MOLDOVA
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Center
for Strategic Studies
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Research Paper on Transnistria

- **Recent Economic Developments in Transnistria**
- **The Trade Specific Problems Arising from the Separation of Transnistria from the Rest of Moldova**
- **The Risks, Economic Benefits and Costs Associated with the Reintegration of the Transnistria with Moldova**
- **Statistics**

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Introduction

The Moldova Trade Diagnostic Study is aimed to examine the impediments to trade within the country and outside, and explore what can be done to remove these constraints.

One of circumstances that influence essentially upon state and development of Moldova's trade – both external and internal – is the Transnistrian region, which is being identified since 1991 as a self-declared Transnistrian Moldavian Republic (TMR). It is not recognized by the international community, but provides regional self-government, legal basis development, functioning of the real sector, social sphere and infrastructure, banking system and monetary circulation, external trade development.

The Transnistrian factor impacts state and development of Moldova's trade in three ways: (i) as a transit zone of commodity flows from the CIS countries to Moldova, the Balkans (including gas, oil products and electric energy) and in the reverse order; (ii) through "Moldo-Moldovan trade" between Transnistria and the Republic of Moldova, including re-export; (iii) commodity flows and services produced by informal economy from both banks of the Dniestr, which includes economic agents from other countries as well.

Moldova's accession to WTO, Stability Pact for South-Eastern Europe in 2001 and its more intensive approach towards the European integration increase the need in more transparent trade operations in this region of Europe. Besides external incentives, there also emerged internal ones: both RM and TMR – as OSCE and the guarantor states suggested – agreed to create a "common state" starting from the Constitution drafting procedures for the new federal state.

So, the background of Moldova's and Transnistria's economic relations has significantly changed compared with those described in previous researches such as: "Transnistria Region of Moldova. Economic Review", World Bank, 1998; "Evolution of Transnistrian Economy: Critical Apparisal", CISR, 2001. And, unfortunately, new problems in relations between the two sub-regions have been arising during 2003. Based on Terms of Reference for the "Paper on Transnistria" prepared by the World Bank trade team (*Lawrence Bouton*, task manager), the present paper comprises three sections: (i) recent economic developments in Transnistria; (ii) trade specific problems arising from the separation of Transnistria from the rest of Moldova; and (iii) economic benefits and costs associated with the reintegration of the Republic of Moldova and Transnistria.

The paper was elaborated in collaboration with the Ministry of Reintegration of the RM and Ministry of Economy of Transnistria. There were used data of the National Bank of Moldova, Transnistrian Republican Bank, Ministry of Economy of the TMR, Department of Statistics and Sociology of the RM, Department of Customs and Chambers of Commerce and Industry of the RM and TMR.

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1. Recent Economic Developments in Transnistria

Survival and transformation of Transnistria's economy (“self-sufficiency” as the administration of the region calls it) are a phenomenon in many respects unique for the post-soviet area. Unlike mainly agrarian Abkhazia and Nagorny Karabakh, this industrially developed region (before 1991 Transnistria accumulated more than 30% of Moldova's industry) not only preserved most its industrial potential, but also entered actively foreign markets thus realizing the “small open economy” model in practice. Peak of external economic activeness fell at 2000 when total volume of Transnistrian export-import operations accounted for 817.3 mil USD, which is 3 times more as regards per capita than in the rest of Moldova.

Beginning from September 2001, right after the accession of Moldova to WTO (May 2001) and, in this connection, toughening and modification of customs procedures on its borders, Transnistria’s economy “came down with a fever”; its external trade has sharply decreased: in 2002 as compared to the previous year the negative total export growth rate was 2 times high than import one, dropped by 35.5% and 16.9% correspondingly, which told negatively upon the budget and social indicators of the region.

The situation has become aggravated anew, when the Moldovan-Ukrainian Protocol took effect on May 15, 2003 according to which goods can be transported through the customs points on the Ukrainian-Moldovan border including Transnistria only on the basis of the waybills, commercial and customs documents of the official Chisinau. This was followed by invitation to registration (a temporary one firstly, and permanent since January 1, 2004) of Transnistrian enterprises in State Registration Chamber and receiving certificates of origin in the Chamber of Commerce and Industry of the Republic of Moldova.

The region’s authorities considered these actions as “new cases of blockage of external economic activities of Transnistrian enterprises” in order to “demand of Transnistrian enterprises to pay taxes to the Moldova’s budget and deprive the Transnistria’s people of economic basis for its subsistence”. The TMR administration – as a riposte – introduced on July 14, 2003, 100% customs fees for all commodities imported to the region from the RM. Another aggravation of the situation is clear – this time based on collision of economic interests of the Republic of Moldova and Transnistria – two partners that since the beginning of 2003 have been implementing the proposal of OSCE and guarantor states to form a federal “common state”.

1.1. Macroeconomic trends

Before the Republic of Moldova and Transnistria agreed to a future “common state”, the economy of these sub-regions developed in different ways of trials and mistakes. In Moldova, market reforms started in 1992-1993, but now attempts are being made to strengthen presence of the state in the economy. In TMR, state regulation has always been a preferred method and market processes did not intensify until late 1990s. Generally speaking, the following stages can be distinguished in the economic development of Transnistria:

- *1990 – 1991:* search for a “free economic zone” model, attempts to implement the “regional self-financing” model suggested by the Baltic republics and popular during perestroika in the USSR. Case for it: large-scale multi-sectoral industry, intensive agriculture, premises for tourism development, and advantages of having transport routes;

- *1992:* pinnacle of tension in the relations between Chisinau and Tiraspol, military conflict, reciprocal attempts to block the infrastructure: power and gas supply lines, railroads;
- *1993 – 1995:* search for ways of economic survival without political recognition and with disrupted manufacturing cooperation with the right bank. The region's managers secured the "resuscitation" of ties with ex FSU partners, primarily in Russia, Ukraine, and Belarus, and its administration reestablished ties with a number of agencies in those countries;
- *1996 – first half of 2001:* Transnistrian economy is becoming "self-sustained"; Transnistria legalizes its foreign trade by means of Moldovan customs stamps; entrepreneurship develops. New building projects such as Pokrov cathedral and the unique "Sheriff" sport complex which can beatify any European city were striking symbols of these successful five years. And, what is even more important, that these new-buildings were constructed by Transnistrian enterprises and specialists;
- *since September 2001:* foreign trade conditions for TMR deteriorate drastically – the Republic of Moldova introduces new customs procedures; "stamps are withdrawn"; Transnistria reciprocates by imposing a 20-percent tax on Moldovan goods; Russia changes its VAT procedures (to the country of destination principle); control at the Ukrainian border tightens and joint Moldo-Ukrainian customs points are set.

A set of Transnistria's key macroeconomic indicators gives a general picture of trends in Transnistrian economy.

Table 1

Main Macroeconomic Indicators of Transnistria[1]

Indicators	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*
GDP, mil US$	327.6	447.6	331.6	281.0	199.5	255.6	250.3
- % against previous year	…	142.3	65.4	69.9	79.1	11.0	97.3
- % against 1996	100.0	142.3	93.1	65.1	51.5	57.1	55.6
- per capita, mil US$	484.5	663.1	496.2	423.9	304.2	392.6	392.3
Industrial output							
- % against previous year	89.3	99.1	93.7	96.2	116.5	109.0	81.5
Agricultural output							
- % against previous year	84.5	144.0	69.4	72.8	82.4	118.0	74.6
Exports, mil US$	305.6	387.4	339.1	258.0	328.1	377.7	243.4
Imports, mil US$	222.0	301.2	587.3	416.5	489.2	541.0	449.6
Population, end of the year, thou per	679.1	670.8	665.7	660.0	651.8	642.5	633.6
of which able-bodied population, thou per	400.3	396.5	390.3	392.9	390.1	387.7	385.1
Monthly average nominal wage, US$	41	53	58	68	32	44	50
Monthly average pension, US$	17	21	27	25	13	20	20.0
Budget Deficit as % to GDP	1.8	13.1	1.1	1.0	2.0	2.1	6.0

Despite differences in the nature of economic transformation and more complicated development environment compared to the Republic of Moldova (lack of recognition, no credits), the trajectory of Transnistria's main indicators has been very close to those of Moldova: it adapted to the market and reached its peak in 1997, declined in 1998 in the aftermath of Russian financial crisis, and then revitalized like Moldova did. Persisting latent interdependence of the two subregions' economies and common focus of their exports and imports on the CIS and primarily Russia as their main investment and trade partner account for that.

[1] Statistical Yearbook of Transnistrian Moldovan Republic. Ministry of Economy, Tiraspol, 2002, pp. 18-21, 24; Report on TMR Socio and Economic Situation in 2002. Ministry of Economy, Tiraspol, 2003, pp. 3, 4, 32 и 35

During parallel development of the two economies, the statistics service of Transnistria recorded GDP growth twice: in 1997 (+42.3%) and 2001 (+11%). Then the situation grew complicated. The withdrawal of customs stamps by the Republic of Moldova had dramatic implications the Transnistrian administration labeled as “economic blockade”. According to Transnistrian statistics service, before September 2001 (when the stamps were withdrawn), over nine months of 2001 GDP grew by 11.5%; industry, by 7.0%; exports, by 19.4%; and people’s income, by 9.4%. Since the fall of 2001 the region’s economy has been “feverish”, and in the first quarter of 2002 its industrial output declined by 22.3% and foreign trade, by 33.5%. First nine months of 2002 have been especially alarming: GDP declined by 6.2%; industrial output, by 22.3%, and exports, by 47.6%. Decline in output was recorded at 83 companies, 13 of which have been non-operational since year-beginning. Barter resumed and accounted for 1/10 of foreign trade. Economic ties between Moldova and Transnistria suffered as well: over nine months of 2002 exports to Moldova reduced in 1.5 times and imports, by 35.1% versus the same period of previous year. Due to such dramatic situation Transnistrian administration and economic entities started looking for new methods of adjustment to force-majeure. They managed to keep the situation under control. As a result, in 2002 GDP officially declined by 2.7%, but it only equaled 76.4% of GDP in the pre-crisis 1997.

In the first half of 2003 economic activity in the region has notably perked up, which, according to statistics, was reflected through the 18.4% GDP growth, 2.9% growth of investments into fixed capital and 35.5% reduction of the trade balance deficit. But these positive changes have superimposed on intensification of inflation processes - the average monthly inflation rate over the period from January to August 2003 was 2.1% and its rate at the end of the given period was about 18%; (in 2002 it was 0.3% and 2.5% correspondingly).

Despite the region’s administration commitment to state regulation methods, developments in the GDP pattern have generally resembled the market economy trends.

Table 2

GDP Pattern of Transnistria (in current prices, % of total)

	1997	1998	1999	2000	2001	2002
GDP	100	100	100	100	100	100
Of which:						
goods manufactured	55.8	56.2	48.3	61.5	41.8	43.0
services rendered	33.6	36.1	43.4	32.2	47.3	47.9
net taxes on imports and products	7.9	7.7	8.3	6.3	10.9	9.1

Source: Trans-Dniester Republican Bank Bulletin, No. 46, March 2003

Like in Moldova, service sector is the driving force. Its share in GDP has been growing steadily, which is consistent with the market economy trends. However, two issues are worth noting: first, service tariffs (especially utilities) have been growing much faster than consumer price index; second, the so-called non-market services, that is, those rendered by the budget (non-manufacturing) sector, account for approximately 40 percent of the total volume of production services. This means that the share of real sector in GDP has been declining.

The situation in the real sector has not been easy. The upward trend in industrial production was recorded for the first time in 2000 (+16.5%) and partly continued through 2001 (+9%). However, the shock of September 2001 events for industry (especially ferrous metallurgy) had a cumulative effect, and, as a result, in 2002 output reduced by 18.5%.

Agriculture, which used to be highly profitable, has been subsidized in recent years. Despite increase in agricultural output (9% in 2001 and 4% in 2002), production losses almost doubled. More than 90% of rural enterprises are unprofitable. Hundreds of hectares of land are not farmed. Cereals (wheat, barley, corn) account for more than 2/3 of crops production. Production of fruits and vegetables, especially irrigated ones, reduced drastically, just like in Moldova. The marketability of local agriculture diminished. That is why import of food to Transnistria grows, including potatoes and vegetables.

Despite its dire circumstances, Transnistria accumulated some monetary management experience. Hyperinflation experienced by both Transnistria and Moldova developed into more moderate monthly-average price increase rates in the early 1990s: 1999 – 7.3%, 2000 – 5.6%, 2001 – 2.0%, and 2002 – 0.9%. In addition to central bank (Transnistrian Republican Bank, TRB) regulating the monetary policy, the region's banking sector comprises ten more banks, of which four are banks with foreign participation and one is a branch of Moldovan Moldinconbank. As of January 1, 2003, total gross owner equity of Transnistrian commercial banks was US$ 31.2 mil, of which foreign, including Russian capital, was 28.7%.

