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Moldova: Background and U.S. Policy

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Summary

This short report provides information and analysis on Moldova, including its political and economic situation, foreign policy, and on U.S. policy toward Moldova. For more background on Moldova, see CRS Report 95-403, *Moldova: Basic Facts*, by Steven Woehrel. This report will be updated as events warrant.

Political Situation

Although a relatively small country, Moldova has been of interest to U.S. policymakers due to its position between NATO member Romania and strategic Ukraine. In addition, some experts have expressed concern about alleged Russian efforts to extend its hegemony over Moldova through various methods, including a troop presence, manipulation of Moldova's relationship with its breakaway Transnistria region, and energy supplies. Moldova's political and economic weakness has made it a source of organized criminal activity of concern to U.S. policymakers, including trafficking in persons and weapons.

Moldova is a parliamentary democracy that has held largely free and fair elections since achieving independence from the Soviet Union in 1991. In the most recent parliamentary elections on February 25, 2001, the Communist Party of Moldova (CPM) won a decisive victory, the first such victory by a communist party in the countries of the former Soviet Union. The CPM holds 71 seats in the 101-seat parliament. An alliance of small center-right groups headed by outgoing Prime Minister Dumitru Braghis won 19 seats and the nationalist and pro-Romanian Christian Democratic Popular Party won 11 seats. Analysts attributed the CPM's success to public frustration with political gridlock, corruption and low living standards under preceding center-right governments. In April 2001, the new parliament elected CPM leader Vladimir Voronin as President and approved a new government led by businessman Vasile Tarlev.

Public support for the Communists has declined over the past few years, but opposition prospects for next parliamentary elections (due in February 2005) are clouded by uncertainty over whether the often fractious opposition can present a unified front. The picture has been complicated by the deterioration of relations between the

Communist government and Russia in 2004. Some of the “centrist” parties in the opposition are reportedly looking to Moscow for support, other opposition parties remain strongly anti-Russian, and the government has been increasingly pro-Western.

The 2003 State Department human rights report says that Moldova generally respects the human rights of its citizens, but notes that the judiciary is susceptible to bribery and official pressure. The report says the government also pressures critics in the media, but that an active and independent media exists. However, in October 2004, U.S. Ambassador to Moldova Heather Hodges warned that it could difficult for the international community to view the 2005 elections as free and fair, if broadcast media remain heavily biased in favor of the government. Hodges also noted a 2003 report by the Organization for Security and Cooperation in Europe that criticized the harassment of opposition politicians by the authorities.

Transnistria. Conflict between Moldovan forces and those of the breakaway “Dniestr Republic” (a separatist entity proclaimed in 1990 by ethnic Russian local officials in the Transnistria region of Moldova) erupted in March 1992. Over 300 people died in the violence. A cease-fire was declared in July 1992 that provided for Russian and Moldovan peacekeepers to patrol a “security zone” between the two regions. The causes of the conflict are complex, involving ethnic factors and, above all, maneuvering for power and wealth among elite groups. Ethnic Russians and Ukrainians together make up 51% of Transnistria’s population of about 650,000, while Moldovans are the single largest ethnic group, at 40%.

Many analysts are convinced that a key factor obstructing a settlement is the personal interests of the leaders of the “Dniestr Republic” and associates in Moldova, Russia and Ukraine who profit from illegal activities that take place in Transnistria. These activities include illicit arms sales, human trafficking and smuggling. The 2003 State Department human rights report sharply criticized the “poor” human rights record of the “Dniestr Republic,” noting its record of rigged elections, harassment of political opponents, independent media, many religious groups and Romanian-speakers.

Figure 1. Transnistria and Gagauz Regions



Source: Map Resources. Adapted by CRS. (K.Yancey 12/10/04)

Negotiations over the degree of autonomy to be accorded the Transnistria region within Moldova have been stalled for many years.¹ The two sides have negotiated over Transnistria's status with the mediation of Russia, Ukraine and the Organization for Security and Cooperation in Europe (OSCE). This process has resulted in proposals for a federal Moldova, in which Transnistria would have great autonomy. Nevertheless, Transnistrian leaders, apparently satisfied with the present state of affairs, have blocked any agreement. In 2003, frustrated by the impasse, Moldova and Russia bypassed the five-sided talks and produced a draft agreement in November 2003 that made large concessions to the "Dniestr Republic." The draft contained "transitional provisions" that would have allowed the "Dniestr Republic" to veto federal laws and international treaties through 2015. Moldovan leaders appeared ready to accept the agreement, reportedly because of alleged Russian assurances that the Transnistrian leadership would be replaced. However, Moldovan President Vladimir Voronin decided not to sign the accord due to heavy pressure from officials from the OSCE, the United States and the European Union, who warned him that the proposal would threaten Moldova's sovereignty and would hurt future efforts toward European integration. The Russian plan collapsed, and there has been little progress toward a resolution since then.²

In summer 2004, tensions rose between the Moldovan government and the Transnistria authorities. Transnistrian leaders harassed and closed Moldovan-language schools in their area that use the Latin (as opposed to the Cyrillic) script. Moldova has blocked export certificates for the legal export of goods from Transnistria. Transnistrian leaders briefly threatened to mobilize their forces, claiming the threat of an invasion by Moldovan troops, which the Moldovan government denied. In September, Transnistrian troops took over the Moldovan-controlled rail station at Bendery, on the border between Transnistria and the rest of Moldova. In October 2004, Transnistrian leaders threatened to hold a referendum on independence for the "Dniestr Republic."

