

Moldova's star: shining or falling?

by Nicu Popescu

Since a pro-EU coalition came to power in 2009, Moldova has often been cited as a major success story for both the EU's Eastern Partnership (EaP) and its neighbourhood policy at large. But the failure of parties to create a stable majority in parliament after elections in late 2014 and a string of recent corruption scandals have dampened enthusiasm in Brussels and beyond.

While at first glance Moldovan politics today appears rather grim, the bigger picture of its transformation over the past years is considerably more positive. The country is now debating if it is the perpetually falling star of the EU's eastern neighbourhood or whether it can still regain some of its shine. The truth is, however, that it was never a star. Moldova has long been a problematic EU neighbour whose systemic failures – domestically and internationally – sadly overshadowed the successes of its pro-EU government. The challenge ahead is to consolidate whatever progress has been made and start tackling what lies behind the failures.

The successes

By many standards, Moldova has done well since the Communist-led government left power in 2009. Though its political system remains

unstable, imperfect and corrupt, it is more pluralist than ever. So far, Moldova remains the country with the best record of (more or less) orderly, election-driven – rather than revolutionary – changes in office in the post-Soviet space.

Moldova has been one of the fastest growing economies in Europe over the last six years. Whereas in 2009, its GDP dropped by 6%, subsequent years were significantly better with growth rates of 7.1% in 2010, 6.8% in 2011, -0.7% in 2012, 9.4% in 2013, and 4.6% in 2014. Given that the country has suffered from near-constant Russian embargoes, economic downturns in the EU, the conflict in Ukraine, and broader uncertainties which made investors wary of the entire region, Moldova's growth has indeed been impressive.

That said, the economy's success was also fragile, as much of it was driven by international assistance. This boosted the building or repairing of roads, hospitals, schools, and irrigation systems and funded hundreds of other development projects.

Beyond the economy, other statistics are also indicative of the progress Moldova has made over the past few years. The number of people flying through Chisinau's airport more than doubled

between 2009 and 2014 (from 800,000 to 1.7 million). This is the result of air transport liberalisation with the EU and increased competition between airlines and reduced air fares, combined with the gradual easing of access to (and eventually abolition of the need for) Schengen visas.

Road mortality rates have also dropped. As a result of reformed road policing, the introduction of speed cameras (thereby limiting the opportunities for corrupt law enforcement officials to extract bribes) and infrastructure improvements, traffic casualties fell from 129 to 93 persons per million inhabitants between 2010 and 2014. While still high compared to EU's average of 51, it is significantly better than those of Ukraine or Russia.

Thanks to EU assistance, a gas interconnector with Romania was built which provides a part of Moldova with potential alternatives to Russia in case of gas supply shortages. Now there is talk of connecting the capital Chisinau to the EU energy market with a gas pipeline, a move which would further boost the country's energy security.

Education reform has also advanced. Since 2012, a reform-minded education minister, Maia Sandu, adopted a zero-tolerance approach to corruption and cheating, which led to almost half of the pupils failing the first round of end-of-school exams in 2013-2015. While this drastic step shocked the general public, it also levelled the playing field by denying access to higher education to those who cheat. Increased E-governance is also part of this success story. Dozens of official documents are now available online, thus undercutting the ability of corrupt bureaucrats to extract bribes.

In terms of foreign policy, Moldova's biggest successes materialised in the framework of its relationship with the EU. The Association Agreement (AA) in force since September 2014 has already led to a rise in exports to the EU thanks to its free trade area provisions. And in April 2014, Moldova also

became the first – and so far only – eastern neighbour to obtain visa-free status for citizens travelling to the EU for up to three months (Ukraine and Georgia are at least a several years behind in this regard). The visa-free regime was introduced after a series of reforms were implemented in areas ranging from police and border management to the security of documents and human rights. The initial results have been encouraging, with 460,000 people crossing the border into the EU in the first year, and only 2,300 overstaying.

The failures

Yet this generally decent record has been largely eclipsed by a series of systemic failures – both in form and substance. The governing coalition has witnessed squabbles, crises and twists akin to a soap opera. In the six years since July 2009, the country has seen three parliaments, three prime ministers, five governments, four speakers of parliament, one president, two interim presidents and two of the three governing parties split. Then, in early 2015, two out of three pro-EU parties formed a minority government after the trio failed to agree on how to govern with a stable majority. This period of jostling and bickering only sought to increase the public's sense of frustration with the political elite.

The failures of substance have been graver still. Most of them can be blamed on one persisting phenomenon: corruption, which has strangled the business climate and discredited the ruling classes. 40% of the population believe that levels of corruption have stayed the same since 2009, whereas another 40% think they have actually increased, according to an opinion poll by the Institute for Public Policy. While multiple international ratings show improvements across the board, the one area in which Moldova has stagnated is corruption (see table).

In a highly visible example of bad governance, the leadership of law enforcement agencies was shared out among coalition parties using the same

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Moldovan snapshots 2009/2010 vs. 2014/2015

	2009/2010	2014/2015
GDP per capita	€1092	€1689
Unemployment rate	6.4%	5.1%
Reporters Without Borders, World Press Freedom Index (place in the world)	114	72
Transparency International Corruption Perception Index (place in the world)	105	103
Doing Business ranking	108	63
Global Competitiveness Index, World Economic Forum (place in the world)	94	82
Global Gender Gap Index	34	25
UNDP Human Development Index (place in the world)	99	114
Henley & Partners Visa Restrictions Index (place in the world)	71	46

quota system of political appointments to ministerial posts. Soon enough, law enforcement agencies were being dragged into political squabbles.

