



## **Report on Wilton Park Conference WP949**

### **MOLDOVA: MOVING AHEAD**

**Thursday 16 – Saturday 18 October 2008**

#### **Summary**

1. Optimism for Moldova's European path, together with calls for greater politico-economic reform and progress on stalemated Transnistrian conflict resolution, underpinned a conference that brought together high level Moldovan officials and representatives of civil society, including from Transnistria, as well as participants from the European Union (EU), Russia and beyond. Relations with the EU and a viable solution for the Transnistria conflict were top priorities. In contrast to past discussions on Moldova, this conference focused less on military concerns and more on political-economic development despite Russian troops continued presence in Transnistria – one of the most contentious issues. Perhaps this reflects a shift from an earlier, sole preoccupation with disarmament, demilitarisation and peacekeeping to increased concern for democratisation, citizen participation, and civil and political rights within and between regions. As a result, much of the debate centred on economic growth and business potential in both of Moldova's regions, and on assuring Moldova held free and fair parliamentary elections in the spring. A respectful attitude characterised discussion, at a time beset by successive failures to bring the country's two opposing regions together for talks.

2. The conference convened against a background of mounting worldwide financial crisis, an imminent change in US leadership and shifting global power relations, whilst, at the same time, the EU was deciding on a new partnership programme with Moldova, and the country's electoral campaign was getting underway. The recent conflict in Georgia and its aftermath have further implicated Russia and the EU as major stakeholders in the future of east European states like Moldova.

3. There was general consensus that the single most important way for Moldova to move forward is for the country to be offered a New Enhanced Agreement (NEA) by the EU. This would bring a clearer strategy for the EU vis-à-vis Moldova and its eastern neighbours, and for Moldova with regard to its own development pace and strategy. It would also give impetus to achieving a settlement on Transnistria. Linking future development to Europe is considered crucial if Moldova is to be transformed into a prosperous, stable state.

### **Moldova and the European Union**

4. The EU is involved more than ever in Moldova through its Special Representative and the European Union Border Assistance Mission (EUBAM), among other activities. However, almost all agreed that relations must be strengthened. This begins with the EU and Moldova redefining their contractual relationship in the form of a new agreement to replace the Partnership and Co-operation Agreement. Coincidentally, the Council of the European Union decided to start work on a new partnership agreement that will go beyond the scope of the outdated accord. The New Enhanced Agreement will make as many demands on the EU as it does on Moldova, requiring the EU to give more, as it develops a clearer, cohesive strategy towards Moldova and its eastern neighbours. Debate centred on what kind of agreement, and when to start negotiations with Moldova.

5. The Commission was to decide by the end of 2008 on details of the New Enhanced Agreement. The partnership agreement will be within the framework of the Eastern Partnership (EP) project for eastern states, encompassing Ukraine, Georgia, Armenia, Azerbaijan and Moldova. The mandate is meant to go beyond Moldova's previous ENP-based plan, as Moldova-EU relations have intensified since the earlier mandate. Moldova took full advantage of its ENP plan and is now ready for more. However, Moldovans argue that an Eastern Partnership agreement falls short; nothing less than an Association Agreement, as recently offered Ukraine, could reflect Moldova's ambition and commitment to join the EU and, potentially, give Moldova leverage in its relations with Russia.

6. With regard to timing for the new agreement, opinion varies over whether its negotiation with Moldova should follow parliamentary elections in spring 2009, and be contingent on their democratic quality, or whether negotiations should start in January 2009. Most Moldovan officials and civil society experts encouraged the EU to go ahead with the agreement irrespective of elections. EU representatives maintained they will do what is best for Moldova, and not become weighed down by political tactics.

7. The new Eastern Partnership programme for Moldova will neither promise nor close the door on Moldova's potential accession. Harmonising the considerable difference of opinion among member states over enlargement is probably the single greatest challenge for the EU in moving forward on Moldova. Opinion amongst EU participants varies between those steering clear of saying Moldova's new partnership agreement will signal any move towards accession and those arguing Moldova needs a clear perspective of EU membership. For the latter group, hope for EU accession, even if far-off, would be the single most important way to make Moldova prosperous for its citizens and socio-economically attractive to Transnistria, thus encouraging the country's reintegration. It was agreed the EU could help Moldova more if member state efforts were more coordinated.

