

**MOLDOVA–TRANSDNIESTRIA:
Working Together for a
Prosperous Future**

ECONOMIC ASPECTS

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INTRODUCTION

The Purpose of this Book

The authors of this Collection of Essays – respected expert analysts from the spheres of economics, sociology, political science and conflict studies from Chisinau, Tiraspol and Kherson – were tasked with a **common goal**.

This goal consisted of the following components:

- To write innovative analytical essays – accessible not only to specialists and academics but to a broader audience of readers – which include;
 - an analysis of the impact of the conflict on particular spheres of social and economic development of the two banks of the river Nistru / Dniester, in which the particular experts specialise;
 - recommendations on possible options for solving the existing problems;
- To help consolidate and strengthen the capacity of the expert community to deal with the Moldova-Transdnistria conflict – strengthening the influence of civil society in building confidence and in the resolution of issues relevant to all inhabitants of the region;
- To influence the opinions and attitudes to conflict resolution of the elites, political actors, public servants and the broader expert community on the two banks of the Nistru/Dniester – by providing high quality, accessible analysis and policy proposals in the framework of this publication.

The Conflict

The Moldova-Transdnistria conflict is considered by many in the international community as a “frozen conflict”, where enemy images, mutual misperceptions and mistrust among elites – and, 15 years after the armed confrontation, to some extent the population at large – have had a two-pronged result:

- (i) a low level of systemic cooperation between the middle to higher levels of society across the conflict divide, and
- (ii) high economic and social costs of the conflict, which, while experienced broadly by populations on both banks, are not often directly identified or associated with the conflict.

While there have been a number of projects over the years, which have, with some success, focused on strengthening cooperation across both banks in the realm of mass media, youth and civil society engagement in peacebuilding, there have been few attempts to make directly visible the economic and social costs of the conflict and the quantifiable benefits for peace in a way that is easily accessible and appropriate for populations and elites on both sides of the river. It was also recognized by the authors of Project IMPACT that there is a need for more sustained and inclusive initiatives for improving the peace process, which tap into the creative and analytical potential of the expert communities on both banks of the river Nistru / Dniester, and regionally.

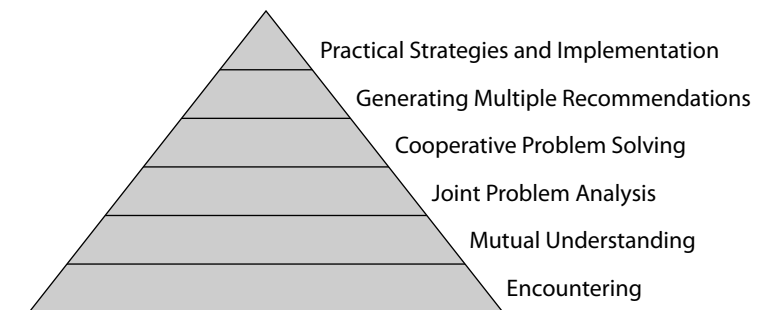
The Project

The IMPACT project was developed with the specific aim of strengthening joint work of analytical NGOs and independent expert analysts from the two banks of the river Nistru / Dniester, Russia, Romania and Ukraine. The **goal** of this cooperation was to make a joint analysis of the socioeconomic effects of the protracted political conflict and to develop policy proposals in order to contribute to developing effective strategies and options for transforming the conflict.

In order to meet the main purpose of the project – to constructively influence the political and executive bodies’ decision making and to inform public opinion about the costs of the Moldova-Transdnistria conflict – the activities of the 2007-09 phase of the project included:

- Strengthening networking and mutual understanding of researchers and expert analysts, within a practical regional cooperation framework which included Moldova-Transdnistria, Ukraine, Romania and Russia;
- Capacity building of the Moldova-Transdnistria expert community by sharing and exchange of international experience from similar and related conflict zones and in relevant fields;
- Developing the conflict-sensitive capacity and constructiveness of participating professional socioeconomic researchers and analytical institutions;
- Engaging in practical cross-border expert cooperation, focused on investigating and making visible the economic and social costs of the conflict and benefits of peace in Moldova-Transdnistria;
- Experts across the conflict divide working together on advocating constructive policy alternatives in partnership with mass media.

A significant part of the Project which took place prior to and during the writing of this Collection of Essays is the series of Expert Dialogue Workshops held in Vadul lui Voda (Moldova), Tiraspol, Odessa and Lazurnoe (Ukraine). These Dialogue Workshops focused on building up sufficient mutual understanding, joint analysis and cooperative problem solving in the broader group of IMPACT’s participants, to both facilitate the writing of this publication, and to lay the foundations for the future IMPACT Think Tank. The dialogue approach, based on the work of conflict transformation practitioners internationally, is illustrated in the pyramid diagram below – to be read ‘bottom-up’.



The Project IMPACT partnership consists of the following organisations:

- Center for Strategic Studies and Reforms (CISR), Chisinau;
- Independent Centre for Analytical Research “New Age”, Tiraspol;
- PATRIR, Cluj-Napoca, Romania;
- Joint Commission for Democratisation and Conciliation (JCDC), Chisinau;
- Russian Information Agency New Region – Pridnestrovie Bureau, Tiraspol;
- Center for Independent Television Development, Chisinau.

Other outputs of the Project from its 2007-2009 phase include:

- A Documentary Film about the human story of the socioeconomic cost of the conflict in Moldova-Transdnistria, and untold stories of peacebuilding from the last 20 years, titled “Transdnistria: When the Guns Fell Silent”;
- A Sociological Report based on a unique opinion poll conducted on both banks of the Nistru/Dniester, focusing on the “Social and economic wellbeing of the population of both banks of the Dniester/Nistru in conditions of frozen conflict”;
- An Economic Analysis Report, focusing on the “Costs of the Transdnistrian conflict and benefits of its settlement”.

For more information about the project, its participants and publications, and to contact the project team, or the authors of the essays in this volume, please refer to the project website: www.impact-project.org

The Volumes in the Collection

The Collection of Essays is published in 3 separate volumes, all of which have the same series name: “Working Together for a Prosperous Future”. Each of the volumes contains thematic essays in English, Romanian / Moldovan and Russian.

Each of the essays is structured with an **Executive Summary / Abstract** of up to 1 page at the beginning, followed by the **Body** of the essay, and completed with a **Bibliography or Endnotes** after the main body of text.

One of the volumes is devoted to analysis of **Social Aspects**, with the following chapters:

- Social and economic wellbeing of the population of the two banks of the Nistru / Dniester in conditions of frozen conflict – *Dr. Elena Bobcova (Tiraspol)*;
- The demographic situation in Transdnistria in conditions of unresolved conflict – *Dr. Vladimir Fomenko (Tiraspol)*;
- Moldovan population in the context of current migration processes – *Prof. Valeriu Mosneaga (Chisinau)*;
- Social policy and human development – *Dr. Anatol Rojco (Chisinau)*;
- Social protection and social provision: effectiveness of legislative regulation – *Dr. Natalia Schukina (Tiraspol)*;
- The establishment of a “new” post-Soviet identity, in conditions of ethnopolitical conflict – the example of Transdnistria – *Nina Shtanski (Tiraspol)*;
- Labour market issues in Moldova-Transdnistria – *Dr. Dorin Vaculovschi (Chisinau)*;

Another volume is devoted to analysis of **Negotiation Process**, with the following chapters:

- The negotiation process as a way to postpone the solution – *Dr. Igor Botan (Chisinau)*;
- Transdnistrian Settlement: “Western” and “Eastern” vectors of a compromise – *Georg Byanov (Kherson, Ukraine)*;
- Addressing the costs of the conflict through the creation of a “Socio-Humanitarian “5+2” format” – *Vitaliy Ignatiev (Tiraspol)*;
- Sources and settlement prospects of the Transdnistrian conflict – *Oazu Nantoi (Chisinau)*;
- Transdnistria’s path – *Andrey Safonov (Tiraspol)*;
- European integration policies in the context of Transdnistrian conflict settlement – *Sergey Shirokov (Chisinau)*.

The present volume is devoted to analysis of **Economic Aspects**.

The Essays

One of the key aims of the Collection of Essays was building capacity to generate new levels of quality in conflict policy analysis and proposals. In compiling this publication, we identified the following **‘levels’ of capacity** some of which are demonstrated by many of the authors and others which can be used as benchmarks towards which authors need to strive in future project publications:

1. Openness to be published in the same publication as colleagues from the opposite side;
2. Willingness and ability to use constructive mutually acceptable style in writing;
3. Understanding the necessity and making the effort to analyse the situation on both banks of the Nistru/Dniester, not only on one’s ‘home’ side;
4. Ability to go beyond analysis – making constructive policy proposals and recommendations;
5. Skilled writing for a non-academic audience, a key stepping stone to engaging in active advocacy on issues of conflict policy;
6. Cooperating across the conflict divide to make consensus-based policy proposals for both banks of Nistru / Dniester;

Based on the relative achievement of these levels of capacity which is demonstrated in the essays, it is possible to categorise them as follows:

- Essays which deal with both banks of the Nistru / Dniester and provide innovative policy recommendations (some conceptual, and some presented in detail). This category of essays can be said to have reached the Capacity Building Levels 1 - 5 from above;
- Essays which offer a new and insightful analysis of key issues and some constructive policy recommendations, but deal with only one of the countries / regions covered by the Project. This category of essays can be said to have reached the Capacity Building Levels 1, 2, 4 and 5 from above;
- Essays which deal with both banks of the Nistru / Dniester, offer a new and insightful analysis of key issues but which offer few action-focused policy recommendations. This category of authors can be said to have reached the Capacity Building Levels 1 - 3 and 5 from above;
- Essays the value of which is that they provide new and insightful analysis of key socio-economic issues of this conflict as they relate to one side of the conflict, which have not been available to the public discourse outside of the particular author’s region (in some cases because the author has previously been unwilling to be published on the other side of the conflict divide). This category of authors can be said to have reached the Capacity Building Levels 1, 2 and 5 from above.

Language

Authors were provided with guidance notes on the use of terms which can and do carry political meaning. In order to avoid causing offence to one group of readers or another, some middle ground terms were devised and used in this publication. The guidance notes included the following recommendations:

- When listing the two key sides to the conflict, instead of “Moldova AND Transdnistria”, authors were asked to use “Moldova-Transdnistria”, or “right bank Moldova and Transdnistria”, or “right bank and left bank of the Nistru / Dniester”, or, if appropriate, “Chisinau and Tiraspol”;
- Exceptions to the first guidance above occurred when a legitimate reason existed to be listing the two subjects sides by side, and juxtaposing them – this includes when referring to the parties in the official negotiation process, and where two distinct systems have developed e.g. two economies;
- When referring to the conflict region, we have chosen “Transdnistria” in English (as used in the official negotiations), “Transnistria” in Romanian / Moldovan (Latin) and “Pridnestrovie” in Russian (Cyrillic);
- Avoid the use of terms in relation to the conflict zone which may cause offence e.g. “left bank districts”, “Transnistrian region”, “TMR”, “unrecognised republic” unless this was necessary for an analysis of the phenomena, perceptions and concepts which those terms describe; and
- The term “Moldova” or “all Moldova” was used by some authors to signify the internationally recognised territory of the Republic of Moldova, including Transdnistria and Gagauzia, unless stated otherwise e.g. where statistics are only available for a part of the Republic of Moldova, or where reference was being made to Moldova as a party to the negotiating process.

The team of Project IMPACT hopes that these volumes, and the expert community cooperation of which they are a product, will make their contribution to the building of a lasting and equitable peace in Moldova-Transdnistria, deeply rooted in the needs of the people living on both banks of the beautiful river with many names.

Elena Gorelova

POLITICAL ECONOMY OF REINTEGRATION

The goal of this article is to justify and outline real possibilities of forming a common economic space based on the developmental interests of both Moldova and Transnistria. The article was based on several official documents that were discussed at various stages of the negotiation process. Examples of these documents include: documents that were signed by the parties of the settlement, materials from different studies of the problems of the Moldovan-Transnistrian relations, as well as statistical data of Moldova and Transnistria. The need and urgency of balancing political and economic components of the conflict settlement process is being justified. The joint work of Moldova and Transnistria on restoration of the common economic space is viewed as the best prerequisite and guarantee for a subsequent political unification. This paper contains specific proposals on implementation of the common policy of removal of economic barriers and on the terms of economic reintegration. These proposals are substantiated by the fact that the level, problems, and risks of economic development of Moldova and Transnistria are almost the same. At the same time, the parties incur additional costs arising from the conflicting nature of the economic relations. The proposal to the parties is to create permanent joint institutions that deal with the economic issues of reintegration, to adopt and execute a memorandum on unilateral actions that touch upon economic interests of the other party, to elaborate and implement a policy and a medium-term Strategy of Economic Reintegration, to implement together infrastructure projects and also to implement together a regional development policy.

The long-term history of attempts to settle the Transnistrian problem is mostly related to the search for an acceptable political formula of solving the issue. The subjects of the discussions held at various times and in different formats were comprised mostly of issues related to the future political configuration of the state and determination of the legal status of Transnistria.

A political approach to solving the Transnistrian problem was and remains the dominant approach, generally complying with standards of modern discussions on the settlement of frozen conflicts.

As both the conflicting parties and intermediaries proceed from the basic need to find a political formula for settlement, issues such as the normalization of economic relations between Moldova and Transnistria and economic reintegration are either not considered at all, or are considered as “subsequent” steps that would be addressed after the political decision is made.

In most proposals and documents on conflict resolution, the economic reintegration is interpreted not as a process that precedes or accompanies political decision-making, but rather as a process of establishing relations in the economic sphere on the basis of separation of authorities of the parties after the political decision is made. In other words, it is envisioned that the process of actual economic reintegration would begin after political settlement.

This is the very approach that is presented in well-known proposals by intermediaries and guarantors of the settlement of the Transnistrian problem.

The “Memorandum on the Basic Principles of the State Structure of the United State” (2003) also known as the “Kozak plan”, states that the “implementation of practical mechanisms of settlement of the Transnistrian problem is possible on the basis of a joint elaboration, preliminary public discussion and adoption of the new Constitution of the unified state – the Federal Republic of Moldova”. The same document states that the future state would act based on the principle of unity of “customs, and monetary space”, and freedom of movement of people, goods, services and capital is recognized and guaranteed on its territory. The Constitution of the Federation sets

jurisdictions, including those in the economic sphere, – jurisdictions of the Federation, joint jurisdictions, and also jurisdictions of the constituents of the Federation.

In the “Proposals and Recommendations of the Mediators from the OSCE, the Russian Federation, Ukraine with Regards to the Transnistrian Settlement” (February 13, 2004) it is noted that “after the adoption of the Constitution of the Federal State, and after signing final agreements on settlement of the Transnistrian issue, a transitional period is set, during which these agreements are implemented”. Agreements between Moldova and Transnistria proposed by intermediaries also include agreements on common economic space of the future state – “there is free movement of people, goods, services and financial resources in the economic space of the Federal State, and also freedom of economic activities is ensured. In the territory of the Federal State it is not allowed to set internal customs borders, duties, fees or any other barriers that prevent free movement of people, goods, services and financial resources”. Jurisdictions are separated, including those in the economic sphere – in the field of foreign economic relations, financial, monetary, credit, customs regulation, creation of money, determination of the fundamentals of the pricing policy, issues related to the budget, taxes and charges etc.

The Ukrainian plan of settlement “To Settlement via Democracy” (2005) known as the “Yushchenko plan” identifies three stages of settlement of the Transnistrian problem. All stages are related mostly to the settlement of political issues – legal envisioning of the major provisions of the status of Transnistria in the framework of the Republic of Moldova (1st stage), allocation of jurisdictions and authority between central governing bodies of the Republic of Moldova and governing bodies of Transnistria (2nd stage), complete resolution of the Transnistrian problem (3rd stage). Meanwhile, the “establishment of a common legal, economic, defense, social, customs, humanitarian space and other spaces of the state functioning” is proposed as one of the final goals of this political settlement.

Issues regarding the economic reintegration of Moldova and Transnistria From the proposals of the guarantors and of the intermediaries

	Proposals on the creation of a common economic space and on the interaction in the economic sphere	
	Before the political settlement	After the political settlement (with the adoption of the new Constitution)
“The Memorandum on the Basic Principles of the State Structure of a Unified State” (2003)	Not existing	1. Adopting the principle of a common customs system and a common monetary space. 2. Recognizing and guaranteeing the freedom of movement of people, goods, services and capital. 3. Setting the Jurisdiction of the Federation, including joint competencies, and also the economic competencies of the constituents of the Federation (Transnistria and the ATO (autonomous territorial formation) Gagauzia).
“Proposals and Recommendations of the OSCE, Russian and Ukrainian Mediators from the OSCE with Regards to the Transnistrian Settlement” (2004)	Not existing	1. In the economic space of the Federal State there is free movement of people, goods, services and financial resources; freedom of economic activities is ensured. 2. Competencies of the Federal State and the constituent of the Federation (Transnistria) in the economic sphere are set.

The Ukrainian plan “To Settlement via Democracy” (2005)	Not existing	<ol style="list-style-type: none"> 1. The creation of common economic and other state competencies. 2. The Unification of material and spiritual resources for further solving common economic and social problems. 3. Competencies are not set. 4. Competencies and jurisdictions would be set in the law on the Special Legal Status of the Transdnistrian Region of the Republic of Moldova”.
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Thus, the common point of view of intermediaries and guarantors envisions the common economic space being restored upon the constitutional recognition of the relations between the parties.