The central bank's "Transnistrian ruble exchange rate" policy changed over time. During the initial period of 1993-March 1998, according to the bank itself, the exchange rate was regularly revised and set at a certain level based on the market considerations. In April-August 1998, the exchange rate was determined by the exchange trading, however, the Russian crisis undermined the fragile balance. The central bank was virtually deprived of the exchange rate support intervention opportunities – the Transnistrian ruble depreciation was arrested artificially. This was the case in September-December 1998. In late 1998, it was decided to set the exchange rate at *US$ 1=Trub 1.12 mil*. As a result of major discrepancy between official and market exchange rates, output declined, goods exports fell and repatriated proceeds reduced.

In 2002, the TRB shifted from administered exchange rate to the administered floating rate – the TRB started setting single official exchange rate of the Transnistrian ruble based on the auction results within the exchange rate band set for the year consistent with the gradual devaluation policy. In 1999, the Transnistrian ruble devalued by a factor of 2.9; in 2000, by 47.3%, and in 2001 and 2002, by 8.8% and 12.7% respectively[2].

1.2. Market Access. Foreign Trade

Transnistrian economy is highly dependent on foreign trade. Transnistrian factor, in its turn, has major impact on both foreign and domestic trade of the Republic of Moldova (transshipment, re-export, commodity flows of informal economy). It would be difficult to quantify the impact due to unreliable customs and transport statistics; however, indirect methods could be used. The necessity to negotiate new bilateral free trade agreements based on WTO requirements between the Republic of Moldova and Russia and Ukraine has arisen due to the fact that these two countries are in a final stage of WTO accession; and all this will undoubtedly affect relations of both sub-regions of Moldova with these trade partners, both key and common for them.

Thus, it is noteworthy that the openness of Transnistrian economy (export/import-to-GDP ratio, %) is much higher than that of the Republic of Moldova (see Table 3).

[2] Trans-Dniester Republican Bank Bulletin, No. 46, March 2003, p. 24

Table 3

Openness of Moldovan and Transnistrian Economies
(Foreign Trade as Percentage of GDP)

	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Transnistria	161.1	153.8	279.4	240.0	409.7	359.4	276.9
Moldova	110.2	105.8	97.6	89.6	96.9	99.1	111.7
Russia	30.7	32.1	40.5	53.1	42.8	38.5	0.0
Ukraine	71.8	62.5	65.2	76.1	…	…	…

Although the volume of Transnistrian exports and imports have not been sustainable year by year (see Table 1), there has been a steady increase in import surplus: in 1999, US$ 158.5 mil; 2000, US$ 161.1 mil; 2001, US$ 163.3, and 2002, US$ 206.2 mil. *For a number of items, imports volume exceeds regional needs by a wide margin.* In 1996-1997, export-to-import ratio was approximately 130%; in 1999-2001, 61.9-69.8%; and in 2002, 54.1%, of which with the CIS, 41.2%.

Transnistrian economy orientation toward the CIS market is became apparent because it accounts for 46.7% of Transnistrian exports and 61.3% of its imports (2002 data). At the same time, according to statistics, first steps were made to diversify foreign markets and reduce Transnistria's dependence on the limited range of partner countries. Thus, while in 1996 Russia, Ukraine, and Moldova accounted for 72.7% of Transnistrian exports, after 1998 they made up just 33.2 - 47.7%. Similarly, those countries' share in Transnistrian imports went down from 81.7% in 1996 to 53.5 - 58.1% over past three years.

Energy resources (about 50%), metallurgy resources, and chemicals prevail in the pattern of imports from the CIS; main export items to the CIS are: machine-building, light industry products, furniture, and foodstuffs.

Rolled steel supplied both to the CIS countries and the West and light industry products (Italy, Germany, etc.) dominate in the pattern of exports to other regions of the world.

Cooperation experience with German firms (Saxony) is noteworthy: eleven Transnistrian companies have already established such trade relations. These are: Moldavizolit, Moldavkabel, Tighina, Floare, Tirotex, Odema, Moldovan Metal Works (MMZ), and Vestra. Along with this, eighteen Transnistrian-German joint ventures were set up in Transnistria. Direct ties were established between the Chambers of Commerce and Industry of Tiraspol and Leipzig.

Rolled ferrous metal, mostly for construction, is a strategic export commodity for Transnistria. It is competitive due to its high quality and cheap gas MMZ gets from ITERA Group, Russia, which owns 75.0% of the facility's shares. Since 1997 US and Canada have been the largest consumers of MMZ's products. Recent anti-dumping sanctions imposed by those markets led to five-months idle time in 2002 and reduced its share in Transnistrian exports to 39.9% versus 48.0% in 2001 and 56.5% in 2000.

In the Soviet period, MMZ's designed capacity was 500,000 tons of rolled metal. In 2000-2001, it was twice as much (967,000 tons in 2001), which required active search for scrap metal throughout Eastern Europe: in Romania, Slovakia, Ukraine, Russia, etc. It is noteworthy that in April 2003 Customs Committee of Russian Federation decided to set up special Suzemki border crossing point to bring scrap metal from Russia to Transnistria for MMZ. This allowed reducing scrap metal transportation costs and, therefore, the cost price of MMZ products. Progress has also been made in importing scrap metal from Ukraine: an agreement was signed, under which scrap metal supplied to Moldova and Transnistria is exempted from excise tax.

1.3. Import and transit of natural gas

Natural gas representing the basis of Moldova's energetic balance is the main product imported to the country.

Energetic complex utilizing natural gas, whose gas-mains run along both banks of the Dniestr, is managed by the joint Moldovan-Russian enterprise Moldovagaz SA. Volume and terms of natural gas supply to the Republic of Moldova and its transit through its territory are established by yearly contracts concluded between the RAO Gazprom and Moldovagaz SA under the Agreement between the Government of the Republic of Moldova and Government of the Russian Federation on supply of Russian natural gas to the Republic of Moldova and its transit through its territory.

Transnistria has a separate bill of 900 mil USD. But unlike the rest of Moldova where high prices for energy resources impact negatively competitiveness of Moldovan products, Transnistria's economy has been "relying" on cheap gas for a long time.

Over the 90's sale prices for natural gas delivered to the region by the RAO Gazprom and other Russian companies were much lower than prices for which it was purchased from suppliers. Despite that sale and purchasing prices for gas have drawn close, amount of Transnistria's historical gas debt reached 700 mil USD, which is exactly equal to the three-year GDP of the region. Debts for current payments also continue to grow (the TMR paid for circa 85% of the gas consumed during January – September 2003), as a result of the gap between sale and purchasing prices for gas, as well as insolvency of its consumers. At the present, the Transnistrian administration and the RAO Gazprom leadership are actively discussing an acquittance scheme for the gas, including 100 mil USD that are to be transferred to Transnistria from Russia as a compensation for the removed military stores.

The administration of the region aspires to reduce dependence of the energy sector on the principle supplier – the Russian company Gaszprom. Thus, in 2003 the region received more than 300 mil cubic meters of gas from other (Russian as well) companies, the price being cheaper as compared to the Gazprom's, but on a condition of complete prepayment.

It is worth mentioning that transit location of the region along the CIS – Southeast Europe route and a series of technological prerequisites make possible excessive intake and consumption from gas-mains running to the Balkans. Volume of Russian gas transit through the Moldovan territory is 20-22 bil cubic meters a year, the transport losses reaching 40%, according to the Gazprom experts' estimates. More than 70% of it is pumped over by gas-compressor stations placed in Tiraspol. And total gain from the gas transit is 53-58 mil USD a year.

Due to the same reasons – low sale price (63 USD) as compared to the purchasing one (80 USD) and insolvency of consumers, especially energy companies (advance payment of current gas supply varies at 75-80%), debts for natural gas have accumulated in the right-bank regions of the Republic of Moldova as well. Moldovan gas debt to Russia is currently estimated at 121.1 mil USD supplemented by 278 mil USD worth of penalties for the past due payment.

Under the current conditions derivation of monetary resources, for instance, for payment of the VAT that existed earlier or for gas customs clearance used to lead to reduction of current gas payments to its suppliers, thus increasing debts to them and periodically creating a threat of limitation or even cut-off of gas supply to the country.

At first, in 1998, such problem emerged as regards the right-bank region of Moldova. Despite its repeated discussions in the Government, Ministry of Finance and Department of Customs it remained unsolved and was concluded with amercement of the "culprit" – Gazsnabtranzit SA that delivers natural gas for the country – of 64 mil MDL.

Now, the same problem also emerged as regards gas delivered to Transnistria.

Estimating the situation one should take into account a series of circumstances. Beginning from 1996 Moldova disposes *de jure* of a common (for Moldova and Transnistria) organization that transports and delivers gas – at first Gazsnabtranzit SA, later – Moldovagaz SA. It is a unified economic organism and a juridical person. At the same time, *de facto*, taking into consideration Moldova's territorial partition and different tax, budget, price and currency systems existing in two subregions, as well as that there are no budget relations between them, annual contracts with RAO Gazprom on natural gas supply to the Republic of Moldova stipulated volume indicators for Moldova (the right bank) and Transnistria separately. Besides RAO Gazprom, founders of Moldovagaz SA were Moldova's Government and administration of Transnistria separately, each of them disposing of a respective share holding.

Natural gas imported to Moldova, but delivered to Transnistria is not subjected to the declaration procedure. Tiraspoltransgaz (a part of Moldovagaz SA) that manages the gas transportation and supply system to the left-bank raions on behalf of the Transnistrian administration, determines needs in gas within sphere of its activity, formalizes limit of consumption for the area, keeps record of its utilization and makes payments directly to RAO Gazprom bypassing Moldovagaz SA, collaborates with the regional state budget, including compensation of difference between prices that differ considerably from those existing in Moldova, on the right bank of Dniestr, payment of taxes, etc.

Transnistria's payments and promissory notes are taken stock of by the gas supplier – RAO Gazprom – separately. Customs clearance by Moldovagaz SA of gas imported to Transnistria and payment for this service (0.18% of import value) bear heavily on Moldovagaz SA and will not be compensated by Tiraspoltransgaz – without preliminary negotiations and coordination with the Transnistrian administration.

In the interests of transparency it is necessary to elaborate a special mechanism to fulfill this operation – to take stock of separate gas import volumes and payment for customs services. But one cannot omit from consideration that main gas-compressor stations through which gas is transported to Transnistria are located on the Ukrainian territory (Ananiev, Ryasnopol), while there are gas-compressor stations in Tiraspol that operate the most of the Russian gas transit to the Balkans, for which Moldova receives from RAO Gazprom a specific payment stipulated by the contract.

Until this issue will be solved positively, lack of a common customs registration of gas imported to Moldova and transited through its territory will continue aggravating financial and economic situation in the country.

The primary tasks for the period till 2005, in opinion of the Government of the Republic of Moldova, are as follows: creation of a common national system of gas calculation; establishing common tariffs for natural gas based on import value and real transport costs; restoration of the Tiraspol-Chisinau gas-main; widening the gasification program of rural localities on both banks of the Dniestr.

1.4. Moldo-Moldovan Trade

As regards trade and economic relations between Transnistria and Moldova, they are far from being transparent. Such ties are maintained mostly in view of the interests of economic entities, despite and disregarding the actions taken by the policy-makers and legal provisions.

Attempts of both administrations to solve political problems by means of administrative and economic methods, such as introduction of new customs procedures by the Republic of Moldova at its border and imposition at first of 20-percent and after that of 100% duty on Moldovan goods by Transnistria, Transnistrian authorities' decision to tighten migration controls, introduce transit fee for foreign nationals, including Moldovans, transport fee (10% of the goods value) for motor vehicles not registered in the territory of Transnistria, etc., *impede free movement of goods and services*.

Nevertheless, the vitality of traditional trade relations and personal contacts between the economic entities operating in the adjacent subregions hinges on their interests, due to which trade between the two banks of the Dniestr did not die out. Moldova's share in Transnistrian foreign trade has been stably high: 10.5% in 2000; 15% in 2001; and 13% in 2002. This means that, as of 2002, the Moldovan market, including transit through it, has been the main one for Transnistrian producers: Transnistria's total exports to the Republic of Moldova amounted to US$ 56.5 mil, which makes up more than 23% of total exports. By way of comparison, exports to Russia amounted to US$ 43 mil, or 17.5% of total exports. In the imports pattern, Moldova accounts for 7.1% – the same as Germany, for example.

Clearly, lack of reciprocal stability in trade affected the volume of goods and services. In 2002, Transnistria's total exports went down by 35.6% against 2001, of which to Moldova, by 39%. Imports also fell by 16.9%, of which those from Moldova by a much wider margin of 30.2%. Apparently, new trade barriers impeded access to the Transnistrian, rather than Moldovan, market. According to the estimations of the Transnistrian Ministry of Economy, the region's losses from "economic blockade" over 2002 and Q1 2003 amounted to 167.8 mil. USD. In case such situation lingers (losses in Q1 2003 accounted for 8.8 mil USD), Transnistria's economy will fail to receive approximately 35 mil USD, the smaller amount than in the previous year[3]. According to estimates of the Ministry of Economy of TMR, in 2002 losses were 159 mil USD, while Transnistria's GDP was 250.3 mil USD.

And now, since the spring 2003, the situation has become aggravated anew. The ground was the Moldovan-Ukrainian Protocol on May 15, 2003 according to which goods can be transported through the customs points on the Ukrainian-Moldovan border including Transnistrian only on the basis of the waybills, commercial and customs documents of the official Chisinau. The last action was followed by invitation to registration of Transnistrian enterprises in State Registration Chamber and receiving certificates of origin in the Chamber of Commerce and Industry of the Republic of Moldova.