8. Moldova's pace of reform in meeting EU standards is another practical challenge. The faster Moldova reforms, the closer it gets to the EU. That said, Moldova was praised for its achievement in meeting its reform goals set out in the first EU-Moldova Action Plan. Even after the first mandate expired, Moldova continued implementing the Action Plan targets. The plan has become a benchmark for progress and can help direct Moldova's reform. Moldova has made great strides in poverty reduction in particular, structural reforms and a new national development strategy. Still, Moldova's investment climate needs to improve, as does the effectiveness of its public sector, which needs to be more transparent and accountable. Some EU participants noted that, while Moldova has adopted new laws and regulations to approximate the EU *acquis*, they are too weak. Others argued that, while there is no lack of EU-standard legislation, the problem lies with execution and implementation. To remedy this, there were calls for Moldova to create an implementation-oversight mechanism.

9. EUBAM was praised for bringing more socio-economic transparency and predictability to Moldova's borders during its three years of operation. While warmly welcome by Moldovans, Transnistrians are rather more lukewarm and questioned the need for its existence.

### **Economic Growth and Financial Investment**

10. There is positive economic development in Moldova. The economy is growing and government debt decreasing, despite being hard-hit by the recent Russian ban on Moldovan wine, meat and other exports to Russia. Most notably, poverty has decreased – to the point that Moldova will soon be taken off DFID and USAID lists of poorest countries in the world. These positive developments are said to be little threatened by the global financial crisis, as Moldova is only partially connected to foreign financial markets. Analysts speculate that recession could even lead to positive expansion in Moldova's technical skill base, as Moldovan migrants laid-off in the recession-hit Euro-zone and Russia could decide to return home. The challenge for the government is to direct human capital into newly created foreign direct investment (FDI) and indigenous-sponsored jobs.

11. It is important to see Moldova as a space for investors and not just an economy dependent on migrant remittances. Until now, remittances have played a larger role than FDI in overall inflows. Moldova wants this to change. It still has the lowest labour costs in Europe, making the small state potentially attractive to FDI. However, more transparency, predictability, and accountability are needed to attract FDI. European investors want to come to Moldova without hindrance and on a level playing field with other local and foreign/CIS investors. However, corruption is still high, and rules and regulations unstable, expiring and changing yearly. There were calls to stabilise laws to attract more FDI.

12. Beyond attracting more FDI into the country, and accessing trade preferences with the EU, the Moldovan government's main economic goals to stimulate growth include effectively harnessing internal factors of production and managing costs of financing. The government needs to devote more attention to transport and infrastructure, for example, by modernising the road network. Equal attention needs

to be paid to human capital. The government can address the human issue of migration by re-orienting remittances toward investments and providing matching grants to aid migrant investments. Some argue that Moldova is moving faster than similar developing countries.

### **Democratic Reform and Good Governance**

13. As stated above, Moldova's most important political goal for 2009 is to negotiate a new action plan with the EU, ideally an Association Agreement, as Moldova wishes. However, there was a general feeling that Moldova has more work to do to convince the EU that it is ready for such an ambitious agreement. EU and Moldova's civil society actors share concern for the country's democratic credentials when it comes to independent media and the rule of law. EU programmes are likely to help the situation with regard to civil liberties, but the onus is on Moldova to initiate and sustain good governance. Ensuring fully free and fair elections in 2009 would be a good start. The greater the improvement in Moldova's democratic credentials, the more potential there will be for EU integration and settling the conflict over Transnistria.

14. Moldova's parliamentary elections, due to take place in the Spring, are considered a key test of these credentials. Wary of changes in the electoral code, the EU warns that the elections must be free and fair to demonstrate that Moldova is taking on board democratic standards and thus demonstrate that the country is ready to enter a new phase of relations with the European Union. This will start with impartial access to the media for all candidates in the run-up to elections. There can be no one party monopoly in press and television coverage. The United States pledged it will monitor and apply pressure as needed to assure equitable access to media. It was pointed out that a number of Moldova's nearly one million migrants are predicted to return home as recession and job loss hits the Euro-zone and Russia. These new returnees may become important voting constituencies.

15. Civil society is still evolving on both sides of Moldova's 'river banks' (the term frequently used to refer to Moldova and Transnistria). The relationship between the government and civil society on right-bank Moldova appears rather strained. Civil

society representatives were chastised for not sharing expertise. They, in turn countered, that government impedes their growth. Civil society regards its role as mainly that of watchdog to government, rather than a source of expertise and fresh thinking. One way forward is to create more outlets for freedom of expression and dialogue between state and civil society actors.

