# The Tragedy of Moldova: Dependency, Globalization and the Cataclysmal Power of Elite Liberalism

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## Introduction

Moldova is Europe's poorest country. Tiny, landlocked, and with a population of about 3 million and shrinking, she is often ignored in modern writing on Eastern Europe. She is one of the many castaways of the 1990s, the imposition of the "free market" and the "end of history." She is a "sacrifice" for the billions for western bankers and yet, she was an important part of the old USSR. After the breakup of the empire in 1990-1991, she fared even worse than Ukraine, reaching fourth world poverty levels.

Like so much in Eastern Europe, Moldovans overwhelmingly reject and west and "free markets." Their sole hope is a customs union with the Shanghai Cooperation Organization (SCO). The much smaller Transnistrian Republic, formerly a part of Moldova, is expanding rapidly within the Russo-Chinese market and is proof of this argument, but the Romanian side, welded to the west, has failed.

## Eurasia and the Transnistrian Republic

Moldova's identity remains a problem that can only be solved through partition, especially as the two sides of the country move farther apart. She is an artificial creation taken from parts of Romania, Ukraine and Belarus after the Second World War. As always, her diversity is nothing but a liability (Kaufman, 2006: 120). Her class imbalances are also enhanced by ethnic and linguistic division, making this failed state even further from a solution.

The Russian minority in the east is wealthier than the poor Romanian; it is a symbol of Eurasia versus Europe. Once the Romanian speakers took over in 1990, comprising a majority, this Russian minority began to worry about its future status. The new Romanian Popular Front based itself around the mobilization of marginalized Romanians and utilized anti-Slavic slogans to stoke resentment against Russians. Russians were envied for their economic and scientific prosperity as an important part of the USSR, but these Slavs were not voluntary migrants, but were sent by Stalin to raise the status of this area (Protsyk, 2002).

Riots erupted throughout 1989-1990 as the "Popular Front" made Romanian the sole official language. This implied that all offices at any level of government had to be utilized in Romanian. This also meant the private sector as well (King, 2000: 224-230). Fully understanding their intentions, the Russian minority, seeking aid from Moscow, separated though the formation of the Transnistrian Republic. She is thriving as a part of Eurasia. This connection is her lifeline to significance.

Using their own ruble, Moscow, true to the SCO's mentality, leaves the economy alone. It develops as it needs to, not as an ideology demands. While Moldovan industries disintegrate, Transnistrian steel helps supply the growing economies of Russia and China (Kosienkowski, 2012: 52-57). Self-sufficient in power, the country had transitioned to a 100% gas-run power system in 2002. Russia subsidizes fuel to Moldova even given their anti-Russian rhetoric. The IMF is actually paying the Romanians to avoid any ties to Moscow, so her arrears are large and growing (Protsyk, 2002 and ES, 2006). The revival of the Russian market under Putin has ensured an equally strong market for Transnistrian goods. Thus, not only has Moldova missed out on Russo-Chinese growth, her war on the Russian speaking east has removed her most productive ethnic group from contributing.

## Moldova in the USSR

These present realities are a humiliating decline from the Soviet run system long dismantled. Moldova was seen as too small to be a threat, was able to develop in relative peace and did not suffer the torments of the central regions of the USSR. In the first few years of the 1970s, industrial investment began to move east. The results were a 7.5% yearly rise in incomes. Throughout the 1970s and 1980s, the economy expanded rapidly into electricity, chemicals, automobiles and automation equipment for assembly lines. In general, this production boom amounted to a 15% yearly growth when all sectors are considered (Fedor, 1995: 125-131). Exceeding their production quotas by 10% on the regular basis, Moscow had no incentive to harm her elite producers (Fedor, 1995: 105-109). Her industries were self-financing (and then some), so Moscow was not required to subsidize them or to reward failure. She was a model republic.

Even under this modified Soviet regime, Moldova was vulnerable to even a small shock. Profits, all told, increased by 15% yearly on average, but labor productivity had a tendency to rise only slowly. Given the absence of a market, this meant that production had little relation to wages. Given the "all union" nature of the economy, Moldova could be a major power in chemical engineering while only the elites had regular heat. These imbalances were to show themselves later (Fedor, 1995: 121).