Political parties also initiated a downward spiral of ‘competitive corruption’ and rent-seeking. In this vein, a banking crisis last year acquired a major political dimension. In the run-up to the 2014 elections, up to \$1 billion was issued through non-performing loans by three Moldovan banks. To prevent the banks’ collapse, the government then had to bail them out. While this exposed a failure of regulatory oversight by the National Bank, it is also thought that several high-level politicians (from both the government and the opposition) profited from the affair, causing further disgruntlement among the Moldovan people.

It’s the politics...

Moldova is now in the paradoxical situation of being the neighbouring country which has benefited most from its relationship with the EU, but has lower levels of public support for European integration than Ukraine or Georgia. In 2008-2009, public support for European integration stood at around 65%: by mid-2015, it had fallen to 40%. Worryingly, over the past few months, support for Eurasian integration (with Russia) has overtaken support for the EU.

This was probably unavoidable. Until 2009, the high level of support for the EU was due to the fact

that all major parties, including the Communists, were (outwardly at least) in favour of European integration. When the Communists lost power in 2009, they withdrew from this broad pro-EU consensus and embraced a strongly Eurosceptic rhetoric – and part of their supporters moved in a similar direction.

While these shifts in public opinion are unsettling, they should not be overestimated. Ukraine is a case in point. During the Orange Revolution of 2004, crowds of people were seen symbolically waving EU flags. By 2008, however, after several years of poor performance by the Orange coalition, support for the EU stood at 28% and greater integration with Russia at 54%, according to polls conducted by the Gorshenin Institute.

The trend reversed once Yanukovich came to power in 2010: towards the end of his presidency, right before the beginning of protests in October 2013, support for the EU went up to 47% and support for Russia fell to 32%. By 2015, 62% were in favour of the EU and 13% for Russia. In Georgia, a similar trend is starting to be discernible. A recent opinion poll conducted by the National Democratic Institute showed a doubling of those in favour of Eurasian integration over the last year (it now stands at 31%).

These shifts in public opinion are the geopolitical equivalent of the belief that the ‘grass is always greener on the other side’. In these countries, the



roots of socio-economic problems are so deep that delivering tangible improvements to the quality of life is harder than elsewhere, and governments will therefore almost unavoidably disappoint. Yanukovich's rule in Ukraine (2010-2014) did as much damage to the popularity of partnership with Russia as Yushchenko's (2005-2010) tenure did with regard to Europe and the West.

But Moldova faces another paradox. Although the population is deeply dissatisfied and disappointed with the country's political elite (and the EU's image has also suffered in the process), the country's ruling parties continue to win elections. Just recently, Moldova saw two electoral victories by pro-EU centre-right parties – at the recent parliamentary elections in November 2014 and at the local elections in June 2015.

In the latter, four centre-right parties won a total 56% of the vote (compared to 38% for the eurosceptic left) and gained 73% of the mayoral posts. Voter turnout is also telling, with 721,000 cast for the centre right and 486,000 for the left (a loss for them of 230,000 compared to November 2014). The public might be unhappy with national politics as a whole, but it continues to vote for the governing parties and their policies.

Two stability tests?

Despite its tactical mess, Moldova has more strategic safeguards than Ukraine or Georgia: its geography and economy tie it closer to Europe than any other state in the region. The country has a legally binding free trade area, a ratified AA and visa-free regime with the EU, and a large country (Ukraine) between itself and Russia.

More importantly, Moldova's economy is vitally dependent on access to the EU market, which now absorbs over a half of Moldovan exports (compared to the 20% which go to Russia). These realities will constrain any future government's room for manoeuvre in relation to both Moscow and Brussels. Forcing Chisinau to do an about-turn from West to East cannot be easily done without near-catastrophic consequences for the country's economy.

The country faces two potential tests to its stability. One is related to Transnistria. The troubled territory is unlikely to be used as a launching pad for independent military action against either Ukraine or Moldova – unless there is a large-scale Russian intervention in Ukraine. But lower-level sources of tension might yet appear on the horizon.

The secessionist region is in a dire economic situation. An unsustainable economy, declining Russian assistance, an increasingly hostile Ukrainian approach to potential security risks and smuggling allegedly originating from Transnistria are all putting pressure on those in charge.

As from January 2016, the territory should also start implementing the EU-Moldova AA if it is to continue benefitting from free trade access to the EU. Failure to do so could lead to a temporary halt in exports, which would result in a large-scale recession and a spike in unemployment. Groups with vested interests (some local, some not) might then stoke tensions in the hope of either extracting economic concessions (in return for stability) or encouraging the destabilisation of Moldova or the Odessa region of Ukraine.

The second test relates to possible internal destabilisation. Some indeed fear the emergence of popular and potentially violent protests. There are multiple potential triggers: the current 'ElectroMaidan' protests in Armenia were sparked by a 17% hike in electricity prices, and one of Moldova's largest electricity providers is demanding a 60% price rise this year in order to compensate for the depreciation of the local currency. And while Moldova's democracy has a decent record of dealing with popular protests, many in Chisinau now fear a pro-Russian 'Maidan' – reinforced by popular discontent over corruption.

Diplomatic vigilance on how the Transnistria dossier is being handled in Moscow – but also Kiev and Chisinau – is thus required. On the domestic front, aggressively tackling corruption is the single most important policy objective. But that presupposes continued EU engagement combined with tougher conditionality.

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