

CRS Report for Congress

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Moldova: Basic Facts

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Summary

This short report provides information and analysis on Moldova, including its history, political and economic situation, foreign policy, and U.S. policy toward Moldova. This report will be updated as events warrant.

History

Moldova is a part of the area known historically as Bessarabia, geographically delineated by the Prut River on the west, the Dniestr River on the north and east, the Black Sea on the southeast, and the Kiliya (Chilia) arm of the Danube delta on the south. The Republic of Moldova approximately coincides with the eastern half of the Romanian principality of Moldavia (1359-1859). In 1812 it was ceded to Russia by the Ottoman Empire. Most of this area remained under Russian control until 1918. At that time the whole of Bessarabia became part of Romania. This reintegration with Romania was never recognized by the Soviet Union which, in October 1924, established the Moldavian Autonomous Soviet Socialist Republic (ASSR) on the east bank of the Dniestr (in Ukraine).

Moldova at a Glance

Land Area: 33,371 sq. km., about the size of Maryland.

Population: 4.4 million (2000 estimate)

Gross Domestic Product (GDP): \$1.41 billion in 2000.

Ethnic Composition: 64.5% Moldovan, 13.8% Ukrainian, 12.8% Russian, 3.5% Gagauz (Turkic-speaking Orthodox Christians), 2.0% Bulgarian (1989 census).

Political Leaders: President: Vladimir Voronin; Prime Minister: Vasile Tarlev; Foreign Minister: Nicolae Chernomaz; Parliament Chairman: Yevgenia Ostapchuk

Sources: 2000 CIA Factbook, Economist Intelligence Unit, International Monetary Fund

Bessarabia was among the territories assigned to the Soviet Union under the terms of the secret Soviet-German nonaggression pact of 1939. The Soviet Union forced Romania to cede Bessarabia in June 1940, and, in August, assigned one-third of the area to Ukraine, merging the remainder with the Moldavian ASSR to form a new Moldavian Soviet Socialist Republic (SSR). In the wake of Germany's July 1941 attack on the USSR, the Soviet Union once again lost the bulk of Bessarabia to Romania, with the exception of the territory east of the Dniestr. Romanian occupation forces committed large-scale atrocities against the local population, especially Jews and Gypsies. The territory was recaptured by Soviet troops in 1944 and the Moldavian SSR reestablished. Reincorporation into the Soviet Union entailed rigorous Russification, the imposition of the Cyrillic alphabet, large-scale immigration of Russians and Ukrainians as well as isolation from Romania. Moldova declared its sovereignty on June 23, 1990. Following the failed August 1991 coup in Moscow, Moldova declared its independence on August 27, 1991.

Conflict between Moldovan forces and those of the "Dniestr Republic" (a separatist entity proclaimed by ethnic Russian local officials in 1990) erupted in March 1992. Over 150 people died in the violence. A cease-fire was declared in July 1992 which provided for Russian and Moldovan peacekeepers to patrol a "security zone" between the two regions. Although a cessation of hostilities was achieved, the core issue of the degree of autonomy to be accorded the Dniestr region remains difficult.

The Gagauz minority, which had also proclaimed its own republic in 1990, did not resort to the use of force, choosing, instead, to hold extensive discussions with Moldovan authorities about the future of the region. On July 28, 1994, the Moldovan Parliament adopted an organic law, negotiated with Gagauz officials, establishing a "national-territorial autonomous unit" for the Gagauz. The region has its own elected legislative and executive authorities and will be entitled to secession from Moldova in the case of Moldova's reunification with Romania.

Political Situation

Moldova is a parliamentary democracy that has held largely free and fair elections since achieving independence in 1991. In the most recent parliamentary elections on February 25, 2001, the Communist Party of Moldova won a decisive victory, the first such victory by a communist party in the countries of the former Soviet Union since that country's



Source: Map from Magellan© adapted by CRS

breakup in 1991. 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.

On April 4, 2001, the new parliament elected CPM leader Vladimir Voronin as President. The formal powers of the Presidency are weak (ironically due to a successful CPM-led effort in parliament in 2000 to reduce them), but as CPM leader Voronin is in fact the most powerful political figure in the country. On April 19, the parliament approved a new government led by businessman Vasile Tarlev, who is a political neophyte and not a CPM member. The CPM has billed Tarlev's government as a non-partisan government of experts; only two of its members are members of the CPM, while six are from the previous, center-right reformist government. Nevertheless, the government is entirely dependent on the CPM for support.