We have to note that the previously mentioned documents attest not only how the economic grounds for reintegration were underestimated, but also the lack of a common vision for the political path for solving the Transdnistrian problem. Thus the obvious question that arises is: if guarantors and intermediaries have and propose approaches to political settlement that do not coincide perfectly, then how can the conflicting parties reach any mutually acceptable solution? Probably, the guarantors and intermediaries have to bring their positions closer to each other and make a common political proposal on solving the problem, which has to be acceptable both for Moldova and Transdnistria.

Moldova and Transdnistria have had almost the same approaches to the role of the process of economic integration in the political settlement of the conflict as did the guarantors and intermediaries. Both Moldova and Transdnistria are more interested in the political formula of the conflict resolution than in finding mutually acceptable economic mechanisms for interaction and restoration of the common economic space.

The Transdnistrian proposals advanced in August 2003 were related to the structure and contents of the future Constitution of the federal state, this way being linked to the advancement of the political formula of settlement. Meanwhile, the proposals contained articles on the separation of authorities. It was envisioned that many economic issues would be included among the joint competence of the constituents of the Federation (constituents of the Federation being Moldova and Transdnistria). In this category are included issues of common trading area and antimonopoly regulations, currency, monetary circulation and issuance, currency minting, customs and border guards, common communications etc.

The official position of Moldova on the Transdnistrian settlement is presented in the Law “On Basic Provisions of the Special Legal Status of Localities on the Left Bank of the Nistru / Dniester (Transdnistria)” adopted by the Parliament in July 2005. The law does not place any measures aimed at settling the problem in the sphere of economic interaction of the parties. The approach to the conflict resolution is limited to the achievement of purely political goals. In particular, the law states that “the negotiation process with Transdnistria is conducted in order to achieve the goals of democratization and demilitarization of Transdnistria”. It is envisioned that after the conditions on demilitarization and democratization are met, the subject of the negotiation process would again be dominated by political issues – issues around the elaboration and the adoption of the special law on the special legal status of Transdnistria.

Therefore, all approaches and proposals of all participants of the Transdnistrian settlement “lure” the other topics regarding the settlement to purely political course.

However, the prevalence of the political approach to the Transdnistrian settlement did not contribute to the convergence of the positions of the conflicting parties neither did it help with the elaboration of constructive and mutually acceptable solutions. On the contrary, the

longstanding “politicization” of the problems and of the very process of settlement led to the aggravation of economic separation of the parties and to the escalation of the economical conflicts.

Essentially Moldova and Transdnistria find themselves in a state of permanent economic conflict with periodical escalations that generate economic losses for both parties.

The chronology of economic conflicts includes a wide range of episodes linked to the functioning of many economic and infrastructural systems (to the functioning of the railroad and telephone communications, to the activities of internal control customs posts, to Moldova’s introduction of new visas and rules, to barriers created by Transdnistria for agricultural activities of citizens living in left-bank villages that are under the jurisdiction of Moldova, to the requirement of registration of citizens of the Republic of Moldova who enter the territory of Transdnistria, to Transdnistria’s setting a special duty for deliveries of goods from Moldova, to Moldova’s introduction of registration of economic entities of Transdnistria that are involved in export-import transactions, etc.)

Presently, economic relations between Moldova and Transdnistria are built on much worse principles than relations of each of the parties with CIS countries and with many countries outside of the CIS.

A circumstance that stands in the way of settlement is the involvement of guarantors and intermediaries in economic conflicts between Moldova and Transdnistria. In this context an ambiguous assessment can be made of the EU Border Assistance Mission, specifically its function along the Transdnistrian section of the border between Moldova and Ukraine. Ukraine as a country-guarantor and the European Union as an observer, in essence, became the conduit of unilateral political interests and unfriendly economic actions of Moldova towards Transdnistria. Russia – another country-guarantor – took the opposite position providing economic assistance and support to Transdnistria. Such “political-economic” intrusions by guarantors and intermediaries in the conflict are far from representing optimal ways of fostering its resolution.

In the conditions of the lack of normal economic interaction and periodical escalations of economic conflicts the political process of the settlement quite logically comes to a deadlock. The situation is also aggravated by disintegration of social, cultural, information and other spaces that have vital societal functions.

The environment of mistrust and dissociation that formed during these long years is the worst possible prerequisite for a constructive political dialogue between officials, and also for the appearance among the population and businesses of any strong incentives to support the process of unification.

The presence of serious problems in economic, social-cultural and other type of relations between Moldova and Transdnistria was not sufficiently taken into consideration in the course of designing various options for a political settlement. Correspondingly, no accent was placed on the possibilities to solve the problem through searching and introducing different mechanisms for establishing economic, social-cultural, information and other types of interaction between Moldova and Transdnistria.

It is obvious that the joint work of Moldova and Transdnistria (with the support of guarantors, intermediaries and development partners) on rebuilding common vital functioning spaces of society represents the strongest prerequisite and guarantee for subsequent political unification. In this context the economic sphere is not only the most “sensitive” to the implementation of joint decisions, but also the most “potentially productive” from the point of view of getting tangible results, which are in the interests of both economic entities and the population from both banks of the Nistru / Dniester.

As a minimum, it is necessary to balance the roles played by political and economic approaches to solving the Transdnistrian problem. At present, the harmonization of these roles means focusing the attention and implementing specific joint actions related to the formation of the common economic space. Consistent practical implementation of the idea of restoration of the common economic space gives more chances to be optimistic regarding the finding of an optimal political settlement formula.

More commonalities than differences can be observed between the level, the nature and the problems of economic development of Moldova and Transdnistria. We have to note that differences are mostly related to the arrangement of the economic systems – institutes, mechanisms and tools, which are used in the areas of taxation, budgetary, monetary, banking and credit, currency and even in the area of the regulation of entrepreneurial activities. At the same time, the development results and the economical structures of Moldova and Transdnistria show that economies on both banks of the Nistru / Dniester are approximately similar in terms of the level of development and that both are less developed in comparison with economies of European countries and most of the CIS countries, and also both have similar risks that limit possibilities to overcome lagging behind in development.

The main shared development problems of the economies of both Moldova and Transdnistria are:

- A relatively low level of production of national output;
- High foreign economic dependency and high external risks;
- Weak structural diversification of the economies.

Annual volumes of GDP production per capita both in Moldova and in Transdnistria do not reach USD 1000. Meanwhile, the differences between two economies in terms of the GDP production are insignificant. On average, for the period of 2004-2006 this indicator in Moldova was USD 833, and in Transdnistria USD 917. Similarly insignificant are differences in the level of investments. Investments in capital in Moldova in 2004-2006 were on average USD 159 per capita per year, and in Transdnistria – USD 128. One can say that Transdnistria lags somewhat behind Moldova in terms of the investment rate and level, while Moldova lags behind Transdnistria in terms of the GDP production rate and level. And if we were to use in general these two most important macroeconomic indicators to assess the level of development of the economies of Moldova and Transdnistria then both economies can be attributed to one and the same “weight category” – the one of the countries that lag behind in development in comparison with successfully developing economies of European and CIS countries.

In terms of GDP production per capita and the volume of investments, Moldova and Transdnistria lag behind European countries by dozens of times. Thus, the GDP production per capita in Moldova and in Transdnistria comprises only about 3 % from GDP production per capita in the European Union countries, i.e. the level of GDP production in Moldova and in Transdnistria is 33 times lower than in the EU countries.

Certain indicators of the level of development of the economies of Moldova and Transdnistria in 2004-2006 (as annual average)

	Moldova	Transdnistria
Gross domestic product:		
– per capita, USD	833	917
– growth rates, %	6.7	11.9
Investments in fixed capital:		
– per capita, USD	159	128

– growth rates, %	14.0	8.0
– volume of investments as % of GDP	18.8	13.8

Sources: data of the National Statistics Bureau of the Republic of Moldova, National Bank of Moldova, Ministry of Economy of the Transdnistrian Moldovan Republic (TMR), Transdnistrian Republican Bank and calculations made by the author.

In spite of the fact that the industrial structures of the economies of both Moldova and Transdnistria are different, both economies are characterized by practically the same structural skewnesses and risks. In this context the “problematic nature” of two economies is comprised, first of all, of their pronounced monostructure and excessive dependence on the performance of dominating sectors; and second, of significant foreign economic vulnerability caused by the high degree of dependence on foreign economic factors.

Dominating sectors exist in the structures of both economies, and both the economic situation and the final indicators of economic development strongly depend on the performance of these sectors.

In the structure of national production of Moldova the agrarian sector weights significantly – about 20 % of the total volume of gross added value. Also, the share of agriculture surpasses the share of industry in the production of gross added value. In the structure of production of Transdnistria the highest unit weight belongs to the industry – 31.3 % of gross added value in 2004-2006. The share of industry significantly exceeds the share of agriculture.

In the industry of Moldova and Transdnistria the functioning of several leading sectors affect not only the general indicators of industry development, but also the volumes of export.

A significant part of the industrial enterprises of Moldova process agricultural raw materials. In 2004–2006 the share of food products and drinks was more than 50 % of the total volume of industrial production. Correspondingly, more than half of Moldovan exports is represented by agricultural products. In Transdnistria, iron and steel industry lead the industrial production. This production represents the main item of export of Transdnistria (more than 60 % of export in 2004-2006).

Both economies are very open – both in Moldova and in Transdnistria the turnover of the volumes of foreign trade are higher than volumes of GDP production. At the same time, both economies are characterized by persistent and high deficits of trade. That is why many of the problems related to the sustainable development of the economy of Moldova and Transdnistria are related to the resolution of the question of expansion and diversification of export. At the same time, the results of economic development and volumes of export are highly dependent on the access to foreign markets, on their geography, on the conditions of foreign trade, on the dynamics of foreign exchange rates and the dynamics of world and regional prices for exported and imported goods, etc.

Some structural indicators of development of the economies of Moldova and Transdnistria in 2004-2006 (as annual average)

	Moldova	Transdnistria
Foreign trade as % of GDP including:	110.2	261.8
– export as % of GDP	35.2	104.1
– import as % of GDP	75.0	157.7
Unit weight of agriculture in gross added value, %	19.3	4.5

Unit weight of industry in gross added value, %	18.7	31.3
Unit weight of the dominating sector in industrial production, % (Moldova – production of food products and drinks; Transdnistria – iron and steel industry)	52.4	37.2
Unit weight of dominating commodity groups in export, % (Moldova – agricultural food products; Transdnistria – products of iron and steel industry)	54.8	64.3

Sources: data of the National Statistics Bureau of the Republic of Moldova, National Bank of Moldova, Ministry of Economy of the Transdnistrian Moldovan Republic (TMR), Transdnistrian Republican Bank and calculations made by the author.

Thus, in Moldova and in Transdnistria several structural problems and relatively low levels of production of the main national product certify the existence of similarities in terms of quality “bottlenecks” and risks from the point of view of the possibilities of ensuring dynamic and sustainable development of both economies. That is why both Moldova and Transdnistria share the fundamental task to change the quality of economic development in order to improve significantly the level of output of their national products. Also common are such important sub-objectives as the enhancement of the labor productivity and product quality, the improvement of the quality of management, infrastructure, systems of healthcare and education, etc.

It is quite obvious that the propensity to engage in conflicts specific of the economic relations hinders the settlement over a strategic development tasks, as the propensity to conflicts is a factor of instability and poor attractiveness of economies towards serious long-term private investments. In addition, the proneness to conflicts intensifies the risks of destabilization of current activities of the economic entities. The most obvious evidence from the recent history of Moldova and Transdnistria are large losses incurred both by economic entities and public budgets as a result of Moldova’s introduction of the new procedure for carrying out foreign trade transactions by Transdnistrian enterprises and the consequent prohibition by Russia of deliveries of Moldovan wines

That is why it is reasonable and necessary to change drastically the nature of the economic relations, which would positively affect both the dynamics of development of the economies and the process of political settlement. We are referring to the transition from the policy of unilateral disintegration actions to the implementation of a joint course towards economic reintegration.

It has to be taken into consideration that during long-years of “parallel” co-existence of Moldova and Transdnistria several processes and events took place, whose consequences aggravated the resolution of the task of economic reintegration:

- There was a breakdown of many production links that existed prior to the period of economic separation;
- From time to time economic conflicts appeared that touched upon the interests of many economic entities;
- Economic systems of Moldova and Transdnistria were built up in isolation from each other;
- Customs, banking-financial and other barriers appeared and still exist.

When conducting any consultations and actions at all stages of the transition to the implementation of joint policy of reintegration of the economies and creation of the common economic space, these realities have to be taken into account.

We will note only some possible directions and measures for strengthening of the “economic” trust and transition towards a consistent formation of the common economic space.

Creating of joint institutions for the implementation of economic reintegration.

First, there should be institutions that are capable of elaborating relevant proposals on the basis of the analysis of the situation in the sphere of economic interaction and identification of existing barriers.

We have to note that the Moldovan authorities have repeatedly and unilaterally created interdepartmental commissions for the purpose of performing actions related to social-economic cooperation with Transdnistria, to the formation of a common legal and social-economic space. Thus, in 2002, the Parliament approved a Commission “on social-economic cooperation with Eastern districts of the Republic of Moldova” (the Decree was cancelled in 2003). In 2003, the Government adopted a Decree “On the Establishment of the Interdepartmental Commission on Reintegration of the Republic of Moldova”. The main goals of the Commission were: the elaboration of proposals on reintegration, strengthening of confidence-building measures and the elaboration of the Reintegration Strategy. In 2007, the Decree of the Government “On the Implementation of Initiatives of the President of the Republic of Moldova on Strengthening of Confidence and Security in the Context of the Transdnistrian Settlement” created departmental working groups for the development of specific projects on the implementation of the President’s initiatives. It was then assumed that representatives of Transdnistria would also be involved in the work of the respective groups.

However, the practical results of the activities of cooperation and reintegration commissions that are periodically established by Moldova turned out to be inefficient, as representatives of Transdnistria who could have expressed interests and needs of the Transdnistrian side did not take part in the work of the commissions.

It is obvious that in order to achieve goals of economic reintegration, it is necessary to form joint bilateral institutions. Their composition, functions and authorities have to be coordinated and approved in advance by authorized bodies of Moldova and Transdnistria.

Major consulting and “arbitration” support to the work of joint institutions could be provided by guarantors, intermediaries and external development partners, starting with the stage of bilateral consultations on the composition, tasks and authorities of economic reintegration institutions and on the rules and regulations of their activities.

The approval by Moldova and Transdnistria of the Memorandum on unilateral actions that touch upon economic interests of the opposite party

Work of the joint institutions on economic reintegration would not be efficient, unless at the same time joint measures are elaborated and taken – measures that relate to unblocking of conflict issues, removal of restrictions and barriers that hinder economic interaction and internal development of the parties. That is why it is necessary to jointly develop and approve a kind of a memorandum on actions that touch upon interests of the opposite party. The Memorandum should, at least, contain the following provisions:

- On cancelling (or moratorium) of actions taken unilaterally in the past, and which negatively affect the economic situation, the development results, and that provoke economic losses (in the public, private sector) of the other party;
- On not allowing in the future any unilateral actions, which might infringe upon the economic interests of the other party;
- On the introduction of a mechanism of preliminary coordination of decisions related to planning of unilateral actions, which touch upon interests of the other party and might contain risks of infringing its economic interests.

The adoption and the execution of such a Memorandum would allow for the unblocking of a number of existing economic conflicts and would prevent the appearance of new contradictions.

In the case of the establishment of joint institutions on economic reintegration, work on the removal and the prevention of economic conflicts could become one of the areas of their practical operations.

Joint development and implementation of the policy and mid-term Strategy of economic reintegration

The development and the implementation of the policy and Strategy of economic reintegration would contribute to stable development and reintegration of the economies and also of other vital areas and also to a political settlement of the Transdnistrian problem.

We have to note that the idea of implementing the policy of economic reintegration was included in the “National Development Strategy for years 2008-2011” adopted by the Parliament of Moldova in December 2007. In particular, this document speaks about the restoration of the common economic space and the elaboration of the policy of economic reintegration. However, it is envisioned to take all actions in this field in unilateral manner – without the involvement of the Transdnistrian side. But meanwhile, it is assumed that a third party would be involved – “cooperation with EU institutions, namely, by means of attracting the EU mission on provision of assistance on the Moldova-Ukraine border”. Such an approach, on the part of Moldova, to the development and implementation of the policy of economic reintegration would hardly be accepted by the Transdnistrian side.

It is quite obvious that the development of a Strategy of economic reintegration, as well as its subsequent implementation, have to be done together by Moldova and Transdnistria. The main declared purpose of this document would be to reach consistent approaches to solving problems related to the creation of common economic space, to the reintegration of economic systems and to taking of adequate and coordinated measures and actions.

It is clear that the Strategy of economic reintegration cannot be a long-term one, as too many economic contradictions and discrepancies accumulated. It is very difficult to forecast any long-term path for reintegration in the conditions of a very poor predictability for all consequences of initial steps aimed at the removal of barriers and the establishment of some interaction between the economic systems. It would be necessary to learn how to manage together not only the very process of economic reintegration, but also the potential risks and consequences.