Economy

Moldova's per capita Gross National Product was \$460 in 2002, the lowest in Europe. Living standards are very poor for the great majority of Moldovans, with an average monthly income of \$30. Moldova's main natural resource is its rich soil. Agriculture, especially fruit, wine and tobacco, plays an important role in Moldova's economy. Most of Moldova's industry is located in Transnistria, and is not counted in Moldovan government statistics. Moldova's lack of control over its borders has severely hampered its ability to collect customs revenue.

Moldova has had mixed success in economic reform. After independence, output declined sharply and inflation soared, but Moldova pursued an IMF-supported program of tough fiscal and monetary policies. It succeeded in achieving a measure of macroeconomic stability, including the stabilization of Moldova's national currency, the

¹ Another potential secession issue was defused in July 1994, when the Moldovan parliament adopted a law establishing a "national-territorial autonomous unit" for the Gagauz minority. The region has its own elected legislative and executive authorities and would be entitled to secession from Moldova in the case of Moldova's reunification with Romania.

² International Crisis Group, "Moldova: Regional Tensions over Transdniestria," June 17, 2004, from the ICG website [<http://www.icg.org>].

leu. However, Moldova's small economy is highly vulnerable to external shocks. Moldova has privatized its small and medium-sized business sector, and it has had success in privatizing agricultural land. The sale of large firms has been more difficult and foreign investment in Moldova is low. The International Monetary Fund and other international organizations have criticized the current, Communist, Moldovan government for a lack of commitment to free market reform, especially its slow pace in privatization and its failure to create a suitable business environment, including through reducing corruption.³

Foreign Policy

Perhaps Moldova's most important foreign policy relationship is with Russia. Most of Moldova's exports go to Russia, and over 90% of its energy imports come from Russia. Moldova has accumulated large debts to Russian energy firms. Some analysts charge that Russia's behavior in negotiations over Transnistria have shown that Russia, while nominally supporting Moldova's sovereignty, has in reality used the issue to expand its political leverage over the country. The Transnistria issue is complicated by the continued presence of about 1,500 Russian troops in the breakaway region (not including several hundred Russian peacekeepers in the security zone, who are there with Moldova's consent), as well as huge stockpiles of weapons and ammunition. Russia has flatly refused to honor commitments it has made to the OSCE to withdraw its forces from Moldova. Russian leaders have also attempted to condition the withdrawal of Russian troops on the resolution of Transnistria's status.⁴ Moldovan officials have termed the Russian conditions on troop withdrawal as "blackmail." Russia has responded with bitter verbal attacks on Moldova's leadership.

Both Moldovan and Russian officials agree that the tons of munitions in Transnistria must be removed or destroyed before the Russian troops pull out, in order to prevent the weapons from falling into the hands of criminals, terrorists and other undesirable groups. However, Russian officials maintained that they could not withdraw the munitions without the permission of the Transnistria authorities, who claim that the weaponry is their "property." A positive development was the conclusion of an agreement in May 2001 between the OSCE and Russia on OSCE monitoring and assistance for the troop withdrawal, including the use of an OSCE trust fund to help dispose of the Russian munitions. Several trainloads of munitions were withdrawn to Russia in 2003. However, in late 2003, after the collapse of Russian-mediated talks on the Transnistria's future, OSCE officials complained that Transnistria officials began to block their efforts to verify equipment further withdrawals. Russia supported the action of the Transnistria authorities.

After failure of the Russian-brokered draft agreement to solve the Transnistria problem in 2003, President Voronin advocated reorienting Moldovan foreign policy away from Russia and closer to the West. Moldova does not seek NATO membership but participates in Partnership for Peace (PFP) exercises and favors increased cooperation with NATO. Moldova currently has a partnership and cooperation agreement with the European Union (EU), which provides for cooperation in a wide variety of spheres and

³ *Economist Intelligence Unit Country Report: Moldova*, August 12, 2004.

⁴ Jamestown Foundation, *Eurasia Daily Monitor*, November 17, 2004.

holds out the possibility of an eventual free trade agreement. Voronin has called for a direct role by the EU and the United States in solving the Transnistria problem, viewing the current, five-sided format as flawed. Moldova is looking forward to signing a new cooperation agreement with the EU in December 2004 or early 2005 in the context of the EU's new European Neighborhood policy. Moldova even hopes to become a candidate for EU membership as early as 2007, although the EU is very reluctant to accept Moldova as a candidate in the foreseeable future.