Like its predecessors, the new leadership in Moldova faces the thorny issue of the status of the "Dniestr Republic." Dniestr leaders want a confederated structure for Moldova, under which Dniestr would be an independent state. They demand control over foreign affairs, internal security and defense. Moldovan authorities are willing to give Dniestr an autonomous "special status" within Moldova that would devolve significant powers to the region, but not ones that would relinquish Moldova's sovereignty there.

The causes of the conflict over Dniestr are complex, involving ethnic and ideological factors, as well as maneuvering for power and wealth among elite groups. Ethnic Russians and Ukrainians together make up 54% of Dniestr's population of about 650,000, while Moldovans are the single largest ethnic group, at 39%. Until recently, pro-Western, moderate nationalist governments in Chisinau faced nominally leftist, Soviet-style, pro-Russia forces in Dniestr. However, many Moldovan analysts are convinced that the key factor obstructing a settlement is the personal interests of the leaders of Dniestr regime, including Dniestr "President" Igor Smirnov, who they claim is heavily supported by organized crime groups. Early efforts by President Voronin to reach agreement with the Dniestr leaders have failed, despite the fact that CPM's views on many issues appear to be closer to those of the Dniestr leadership than those of the previous center-right governments had been.

Economy

Moldova is one of the poorest countries in Europe. According to the World Bank, its per capita Gross National Product was \$410 in 1999, which is also the average for countries the Bank terms "low income countries." Per capita GNP for Europe and Central Asia averages \$2150. 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 the Dniestr republic, and is not counted in Moldovan government statistics. 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, and Moldova suffered a severe setback during the 1998 Russian economic crisis.

It has since staged a partial recovery, due in part to a government effort to cut spending and accelerate reforms.

Moldova has privatized its small and medium-sized business sector, and unlike other countries in the region, it has had remarkable success in privatizing agricultural land. However, the sale of large firms has been more difficult. Foreign investment in Moldova is low; cumulative foreign direct investment since independence through 1999 amounted to only \$339 million. The situation improved in 2000, with the sale of Moldovan energy distributors to the Spanish firm Union Fenosa. A key test of the intentions of the new government will be whether it interferes with Union Fenosa's efforts to make the energy sector profitable, and whether Moldova will privatize the rest of the energy sector, as well as its telecommunications sector. Another key test will be how (or whether) it privatizes the key tobacco and wine industries. Some of the CPM's strongest support comes from the directors of these sectors.

The Moldovan government has acknowledged that its room for maneuver over such issues as increasing government spending or slowing privatization is limited. Given the country's poverty and its weak financial situation, Moldova is heavily dependent upon loans from the IMF, World Bank and other international financial institutions. In December 2000, the IMF approved a \$142 million Poverty Reduction and Growth Facility loan for Moldova. The IMF suspended disbursements of the loan in May 2001, waiting to see whether the CPM-supported government will continue economic reforms. The resumption of IMF funding is critical if Moldova is achieve a critically necessary rescheduling of its substantial foreign debt burden. In April 2001, Moldova owed over \$1.3 billion, over 100% of the country's GDP. Moldova joined the World Trade Organization in June 2001.

Foreign Policy

According to the Moldovan constitution, Moldovan foreign policy is based on neutrality. 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. It has ceded control of its natural gas distribution system to the Russian energy giant Gazprom to pay part of the debt.

Relations with Russia are complicated by the continued presence of about 2,500 Russian troops in the Dniestr Republic, as well as huge stockpiles of weapons and ammunition. (This figure does not include several hundred Russian troops deployed in the security zone between the Dniestr Republic and the rest of Moldova with the Moldovan government's consent.) Since Moldova's independence, Russia has repeatedly failed to honor commitments it has made to withdraw its forces from Moldova.

At the November 1999 Organization for Security and Cooperation in Europe (OSCE) summit in Istanbul, Russia pledged to complete the withdrawal of its troops from Moldova by the end of 2002. Both Moldovan and Russian officials agree that the huge stocks of munitions in Dniestr 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 undesirable groups. However, Russian officials say that they cannot withdraw the munitions without the permission of the Dniestr authorities, who claim that the weaponry is their "property." As a result, the OSCE has noted that very little progress has been made toward

the implementation of Russia's pledge to withdraw its troops from Moldova. One 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.

Russia officially supports the view, held by the rest of the international community, that Moldova should remain a single, sovereign state. Russia formally rejects Dniestr's demands for recognition as an independent state in confederation with Moldova. An OSCE mission in Moldova is charged with helping to solve the Dniestr issue, as well as supporting the Russian troop withdrawal from Moldova. However, some Moldovans charge that Russia has in reality backed the Dniestr leadership in order to retain political leverage over Moldova, while publicly supporting OSCE efforts to avoid international pressure over the issue. Russian leaders have at times attempted to tie the withdrawal of Russian troops to the resolution of Dniestr's status.