Various arrangements on the reintegration of different spheres of economic vital functioning would be implemented at different speeds and would have a different duration of their implementation. That is why all stages of their implementation have to be optimally balanced with each other in order to avoid imbalances and negative effects in the reintegration process as a whole.

The monitoring system should play an important role in the implementation of the policy and Strategy of economic reintegration. There should be a joint institution on monitoring the process and results of implementation of the Strategy. Performing this joint monitoring would not only allow to prevent the appearance of undesirable consequences of implementation of the Strategy, but also to introduce in a timely manner justified adjustments in the common policy of economic reintegration and in the action plan. It is crucial to attract to the monitoring activities representatives of non-governmental organizations from Moldova and Transdnistria, and also guarantors, intermediaries and external development partners.

Let us now characterize certain important areas and trends of the mid-term policy of economic reintegration related to the search for and the elaboration of joint decisions for the purpose of achievement of successful and sustainable reintegration results.

Ensuring free and efficient development of entrepreneurial activities

In the context of economic reintegration of Moldova and Transdnistria, ensuring free development of entrepreneurship means:

- Removing administrative, customs and other barriers and obstacles for the purpose of normalizing interaction between economic entities of Moldova and Transdnistria and creating conditions for unobstructed movement of goods, services, capital and labor force;
- A gradual formation and implementation of common efficient principles, instruments and mechanisms of promotion and regulation of entrepreneurial activities.

In addition to the measures aimed at removing barriers, it is necessary to elaborate and implement actions aimed at forming a common and favorable environment for current investment and entrepreneurial activities. We are referring, first of all, to the common policy of export promotion, to the motivation of introduction of new technologies, quality infrastructure development and quality management systems, standardization and certification of products, development of instruments and joint institutions for the attraction of investments, protection of competition.

If such common policy is implemented, then businesses on both banks of the Nistru / Dniester River would not only get additional economic benefits, but would become active advocates for the promotion of the policy of economic reintegration.

In the long run, everybody would enjoy economic benefits, as internal risks would decrease not only regarding the stable development of entrepreneurial activities, but also for a sustainable economic growth as a whole.

“Targeted” harmonization of tax systems

In Moldova and Transdnistria there are different taxation systems. It is not reasonable to strive towards full unification of these systems, as both Moldova and Transdnistria have to retain the right for independent tax revenues into their budgets and for an independent administration of the taxes. However, from the point of view of the achievement of some practical success in the area of economic reintegration, it is necessary to determine certain targeted areas of harmonization of tax systems for the mid-term perspective. Such areas could be:

- The removal of tax obstacles that hinder the development of the relations and interactions between economic entities of Moldova and Transdnistria;
- The equalization of tax burden for similar groups of taxpayers, first of all, for economic entities.

The implementation of these areas of harmonization of tax systems would allow for the liquidation of tax barriers and the enhancement of interaction between economic entities. In addition, it would be necessary to form as much as possible equal levels of taxation and, to a certain extent, to equalize the conditions for economic activities through the formation of a tax environment, which would be homogeneous in terms of the tax burden and in this sense would be “fair” for economic entities on both banks of the Nistru / Dniester river.

Establishment and development of budget relations

The isolation of budgetary systems of Moldova and Transdnistria should be replaced with a system of budgetary connections. In order to set budgetary connections it is necessary to find

mutually acceptable solutions based on the tasks and problems that the parties would be ready to jointly address and finance.

Areas of joint financing can be: common measures and actions aimed at the development of institutions and instruments of small and medium size business support, at improvement of the state of the general infrastructure, export promotion, environment protection measures and other actions. Establishing a budgetary cooperation is important also for joint funding of various activities in the framework of the very process of reintegration, i.e. for the financing of the policy and Strategy of economic reintegration.

For the purpose of funding actions that represent common interests, jointly managed funds can be established and resources from public budgets of Moldova and Transdnistria could be transferred to these funds. Consolidation and use of resources of jointly managed funds should be done on coordinated principles that accommodate requirements of both parties. That is why it makes sense to elaborate and adopt an Agreement on principles and procedure of formation, as well as one for the use and administration of jointly managed funds.

Further development of budgetary relations suggests that the parties apply common principles of budget planning, similar budget classifiers, coordination of the main areas of the budgetary policy, addressing issues of economically justified and mutually beneficial budgetary transfers, etc.

Coordination of the foreign exchange and monetary policy

Movement towards unity of the foreign exchange and monetary policy should be done while bearing in mind the specifics of stages of economic reintegration and the state of development of the economies and banking systems of Moldova and Transdnistria.

At the initial state it is expedient to introduce a mechanism of coordination of monetary programs of the National Bank of Moldova and the Transdnistrian Republican Bank, and also to take measures aimed at harmonization of instruments applied to achieve selected goals of the foreign exchange and monetary policy.

It is reasonable for the measures on coordination of the foreign exchange and monetary policy to envision the following:

- Use of macroeconomic forecasts elaborated on the basis of common methodological base;
- Identification and coordination of the main target landmarks of monetary programs – rate of inflation and currency exchange rate;
- Coordination of dynamics of money supply and instruments for regulation of the money in circulation;
- Coordination of the policy of refinancing and interest rate policy;
- Conversion to common principles and mechanisms of foreign currency regulation and foreign currency control.

After a political settlement of the Transdnistrian problem it would be necessary to move from a coordinated to a common foreign currency and monetary policy. That is why it would be necessary to determine together and to stipulate in the legislation authorities of the Transdnistrian Republican Bank, based on the assumption that it would get the status of a branch of the National Bank of Moldova.

At subsequent stages of reintegration the Transdnistrian Republican Bank and the National Bank of Moldova would have to ensure formation of common monetary space, which assumes introduction of a single national currency. Transition to using Moldovan Leu as the single national currency should be performed gradually, by means of introducing parallel circulation of Moldovan Leu and Transdnistrian rouble in the territory of Transdnistria with subsequent

withdrawal of Transdnistrian roubles from circulation. Relevant rules and procedures have to be developed and implemented jointly by the National Bank of Moldova and the Transdnistrian Republican Bank.

Harmonization and integration of banking systems

The first and significant step in the process of aligning interaction of banking systems could be establishment of correspondence relations between commercial banks of Moldova and Transdnistria. It would not only allow normalization of relations between banks, but would also facilitate the process of linked settlements between economic entities on both banks of the Nistru / Dniester River, which would contribute to development of their production, trade and other links.

The process of convergence of banking systems has to be gradual in order to ensure stable operations of banks in the course of the whole reintegration period.

Activities on harmonization and integration of banking systems should be done together with the National Bank of Moldova and the Transdnistrian Republican Bank on the basis of an agreement between them which would determine areas, methods, procedures and terms of implementation of necessary measures.

The main issues that have to be addressed in the course of consolidation of banking systems are related to harmonization and unification of norms and rules of organization and regulation of banking activities ensuring stability and liquidity of the banking sector as a whole.

The main areas of harmonization and integration of banking systems could be:

- Coordination of requirements that regulate the level of sufficiency of capital, banking risks, all types of bank reserves;
- Use of common rules and procedures of bank control and supervision;
- Application of common banking accounting and financial reporting standards;
- Promotion of quality improvement and expansion of range of services of the whole banking sector;
- Unification of payment systems, instruments and forms of execution of payments.

Definitely, the aforementioned areas of implementation of the policy of economic reintegration are far from being exhaustive in terms of listing all possible “reintegration” spheres and actions. However, the most important thing is to start coordinated joint movement towards areas that would be identified in the Strategy of economic reintegration elaborated and adopted by the parties.

Implementation of joint infrastructure projects

In terms of actions on implementation of the National Development Strategy of Moldova for years 2008-2011, measures on execution of joint infrastructure projects are included, which definitely is a certain “breakthrough” in planning economic development that takes into consideration mutual interests of Moldova and Transdnistria. In particular, it is envisioned to repair two main highways passing through the territory of Moldova and Transdnistria (Chisinau – Dubossari – Poltava and Brest – Briceni – Chisinau – Tiraspol – Odessa), to electrify the section of the railroad (Pervomaysk – Tiraspol – Bendery – Chisinau – Ungheni), as well as to rehabilitate the ecosystem of the Nistru / Dniester River.

The need to improve significantly the infrastructure of Moldova and Transdnistria is quite obvious. As infrastructure projects, as a rule, have relatively long terms of implementation, their realization could contribute to development of long-term relations not only on the official level, but also on the level of economic entities that would be involved in implementation of the

projects. In addition, obtained benefits would also be of long-term nature, and both economic entities and the population would be recipients of these benefits.

An initial base for planning joint activities in the field of development of the infrastructure can be comprised of parties' already existing infrastructure strategies and programs that contain specific areas of infrastructure development. For example, in Moldova the Strategy of ground transport infrastructure for years 2008-2017 is adopted, in Transdnistria – the State target program of development of road sector for years 2006-2010. It is noteworthy that the Strategy of ground transport infrastructure of Moldova does not exclude participation of Transdnistria in the development of this sector. In particular, the document states that “the present Strategy does not include the network of highways and railroads of the Transdnistrian region of the Republic of Moldova because of the lack of necessary information. When data on technical condition of highways and on traffic density in this region is received, the Strategy would be supplemented”. That is why on the basis of the said and other similar documents it is possible to find the most pressing areas of mutual interest and to prepare joint projects on development of road and transport and other infrastructure.

Joint actions on preparation and implementation of projects on development of communications, telecommunications, environmental and agricultural infrastructure can become rather promising and efficient.

A joint system of managing such projects and a system of monitoring of their implementation should be formed. Another important issue is ensuring their sustainable funding. In addressing this issue, external investors and donors can play a positive role. We have to note that involvement of external participants in the process of implementation of infrastructure projects would contribute to the formation of joint responsibility of Moldova and Transdnistria with respect to cooperation with any “third” party.

Joint implementation of the policy of regional development

Implementation of the regional development policy could become a rather productive area of joint activities. This area is a relatively new one for Moldova, which has just begun to implement it on the basis of the law on regional development adopted at the end of 2006.

The regional development policy is implemented in many European countries and is aimed predominantly at leveling of conditions and levels of social-economic development of regions, at overcoming interregional and intraregional disproportions, support of development of economically depressed territories. This policy has its own tools and institutions of implementation, which have to operate on the central and regional levels. They include the National coordination council for regional development, Regional development agencies, regional Development Councils, the National regional development strategy and Strategies of development of regions, the National regional development fund. So far in Moldova not all instruments and institutions have been formed and not of them operate.

The law on regional development of Moldova formulates the following main tasks of the regional policy – balanced and sustainable development of the whole territory, reduction of imbalances in development between regions and inside regions, and for this purpose – consolidation of financial, institutional, human potential and support to relevant activities of local authorities.

The regional policy is mainly aimed at attraction of attention and resources on the central and local levels in order to address problems of development of regions. It is expected that in the midterm the main outcome of the implementation of the regional development policy would be a reduction of the excessive and unjustified gap between the potential and the level of development of Chisinau and other regions of Moldova.

Regions of development are identified on the basis of economic characteristics. In the framework of regional policy, regions are viewed not as administrative-territorial units, but as purely economic formations. In the regions, Regional Development Councils are formed, which are meant to represent, promote interests of regions and to coordinate measures aimed at their social-economic development. Besides, in the regions, Regional Development Agencies are established, which have to be involved in practical activities related to the elaboration of development programs and projects, to attract the necessary financial and other resources for their implementation, provide support to relevant activities of local public governing bodies, private sector, population, etc.

The law on regional development identifies 6 regions – North (11 districts and Balti municipality), Center (13 districts), South (8 districts), ATO Gagauzia, Chisinau municipality and Transdnistria.

The problem of a significant gap between levels of social-economic development of Chisinau and the regions is practically irrelevant for Transdnistria. The economic potential of Transdnistria is much higher than that of the regions North, Center, South and ATO Gagauzia.

Certain indicators of regional development in 2006

Indicators	North	Center	South	Chisinau	ATO Gagauzia	Transdnistria
Population, thous. persons	1023	1070	548	780	160	544
Share of the urban population in the total number of inhabitants of the region, %	34.8	19.7	25.6	91.2	40.6	68.1
Volume of industrial production as per one citizen, thous. MDL	4.9	3.1	1.7	14.7	4.9	12.9
Investments in the main capital as per one citizen, thous. MDL	1.8	1.5	1.6	8.1	1.6	2.0
Average monthly salary in the region as % of the average salary by regions	79.7	73.2	68.5	127.3	68.8	114.2

Sources: the National Development strategy for years 2008-2011, data of the Ministry of Economy of the Transdnistrian Moldovan Republic (TMR), Transdnistrian Republican Bank and calculations made by the author.

In Transdnistria volumes of industrial production per capita in 2006 were 2.6 times higher than in the regions North and ATO Gagauzia, 4.2 times higher than in the region Center and 7.6 times higher than in the South region. Transdnistria has a rather high level of urbanization – 68 % of the population lives in towns (North – 35 %, Center – 19.7 %, South – 26 %, ATO Gagauzia – 41 %). In spite of existing difficulties with attracting investments (mostly because of the existence of well-known political reasons), the size of investments in the main capital per capita in Transdnistria is higher than in the regions North, Center, South and ATO Gagauzia. The average monthly salary is also higher – 1.6 times the average in the said regions.

That is why objectives pursued by Moldova when implementing the regional policy in terms of development of regions North, Center, South and ATO Gagauzia cannot be absolutely adequate for Transdnistria.

We have to note that it is wrongful to talk about the need of “scaling up” Transdnistria or each of the regions (North, Center, South and ATO Gagauzia) up to the level of social-economic development of Chisinau. Chisinau is a large capital city that accumulates, similarly

to other world capitals, a significant part of financial, intellectual, scientific, cultural potential. That is why we should speak not about achievement of similar levels of development of the regions and the capital, but rather about sustainable, dynamic and balanced development of territories within regions. At least, development rates of regions should not lag behind development rates of the capital, and in case there is unjustified backlog and distortions, it is necessary to strive for acceleration of the pace of social-economic development of non-capital territories.

The participation of Transdnistria in the implementation of the regional development policy, most probably, has to be related to the need to overcome huge intraregional imbalances.

Economic activities in Transdnistria are concentrated mainly in three towns – Tiraspol, Bendery and Rybnitsa, the population of which comprises about 60 % of the total number of the inhabitants of Transdnistria. Naturally, the main types of economic activity are concentrated in these towns – industrial production, construction, trade, transport, communications, etc. The share of Tiraspol, Bendery and Rybnitsa (together with Rybnitsa district) in the total amount of tax payments to the budget and off-budgetary funds comprised 92 % in 2007, and the unit weight of economic entities of the said administrative-territorial units in generation of profits was even higher – 98 %.

In addition, the general results of social-economic development of Transdnistria (volume and GDP growth rates, budgetary revenues, etc.) excessively depend on the results of activities of several large enterprises, the most “weighty” of which is the Moldovan Steel Works (Rybnitsa) and Moldovan GRES (Power Plant) (Tiraspol).

Such a situation shows not only an insufficient diversification of the sectorial structure of the economy of Transdnistria, but also the significant territorial inequality of its development.

Some indicators of intraregional development of Transdnistria show that the Slobozia, Camenca and Grigoriopol districts are in the worst social-economic situation. This is mostly because of the agrarian profile of these districts and because of drawbacks in development of agriculture in Transdnistria.

Intraregional gaps in the level of industrial production and investments in the main capital comprise dozens and hundreds of times. Thus, in 2006, volumes of industrial product manufacturing as per one citizen in Grigoriopol district were 37 times lower than in Tiraspol and 106 times lower than in Rybnitsa district. The similar indicator in Slobozia district was 21 times lower than in Tiraspol, and 61 times lower than in Rybnitsa district. Investments in the main capital as per one citizen in Grigoriopol district were 46 times lower than in Tiraspol, and in Slobozia district – 15 times.

Significant economic gaps predetermine tangible inequality in terms of the level and quality of life experienced by the population in different administrative-territorial units. Retail commodity turnover per capita in Tiraspol in 2006 was 7 times higher than in Grigoriopol district, and 4-5 times higher than in Slobozia and Camenca districts. Similar differences exist also in the volumes of consumption of paid services by the population. The level of labor remuneration in Tiraspol and Rybnitsa (together with the district) is on average 70 % higher than that of the Slobozia, Grigoriopol and Camenca districts.

Some indicators of intraregional development of Transdnistria in 2006

Indicators	Tiraspol	Bendery	Rybnitsa	Dubosari	Slobozia	Grigoriopol	Camenca
Share of the urban population, %	99.3	92.5	65.3	63.3	24.6	24.1	38.2

Volume of industrial production per one citizen, roub.	9007	5157	26198	4429	429	247	1854
Investments in the main capital as per one citizen, roub.	3142	358	1394	758	204	69	1462
Retail commodity turnover as per one citizen, roub.	11280	5728	5916	6163	2552	1670	2029
Volume of paid services to the population as per one citizen, roub.	2078	1138	901	762	419	398	882
Average salary as % of the average salary for Transdnistria, %	115,1	89,3	111,0	86,0	67,0	67,0	71,1

Sources: data of the Ministry of Economy of the Transdnistrian Moldovan Republic (TMR), and calculations made by the author.

Evidently, the regional policy in Transdnistria has to be oriented towards the achievement of more equal territorial development of the economic potential as a whole and towards speeding up social-economic development of districts and communities located in their territories.