[3] „Olvia-press", 10.10.2003

Mr. I. Smirnov in his Appeal to the people of Transnistria (June 30, 2003) considered these as "new cases of blockage of external economic activities of Transnistrian enterprises". He also mentioned that "categorical requirement to register our enterprises is related with Moldovan official's desire to control privatization process. And in the near future they will ask for payments of all taxes to Moldovan budget, in order to bereave the Transnistrian population of its economic basis".

The "political and economic" tension between two regions affected negatively their mutual trade. According to the data of the Transnistrian Republican Bank, total external trade turnover increased in 1.5 times during the first half of 2003 as compared to the same period of the previous year, including export – twice and import – by 30.5%[4]. But share of the Republic of Moldova within the total external trade reduced to 9% (the lowest indicator over the last three years). It should be mentioned that such reduction is mainly related to considerable decline of Moldovan import to Transnistria – 3.6% of the total import (2001 – 8.4% and 2002 – 7.1%). One of the possible causes of the reduction could be the unilateral decision of the TMR to introduce the free trade regime with Ukraine[5]. Under the decision of the TMR administration "On creation of the most-favored-nation treatment in relations with Ukraine", goods produced or imported from Ukraine are not subject to customs duties, excisable goods being the only exception.

Both for Moldova and Ukraine as future EU neighbors economical practicability of operational customs border is evident because it leads to cutback of "shadow" export-import flows, suspension of smuggling, illegal migration, etc. Recognized these as early as May 2001 the Protocol on Harmonization of Tax and Customs Legislation was signed by Moldova and Transnistria, according to which the regulation of export-import transactions is based on "tax and customs legislation considering both requirements of World Trade Organization and World Customs Organization and CIS and European countries legislation"[6]. The joint customs control on Ukrainian-Moldovan border should be established beginning September1, 2001[7].

Moldovan tax and customs legislation in force, in the whole, corresponds with the international requirements and norms, and this fact is recognized by the Transnistrian Administration. Therefore the use of Moldovan legislation requirements for issuing customs documentation fully satisfies the Protocol's provisions. The solution of the question has lasted for two years, but even now the Transnistrian authorities consider the joint customs points as "economic blockage" by Moldova. But it is not very logical: why only Moldova, rather than both Moldova and Ukraine?

One could get an impression that setting up Moldovan – Ukrainian customs points did not affect negatively external trade relations between Transnistria and Ukraine. Moreover, according to the estimates of Transnistia's Ministry of Economy, the turnover between Transnistria and Ukraine increased 4.2 times during the first seven months of the year 2003 as compared to the same period of the previous one, and it is Ukraine, rather than Moldova, which is the second, after the Russian Federation, external trade partner of the region[8].

The negative attitude of the Administration of TMR to the regulation of customs rules for all economic agents could be explained by the lack of credit to the official Chisinau in terms of

[4] Trans-Dniester Republican Bank Bulletin, No. 52, September 2003, p. 6

[5] «Olvia-press», 18.07.2003

[6] Protocol on Harmonization of Tax and Customs Legislation, 16.05.2001, Tiraspol

[7] Ibidem

[8] «Olvia-press», 15.08.2003

the letter's unwillingness to consistently carry out its obligations. We can mention that the Moscow Memorandum on the Basis for Normalization of Relations between the Republic of Moldova and Transnistria states that Transnistria has the right to independently establish and maintain international contacts in the fields of economy, science and technology, and culture, and thus is considered an independent economic agent. The offered temporary registration in Moldova of economic agents from the eastern region and maintenance of their ties with the budget of TMR are far from guaranteeing that this system of relationships with regional budget will be kept after the permanent registration (January 1, 2004).

Constructive solution of inter-budget relations problem by both parties, assumption of the related mutual obligations and, what is the most important, their efficient fulfillment could create a basis for the solution of other important economic problems, such as unification of requirements of enterprises registration, avoidance of double income taxation, and some others. Under such approach the creation and management of the common register of economic agents would turn from the "stumbling block" into the "corner stone" of a single economic system. So far the parties have preferred to use the language of statements.

1.5. Smuggling, shadow economy commodity flows

During the 90's, Department of Statistics and Sociology of the Republic of Moldova estimated the share of shadow economy within the country's economy (excluding Transnistria) at 14-16% and in 2002 – at 31.6%. If one accepts this as a norm (1/3) for Transnistria as well, it will turn out that volume of the shadow economy existing in the partitioned Moldova accounts for no less than 600 mil USD. Once can consider the following to be the clear evidence that Transnistria profits by its rare status and "transit" location:

- *an extremely high level of openness of the Transnistrian economy* (export/import to GDP ratio, %) that was 2.7-4.0 times higher than in the Republic of Moldova over the last three years (2000-2002);
- *too high import volume* that exceeded export in 2002, for instance, by 206,2 mil USD or 82.4% as of GDP, while this indicator in Moldova was only 24.2%. It is also rightful to ask – what are the sources of financial means for such considerable import purchase?
- *import of specific types of goods that exceeds considerably internal needs of the region* – oil products, alcohol, cigarettes, sugar, agricultural chemicals, cosmetics, fish (frozen, canned, etc.) and their subsequent re-export – to the Republic of Moldova first of all, whose share in Transnistria's "export" is officially estimated at no less than 50%, while in import to the region only of the rest of Moldova is 14-18%;
- *considerable misbalance of foreign trade with such countries as Ukraine and Byelorussia*, import to which exceeded in 2001, for instance, the export by 7.8 and 5.3 times respectively. It is interesting that this difference is a "new unexpected phenomenon" of the post-1998 period. Before that time, statistics recorded reverse situation: in 1997, for example, export of Transnistrian goods to Ukraine was twice as much as import and to Byelorussia – 2.4 times! Specific analysis of commodity flows from Byelorussia to Transnistria showed that most goods (gasoline, bitumen, wood, textile, cosmetics, etc.) are going then to the right bank of the Dniestr;

There are different schemes of "export" to the Republic of Moldova of goods previously imported to Transnistria or produced there. Most of them take advantage of gaps and "unclear spots" in legal documents of Moldova related to its economic relations with Transnistria.

There is also a manifest smuggling which employs both economic agents of Moldova and Transnistria, as well as those of third countries.

The largest – from the financial point of view – commodity flows of the shadow economy are *oil products and alcohol*. By implication, Moldovan statistics also shows that their "shadow" flows have grown over the last years. Thus, according to the energy balance of the Republic of Moldova import of conventional fuel to Moldova *decreased* (?!) from 1.5 mil ton in 1996 to 577-645 thou ton in the last years, as well as import of alcohol did – from 29.7 mil USD in 1996 to 3.0-5.5 mil USD in the last years[9].

Oil products market capacity of Moldova is currently estimated at 1.0-1.2 mil ton. The main consumer of oil products (gasoline and diesel fuel) is motor transport and agricultural machinery. Number of registered motor vehicles in Moldova reached 900 thou units, including 280 thou cars, 15.2 thou buses and minibuses, etc. Train of machines in agriculture is also being renewed. Meanwhile, statistics states that oil products consumption of motor transport is just a half of the mid-90's indicator (in agriculture it is less than a third!)[10].

One of the new prerequisites for the overflow of oil products from Transnistria to Moldova has formed on the 1st of April, 2003, when TMR lowered excises for gasoline (40 USD per ton) and diesel fuel (20 USD per ton). In the Republic of Moldova these excises were set to 88.9 USD and 37.04 USD per ton respectively.

Most "initiatives" to curtail the oil products smuggling yielded no practical result (marking of gasoline with special dyestuffs, creation of mobile tax stations on roads, control at gasoline stations, etc.). The interests of business-groups showed to be the most important against the state ones.

Main groups of *food products* "migrating" between two sub-regions are wine materials, tobacco, grain, sunflower, meat and milk from Moldova and from Transnistria to Moldova are imported meat and fish, grain, flour and mixed fodder for cattle breeding (from Russia, Kazakhstan and Ukraine). There also is "re-export" to Moldova of large consignments of fruits and vegetables imported to the TMR from Turkey or Greece by firms exempt from payment of VAT at customs stations as canned goods producers under the Decision of the RM Government, which exempts producers located in the eastern raions of Moldova from such dues.

Alcohol supplies (cognac, vodka) from Transnistria to Moldova at dumping prices are based on the circumstance that raw and associated materials imported to the TMR are subject to zero excises and VAT. And, accordingly, cost price – and wholesale prices – of such products in Transnistria is much lower than those that their Moldovan competitors offer, who pay VAT and excises for raw materials, bottle and cork.

Transnistria's statistics and administration is recognized that engineering enterprises are represented on world armaments market. Once can assume that export of these products realized through firms registered in other countries or offshore zones.

It should be mentioned that now and again the legal basis of both sub-regions has been supplementing by new documents concerning suppression of smuggling and money laundry. So, in 2002 the Transnistrian Republican Bank through its decision obliged all commercial

[9] Statistical Yearbook of the Republic of Moldova – 2002. Department of Statistics and Sociology, 2002, pp.302, 428

[10] Ibidem, p.302

banks of the region to follow Wolfsberg principles on counteraction to legalization (money laundry) of incomes obtained in an illegal way; it was established that criminal liability (up to 5 years imprisonment) will ensue from contraband worth 4.5 thou USD instead of 65 thou USD as it had been earlier.

According to the Moldovan Criminal Code, illegal import of goods worth 9 thou MDL and more is classified as "major contraband" punishable with imprisonment of up to 2 years; illegal import of goods worth 18 thou MDL (1.3 thou USD) and more is a "particularly considerable contraband" the punishment being imprisonment of up to 5 years. Unfortunately, there is null of information about efficiency of these documents implementation

1.6. Privatization as a method to seek for investors and new markets

Pivotal progress in the Transnistrian ownership reform started somewhat later than in the neighboring countries. Ownership privatization process has been underway in the region for two years now; however, it has been mostly small-scale privatization of service providers, construction in progress, housing, and state property located outside of the region.

First "large-scale privatization" attempts were made in 2002 – almost a decade later than in Moldova. *It intensified, first, because Transnistrian authorities sought the economic stability of large industries by attracting investor funds, primarily from Russia. Second, privatization proceeds are now viewed as one of the main sources of funding the republic's budget deficit and, effective 2003, the TMR Economic Development Fund. Third, privatization would serve as a safeguard of ownership rights within a "common state".*

The 2001-2002 privatization program comprised 55 companies. However, just two of them were privatized before the deadline expired. Due to this the program was expanded to include such attractive companies as Moldovan Metal Works, Transnistrian Telecom, Bouquet of Moldova Winery, etc. The reality of privatization has been quite mixed, however.

Thus, sale of Telecom to the only buyer – local Interdnestrcom – in January 2003 for US$ 2 mil and channeling the proceeds to the republican budget was accompanied by the new owner's commitment to modernize communication services at its own expense within five years, while the state retained the right to administer tariffs.

In June 2002, after two-year long discussion, one of the most systemic laws, the Land Code, was passed. Its main concept is: land is state ownership. It can be transferred into use, possession, succession, or rent only to Transnistrian nationals permanently residing the republic.

Thereafter, in April 2003, an attempt was made to hold a referendum on private land ownership. The attempt failed. A decision to hold land referendum has become a logical extension of the privatization of industries. Also, the agricultural sector's interests were probably taken into account – it only survives due to state subsidies and concessional loans from Agroinvest, a subsidiary of the Transnistrian Republican Bank. Experiments with land rent in farming failed. There were cases when "farmers" rejected their land and returned it to the state because there are "no adequate conditions for economic activities".

The constitutional land referendum was declared abortive due to low activity of the population, primarily in urban areas (the participation rate was below 40% and approximately 25% in Tiraspol and Bender). Question put up for referendum was about individuals' legal right to own land. It was presumed that trade in land cannot be discussed for next five years. Now, under the legislation, the issue of introducing private land ownership cannot be brought up for a year. For the time being, land plot registration procedure has been streamlined in order to speed up the privatization of industries.

Transnistria, like Moldova, needs the inflow of foreign investment badly. Investment is necessary in order to both reconstruct the infrastructure (primarily Moldavskaia Power Plant in Cuciurgan – in 80-s the biggest one in the Balkan's region, gas and water supply systems, railroad power lines) and renovate export-oriented companies.

Currently, Transnistria is attracting investors by inviting them to participate in the "large-scale privatization". Among others, state-owned shareholdings in Moldovan Metal Works and Moldavizolit JSC (37.6% at the initial price of 9.1 mil. USD) are put up for sale. The selling price for Bouquet of Moldova Winery is set at 3.6 mil. USD. Ten more companies of the region are being evaluated with the assistance of Cisinau consulting company "Profit Warranty Consulting".

As of January 1, 2003, direct and portfolio investment in the Transnistrian economy amounted to 55.4 mil. USD, and the region's outward investment, 6.2 mil. USD.[11]

The first Transnistrian stock exchange auction was held in August 2003, the result being sale of the state share holding (15.6%) of the Moldovan Metal Works to EI Energy Investment and Management Corporation registered in Lichtenstein for 2.6 mil. USD (the market price per share was 39 USD while the nominal price was 500 USD; let us also mention that when the plant was introduced into the Privatization program its starting price was set at 10 mil USD)[12].

