

# CRS Report for Congress

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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 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 March 6, 2005, the Communist Party of Moldova (CPM) won a majority of 56 seats in the 101-seat parliament. The Democratic Moldova Bloc (DMB), an alliance of small centrist groups headed by Chisinau mayor Serafim Urechean, won 35 seats. The nationalist and pro-Romanian Christian Democratic Popular Party, headed by Iurie Rosca, won 10 seats. Observers from the Organization for Security and Cooperation in Europe (OSCE) said that the vote was carried out generally in line with OSCE, Council of Europe, and other international election standards. However, the OSCE and other international organizations criticized Moldova for biased electronic media coverage, misuse of government resources in favor of the CPM, and harassment of opposition candidates and independent non-governmental organizations during the election campaign.

One important task that the new parliament will undertake is to try to elect Moldova's President. The Communist Party lacks the constitutionally mandated supermajority of 61 seats to re-elect CPM leader Vladimir Voronin to the post. If the

parliament is deadlocked on the choice of a new president, new parliamentary elections will have to be held. Although the Democratic Moldova Bloc and the Christian Democrats have vowed to block Voronin's re-election, some Moldovan analysts believe that the Communists may be able to secure support from elements in the heterogeneous DMB.

**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 2004 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.

Negotiations over the degree of autonomy to be accorded the Transnistria region within Moldova have been stalled for many years.<sup>1</sup> The two sides have negotiated over Transnistria's status with the mediation of Russia, Ukraine and 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. Frustrated by the impasse, Moldova and Russia

**Figure 1. Transnistria and Gagauz Regions**



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

<sup>1</sup> Another potential secession issue was defused in 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.

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.<sup>2</sup>

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.

## **Economy**

Moldova’s per capita Gross National Product was \$590 in 2003, the lowest in Europe. Living standards are poor for the great majority of Moldovans, with an average monthly income of \$30. Many are dependent on remittances from the hundreds of thousands of Moldovans working abroad. 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 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.<sup>3</sup> On the other hand, the Communists have succeeded in paying pensions on time, which has been a cornerstone of the party’s popular support.

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

<sup>3</sup> *Economist Intelligence Unit Country Report: Moldova*, August 12, 2004.

## 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, as well as huge stockpiles of weapons and ammunition. Russia has flatly refused to honor past 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.<sup>4</sup> 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 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 negotiations on solving the Transnistria problem, viewing the current, five-sided format as flawed. In response, the EU has agreed to appoint a special representative to deal with the Transnistria issue. Moldova signed a cooperation agreement with the EU in February 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 unlikely to accept Moldova as a candidate in the foreseeable future, due to many factors including Russia's possible negative reaction, Moldova's lack of progress in reform, and the EU's own internal challenges.

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<sup>4</sup> Jamestown Foundation, *Eurasia Daily Monitor*, November 17, 2004.

The victory of pro-Western and reformist Viktor Yushchenko as President of Ukraine in December 2004 may provide a boost to Moldova's foreign policy goals. Unlike the previous Ukrainian leadership, President Yushchenko supports Moldova's negotiating position on Transnistria. However, Ukraine could perhaps play an even bigger role in resolving the issue if it shut down the lucrative black-market trade between Transnistria and Ukraine, thereby increasing pressure on the Transnistria regime.

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. The Christian Democratic Popular Party (which won 9.7% of the vote in the March 2005 parliamentary elections) advocates unification with Romania, which it feels would cement closer ties with the West, but the CPM-led government and most 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 Romania as Bucharest approaches EU membership, which could occur in 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. In a speech in Bratislava, Slovakia on February 24, 2005, President Bush proclaimed that "eventually, the call of liberty comes to every mind and every soul," and noted that Moldova's March 2005 parliamentary elections gave the country a chance to "place its democratic credentials beyond doubt."<sup>5</sup> After the elections, U.S. officials said that the United States agreed with the OSCE assessment that the election was generally in line with international standards, but with shortcomings in several areas, including media access for opposition candidates.

The United States has 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

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<sup>5</sup> Agence France Presse wire service dispatch, February 24, 2005.

so. One problem is that part of trafficking takes place in Transnistria, where the government has no control.

In a June 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. The most recent Moldovan contingent of 12 demining troops were withdrawn in February 2005. There are currently no Moldovan troops in Iraq, but Moldovan officials have left open the possibility that a new contingent could be deployed, if approved by the new parliament elected in March 2005.

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 will provide an estimated \$21.7 million in assistance to Moldova in FY2005. The Administration has requested \$21.1 million for FY2006. 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 donates humanitarian aid in the form of food and medicine to particularly vulnerable parts of Moldova's impoverished population. The United States also provides 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.

A few observers have questioned whether the United States is doing enough to support Moldova's sovereignty. They claim that U.S. support for 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.<sup>6</sup> U.S. support for Moldova will be all the more important, they say, because the victory of pro-Western forces in Ukraine 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.

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<sup>6</sup> Vladimir Socor, "The West Must Bring Moldova Into the Fold," *Moscow Times*, April 19, 2004.