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# Moldova's EU Integration and the Special Case of Transnistria

In the shadow of Russia's invasion of Ukraine, another East European country is actively working to secure its European future. After three years of negotiating cooperation agreements with the European Commission, Moldova finally obtained its EU candidate status and is now on track to join the EU as a member state. However, among many remaining obstacles on the path to full membership, one stands out as especially problematic: the region of Transnistria. The region, officially Pridnestrovian Moldovan Republic, is an internationally unrecognized country and is rather seen as a region with which Russia has "special relations", including a military presence in the region since 1992. This policy brief provides an overview of the current state of the Transnistrian economy and its relationships with Moldova, the EU and Russia, arguing that Transnistria's economy is de facto already integrated in the Moldovan and EU economies. It also points to the key challenges to resolve for a successful integration of Moldova into the EU.

## The Moldovan Economy on its Way to EU Accession

On December 14<sup>th</sup>, 2023, the European Council decided to open accession negotiations with Moldova, recognizing Moldova's substantial progress when it comes to anti-corruption and de-oligarchisation reforms. The first intergovernmental conference was held on the 25<sup>th</sup> of June 2024, officially launching accession negotiations (European Council, 2024). On October 20<sup>th</sup>, 2024, Moldova will hold a referendum on enshrining Moldova's EU ambitions in the constitution. However, several issues remain to be solved, for Moldova to enter the EU.

With a small and declining population of only about 2.5 million people and a GDP of 16.54 billion US dollars (2023), Moldova remains among the poorest countries in Eastern Europe. In 2023 the GDP per capita was 6600 US dollars in exchange rate terms (substantially higher if using PPP adjusted measures; World Bank, 2024a). In the last decade, the largest share of its GDP, about 60 percent, stemmed from activities in the services sector, and about 20 and 10 percent from the industrial and agricultural sectors, respectively (Statista, 2024). Despite substantial economic growth in last decade (3.3 percent on average between 2016 and 2021) and recent reforms (largely under the presidency of Maia Sandu), Moldova remains highly dependent on financial assistance from abroad and remittances, the latter contributing to about 15 – 35 percent of Moldova's GDP in the last two decades (World Bank, 2024b).

The Covid 19-pandemic, and refugee flows caused by Russia's invasion of Ukraine have only intensified this dependence. Furthermore, these events excavated existing vulnerabilities in the Moldovan economy, such as high inflation and soaring energy and food prices, which depressed households' disposable incomes and consumption, while war-related uncertainty

contributed to weaker investment (World Bank, 2024c).

## The Contested Region of Transnistria

In addition to Moldova's economic challenges, the country also faces a particular and unusual problem; it does not fully control its territory. The Transnistrian region in the North-West of the country (at the South-Western border of Ukraine) constitute about 12 percent of Moldova's territory. The region has a population of about 350 000 people, mostly Russian-speaking Moldovans, Russians, and Ukrainians.

Following the breakup of the Soviet Union a movement for self-determination for the Pridnestrovian Moldavian Republic resulted in a self-declaration of its independence on the 2<sup>nd</sup> of September 1990. More specifically, the alleged suppression of the Russian language and threats of a unification between Moldova and Romania were the main stated reasons for the Transnistrian movement for self-determination, which in turn led to the civil armed conflict in 1992 and a following ceasefire agreement (Government of Republic of Moldova, 1992). The main points of the agreement concern the stationing of Russia's 14<sup>th</sup> Army in Transnistria, the establishment of a demilitarized security zone and the removal of restrictions on movement of people, goods, and services between Moldova and Transnistria. As of 1992, Transnistria is de-facto an entity under "Russia's effective control" (Roşa, 2021).

Over the years, the interpretations of the conflict have become more controversial, ranging from the local elite's perspectives to assertions of an entirely artificial conflict fueled by malign Russian influence (Tofilat and Parlicov, 2020).