Attracting foreign – especially Russian – capital in the region has been one of the most pressing issues in order to reconstruct the region's industries and infrastructure. The administration believes that "currently the TMR has every prerequisite for the Russian capital participation in the privatization of Transnistrian companies – there is necessary legal framework in place".[13]

Negotiations are underway regarding the privatization of the Moldavskaia Power Plant, a strategic facility for both Transnistria and the Republic of Moldova. Under the announcement of the TMR Ministry of Industry, Russian companies RAO "EES Russia" and AO "Gazprom" have requested to take part in the privatization contest, which is being explained by both their strategic orientation at the Balkans and the agreement on joint work at the CIS energy markets, and a Belgian company. The starting price of the item is about 100 mil USD according to preliminary evaluation of the Ministry of Industry[14].

The participation at the contest on privatization of the Cuciurgan Power Plant will be the first joint project of Gazprom and RAO "EES". But these companies still did not reach a consensus of opinion how this joint participation will be realized. It is known that RAO "EES Russia" intends to offer investments for modernization of the Moldavskaia Power Plant of 30 mil USD, while Gazprom expects to acquire the station for repayment of the debt for the delivered gas (the common debt of both sub-regions exceeds 1 bil USD). It is planned to export electric energy to Romania and Bulgaria after modernization of the station. Volume of such export deliveries will make up 5 bil kWt/h. The payback period is estimated at 6 years.

[11] Trans-Dniester Republican Bank Bulletin, №47-48, April - May 2003, p. 22
[12] «Olvia-press», 19.08.2003
[13] «Olvia-press», 26.03. 2003
[14] «Olvia-press», 23.09.2003

For the time being, under a contract concluded between “Union Fenosa”, Spain company, and Moldavskaia Power Plant in August 2001, the latter undertakes to cover approximately 70% of Moldova’s electricity needs. The contract value is 267 mil. USD. It was the presence of the foreign investor in the energy sector of Moldova which contributed to solving one of the crucial economic problems in the relations between Moldova and Transnistria. It would serve as a good benchmark for the future.

As far as the Russian capital is concerned, it is already working in the Transnistrian market, mostly in the form of financial and technical loans to enterprises. Thus, Rybnitsa Metal Works, 2/3 of the shares of which are owned by ITERA, Russia, has recently obtained a loan of 20 mil USD from a Russian bank. Russia’s interest in stabilizing and “codifying” its ties with the region was evidenced by the inclusion of seven Transnistrian companies in the production cooperation program between the Republic of Moldova and Russia. It is another example of finding an economic solution to a political problem.[15]

As a rule, potential investors to Transnistrian enterprises come from Russia, therefore chances are that in the short run Russian capital will be present in Transnistria in the form of ownership and co-ownership, rather than just in the form of lending. Amendment of the Foreign Investment Law attests to the seriousness of the “host party’s” intentions. Willingness to attract investors in the wine and tobacco sectors led to lifting the ban on foreign companies’ operation in the sectors. Aroma, Russia, which is the main exporter of Bouquet of Moldova’s products to the Russian market, now is the new owner of this winery. First “swallows” from Europe are a group of joint Transnistrian-German ventures, 50% in the authorized capital of which is owned by German partners.[16]

The privatization process in Transnistria has notably perked up in 2003, of course it is the result of the wish to concretely define owners of the enterprises on the threshold of the “common state” with the Republic of Moldova: there were privatized Bendery enterprises – Danastr, Moldavkabel “Oil-Extraction Plant”; and the state share holding in the Moldovan Metallurgical Plant was sold. Privatization of ten industrial enterprises among which are the Moldavskaia Power Plant, “Tighina” and “Floare” shoe factories, “Odema” clothes factory, and several metalware and lithograph plants.

The 100% state share holding of the shoe factory “Danastr” was sold to an Italian company “Damtan SA” for 200 thou USD, the new owner being bound to allot another 700 thou USD for modernization and reconstruction of the enterprise[17].

The Bendery factory “Moldavkabel” (100% share holding) was acquired by AO “Sevkabel” (Saint-Petersburg, Russia). The cost of the bargain is 1.7 mil USD, which is so low due to the high equipment deterioration, a large debt and loss of markets. Besides, the Russian company assumes to pay all debts of the enterprise. There will be spent more than 7 mil USD for development of the factory, including technical re-equipment and putting into operation of new production facilities[18].

Moldova has not yet formulated its official stance on the privatization underway in Transnistria, which has partly held Western investors back. For them, a lot will be determined

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[15] FLUX Information Agency, 17.04.2003
[16] “Olvia-press”, 3.02.2003
[17] «Olvia-press», 09.09.2003
[18] Ibidem

by progress in settling the situation and developing legal and socio-economic framework of the "common state".

Transnistria, from its part demanded of Moldova to recognize privatization in the region legitimate as a condition for its further participation in the joint Constitutional Commission. Therefore an Act on Ownership is to be signed, "which will legally guarantee the absence of pretensions of Chisinau to Transnistrian ownership".

Let us turn to the existing agreements. The Protocol on Guarantees for Attraction and Protection of Foreign Investments and Cooperation in the Field of Investments Activity (2001) says, "the activity of foreign investors and entrepreneurs on the territory of Transnistria is guaranteed by the laws of the Republic of Moldova, Transnistria and international laws"[19]. By this, as we can see, the right of the Transnistrian Administration to carry out privatization basing on their own legislation in force is recognized. It is especially important that the Protocol stipulates the elaboration of the joint project of investment strategy, but actual work on realization of such a vital for both parties decision has not yet been started.

Today official Chisinau supports "legal privatization" (?), at the same time speaking about probable consequences for the investors who have already privatized some property in Transnistria the Moldovan government doesn't exclude that some problems may arise if the buyers had not consulted the Moldovan authorities beforehand[20]. What is not quit clear here is what kind of investors may face with the problems: local (from Transnistria) and/ or foreign ones. And what about the guarantees mentioned in the bilateral Protocol?

Duplicity and inconsistency of official Chisinau's statements on such an important question can do nothing but alarm not only Tiraspol but also potential investors intending to realize their projects on both banks of the Dniestr.

Section 2. Trade Specific Problems Arising from the Separation of Transnistria from the Rest of Moldova

Creation of conditions for foreign trade stimulation becomes now one of the priorities of economic development of the Republic of Moldova. Unfortunately, in spite of obvious advantages of joint entry of the Republic of Moldova and Transnistria into world market, attraction of investors and participation in regional projects for South-eastern Europe, they have not yet been realized in concrete actions for a renewal of the united economic area of the state.

Meanwhile, as early as 1997 Moscow Memorandum on Regulation of Relationship between the Republic of Moldova and Transnistria secured that "the parties build their relationship in the framework of common state within boundaries of the Moldavian SSR of January 1990."[21] Partition of once common economic complex into two systems functioning at the same time is a serious hindrance to the development of economies of both regions so greatly dependent on a state of foreign trade.

[19] Protocol on Guarantees for Attraction and Protection of Foreign Investments and Cooperation in the Field of Investments Activity, 16.05.2001, Tiraspol
[20] „There are no reasons for confrontation", "Nezavisimaia Moldova", 02.07.2003
[21] Memorandum on Regulation Bases of Relationship between the Republic of Moldova and Transnistria

Transnistria's factor influence upon the foreign trade of the RM shows up in many different ways:

- political un-recognition of Transnistria and "frozenness" of conflict keep back trade partners and investors and discredit international legitimate state of their activity;
- Transnistria's check of development of main components of market economy and state regulation inflexibility are rather peculiarly transformed in practice of external economic links including in the form of informal economy goods flows;
- Political influence on economy is great, there are not rare attempts to settle political contradictions between the Republic of Moldova and Transnistria by applying economic sanctions and breakdowns in infrastructure (transport and telecommunications) which affects cooperation of economic entities and population of both sides.

All these circumstances are inadmissible for the country, taking into account that after the RM's entry in WTO, the Council on Cooperation between the Republic of Moldova and European Union, that took place in April, 2002, marked out the preparation to negotiations for creation of free trade area as one of the main priorities in realization of Partnership and Cooperation Agreement between the Republic of Moldova and European Union (PCA). The parties in real earnest tackled realization of PCA Article 4 that stipulates a possibility of signing Free Trade Agreement. This Agreement stipulates cancellation of customs duties (practically a complete annulment) for the goods produced within the boundaries of corresponding customs territories, while maintaining the national customs treatments for the goods produced in the third countries.

A feasibility study of a free trade area creation[22] proves that building such an area between the Republic of Moldova and European Union will create economic benefits only in the presence of adequate economic environment that makes it possible for economic entities to fully apply new features for extension of business activities.

Existence in the boundaries of a recognized by international community state, -- the Republic of Moldova, -- of an unrecognized though really functioning economy of Transnistria considerably influences both on external and internal trade in Moldova and her economic image. The success of negotiations for creation of a free area of trade with EU countries in many respects depends on reasonable settlement of this problem .

Among the main problems of really great influence of "a Transnistria factor" we should note the operation state of customs border; the extent of free transit of the goods within the customs territory; competitiveness of the goods produced in the Republic of Moldova; investment climate.

2.1. Customs

Taking into account the importance of providing security and controllability of frontier for carrying out economic activities, Moldova and Transnistria have tried many a time to coordinate the customs services activity.

For the first time the issue about harmonization of customs legislation and abolition of internal customs points was raised by the parties as early as February, 1996. At the same time on the basis of intergovernmental agreement there was reached an accord about creation of

[22] Free Trade Area. Feasibility Study, TACIS, 1999

joint customs points of Transnistria at entrance to the region from the side of the Republic of Moldova.[23] However, this accord has not been fully realized.

Meanwhile, the abolition of internal customs points would have provided both free transit of the goods and reduction of expenses for export-import operations. Existence of internal customs border of itself which means a necessity to pay customs duties becomes an extra burden for the participants of external economic activities. By the estimate of Transnistria's side due to existence of *internal* customs points the budgets of Transnistria and the RM in 2000, i.e. before the introduction of additional restrictive sanctions by the parties, received 38 mil and 2 million USD respectively.[24]

Regulation of Government of the Republic of Moldova on Declaring the Goods by Economic Entities from Eastern Areas of the Republic of Moldova[25] in fact recognized the existence of two customs territories in the country. In accordance with this Regulation the economic entities from Eastern areas of the Republic of Moldova when declaring and registering with customs all the goods imported to the customs territory and exported from the customs territory of the country both at frontier customs posts and at internal customs points were exempted from customs duties except for charges for drawing up customs procedures (0.18%).[26] The changes in other legislative and normative documents that followed this Regulation brought out a "new" status of economic entities of Left river-bank – *"residents that are situated in the territory of the Republic of Moldova and do not have tax relations with her budget system"*. Thus, when performing import operations, the economic entities from Transnistria are equated with non-residents, while trade operations with the economic entities situated in Moldova on right-bank considered to be internal Moldovan.

In response in November, 2002 Transnistria introduced a whole set of measures that considerably limited potentiality of Moldo-Trnsnistria trade, including a special duty introduction (20% of customs value) for Moldovan import.[27]

Further, in February, 2003, it is taken a decision on migration control for foreign citizens and stateless persons entering, leaving and passing en route the territory of Transnistria and it is introduced a fee for en route passing of the territory for foreign citizens (at the rate of 3.4 PMR rubles, i.e. 7 MLD or 0.5 USD); moreover, there were created 5 migration posts at the border of Moldova and Ukraine.[28] The price of introduction of this new restrictive measure (for less than a month) is 190 mil rubles (about 7 mil USD)[29].

And, finally, in May, 2003, a new restriction – the head of administration of Transnistria signed Decree on Measures to Protect Vehicle Services Market in Transnistria. According to that decree starting with May 15 all the carriers, not registered in Transnistria and carrying out shipping operations into the third countries, will be collected temporary transportation toll at the rate of 10% of the cost of the shipment. Since that time Transnistria's customs service has been drawing up documents for export and import only with availability of confirmation of payment of the transportation toll.[30]

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[23] Protocol Decision on Problems Settlement in the Field of the Republic of Moldova and Transnistria Customs Activities.
[24] «Olvia-press», 23.05.2001
[25] «Monitorul Oficial al RM», № 116-118, 27.09.2001
[26] «Monitorul Oficial al RM», № 116-118, 27.09.2001
[27] «Olvia-press», 05.11.2002
[28] «Ольвиа-пресс», 05.03.2003
[29] «Olvia-press», 15.05.2003
[30] «Logos-press», 25.04.2003

The additional component of the "customs war" is the decision of the Transnistrian administration (July 14, 2003) to introduce 100% customs fees for all goods imported to the region by economic units of Moldova, which is a signal of complete switch of the trade between the RM and Transnistria to shadow economy.

The practice of mutual "solving" political issues through pseudo-economic methods goes on, including at the expense of complication and rise in the prices for customs procedures for economic units. Under decisions made by Moldova, economic units "from eastern raions" are bound to pay all customs duties while crossing the Moldovan border that are transferred then to special banking accounts and, upon presenting papers confirming that the goods were really imported to Transnistria, are reimbursed to the economic units.