## **Transnistrian Conflict Resolution**

16. Transnistria's status has been a source of controversy for almost 20 years. While there was general commitment to Moldova's sovereignty and territorial integrity, which includes 'special status' for Transnistria inside Moldova, bringing about re-integration in a way that benefits both sides remains a point of contention. Both sides reiterated that a solution must be acceptable to both Tiraspol and Chisinau. Several stakeholders in the 5+2 talks (involving the OSCE, European Union, Russia, Ukraine and the United States in addition to Transnistria and Moldova) stressed that no solution is better than a rushed, inviable settlement. Realistically, most see no real prospects for solving the conflict in the short term, especially with looming recession, but neither should unresolved conflict be allowed to continue long-term. There were productive calls from all sides to decide on a staged, timetabled 'integration track'. In the meantime, all agreed it is best to focus energy on confidence-building measures and encouraging the parties to come back to the 5+2 negotiating table.

17. It was reiterated that 5+2 is the best format for conflict settlement, as no transparent solution can be reached without all stakeholders involved in the decision. The interests of all parties involved in the conflict must be taken into consideration. The 5+2 arrangement does this best. It is not simply a consultative forum. Moldova does have a parliamentary agreement (June 2005) to stick to this 5+2 format for conflict resolution. Still, some within Transnistria believe that 1+1 between the conflicting parties is best as the conflicting parties need to speak to each other. The activities of mediators will inevitably be thwarted if the actors themselves have no will to meet. Wilton Park was praised for its role in helping to jump-start 5+2 official negotiations. All participants agreed more dialogue is needed, and formal negotiations must be restarted. Stalled negotiations can only lead to an accumulation of problems and mistrust.

18. There was reference to the past as an obstacle, but more productive conference dialogue dealt with the socio-economic effects of prolonged stalemate, and how to make progress in these fields. While the conflicting parties disagreed over the form of political settlement, the conference focused on discussing issues all parties could agree on – in particular the need for economic development. Many concurred there is a need to address economic issues before any political settlement. Each ‘side of the river’ has taken independent action on economic development as a result of the conflict, but both have a common desire for increased economic growth, FDI, EU trading preferences and private sector expansion. Economic development is particularly important at a time of global financial crisis, especially for vulnerable regions like Transnistria. The financial crisis is expected to have more of an impact on Transnistria than on right-bank Moldova, as Transnistria has more of an export-oriented economy connected to global markets. The hardest hit sectors will be steel, cement and textiles. Small and medium-size businesses will increasingly have difficulty accessing credit.

19. The European Bank of Reconstruction and Development (EBRD) could, possibly, offer grants in future to help the growth of the private sector in Transnistria. The biggest obstacle for the EBRD and private sector investors is unverified and legal ownership rules in the unrecognised region. Other investment impediments include the need to eliminate customs barriers between left and right-bank Moldova. This is a task for the Joint Control Commission.

20. Developing Transnistria’s rule of law and civil society is crucial for conflict settlement. There are two competing trends inside the region – a democratic-reform trend driven by the EU and others, and authoritarian tendencies of established elites. There are calls from within Transnistria for more independent media outlets, permitting alternative voices and aiding democracy-building. The hope is that civil society will play a strong role in the future in connecting both river banks, even if joint projects are still few and far between.

21. The road to Transnistrian conflict resolution must start with confidence-building measures. Every actor across the board, including those from the 5+2 negotiating group, called for more initiatives to restore trust. There was even mention of a ‘fast

track' in confidence building, speeding up the implementation of projects like cross-regional road building. The overall goal is to repair trust between the two sides, and then anticipate a time when both parties are ready to compromise and make concessions. Both regions must, first, be convinced that their concessions will be mutually honoured and respected. To date, joint infrastructure-construction and ecological projects are underway. The EU Commission has funding available for confidence-building projects, but believes its concrete proposals have not been sufficiently followed up by either side to date.