Notably, the Moldovan government has never officially recognized Transnistria as an occupied territory (see Article 11 of the Moldovan constitution stating "The Republic of Moldova - a Neutral State (1) The Republic of Moldova proclaims its permanent neutrality. (2) The Republic of Moldova shall not allow the dispersal



of foreign military troops on its territory” (Constitute, 2024)).

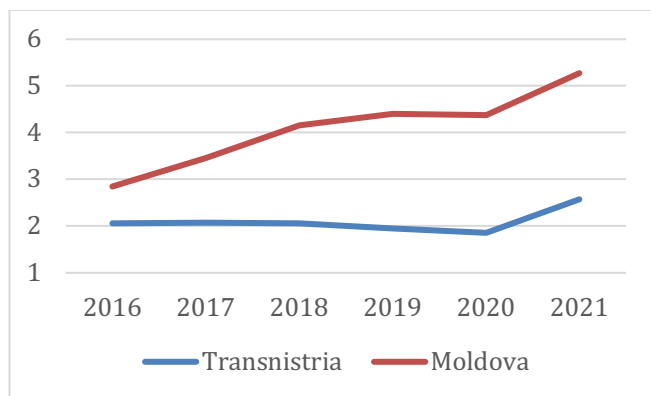
Furthermore, the European Council’s official recognition of Transnistria as an “occupied territory” on March 15, 2022, underscores the EU’s stance on the matter and highlights Russia’s pivotal role in providing political, economic, and military support to Transnistria (PACE, 2022).

## The Transnistrian Economy: Main Indicators and Weaknesses

Despite Russia’s central role in Transnistria, the region’s economy is, in practice, substantially integrated into the Moldovan and EU economies. This fact should be considered at various levels of decision-making when discussing Moldova’s EU accession.

As depicted in Figure 1, economic activity in Transnistria has been a quite “stable” in the last decade. GDP per capita has remained around 2000 US dollars, 2,5 times lower than Moldova’s GDP per capita in 2021.

Figure 1. Moldovan and Transnistrian GDP per capita, in thousand USD



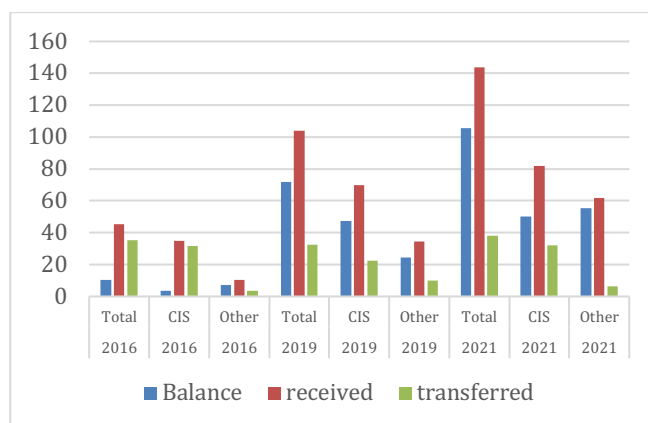
Source: Data from World Bank, 2024; Pridnestrovian Republican Bank, 2024a. Note: since 2022 the Pridnestrovian Republican Bank has suspended publishing official statistics on macroeconomic indicators.

However, one must be careful when estimating and interpreting Transnistrian economic indicators in dollar terms. The local currency is the *Transnistrian ruble* which is not recognized anywhere in the world except in Russia. Its real value is thus highly uncertain as there is no market

for this currency. Moreover, only Russian banks are authorized to open accounts and conduct transactions in the currency, demonstrating yet another significant weakness for Transnistria as a potential independent state, particularly given the current global ban on most Russian banks. As such, the official exchange rate for US dollars should be taken with a grain of salt. At the same time, there are no alternative statistics as the Pridnestrovian Republican Bank is the only source for relevant data on Transnistria.

Another distinctive feature of Transnistria is the substantial reliance on remittances from abroad (see Figure 2). In 2021, remittances amounted to 143.7 million US dollars, constituting 15.5 percent of GDP in 2021 (if relying on the official exchange rate for US dollars, as published by the Pridnestrovian Republican Bank).