In this context, with the help of implementation of the regional policy in Transdnistria, the following important tasks can be addressed:

- comprehensive social-economic development of small towns and rural communities;
- development in territories of districts of infrastructure – technical infrastructure (roads, telecommunications, water supply, gas supply, sewage, etc.) and social infrastructure (social services, healthcare, education etc.);
- support to development of small businesses in small towns and in rural areas and to business infrastructure;
- addressing geographically specific environmental issues.

The issue of achieving more balanced development of various territories in Transdnistria has not been addressed seriously so far. Traditionally, in the practice of social-economic development planning, problems of macroeconomic stability, foreign economic activities and sectoral development of the economy come first. Thus, in the forecast of social-economic development for the year 2008 prepared by the Ministry of Economy of Transdnistria, areas of monetary, budgetary-fiscal, foreign economic, investment, pricing and tariff policies were identified, as well as development trends of various sectors of the economy and of the social sphere.

However, in order to diversify the economy, to make it more resistant to external risks, to address successfully issues related to food security, to improve the state of infrastructure, to improve employment of the population etc., it is necessary to pay attention to problems of imbalanced territorial development. That is why the use of instruments, mechanisms and institutions of the regional development policy in Transdnistria is not only reasonable, but can also prove rather fruitful.

First of all, it is necessary to identify capacity, interests, real needs and priorities of development of various districts; and on the basis of that to formulate the Strategy of regional devel-

opment of Transdnistria. In order to achieve the goals and objectives laid out in the Strategy, it is necessary to elaborate and adopt an operational plan and a package of specific programs and projects. The mentioned documents represent regional policy tools, which can definitely become working instruments for planning the regional development of Transdnistria.

For the purpose of funding a package of specific programs and projects in the framework of regional policy, a mechanism of co-financing is used which envisions attraction of various sources – resources from the central and local budgets, funds from the private sector and external resources. The mechanism of co-financing allows making the process of implementation of regional programs and projects realistically feasible.

Thus, it is envisioned to use for purposes of regional development in Moldova 1 % of the state budget revenues. In 2008, in accordance with the Law on the State Budget, 130 million Lei would be sent to the National Regional Development Fund.

Participation of the private sector in the implementation of regional programs and projects is based on the interest of getting contracts for execution of works and on the interest of funding (co-financing) of commercial projects. These are, for example, projects on establishment of enterprises (private, joint ventures) on recycling of municipal waste, construction of stand-alone sewage systems etc.

Lastly, external resources are another important source of funding for regional development projects. For example, the instrument of European Neighborhood and Partnership Policy that has been implemented by the European Union from 2007 contains several components, including support of the programs not only of the national level, but also those of transnational, regional, near-border and topical nature, as it is envisioned in the country-specific strategic document for 2007-2013.

Similar and other sources of funding for regional development can be used in Transdnistria after formation of the necessary regulatory and institutional base. To achieve that it is reasonable to establish cooperation with Moldova, which has already begun implementing the regional development policy and has created the regulatory base, the National Fund and some regional development institutions.

Joint participation of Moldova and Transdnistria in the implementation of the regional development policy can bring additional benefits to both parties. Benefits can be obtained, for example, as a result of the following:

- implementation of joint projects for neighboring districts (for example, Rezina and Rybnitsa districts);
- implementation of projects of interregional cooperation (between regions North, Center, South and Transdnistria);
- promotion of motivation of external partners to participate and/or to co-finance joint regional programs of Moldova and Transdnistria;
- streamlining of interaction of economic entities – participants of implementation of various joint regional programs/projects, etc.

In order to shape regulatory and institutional conditions for joint implementation of the regional development policy, a number of the following issues have to be addressed.

It is necessary to introduce amendments in the current law of Moldova on regional development after coordinating modes of participation for Transdnistria in the work of the National Coordination Council on Regional Development and in the National Regional Development Fund. Here one can use either a mechanism of direct participation (inclusion of representatives of Transdnistria into the National Coordination Council and the delegation of certain resources by Transdnistria to the National Fund), or a mechanism of coordination of activities of the named institutions that function in Moldova and in Transdnistria on the same princi-

ples. The issue of relations between the future Regional Development Agency of Transdnistria and governing bodies of Transdnistria is also a subject to be agreed upon; as well as the issue of the relations between the aforementioned bodies and the Ministry of Local Public Governance of Moldova. After these issues will be resolved, the law on regional development should be supplemented with a separate chapter “On the introduction of regional development in Transdnistria». It is reasonable for Transdnistria to adopt a legal act that complies with the main provisions of the agreed law on regional development.

The establishment of regional development institutes in Transdnistria, such as the Regional Development Council and the Regional Development Agency, can be done on the basis of model provisions related to these structures that exist in Moldova and that were developed in accordance with similar regulations existing in a number of European countries. Meanwhile, Transdnistria can take into consideration not only international practice, but also specifics of its regulatory experience. However, when shaping and organizing activities of the said institutions, one should be guided by the generally accepted principle of public-private partnership, which is mandatory when implementing a regional policy.

Therefore, existing problems of regional development of Transdnistria and potential possibilities to resolve them attest to the expediency of participation of Transdnistria in implementation of the regional development policy together with Moldova.

Probably, there are also other areas of economic interests, which are able not to separate but rather to integrate efforts and resources of both Moldova and Transdnistria.

However, in order to move towards integration it is necessary to balance the political and the economic accents not only in mutual relations but also in the vision of the settlement of the Transdnistrian issue as a whole. In any case, timely transfer of the issue into the economic dimension would bring more use to both parties than an uncompromising and thus prospectless assertion of extreme political interests. In order to bring closer political positions one needs more than political will and wisdom, such as a sustainable “binding substance”, the role of which can be well served by the economy.

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Vladimir Korobov

A UKRAINIAN CONTRIBUTION TO THE FORMATION OF THE COMMON “DNIESTER/NISTRU – BLACK SEA COAST” ECONOMIC MACRO-REGION

Ethnicities practically never coincide with economies.

Denis de Rougemont¹

The economic integration of Moldova-Transdnistria would be an incomplete and insufficient way out of the current situation in the region. The economic idea of the region’s revival is transborder by its nature and complementary to the idea of national revival. The achievement of competitiveness for Moldova-Transdnistria and the Ukrainian South depends on the creation of a common economic macro-region. Ukraine has a considerable potential and prospects for the establishment of an efficient intellectual, economic and social basis for Transdnistrian settlement. The idea of the article is that the Ukrainian contribution to economic integration and settlement of the regional conflict could be realized by taking into account the experience of Europeanization, creation of Euroregions, and development of transborder cooperation – as part of a project to establish a natural Odessa Economic Macro-region. The article considers the advantages and shortcomings of Europeanizing the settlement of the Transdnistrian conflict, it argues for the innovative idea that economic integration appears to be the very link that is able to consolidate the whole Moldovan - Black Sea region. With this approach, the conglomerate and similar nature of the local communities, having as a common feature the interaction of globalism and traditionalism, will be preserved in the foreseeable future. The author formulates a number of top-priority recommendations for the implementation of his ideas: to update the legislation of Moldova-Transdnistria and Ukraine regulating transborder cooperation; to establish a common Information and Statistical Centre for Macro-Regional Development; to draw up a Transborder Economic Integration Strategy for 2008-2028; to establish a School of Regional Leadership to consolidate civil societies; to institute a Moldovan Economic Forum consolidating business elites.

According to experts competent in international processes, a mere transferred projection of the trends existing in the world cannot be helpful in the preparation of a correct forecast and prediction of the rate and direction of future development². The content of the previous stage of development of the post-Soviet territory was that new independent states formed on the basis of the disintegrated USSR within the Soviet borders, “within the format” of the former Soviet republics having their so-called “title nations”. However this does not mean in any way that this “national structure” will successfully continue its existence in the 21st century. On the contrary, it is more likely that the future belongs to a Europe (and, maybe, even a world) of regions, which is the new reality of the new world order³.

An attentive researcher may find some important features of the new world order in such abnormal phenomena of international relations as the so-called unrecognized states. In this respect, the Moldova-Transdnistria conflict, on the one side of which there is an ethnic unitary state, while on the other – a social and territorial entity that is essentially based on the idea of multi-nationality and multiculturalism, is very significant. It is even more significant that both parties to the conflict have as a foundation a common history of the region, similar ethnic and national structure of the population and integrative culture. Perhaps the viability of Transdnistria is based on the potential of similar transboundary ambivalent entities, which may become the future of

the Black Sea Coast. The people living on the Black Sea Coast should integrate both ideas, i.e. national and transboundary ones, in order to reconcile them, to fill them with new quality and integrity on a higher level of development. Nobody should conquer anyone, we – Ukrainians, Russians, Moldovans, Romanians, Gagauz and Jews can find together some kind of synthesis of the leading ideas of the 21st century – the idea of national revival and the idea of formation of transboundary Euro-regions.



A close examination of the issue of Transdnistrian conflict settlement results in the broadening of the settlement context: the matter in question is not a banal political reformatting of the space but the appearance of a new quality – a macro-region that organically includes the space of actual transboundary cooperation: Right Bank Moldova, including Gagauzia, Transdnistria and the Ukrainian Black Sea Coast. Formation of a common market, common communications, common style and way of life, harmonization of interests and interpenetration of cultures has been taking place here for many years and the time has come to acknowledge and understand this process. We could call the region “Dniester / Nistru”, although the understanding of the nature of this region of some Ukrainian politicians already using this name differs from ours. Perhaps, taking into account the value of Odessa as a port, as well as a cultural and historical centre, this macro region could be called the “Odessa Macro-region”. In the context of social, economic and cultural changes taking place in the new region, we bring up the issue of the role of the Ukrainian Black Sea Coast in the settlement of the Transdnistrian conflict and the role of Ukraine in the creation of an intellectual, economic and social basis for this settlement. The systematic economic contribution of Ukraine can become a missing component for the settlement, the “fifth element” needed for peace and development in the region.

Economic Preconditions and Challenges for the Establishment of the Odessa Macro Region as a Foundation for Conflict Settlement

Comparative characteristics of the economies of the Right Bank Moldova, Transdnistria and the Ukrainian Black Sea Coast show their complementarity and potential for symbiosis. The well-known Russian expert T.Guzenkova notes the agrarian orientation of the economy of the

Republic of Moldova and prevalence of the industrial sector in the economy of Transdnistria⁴. According to the structure of their economies, the Ukrainian Odessa and Mykolaiv Regions are industrially agrarian, while Kherson Region is agrarian and industrial, with Odessa Region being one of the most economically developed regions in Ukraine. However, the most important factor here is transit and the trading potential of the Ukrainian Black Sea Coast. This is the region where the major Black Sea ports of Ukraine, such as Odessa, Ilichivsk, Bilhorod-Dnistrovskiy, Mykolaiv, Kherson and Skadovsk are concentrated; the ports located on the Danube being Reni, Izmayil, Vylkovo, Kiliya. Here are also located the pipeline of Odessa-Brody and the developed network of rail roads and highways⁵. The agrarian Right Bank Moldova, including Gagauzia, industrial Transdnistria and transit and trading Black Sea Coast practically supplement each other.

The essential precondition for the formation of the Odessa economic macro region is the transboundary nature of the Black Sea Coast countries⁶. Both Right Bank Moldova and Transdnistria, as well as the South of Ukraine are populated by transboundary ethnicities (minorities): Russians, Ukrainians, Moldovans, Gagauz, Bulgarians, Jews, etc. Similar ethnic components of population in these countries and regions bring forth a unique feeling of their affinity.

The creation of Odessa (Dniester / Nistru – Black Sea Coast) macro-region is also preconditioned by the Euroregion of “Lower Danube” already established in 1998 and including: Odessa Region (Ukraine), the districts of Cahul and Cantemir (Republic of Moldova) and the districts of Braila, Galati and Tulcea (Romania). This Euroregion is established under the provisions of the European Framework Convention on Transboundary Cooperation between Territorial Communities or Authorities.

During the period of 1993 to 2007, Ukraine participated in the creation of seven Euroregions involving nine administrative regions. In 2002, the Interdepartmental Commission on the Development of Transboundary Cooperation and Euroregions (which has not convened since 2003) was created with the Program of Euroregions Development approved. However, in reality the Euroregions are not functional, which can be easily seen from the websites of the respective regional state administrations – they are filled with outdated information about ritualistic meetings of officials. Why doesn't transboundary cooperation develop, when it has such a huge economic potential? Is this accidental?

The major circumstances negatively impacting the development of transboundary cooperation and those that can evidently impede creation of the integrated Odessa macro region in the inter-stream area of the Dniester / Nistru and Dnipro rivers as a form of economic integration of the regions and overcoming of the chronic regional Transdnistrian conflict are described below.

The authorities in Kyiv are afraid to the point of panic of even a hint of separatism being well aware of the lack of a “reserve of sturdiness” in the Ukrainian state. This is the reason why the issue of federalization of Ukraine and of a territorial and administrative reform related to the modification of Stalin's division of the country into oblasts (regions) has been excluded from the agenda. This is the reason why the outstanding leaders who actively supported the idea of federalization, often from opposite political positions (V. Chornovol and E. Kushnarev), are out of the picture. This is the reason why Ukraine ended up “without Kuchma” who had developed the project of dividing Ukraine into 9 regions with their own parliaments and governments. This is the reason why Stalin's oblasts had been renamed by the Kyiv theorists into “regions”, which was just another attempt to “substitute the labels” on the old Soviet institutions that had not changed their actual nature. And this is the reason why the heads of regions are not elected but are appointed by Kyiv officials from among those who can never become charismatic leaders and can never be elected by the population of the region. Kyiv authorities do not grant the right to develop real interna-

tional transboundary relations to regional administrations and keep the monopoly of the Center on foreign policy. Declaring its aspiration to the Europe of Regions, Ukraine, in fact, reproduces totalitarian centralization both in policy and economy. In policy this is manifested in the tabooing of whole branches (for example, transboundary cooperation), in economy, for example, that Kyiv, as capital, is one of the two donor regions along with Donbass. The reason is not that industry in Kyiv is like that in Donbass, but that “Kyiv is the Moscow of today” – the place that artificially, using administrative leverage, concentrates financial flows and creates a “special economic zone” like it used to be in the USSR for Moscow, where prices, salaries and the purchasing capacity of the hryvnia are higher than in the country as a whole. An invisible economic border has been created around Kyiv separating this showpiece of Ukraine from the miserable provinces. Kyiv allocates subventions to the Ukrainian regions at its own discretion, selling to the local elites and population a faulty and anti-market idea of their imaginary ‘unprofitability’, ‘helplessness’ and dependence on Kyiv.

In regional administrations, the issues of transboundary cooperation are supervised by the offices for international relations, which exist from Soviet times and whose task is not to develop transboundary cooperation but to emasculate it, bringing this cooperation down to the level of ceremonial meetings and signing of the Soviet-type “protocols of intent”. As an example, we can mention here that in the democratic Ukraine, the visiting of local authorities by foreigners without a special permission from the special services, which should be obtained several weeks before the visit, is still prohibited. Besides, it is necessary to prove in detail the need for such visits and to provide information on the visitors. (The author had a chance to come to know about this order of the Cabinet of Ministers when receiving a Polish delegation in Kherson on 14-17.04.2008 with Senator of the Republic of Poland Stanislaw Gogach and professor of the Lublin Catholic University Slavomir Partitsky being members of this delegation. The Deputy Head of the regional administration L. Olenkovskaya refused to meet with the delegation explaining her refusal with this prohibition). It is clear that federalism and regionalism of the “Soviet type” cannot serve as a structural model for modern Ukraine, while hushing up and negation of the European type of federalism and regionalism cannot be justified by any fears, and are just the way to retain a commonplace monopoly of the central power, i.e. the notorious “power vertical” that the outdated by nature and totalitarian by origin Ukrainian post-Soviet nomenclature tries to defend.

All the following reasons for the insufficient development of transboundary cooperation given by modern experts and analysts result from the major reason stated above.

According to the authoritative magazine “Nationalna bezpeka i oborona”^{*} these reasons are as follows:

- ambiguous nature of powers of local authorities and local governments with regard to transboundary cooperation;
- insufficient state support (including financial) for the programs and projects of transboundary cooperation; slow rates of construction of border region infrastructure by the Ukrainian side;
- poor involvement of entrepreneurial structures and those of the “third sector”;
- lack of horizontal communication;
- limited reliable and comparative statistical information on the status and development of regions; insufficient level of presentation of Ukrainian regions in the EU countries;
- insufficient quality of preparation and unclear orientation of regional cooperation projects submitted by Ukraine for consideration to the European Commission. As a result, its representatives have understandable doubts regarding the obtainment of any value added within these projects and, consequently, their financial support⁷.

* Editor’s Note: Meaning “National Security and Defense” in Ukrainian

The recent accession of our neighbours into the Schengen zone and the newly arisen difficulties with the obtainment of visas needed for visiting the neighbouring countries also does not promote the development of transboundary cooperation.

Today, we can draw an unquestioned conclusion that Ukrainian policy on transboundary cooperation mismatches the European norms and ideals and does not make use of the European experience of regionalism.

