institutions on trade, with negative effects. The increase of the quality of these institutions cannot guarantee the increase of the commercial flows but a negative value affects the trade. In this case the situation is explained by his theory (Bo Rothstein, 2017), which says that formal institutions are too much discussed and consequently overestimated especially when it comes to corruption for this reason, they can no longer explain the cause of things.

Figure 4. **Rule of law and Trade**
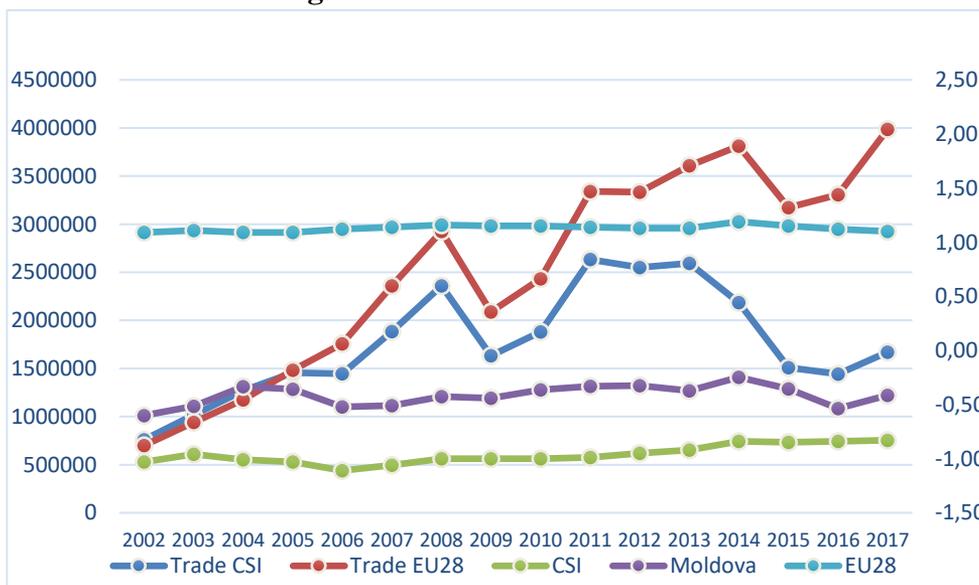
Source: Elaborated by author based on Statistical database Moldova.

When it comes to corruption, informal institutions play a decisive role, and to be convincing, Bo Rothstein gives the example of Uganda, which has a score of 99

out of 100 in anti-corruption laws, good anti-corruption measures implemented with the help of foreign partners and with external funds, however, when it comes to the level of corruption this is one of the largest in the world, Uganda being listed as one of the most corrupt states in the world. We extrapolated this example to the case of the Republic of Moldova and according to the Global Integrity Report, Moldova has the highest score in terms of anti-corruption law, the score being 100 out of 100, agencies that implement anti-corruption laws or equivalent mechanisms 83 and at the same time if we analyse the level of corruption in Moldova according to the Transparency International Report, Moldova ranks 122 out of 180 (being the most corrupt country) with a score of 31 out of 100.