Moldova grew even as the rest of the USSR stagnated. Moldova's loyalty to Moscow, impressive production rate, and her importance in light industry permitted the Party to lower taxes and increase wages. She consistently registered a budget surplus made possible by 12-15% growth in high value-added industries on the cutting edge of (Soviet) science. Moldova focused on transformers, lighting, toolmaking, wine and agricultural mechanization by the early 1980s (ibid).

The wage-production chasm made sure that this was not to last. Moldova grew rapidly without the ability to sustain these numbers. but beyond her capacity to sustain it. The USSR was designed as an economic machine where each region had a functional role (that is, what Moscow saw as their comparative advantage). Wages in Moldova were some of the highest in the USSR, but production, education and medical care did not reflect this. Environmental degradation and all manner of corruption was permitted so long as the quotas were met and the regional elites were loyal (Lerman, 2006:440ff). Moldova reflected the eccentric nature of Soviet economics in that third world lifestyles remained unchanged along side a first class chemical and electric infrastructure (Fedor, 1995: 121).

## Independence and the Catastrophe of the "End of History"

Watching the USSR disintegrate rapidly, Moldova, like Ukraine and so many other areas, was not prepared to rule itself as a European state. Suffering from a total lack of ethnic unity, economic cooperation and civic consensus were increasingly impossible. The resulting civil war in 1991-1992 was in part due to the chronic shortage of skilled labor. Moscow was thus forced to send Russians to the area, meaning that the success of the Moldovan SSR was not the work of native citizens (Kaufman, 2006: 119-120). Under the circumstances, this compound of economic and ethnic resentment was an easy way to create conflict.

Many of the Soviet-era corporations were being privatized. This meant that local rent-seekers and foreigners moved in and absorbed the labor of decades. The debt that the region carried just meant that this stock of capital was liquidated. By 1993-1995, the formerly high wages of the country went down by more than half, made more traumatic by runaway inflation, as prices for staple goods reached absurd levels. In 2000, the official poverty rate of Moldova was roughly 75%. By 2007, GDP was about 50% of its 1991 level while agriculture, always important, had fallen in value by more than 50% since 2009 (Bodewig, 2006: sec 3; World Bank, 2011 and Cantarji, 21-23).

Today, Moldova's financial and fiscal policy shows no sign of improving. Like in Ukraine, Moldovan officialdom has no rational structure. This reflects the lack of consensus or civic unity required to give purpose and goals to the state. The civil war harmed the economy in numerous ways as her Russian minority focused east and Russia closed off her markets from her now overt enemies. Her post-Soviet nationalist government sought reunion with Romania, which, to say the least, was a unsuccessful gamble. The gray and black markets are likely the only thing keeping the shrinking and malnourished population from disappearing (World Bank, 2013 and Bodewig, 2007: sec. 13).

Any increase in exports are the results of trade with Eurasia, comprising mostly raw materials. Moldova cannot pay for any further Russian energy imports. In terms of value added goods, between 2009-2011 capital investments decreased by over 25% while industrial investment fell by 23% (ibid and Cantarji, 2013: 14-19). Machinery used in commercial construction has fallen 24%, while housing construction fell by more than 30%. This means that about 20% of all loans are non-performing, forcing the central bank to come close to total collapse. As the lei (the Romanian currency) is volatile and unstable, a situation caused by instability, social division, and inconsistent demands made by western banks (World Bank 2011: 14 and Husted and Melvin, 2013: ch 12).

Generally, if debt is too high, and there is no compensating domestic savings, then foreign investment will have to make up the difference. However, the central bank in Moldova is neither trusted nor in control, and of course, under these unstable circumstances, no incentive exists to think of the long-term. The crisis economy forces short-term thinking, as investments have no assurance of any future in the country (Husted and Melvin, 2013: 114-116).

