



## Is Moldova Headed East?

By William H. Hill

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Chisinau, Moldova's capital city, is extremely pleasant at the height of spring, with green, tree-lined streets, spacious parks filled with strolling couples and happy children, and sidewalk cafes offering Balkan and Mediterranean fare washed down with Moldovan wines. Yet worrying images intrude upon these idyllic scenes. Some side streets and sidewalks are in disrepair, construction on many multi-story commercial and residential buildings seems suspended, and "for rent" and "for sale" signs adorn countless, apparently empty structures around the city's center.

The casual visitor might not suspect it, given the crush of expensive imported cars in the center of

the capital on any weekday, but Moldova seems to be in the grip of a growing, and possibly prolonged political and economic crisis. The deepest problem is the spreading disillusionment of the population with the coalition of pro-Western political parties which came to power in July 2009, but failed to meet the high expectations of a population emerging from eight years of communist rule. The two government buildings in the center of the city – the Parliament and Presidency – suffered extensive damage during protest demonstrations over suspected communist election rigging in April 2009. They now provide a fitting illustration of the mixed record of the Alliance for European Integration, in power since mid-2009. While the Parliament

building seems to be restored (at least from the outside), the Presidency is still surrounded by an ugly sheet metal construction fence, with no indication when repairs will be finished and normal business resumed.

The three pro-Western parties which formed the governing Alliance for European Integration (AEI) from 2010 to 2014 – the Liberal Democratic Party (PLDM), the Democratic Party (PDM), and the Liberal Party (PL) – achieved some notable successes. After a severe downturn caused by the global economic crisis, by 2012 significant economic growth had been restored. The government pushed an overall policy of European integration and, near the end of its term, attained visa-free travel to the EU for Moldovan citizens with biometric passports. At the 2013 Vilnius Eastern Partnership Summit, Moldova signed an Association Agreement (AA) and Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU, both of which promised significant long-term benefits for the country.

Nonetheless, the country's economy was not on a sure footing. Hundreds of thousands of adult Moldovans worked abroad (an astounding number, given a total population of under four million) and their remittances – amounting to over \$1 billion annually – constituted some thirty percent of the country's GDP. Moldova also received substantial foreign assistance from the EU, U.S., and other bilateral donors, with almost half of the state budget paid by foreign aid. While Moldova's macroeconomic statistics began to look better in 2010-2011, it was difficult to ascertain to what extent that economic performance was based upon sustainable domestic growth.

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In addition, the ruling AEI coalition was beset with problems from the very start, particularly in relation to governance, transparency, corruption, and rule of law. The Deputy Head of the Democratic Party, Vladimir Plahotniuc, was reputed to be one of the richest “oligarchs” in the country and was frequently accused of cronyism and corruption. Vlad Filat, head of the Liberal Democratic Party and Prime Minister from 2009-2013, was a fierce rival of Plahotniuc and also often accused of corrupt business connections before and during his time in office. All three parties in the coalition constantly competed for government positions; this competition was punctuated by regular scandals and personnel shuffles.

One egregious scandal involved an illegal hunt in a state forest by a group of high-ranking government officials during which a guide was accidentally killed and his death hushed up, only to be revealed weeks later by a prominent regime critic. Prime Minister Filat tried to use this *padure domneasca* (Sovereign's forest) scandal to remove Plahotniuc from the post of Deputy Speaker; in the end, bad publicity forced both of them to resign. Filat's deputy in the PLDM, career diplomat Iurie Leanca, took over as Prime Minister and deftly guided Moldovan foreign policy toward the AA and DCFTA with the EU. However, while Filat and Plahotniuc were out of office, they continued to control their political parties and, through them, the government.

Moldova's judicial and regulatory systems remain weak, and during the AEI government there were a number of major financial scandals. Anonymous, hostile takeovers – or “raider attacks” in local parlance – of Moldovan businesses and banks by mysterious foreign entities were frequently attempted. The government presided over the dubious sale of the Chisinau Airport management concession and one of the country's largest banks, the Banca de Economii. Other banks were sold to anonymous groups of investors, with judicial review apparently thwarted by insider pressure. Finally, in the last days before national parliamentary elections in November 2014, almost \$1 billion was looted from three of Moldova's largest banks through a complicated scheme involving exchanges of fictitious loans.

