

Regional Integration Processes: Challenges for Moldova and Transnistria

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For ages Moldova served as a sort of «contact zone» for various states, religions and cultures, as a result producing need for dialogue, tolerance and cooperation.

The only way to affirm and subsist as a state is consciousness of own interests and priorities in diversity of regional integration processes

Moldova and Transnistria: Main Macroeconomic Indicators

	Moldova (MD+TN)	Moldova	Transnistria
	1990	2014	
<i>per capita, USD</i>			
Gross Domestic Product	8857	2233	2223
Industry	4507	871	1801
Agriculture	2389	543	402
Investment in Fixed Capital	980	408	290
Average Monthly Wage	518	297	3634
Average Monthly Pension	174	78	122
<i>GDP per capita (2013) compared to:</i>			
<i>CIS average</i>	72%	21%	20%
<i>EU average</i>	56%	6%	6%

Integration' History: EU and CIS (documents)

1994

Partnership and Cooperation Agreement RM - EU

CIS Agreement on Establishment of Free Trade Zone

2011

CIS Agreement on Free Trade Area

2014

Agreement RM-EU on Deep and Comprehensive Free Trade Area

Integration' History: Requirements

European Union

The accession process is rigorous, built on strict but fair conditionality, established criteria and the principle of own merit. This is crucial for the credibility of enlargement policy, for providing incentives to enlargement countries to pursue far-reaching reforms and for ensuring the support of EU citizens.

The Commission has put particular emphasis on the three pillars of i) rule of law, ii) economic governance and iii) public administration reform.

(European Commission)

Customs Union

To access the Eurasian economic formation, the candidate should pass through several stages, to demonstrate compliance with all rules and regulations of the Customs Union.

Russia's commitments to WTO are in force in the entire Customs Union space.

The problem of covering expenses, inevitable in the case of the accession of other CIS countries, is under discussion.

(Eurasian Economic Commission)

Moldova (Transnistria): Susceptibility to External Influence

Moldova's economy is not quite susceptible to fluctuations in Eurozone.

Moldova as other countries of the EEC region is the most sensitive to Russia's influence.

For the non-commodity exporting countries such as Armenia, Georgia or Moldova, it is thanks to Russia that higher oil prices do not have a more negative impact on their economies.

While the direct effect of higher oil prices may be negative, these countries also depend on the health of the Russian economy, which in turn benefits from higher oil prices, and therefore, on balance, they are at least no worse off.

(Transition Report 2012. "Integration Across Borders", pp. 40-42, www.ebrd.com)

Trade Preferences: The European Union to the Republic of Moldova

- **1995** – *preferences for textile exports (applied provisionally since 1 January 1993);*
- **1999** – *Generalised System of Preferences (GSP) – (partial/total exemption from customs duties or lower duties than the MFN rates; applied to Sections 25-97 of HS);*
- **2006** – *New Generalised System of Preferences (GSP+) (300 additional products mostly in agriculture and fishery sectors);*
- **2008** – *Autonomous Trade Preferences (basically allow virtually all products originating in the beneficiary countries to enter the EU without quantitative restrictions and customs duties, the only exemptions being imports of wine, baby beef and some fishery products to which tariff quotas apply)*

Yields of Integration

We and European Union: Lessons Learned

- **1999** – *The Study on the Economic Feasibility of an EU-Moldova Free Trade Area identified that due to the existing legal, administrative and economic conditions, Moldova could not obtain advantages from the creation of a free trade agreement.*
- **2003** – European Commission: “... for Moldova, which does not currently possess the competitive strength or administrative capacity to take on reciprocal obligations of an FTA, the EU is ready to consider developing new initiatives to grant better market access, in line with WTO obligations. (“Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours”, COM(2003) 104 final)
- **2008** – ATP “regime”:
 - **one third** of goods from Moldova enter the EU duty free
 - **two thirds** of the EU goods enjoy zero customs tariffs entering Moldova
- **2014 – in the run-up to the free trade:**
 - *more than 50% of Moldovan export to EU – goods after processing*
 - *more than 50% of cumulative FDI - European origin*
 - *Moldovan share in EU turnover with third countries – 0,06%*