Moldova's burnt her bridges to the east because her ethnic hate rejected any cooperation with Moscow. The false promises of the IMF have led to the endless devaluation of the lei, and the inabilty of the public sector to finance itself (World Bank, 2011: 2). Devaluing the lei has permitted the government to laughably boast that its debt value has gone down (Srour, 2012: 15). Prices continue to skyrocket as productive capital is sold off.[1] Moldovan exports have been

1 Cantarji, 2013 foolishly accepts official figures on the “economic recovery.” Apparently, he is the only one on earth who does, cf 15ff. He also says, however, that it is foreign remittances that are fueling it (ibid). Many of his figures are contradicted to an extreme by the World Bank, esp. 2013. However, The Bank does believe that revenue has increased. In truth, the devaluation and increase in taxes is the case for that, not sane policy

decreasing 8% yearly since 2008 while exports to the west have fallen by as much of 75% with little hope for the future (World Bank, 2013; Husted and Melvin, 2013: 358-361).

By contrast, the 400,000 people in Transnistria are industrialized and growing. With rising wages and no shortages of staple goods, the economy focuses on both steel and electricity. According to the anti-Russian NGO "Economic Statewatch," this tiny country's financial sector is efficient, profitable and stable (ES, 2006, pg 68-70).

Moldova tragically declined from a rapidly developing country in a profitable relationship with a giant Soviet market to a fourth world backwater in less than a generation. Most employment and exports in this traumatized society are in the lowest value added category. Imports of machinery fell by almost 40% in 2009-2013 and, in a related figure, fixed assets have lost at least 23% of their value just between 2010-2011 with no end in sight. In effect, even staple goods now need to be imported for a country that at one time fed a sizable chunk of the USSR (Bodewig, 2007). Ludicrously, the Moldovan government and its broke western sponsors will result to deception. They claim, for example, that the sale of their state gas company, Moldovagaz, to Gazprom is "foreign investment" (Bodewig, sec 17).

Presently, there is not a single credible argument that a) the EU will do anything positive for Moldova, b) that Russia will somehow harm Moldova, or that c) the "independence" of this micro-state has been anything but a disaster.

The anti-Russian policy has consistently produced depopulation, early death, declining health, high infant mortality and a general mood of distrust and anger. Since there is exactly 0% demand for Moldovan goods anywhere (including Moldova), the Transnistrian experiment shows how beneficial the Eurasian market is for these nations. Adding insult to injury, most of their consumption since 2010 has been through the sale of what functional, fixed assets remain in the country. Moldova is quite literally eating itself (Bodewig, 2007: sec 17).

In the 2007 Annual Session of NATO, the Moldovan meltdown is treated in depth. In 2007, the full demolition of the country was well underway, and its trajectory was clear. They had the honesty to admit the statistics mentioned above, and without any apparent neurotic effects from cognitive dissonance. NATO states that "The Republic of Moldova and its supporters should lobby for better market access to the EU, and work to have the Transnistria issue placed higher on the EU agenda" (Sec 51).

They continue: "The EU should continue to challenge the status quo of the Transnistrian "conflict" and work to achieve a solution." (sec 52). This does not stop them from admitting, in section 11, that Russia's recovery is fueling some Moldovan growth, as are remittances. Of course, such growth is not growth at all. Making their argument more convoluted, they then state that real investment in fixed assets is non-existent (sec 12).

Explaining to the world why NATO should have no economic opinions at all, they state at this early meeting, bringing understatement to a new zenih.

> Needless to say, the Republic of Moldova's economic transition has suffered a range of birth pangs. The first stage, initiated in 1990, involved the liberalisation of prices, trade and enterprise operations. A second phase began in 1993 when, in co-operation with the IMF and the World Bank, the Republic of Moldova pursued massive privatisation of state-owned enterprises, introduced a new and stable national currency (leu) and established a national

securities market (sec 9).

This is the justification and rationalization of failure. The good news is that the rebellion against this has already been developed over the last year. The same Customs Union that allegedly sparked the violence in Ukraine has been the only boost to Moldova's economy since Gorbachev. The socialist party, led in this policy area by Irena Vlach has, since 2012, began the process of re-integration into Eurasia. The results are predictable: Russian demands for Moldovan fruit and wine, as well as many other agricultural products, is boosting production in all areas.

**The Lesson: Transnistria Continues as a Success due to the Eurasian Market**

More irritating to the west, the Eurasian idea, very popular in Transnistria, argues that any entry into western markets requires success first in Eurasia. Since this unrecognized nation is sandwiched between Romania and Ukraine, her geography is unfavorable. Yet, it is only the Russian republic there that has any chance of continued development.