2.2. Taxes

Transnistria as well as Moldova inheres permanent "perfection" of economic legislation. Amongst main novelties of the recent time period is first of all a tax reform that to a great extent effected the state of Moldovan-Transnistrian trade. In late 2000 the Supreme Council of Transnistria approved a set of laws regulating taxation: on alterations and modifications to the current legislation (11 laws) including alterations to the law on Bases of Tax System and 6 new laws among which are the laws on Tax on Volumes of Sales, on Entrepreneurial Patent and on Single Social Tax. In 2002 the tax legislation was again modified: the law on Individuals Income tax came into force, which introduced a flat rate of income tax of 15% instead of former progressive scale with a range of rates from 4 to 30%. A new wording of the laws on Organizations Income Tax and on Excises is approved – both laws have being in effect since January, 2003.

Thus, *tax reforms have been implemented both in the Republic of Moldova and in Transnistria but it is done differently*. In spite of the declared by the parties striving for harmonization of legislation, including the tax one, considering the Republic of Moldova entrance into WTO, those reforms were carried out without due coordination which by no means contributed to the improvement of environment for mutual trade.

Sales Value Tax introduced since January, 2000, is of a special attention (as of 01.04.2002 – the Law on Enterprises' Income Tax). With the introduction of this sales tax in Transnistria the VAT and taxes of profit and own property of enterprises were abolished. Sales tax rate is bound to the brunches. The maximal rate is imposed for bank, insurance, stock-exchange, broker and advertising activities as well as gambling industry, the minimal one is for textile industry and public passenger traffic. Industry is treated in a protective way – the tax is imposed at the rates from 2.3% (ferrous metallurgy) to 15% (gas-energy and oil-processing industry).

Title III of Tax Code 'Value Added Tax' has been in effect in the Republic of Moldova since July 8, 1998; taxation is implemented according to "the goods destination country" principle. Under such conditions the problem of indirect taxes has appeared in the way of applying a system of set-off and reimbursement of VAT. On one hand, in the Republic of Moldova there are difficulties with administration of VAT, the state receives less than it should in terms of VAT payments into the budget, and, on the other hand, the exporter has being waiting for reimbursement of the paid taxes for many months.

Till June, 2002 according to the budget laws for a corresponding year there was a rule for supplies carried into/out of Transnistria: export - at zero rate, import was imposed with VAT at 20% rate.

With such approach, the conditions for the goods of Transnistria origin became quite noncompetitive. On crossing an *invisible* border between the RM and Transnistria the goods price increased. From the second half-year of 2001 a principle of destination country was applied in other counties-trade partners first of all in Russia and Ukraine. Due to the differences in tax systems the Transnistria exporters actually were imposed by double taxation: paying in the region territory a single sales volume tax that includes VAT as well, the enterprises also have to pay VAT in a country-trade partner.

On the contrary, economic entities of the right-bank – exporters (zero rate of VAT is stipulated for export), when supplying the goods to Transnistria, received the right for reimbursement of VAT. As a result, temptation to carry out sham export to Transnistria increased. It is very easy to register in Transnistria a firm that, let us suppose, will 'be supplied' with production from Chisinau. After that the Chisinau supplier turns to tax authority for reimbursement of VAT though in reality the goods are sold in the right-bank territory of the Dniestr. There were probably other schemes as well.

The amendments to the Law on Budget that entered into force on June 11, 2002 set a single standard procedure for VAT for the whole territory of the Republic of Moldova. Later on, these amendments were vested by the law of the Republic of Moldova on amendments and alteration to the law on Entrance into Force of Section III of Tax Code.

As a result of the amendments in Moldovan tax legislation, economic entities of Transnistria, from the point of view of their trade partners from the right bank of the Dniestr, became 'semi-foreigners': VAT had being imposed while importing Transnistria goods to Moldova and Moldovan producers also were subject to VAT (a rule for internal transaction) when they exported to Transnistria. The consequence of those alterations was an increase of goods prices that were produced in Moldova and a reduction of their competitiveness in the Transnistrian market which is saturated with Ukrainian, Byelorussian and Russian goods that are not subject to VAT while exported from those countries.

Another consequence of the alterations, in accordance with the legislation of the Republic of Moldova: when importing, the goods made on commission (i.e. fabric from Italy) are not taxed but this is true only for the case when the contract is concluded with a foreign economic entity. If fabric is imported from Transnistria (i.e. Tiraspol cotton plants) then VAT is paid at the full rate which makes almost impossible maintenance of mutually beneficial relations of cooperation between economic entities of Moldova and Transnistria.[31]

Apparently, as a result of all those tax pursuits, the conditions for *reciprocal* trade of economic entities of Moldova and Transnistria have steadily aggravated. For Moldovan producers – this causes problems related to reimbursement of VAT, customs duties and excises make transactions economically unsound.

It is questionable that the amendments to the Moldovan tax legislation related to revocation of the VAT for goods produced in Transnistria and imported to the Republic of Moldova could contribute to a positive development of the trade between these two sub-regions.

In order to avoid tax casuistry and administrative barriers in formal ducts of trade enterprises of the RM and Transnistria participate in the Transnistria and Moldovan markets as follows:

[31] «Nezavisimaia Moldova», 20.06.2000 and 04.07.2000

- *Scheme 1.* Import to Transnistria is carried out via free zones (i.e. Odessa or Galat). These transactions especially by mesne, are absolutely legal, they meet the norms of Moldovan tax legislation;

- *Scheme 2.* Supplies of the goods to Transnistria are carried out through major dealer companies in Romania, Russia or Ukraine. In this case Transnistria imported somehow not the Moldovan goods which means first there is an underpay of these goods sale taxes into the budget of the RM, and second, the funds are invested not into Moldovan economy but respectively into Russian, Romanian of Ukrainian one.

Schemes 1 and 2 are 'problem-solving' in the framework of the current legislation field. At that, naturally, the higher transportation expenses are, the more expensive the goods are, but still at less extent than in case of paying VAT. In above-mentioned schemes there are more opportunities of actually legal avoidance of tax payment than in case of application of a zero rate.

- *Scheme 3* – turning to 'shadow' economy. And this way, taking into consideration the corruption in state apparatus, is rather popular with enterprises, especially of small business.

At the same time, at present in Moldova agreements on avoidance of double taxation are in effect with 23 countries, the agreements with other countries are in negotiation or preparation stage.[32] The goal of these agreements is one – an entrepreneur must be sure that he will not have to pay the tax several times...

Another novelty is the following: in June, 2003 in Transnistria the law on Single Fixed Agricultural Tax was given reading – it is proposed to change the current system of taxation of agrarian farms. "Instead of separate tax allocations by departments and organizations, a fixed agricultural tax provides one sum total. It comprises payments of land taxes, environment pollution taxes, single social tax that includes pension tax, health insurance and deductions for labor employment fund. It is important that fixed agricultural tax includes as well a payment for patent of individual entrepreneurship[33]. Taxes which are not included into fixed agricultural tax will be paid in a established order. The tax is set starting at 14 USD per 1 ha of plough-land and land under perennial plantations up to 9.3 USD per 1 ha of pastoral holding.

2.3. Technical Barriers in Trade

In Transnistria activity in the field of standardization and conformity evaluation is regulated by the law on Standardization and Decree on Basic Principles of State Run Public Authorities in Certification of Goods and Services. All the standards applied in the region are mandatory, and switch to voluntary standardization is not even discussed now.

In 1996 Protocol Decision about Cooperation in the field of Standardization, Metrology and Certification was signed between the Republic of Moldova and Transnistria, this made more active both cooperation between Department of Standardization and Metrology of the RM and Committee of Standardization, Certification and Metrology of Transnistria and between economic entities. First test laboratory (for light industry) situated in Tiraspol was accredited in National System of Certification of the Republic of Moldova as early as 1994.

[32] «Logos-press», 07.03.2003
[33] «Olvia-press», 04.07.2003

As a result of four-year *joint* work a uniform system of registration of specifications, developed by economic entities. In National System of Certification there are accredited 2 bodies of Certifications of Produce and 5 test laboratories that meet the requirements and norms of the Republic of Moldova legislation; documents issued by those bodies are accepted by both Moldova and countries of CIS with which the agreements on reciprocal acceptance of works in the field of conformity evaluation are signed.

When the following laws came into force: the laws of the RM on Technical Barriers in Trade, on Certification (since May, 2003 – the law on Conformity Evaluation) and amendments to the law on Standardization (switch to voluntary standardization) the need in harmonization of the legislative basis of Moldova and Transnistria and in making uniform technological policy became even more evident. The parties prepared themselves to sign an agreement on reciprocal acceptance of works in the field of standardization, metrology and certification.

The following fact should be noted: in Transnistria it is allowed to "import from the Baltic countries, countries-members of EU, CIS, some industrially developed countries (Austria, Brazil, Egypt, India, Canada, New Zealand, the Republic of Korea, USA and Japan) and countries- traditional partners (Bulgaria, Hungary, Poland, Slovakia, the Czech Republic and Sri Lanka) goods that have a national certificate (or a certificate, recognized in EU countries) including its copy, authorized by a wholesaler supplier in accordance with the established order, without mandatory certifying procedure made by the state run authorities on the basis of an application-declaration and a safety certificate."[34]

At that, the supplier (this is in principle corresponds to the current international practice) and the buyer (the client?) are responsible for that that imported products meet the requirements of normative documents.

Taking into account the fact that Transnistria has not been involved into the process of reciprocal acceptance of the results of works in the field of standardization and conformity evaluation due to her un-recognition; poor material and technical basis of the bodies that fulfill works in this domain (here the situation is even more difficult than in Moldova) as well as problems with raising the level of the specialists' skills, such an 'extensive' acceptance of work on conformity evaluation *creates evident prerequisites for appearance of low-quality and faulty products in the market of both sub-regions (medicines, for example).*

During 2002 – 2003 situation became worse:
- Starting with November, 2002 import of meet, meet products and milk to Moldova is realized only on the basis of "individual (?) acts of the President of Transnistria";
- Regarding to the goods imported to Transnistria from the territory of the Republic of Moldova, it is forbidden to apply any forms of simplified schemes for confirmation of conformance;
- The goods imported from the territory of the RM, are not subject to entrance to Transnistria market without a mark of standard conformance (access to the market) being applied in accordance with the established in the current Transnistria legislation order;
- Economic subjects of Transnistria are obliged to revise earlier concluded contracts, with relation to the changed requirements to legalization of documents confirming that the goods are in conformity with the corresponding requirements.

[34] Decree on Basic Principles of State Authorities Activities in the Field of Certification of Goods and Services, Tiraspol, 25.01.2000

2.4. Intellectual Property

Moldova's legislation in force in the field of incorporeal right is to a great extent in accordance with international rule and standards. The Republic of Moldova is a participant of 25 international conventions, agreements and treaties in the area of industrial property.

In Transnistria there are enterprises that are holders of well-known in foreign countries trade-marks (Moldovain Metallurgical Works, "Kvint", Electromash", "Tighina" etc.), that is why their registration of those trade marks, inventions, designs with the State Agency of the Republic of Moldova on Protection of Industrial Property (AGEPI) but not with similar bodies of Transnistria is quite clear. The incorporeal rights must be securely protected both in internal market which to a certain extent can be provided by appropriate departments of Transniatria and in external market. But for the latter, only the body recognized by the international community is able to provide an adequate protection of incorporeal rights, i.e. AGEPI.

Since August 2003 the registration of the intellectual property objects in Transnistria has started, which is the first time when such procedure is done on this territory. The registration is mandatory as regards all foreign trademarks, as well as intellectual property registered in the Republic of Moldova. Transnistria administration puts obstacles in the way of registration of different forms of intellectual property with the State Agency of Moldova, insisting on its registration in Transnistria. Moreover, preparation of draft of amendments to Transnistria Administrative Code is under way, according to which all forms of intellectual property produced in Transnistria must be registered in the republic.[35] If the heads of enterprises of Transnistria consider such registration inexpedient they will be obliged to make all the procedures after paying a fine.

2.5. Infrastructure

Transport. Low quality of roads both in Moldova and Transnistria and obsolete vehicle fleet affect competitiveness of the goods: their transportation time increases, the risk of extra losses of the products during transportation rises. The situation is aggravated because of additional customs posts appearance, losses of time taken for undergoing additional customs procedures.

According to the experts' evaluations, Transnistrian republican and local roads are in "disastrous conditions" – these are about 2.5 mil km of roads including 2 mil km of republican roads. Due to the lack of financing their repair is not carried out to the full, and this fact does not allow maintaining the roads in satisfactory state. [36]

There are problems with rail traffic as well, which are related to possible additional force-majeure circumstances appearance. Thus, in 2001, in spite of the agreement, 300 cars bounded for the address of Moldovan enterprises were blocked in the railway station Bender. Transnistria insisted on transit taxes being paid by the freight forwarders.[37]

Telecommunications. In the protocol on joining WTO the RM committed herself to full liberalization (till December 31, 2003) of market of telecommunication and information technique. Implementation of a new National Plan of Telephone Numeration, developed on the basis of European standards, is one of the main measures during preparation for such liberalization. The plan stipulates, in particular, a change of access code of stationary

[35] «Olvia-press», 20.05.2003
[36] «Olvia-press», 06.06.2003
[37] «Logos-press», 08.11.2002

communication in 14 geographic areas of the Republic of Moldova including Tiraspol, Bender, Grigoriopol, Camenca, Ribnita, Slobodzeia and Dubasari. Plan was proposed to be implemented starting on November 1, 2003.