Yields of Integration

We and CIS: National Interest or Integration

Slowdown in the level of integration in the field of trade, energy and agriculture;

Abrupt increase in the level of integration in the field of labour migration and education;

The macroeconomic indices of CIS countries tend to diverge rather than converge;

Insufficient use of the integration potential by the Big Four CIS countries: Russia, Kazakhstan, Ukraine and Azerbaijan;

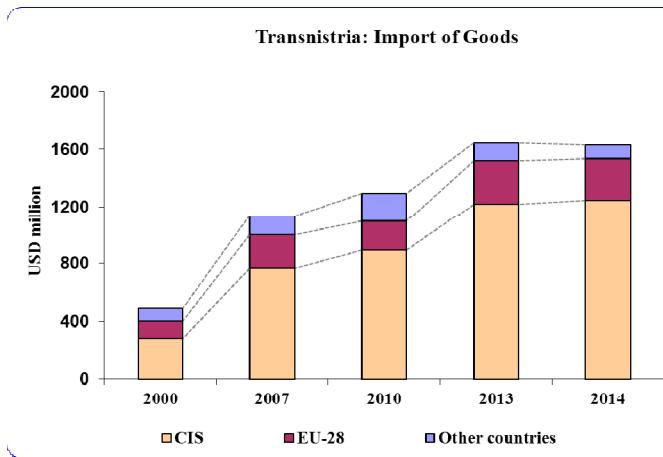
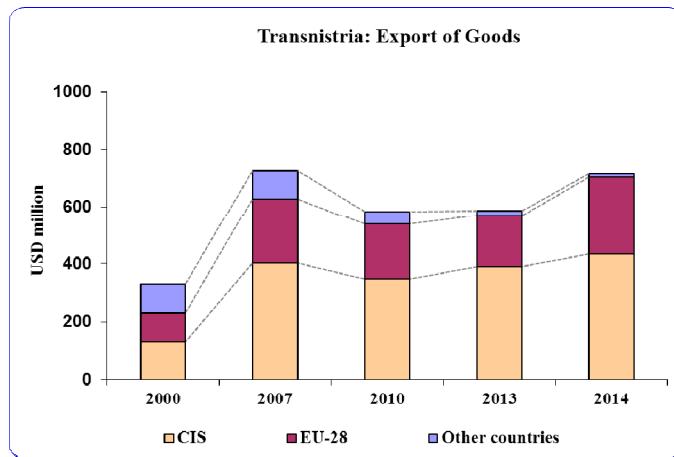
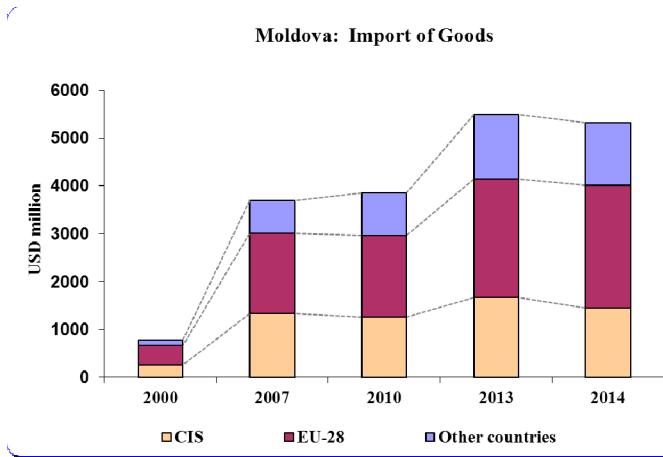
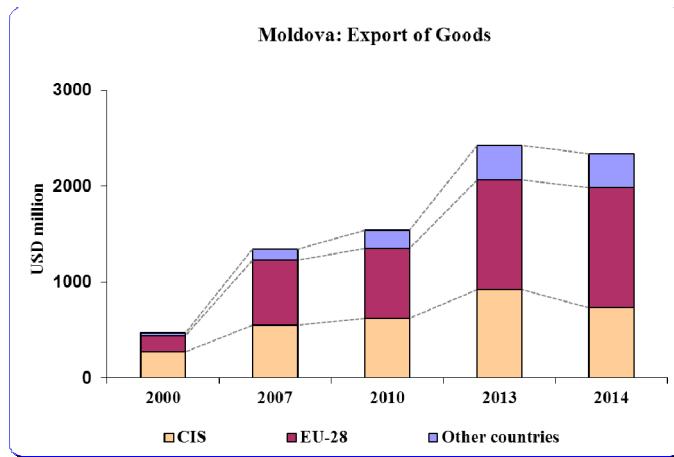
Lack of integration incentives for CIS countries

