

## Transnistria – an unrecognised country within Moldova\*

### Introduction

The small Moldovan territory east of the Dniester River, which has approximately 550 000 inhabitants, has been seeking independence for eighteen years now. Transnistria – which calls itself Pridnestrovie, or the Pridnestrovian Moldavian Republic, according to its own constitution – is a secessionist republic, *de facto* independent but still legally a part of the Republic of Moldova. It is not accepted by any state or international organisation. The unrecognised republic, with its ‘capital’ at Tiraspol, declared independence from Moldova after the collapse of the USSR on 27 August 1991. Igor Smirnov has been President since the declaration and is currently serving his fourth mandate, seeking to resolve the political status of the region which, despite the lack of recognition, nevertheless professes its own government, parliament, constitution, flag and national anthem.

Especially after the accession of Romania to the European Union on 1 January 2007, the EU has begun to pay closer attention to this ongoing conflict within the borders of Moldova – the poorest country in Europe – as it has become a serious threat on its immediate border.

### A ‘frozen’ conflict

The region is the biggest challenge for the Republic of Moldova, since its status and degree of autonomy remains unresolved despite a ceasefire signed in 1992, putting an end to a confrontation between the Moldovan army and separatist rebels. Subsequently, in 1997, the Republic of Moldova and Transnistria signed a memorandum on a settlement that proposed a common state for both signatories. However, the result of there being no clear definitions as regards the terms is that no consensus has been built on the fundamental issue and thus, unfortunately, the conflict remains ‘frozen’.

After the collapse of the USSR and Moldova’s independence, many from the region were wary that Moldova would seek to unite with Romania. Russians and Ukrainians were the groups in this narrow strip of land whose predominant fear over such an event became the driving force behind the breakaway. Nevertheless, concerning ethnicity, the Transnistrian population is made up of 32% Moldavians, 31% Russians and 29% Ukrainians, so the conflict was not one which was based on ethnic identity since no tensions exist between these three major groups. Rather, it was economic factors and business interests related to the ex-Soviet Union that led to the desire for secession – which also explains the wide support received from Russia throughout the dispute. Despite Moldovan independence since 1991, the Russian (ex-Soviet) 14th Army has remained in Transnistria to this day.

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So, it is not the issue of ethnic division that has contributed to the 'never-ending' conflict between the two sides of the river. The Republic of Moldova is holding on to the region and has good economic reason to do so: in spite of Transnistria's small size (constituting 12% of Moldovan territory), most Moldovan industry is located in Transnistria. Back in 1990, Transnistria (with 17% of the Moldovan population) contributed nearly 40% of Moldovan GDP, 33% of its industrial output and 90% of its energy output. Besides losing this significant part of its domestic production, Moldova has had to face a range of practical problems regarding the eastwards orientation of its trade: the bypass of goods traded through Transnistria has been limited and, after consequently investing in diverting railways and roads to the north and south of the border with Ukraine, this has inevitably raised product prices in general since the increase in transportation prices has had somehow to be balanced.

### **Characteristics of the regional economy**

Transnistria has achieved a relatively high degree of self-sufficiency during its nearly eighteen years of self-proclaimed independence. It enjoys a robust infrastructure (railways, gas and power supply networks, etc.), has introduced its own currency, and has implemented an effective 'export' policy. Its own central bank – the Transnistrian Republican Bank – is responsible for the 'Transnistrian rouble', the local currency convertible at a freely-floating exchange rate only within Transnistria. According to the Transnistrian Republican Bank's own statistics (which may vary), the annual real GDP growth rate in 2006 was 7.7%, while the rate of inflation was 8.9% year-on-year. Even so, the 'republic' has become a paradise for illegal arms sales, smuggling and money laundering. Due to the regional economy not being accounted for in official Moldovan economic statistics, Transnistria relies on three main sources of income: legal trade; Russian subsidies; and illegal trade, more commonly known as smuggling. Corruption is also one of the most critical elements of the regional economy, which is also a factor in its attraction to neighbouring shadow market economies.

The economy of the region is based on a mix of heavy industry, electricity production and manufacturing. Following a large-scale privatisation process in the late 90s, followed by the privatisation of state-owned enterprises in 2000, the problem of an evolving fiscal crisis was avoided since the region had, by that time, accumulated a massive amount of external debt. The separatist regime took over three-quarters of state assets which were then sold primarily to Russian companies. The sell-offs included such strategically important enterprises as the Moldovan Hydroelectric Power Station in Cuciurgan and the Moldovan Metallurgical Plant in Ribnita, which generates about 40% of the budget revenue of the region.

