



The Republic of Moldova – European path in a climate of internal and external volatility

Violeta Duta

PhD candidate, The Bucharest University of Economic Studies



Objectives

- ❖ The present study aims to analyze the economic, political and institutional evolution of the Republic of Moldova (aspiring state for EU accession), focusing on the collaboration with Romania.
- ❖ It also attempts to emphasize the relations between the Republic of Moldova and Russia, in the current context of the european orientation of Moldova and the evolution of the Transnistrian conflict.
- ❖ The hypothesis according to which the development of trade relations between states would have the effect of solving the frozen conflicts (for example, Transnistrian conflict) and the decrease of the probability of triggering of armed conflicts in the area, is not validated in the case of Russia and Moldova (nor in the case of Ukraine).



Introduction (1)

- ❖ The European path of Moldova could have been much earlier if the union with Romania had been achieved.
- ❖ The most favorable period being that of the proclamation of independence, (August, 1991).
- ❖ Romania was the first country to recognize the independence of this country.
- ❖ In the first years after the declaration of the independence of the Republic of Moldova, both states undertook a series of symbolic gestures. Its was not followed by concrete actions with a view to unification, the reasons taking into account the political, economic, territorial and ethnic context from that date:



Introduction (2)

- ❖ the economic difficulties in integrating Moldova by Romania,
- ❖ the obligations assumed by Romania with a view to its integration into the European Union,
- ❖ the pro-Russian orientation of ethnic minorities (Russian, Gagauz, Ukrainian) in Republic of Moldova
- ❖ the economic and energy dependence of Moldova on Russia.

Literature review (1)

Previous research has shown that implementation of the community acquis in less developed states, as in the case of the Republic of Moldova (but also of Armenia and Georgia), implies big adaptation costs for these countries (Dreyer, 2012; Parmentier, 2013). The emphasis should be on directing exporters to align with EU standards, on the development of sectors such as agriculture, industry, and labor market problems (low-skilled labor) (Lupusor, 2015 and Ciucu et al., 2011).

- ❖ Studies have shown that the degree of development of trade is influenced by membership in a single market, so accession to the European Union has led to important changes in the economies of Eastern European states (Kallioras, 2010), examples being Romania and Bulgaria.
- ❖ Previous research (Bajo-Rubio, 2011) has revealed that exports are a factor of economic growth in the new EU states, although not a dominant one. Aligning the legislation of these countries with that of the European Union, trade liberalization, fiscal predictability, reporting the national currency to the single European currency are other factors that make investors' perceptions about the political and economic situation of these eastern states improve, and these countries either perceived as safe destinations for investments.

Literature review (2)

- ❖ The evolution of international trade, technological advances and globalization determine the rethinking of classical commercial models (Puslecki, 2016).
- ❖ The vulnerability of the PaEst (The Eastern Partnership) was maintained by Russia's economic and energetic dependency. The powerful country seeks to achieve geopolitical goals in the area concerned by using its economic domination (Morosan, 2016), see the case of the Republic of Moldova, Ukraine, etc. In pursuit of their political interests, powerful states impose sanctions on economically dependent states, the practice common in the past decade (see the Russian embargo on Moldovan vegetables, fruits and wine).
- ❖ The Republic of Moldova (the country in this situation) has the advantage that, through the structure of trade, the size of the economy can make a relatively rapid change in structure and priorities (Stamule, 2017).

Literature review (3)

- ❖ Acemoglu et al. (2002) concludes that countries characterized by weak institutions (including political institutions) are facing increased macroeconomic volatility and modest economic developments (see the case with the Republic of Moldova).
- ❖ As regards reporting to the EU's eastern neighborhood and security policy, many studies (Gaub and Popescu, 2015; Tardy, 2015; Delors, 2016) have shown how the Union's involvement in conflict resolution and peacekeeping in states PaEst has been rather weak compared to the needs of these states (see the case of Ukraine).
- ❖ It would be necessary to adopt a stronger EU stance in relation to the situation of the countries in its neighborhood.