*Eurasian Development Bank,
Reports on the System of Indicators of Eurasian Integration,
www.eabr.org*

- *more than 50% of Moldovan export to CIS - autochthonous goods*
- *about 11% of cumulative FDI - CIS origin.*
- *Moldovan share in CIS turnover - 0,8%*

Geography of External Trade

Trade flows are distributed between the EU and the CIS markets mainly

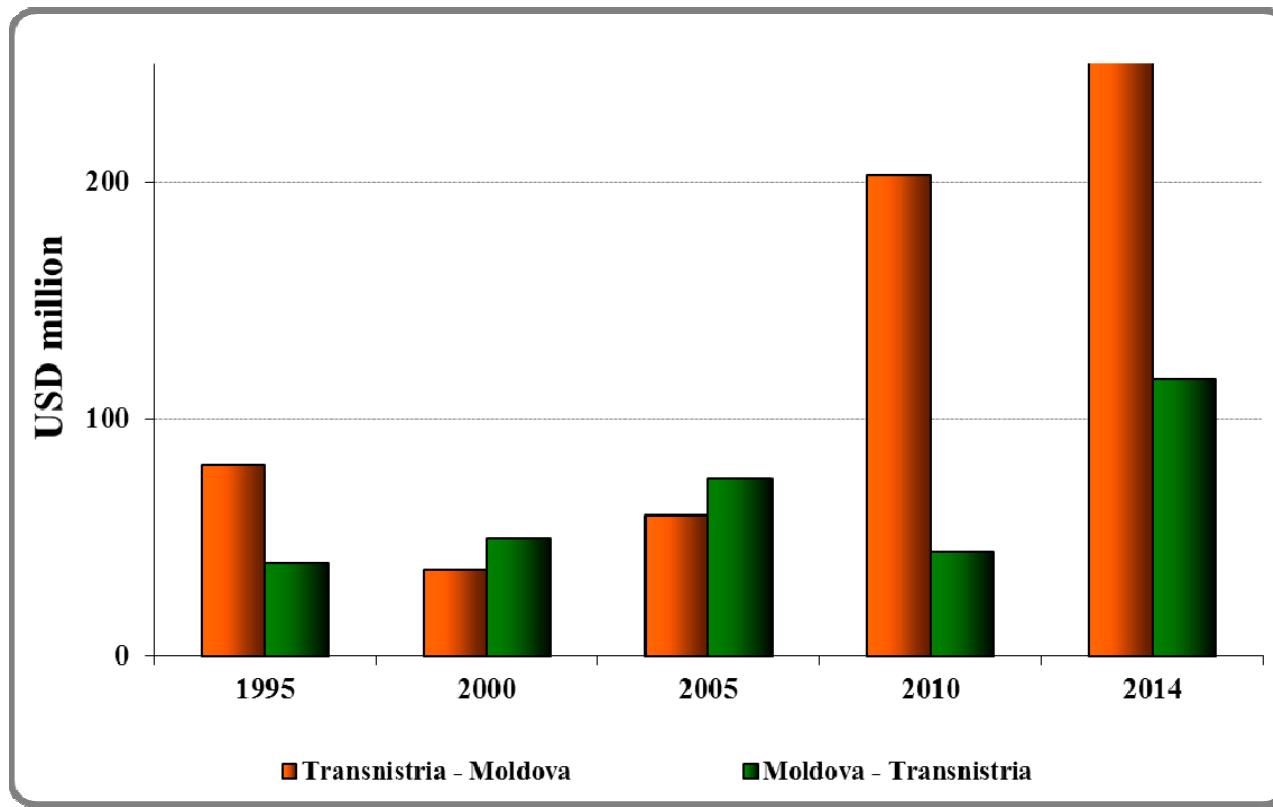


Geography of External Trade: Details

(as % to total export/import)

	EU-28			EU-15			CIS-10			Russia			CIS-10 without Russia and Ukraine			Other countries		
	2000	2010	2014	2000	2010	2014	2000	2010	2014	2000	2010	2014	2000	2010	2014	2000	2010	2014
Moldova																		
Export	35.1	47.3	53.3	21.7	24.5	26.7	58.5	40.5	31.4	44.5	26.2	18.1	6.5	8.3	8.7	6.4	12.2	15.3
Import	53.5	44.3	48.3	29.1	25.9	24.5	33.4	32.6	27.3	15.4	15.2	13.5	4.6	3.7	3.5	13.1	23.1	24.5
Transnistria (without trade flows between two banks of the Dniester River)																		
Export	19.1	50.3	61.9	11.3	32.9	20.9	31.9	37.4	35.4	25.1	27.3	23.0	4.5	2.0	1.7	49.1	12.3	2.6
Import	35.6	16.2	19.4	21.8	9.6	10.9	52.3	67.7	74.2	34.8	45.3	50.1	2.9	7.0	10.7	12.1	16.1	6.4

Internal Trade-flows