This makes clear how much the region continues to be a drag on the Moldovan economy, as the illegal regime took over income sources that originally concern the Republic of Moldova. In 2005, revenues from privatisation funded more than 50% of the region's budget, while its debt still exceeded \$1.5bn in March 2007. The budget for 2007 was \$246m, with an estimated deficit of \$100m that is planned to be reduced by approximately \$20m with income from tax increases and further privatisation. In addition, most of the debt accumulated during the past years is owed to Gazprom (ap-

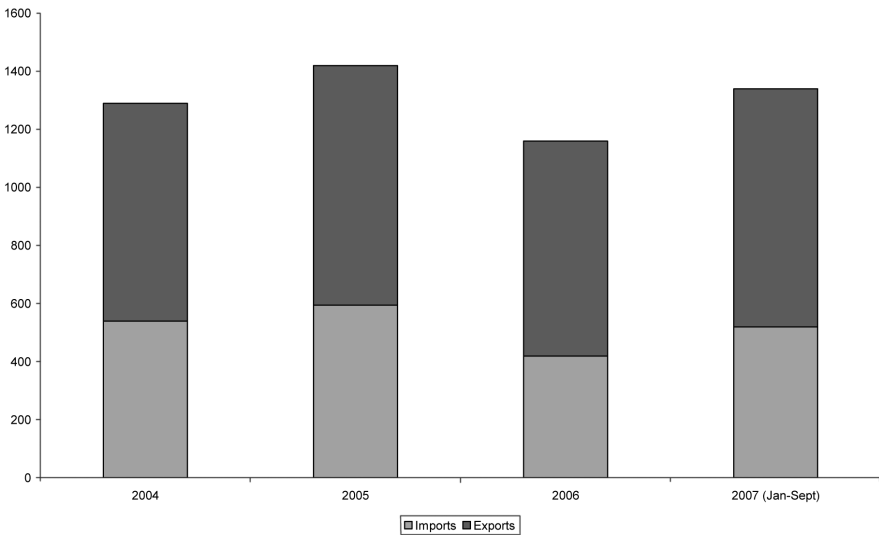
proximately \$1.3bn in 2007), mainly for gas imports<sup>1</sup> even though Russia has conceded an extremely preferential rate for its natural gas and energy supplies.

### **Trade patterns**

The regime cites its most important trading partners as Russia, Belarus, Ukraine and the Republic of Moldova; however, trade also takes place with the US, the EU, Africa and Asia. Trade turnover in the first nine months of 2007 was \$1 346.1m (309.7% of 2006 GDP). Nevertheless, the breakaway region is a net importer: the Transnistrian Republican Bank reported ‘exports’ of \$422.1m and ‘imports’ of \$738.4m in 2006. Besides textiles and electricity, ‘exports’ consist mainly of steel products; steel produced by the state-owned plant in Ribnita accounts for approximately 60% of total ‘export’ earnings. Considering ‘imports’, food products make up 20% of the total but the regime also seeks energy, non-ferrous metals, transport equipment and chemicals supplies from elsewhere.

A brief explanation of Transnistria being referred to several times as the ‘black hole of Europe’ is apparent in that the Transnistrian authorities apply very low, or rather no, tax on trade; even Moldova agreed in the beginning to exempt Transnistrian trade from taxation. A highly profitable re-export business developed in this way until the Republic of Moldova introduced a registration system for Transnistrian companies selling goods to Ukraine in 2003. This was seen as a constructive approach by the Moldovan government to the resolution of trade issues but, in practice, no taxes have still been paid to the Moldovan state in respect of ‘exports’. The actual winners in this unresolved problem have been individuals and their business partners in Russia and other countries bordering the region. Vladimir Voronin, the President of Moldova, recently said that the Transnistrian conflict is ‘a conflict of interests’. According to Voronin, an estimated \$2bn per year is generated illegally in the ‘black hole’, not to mention that the lack of accountability concerning human and arms trafficking through the breakaway state remains of significant concern to the European Union.

- 1 In March 2007, Transnistria’s gas debts were sold to the Russian businessman, Alisher Usmanov, who controls the largest enterprise in Transnistria, the Moldova Steel Works. Eventually, the regime’s President, Igor Smirnov, announced that ‘Transnistria has no legal debt to Gazprom’; hence, no pay-off will take place.

**Chart 1 – Trade turnover, 2004-2007 (\$m)**

Source: Trans-Dniester Republican Bank

On 3 March 2006, Ukraine implemented a new customs regulation for goods imported from the separatist regime. The system was actually the realisation of a joint customs protocol between Ukraine and the Republic of Moldova, signed in December 2005, which allows goods from Transnistria to be imported only with documents processed by Moldovan customs offices. Additionally, the EU launched a border assistance mission (EUBAM) in Ukraine, on its Transnistrian border with the Republic of Moldova, in order to combat contraband trade. Not surprisingly, both the Transnistrian regime and Russia have denounced this as an economic ‘blockade’. Transnistria responded by stopping all Moldovan and Ukrainian transport, although this was lifted two weeks later. Quoting the words of Helen Chernenko, of the regime’s Ministry of Economy, the ‘blockade’ has not only meant the loss of several million dollars but:

There is also another loss which is even more important: the loss of confidence in Moldova as a serious partner with whom Transnistria can build a common state in the future.