The law rule is a very important institution for the functioning of the state itself, therefore it is equally important for the size of the commercial flows. The relationship between this institution and trade has a strong correlation only this time and with an adverse effect. If this institution has a negative value then immediately the commercial flows undergo changes. In fact, in the specialty literature, the observance of the contract and the private property are considered the most important institutions of the development of a state / companies.
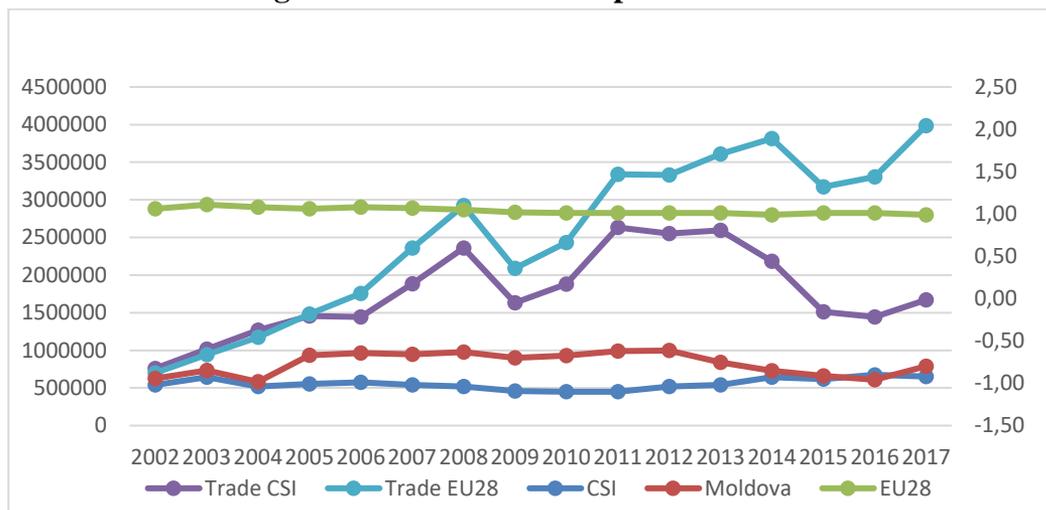
Figure 5. Government Effectiveness and Trade
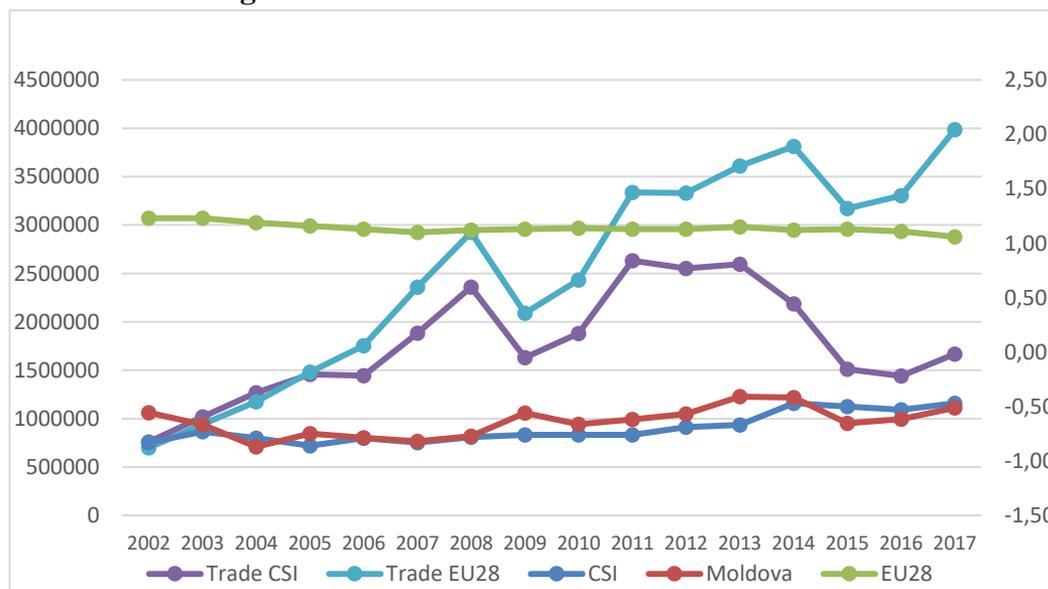
Source: Elaborated by author based on Statistical database Moldova.

If the state cannot guarantee the private property and the observance of the contract then in this way do not encourage the producers, being less producers the quantity destined for the export or even the domestic consumption will be smaller.

Figure 6. Control of Corruption and Trade

Source: Elaborated by author based on Statistical database Moldova.

Thus, between the institutions of Corruption Control, the Effectiveness of Government and Trade, a correlation could not be established, as these indicators did not have a significant fluctuation in order to calculate to what extent these independent variables influence the dependent variable, respectively the trade.

Therefore, I would like to mention that these institutions are and remain important, but in the present case, through the data used, they do not statistically significantly influence bilateral trade.

In Moldova, institutions are sometimes replaced with people. Strong people become institutions and laws, to paraphrase Napoleon Bonaparte.

6. Conclusions

Trade flows are influenced by many factors, institutions included. It is certain that after the AA signing, the institutional framework did not develop positively although a large part of the community acquis was implemented. It may take more time for the implementation to take effect on the ground and not just within the legislative framework. The study started from the hypothesis that

institutions influence trade flows. Thus, the main objective was to establish how the institutions influence the trade between the EU-Moldova and the CIS. And a second objective was to establish which institutions are most influential in trade. Therefore, we can say that in the current trade exchange between the Republic of Moldova and the EU the institutions have little influence. Of the 6 institutional indicators, only 3 statistically significantly influence trade. The most influential institutions in this case are: Political Stability, Quality of Regulation and Rule of Law. There is no correlation between Corruption Control, Government Efficiency and Trade, since in Moldova there is a paradox in this area, being the country with the highest quality anti-corruption laws and at the same time being one of the most corrupt states in the world.

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