Moldova is a member of the Commonwealth of Independent States (CIS). However, until the CPM's victory in 2001, Moldova resisted Russia's desire for closer integration within the CIS under Russia's leadership, declaring that it would not participate in political and/or military integration within the CIS. Moldova participates in a loose group of former Soviet republics known as GUUAM, after the initial letter of each member – Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova. GUUAM countries have tried to enhance cooperation between membership of the group to enhance their independence and to ward off Russian efforts to dominate them. After his election in April 2001, President Voronin has stressed the need for Moldova to seek closer ties with Russia, including by eventually joining the Russia-Belarus Union. However, some observers question whether Voronin will be able to fulfill this pledge, given the difficulties the Russia-Belarus Union is having at present. President Voronin has said that Moldova will continue to participate in the GUUAM group, but warned that it sees the group as a forum for economic issues, not political ones.

Moldovan officials stress that they wish to expand ties with Western countries. Moldova does not seek NATO membership, but favors cooperation with NATO, and participates in Partnership for Peace (PFP) exercises. In February 2001, NATO announced the establishment of a PFP trust fund to help Moldova destroy the large stockpile of anti-personnel mines on its territory, as required by the Ottawa Convention on the elimination of these weapons. On November 28, 1994, Moldova signed an agreement for partnership and cooperation 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. From 1991 until 1999, Moldova received 70 million Euros (\$60.4 million) in EU aid for political and economic reform. Moldova has also received EU humanitarian aid, as well as assistance for food security and poverty reduction and balance of payment support. Moldova joined the Stability Pact for Southeastern Europe in June 2001.

One of the most sensitive issues in the republic's foreign relations is relations with Romania. The question has implications for the identity of the country. Most 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. Those favoring the term "Moldovan" tend to favor Moldova's independence or close ties with Russia, while those favoring "Romanian" tend to favor union with Romania. The Christian Democratic

Popular Party (which has only 11 seats in parliament) and a few other right-of-center groups favor unification with Romania, but the CPM-led government and the overwhelming majority of Moldovans oppose it. In a 1994 referendum, over 90% of Moldovans rejected unification with Romania.

U.S. Policy

From FY 1992 through FY 2000, the United States obligated \$422.26 million in aid to Moldova. Moldova will receive an estimated \$47.7 million in U.S. aid in FY 2001. The Administration has requested \$48.23 million in aid for Moldova for FY 2002. Of this amount, \$43.7 million of FY 2001 funds and \$44 million of FY 2002 is in Freedom Support Act assistance for political and economic reform. U.S. aid is aimed at supporting independent media and non-governmental organizations in Moldova, as well as fostering exchanges. U.S. economic aid has played a key role in Moldova's successful land reform program. U.S. aid has also played an important role in energy sector privatization. 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 has also provided security assistance to Moldova, including Excess Defense Articles. The United States provided \$1.225 million in Foreign Military Financing in FY 2000, and will provide an estimated \$1.493 million in FY 2001. The Administration has requested \$1.8 million in FMF for Moldova in FY 2002. Moldova received \$0.717 million in IMET military training aid in FY 2000, and is expected to receive \$0.6 million in FY 2001. The Administration has requested \$0.85 million in IMET for Moldova in FY 2002. U.S. security assistance is used to help Moldova participate in Partnership for Peace exercises, and develop its peacekeeping capacity and interoperability with NATO.

The United States has provided Moldova with help in preventing the proliferation of technologies of mass destruction. In October 1997, the United States purchased 21 MiG-29 fighters (14 of them nuclear-capable) from Moldova, using Nunn-Lugar Cooperative Threat Reduction funds, after Moldova informed U.S. officials that Iran was one of several countries interested in buying the aircraft. Secretary of Defense William Cohen said the deal marked an improvement in U.S.-Moldovan ties. The United States has also provided aid to help Moldova fight organized crime, including trafficking in women and children, which is a severe problem in Moldova.

The United States has supported Moldova's efforts to bolster its sovereignty and independence by securing the withdrawal of Russian forces from Moldova and negotiating a settlement of the Dniestr issue consistent with Moldova's territorial integrity. The United States has contributed funding to an OSCE trust fund to assist the withdrawal of Russian troops from Moldova by assisting in the destruction of the huge store of munitions in Dniestr. On September 26, 1996, the House passed H.Con.Res. 145, which called on Russia to withdraw its troops from Moldova, by a vote of 425-0.