Both Ukraine and Moldova have similar macroeconomic problems – a low level of inclusion of the economy in the process of economic globalization, lack of serious structural changes derived from involvement in European and global economic structures, as well as a low level of international competitiveness. At the same time, similarity of problems does not imply their sameness: Ukraine, nevertheless, is more advanced in its integration in the global economy, which is another argument in favour of its participation in the construction of the **Odessa transboundary macro-region**. The attractiveness of the Odessa macro-region can grow due to the increased performance of the region’s economy, its higher involvement in the global division of labour and bigger share of high-tech industry.

The best known complex evaluation of the involvement of specific countries in the globalization processes is carried out within the Globalization Index Rankings. This index takes into consideration: inclusion in global political processes (involvement in international organizations, number of diplomatic missions, etc.), development of global technologies (number of internet users, number of internet servers, etc.), individual international contacts (tourism, remittances from abroad, etc.) and the level of development of economic integration (trade, investments, etc.). According to this indicator, Ukraine is in the 42nd place, it is more engaged in the development of economic integration and less in the system of individual contacts, development of high technologies and global political processes⁸. Moldova is not yet included in the list of evaluated states.

The future macro-region will face the problem of lagging behind on the subject of how it functions in global networks. According to the global Networked Readiness Index 2007-2008 rankings, Ukraine is only in the 70th place (3.69 points), while Moldova is in the 96th place (3.21 points). The maximum score of 5.78 points belongs to Denmark, while the minimum one of 2.40 points – to Chad⁹. This index includes the index of the use of networks and the index of development of opportunities. The index of the use of networks is scored on the basis of the following indicators: the number of internet users (per 100 persons), the number of mobile telecommunication users (per 100 persons), the number of internet users per one server, percentage of computers connected to the internet, availability of internet services. The index of development of opportunities includes availability of networks, policy of networks development, development of social networks and development of a network economy (e-government and e-commerce).

Corruption can become another severe problem of the macro-region. The international organization ‘Transparency International’ estimates the Corruption Perceptions Index (perception of corruption of the public sector by businesspeople and experts). According to its information for 2008, Moldova was in the 109th place (2.9 points) and Ukraine – in the 134th (2.5). The assessments are based on a 10-point scale, where 10 points mean an absence of corruption, while 0 – its highest level¹⁰.

A common type of economic life and certain similarities in the economic behaviour of households can become a major precondition for the integration of the macro-region’s economies. This can be explained by the similarity of geographical, climatic and socio-cultural life conditions of the population.

At the same time, there persists the issue of social and economic dependence of part of the population as a phenomenon of consciousness and economic behaviour of the Ukrainian and Moldovan population. In spite of the fact that the Ukrainian, Moldovan and Transnistrian socie-

ties have joined the global process of individualization of economic life, part of the population is nevertheless drawn to the old regime, which implies a narrower space of individual freedoms and minimal individual responsibility. There also persists the phenomenon of a mass “dependence” mentality due to the exchange of economic resources. In Ukraine, Moldova and Transdnistria politicians and representatives of the authorities frequently use the rhetoric of “redistribution”. The dominant moods are those welcoming of greater social assistance programs.

Costs of the Policy of Restriction of Economic Freedoms in the Region

For the idea of the Odessa macro-region (Dniester / Nistru – Black Sea Coast Macro-region) to be successfully implemented, Ukraine should put into life a serious and systematic program of transboundary cooperation and, at least, to stop the attempts of holding an artificial policy of restriction of economic freedom of Transdnistria that undermines the idea of economic integration of the region as a way to resolve and settle the regional conflict.

According to the most conservative estimates, the average annual foreign trade turnover of Transdnistria makes about 770 mln dollars. More than 144 enterprises in the energy, mechanical engineering, metal working, iron and steel works, and other industries ensure foreign economic relations of the region with 59-70 countries¹¹. The major transit of goods goes via Ukraine. This is the major prerequisite for the complementarity of regions within the Odessa macro-region that can serve as a basis for conflict settlement. Should economic integration be implemented as a way to settlement and should this be done in the situation of economic freedom instead of economic blockades and boycotts, Ukrainian transit can become a necessary component of the whole project.

Introduction of new customs rules (economic blockade of Transdnistria) by Ukraine in March 2006 was a step taken against the economic interests of Ukraine and against the idea of economic integration of the macro-region. This decision coincided with signing with the USA of the agreement on Ukraine’s accession to the WTO and the cancellation of the Jackson-Vanik amendment limiting the flow of goods from Ukraine to the USA since Soviet times.

In the situation of a lack of transparency in the official Ukrainian authorities’ policy in relation to Moldova-Transdnistria, the actual sum of economic losses incurred by Ukraine as a result of the introduction of the new customs rules (or economic blockade, according to the Transdnistrian terminology) is unknown to the population of the Ukraine. Similar hushing up of consequences of foreign policy steps caused an irreparable damage to the image of the “democratic” governments of the Ukraine.

To estimate at least the number of zeroes in the amount of this damage we can note that the volume of goods imported from the Ukrainian frontier area is estimated at 270 mln dollars, the Moldovan Steel Works located in Ribnitsa alone in 2004 purchased raw materials from Ukraine for the sum over 50 mln dollars; every month Moldovan Steel Works purchase 100 thousand tons of scrap metal from the Ukraine. Every month, Moldovan Steel Works ship 85 thousand tons of rolled metal products via Ukrainian sea ports. The losses suffered by Ukraine from the introduction of the new customs rules can be possibly estimated at hundreds of millions of dollars¹².

The railway incident of 2006, the main point of which was a unilateral termination of railway communication with Transdnistria by Ukraine, also meant heavy losses for the Ukrainian enterprises and the state. Ukraine quickly overcame this anti-economic decision.

Ukraine has serious business interests in Transdnistria. The overall segment of the Ukrainian business in Transdnistria is of no less than 1 bln dollars a year¹³. However, the existence of business interests does not affect in any way the public operations of the business. In fact, these interests are in “kept in the dark” from public.

Restricting freedom of trade with Transdnistria turned out to be a serious foreign policy mistake of Ukraine that entailed both enormous economic losses and political losses in the form of a self-removal by Ukraine from its natural peacemaking role in the Transdnistrian conflict.

Economic Way of Settlement and Its Europeanization

Researchers, observers and participants of the regional conflict settlement process practically unanimously come to the conclusion regarding the inevitability of the Europeanization of the settlement. At the same time, this conclusion is made not in the logic of war according to the principle of “either / or” but rather in the logic of “and / or”, when Europeanization just supplements the already available substantial components of settlement. The matter in question is in no way an infringement of the rights of any groups of the population, does not suppose some unilateral privileges being given to other groups, nor any immediate cancellation of the socio-cultural distinctiveness or identity of people.

We understand “Europeanization” in the field of conflict settlement as the “process put in action and stimulated by the European institutions and, first of all, the European Union, through tying up the final outcome of the conflict with a certain level of integration of interested parties in the European structures. This tying up shall be carried out by means of specific mechanisms of conditionality and socialization built into the “Europeanization Process”¹⁴. Europeanization can be specifically expressed both in the form of active participation of the EU in the settlement process and in the form of a “framework structure” of such settlement being developed by the EU. Europeanization is always asymmetric, since the other participants of the settlement process, as a rule, have no institutional mechanisms to influence the position of the European Union.

The European Union is paying increasing attention to the Transdnistrian conflict. This is due both to the EU institutional development, and to the change of its policy determined by the accession of new members – Poland, Lithuania and Romania for whom the Transdnistrian issue is extremely important¹⁵.

The EU policy towards Moldova-Transdnistria is conceptually expressed in the European Neighborhood Policy which consists of the proposal by the EU of close cooperation to the countries that at present have no prospects to become its members¹⁶.

Throughout 6 years, the European Union has come a long way in its involvement in Transdnistrian conflict settlement:

- measures taken for the diplomatic blockade of Transdnistria – interdiction to issue visas to representatives of Transdnistrian authorities – 2003;
- intermediation in the Ukrainian-Moldovan negotiations regarding cooperation in border management – 2003;
- formation of the attractive foreign policy alternative of European partnership for Moldova, compared to the Russian plan for federalization of a common Moldovan state – 2003;
- formation of an attractive foreign policy alternative for Moldova, based on European partnership – viz a viz the Russian federalisation plan for a common Moldovan state in 2003;
- EU joining the negotiation process as an observer in the “5+2” format in conformity with Moldova’s invitation – 2005;
- Establishment of the EU Special Representative’s office in Moldova – 2005;
- Creation of the EU Mission to support border management (EU Border Assistance Mission – EUBAM) – 2005.

On the whole, the EU asserted itself as a powerful factor in the process of settlement, a power centre, without which conflict settlement is practically impossible. At the same time, the measures

taken have not yet practically led to the desirable outcome, i.e. settlement of the Transdnistrian conflict based on the European platform. The attempt to transform Moldova into a law-abiding democratic and prospering state that could become attractive for Transdnistrian residents has not yet been successful. The measures of the diplomatic and economic blockade of Transdnistria appeared to be of low effect. Ukraine's assistance in conflict resolution on a European basis is mainly of a declarative nature. The EUBAM border mission has not brought about the anticipated results, i.e. confirmation of the large scale international crimes ostensibly committed by the Transdnistrian elite (smuggled drugs, weapons, trafficked human beings, etc.). The attempt to coordinate and consolidate the EU foreign policy with the foreign policy and rhetoric of the new EU member – Romania concerning the Moldova-Transdnistria conflict has proved to be ineffective. The EU has not been able to set up constructive cooperation with Russia – an important player in the conflict settlement process.

The EU position and policy are changing – the greater attention paid by the EU to Transdnistria itself is very important, as is attention to Transdnistria's internal political dynamics, its prospects of negotiating a solution, the loyalty of its business elite in relation to the European model of frozen conflict settlement. The EU is expanding the application of conditionality principle envisaging not only punishment of the Transdnistrian elite, but also its motivation, especially with the account of its dependence on the export of goods to the EU countries.

The following issues are also important for us. How far interconnected are the economic path for settlement and its Europeanization? What are advantages and disadvantages of the Europeanization of the settlement process? What is the optimal succession of stages in the Europeanization and settlement?

It is obvious that at the initial stage of settlement, the Transdnistrian conflict was on the periphery of EU interests. Subsequent steps undertaken by the EU were rather indicative of the dominating political approaches to the settlement. However, with the Transdnistrian conflict being in stagnation, while the Transdnistrian Moldavian Republic was de facto demonstrating its viability, the insufficiency of the political approach became obvious. At the same time, Moldova demonstrated political tendencies of crisis, while Ukraine appeared incapable of finalizing its policy of the isolation of Transdnistria. The EU displayed interest in the sources of viability of the Transdnistrian economy. Economic integration turned out to be the link that can now unite the whole Moldo-Black Sea region.

Europeanization of Transdnistrian settlement may include the following components: 1) consolidation of freedom of economic activities principle in the macro-region; 2) motivation of economic integration and transboundary interaction of economic actors of Moldova-Transdnistria and the Ukrainian Black Sea Coast; 3) investment in joint transboundary economic projects by the EU; 4) allocation of direct large financial grants for economic integration in the region; 5) inclusion of parties to the conflict in the euro-integration process as a way to settle the conflict; 6) granting of certain type of euro-integration privileges to the settlement participants.

This is the point when the debatable issue of the sequence of Europeanization and settlement stages arises. The following steps should be decided first of all: should participants to the conflict be granted a certain level of neighbourhood cooperation (integration) with the EU as a favorable condition for the settlement, or, on the contrary, it should be declared that this level of euro-integration is a settlement prize for its participants?¹⁷ Taking into account the considerably decreased interest of Moldova's population to the issue of reintegration, one can say that this interest can completely disappear in case of euro-integration (of the Republic of Moldova, in this or that form). This circumstance makes euro-integration of Moldova before its reintegration very problematic. As an argument in favour of this way there can be only attractiveness of Right Bank Moldova for Transdnistria that can be ensured using EU money. However, the way of extending

financial grants to depressive countries is not popular with the EU members, which fact can be proven by the example of Bulgaria that, on the contrary, was financially penalized for the inactivity in its combating corruption.

The issue of representation of regional elites' interests can become a serious objection against the economic way of settlement that may not coincide with the interests of Europeanization. The economic way of conflict resolution, economic freedom and integration on the macro-regional level will considerably lower the importance of political elites of the states in the region and can generate subregional business elites that may underestimate both political sovereignty of the national states and the role of political elites of these states. Today the public in Moldova-Transdnistria and Ukraine is raising the issue of excessive impact of financial and oligarchic clans, their disproportionate and shadow influence on political processes in the region and the situation with national economies and consciousness of the masses in Ukraine, Moldova and Transdnistria. The "economic approach" to the settlement can make these unattractive actors the major subjects of settlement, which might have an unpredictable outcome for democracy in the region.

Both from the point of view of mass consciousness corrupted by political populism and from the point of view of struggle of the post-Soviet elites for spheres of influence, as well as from the point of view of aggravated competition between regional financial and oligarchic clans, the economic approach to the conflict settlement as the major one raises the issue of large scale redistribution of property, as well as the principles and rules of such redistribution. This principle, most likely, will be based on the principle "the bigger absorbs the smaller one". Not everyone likes such a prospect. There appear groups of interests that do not support any form of transboundary economic integration that threatens their well-being and their existence as such. The existing economic risks and political fear operates like a cumulative mechanism, strengthening manifold the opposition to conflict settlement and economic integration.

The main argument in favor of Europeanization is the European advantages related to economic freedom and a high standard of living. These failsafe arguments can become weighty precisely as a result of implementing the program of 'economizing' the conflict settlement process. This is the case when politicians and oligarchs are running a risk, while small and average businesses are getting a chance. Socially and economically dependent groups of the population will go through this polarization: some of them will want to have a dependable and kind owner-employer, while others will go through the syndrome of "fleeing from freedom", being afraid of intensification of their labour activity, pension age increase and denial of habitual social privileges and benefits.

Europeanization in the interpretation of the post-Soviet propagandists having been educated at the Marxism-Leninism universities appears as a stereotypic version of the "bright future", a kind of reincarnated communism in which "everyone will get as much as one needs". The appalling banality of this euro-integrationist propaganda reduces to nothing the advantages of freedom of information and speech, of independent and competent opinion.

Europeanization of conflict settlement is certainly not free of its shortcomings. The traditional type of economic life based on Orthodox traditions and practically slave-type relations including social and economic dependency and parasitism will be overcome. The romanticism of this way of living and its aesthetics will also disappear.

Macro-region cities can and will live better, but they will cease to be Byzantine "capitals" with their parades, presidents and "courts". Many citizens will have their feelings and pride hurt by this.

The European Union has not yet developed a policy in relation to the Russian-speaking population of the former Soviet Empire. This is a very serious shortcoming, which means for this population a loss of their uniqueness (the "Baltic Syndrome").

Europeanization is accompanied by such illnesses as migration, degradation of the social sphere, marginalization of the part of the population characterized by low adaptability to the new lifestyle.

However, this can be balanced by the aspiration for higher level and better quality of life, appearance of a new European identity, human rights protection system, guarantees of safety and freedom from corruption and, eventually, cancellation of the hated borders. In other words, a new and different life ... for a new and different people.

Advantages and Disadvantages of the Europeanization of Transdnistrian Conflict Settlement

Advantages	Disadvantages
Establishment of European quality of life standards for the population	Loss of socio-cultural and language identity by a considerable part of the population
European human rights standards	Degradation of the historically developed type of economic life based on Orthodox traditions
Guarantees of European security in the region	Lower level of individual identity by the peripheral states-participants of the settlement process, loss of a part of their sovereignty
Reduction of corruption	Decreased social level of a considerable part of the population incapable of socialization in the European context
Freedom of movement in Europe	Larger labour migration of the population
Advent of a European identity	“Brain drain” (scientists, doctors)
Expansion of European culture	Degradation of the social sphere (education, medicine) along the lines of the ‘new’ European countries

From the point of view of South Ukrainian experts, the major tool of Eurointegration and socialization of participants to the Transdnistrian conflict settlement process is transboundary cooperation. This idea is reflected in Ukraine’s National Program of Integration in the EU approved in September 2000 and reflected in Ukraine’s Law On Transboundary Cooperation adopted on June 24, 2002

What is amazing is the fact that transboundary cooperation is practically localized only on the Western borders of Ukraine and is practically frozen on its Southern borders, i.e. with NATO members – Turkey and Romania and friendly Moldova-Transdnistria. The reason for this situation is latent conflicts between Ukraine and these countries, with the EU in no way contributing to the resolution of these conflicts.

On the other hand, in the most Southern Ukrainian regions, organization of transboundary cooperation is a responsibility of the offices for international cooperation within regional administrations that have been created and are functioning practically following the Soviet lines and rather blocking than promoting this cooperation.

In modern Ukraine there has appeared something that can be possibly called a Window to Europe that is located on the Ukrainian-Polish border. This is the place where modern European models of transboundary cooperation are being created. The border in the South of Ukraine is of an absolutely different nature and with its own different aims.

Conglomerate Societies in the Macro-region and the Economic Path of Moldova-Transdnistria Conflict Settlement

Considering the prospects and benefits of economic integration in the macro-region (Moldova-Transdnistria, Ukrainian Black Sea Coast), it is important to distinguish in the developed subregions the ambivalence of the existing societies consisting of two components – globalist-postmodern and traditionalist-patriarchal. “Modern societies become similar to a, let us say, conglomerate with two enclaves coexisting within it. The first one “encloses” everything modern and post-modern – it is a “globalization chamber”. The second one is something that is carefully protected, taken care of and cherished as it is traditional, indigenous and dear,” writes a well known expert in international relations A. Bogaturov¹⁸. Economic integration in the Odessa macro-region (“Danube” Euroregion) includes both of these components, but to different degrees and in different styles.