Figure 2. Remittances to/from Transnistria, in million USD



Source: Data from the Pridnestrovian Republican Bank (2024b). Note: CIS denotes Commonwealth of Independent States and Other all other countries.

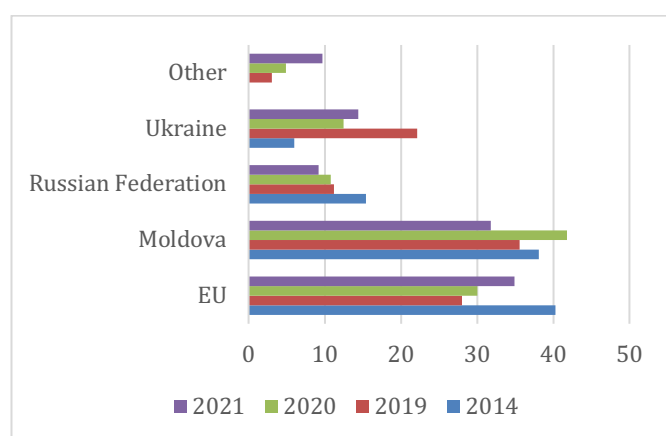
Figure 2 illustrates a notable trend of increasing dependency on remittances in recent years, particularly on remittances originating from CIS countries, chiefly Russia and Ukraine.

In terms of reliance on Russia, this dependency is not a concern when it comes to Transnistria’s exports. Foreign trade data from recent years indicates that the Transnistrian economy no longer relies on exports to Russia. As seen in Figure 3, the share of exports to Russia has been



constantly declining since 2014 and amounted at merely 9.2 percent in 2021. At the same time, exports to the EU, Moldova and Ukraine collectively accounted for about 80 percent in 2021. The primary commodities driving Transnistrian exports were metal products, amounting to 337.3 million US dollars in 2021, followed by electricity supplies at 130.1 million US dollars. Additionally, food products and raw materials contributed 87.6 million US dollars to Transnistrian exports in the same period.

Figure 3. Transnistrian exports by destination countries, in percent



Source: Data from the Pridnestrovian Republican Bank Bulletins (2024c).

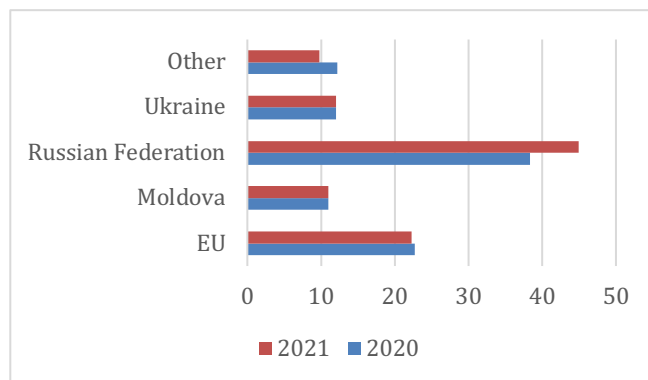
These figures highlight the significant integration of the Transnistrian economy into the European market and, to some extent, indicate the strong potential to further align in this direction.

The increase in Transnistria’s exports to the EU in recent years can be largely attributed to the implementation of mandatory registration of Transnistrian enterprises in Moldova in 2006 as a prerequisite for engaging in foreign economic activities (EUBAM, 2017). Consequently, Moldova has exercised full control over Transnistrian exports and partial control over its imports since 2006.

However, Transnistria remains reliant of Russia for its imports, particularly in the energy sector. In contrast to the export structure, Russia’s share in Transnistrian imports was significantly larger in 2021. About 45 percent of the imports originated

from Russia in 2021, and mostly constituted of fuel and energy goods (447.0 million US dollar) and metal imports (254.3 million US dollar), quite typical for a transition economy.

Figure 4. Transnistrian imports by origin countries, in percent



Source: Data from the Pridnestrovian Republican Bank Bulletins (2024c).