The World Bank has Moldova at well below 100 in its “Doing Business” survey. They are equal to Botswana and Ghana. Moldova in 2013 alone lost 2 billion lei due to debt and trade deficits, so that all public services have been slashed. In Ukraine, the minimum wage is $240 a month, while Moldova lives impoverished at $85 in 2012 American dollars. In Transnistria, it is almost 300% higher even under a US enforced blockade of the country though Romania and Ukraine. The Marketing and Public Opinion Institute in Chisinau has 80% of the population registering contempt for the EU. In 2006, 97.1% of the eastern portion of Moldova voted for integration with Russia.

Thus, as both Moldova and Ukraine fall below fourth world status, Transnistria, under an embargo from its two neighbors, remains prosperous and unified. Worse for the EU, her success has made her an important source of trade with the EU itself. About 30% of this small country's exports are to the EU, showing that profit is profit regardless of whether elites recognize the nation. As Russia has brought this tiny country into its own orbit (and hence that of China and the SCO) her budget has a surplus and her financial sector is stable. Moldova permitted about 600 Russian businesses from Transnistria to officially register in Moldova so as to circumvent EU sanctions. Hence, the success of the Russians here have forced their enemies to accept their requests and – no doubt – register these as “Moldovan” capitalists. Today, much of the Moldovan budget comes from Russian businesses!

In the World Bank paper on Transnistrian economics, we read:

> In the first half of 2003, economic activity in the region has increased again as it is reflected in GDP growth of 18.4% with investments in fixed capital increasing by 2.9%, hence reducing the trade deficit by 35.5%. However These positive developments were combined with increased inflation. In January through August 2003 the average monthly inflation rate was 2.1% and it rose at the end of this period to 18% (in 2002, respectively 0.3 and 2.5%). Despite the commitment of the regional administration to alter the structure of the economy and the state, the economy remains in a transition stage (CISR, 2003: Translation mine).

This older study is important since it connects Transnistrian prosperity with Russian. Further, it shows that the increase in Moldovan trade has much to do with "illegal" relations with the Russian speaking east. The study goes on to show that the rational system of Transnistria, her relatively open economy and first class labor pool have ensured its prosperity regardless of the demands of the EU. Not too long after this study was released, by 2006, Transnistria was running a 200% trade surplus with Ukraine and almost 300% with Belarus.

Privatization was done under tight state control, and slowly: the oligarchs that rule Ukraine did not develop there. Attracting Russian and Eurasian investors stabilized the economy early. Her excellent relations with Gazprom ensure cheap power. Once secure in her economic policy, this tiny country then permitted more western FDI, to the chagrin of Moldova. While still unrecognized, Transnistria has forced her recognition through economics.

The lessons here are clear: first, rational economic policy will create the respect that diplomacy cannot. Second, the EU is incapable of helping these small societies as its own society is near total economic collapse. Third, to plug into a massive Eurasian market with total freedom of policy development works: the IMF does not. In his analysis of Transnistria and the EU, Andrew Mospanov states:

> The last 20 years are sufficient to judge the results of the western economic model. The main conclusion is that economic integration with the West strengthens the strong economy and undermines the weaker, soon to push them out of competition entirely and, finally, making them chronically dependent (Mospanov, 2013: translation mine)

Failures in 1990s Russia, today's Ukraine, Bulgaria and Moldova show this as the success of Putin's Russia, China, Belarus and the tiny state of Transnistria confirm it. The western "market" system is only for those already in control. He continues:

> We know that integration [into the EU] in Latvia, Lithuania and Estonia, as well as the Czech Republic, Hungary and Poland led to significant structural changes in the economy of these countries. The changes have been very painful. Poland almost lost its coal industry and shipbuilding; Hungary, lost its well known bus plants;  Estonia and Lithuania saw their dairy industry destroyed, as well as its energy sector, mechanical engineering and other key sectors were lost to the more powerful EU states. In Latvia there are no more sugar factories (Mospanov, 2013: translation mine).

The only difference between these countries and Transnistria is the lack of formal ties with the EU. It is that union that has crippled and destroyed these countries and their significant industries. The future lies with Russia, China and the Shanghai Cooperation Organization. Ukraine, Moldova and Bulgaria, just to name three, should abandon the western sinking ship and focus on an area that actually wants their products.

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