It is of exceptional importance that the new National Plan of Telephone Numeration be implemented at the same time both in Moldova and Transnistria. However, up to this date, the relevant structures of the RM (National Agency on Regulation in Telecommunication and Information Technique) and Transnistria (Ministry of Information and Telecommunication of Transnistria) have not found mutually acceptable solution. Transnstria, now as before, handles an autonomous from Moldova telecommunication system. According to the current plan of numeration, Moldova handles 89% and Transnistria 11% of the available resource of numbers.

The crux of the problem, in Transnistria's opinion, is that the prepared by National Agency new National Plan of Numeration does not take into account to the full the existing needs of the region, does not consider the already operative system of organization of communication in Transnistria, its technical data, as well as demographic and geographic data, that is why Ministry insists on allocation of 10% of a new resource of numbers. The Ministry of Information and Telecommunication of Transnistria did not take part in development of the plan draft of numeration and technical measures for its implementation.[38]

National Agency on Regulation in Telecommunication and Information Technique considers the claims of Transnistria for resources of the new National Plan of Telephone Numeration to be ungrounded, mentioning that Transnistria will receive approximately 13% of total resources of the country provided for stationary communication (or 1 million numbers) and 1 million numbers more for operators of cellular communication of the region.[39]

Lack of a constructive dialogue can lead to a complete separation of telephone networks of Transnistria and the RM. And even earlier, starting from March, 2003 there has not been any connection between the clients of cellular networks of Transnistria with the clients of «Voxtel», «Moldcell» cellular networks in Transnistria). Since November 7, 2003 in Transnistira is implemented independently from the numeration plan of the RM an alternative plan for telecommunication network numeration. So, the "telecommunication war" looks lake continuation of the "customs war".

Escalation of the conflict related to electronic communications is an example when technical aspects of the problem are being brought to the forefront, while economic interests are being concealed. In the meantime, such events both happened in the past – when the Transnistrian operator used the common Moldovan communications channels for international traffic, and will take place in the future – if another cell communication operator will emerge on the Moldovan market (originating from the TMR). For the time being, mutual suppression of signals both deprived the population of the given sub-regions of the possibility to use the most commonly used communication facilities, and is affecting negatively the telephone communications in the neighboring districts of Romania and Ukraine.

2.6. Rules of Origin

Considering possible signing Agreement on Free Trade between the Republic of Moldova and European Union that will result in exemption from customs duties of the goods produced only

[38] «Olvia-press», 04.07.2003
[39] «Nezavisimaia Moldova», 09.07.2003

in the corresponding customs territory, both rules on determination of the country of origin a and control over the issued certificate of origin become of particular importance.

In the Republic of Moldova the rules of origin are established by law on Customs Tariff (1998) and the RM Government Regulation on Rules of Country of Origin Determination (2002). Certificates of origin both for preferential and non-preferential treatments are issued only by Chamber of Commerce and Industry of the Republic of Moldova.

In spite of the fact that since February, 2002 (after approval of new rules of origin by the heads of governments of CIS in November, 2000) in Russia they accept for customs registration only those imported from Moldova goods that have certificates of origin ST-1 and issued by the Chamber of Commerce and Industry of Moldova.

Russian Federation State Tax Committee, at that, in its letter to the RM Government specified that the certificates issued by entities that were not authorized by central authorities of Chisinau would not be recognized and accepted for registration.[40] Considering this circumstances, for the sake of Transnistria enterprises, the certificates of origin are issued in specially created representative offices of Chamber of Commerce and Industry of the RM in Varnita and Rezina. Nevertheless, Chamber of Commerce and Industry of Transnistria continues issuing certificates of origin which complicates yet not irreproachable procedure of control.

The existing practice, on one hand, creates additional conditions for corruption and, on the other hand, leads to appearance of the goods in market that are nominally (only in accordance with the certificate) produced in Moldova. This greatly complicates realization of agreements on free trade that were already signed by Moldova. Thus, in 2002 sugar in great amounts imported from Moldova appeared in Romanian market – the produce that was included in the agreement on free trade between these countries. The analysis taken by the Romanians proved that under the “Moldovan” sugar the market is supplied also with the Ukrainian one. Only as a result of round-the-clock negotiations, with relevant assurances from the side of the Republic of Moldova the sugar was not excluded from the Agreement on Free Trade. Similar situations cased by division of the country and lack of co-ordination of legal area of Moldova and Transnistria take place from time to time with other goods and in other countries.

3. The Risks, Economic Benefits and Costs Associated with the Reintegration of Transnistria with the Rest of Moldova

Moldova today is a partitioned state located at the periphery of the uniting Europe. The “split” of the country and its economy has greatly aggravated negative consequences of crisis and the transition period.

Reunion of the country will open before the Republic of Moldova new possibilities, including strengthening statehood based on international norms and rules; ensuring economic growth in view of improvement of the country’s image and activization of foreign trade, investments inflow and reconstruction of the external debt; enhancement of the population’s living conditions and reduction of poverty.

[40] «Logos-press», 01.03.2002

When European Union expands to the east, Republic of Moldova, including Transnistria, will border upon the region that professes principles of stability and security, prevention and elimination of conflict situations.

Main areas where the ***risks*** and slow-downs of reintegration processes may emerge are politics, economy and culture.

Political risks, as it seems, will show mostly during the initial reintegration stage when constitutional foundations and institutes of the “common state” will be forming. At this point, as foreign military presence in Transnistria will end and international peacekeeping forces and military observers will enter the contact zone, chances of local provocations will be reduced to the minimum. Political risks may arise from both parties under the influence of both local radicals – adversaries to reintegration (opposition to the referendum on constitution, etc.) and political forces of other countries.

Economic risks will mostly show during the process of property reformation (privatization) and organization of external trade, free realization of which is vitally important to both subregions of the “common state”.

Over the mid-term period of time there will be the following eventual sources of tension: issues of employment and social protection of the population, tariffs for communal services; post-privatization procedures at enterprises and development of entrepreneurship; land reform and reorganization of collective enterprises in rural areas of Transnistria; control over investment projects for infrastructure restructuring (electric energy and gas supplies, transport and roads, telecommunications).

Cultural risks derive from political crisis and negative experience of the early 90’s, first of all in the field of language and history. Both state – through the education and culture system – and society, including religious and nongovernmental organizations and mass media, should play the positive role in elimination of contradictions here.

The common platform for elimination of risks should be Europeanization of legislation, openness and tolerance of all parties involved in processes of reintegration of the country.

While proceeding to the country’s reintegration and bringing together two economic systems that have been developing “in parallel” over 14 years, one should take into account quite substantial *differences* between them:

1. Moldova’s economy is being dominated by the *private* sector, while Transnistria – by the *state* one (purely state and mixed enterprises with large share of state capital). Starting from this, there are different mechanisms of economic management. In Moldova mostly economic methods of regulation are practiced (administrative measures are considered rather a recurrence of the past, than a policy basis), while in Transnistria – administrative regulation, including private enterprises.

   But these differences cannot be considered to be a critical obstacle for reintegration. It is possible, of course, that there will be certain resistance of the part of state machinery losing instruments of direct influence upon enterprises. But in time and this obstacle will be surmounted thanks to the realities of the market economy.

2. Moldova’s *agriculture* is based on private property for land. Land is sold and bought. Under the TMR Constitution all land belongs to the state. Referendum on introduction

of private property for land did not happen. If the situation is "frozen", there may emerge conflicts when citizens and enterprises from the left bank of the Dniestr are able to buy land situated on the right bank, but not vice versa. In case the new Constitution will include norms on recognition of private property for land throughout the whole territory, there may appear conflicts of the reverse order. Speaking of conflicts, one should bear in mind the psychological perception of this process by the people first of all. If one can say rather with certainty that the right bank's population has already adapted to purchase and sale of land and will not consider representatives of the left bank as aliens, population of the left bank will more likely perceive the arrival of their right bank counterparts as tenants or even buyers of "their" land negatively.

One of variants to solve the problem is a transition period when privatization of land and reorganization of kolkhozes and sovkhozes into producer's cooperatives associations will be done in the TMR (taking into account errors committed, of course). One has to let Transnistrian peasants feel what ownership feels like and only after that start the common mechanism of land circulation throughout the country.

3. Moldova's *social system* is based on nominative targeted compensations; transition to insurance healthcare is being undertaken; pension system was reconstructed; pension age was prolonged. Transnistria have mostly kept the state grants system of social protection. That is why main tariffs for communal services, electric energy, etc. are rather low. Preservation of two different social systems is impossible, but abrupt transition to the new system is also undesirable, since the left bank's population will associate increasing social difficulties with the reintegration of the country. Hence and in this field the transition period is necessary. The same is relevant and for education.

4. *Trade*. Elimination of barriers to trade of economic units from both Moldova and Transnistria will improve the overall situation, lower the common tax burden and reduce shadow turnover volume. One may expect the same of the foreign trade, if no export-related administrative barriers are created, which is done from time to time both by the Moldova's government and Transnistria's administration. Combined revenues of the "common state" budget will surely increase due to legalization of import illegally "overflowing" now from Transnistria to Moldova.

5. *External debt* is one of the most essential problems. At first, unification may make such agencies as Fitch Ratings and Moody's (that evaluate solvency based on the total debt volume) lower the country's rating. Moldova's debt is 1,3 bil USD and Transnitria's (economic entities) – 1,2 bil USD. But their structure differs. It is already the time to start negotiations with IMF, WB and Russia (Gazprom) to determine the way this debt will be considered. It is necessary to establish each economic unit's share and press Russia for a favorable restructuring or even write-off of the part of Transnitria's debt to Gazprom – this will be the charge for reintegration and a guarantee of large autonomy of the region.

   It is necessary to reconstruct the tax system defining only three taxes as federal: for import, excises and, possibly, VAT (the whole or a part). The rest is to be transferred to local budgets. In Moldova, unfortunately, this will be hindered to a degree by the return to 32 small administrative-territorial raions that do not dispose of sufficient economic potential and taxable basis and financing of which will be based on the system of transfers from the central budget. Hence the budget process, probably, will be differentiated during the transition period: one approach based on large autonomy for Transnistria and another for the rest of the country.

Transnistria like any "small open economy" is quite sensitive to changes in foreign trade conditions of the region. New circumstances, which TMR's export encountered after September 2001 ('withdrawal of custom seals") and especially after May 2003 (Moldovan-Ukrainian protocol on control over commodity flows at their borders), have created an extremely difficult situation for the Transnistrian budget performance and payment of the external debt.

Transnistria's budget of 2003 approved with a gap of almost 17 mil USD, or 36% of the expenditures and 6.5% of GDP. Such indicators are extremely high for Transnistria as they were 17.6% and 3.2% in 2000, 23.3% and 3.3% in 2000 respectively. Like Moldova's budget the Transnistrian one is notoriously "socially-oriented" – wages of the budget sector employees, pensions and social payments to the population make up more than 50% of its expenditures.

In 2002, the Transnistrian budget deficit was 15.0 mil USD, or 6.0% of GDP. According to the Ministry of Economy of TMR, the revenue budget plan was executed at 93.1% with tax payments accounting for 65.2% of the total revenue. Payments and charges amounted to 17.1 mil USD. Main components of the budget revenues were: corporate income tax – 32.7%, excise tax – 10.8%, income-tax -18.9% and foreign trade tax – 9.0%. Budget expenditures amounted to 64.1 mil USD. Social spending was a priority and made up 48.1%. Main expenditure items were: education – 25.5%, maintenance of public order and security – 17.8%, social protection – 11.4% and healthcare – 11.2%.

Last year *Transnistria's external debt* grew up by 168.2 mil USD and reached 1.14 bil USD as of January 1, 2003. Its proportion to the GDP amounted to 435.6%.

The Transnistrian GDP of 2002 was nearly 250.3 mil USD - 97.3% as compared to 2001, bringing the per capita GDP figure to 392.3 USD. The payment deficit has increased by 63.4% of the GDP. Export covered import only by 54.1%. The TMR central bank reserves grew up only by 1.1 mil USD. The bank admitted that in connection with the "economic blockade" investment environment in the region has worsened. Direct and portfolio investments to the region increased by just 2.5 mil USD (in 1999 – 45.4 mil USD). Transnistrian companies invested 3.8 mil USD in foreign countries, but brought back home only 0.6 mil USD, thus marking an outflow of capital of 3.2 mil USD. In 2001 this outflow was 0.7 mil USD.

As well as in the previous years, Transnistria's budget does not provide for *foreign debt servicing* (and thus questions arise). Obligations to pay for imported Russian natural gas account for more than 2/3 of the foreign debt. However, according to Gazprom, in 2001 and 2002 Transnistria's payments for natural gas were 41% and 45% respectively. Chances are now that the debt will be paid with shares of Transnistrian companies. Russia shows interest in 14 of them: Cuciurgan Power Plant, Tirotex, Kvint and a few machinery factories.