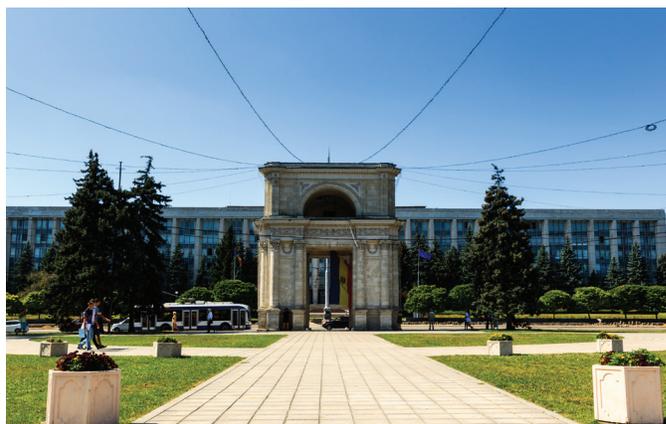
As scandals abounded, the economy flagged, and Moldova moved closer to the EU, Moscow sought to find parties and leaders in Moldova who would alter the country's westward-looking course. Russia denounced Romanian support for Moldova as evidence of a desire to reacquire Bessarabia, and played the “tricolor” card with particular effect in national minority areas wary or resentful of Bucharest. Moscow supported anti-Romanian, pro-Russian demonstrations in Baltsi, and encouraged the autonomous region of Gagauzia to hold a February 2014 referendum on independence, should Moldova lose its sovereignty (i.e., join Romania).

In the 2014 parliamentary elections, Moscow supported several opponents of the ruling coalition, most prominently Igor Dodon's Socialist Party (PSRM), which broke away from the Communists (PCRM). Dodon and his deputy, Zinaida Grecianii, used a photo of themselves with Putin, captioned “Together with Russia,” for their campaign posters.

Another party with Russian roots also appeared – the Patria (Fatherland) Party, headed by Renato Usatii, a young Moldovan-Russian businessman with ties to Russian Railways head and Putin crony Vladimir Yakunin. The Communists, traditional favorites of Moscow and led by former President Vladimir Voronin, wavered and eventually announced their support for European integration.

The ruling coalition barely won the election – or perhaps they didn't. Usatii's Patria Party was disqualified four days before the vote on charges of illegal foreign financing – true, perhaps, but suspicious so close to the election. A “Reform Communist” party was also included on the ballot, with a symbol suspiciously similar to that of the PCRM, thus presumably drawing some votes from Voronin. However, the result was that Dodon and the Socialists got the most votes, with the three coalition parties receiving only a plurality in the popular vote and a bare majority of seats in the new parliament.

Efforts to form a new government played out against the backdrop of steady revelations about



Chisinau Moldova  
photo courtesy of Ververidis Vasilis / Shutterstock.com

the banking scandal and questions about where the money went. The PLDM and PD were unable to come to agreement with the PL, allegedly because of demands by Liberal Party head Mihai Ghimpu that he be guaranteed the presidency at the next election in 2016. The PLDM and PD then attempted a minority coalition, headed by Prime Minister Iurie Leanca, but failed to get votes either from the Communists or Liberals. Critics claimed that the exercise was a ploy by Filat to get rid of Leanca, who subsequently left the PLDM to form a new party of his own. Meanwhile, Filat managed to get PCRM support for another minority government, headed by a young, unknown businessman, Chiril Gaburici, whose previous experience consisted largely of running two cell phone companies (but who does have a distant family connection with Voronin). When the press spotlight turned on him, it appears that Gaburici's resume had been padded with a non-existent university degree.

Meanwhile, the Moldovan government hired Kroll Inc., a foreign firm, to investigate the banking scandal. A young Moldovan oligarch, Ilan Shor, with ties to Moscow and whose father brought him back to Moldova from Israel in the 1990s, was placed under house arrest and then released. The initial Kroll report was released to the public by Parliament Speaker Adrian Candu, and reveals the involvement of many prominent Moldovans, including ex-President Petru Lucinschi, in the ownership of the banks in question. Shor is widely reputed to have ties with Filat, although nothing has been confirmed. Meanwhile, recent press reports in Chisinau linked Candu with Plahotniuc; Candu stated he would resign, should any improper ties be proved.