In our works devoted to the internal political dynamics in Transdnistria¹⁹, we note the functioning of these two enclaves in Transdnistria.

Interaction and relationships between the ruling regime and business has become one of the major political issues in conglomeratic societies. Both in Ukraine and in the Right Bank Moldova and Transdnistria, these relations are, to a greater or lesser extent, full of fights and problems. Financial and oligarchic clans are in charge in Ukraine, with the government only just embarking on the process of suppression of oligarchy according to Putin’s model, and establishing masterdom over the oligarchic clans. Right Bank Moldova is characterized by the domination of the government, while Transdnistria has created a scheme of mutual penetration of interests of the authorities and business and of positional turf war for influence which takes place out of the public eye.

It would be a mistake and a simplification to draw a conclusion that only one of the parties to these domination-subordination disputes can be a possessor of the idea of macro-regional economic integration. Actually, both parties are loyal to such integration due to the motives of their own participation and implementation of their ideology of such integration.

The necessary conditions for economic integration in the macro-region can be as follows: 1) guarantees of mutual recognition of ownership rights of the business elites participating in economic integration (this is particularly true for the Transdnistrian property and the property located on Transdnistrian territory); 2) preservation of the conglomerate nature of subregions, including Transdnistria, i.e. guarantee of preservation of the political class of “traditionalists”; 3) propagation of the European model of mutual relations between the government and business; formation of modern management of strategic regional development.

We are proceeding from the fact that macro-region’s societies will for a long time continue keeping the outlines of conglomerate societies and the problem of interaction of globalist and traditional principles will persist in the foreseeable future. This coexistence crystallizes very vividly in the political design of regional societies – in Transdnistria it is a combination of the “star of Sheriff” as a globalist logo and the Red Star as a logo of the Soviet times.

Dividends of Peace and Economic Integration

The major result of Ukrainian participation in the macro-regional economic integration is competitiveness generated in the new entity and the new market. Presently, the regions under consideration are noncompetitive. Their competitive potential can manifest itself only in the conditions of economic integration and prospering transboundary cooperation based on the new pan-European basis.

* A diversified Transdnistrian commercial group with a strong retail brand presence

We understand competitiveness of the region as a European model, as ability of the region to ensure rather high life standards for the population with criteria of this kind of competitiveness being labour migration and inflow of investments to the region. By the definition of the Organization for Economic Cooperation and Development (OECD), a competitive region is, “the one that can attract and support successful companies and ensure higher life standards for the residents in the region. Skilled labour and investments try to “flee” from non-competitive regions to more competitive ones.”²⁰

The idea of competitiveness consists in the fact that a region is based upon clusters, or groups of enterprises united not due to their political belonging to this or that state but according to geographical and economic principles, complementing each other and forming around themselves a pool of providers of different services. The agrarian Right Bank Moldova, industrial Transdnistria and Ukrainian Black Sea Coast ports very well supplement each other forming a uniform macro-region. Clusterization of the Odessa macro-region shows an economic integration vector – from the West to the East, from Right Bank Moldova, via Transdnistria, to the Ukrainian Black Sea Coast.

The criteria for the evaluation of competitiveness of regions in the macro-region that is being presently formed should be like those included in the European Competitiveness Index²¹ calculated for some regions and countries of Europe. The calculations are made according to 40 factors that are grouped as five categories: creativity, economic efficiency, infrastructure and accessibility, employment in the knowledge sector of economy and education. Creativity is estimated as the number of those employed in research, development and design jobs per 1000 persons of the population; expenses for R&D per capita; number of applications for the obtainment of patents per 1 million persons, number of persons employed in the information and communication services sector per 1000 people.

When estimating the competitiveness of our regions, we can see the historical basis that can support economic integration and modernization. These are, first of all, the traditional economic structure and householding type inherent both in Moldova–Transdnistria and in the South of Ukraine. Here is also included a combination of the agrarian-oriented and industrially-oriented regions supplementing each other. The high level of local communities’ consolidation and their solidarity with local authorities is also important. Intensity of communications in the region also plays an important role.

The regional revival mechanisms are well-known. They include new leadership, Europeanization of mentality (standards and strategic planning), as well as the international legal system of transboundary cooperation.

The dividends of peace and economic integration include: formation in the regions of the middle class, holder of the European values; creation of a high standard of living based on the European standards; creation of new jobs and reduction of labour migration.

Dividends of Peace and Advantage of Competitiveness in the Formation of the Odessa Macro-region

Directions	Right Bank Moldova	Transdnistria	Ukrainian Black Sea Coast
Historical basis (structure)	Strong type of traditional householding adapted to local conditions Developed agrarian sector of economy (especially winemaking)	Commanding influence of authorities Developed industrial sector Consolidated territorial solidarity in the region	Developed transport network (seaports, pipelines, railways, highways, etc.). Traditionally high level of communication with Moldovan regions
Mechanisms of integration and economic development	Investment in agriculture and processing industry (first of all, in winemaking) Development of common standards and statistics Common strategic planning	Investments in industrial production, development of new technologies Overcoming of obstacles in foreign trade activities of the enterprises Development of common standards and statistics Common strategic planning	Formation of new regional elite Modernization of transport networks Development of common standards and statistics Common strategic planning
Peace and integration dividends	Considerable growth of export opportunities and export of winemaking products Creation of new jobs Formation of the middle class – advocate of European standards and way of life	Considerable growth of export opportunities and export of goods manufactured by industrial enterprises Creation of new jobs Formation of the middle class – advocate of European standards and way of life	Growth of economic efficiency of the transport sector Formation of “smart borders” in the region Formation of the middle class –advocate of the European standards in the way of life and regional consciousness

The Ukrainian government, being guided by the idea of ensuring equal opportunities to all the citizens of Ukraine, irrespective of the place they live, will aim its policy at the creation of the Odessa Macro-region without being afraid of any destructive political consequences.

The interests of the stakeholders from Kyiv participating in the development of policy for regional development have practically no overlap with the interests of the regions. Their purpose is to deplete the regions, to direct financial flows via Kyiv, via “their own” banks, to make a rule that large enterprises open their representation offices in Kyiv and effect their most important transactions there. The customs predominating in the corridors of power can be illustrated through the fact that when resolving the issue of connection of the new building of the Kherson University and the new ice palace in Kherson to the electricity grid (placing the technical order), we found out that neither the regional authorities, nor the Regional Energy Office could issue

a respective decision or sign the respective documents. Local authorities unanimously say that such issues are resolved only in Kyiv. The present government is concerned only about creation of the “Kyiv shopfront” and neglects the interests of the regions, arranging a huge redistributive Field of Wonders in Kyiv with regions completely dependant on capital subventions, on tranches allocated by officials as prizes for “correct political behaviour”. The present government is indifferent to regional transboundary development.

The process of regional communities’ consolidation, without which it is impossible to mobilize internal resources for the revival of the macro-region, presents a big difficulty. This kind of territorial community consolidation, on the territory artificially delineated by Bolsheviks into regions (oblasts) is impossible. The most important condition for consolidation is going beyond the boundaries of regional division and formation of natural territorial communities on the territory having a common historical past and a common economic complex (clusters), affinity of a socio-cultural nature (language, traditions, mentality, character, behaviour patterns, etc.). The Dniester / Nistru – Dnipro macro-region (Odessa macro-region) can become a format for the new territorial community, a new European macro-region.

A specific feature of the Odessa macro-region is the domination of the Russian language in economic communication. This takes into consideration the Russian language’s potential in the region, its prevalence. According to the International agency “Eurasian Monitor”, having held a survey of prevalence of the Russian language in 2007, those fluently speaking, writing and reading in Russian make 70% of the Ukrainian population, another 13% can fluently speak and read but are writing with mistakes. In Right Bank Moldova – 51% of the population fluently speaks Russian and another 19% fluently speaks and reads but writes with mistakes²². According to the survey held by the Eurasian Monitor those fluently speaking Russian in Transdnistria make 62% and another 31% can fluently speak, but write with mistakes²³. The Russian language has for a long time been the key language for the experts involved in the Transdnistrian settlement and regional cooperation.

It is necessary to take into consideration the variability of political development scenarios of regionalism in the area of Moldova-Transdnistria and Ukrainian Black Sea Coast. Several options are possible moving forward:

- Creation of the “Dniester / Nistru” Euroregion or Odessa macro-region in the specified area and implementation of the European model of regionalism;
- Economic integration is localized in the form of the creation of transnational cartels, holdings, corporations and in the conditions of formation of neutral status of the states in the region does not result in the formation of effective transboundary forms of integration;
- Economic interaction and transboundary cooperation does not become transformed into integration, does not result in the creation of supranational structures and shall be subject to a low level stagnation;
- Rejection by the states in the region of economic interpenetration, preservation of the Frozen Conflict, relapses of economic embargoes, violation of economic freedoms, tendency towards isolationism and economic depression.

The uniqueness of the future macro-region is associated with a complex interconnection of geopolitical interests of the power centers on its territory: the USA, Russia, EU and other countries. The effect of these interests can both slow down and speed up formation of the Odessa macro-region.

Conclusions and Recommendations

The major conclusion that we made as a result of our analysis of the situation existing in the region²⁴ is that economic integration and cooperation are invariant in relation to any other settlement issues. The Frozen Status of the Transdnistrian conflict, its stagnation, the lengthy duration of the existing economic freedom restrictions, negatively affects the economy and the social well-being of the population. The conflict in Moldova-Transdnistria is a source of economic complications not only for Moldova-Transdnistria, but also for Ukraine, that, in fact, has incurred huge, multimillion losses from the imposing of new customs rules on the Transdnistrian segment of the Ukrainian border.

Economic integration of Moldova-Transdnistria would be an incomplete and insufficient way out of the existing situation. Reintegration of Moldova in the narrow sense of this word does not take into consideration some points, the first being the context of the existing Moldovan-Ukrainian and Transdnistrian-Ukrainian economic cooperation, the second – the complementary nature of the regional economy of Right Bank Moldova, Transdnistria and the Ukrainian Black Sea Coast, the third one – mutual acceptability of economic integration of the South of Ukraine with Right Bank Moldova and Transdnistria as opposed to reintegration in the narrow sense of the word.

The most effective and mutually acceptable macroeconomic format for the powerful economic integration process could be the formation of the Odessa (Dniester / Nistru – Black Sea Coast) macro-region based on an essentially new level of transboundary cooperation in the Dniester / Nistru river basin and the Ukrainian Black Sea Coast.

The possible name of “Odessa macro-region” could be acceptable for the conflicting parties and would strengthen the regional role of Ukraine. Odessa, the largest city in the macro-region, mother of peculiar economic and commercial culture, is an attractive cultural, intellectual and economic centre in the macro-region where people come from all corners of the macro-region to recreate themselves, do shopping, study and carry on business.

The existing practice of formal transboundary cooperation can be overcome only in a legal way, ensuring an upgraded legislative framework both for transboundary cooperation as a whole and for the formation of the Odessa macro-region in particular. These laws should define the priority of the integrated territorial approach versus the notorious chain of command (administration in the economic sphere).

Creation of a single Information and Statistics Centre for the macro-region’s development could become a good start for integration. It is not steel but information that is the main issue for economic integration today. This integrated centre could be created under an arrangement between Moldova, Transdnistria and Ukraine and agreed in the “5+2” format with other participants of the negotiation process. The EU countries could render financial and expert assistance ensuring Europeanization in the creation of the common information and statistical system for the infrastructural development of the territory. It is necessary to have common criteria for the economic development evaluation, fixing of statistic standards and creation of a joint database of comparative statistical data on the macro-region.

A major step towards the creation of an integrated economy of the macro-region could become a Strategy of its development for the period of 2008 through 2028. This Strategy could define the principles and directions of rapprochement of the economies in the regions (countries), as well as goals and methods of assurance of the macro-region’s sustainable development. Development of such a Strategy could become a joint project for economic institutions of Odessa, Tiraspol and Chisinau supported by the EU grant (Transboundary Cooperation).

Attention should be focused on the Leadership School for regional elites. Unfortunately, the existing regional elites in the Southern regions of Ukraine and, possibly, in the adjacent border

regions of Moldova-Transdnistria are not capable of leading the development of the regions towards better life; they have neither sufficient education nor sufficient will, interest or necessary abilities. The creation of such a Regional Leadership School could become a mega project for the third sector of our countries.

For the successful promotion of the idea of economic integration in the macro-region it is necessary to work out and adapt economic development models: regional differentiation of credit and tax policy, support of special economic zones and depressive regions etc.

It would be expedient to create in the macro region a Standing Annual Moldovan Economic Forum devoted to the issues of transboundary cooperation, creation of the economic macro-region and modernization of its economy. The Moldovan Economic Forum would become a platform for creative activity of economists in the region, a place for sharing ideas and information between economists and managers of Moldova-Transdnistria and Ukraine. The Forum's products could be used by the policy-making agencies and economic policy entities in the macro-region. At the same time, it would perform the role of public mobilizer towards settlement of regional problems, attraction of investors and training of regional elites in the issues of macro-regional management. The Forum could be held alternatively in Odessa, Chisinau, Tiraspol, Kherson and Mykolaiv.

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Nikolay Osinenko

PUBLIC OPINION CONCERNING THE DEGREE OF SOCIOECONOMIC PROTECTION OF SMALL BUSINESS IN TRANSNIESTRIA

The study examines the issue of socioeconomic protection of small businesses in Transdnistria, with the goal of studying the social needs of individual entrepreneurship, and proposing governmentally supported mechanisms for the small business sector, based on the information and data analysed for the development of the present paper.

The conclusions of the author are based on the results of a sociological survey conducted in the Transdnistrian region in the spring of 2007. The survey was conducted in order to examine the relationship between state and entrepreneurial structures.

The conclusions of the author refer on one hand to the negative impact that the lack of information about the value orientation and activity motivation of civil servants has on the entrepreneurial sector, and on the other hand, to the effects that the lack of settlement of the Moldova-Transdnistrian conflict has on the entrepreneurial activities, reducing and restricting them. The analysis of the functioning mechanisms of small enterprises in Transdnistria shows the need to revise the labour legislation in order to adjust it to the conditions of the market economy and bring it to compliance with the norms of the international law. The author also mentions the need to eliminate the legal "nihilism" of the managers of small enterprises and to increase the employers' responsibility for compliance with the labour legislation in force. Furthermore, the paper mentions the need and identifies the solution for the drastic transformation of the tax reform in order to strengthen its motivating effects on the entrepreneurial activities: establishing a maximal level for the tax burden that can be imposed upon the small business sector.

Lastly, the article notes the influence of the Moldovan-Transdnistrian conflict on development of the entrepreneurial sector in Transdnistria. The delay in the settlement of the existing conflict, and socioeconomic and political instability associated with it proves to be a draw-back in the implementation of the needed measures for the efficient development of the sector of small and medium business. The business and social environment produced due to these factors affects both banks of the Dniester / Nistru, generating uncertainty about the future among the entrepreneurs.

In a democratic state, the legislation providing the frame within which the stakeholders' needs are addressed and rights and responsibilities prescribed is developed and approved in close cooperation with the people whose interests are affected by the legislation in question. In the case of the Transdnistrian legislation that regulates the development of small and medium businesses, the emphasis is put mainly on the responsibilities of the economic actors, leaving aside or barely touching upon the topic of rights. As a consequence of such a "narrowness" of the legislative base a low level of social protection has developed, affecting negatively the interaction between the private and state sectors, and contributing to the growth of the social-psychological tensions between social groups.

The lack of information about the value orientation and activity motivation of civil servants on the part of the entrepreneurial sector, combined with the lack of settlement of the Moldovan-Transdnistrian conflict has had a negative impact on handling the issue of socioeconomic protection, reducing and restricting the entrepreneurial activities.

The purpose of this study is to examine the social needs of the individual entrepreneurship and, based on the obtained information, to elaborate recommendations in order to improve the state support mechanism for small business.

The present study has as its subjects the representatives of small business'. This is coupled with an analysis of the public opinion among individual entrepreneurs concerning the issue of their socioeconomic protection and with their evaluation of the implementation mechanism of the legislative activities with respect to the economic sector they represent.

In order to achieve the purpose of the study, the following practical tasks were identified and conducted:

- Analysis of external and internal factors affecting the development of small businesses in Transdnistria.
- Evaluation of the actual state of legal protection of the small entrepreneurs;
- Evaluation of the impact that the supervisory bodies have on the small business development;
- Evaluation of the level of socioeconomic protection of individual entrepreneurs;

1. Problems associated with development of the small business sector in Transdnistria

After the breakdown of the USSR, in most difficult political and economic conditions Transdnistria was forced to choose its own, separate development path. Breakage of the interregional economic links, the loss of raw material and sales markets, customs restrictions, the appearance of different currencies, the decline in production and the worsening of the living standards served as the starting point for the entrepreneurial activities in the region. At that time (beginning of 1990's) small enterprises did not have any clear legal status or form as in the context of the time's legal confusion no state structure dealt with issues related to small businesses.

