

An hourglass-shaped graphic with a globe in the top bulb and another globe in the bottom bulb. The top bulb is dark blue, and the bottom bulb is light blue. The hourglass is light gray. The globe in the top bulb is dark blue, and the globe in the bottom bulb is light blue. The hourglass is centered on the page.

WikiLeaks Document Release

<http://wikileaks.org/wiki/CRS-RS21981>

February 2, 2009

Congressional Research Service

Report RS21981

Moldova: Background and U.S. Policy

Steven Woehrel, Foreign Affairs, Defense, and Trade Division

Updated September 30, 2008

Abstract. This report provides information and analysis on Moldova, including its political and economic situation, foreign policy, and on U.S. policy toward Moldova.

WikiLeaks



CRS Report for Congress

Moldova: Background and U.S. Policy

Steven Woehrel
Specialist in European Affairs
Foreign Affairs, Defense, and Trade Division

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. 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 and EU 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 and other trading links. 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, won 34 seats. The nationalist and pro-Romanian Christian Democratic Popular Party won 11 seats. Observers from the Organization for Security and Cooperation in Europe (OSCE) said that the vote was carried out generally in line with international standards, but they criticized the election campaign for biased electronic media coverage, misuse of government resources in favor of the CPM, and harassment of opposition candidates and non-governmental organizations.

On April 4, 2005, Vladimir Voronin was reelected as President by the parliament. Voronin gathered support not only from his own Communist Party, but also from the center-right Christian Democratic Popular Party, and the Social Liberals, once part of the Democratic Moldova Bloc. The next parliamentary elections are scheduled for March 2009, with presidential elections to follow shortly thereafter. To improve its chances, in December 2007 the CPM majority in parliament adopted a new law that bars pre-election coalitions between parties and set a 6% vote threshold needed for a party to gain seats in

the parliament. The law will likely hurt the fragmented opposition. Government control of the electronic media will also likely help the CPM.

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, “Dniestr Republic,” and Moldovan peacekeepers to patrol a “security zone” between the two regions. Each of the peacekeeping contingents have roughly 400 personnel. They are overseen by a Joint Control Commission, which includes the three sides, as well as the OSCE as an observer.

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 control the region’s economy. They also allegedly profit from illegal activities that take place in Transnistria, such as smuggling and human trafficking. The 2007 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.¹ The two sides have negotiated over Transnistria’s status with the mediation of Russia, Ukraine and OSCE. In 2005, at the urging of Ukraine and Moldova, the United States and the European Union joined the talks as observers. In 2006, Moldova offered a “package” proposals, in which Transnistria would have broad autonomy within Moldova. Moldova would reaffirm its

Figure 1. Transnistria and Gagauz Regions



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

¹ 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.

neutral status and all foreign (i.e. Russian) troops would be withdrawn. Russian property rights in Transnistria would be recognized. Nevertheless, Transnistrian and Russian leaders, apparently satisfied with the present state of affairs, have blocked any agreement. In September 2006, Transnistria held a referendum on independence and union with Russia, which passed with 97% of the vote.

Economy

According to the World Bank, Moldova's per capita Gross National Income of \$1,100 in 2006 makes it the poorest country in Europe. Living standards are poor for the great majority of Moldovans, particularly in rural areas. Over 26% of the population live in poverty. More than a quarter of Moldova's economically active population work abroad. Remittances from this group amount to about one-third of the country's Gross Domestic Product. Moldova's main natural resource is its rich soil. Agriculture, especially fruit, wine and tobacco, plays a vital role in Moldova's economy. Most of Moldova's industry is located in Transnistria.

Moldova has had mixed success in economic reform. It has 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 stalled under Communist rule and foreign investment in Moldova is low. Key problems include poor governance, a weak judiciary, and corruption.

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 has used negotiations over Transnistria to expand its political leverage over the country and to block any Moldovan moves toward Euro-Atlantic integration. The Transnistria issue is complicated by the continued presence of about 1,500 Russian troops in the breakaway region (including the approximately 400-person peacekeeping contingent in the security zone), as well as huge stockpiles of weapons and ammunition. Russia has flatly refused to honor commitments it made at the 1999 OSCE summit in Istanbul 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. Russia has provided financial support to Transnistria, including grants and loans as well as subsidized energy. In return, Russian firms have assumed control over most of Transnistria's industry.²

On January 1, 2006, Gazprom cut off natural gas supplies to Moldova, after Moldova rejected Gazprom's demand for a doubling of the price Moldova pays for natural gas. Gazprom restored supplies on January 17, in exchange for a slightly smaller price increase. Moldova also agreed to give Gazprom, already the majority shareholder, a

² "Moldova's Uncertain Future," International Crisis Group, August 17, 2006, from the ICG website [<http://www.crisisweb.org>].

higher equity stake in Moldovagaz, which controls Moldova's natural gas pipelines and other infrastructure. Gazprom is also seeking to complete the purchase of Transnistria's stake in Moldovagaz. Some analysts charge that Russia is using energy supplies and other trade as weapons to pressure Moldova to drop its pro-Western orientation and to turn its energy infrastructure over to Moscow. In 2005, Russia restricted wine and other agricultural imports from Moldova, allegedly over health concerns, dealing a very heavy blow to the country's economy. Russia finally permitted Moldovan wine imports again in November 2007, but Moldova's wine exports to Russia remain reduced from former levels.

The Russian-Georgian conflict of August 2008 may have an impact on Moldova. Transnistrian authorities may become even more intransigent in talks over a settlement. They could press Russia to grant them diplomatic recognition as independent states, as Moscow has done for Georgia's South Ossetia and Abkhazia regions, possibly as a prelude to incorporating Transnistria into Russia. On the other hand, observers note that the case of Transnistria is different from that in Georgia in that Moldova is very unlikely to try to retake Transnistria by military force. Moreover, they point out that Russia does not have a common border with Transnistria, as it does with Georgia.