Moldova's ties with Romania are a sensitive issue in both countries. Many Romanians consider Moldovans in fact to be Romanians, and support the eventual unification of the two countries. Although most independent experts consider the "Moldovan language" to be Romanian, the issue is a matter of political controversy in Moldova. After the incorporation of Moldova into the Soviet Union during World War II, Soviet authorities promoted the idea of a separate Moldovan language (using the Cyrillic rather than the Latin script), as a means of countering possible secessionist ideas. Those favoring the term "Moldovan" tend to accept the Soviet legacy in Moldova, and favor Moldova's independence or close ties with Russia. Those persons favoring the term "Romanian" support union with Romania and reject the legacy of the Soviet past. The Christian Democratic Popular Party (which has 11 seats in parliament) and a few other right-of-center groups advocate unification with Romania, which they feel would cement closer ties with the West, but the CPM-led government and many Moldovans oppose it. In a 1994 referendum, over 90% of Moldovans rejected unification with Romania. However, more inhabitants of this impoverished country may begin to favor union with Bucharest as Romania approaches EU membership, which could occur as soon as 2007.

U.S. Policy

The United States and Moldova have enjoyed good relations since the country's independence in 1991. The United States has attempted to support democracy and free market reform in Moldova. It has also tried to support the country's fragile sovereignty and territorial integrity by advocating the withdrawal of Russian forces from Moldova and for negotiating a settlement of the Transnistria issue consistent with Moldova's territorial integrity. The United States has called for continued cooperation on weapons proliferation and trafficking in persons. In May 2003, the United States imposed missile proliferation sanctions on two Moldovan firms for transferring equipment and technology to Iran. Transnistria has been a center for the trafficking of small arms to world trouble spots. According to the 2004 State Department Trafficking in Persons report, trafficking in persons is a "grave" problem in Moldova. The report says that the government does not fully comply with minimum standards for eliminating the problem, but is trying to do so. One problem is that part of trafficking takes place in Transnistria, where the government has no control.

In a June 26, 2004 visit to Moldova, Secretary of Defense Donald Rumsfeld thanked Moldova for its contributions to the fight against terror and its participation in the multinational peacekeeping forces in Iraq. Currently, there are 12 Moldovan troops in Iraq, engaged in demining work. They replaced a previous contingent of 42 deminers and army medics.

The United States has worked with the European Union to put pressure on the Transnistria leadership to end its obstructionist tactics in negotiations on the region's

future. On February 22, 2003, the United States and the European Union announced a visa ban against 17 top Transnistrian leaders. Other Transnistrian officials involved with the harassment of Latin-script schools were added to this list in 2004. The United States has refused to ratify the Conventional Forces in Europe (CFE) treaty until several conditions are met, including the withdrawal of Russian troops from Moldova. The United States has committed up to \$14 million to the OSCE trust fund to facilitate the withdrawal of Russian troops from Moldova.

The United States has provided aid to Moldova to help meet political and economic reform objectives. The United States provided an estimated \$21.9 million in Freedom Support Act (FSA) assistance to Moldova in FY2004. The conference report to the FY2005 foreign operations appropriation bill (P.L. 108-447) allocated \$17.5 million for Moldova in FY2005. U.S. aid is aimed at supporting independent media and non-governmental organizations in Moldova, as well as fostering cultural and civic exchanges. U.S. economic aid has played a key role in Moldova's land reform program. The United States also provides humanitarian aid in the form of food and medicine to particularly vulnerable parts of Moldova's impoverished population. The United States allocated \$2.168 million in Peace Corps assistance for Moldova in FY2004. The Administration requested \$2.795 million in Peace Corps funding in FY2005.

The United States has also provided security assistance to Moldova, including Excess Defense Articles. U.S. security assistance is used to help Moldova participate in Partnership for Peace exercises, and to develop its peacekeeping capacity and interoperability with NATO. The United States provided an estimated \$1 million in Foreign Military Financing (FMF) aid to Moldova in FY2004, and another \$1 million in IMET military training funds. The Administration requested \$0.8 million in FMF for FY2005 and \$0.9 million in IMET. The United States is providing non-proliferation and border control aid to Moldova. In FY2004, \$0.64 million was allocated. The Administration requested \$0.495 million for these purposes in FY2005.

A few observers have questioned whether the United States is doing enough to support Moldova's sovereignty. They claim that U.S. support for current plans to solve the Transnistria problem by federalizing Moldova will serve to weaken Moldova's sovereignty, make it more dependent on Russia and hinder its European integration. They view Russia's policy in Moldova as part of a larger strategy to reestablish control over the countries of the former Soviet Union. They also say that the United States should take a stronger stand against the Russian troop presence in Moldova, giving it a higher priority in the U.S.-Russian relationship.⁵ U.S. support for Moldova will be all the more important, they say, because a victory for pro-Western forces in Ukraine's December 26 presidential elections could cause Russia, angered by its setback in Kiev, to increase pressure on Moldova. However, other observers believe that U.S. officials may view "federalization" as the best result that Moldova can realistically expect, and that the United States might not want to jeopardize U.S. ties with Russia on possibly more important issues such as energy cooperation or the war on terrorism.

⁵ Vladimir Socor, "The West Must Bring Moldova Into the Fold," *Moscow Times*, April 19, 2004.