Research objectives

- ❖ This study aims to analyze the economic, political and institutional evolution of the state aspiring to join the EU, the Republic of Moldova, with emphasis being placed on the cooperation with Romania.
- ❖ Un increased attention was paid to the relations between the Republic of Moldova and Russia in the current context of the European orientation of the Republic of Moldova and the evolution of the Transnistrian conflict.
- ❖ The hypothesis that economic cooperation between states could lead to the resolution of frozen conflicts (such as the Transnistrian conflict) and the substantial of the probability of triggering armed conflicts is not valid for Russia and Moldova (nor for Russia and Ukraine).



Research methodology and data

- ❖ The economic data were collected from the websites of the National Bureau of Statistics of the Republic of Moldova and the National Institute of Statistics of Romania, the national banks of the two states, but also those of the World Bank, the IMF, etc.
- ❖ We analyzed the evolution of trade between the Republic of Moldova and the CSI and the EU and the structure of trade between Moldova and Romania
- ❖ We also analyzed the effects of the economic crisis triggered in 2008 on the Republic of Moldova which seemed to feel tangentially these effects (because it had an economy based preponderant on agriculture and services and a capital market little developed).
- ❖ As data processing and interpreting techniques, we used: descriptive technique, graphing interpretation, correlation of results obtained with the objectives formulated, analysis of studies, official publications, journals, reports, analyzes and comments made on the topic investigated.

Results and interpretations (1)

- ❖ We have surprised at least three essential particularities for the Republic of Moldova during the 90s: the national identity (between the slave origin, which the Soviet regime tried to imprint to the collective mentality and the Romanian one, after the proclamation of independence), the territorial aspect (the geographical situation between two states, Romania and Russia and the economic one (the most powerful of all considering the economic and energetic dependence of the Republic of Moldova towards Russia at that time).
- ❖ The political parties that followed the leadership proved to be fragile, which maintained political instability and induced the public's distrust in state institutions. The form of government has seen several changes: the presidential political system (valid from December, 1991 to July, 1994), follow by the semi-presidential one (to be maintained by July, 2000) and the parliamentary republic (July, 2000-until now)
- ❖ In making an analysis of the evolution of the economy after declaring independence have to be taken into account several important aspects : poor economy, high share of agriculture in GDP compared to IT and financial services, remittance-dependent consumption, the separation of Transnistria (the most industrialized area of the country), a russian dependent economy for wine, fruit and vegetable exports, Russia's total dependence on oil and electricity, ownership by a Russian company (eg Gazprom) of a part of the industry of the Republic of Moldova.

Results and interpretations (2)

- ❖ In the late 1990s, several strategic enterprises in this country were taken over by Russia in exchange for the reduction of the debt accumulated on oil and electricity imports. The economic situation has been precarious for the period since 1991 until 1999.
- ❖ The situation has improved after 2000, thanks to the poverty reduction program promoted by the International Monetary Fund (IMF) in 2000 and the European Neighborhood Policy (ENP), a project in which the country was included in 2004.
- ❖ The objectives of the ENP were to promote stability, security and economic development. The main goal was to create a free trade area and economic integration of the country without the prospect of political integration, ie without EU membership
- ❖ The European Union and Moldova Action Plan (PA) was signed, in 2005 and renewed in 2008. The areas covered by this plan were: aid for democratic development and good governance, reform of the judiciary and creation of administrative capacity and support in increasing the economic level and in reducing the poverty level.
- ❖ As a result, since 2006 there is a decrease in exports to the CSI states and an increase in the share of exports to the EU (see Table nr. 1). The reorientation was due to both the Russian embargo on Moldova's agricultural products and alcoholic beverages and Romania's accession to the EU starting with 2007. Imports from the CIS have remained high as a result of the country's exclusive dependence on oil and electricity provided by Russia.