Russia could push for a Transnistria settlement that would give the pro-Russian enclave effective veto power over the country's foreign and domestic policies, which could stymie any Moldovan efforts toward European integration. However, even without recognizing Transnistria's independence or exerting heavier pressure for a settlement favorable to Transnistria, Russia may still succeed in dissuading Moldova from pursuing a pro-Western course. Even before the Georgia war, Russia successfully pressed Moldova to reduce its role in the GUAM regional group (named after the initial letters of the names of its members – Georgia, Ukraine, Azerbaijan and Moldova), which aims to coordinate the policies of these countries in many areas, including energy. Russia has seen GUAM as a U.S.-inspired, anti-Russian project in what it views as its sphere of influence. In May 2008, Moldova approved a national security strategy that reaffirmed the country's long-standing neutrality, winning praise from Russian officials.

As a self-declared neutral country, Moldova does not seek NATO membership, but participates in NATO's Partnership for Peace (PFP) program. 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. Moldova signed an Action Plan with the EU in 2005 in the context of the EU's European Neighborhood policy. The EU plans to provide 209.7 Euro (\$310 million) in aid to Moldova between 2007 and 2010, a substantial sum for a small country. The EU has granted Moldova trade preferences that permits it to sell more of its wine and agricultural goods to the EU, enabling it to reduce its dependence on the Russian market. In addition, many Transnistrian companies have registered in Moldova in order to benefit from EU trade preferences, a move that could counter pro-independence forces in Transnistria.

Since 2005, an EU mission has helped to monitor Moldova's Transnistria border with Ukraine, in an effort to deter smuggling. Moldova hopes to become a candidate for EU membership, although the EU is unlikely to accept Moldova as a candidate in the foreseeable future, due to Moldova's poverty and the EU's own internal challenges.

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 favor Moldova's independence or close ties with Russia. Many persons favoring the term "Romanian" support union with Romania. In a 1994 referendum, over 90% of Moldovans rejected unification with Romania. However, it is possible that more inhabitants of this impoverished country may begin to favor union with Romania now that Bucharest is a member of the EU. Romania's entry into the EU led to hundreds of thousands of Moldovan applications to Romania for dual Romanian-Moldovan citizenship.

U.S. Policy

The United States and Moldova have enjoyed good relations since the country's independence in 1991. The United States has supported democracy and free market reform in Moldova, as part of a global democratization effort. In a speech in Bratislava, Slovakia on February 24, 2005, President Bush noted that Moldova's March 2005 parliamentary elections gave the country a chance to "place its democratic credentials beyond doubt."³ 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. U.S. and other Western officials continue to be critical of some aspects of Moldova's democratic development, particularly its uneven record on media freedoms and its weak judiciary. They have also said Moldova needs to make more progress in fighting corruption and establishing an attractive business climate for investors.

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 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 adapted Conventional Forces in Europe (CFE) treaty until several conditions are met, including the withdrawal of Russian troops from Moldova. In November 2007, Russia suspended its observance of the CFE Treaty, attributing the move to the failure of the United States and other countries to ratify the adapted treaty.

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.

³ Agence France Presse wire service dispatch, February 24, 2005.

The 2008 State Department Trafficking in Persons report is sharply critical of Moldova's record in this area. It noted that Moldova is a major source of women and girls trafficked for commercial sexual exploitation. It is a Tier 3 country, meaning that it "does not fully comply with the minimum standards for the elimination of trafficking and is not making significant efforts to do so." Although noting that Moldova had made modest progress in some areas, the report stressed these gains were overshadowed by Moldova's failure to investigate alleged cases of involvement of government officials in trafficking.

Twelve Moldovan soldiers, most of them engaged in explosives disposal, are currently deployed in Iraq. At the request of the United States, Moldova has agreed to increase its force to 20 men, due to high demand for explosive disposal experts.

The United States has provided aid to Moldova to help meet political and economic reform objectives. The Administration estimates that the United States provided \$15.3 million in aid for Moldova in FY2008, and requested \$16.95 million in FY2009. 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 is improving the business climate in Moldova, and help the country diversify its exports. The United States donates humanitarian aid in the form of food and medicine to particularly vulnerable parts of Moldova's impoverished population. 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 provides funding to help Moldova strengthen its border and fight trafficking. In addition, Moldova will receive approximately \$24 million over two years under the Millennium Challenge Corporation to fight corruption, strengthen the judiciary, and achieve other reform objectives.

The 109th Congress approved legislation concerning Moldova. In February 2005, the Senate passed S.Res. 60, which expressed support for democracy in Moldova and called for the authorities to hold free and fair elections in March 2005. In March 2005, the Senate passed S.Res. 69, which called on Russia to honor its commitments to withdraw its troops from Moldova. S.Res. 530, passed in July 2006, called on President Bush during the Moscow G-8 summit to discuss frankly with President Putin a series of policies deemed to be inconsistent with G-8 objectives, including the January 2006 energy cut-off to Moldova.

The 110th Congress has also passed legislation concerning Moldova. S.Res. 278, passed on July 31, 2007, strongly urged Russia to reconsider its suspension of CFE implementation, and called on Moscow to "move speedily" to withdraw its troops and military equipment from Moldova. A House companion resolution, S.Res. 603, was introduced on August 1, 2007. H.Res. 457, introduced on June 5, 2007, calls on Russia to withdraw its forces and armaments from Moldova. It says the current Russian-Moldovan peacekeeping force in the security zone should be replaced by a multinational one under an OSCE mandate.