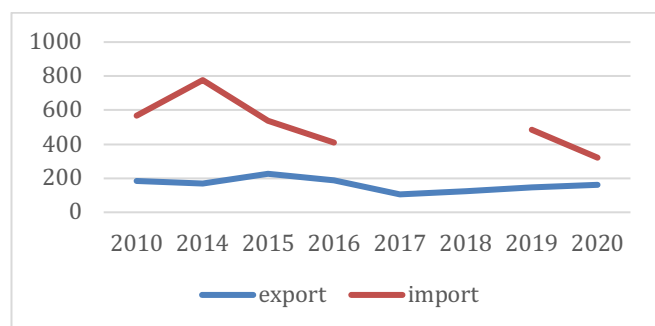
## Transnistria’s Energy Dependence on Russia

The biggest challenge for Transnistria, as well as for Moldova, is the large fuel and energy dependence on Russia, mostly in the form of natural gas.

For many years, gas has been supplied to Transnistria effectively for free, often in the form of a so-called “gas subsidy” (Roşa, 2021). This gas flows through Transnistria to Moldova, effectively accumulating a gas debt. Typically, Gazprom supplies gas to Moldovagaz, which in turn distributes gas to Moldovan consumers and to Tiraspol-Transgaz in Transnistria. Tiraspol-Transgaz then resell the gas at subsidized tariffs to local Transnistrian households and businesses. This included providing gas to the Moldovan State Regional Power Station, also known as MGRES – the largest power plant in Moldova. MGRES, in turn, exports electricity, further highlighting the interconnectedness of energy distribution between the Transnistrian region and the rest of Moldova.



Figure 5. Export/import of fuel and energy products from/to Transnistria, in million USD



Source: Data from the Pridnestrovian Republican Bank Bulletins (2024c). Note: Data for 2017 and 2018 unavailable.

The revenue generated from energy exports to Moldova has been deposited into a so-called special gas account and subsequently channeled directly into the Transnistrian budget in the form of loans from Tiraspol-Transgaz. In this way the Transnistrian government has covered more than 30 percent of their total budgetary expenditures over the last ten-year period. This further points to Transnistria’s fiscal inefficiencies and highlights its precarious dependency on gas from the Russian Federation.

In the last few years there have however been repeated disruptions in the gas supply and continuous disputes about prices and how much Moldovagaz owes Gazprom. De jure Tiraspol-Transgaz operates as a subsidiary of Moldovagaz, but de facto its assets were effectively nationalized by the separatist authorities in Transnistria (Tofilat and Parlicov, 2020). These unclaritys has led to multiple conflicts over who owes the built-up gas debt. Given the ownership structure the debt is often seen as “Moldovan debt to Russia” (see e.g., Miller, 2023), albeit created by Transnistrian authorities. According to Gazprom, the outstanding amount owed by Moldovagaz to Gazprom stood at approximately 8 billion USD at the end of 2019 (Gazprom, 2024). This corresponds to about 7 times of Transnistria’s GDP. The Moldavian assessment of the debt is about two orders of magnitude lower (Gotev, 2023).

The disagreement on the debt amount was the official reason for the gas supply to be drastically

reduced in October 2022. From December 2022 to March 2023, Russia’s Gazprom supplied gas only to Transnistria and it was not until March 2023 that supplies to the rest of Moldova were resumed. Since then, there have been shifts back and forth with Moldova mainly buying gas from Moldovan state-owned Energocom, which imports gas from suppliers other than Gazprom (Catus, 2023; Tanas, 2023). Understanding all turns and events is at times challenging due to lack of transparency in dealings.

Currently, despite Gazprom’s debt claims, the entirety of Transnistria’s gas is still being provided by Russia. While this is a relatively “cheap” investment from the Russian perspective, its impact on Moldova is large, as highlighted by Tofilat and Parlicov (2020) “the bottomline costs for Russia with maintaining Transnistria as its main instrument of influence in Moldova was at most USD 1 billion—not too expensive for twenty-seven years of influence in a European country of 3 million people”.