Results and interpretations (4)

Evolution of exports and imports made by the Republic of Moldova with the CIS and the EU (2007-2017) (thousand USD)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Exports											
CIS	548888.6	622993.7	490415.2	624003.2	919265	928119.5	923219.8	735647.7	492294.6	414185.3	462906.3
EU	678929.7	820072.1	667338.5	728938.9	1083006	1013418	1137286	1245980	1217587	1331898	1596904
Imports											
CIS	1333698	1737261	1141783	1256852	1713416	1623721	1672308	1449246	1018111	1027442	1206060
EU	1680983	2105264	1421186	1704240	2256292	2318614	2472112	2567695	1954251	1973712	2389113

Source: BNSM

- The economic crisis in 2008 affected the Republic of Moldova with a few months delay. That was due to the poor integration in the global economy: modest economy and little capital market. In this country, economic growth was not supported by loans and foreign direct investment, but by remittances from Moldovan citizens working in construction in Spain, Great Britain, Russia, Ireland, etc. These countries have been severely hit by the crisis, the construction sector (depending on bank lending) being one of the most affected.
- In addition, the crisis led to a reduction in global consumption and caused a drastic decrease in Moldova's exports.

Results and interpretations (3)

- ❖ Starting with 2010, the Republic of Moldova became a member of the energy community, aiming to integrate the energy system (including the transport of energy and natural gas) into the European system, all in an attempt to escape Russia's energy dependence.
- ❖ Romania is trying to reduce Moldova's energy dependence on Russia (one of the main vulnerabilities of this country), proposing the construction of a gas pipeline between Iasi and Ungheni. The gas pipeline would become operational in 2014, and in March 2015 the first gas deliveries will take place. Until 2015, Moldova's gas supply, transportation and distribution activity was dominated by almost 99.98% by Moldovagaz, whose main shareholder is Gazprom.
- ❖ In 2011, the Republic of Moldova was regarded as a "success story" and "easily absorbed" by the EU, due to the fact that it was a small country. The reality was far from this idea: a low living standard (low salaries and pensions), a non-functioning market economy, a monopoly dominated business environment, a high unemployment rate (a large part of the active population being forced to leave and work abroad), high corruption, political instability, health care, and a low level of education.

Results and interpretations (5)

- ❖ The year 2015 was a turning point for Moldova. It lost much of his image and credibility, because of the political crisis (4-5 governments were changed), the financial-banking crisis (\$ 1 billion fraud), corruption scandals, etc
- ❖ The situation has recovered from 2016, but the European Union has become more cautious with regard to the Republic of Moldova, paying close attention to possible mistakes and conditional financial aid to the concrete achievements in this country.
- ❖ In 2016, Russia occupies the first position in direct investment in the Moldovan economy with investments of 200 million dollars. Starting with 2017, the first position being held by the Netherlands, followed by Spain, France, Cyprus and Romania. The main economic activities benefiting from foreign investments are: financial, insurance and manufacturing activities.

Conclusions

- ❖ The geographical positioning of the Republic of Moldova, its status of ex-soviet republic, the poor economic development, the energy dependence, the political instability, the indecision of a part of the moldovan citizens regarding the union with Romania maintain this country (despite the EU's proximity) under constant threat exercised by Russia.
- ❖ Large investors hesitate to invest in the Republic of Moldova for several reasons, both internal and external like: changing legislation, the Transnistrian dispute, the faulty legal system, bank fraud increase the degree of uncertainty to making investments in this country
- ❖ In this situation the real challenge of the Republic of Moldova is the result of the legislative elections that will take place in November, 2018. Igor Dodon threatens to denounce the Association Agreement with the EU and this can only be done in Parliament (a parliamentary majority that could only be obtained after the elections this year).
- ❖ An eventual denunciation of the Association Agreement between the Republic of Moldova and the EU would lead to an unlimited freeze of political, economic and trade relations with the EU AND to the ending of EU financial assistance for it.
- ❖ So we can conclude that the future is rather uncertain for Romania, which is a member state of these unions and rather gloomy about a possible enlargement of this union, which would give the Republic of Moldova the possibility of integration into the European Union.



Thank you for your attention!