Now that the idea of federalization was made public, economic risks of Transnistria in particular, its foreign debt are within the field of vision of the IMF and WB who have only dealt with Moldova's foreign debt so far. In its most recent documents the European Union, when formulating its policy towards the neighboring countries, including Moldova, following its eastward expansion, has been paying increased attention to the economic aspects of the "Transnistrian issue". The Republic of Moldova, from its part, also takes the lead in trying to make most of its presidency at the Council of Minister of the Council of Europe (May – October 2003) to accelerate the reintegration process. The EU has already stated its willingness to fund the Transnistrian Reconstruction Fund, which will be channeled to coordinate financial, economic and social systems of Moldova and Transnistria. Both parties have already shown their preliminary consent.

Benefits related to restoration of the common state and its territorial and economic complex can be grouped in the following way:

a) *improvement of Moldova's image* as a result of successful solution of the "frozen conflict" and – as a reward – constructive solution of the problem of external debt of two subregions to IMF and the Paris Club, as well as to Russia – for natural gas;
b) *additional inflow of foreign investments*, including those under the Southeast Europe projects for reconstruction of Moldova's infrastructure (electric energy sector, gas supply, railways and highways, water supply);
c) *advantages of inter-moldovan producer's cooperation* (as during the soviet times, but based on market) of enterprises operating in engineering, light, furniture and food industry and their *joint entering foreign markets*, possibilities to create new free enterprise zones (Rybnitsa, Tiraspol, Bendery), including those related to sports, recreational and tourism on the lower Dniester;
d) *a more coordinated* country-scale *solution of the hardest social problems* – state support of the poor (targeted compensations based on needs), introduction of insurance healthcare, improvement of quality of education, constant indexation of pensions and creation within the public pension system of accumulating segments, etc., right up to the new population census.

Costs. During the preparation for reintegration and the initial stage of functioning of the "common state" most difficulties may emerge in the following areas:

a) *foreign trade*. Moldova and Transnistria are in for difficult negotiations on the order of distribution of excises and VAT for imported commodities. Proposal to transfer these taxes to the federal budget will surely be perceived negatively by the Transnistrian party.
   Another area of potential tension is licensing by the Chamber of Licensing of the Republic of Moldova of activities practiced by economic units from Transnistria. As for standardization and conformity assessment, solution of this issue should be done under the Department of Standardization and Metrology of the RM on common basis – harmonization of Moldova's system of standardization, technical regulations and conformity assessment with the WTO and the PCA requirements;
b) *external debt* is a problem that is to be solved in parallel for each of the parties, including issue of the debt for Russian natural gas. *Internal debt* will be dealt with in the same way (during the initial stage);
c) *Transnistria's population will encounter inevitable social costs ("shock")* during the adaptation to higher tariffs for communal services, to the new system of social protection, pensions and healthcare. This will require introduction of targeted compensations for the poorest persons, as it was done in Moldova (after July 1, 2000). And accordingly the question of sources of financial means for this will arise;
d) *the budget process* will get complicated, and during the initial period there will be separate execution of the budget of both subregions with its subsequent federalization and decentralization as agreed;
e) *legalization of privatization in Transnistria* and relations of the central government with foreign co-owners of enterprises located in this region will be extremely difficult. Position of the Moldovan Government is still contradictory. On the one hand, there is

a Moldovan-Transnistrian Protocol on Guarantees for Attraction and Protection of Foreign Investments and Cooperation in the Field of Investment Activity (May 16, 2001) under which Chisinau, for instance, has tacitly accepted selling of about 90% of shares of the Rybnitsa Steel Works (MMZ). On the other, it shows contrary intentions. Thus, in November 11, 2002, Moldovan Government was reported to declare "this action represents an illegal sale of enterprises owned by the entire Moldovan people. Moldovan Government banks on the wisdom and prudence of people who live in this region, on their capacity to stop the illicit privatization";

f) there will be needed quick *reorganization of agricultural sector of Transnistria*, privatization of land, solution of the problem of debts and property of collective enterprises, liquidation of subsidies, etc.;

g) joint *realization of 5 priorities of the PCA implementation* in the Republic of Moldova for 2003-2006 throughout the "common state" territory: FTA, legal approximation, justice and home affairs, investments, customs and cross-border cooperation.

Success of reintegration of the Republic of Moldova will depend in many respects on the order of actions to form *the united economic area*, to overcome barriers and fulfill the coordinated within the common state realization of Strategy for Economic Growth and Poverty Reduction. Yet, as it is known, this mid-term strategy (2004-2006) is being elaborated not taking into account interests and needs of Transnistria's economy and population.

One can anticipate that different measures to bring together "two economies" will be implemented at different speed and will last different period of time. They have to be optimally balanced to prevent negative effects.

In particular, the following factors will be of the utmost importance for regulation of the trade: creation of conditions for free development of entrepreneurship and strengthening of interregional relations on the country's scale, elimination of economic and administrative barriers between the right and left bank regions of the country; overcoming the existing inconsistencies between tax systems, harmonization of tax system of the state as a whole, delimitation of budget authorities and responsibility between the center and regions, its orientation at budget self-sufficiency, which should be legally set in the Budget Code of the common state.

Conclusion

In spit of the fact that from time to time the tension is arising when the parties are looking for "Transnistria problem" settlement, Since 2003, conviction has been growing more and more that reintegration of Moldova and Transnistria is more and more practicable. In many respects it is due to the eastward expansion of the European Union, whose main guidelines, according to the Copenhagen criteria, are stability of institutions ensuring democracy, competitive market economy, security, prevention and elimination of conflict situations, including and at the EU borders.

Moldova and Transnistria belong to the inner periphery of what has been defined by the European Commission as the "Wider Europe". Although Republic of Moldova has no foreseeable prospects of EU accession in the nearest future, it is undoubtedly under the influence of the Europeanization phenomenon – many-sided process of political, economic and societal transformations at the national and sub-national levels.

Both the Moldovan Government and the Transnistrian administration agree that a political settlement should include the establishment of a federation, possibly a "common state". They agreed to establish five "common spaces": there should be common border, defense, juridical, economic and cultural spaces.

EU declared its intention to play a more active role in settlement of the "Transnistrian conflict". "Moldova will directly neighbor the expanding European Union. Hence, the EU interests are to use instruments of collaboration with this country as effectively and consecutively as it will be possible… There should be used all available instruments of the European cooperation to contribute to political, economic and financial stabilization of Moldova. PCA potential should be used for these goals as a driving force…"[41]

Trade is the most important instrument of collaboration between the EU and Moldova, since one of goals of the PCA is assistance to trade, investments and harmonious relations between Moldova the EU to stimulate their long-term economic development (PCA, Title III – Trade in Goods).

In case of reintegration, Transnistrian enterprises will undoubtedly benefit from external trade preferences stipulated in agreements that Moldova concluded with the EU and s series of countries earlier. Transit of commodities across the common state territory will also become easier. Most exports from Moldova and Transnistria still go to the CIS region (51.9% of export and 39.4% of import in 2002). At the same time, share of the EU/CEE and the rest of the world has notably increased within the export/import structure of both Moldova and Transnistria. Thus, if this share in Moldova's export was 21.2% in 1997, in 2002 it has already accounted for 37.8% (as regards import – 38.6%% and 49.5% respectively). Orientation of the Transnistrian trade at the CIS is stronger pronounced in import (61.3% in 2002) and is a little less than that of Moldova as regards export (46.7%).

Despite difficulties that external trade of Transnistria encountered after the Moldovan-Ukrainian Protocol of May 15, 2003 had taken effect, the TMR administration considers that "efforts of the parties should be directed at elaboration and implementation of the common state policy, including external trade relations, through rendering assistance to economic units in their development and advancement to foreign markets"[42].

Joint actions of Transnistria and Moldova, which is a member of WTO, will produce for the country additional advantages in the field of trade and transit, attraction of investors, access to traditional and new markets, utilization of effective mechanisms to eliminate disputes and promote national interests at the international level. Concurrently, there will increase motivation to improve domestic production and raise competitiveness of Moldovan products based on European norms, standards and requirements.

[41] EU – Moldova: Country Strategy Paper 2002-2006. TACIS, Brussels, 2001

[42] Communication of the Supreme Council of TMR on Measures to Assure the Enterprises External Economic Activities, 02.07.2003 г.

Annexes

A. Comparative social-economic indicators of the Republic of Moldova and Transnistria

Table 1. Main Macroeconomic Indicators of Moldova and Transnistria

	2000		2001		2002	
	PMR	**RM**	**PMR**	**RM**	**PMR**	**RM**
Growth Domestic Product, mil. USD	199.5	1288.4	255.6	1480.7	250.3	1623.8
in constant prices, as % to the previous year	79.1%	102.1%	111.0%	106.1%	97.3%	107.2%
GDP per capita, USD	304.2	354.1	395.0	407.8	392.3	448.3
Industrial Production, current prices, mil. USD	489.7	656.9	554.2	810.4	434.1	930.1
in constant prices, as % to the previous year	116.5%	107.7%	109.0%	113.7%	81.5%	110.6%
Agrucultural production, in current prices, mil. USD	24.3	665.0	30.9	672.0	28.6	693.1
in constant prices, as % to the previous year	82.4%	96.7%	118.0%	106.4%	74.6%	103.0%
Capital investments, mil. USD	31.6	141.5	36.7	179.9	36.3	206.6
in constant prices, as % to the previous year	103.8%	85.0%	115.6%	111.0%	90.8%	111.0%
as % of GDP	14.0%	11.0%	16.5%	12.2%	13.4%	12.7%
Volume of retail trade, in current prices, mil. USD	93.6	483.5	141.1	591.6	180.2	792.3
in constant prices, as % to the previous year	111.9%	104.0%	123.1%	114.8%	129.6%	134.2%
Объемплатных услуг населению, в текущих ценах, млн. долл.	28.6	209.1	34.4	264.6	37.5	311.0
in constant prices, as % to the previous year	88.1%	100.1%	99.0%	121.2%	88.9%	111.8%
Average monthly nominal wage of one employed person, USD	32.0	32.8	44.0	42.3	50.0	50.9
in % to the previous year	50.0%	151.9%	137.5%	128.8%	113.6%	120.7%
Average monthly pension, USD	13.0	6.8	20.0	10.6	20.0	11.9
Consolidated Budget Balance, mil. USD	-4.0	-13.4	-5.4	-0.1	-15.0	-8.1
as % of GDP	2.0%	1.0%	2.1%	0.01%	6.0%	0.5%
Population, end of the year, mil. Persons	0.65	3.63	0.64	3.63	0.63	3.62
Annual inflation rate (end of the year)	90.1%	18.4%	26.8%	6.3%	10.6%	4.4%
End-year exchange rate, (rub/1USD & lei/1USD)	5.38	12.38	5.86	13.09	6.66	13.82

B. External Trade of Transnistria

Table 2.
Level of economic openness
(foreign trade turnover in % to GDP)

	1996	1997	1998	1999	2000	2001	2002
Transnistria	**161.1**	**153.8**	**279.4**	**240.0**	**409.7**	**359.4**	**276.9**
Moldova	110.2	105.8	97.6	89.6	96.9	99.1	111.7
Russia	30.7	32.1	40.5	53.1	42.8	38.5	…
Ukraine	71.8	62.5	65.2	76.1	…	…	…

Table 3.
Main Trade partners - Concentration of External Trade

	1996	1997	1998	1999	2000	2001	2002
Export to 3 main trade partners (Russia, Ukraine, Moldova), mil. USD	222.3	205.1	152.5	85.7	116.2	180.3	108.8
Export Concentration 3, %	72.7	52.9	45.0	33.2	35.4	47.7	44.7
Import to main trade partners (Russia, Ukraine, Moldova), mil USD	181.4	123.6	260.2	223	266.8	314.1	263
Import Concentration 3, %	81.7	41.0	44.3	53.5	54.5	58.1	58.5
Export to 4 main trade partners (Russia, Ukraine, Moldova, USA), mil. USD	222.6	212.0	245.5	155.5	187.0	222.7	110.9
Export Concentration 4	72.8	54.7	72.4	60.3	57.0	59.0	45.6
Import to 4 main trade partners (Russia, Ukraine, Moldova, USA), mil USD	181.5	123.8	330.1	241.1	278.8	335.4	277.5
Import Concentration 4, %	81.8	41.1	56.2	57.9	57.0	62.0	61.7