Ttrade relations between Moldova and Transnistria are maintained by economic agents only (in the absence of alternative)

Internal Trade-flows: Details

(Moldovan Share in Trade-flows from Transnistria)

NG Code	Sections	2009	2010	2011	2012	2013	2014
	Export - total	33.3%	34.7%	31.0%	35.7%	40.0%	38.9%
I -IV (01-23)	Food, beverages, etc.	13.7%	16.7%	9.6%	21.9%	25.4%	16.8%
V (25-27)	Mineral products	86.9%	91.4%	85.7%	84.3%	94.6%	99.6%
VI -VII (28-40)	Products of the chemical industry	0.0%	3.6%	4.9%	0.0%	1.8%	6.2%
VIII (41-43)	Raw hides and skins, etc.	6.1%	0.0%	0.0%	12.9%	58.5%	0.0%
IX - X (44-49)	Wood and articles of wood	89.5%	92.2%	90.1%	77.2%	88.3%	92.3%
XI (50-63)	Textiles and textile articles	2.9%	2.7%	1.1%	0.9%	3.1%	3.3%
XII (64-67)	Footwear, etc.	92.4%	92.3%	92.3%	92.7%	82.8%	93.3%
XIII (68-70)	Articles of stone, plaster, etc.	84.3%	72.3%	68.4%	78.9%	69.2%	76.3%
XV (72-83)	Base metals and articles of base metal	3.6%	2.2%	7.9%	10.7%	13.6%	9.0%
XVI - XVIII (84-92)	Machinery and mechanical appliances; etc.	2.4%	4.1%	5.4%	3.2%	5.7%	11.5%
XX (94-96)	Miscellaneous manufactured articles	41.7%	0.0%	62.0%	37.5%	10.2%	13.8%

Internal Trade-flows: Details

(Structure of Transnistrian Trade-flows to Moldova)