22. The EU's presence in, and on, Transnistria is growing. The EU can potentially do much to foster a political culture of democratic power-sharing on both sides of the river, a precondition for sustainable reintegration. The EU wants the whole of Moldova to benefit from its relationship with the EU and needs to ensure that rules, for example regarding Autonomous Trade Preferences, are enforced even-handedly. Most agree Moldova would look more attractive to Transnistria with eventual EU integration, even if EU membership is not Transnistria's stated trajectory. Nevertheless, reform-minded Transnistrian officials are eager to improve their socio-economic relations with the EU. The EU's new partnership agreement with Moldova is prompting the EU to take a more active role in Transnistrian settlement involving more EU support and financing for confidence-building projects (e.g. joint infrastructure-building) and civil society development. An EU reintegration fund for Moldova could help. However, the challenge for the EU is for its diverse members to draw up a common position on Transnistrian conflict resolution, which could even become a model for other regional conflicts.

23. Major obstacles to moving forward a settlement include 5+2 disagreement over the status of Russian troops in Transnistria. America and EU member states are clear in advocating no foreign troops can be allowed to remain on Moldova's sovereign territory without Moldova's express consent. This means the withdrawal of all Russian peacekeepers. Moldova, the US and the EU will work closely together on this, as well as on Transnistria's overall demilitarisation.



## **Gagauzia**

24. Moldova's autonomous region of Gagauzia, established in 1994, with its own legislature and executive, is considered by its leadership, and the outside world, to be a good model of conflict resolution and reintegration. However, discussion revealed some tension between this positive view of autonomy, and dissatisfaction over how Moldova provides for Gagauzia's autonomous status. More than a decade on, time is still needed to work out Gagauzia's legal status with the Moldovan central government. Nevertheless, Gagauzia is unwavering in its support for Moldova's statehood.

## **Regional Co-operation and Security**

25. Moldova cannot ignore Russia. The Moldova-Russia relationship has mostly centred on the Transnistria issue. Russia admits to having a vested interest in finding a political solution to Transnistria. Still, there appears to be no active support from Russia for Moldova's modernisation and integration with the EU.

26. Relations between Moldova and Romania are starting to improve. Romania wants to be a catalyst, and not an obstacle, to Moldovan growth and stability, in particular helping Moldova on its path towards EU integration. Romania was one of the most vocal parties in advocating an Association Agreement for Moldova, above and beyond the Eastern Partnership agreement which the EU is now offering. Romania wants a stable and prosperous neighbour. Even if Romania is only a part of 5+2 negotiations via the EU observer position, Romania would like greater engagement on the Transnistria issue, arguing that a sustainable agreement can only be reached bearing in mind both of Moldova's neighbours, including Romania. It was appreciated that Romania reached out to Transnistrian representatives at the conference for open dialogue, as there is a lot of mythology and misunderstanding in Transnistria over Romania's supposed intentions in Moldova. Even with these positive moves, some thought more specific details of what Romania can do for Moldova needs to be outlined.

27. Moldova's relations with Ukraine will prove increasingly important in the future, as strategic partners in the common drive towards EU integration. Ukraine, a member of 5+2, is an important regional security actor, and there is scope for it to be regarded as an equal actor in Transnistrian conflict resolution. Ukraine's stated key priority in its relations with Moldova is to finish the demarcation of 170 kilometres of its border with Moldova, along the unrecognised Transnistrian region. However, the stalemated conflict thwarts this process, and vice versa. There is also the issue of outstanding Ukrainian property rights in Transnistria, on which Chisinau and Kiev work closely. Ukraine regards EUBAM as a success.

28. Moldova's involvement in the wider Black Sea Region is growing. Moldova is a part of the Black Sea Cooperation initiative, dealing with regional issues of energy, transport, arms control and crime-fighting. Still, Moldova can do more to take part in regional cooperation. However, this probably will not happen until Moldova stabilises and solidifies its relationship with the EU, as well as its relations with Commonwealth of Independent States (CIS) neighbours on the Transnistrian issue.

## **CONCLUSIONS**

29. Moldova is a European country. The EU needs to deepen its bilateral relations with Moldova, as it develops a policy in dealing with Eastern countries. The instrument for achieving a model of interaction is through a new EU Eastern Partnership agreement. The vision is to move from simple cooperation to real partnership.

30. Common ground was found on the Transnistria issue among participants, mostly on economic development and on the need to move forward concrete confidence-building activities. Both 'sides of the river' have the same needs. So even if political solutions cannot yet be agreed, parties can see a common interest in improving the lives of their peoples.

31. Wilton Park provided an ideal forum for a variety of actors to address the challenges and opportunities facing Moldova. The conference represents the increased willingness of the European community to engage EU member states,

national and local officials, NGO leaders, EU neighbours and others on Moldova's development.

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