For the enhancement of the economy and its flexibility as a whole, the activities of small companies turned out to be an important, determining factor. Based on the level of development of small business, specialist analysis can be made of the ability of a country to adapt to a changing economic environment. For Transdnistria this period represented the creation and development of the private sector, which eventually became one of the building blocks of the process of social restructuring, ensuring the preparedness of the economy and the Transdnistrian population for the transition to the market economy. In spite of difficulties and failures, small enterprises keep on developing and gathering pace, while solving economic, social and scientific-technical problems.

In the spring of 2007, a sociological study was carried out in the Transdnistrian region by the author himself, with the aim of studying the nature of relationship between the state and the entrepreneurial structures. The researched focused on the opinion of small business representatives, with 167 individuals taking part in the survey.

Recently a lot of attention has been given to the above mentioned problem in the sociological literature. A. Popov believes that small businesses are deprived of any social protection¹. This lack of social protection is one of the reasons for social-psychological tensions that can be felt in the relationship between the state structures and small business entities. All legislative initiatives – i.e. provision of social insurance to entrepreneurs and of retirement pensions, the recording of work experience in labour archives by tax inspectorates for those working under patents, provision of sick leaves, etc – exist mainly in theory, and function very poorly in practice.

G. B. Kleiner emphasizes that if today in the post-Soviet space an entrepreneur is considered to be a real "economic person", then his/ her economic rights should be protected similarly to the rights of any other person within the society. Thus it proves that there is a need for an institution that would protect the rights of the entrepreneurs similarly to the institute of protection of human

* Editor's Note: in Transdnistria

rights. The role of the institution should include not only the defence of the entrepreneurial rights from the possible abuses of state officials, law enforcement bodies or consumers, but should also include methods of settlement of arising conflicts and the harmonization of relations between the group in question and other groups².

While talking about difficulties of small and medium-sized businesses, L. D. Kuchma acknowledges the fact that a strong bureaucratic mechanism opposing the development of this sector was formed and is still being reproduced in Ukraine. This means not only the simple bureaucratic inability to fulfil its functions efficiently but also the direct mooching of many officials on the small and medium businesses.

The processes of development and maturing of small enterprises in Russia, the quickly growing number of people employed in this sector highlighted, as we have already mentioned, the problems of their social protection. These problems are related to the fact that unlike large enterprises, most small businesses lack the necessary financial resources (especially at the initial stage of their activity), and the needed social infrastructure, are under-equipped from the production and technological point of view and their labour protection measures are rather unsatisfactory. As a result of all of these factors there is a significant increase of work related injuries, including those resulting in death

The analysis of the functioning mechanisms of small enterprises in Transdnistria shows the need to revise the labour legislation in order to adjust it to the conditions of the market economy and bring it to compliance with the norms of the international law. There is also the need to eliminate the legal “nihilism” of the managers of small enterprises and to increase the employers’ responsibility for compliance with the labour legislation in force

International experience shows that unlike large enterprises, small businesses are less sustainable, their operation involves higher risk factors and they are more vulnerable to external socioeconomic factors and market conditions. These aspects bring us to further problems of this economic sector like: bankruptcy, and the need to consider this phenomenon when implementing a range of measures aimed at rehabilitation of bankrupt enterprises, job placement, training and social support for employees of small enterprises. This is why it is imperative to (i) carry out a reform process in Transdnistria for the system of state pensions and social and medical insurance, (ii) to envision the transition to the three-tier system of insurance that operates in countries with market economies (state – employer – wage workers) and (iii) to create conditions for the development of non-governmental type of insurances³.

Based on the analysis of the entrepreneurial environment in Transdnistria, we can identify a number of reasons which can hinder the development of small businesses, despite higher attention paid to problems of the private sector:

- a. the difficult economic situation that prevails in the country – inflation, decline in production, severance of economic ties, worsening of payment discipline, high levels of interest rates, weak legal protection;
- b. a low level of organizational, economic and legal knowledge of entrepreneurs, lack of proper business ethics and economic culture both in small business and in the government sector;
- c. the negative attitude of certain parts of the population that relates entrepreneurship only directly to intermediation, sale and purchase;
- d. incomplete development of organizational and legal bases for regulation of entrepreneurship at the regional level; and
- e. weakness of operation of the mechanism of state support of small enterprises.

The negative effects of the existing economic situation are experienced by the small businesses in all aspects of their functioning. The level of inflation and growth of prices for all inputs drive

many small businesses to the verge of bankruptcy. The first economic actors that are affected by this are those conducting their activity in those fields of goods manufacturing and services that require raw materials and other materials the costs of which are the first to rise on the market.

The production process is also affected by the tax burden and customs restrictions. The existing economic conditions undermine incentives for entrepreneurial activities and weaken the entrepreneurial will. The main problems of the Transdnistrian small business sector identified during the above mentioned sociological research are:

- Economic and political blockade;
- Lack of clear legislation;
- Inflation;
- Supplies deficit;
- Difficulties with receiving credits;
- High loan interest rates;
- Insolvency of partners, clients;
- Flaws of the banking system;
- Bureaucracy;
- Insufficient production areas;
- Actions of the Government, of authorities;
- Corruption, bribes;
- Insufficient material basis;
- Problematic financial policy of the state;
- Actions of the Central Bank of the TMR;
- Sales;
- Search for clients, customers;
- High prices for raw materials and materials;
- Monopoly of the state, of state-owned enterprises;
- Difficulties with lease;
- Severance of economic ties;
- Insufficient information;
- Lack of business culture, experience;
- Unreliable partners;
- Problems with property;
- Staffing problems;
- Lack of own funds;
- Low profitability of production and investments;
- Large, cumbersome reporting;
- Very few benefits;
- Racket;
- Unprofitable investments
- Competition;
- Imperfections in the market;
- Lack of trust of Western partners;
- Negative attitude to entrepreneurs.

This enumeration of the problems that local entrepreneurs are faced with attests to the lack of necessary conditions for the healthy development of entrepreneurship in general and small business in particular.

Other relevant challenges for the small business sector of Transdnistria are: the economic and financial-monetary blockade, the complication of credit and settlement relations with post-Soviet states and the absence of a common customs policy with neighbouring countries.

2. Crisis of institutional structures

Within a state the management of the national economic processes is provided by the Ministries or other similar bodies (committees, departments). The experience of many countries shows that the optimal number of Ministries within the state structures is 12-15, out of which the following ministries are mandatory: Finance, Foreign Affairs, Defence, Internal Affairs, Healthcare plus one or two others, these depending on the specifics of the country in question and national traditions. Thus, for example, in Taiwan, the executive power is made up of only 6 ministries, in Malaysia and Singapore 11, in Thailand 12, in Australia 16, in New Zealand 18, in Great Britain 20, in the USA 11, in Moldova 16 and in Transdnistria – 12.

In a transitional economy the questions of market transformation concern not only the economy itself, but the state structure as well. Analysis of the system of branch (interdepartmental) management existing in Transdnistria demonstrates the unjustified number of ministries (committees) and artificial allocation of functions between them.

The number of ministries (committees, bureaus) that existed before the beginning of the executive authorities' reforms was clearly incompatible with the economic potential of the republic, and moreover, with dynamics of macroeconomic parameters. Thus, in the course of 1995-1999, the growth in number of managerial staff at all levels was accompanied by a worsening of the macroeconomic situation. This led to the duplication of functions, increase of transaction costs, and increase of chronological costs associated with the elaboration, coordination and managerial decision-making. A significant number of departments created significant restrictions for the liberalization of entrepreneurship and increased aggregate load on the state budget.

Besides, parameters of the state governing system as quality, competence, orientation towards strategic goals, correlation between managerial costs and dynamics of macroeconomic parameters, etc. do not comply with requirements. An excessive number of state institutions confirm the Pareto rule that 20 % of employees perform 80 % of useful work.

The state can be efficient only if its functions are performed by a small number of highly professional and highly paid staff, which bears real (personal) responsibility for the elaboration and execution of the programs of socioeconomic development. The amendments to the Constitution of Transdnistria and the reforms of the executive authorities are aimed at the achievement of this goal. The establishment of the Cabinet of Ministers contributed to changes in the strategy and methods of management, improvement of competence and responsibility of managerial personnel. The state executive staff should concentrate a significant part of the intellectual and entrepreneurial elite of the region and should be formed on a competitive basis.

The prospective activities of the ministries have to be aimed at statistical functions (gathering and submission of information), which are clearly seen in analysis of periodical press and reporting documents, at the elaboration of concepts and identification of priority areas of socioeconomic development, formation of principles of the investment policy, promotion (maintenance) of an optimal competitive environment and creation of preferential conditions for development of business.

The optimization of macroeconomic management assumes the creation of symbiotic relations between the Cabinet of Ministers and the entrepreneurial elite, in the framework from which all artificial barriers for development of entrepreneurial activities have to be removed.

Employees released as a result of the reforms of the executive authorities could have been able to organise new units of private and corporate business by using their experience and knowledge

of the sector. Such an approach would have also allowed to conduct a retrospective assessment of the work of ministries and departments proposing a number of measures aimed at streamlining activities of the new Cabinet of Ministers.

Within the new management structures it might be reasonable to create an Economic Security Council, which would coordinate the elaboration and implementation of a transitional economy model, as well as of a Consulting Service Centre.

Heads of Ministries (committees) have to understand fully their direct responsibility for the economic situation in the republic, to give up the excusatory approach to its evaluation (errors of legislators, inadequate behaviour of entrepreneurs and population, natural calamities, negative processes in external environment, etc.) and to unite efforts of all interested parties in order to elaborate and implement anti-crisis measures. It seems reasonable to attract entrepreneurs with all organizational-legal forms of businesses to elaboration (expert testing) of normative documents and programs of socioeconomic development of the republic. Such an approach allows the elimination of possible conflicts and the taking into account more adequately the needs of entrepreneurial structures.

The clearer delimitation of the managerial functions between the institutional structures of various levels (republican, district, municipal) should contribute to the improvement of managerial efficiency. It is necessary to exclude any managerial inversions (cancelling or blocking of decisions of superior bodies by subordinate bodies) and to ensure the simultaneous adoption of legal acts (for example, budgets of all levels). The decision-making system has to exclude emergency changes in the regulatory-legal base and has to prove reliable and understandable for the potential counterparties.

3. Issues of taxation

Though it is known that a reasonable fiscal policy is one of the most important factors of normal functioning of entrepreneurial structures, the current tax system in Transdnistria is not oriented towards the motivation of entrepreneurial activities. The fiscal legislation of the Transdnistrian region is characterized by frequent changes, which are made without detailed analysis and forecasting of possible consequences, and also without preliminary discussions and consultations. There are no regulations, instructions or explanations related to the determination of tax payments, there are ambiguous interpretations, unclear definitions. All of these defects are compensated by instructions and explanations by tax inspectorates with permanent delays. The tax policy does not fulfil the functions of promoting efficient production and entrepreneurship development, balancing the demand and supply of the internal market, it rather plays a fiscal role of providing for the needs of the state. The taxes exercise a significant fiscal pressure on the entrepreneurial structures, a fact which entails a whole range of negative phenomena (growth of the informal sector, artificial reduction of the tax base in accounting documents; use of various money "substitutes", growth of debts and insolvency within enterprises; washing out of working capital).

Strengthening of fiscal pressure is a dead-end track, as it does not lead to the elimination of the main reason of the region's tax crisis, the permanent narrowing of the tax base due to the continued decline of production and the growth of the number of loss-generating enterprises, which in its turn is conditioned by the rather rigid economic course of the government.

The issue related to tax rates is a central one. American scientists, when studying rates and volumes of tax revenues of the budget, concluded that there is a close interconnection between them, known as the Laffer curve. An optimal tax rate that ensures the largest tax revenue to the budget is of 35-50 %. Higher rates negatively affect the state of the economy, as they result in the narrowing of the taxation field and the reduction of the total amount of tax collections.

The tax system of the Republic of Moldova is rather competitive at the international level, even in comparison with most of the post-Soviet countries. The highest rate of personal income tax is only 18 %. It is much lower than the international level which is 30%. These aspects are presented in a research report of the United States Agency for International Development (USAID). The report specifies that the personal income tax rate in Moldova is lower than the average rate of the Central and South-Eastern European countries and is much lower than the 50% rate in Slovenia or 40 % rate in Poland.

USAID analysts stated that the 20 per cent rate of the income tax for legal entities in Moldova is lower than the average rate in other countries of the world. At the same time, the report contains information about the 20 per cent VAT of Moldova. This rate is a little bit higher than the world average level, however, it does not exercise any serious influence on international competitiveness of Moldova, as it does not touch upon comparative costs of inputs of the country and does not directly increase business expenses⁴.

In terms of the average income per capita Transdnistria is among countries ranking last, with the lowest income per capita but in terms of the level of taxes it follows the highly developed countries. Meanwhile, the unit weight of income to GDP grows year by year.

High taxes lead to the situation when law-abiding taxpayers go bankrupt in the long-run, people are dismissed and end up unemployed, and payment of allowances to them requires additional costs for the state. At the same time, non-law-abiding persons start evading the tax burden becoming a part of the shadow economy sector. The Transdnistrian reality is full of such experiences. The most common way to avoid paying taxes is the maintenance of double accounting, concealment of some profits by means of overstating costs and volumes of production, undocumented receipt of cash for sold goods, use of false documentation (primarily invoices) when providing goods for trading outlets, accrual of cash receipts to somebody else's accounts based on mutual agreement. These are some of the methods of profit concealing, which leads to reduction of income to the budget. Using high tax rates, the state pushes entrepreneurs to the shadow economy.

Shadow economy is entrepreneurial activities carried out outside the legal field. According to various sources, today the share of the shadow economy is up to 40 % of production volumes in Transdnistria. Withdrawal of entrepreneurship to the shadow sector is determined though not only by tax evasion. It is a natural response to financial instability. Moving to the "shadow" allows entrepreneurs to avoid at a certain level the risk of losing accumulated capital due to inflation or of going bankrupt together with their serving bank. On the other hand, the expansion of the shadow sector, through its replenishment with new entrepreneurial structures, in its turn, negatively affects the already undermined Transdnistrian financial-banking system, as in this sector the universal currency is the dollar and not the rouble.

It is quite obvious that in order to ensure a sustainable economic growth, it is necessary to carry out a revolutionary transformation of tax reform, strengthening its motivating influence on entrepreneurial activities. In order to achieve this goal, it seems reasonable to determine the maximal level of the tax burden. The reduction of the total amount of taxes would lead to a significant growth of competitiveness of Transdnistrian goods both on the foreign and domestic markets, a fact which would ensure implementation of the import substitution policy (squeezing out part of the foreign goods from the domestic market). It would also allow increasing requirements imposed upon the taxpayers, as they would be deprived of any possibility to explain their tax evasions by extremely high tax rates.

A prospective tax system has to ensure the optimal execution of the following tasks:

- a. provision of financial resources for the income part of the budget;
- b. promotion of economic activities;

- c. provision of maximal social fairness;
- d. simplicity of calculations and efficient collection of taxes; and
- e. stability of taxation.

For the purpose of the convergence of national, corporate and personal economic interests it is necessary to ensure a broad literature and mass media based dialogue on the main principles of taxation. Such an approach would allow the creation of a new compromise (based on consensus) motivated document contributing to the growth of the GDP and to the efficient resolution of state and social tasks.

All these information prove the need of elaboration and implementation of a system of measures aimed at the legalization of the shadow capital. At the same time one should bear in mind that the application of punitive measures to the actors of the shadow economy sector is futile and might lead to the irrecoverable losses of investment resources of this sphere. The withdrawal of such resources from the mentioned sector is possible only on the basis of creation of a relevant system of legal guarantees and economic incentives for the economic entities (participants of the shadow capital).

4. Monetary policy

Together with the tax system, an important role in the state regulation is played by the monetary policy.

According to its charter, the national bank of Transdnistria holds the control and coordinates the work of the other existing commercial banks. The main goal of the TMR is control over stock of money in the republic and over credits. This control has to be carried out by means of a monetary policy. When the entrepreneurship experiences difficulties, the Republican bank has to increase the amount of money in circulation and facilitate access to credits. But when prices start growing too fast, the strategy of intervention comprises of the reduction of the money supply and limiting credits. However, as practice shows these issues are not addressed on a proper level.

Today, the banking sector of Transdnistria proves to be more interested in large projects with short return periods. In spite of the fact that many banks have consistent money reserves and they announce their availability to credit small business, practice shows differently.. It is extremely difficult to make free financial resources work for the benefit of small business due to the following reasons:

- Small enterprises do not have adequate credit security. It is known that small businesses were created from bottom up as a result of private initiatives of citizens. As a rule, it had nothing to do with privatization and did not get funds of former state-owned enterprises;
- Credit resources are very expensive;
- Collaterals for credits that are rather difficult to be repaid now under the present legal basis and conditions for handling cases in economic courts.

Another alarming fact is the lack of initiative of the Transdnistrian entrepreneurs for acquiring funds from the credit lines made available by the above mentioned banks. Many of the economic actors complain not only about high interest rates even for small amounts but also about the difficulties with the provision of collaterals. The entrepreneurs do not risk using personal property – cars and apartments – as collaterals, explaining this choice with the unpredictability of life.