Table 4.
Evolution of External Trade, mil. USD

	1996	1997	1998	1999	2000	2001	2002
Export	**305.6**	**387.4**	**339.1**	**258.0**	**328.1**	**377.7**	**243.4**
of which							
CIS	232.8	212.5	161.3	91.3	129.3	183.5	113.7
Rest of world	72.8	174.9	177.8	166.7	198.8	194.2	129.7
Import	**222.0**	**301.2**	**587.3**	**416.5**	**489.2**	**541.0**	**449.6**
of which							
CIS	184.1	126.9	285.2	240.8	279.7	324.1	275.7
Rest of world	37.9	174.3	302.1	175.7	209.5	216.9	173.8
Balance	83.6	86.2	-248.2	-158.5	-161.1	-163.3	-206.2
of which							
CIS	48.7	85.6	-123.9	-149.5	-150.4	-140.6	-162.0
Rest of world	34.9	0.6	-124.3	-9.0	-10.7	-22.7	-44.2
Coverage ratio							
Total export-to-total import	137.7	128.6	57.7	61.9	67.1	69.8	54.1
CIS export-to-CIS import	126.5	167.5	56.6	37.9	46.2	56.6	41.2
RW export-to-RW import	192.1	100.3	58.9	94.9	94.9	89.5	74.6

Table 5.
Evolution of External Trade with CIS Countries, mil. USD

	1996	1997	1998	1999	2000	2001	2002
Export - total	***232.8***	***212.5***	***161.3***	***91.3***	***129.3***	***183.5***	***113.7***
of which:							
Belarus	9.6	7.1	7.6	5.2	2.1	1.8	2.3
Kazakhstan	0.3	0.1	0.3	0.1	0.2	0.1	0.2
Moldova	80.8	111.2	80.3	33.3	36.3	92.6	56.5
Russia	105.6	65.8	57.6	47.3	73.2	73.3	42.7
Ukraine	35.9	28.1	14.6	5.1	6.7	14.4	9.6
Other CIS countries	0.6	0.2	0.8	0.3	10.8	1.3	2.4
Import - total	***184.1***	***126.9***	***285.2***	***240.8***	***279.7***	***324.1***	***275.8***
of which:							
Belarus	2.2	3.0	8.0	7.6	7.1	9.6	11.3
Moldova	39.1	25.4	88.8	60.1	49.8	45.5	31.8
Russia	66.5	83.9	112.9	119.1	153.1	157.0	131.3
Uzbekistan	0.0		16.5	8.4	4.1	0.1	…
Ukraine	75.8	14.3	58.5	43.8	63.9	111.6	99.9
Other CIS countries	0.1	0.2	0.4	1.4	1.4	0.2	1.5

Table 6.
Structure of External Trade with CIS Countries, %

	1996	1997	1998	1999	2000	2001	2002
Export - total	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***
of which:							
Belarus	4.1	3.3	4.7	5.7	1.6	1.0	2.0
Kazakhstan	34.7	52.3	49.8	36.5	28.1	50.5	0.2
Moldova	45.4	31.0	35.7	51.8	56.6	39.9	49.7
Russia	15.4	13.2	9.1	5.6	5.2	7.8	37.6
Ukraine	0.3	0.1	0.5	0.3	8.4	0.7	8.4
Other CIS countries							2.1
Import - total	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***
of which:							
Belarus	1.2	2.4	2.8	3.2	2.5	3.0	4.1
Moldova	21.2	20.0	31.1	25.0	17.8	14.0	11.5
Russia	36.1	66.1	39.6	49.5	54.7	48.4	47.6
Uzbekistan	0.0	0.0	5.8	3.5	1.5	0.0	…
Ukraine	41.2	11.3	20.5	18.2	22.8	34.4	36.2
Other CIS countries	0.1	0.2	0.1	0.6	0.5	0.1	0.5

Table 7.
Evolution of External Trade with Other Countries, mil. USD

	1996	1997	1998	1999	2000	2001	2002
Export - total	***72.8***	***174.9***	***177.8***	***166.7***	***198.8***	***194.2***	***129.7***
of which:							
Austria	0.4	1.5	1.4	2.6	4.0	1.4	1.5
Belgium	0.2	0.5	1.4	0.6	0.2	0.3	0.5
Bulgaria	1.5	0.3	1.3	0.5	3.7	2.2	1.6
Brazil	0.1	0.3	…	0.0	0.0	…	…
Great Britain	6.4	10.6	0.3	1.2	2.9	4.1	1.0
Hungary	1.8	0.3	3.6	4.9	2.9	4.0	1.4
Germany	14.3	30.7	4.5	4.1	7.4	6.2	7.3
Holland	0.3	0.3	0.6	0.9	2.2	2.9	1.3
Greece	0.5	0.5	1.3	0.5	0.2	3.6	10.2
Dutch	0.1	…	0.0	0.0	0.0	…	…
Egypt	…	10.5	7.4	4.8	4.1	18.2	8.1
Israel	…	2.3	2.7	4.2	1.1	0.7	0.4
India	…	0.1	0.4	0.2	0.0	0.1	…
Iraq	0.2	…	…	…	0.0	0.2	0.0
Ireland	0.2	0.2	0.0	0.0	0.2	0.2	0.0
Italy	1.6	6.7	12.9	10.4	15.8	18.8	24.2
Canada	…	63.5	0.0	4.1	3.5	0.0	0.1
Cyprus	3.2	2.8	3.3	3.0	1.9	4.7	3.5
China	0.1	…	1.8	0.0	22.3	0.0	6.1
Latvia	0.0	0.1	0.2	0.2	0.2	0.0	2.5
Lithuania	0.9	0.9	1.3	0.4	0.1	0.2	0.2
Liechtenstein	25.1	2.6	…	…	0.0	…	…
Poland	0.1	0.0	1.0	1.3	1.0	1.0	0.7
Romania	5.8	4.4	9.3	5.8	12.1	12.5	7.7
Syria	…	0.0	1.3	1.6	0.5	0.5	0.2
Slovakia	0.2	0.1	1.9	0.6	0.0	0.3	0.5
USA	0.3	6.9	93.0	69.8	70.8	42.4	2.1
Turkey	0.2	0.0	0.8	1.6	0.9	…	0.2
Finland	0.1	…	0.1	0.5	0.2	…	0.0
Croatia	0.1	0.1	0.2	0.1	0.2	0.7	3.2
Estonia	0.0	0.0	0.1	0.2	0.4	0.3	0.2
Switzerland	8.9	28.5	3.6	0.0	0.0	0.0	0.0
Other countries	0.2	0.2	22.1	42.6	40.0	68.7	45.0

Table 7.
Evolution of External Trade with Other Countries, mil. USD
(Continuation)

	1996	1997	1998	1999	2000	2001	2002
Import - total	***37.9***	***174.3***	***302.1***	***175.7***	***209.5***	***216.9***	***173.8***
of which:							
Austria	0.2	0.2	3.9	4.1	2.1	3.4	3.0
Belgium	0.1	0.4	4.0	2.4	5.4	5.7	3.4
Bulgaria	0.2	4.8	6.3	2.9	1.7	1.8	1.3
Great Britain	0.1	0.2	3.8	5.4	6.2	13.2	3.4
Hungary	0.4	0.1	5.0	4.1	2.7	3.7	2.3
Germany	30.6	159.4	52.6	51.7	52.2	30.3	31.6
Holland	0.2	0.0	11.8	9.3	3.1	2.3	6.2
Dutch	…	0.1	0.1	0.2	0.0	0.0	0.4
India	…	0.1	0.0	0.3	0.0	0.2	0.1
Ireland	0.1	0.7	17.4	11.9	4.4	0.1	0.0
Italy	2.5	3.0	5.4	9.4	19.6	27.3	22.0
Cyprus	0.0	0.0	36.6	8.9	10.4	9.7	4.0
Latvia	0.1	0.5	2.2	3.2	6.6	6.5	7.2
Lithuania	0.5	0.4	0.9	0.6	0.7	3.9	1.6
Poland	0.2	0.3	16.7	7.1	11.2	16.8	26.2
Romania	1.7	0.4	20.5	10.3	23.2	16.4	9.7
Slovakia	0.1	0.2	2.2	1.7	2.0	1.9	0.7
Slovenia	…	0.1	0.2	0.3	1.4	0.1	1.0
USA	0.1	0.2	69.9	18.1	12.0	21.3	14.5
Turkey	0.0	…	3.2	0.9	1.0	2.5	1.9
Finland	…	0.0	0.3	0.1	0.1	0.2	0.6
France	0.0	0.3	8.0	0.7	2.9	2.6	3.9
Estonia	0.2	0.0	2.5	0.8	0.6	0.6	0.4
Switzerland	0.1	2.7	8.7	9.9	1.5	20.4	4.0
Other countries	0.5	0.2	19.9	11.4	38.5	26.0	24.4

Table 8.
Breakdown of External Trade by Products, mil. USD

	1999	2000	2001	2002
Export - total	***258.0***	***328.1***	***377.7***	***243.4***
of which:				
Products of vegetable origine	6.6	1.1	2.5	3.7
Finished food-stuffs; alcoholic and non-alcoholic drinks, vinegar; tobacco and substitutes of it	19.3	19.0	18.6	16.4
Mineral products	23.3	27.3	37.7	44.7
Products of chemical industry and relevant to it branches	2.3	3.1	1.8	1.4
Textile and articles thereof	27.8	37.4	38.0	38.2
Footwear, head-gears, umbrellas and similar products	7.4	11.9	12.0	8.9
Non-precious metals and articles of them	142.3	185.7	181.3	107.8
Machines and equipment, electrotechnical equipment and part of them	21.7	34.4	31.7	16.9
Ground, air and water transport, their parts and accessories	1.4	1.6	6.2	3.1
Weapons and amunitions	…	…	0.9	…
Other products	5.9	6.6	47.0	2.3
Import - total	***416.5***	***489.2***	***541.0***	***449.6***
of which:				
Animals alive and products of animal	2.7	6.4	29.0	36.5
Finished food-stuffs; alcoholic and non-alcoholic drinks, vinegar; tobacco and substitutes of it	89.4	92.2	93.3	59.7
Mineral products	109.9	148.5	167.9	140.6
Products of chemical industry and relevant to it branches	24.5	26.5	27.1	28.6
Textile and articles thereof	30.5	38.6	43.4	36.5
Articles of stone, gyps, cement, asbestos, ceramics, glass and other similar materials	7.4	4.1	4.3	3.4
Non-precious metals and articles of them	67.6	96.4	89.3	59.8
Machines and equipment, electrotechnical equipment and part of them	48.8	42.2	38.1	44.5
Ground, air and water transport, their parts and accessories	3.5	1.6	2.9	3.1
Weapons and amunitions	0.0	0.1	0.1	0.0
Other products	32.2	32.6	45.6	36.9

C. Financial Aspects of Moldova's and Transnistria's Economic Development

Table 9.

	2000		2001		2002	
	PMR	**RM**	**PMR**	**RM**	**PMR**	**RM**
Real GDP Growth, %	-20.9%	2.1%	11.0%	6.1%	-2.7%	7.2%
Nominal GDP, mil. USD	199.5	1288.4	255.6	1480.7	250.3	1623.8
GDP per capita, USD	304.2	354.1	395.0	407.8	392.3	448.3
Export of goods (fob), mil. USD	328.1	471.5	377.7	568.1	243.4	643.9
export yr/ yr	127.2%	101.7%	115.1%	120.5%	64.4%	113.3%
Import of goods (cif), mil. USD	489.2	776.4	541.0	892.7	449.6	1038.6
import yr/ yr	117.5%	132.4%	110.6%	115.0%	83.1%	116.3%
Trade Balance, mil. USD	-161.1	-305.0	-163.3	-324.6	-206.2	-394.7
as % to GDP	80.8%	23.7%	63.9%	21.9%	82.4%	24.3%
Current Account, mil. USD	-36.5	-115.5	-64.6	-81.5	-74.3	-92.8
Trade balance, mil. USD	-36.5	-293.6	-74.9	-313.0	-96.6	-378.2
Balance of services, mil. USD	0.2	-37.5	1.7	-39.5	8.1	-34.8
Income balance, mil. USD	-3.4	49.8	-4.8	110.5	-1.7	165.3
Transfers (net), mil. USD	3.1	165.8	13.4	160.6	15.9	154.9
Capital and Financial Account, mil. USD	64.9	122.0	56.2	68.3	6.2	76.5
Direct and portfolio investments (net), mil. USD	0.8	253.0	-1.6	115.1	-0.8	89.2
Other investments (net), mil. USD	65.5	-71.6	54.3	-16.6	9.8	29.5
Current Account, as % to GDP	-18.3%	-9.0%	-25.3%	-5.5%	-29.7%	-5.7%
Total external debt (incl. private and energy), USD million	862.4	1570.5	973.9	1542.5	1142.1	1665.4
as % of GDP	432.3%	120.1%	381.0%	104.2%	456.3%	102.5%
Cash in circulation M0, (million rub. & million lei)	26.8	1469.3	43.7	1834.2	78.1	2288.6
Money velocity (M0)	34	11	33	10	20	10
Broad money M3, (million rub & million lei)	159.4	3509.6	323.2	4787.4	446.0	6511.5
Monetization of the economy	17.4%	21.9%	22.1%	25.1%	28.1%	29.5%
Annual inflation rate (end period)	90.1%	18.4%	26.8%	6.3%	10.6%	4.4%
Average annual inflation rate	112.5%	31.2%	48.9%	9.7%	14.1%	5.2%
End-year exchange rate, (rub/1USD & lei/1USD)	5.38	12.38	5.86	13.09	6.66	13.82
Average exchange rate, (rub/1USD & lei/1USD)	4.6	12.4	5.7	12.9	6.4	13.6