Moldova is lurching toward local elections scheduled for June 14, which could serve as a warm-up for early parliamentary elections later in the year. An avowedly pro-Moscow candidate, Irina Vlah, won election as Bashkan (Governor) of Gaguzia earlier this year. The big race is for mayor of Chisinau, widely believed to be a two-party contest between the Socialists' Grecianii and the incumbent PL Mayor Dorin Chirtoaca, Ghimpu's nephew. Renato Usatii is running for mayor of Baltsi, where the Russian minority is concentrated, and is widely expected to win. Even Shor is running for mayor in the small, historic town of Orhei, not far from Chisinau.

Most seasoned political observers in Moldova expect the results in Chisinau to presage Moldova's near-term political course. If the Socialists do well, the conventional wisdom is that they will push for early elections. Poll numbers for the current coalition partners, the PLDM and PD, are disastrously low; neither would get into parliament if a vote were held now. The new parties of Leanca and Usatii poll well, as do the Socialists and – less so – the Liberals. More alarming, a recent poll conducted by the U.S. National Democratic Institute shows that a record number of Moldovans believe the country is headed in the wrong direction. This same poll shows that equal numbers (both less than a majority) favor pro-European and pro-Russian directions for Moldova. According to the poll, the most popular course among Moldovans is to seek good relations with both East and West.

The EU continues its support for Moldova's policy of European integration, although the recent Riga Eastern Partnership Summit was a disappointment for Moldovan officials who aspire to eventual EU

membership. EU officials recently have focused increasingly on the need for improvement in the areas of judicial reform, rule of law, and anti-corruption. Yet it is hard to see how improvements will come in these key areas as long as the country's political system and government are dominated by silent business figures who call the tune for politicians and officials while themselves not holding positions which require transparency and accountability. Meanwhile, the population grows more disillusioned and cynical, witnessing repeated promises by Moldovan political leaders to comply with EU requirements, without corresponding actions and results.

Moldova's political future and Moscow's prospects for increasing its influence in the country are clouded by the crisis next door in Ukraine. Moldova's breakaway Transnistrian region is in deep economic crisis (even worse than Moldova), with an exodus of the working-age population exceeding even that in Moldova proper. Transnistrian leader Evgeniy Shevchuk recently admitted that Tiraspol has funds for barely half

of its budgetary obligations. Moscow has been stingy with assistance, possibly hoping to increase discontent with Shevchuk in order to replace him in the upcoming 2016 elections. Transnistrian enterprises, once doing a booming export trade with Europe, are slowing production or closing. These firms will suffer another blow on January 1, 2016, when they lose the temporary trade preferences accorded them during Moldova's DCFTA implementation process.

The long-running negotiations for a political settlement between Chisinau and Tiraspol have been on hold since the Moldovan election campaign began in 2014. The new Moldovan negotiator, Deputy Premier Victor Osipov, has made some headway by reinvigorating Moldova-Transnistria expert working groups that handle practical issues. However, Ukraine's war with Russia virtually ensures that the political settlement talks will go nowhere. Last week, Kiev repudiated a longstanding agreement with Moscow for resupply of Russian troops stationed in Transnistria. No one knows what will come next. Neither Chisinau nor Tiraspol appears eager to initiate hostilities, but the danger of collapse, disorder, or provocation is higher than it has been in years.

What should the West collectively, or the U.S. bilaterally, do to help Moldova find its path through this maze of troubles? What can be done?

- First, stress transparency and rule of law. Legislation and administrative procedures need to be established and/or changed in ways that will make less possible non-transparent deals such as those which led to the great banking scandal.



Moldova's President Nicolae Timofti (R) speaks to European Council President Donald Tusk as they pose for the media before the Eastern Partnership Summit session in Riga, Latvia, May 22, 2015. REUTERS/Ints Kalnins

- Second, use conditionality to press for reform of the judiciary and judicial system. The courts and legal system in Moldova have shown remarkable resistance to change. Weeding out corruption and achieving reform will require serious, sustained external pressure.
- Third, improve the business and investment climate, not only by promoting rule of law, but also by strengthening regulatory agencies through increased transparency, education/training, and better legislation. Without conditions conducive to greater investment, Moldova will remain in the vicious circle of a remittances and consumption-driven economy.
- Finally, remain engaged. High-level visits are great, but repeat visits at the Under- or Assistant Secretary level would be more effective in creating and sustaining pressure for results, rather than fulsome statements of intent.

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