### International attention

From the beginning of 2003, international attention towards the Republic of Moldova increased significantly with the establishment of a European Commission delegation office in Chişinău that has examined the Transnistrian conflict. The Organisation for Security and Co-operation in Europe (OSCE) opened an office in Tiraspol on 13 February 1995 but has not thus far been successful in resolving the conflict despite a self-professed ‘primary objective’ being to:

Facilitate the achievement of a lasting, comprehensive political settlement of the Transnistrian conflict in all its aspects.<sup>2</sup>

The mission also covers a wide range of human rights issues such as democratisation, minority rights and media freedom. In 2005, the EU as well as the United States gained observer status in the OSCE-led, five-sided negotiations between the OSCE, Ukraine, Russia and the two parties within Moldova which looked promising until the implementation of the customs regulations in 2006. Besides the EU, such foreign institutions as the Soros Foundation Moldova, the British Peacebuilding Framework Project and the US Embassy have also taken an interest in state and civil society issues.

Even so, western attention today is not particularly significant as most states and organisations have lost interest for particular reasons: the lack of any progress towards settling the conflict has led to a growth in discontent; several memoranda have already been proposed, such as the 2003 Kozak Memorandum suggesting an asymmetric federal Moldovan state<sup>3</sup> but, up to now, no proposal has been able to bring the issue any closer to resolution. Concerning Moldova, a central question has made it even more difficult to resolve the conflict: should the relationship and co-operation with Russia and the CIS countries be strengthened; or should trends towards European integration be given priority? It is clear that integration with the European Union would necessitate a democratic means of consolidating the ongoing conflict, offering Transnistria favourable conditions to re-unite with the rest of the country. The so-called ‘3D strategy’, initiated by Moldovan civil society to demilitarise, decriminalise and democratise Transnistria so as to integrate it back into Moldova, has also remained a plan followed up with no action since no political, economic or social incentives have been taken which have urged Transnistria towards unification.

The position of the United States on the conflict is quite clear:<sup>4</sup> it fully respects the territorial integrity of Moldova and considers Transnistria to be a part of it and, by all means, considers separatism unacceptable since the secession of the region does not meet the appropriate conditions of international law. According to the US government, the citizens of Transnistria do not constitute a ‘people’; they are not suffering serious damage and have other solutions to the problem than secession. Finally, as a *de facto* regime, the authorities in Tiraspol do not have the legal right to make any change in the economic structure of Transnistria by selling the assets of the Moldovan government, as referred to above.

### **Current status and concluding remarks**

A referendum was organised on 17 September 2006 by the Transnistrian regime. The results – which may not be completely reliable – showed that the population of the re-

- 2 See the OSCE website at: <http://www.osce.org/moldova/13174.html> [last accessed 3 April 2008].
- 3 Tiraspol has always supported the establishment of a federation made up of two equal parts – with power of veto over Moldovan policies, such as the question of future EU integration – instead.
- 4 Woodrow Wilson International Center for Scholars (2006) *Separatism in Moldova: Political and legal aspects of a ‘frozen conflict’*.

gion voted solidly in favour of independence from the Republic of Moldova and free association with Russia. At the same time, a new opinion poll carried out by the CBS-AXA Centre for Sociological Research and Marketing revealed that less than 5% of Moldovans outside the population of Transnistria consider Transnistria to be an important issue for the country, especially compared with the question of European integration.

It is unlikely that the 'frozen' conflict will be resolved any time soon, but it needs to be placed higher on the agenda of the international community. Europe needs to play a far stronger role and must develop its own clear position towards the resolution of the Moldovan conflict, with which it has become neighbours following the accession of Romania to the European Union. Moreover, Europe should work in co-ordination with the OSCE not only to demilitarise the region of Transnistria but to review the situation of democracy in the Republic of Moldova as a whole. Securing a democratic environment would also suggest a free independent media, a pluralist education system and freedom of association on both sides of the Dniester River. The EU should stand by the increase of financial assistance in order to fulfil all democratic criteria and economic development in Transnistria, so as not to leave it alone to deal with Russia and thus taking no effort towards the improvement of the problematic situation. Here, the context is that the Speaker of the Transnistrian parliament, opposition leader Yevgeny Shevchuk, has announced the intention of the regime to intensify international relations during 2008.