NG Code	Sections	2009	2010	2011	2012	2013	2014
	Export - total	100%	100%	100%	100%	100%	100%
I -IV (01-23)	Food, beverages, etc.	2.1%	3.8%	2.3%	4.9%	10.3%	5.4%
V (25-27)	Mineral products	79.3%	76.5%	70.6%	71.9%	65.9%	70.2%
VI -VII (28-40)	Products of the chemical industry	0.0%	0.1%	0.2%	0.0%	0.1%	0.2%
VIII (41-43)	Raw hides and skins, etc.	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
IX - X (44-49)	Wood and articles of wood	0.2%	0.2%	0.3%	0.3%	0.5%	0.3%
XI (50-63)	Textiles and textile articles	1.1%	1.1%	0.5%	0.3%	1.2%	1.0%
XII (64-67)	Footwear, etc.	12.8%	16.1%	17.0%	12.4%	14.3%	14.7%
XIII (68-70)	Articles of stone, plaster, etc.	0.4%	0.4%	0.5%	0.5%	0.5%	0.3%
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XX (94-96)	Miscellaneous manufactured articles	0.7%	0.0%	0.5%	0.2%	0.2%	0.1%

Competitiveness of Economy

Classical Triad:

competitiveness of goods and services together with structural one
+

Noneconomic factors:

- Political stability;
- Rule of law;
- Education ensuring competitive qualification of labour;
- High quality of public administration;
- Social interaction and regular dialog between different social groups;
- Social, institutional and mental flexibility.

Competitiveness of Economy: The Global Competitiveness Report 2014–2015

Global Competitiveness Index – 82 (144)

Basic requirements - 90:

- Institutions - 121
- Infrastructure - 83
- Macroeconomic environment - 56
- Health and primary education - 93

Competitiveness of Economy: *(continuation)*

Global Competitiveness Index – 82 (144)

Efficiency enhancers - 88:

- High education and training - 84
- Goods market efficiency - 103
- Labour market efficiency - 82
- Financial market development - 100
- Technological readiness - 51
- Market size - 124

Competitiveness of Economy: *(continuation)*

Global Competitiveness Index – 82 (144)

Innovation and sophistication factors - 129 :

- Business sophistication - 124
- Innovation – 131

Competitiveness of Economy:

(Voice of the Business Community)

The most problematic factors for doing business:

- Corruption – 22,2%
- Quality of public administration – 19,7%
- Policy instability - 12,6%
- Tax regulation - 7,7%
- Inadequately educated workforce – 7,1%

Moldova and Transnistria: Factors Influencing “Quality” of Integration Processes

- **The low level of exports (industries) diversification:**
4 sections of Nomenclature of Goods “cover” more than 80% of Transnistrian and about 70% of Moldovan exports;
- **Extra-openness of economies together with its non-competitiveness and limited internal incentives for growth:**
one of the most liberal trade regimes - 11 place of 125, EU - 25, Russia – 44 together with limited access to external markets – 73 place
- **Structural disparities:**
lack of visible actions to adapt the structure of the economy to the changed environment (functioning under market conditions while maintaining the pre-market structure of economy);
- **Limited internal sources of development against continued investment unattractiveness;**
OECD country risk classification - unacceptable risks for creditors and investors
- **Deficit of mechanisms to transform external motivations to development in internal projects/poles of growth**
“Defects” of both economies are compensated by labour migration (for the last 10 years the inflow of remittances exceeded the net inflows of investment in Transnistria by 3 times and in Moldova by 4 times) and direct financial support of Transnistria/Moldova from external partners, Russia/EU;

Moldova and Transnistria: Transformation of the Integration Paradigm

- Mutual economic interests could and should be assumed as the basis for reasonable integration decisions**
- Strict observance of all agreements and establishment of mechanisms for its implementation.**
- Implementation of joint projects with the participation of the European and Customs Unions**
- Priority - development of technological cooperation with the firm guarantees of investments protection.**