### Corruption in Transnistria – Who is the Real “Sheriff”?

Another obstacle hindering a resolution of the Transnistrian conflict is the near complete monopoly of political and economic power held by Transnistria’s former President Igor Smirnov (1991-2011), through his strong ties to the Sheriff corporation. The corporation, established in 1993 by two former members of Transnistria’s “special services” (Ilya Kazmaly and Victor Gushan), was enabled by Transnistria’s former president, Igor Smirnov. For instance, the Sheriff company was exempt from paying customs duties and was permitted to monopolize trade, oil, and telecommunications in Transnistria. In return, the company supported Smirnov’s party during his presidency. For more on the conflict between Transnistria’s power clans and their relationships with Russia, see Hedenskog and Roine (2009) and Wesolowsky (2021).

The Sheriff company encompasses supermarkets, gas stations, construction firms, hotels, a mobile



phone network, bakeries, a distillery, and a mini media empire comprising radio and TV stations. Presently, the company is reported to exert control over approximately 60 percent of the region's economy (Wesolowsky, 2021).

A straightforward illustration of Sheriff's political influence is the establishment of the Sheriff football team. For the team, Victor Gushan constructed the Sheriff sports complex, the largest football stadium in Moldova, accommodating 12 746 spectators. This investment in sports infrastructure is notable, especially considering that the total population of Transnistria is only approximately 350 000, and that the region is fairly poor. A similar example concerns the allocation of a land plot of 6.4 hectares to the company "to expand the construction of sports complex for long-term use under a simplified privatization procedure" signed directly by the former president.

While these details may seem peripheral to broader problems, they illustrate how some vested interests in the Transnistrian region may not be keen to change towards a society based on the rule-of-law, increased transparency and a market-oriented economy.

## Moldova's Options for Resolving the Transnistrian Conflict in EU Integration

As Moldova grapples with both the consequences from the ongoing conflict in Ukraine and the prolonged "frozen" conflict with Transnistria, its economy remains vulnerable. With the recent attainment of EU candidate status, it's essential for the Moldovan government to map out ways to solve the conflict despite strong interest from powerful political and economic groups in preserving status quo.

While the perspectives of resolving the, Transnistrian conflict obviously hinge on Russian troops withdrawing from the region, Moldova would also need to address a wide range of economic issues. The Transnistrian economy faces numerous critical structural challenges including

a persistent negative foreign trade balance, an unsustainable banking system, and pervasive corruption. Notably, the dominant oligarchic entity, the Sheriff company, exercises monopolistic political and economic influence, striving to preserve status quo for Transnistria. Obvious unviability of the local currency due to its artificial nature and a complete dependency on Russia's banking system are additional challenges to be solved for Moldova to be able to integrate Transnistria properly into its economy. Therefore, introducing additional measures such as restricting access to remittances in Transnistria, and imposing personal sanctions on elite groups could help Moldova in establishing economic control over the region.

Furthermore, while the Transnistrian region de-facto has strong economic ties with the Moldovan and European market in terms of exports, its heavy reliance on Russian gas imports remains a significant vulnerability.

When integrating Transnistria and severing its ties with Russia, Moldova would also need to resolve the issues arising from its reliance on the electricity produced at MGRES using subsidized Russian gas. Natural gas bought at market prices would make Moldovan electricity highly costly, presenting financial challenges to Moldova, and effectively destroying the competitive advantage and important source of revenue in the Transnistrian region. Moreover, alternative electricity routes to Moldova are yet to be completed (with an estimated cost of approximately 27 million EUR).

These and other issues need to be dealt with for a successful Moldovan transition into the EU. Although these challenges are highly important from a Moldovan point of view, and even more so from a Transnistrian perspective, it should be emphasized that these issues are, in economic terms, relatively small for the EU. Given that the EU has opened the way for Moldovan accession, it should be ready to step up financially to help Moldova solve these issues and stay on the membership path.



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