Individual entrepreneurs, who do take credits occasionally, also complain about difficulties. Their arguments are simple: a businessman in Transdnistria can earn in average from 5 to 15 % interest rate in a foreign currency, and interest rates on credits in a foreign currency are not lower than 14-15 % plus taxes, rent. In addition, credits are granted for a short period, during which it

is very difficult to do something. Besides these restrictions, banks credit enterprises that have a demonstrated permanent, stable yearly turnover. Banks in order to credit a business need good indicators; as the small businesses quite often need to conceal their revenues and not issue the needed documents the banks delay the granting of credits.

The challenges posed by the resources deficit for small businesses are complicated by the fact that the economic actors cannot make full use of existing channels of resource provision. In particular, small enterprises cannot be (especially at the initial stage) permanent participants of exchange trades.

Another severe problem of the entrepreneurship in Transdnistria is the lack of market environment, which means institutes that facilitate the continuous movement of resources and capital (exchanges, stock markets, capital markets, labour markets, innovation, consulting firms, broker firms, insurance, holding, trust companies, transport system, warehouses and container resources, supply and sales agency, etc.).

5. Administrative barriers.

In order to create the conditions for development of entrepreneurship in Transdnistria as an important factor ensuring economic growth and employment of the population, the following measures were developed aimed at eliminating the administrative barriers for the development of entrepreneurship:

1. The main tasks of the state in the implementation of policies aimed at the development of entrepreneurship in the country:
 - a. reduction of administrative barriers for carrying out entrepreneurial activity;
 - b. reduction of the number of government bodies that license entrepreneurial activities and full regulation of licensing activities by superior state authority bodies;
 - c. clear delimitation of functions related to licensing, control and state regulation between different executive power bodies.
2. The executive authorities and related structures that carry out the licensing of certain types of activities should prevent the reduction of the legal validity periods of the issued licenses, decrees of the President of the TMR and decisions of state power bodies.

For a rather long time some social-psychological tensions can be detected in the relationship between the state and the small businesses, tensions that are caused on the one hand by the low level of legal and economic knowledge of the representatives of small business and on the other hand by the very few possibilities of access to information that would facilitate the understanding of regulations and conditions in which an entrepreneurial activity can be conducted. During the implementation of a questionnaire survey intended to be the main information source of the manner in which the entrepreneurs access the above mentioned regulatory information, the majority of the respondents, 61.9 % of the total number,* identified the mutual exchanges of rumours inside entrepreneurial circles as the main source of information. This shows an increase of 7 % compared to 2006. 33.3 % of the respondents identified the mass media as their information source used and only a small number of respondents said that they use regular dialogues with state officials and participation to rare business conferences and workshops (7.7 %) as information sources.

Disagreements between the state and representatives of the small business sector are aggravated also because of the ignorant manner in which the interests of the small businesses were treated by the state officials which led to the lack of objective information about the real situation of the small business sector in the country.

* Hereinafter in parentheses percentage distribution from the total number of respondents is shown.

The danger of accessing the needed information through a partner, neighbour or friend is the distortion of the actual information as many legal documents are interpreted without full understanding, mainly based on one's emotional state. Every second respondent declared that they have no knowledge about the existence of legal frameworks for small businesses. This aspect confirms the need to create a state-wide information database for representatives of small businesses, which would allow the correct interpretation of the current legislation. The final results of the survey show that in the last 2 years the access to information of small businesses had changed for the worse.

The current legislative process aimed at the small business sector is perceived in an extremely negative manner by entrepreneur.

The existing conflicts between the representatives of the state and the ones of the small businesses are closely related to the transitional period and its contradictions that appeared in the modern society. These conflicts are aggravated by the process of transition to a market economy and new conflicts appearing on the base of the growing inequality produced by the appearance of new social groups, of a class of entrepreneurs and owners. A new social contradiction is formed in the society between the elite that represents various groups of new owners and the vast majority of people moved aside from ownership and from power. On the basis of a worsening of the crisis in the society, which leads to collisions of various forces and communities, social conflicts are aggravated leading to more conflicts between social groups (in this case, between state officials and businesspeople).

Most respondents (92.3 % of the total number of respondents) are not happy with the current legislation in the field of small business. In their opinion, it is necessary to introduce changes and additions to the legal base, aimed at the improvement of small business. In this case the legal initiative should come directly from the unions of the entrepreneurs, who know all drawbacks of the existing legal system from their own experience. In the opinion of the respondents the legislation protects mainly the interests of the state and not those of the entrepreneurs, as it emphasises the responsibilities of the small businesses, leaving aside their rights (89.3 %). In the opinion of respondents the "weakness" and "narrowness" of the modern legislation for small businesses, is confirmed by the low level of social protection of its representatives (85.8 %). In the course of sociological survey the lack of, social security was repeatedly mentioned (special allowances, pensions). Approximately the same situation exists in Russia as well. According to the survey conducted in 2006, in order to protect small businesses it is necessary to ensure the equality of all citizens before the law.

As for drafting laws that determine the development of small businesses in Transdnistria, the majority of respondents believe that the state officials responsible for the elaboration of the legalization do not take into account the basic requirements of legislative document preparation. The drafted laws often do not have full clarity (81.4 %) so many entrepreneurs do not understand the laws provided for their perusal and, as a consequence, do not interpret them correctly. Some documents – especially those related to the (i) registration of an individual entrepreneur and (ii) receiving permissions for trade – are considered groundless, overlapping with each other (83.3 %). In the case of a detailed review of normative documents many respondents noted the absence of the mechanisms of mutual obligations between the state and small business entities (82.4 %). First of all, only the obligations of entrepreneurs are determined without mentioning the responsibilities of the state as supervisor which monitors the correctness of the interpretation of all regulatory-legal documents. Most respondents believe that the corner stone of the current legislative system is the fact that state bodies do not have objective information about the current economic situation of entrepreneurs (92.2 %). The aim of the current draft laws is either to increase tariffs or to impose additional taxes on all small businesses. Before elaborating

such documents, it is necessary to determine the actual economic situation of entrepreneurs, to prepare socioeconomic forecasts of small business development in case legal acts are introduced, which will cause additional material costs for small entrepreneurs.

The consequence of the lack of reliable information exchange channels is the growing psychological alienation between representatives of state structures and representatives of small business. The representatives of the small business community have the negative image of a state official indifferent to the needs and interests of entrepreneurs, while their attitude towards the small business sector resembles to that towards criminals, plunderers who gain their revenues illegally.

According to R. Merton⁵, the same society can foster different understandings and reactions towards social traditions and feelings: for some groups these traditions prove to be functional, for other groups dysfunctional. This happens as a consequence of the social and cultural events of different social groups where members of other groups are not taken into account. R. Merton suggests actually taking into consideration those aggregate social units for which this social or cultural phenomenon is functional. A special possibility should be envisioned that social phenomena could have various consequences – functional and dysfunctional – for different individuals and sub-groups, and also for a broader social and cultural context.

The research results obtained are confirmed by data prepared by Russian sociologists. The degree of mutual trust between entrepreneurial structures is far greater than the level of trust between entrepreneurs and state structures. Therefore, one can talk about qualitative differences in the nature of relations between Russian entrepreneurs and civil servants.

Most interviewed Transdnistrian entrepreneurs (48.6 %) believe that the representatives of the state structures show permanent opposition and raise obstacles in the way of the entrepreneurial activities. The number of respondents that states this possibility rose by 11.6 % in comparison with 2006. If two years before the survey many entrepreneurs identified the presence of both support and opposition to a certain degree, during the survey a change of attitude could be felt, especially in the context of the conflict between traders and authorities of Transdnistria concerning installation of cash registers, which changed their attitude to state bodies. Sharp criticism of the existing state policy in the field of small business led to a decrease in trust of entrepreneurs to state bodies. Now only one third of respondents note low trust to state structures, negative assessments are made by 85.8 % of respondents, which is by 11 % more in comparison with year 2006.

The results of the survey show that the reason for the existing psychological tension is the state officials' attitude of indifference towards the future of small businesses. In the opinion of entrepreneurs, this indifference is demonstrated by reluctance to address most of the above mentioned issues, on which entrepreneurial activities depend.

A 2002 sociological survey, conducted in Samara Region shows that the attitude of the entrepreneurs towards the authorities are formed based on their experience in working with civil servants at different levels and for different services. A major part of the Russian entrepreneurs hold the strong belief that officials are interested only in financial motives. Only one third of the respondents considered that the development conditions for small businesses in Samara Region as good, the rest characterized the level of small business development as low. Transdnistrian entrepreneurs hold similar opinions in this matter.

While assessing the prospects of small business development, the majority of respondents spoke in favour of the establishment of several entrepreneurs' unions which would be able to resolve vital issues related to small business development, while expressing prevailing opinions: legal consultations, legislative initiative, and protection of rights and interests of entrepreneurs. Many people have realized that individual development is not the way out of the existing situa-

tion. In essence, an entrepreneur faces all problems by him-/ herself, which proves to be difficult to handle without support.

Presented sociological results also confirm the tendency of formation of strong entrepreneurial unions. If in 2006, most respondents were supporters of the individual development (44 %), now only 18.8 % were speaking for it and only 16.5 % saw further prospects of small business' development in close cooperation with the state.

According to most respondents the improvement of the relations between the governmental and the entrepreneurial structures would be possible provided that mutual obligations are agreed on (64.8 %) and the interests of both parties are taken into consideration. 43 % of out the total number of respondents view the state as a legal guarantor of the development of small enterprises and individual entrepreneurs. In spite of the negative actions of the state only a small number of respondents were in favour of limited interference of the state structures in the development of the small business sector. Many private owners understand that a strong state that maintains a reasonable, balanced policy with respect to the private economic sector contributes to its efficient development, which results in strengthening the middle class on the state fostering political and economic stability.

General consensus also has to be noted, first of all in condemnatory responses of entrepreneurs to almost all questions related to activities of the state aimed at entrepreneurial sphere. This fact indicates the need to change the state policy related to small business entities. First of all it is necessary to revise the principles of drawing up regulatory-legal acts that determine development of individual entrepreneurs. Representatives of private structures together with state officials have to come forward with legal initiatives. The development of the electronic database for entrepreneurs on issues directly related to development of entrepreneurship deserves special attention from the part of the state.

The dynamics of small business development demonstrate it being highest unit weight in trade – 55.2 % of the total number of enterprises, a fact which is explained by the quick turnover of capital and return of investment funds. The industrial enterprises grew in number from 10.2 % to 15.7 % during 2 years. The number of small enterprises decreased in the construction and the agricultural spheres. The main problems of small agricultural enterprises are: agricultural production running at a loss, low solvency of the population, lack of funds for maintenance and renewal of the resource base, modern settlements, and also incomplete status of institutional and land reforms. In many regions of Transdnistria the small businesses are developed in a non-uniform manner. The highest development rate of the small business sector was achieved in Tiraspol, Bendery and in Ribnitsa district due to the continued dead time and insufficient load of industrial enterprises.

A modern entrepreneur is more preoccupied with the future of business development than with immediate profit. Entrepreneurs can be distinguished by their preference for professional values which form the base of the business motivation. Among the preferences of the entrepreneurs we will find not money or wealth, but “a possibility to have one's own business, and be a master of one's own fate”. A desire to find “new application to the knowledge, skills, abilities” got 27 % (7.5 % unit weight); “real independence in life and labour” – 35 % (9.7 % unit weight).

Entrepreneurs also highly appreciate risk situations and ability for resolving them – 31 % (8.6 % unit weight). Recognizing the ability to get skilfully out of risky situations, an entrepreneur frequently puts his right to be defeated above somebody else's right to success.

Money and wealth as the major values and goal in life rank only 8th (5.5 % unit weight). Money and wealth as such almost do not count as an ideal. And it is quite different concerning benefits that can be acquired with their help: freedom, feeling of security, being a master of own fate. Status

orientation as life motivation ranks 9th – 19 % (5.2 % unit weight). Autocratic ambitions as a value turned to be unpopular, only 8 % of respondents chose them (2.2 % unit weight).

Doubtless values related to a family, personal safety and ecology hold a special place with entrepreneurs. From 54 to 73 % respondents stated that it is very important for them to feel safe, not to feel any threat of violence, to live in a clean environment, to have a sound family, to provide good education to children.

In the question related to evaluation of factors of viability of small business, subjective and objective conditions of entrepreneurship are considered, in particular entrepreneurs' response to unfavourable environmental factors and specifics of their moral-legal behaviour.

The classification of activity conditions of the entrepreneurs is done in the following way: 1) macrosituational, 2) industrial and 3) internal (psychological). The macro conditions have to include the economic relations within the country and its social-political arrangement. The interaction of an entrepreneur with the macroenvironment is governed by objective laws and external factors: legal acts, economic policy of the government, activities of regional and local governing bodies (see table 6).

The macro conditions, the contents of which are determined by the actions of authorities, include the demand and supply of products and services and the pressure from criminal groups. Industrial (intra-company) conditions include supplies of materials and components, investment status, quality of products, professionalism in management, characteristics of personnel. They derive both from macrosituational and personal factors.

The internal prerequisites of the activities which enable a person to do business, i.e. commercial and personal skills of an entrepreneur, make up the third group of conditions. It includes such parameters such as communication skills of a businessperson, their personal contacts with representatives of governing bodies and with other participants of the market process.

The subjective relevance of these conditions was determined based on the level of their influence on the viability of the business indicated by a respondent. The last column of the below table shows a summarized indicator of this level of influence – the conditions score.

According to the obtained data, the strongest viability factor of a small business is the demand and supply of the enterprise's product. And that is quite clear. Being a corner stone of the market economy, and acting as a general macroeconomic condition, it integrates actions of other factors: industrial when the question is about the range of manufactured products; advertising, sales, personal when the question is about a person, manager or organizer of the business. It is not mere coincidence that such an internal factor as personal and business qualities of entrepreneurs is in the second place, after market conditions. Macrosituational conditions also come into this group, together forming a specific "syndrome of factors" that most seriously affect the viability of a business. Among them stand out currently valid laws and activities of republican and local governing bodies related to them. Though many laws and legal documents seem to be created to assist the development of entrepreneurship in reality these are non-working laws which prove the lack of managerial skills from the part of authorities: lack of financial provision, weakness of enforcement, poor elaboration of the legal base.

After analyzing the answers of respondents on the industrial block one can notice that their impact on viability of business is weaker than that of the psychological and all the socioeconomic ones (impact score about 2.2).

Conditions (factors)*	Decisive Degree	Sig-nificant Degree	Small Degree	Do Not Determine	No Answer	Total	Condi-tion score (factor)
Current laws	37	18	22	19	4	100	2.7

Activities of state bodies	34	30	14	19	3	100	2.7
Demand for your products	39	39	14	6	2	100	3.1
Pressure from criminal elements	15	29	32	18	6	100	2.3
Relations with competitors	16	32	41	9	2	100	2.5
Situation with suppliers of materials	21	31	23	15	10	100	2.4
Situation with investments	14	23	13	29	21	100	1.8
Production setup	18	28	25	16	13	100	2.2
Personal and commercial qualities of employees	31	36	14	7	12	100	2.7
Your personal and commercial qualities	37	37	14	11	1	100	3.4
Personal relations with state officials	19	20	23	18	20	100	2.0
Personal relations with other entrepreneurs	18	22	26	22	12	100	2.1

* 1-4 – general (macrosituational); 5-8 – industrial; 9-12 – internal (psychological).

Among representatives of small business with an established legal entity, the strongest viability factors for small business are certain macrosituational conditions. Every second respondent – when evaluating the viability factors for small businesses – noted that the current laws play a decisive role in their commercial activities (50 %) as well as activities of state bodies (52.5 %).

The development of small businesses depends, in particular, on the manner in which business people assess their own capabilities of resolving the problems they face and overcoming difficulties.

The data spread shows: only 12 % of entrepreneurs evaluate their capabilities on a "high" level while the vast majority (55 %) are those who evaluate their capabilities as "average" (3-5 scores) and those who consider their capabilities to be "limited" (1-3 scores) 33 %. Even though most entrepreneurs are divided into two groups (with limited or average capabilities to resolve their problems independently), 45 % of evaluations are in the scores range from 4 to 5. At the same time some asymmetry is observed in the allocation towards the lower end. That is why the average value of grades (3.95) shifts a little bit to the left from the middle of the scale. Therefore, most of respondents evaluate their capabilities in resolving problems as "limited" rather than "broad" ones.

When assessing the success of the entrepreneurial activities a significant part of respondents (24 %) tend to award themselves average grades. 64 % assessed their success in the scores range from 3 to 5. At the same time the share of entrepreneurs who assess their success rate higher than average (5-7 scores) is of 31 %, which is a little bit lower than the share of entrepreneurs who assessed their success as rather low (1-3 scores) – 45 %.

According to our survey, the majority of representatives of small businesses consider themselves to be legally unprotected to a certain extent. In the opinion of respondents, in the course of policy formation related to the small businesses sector the state tries to protect its own interests (51.3 %). The normative documents take into consideration duties of entrepreneurs and to a lower extent their rights (47.4 %). A crisis situation between two social groups is formed due to the lack of consensus and mutual understanding on issues regulating entrepreneurial activities.

The normalization of interactions is possible with the consolidation of the legislative power and the entrepreneurial organizations in order to optimize the elaboration of the legislation for meeting the entrepreneurial expectations. Recently positive shifts were observed in this area. The new legislative body of Transdnistria elected in December 2005 expressed serious concerns about the current state of the legal framework of the small business sector. During the first months of its activity the legislative body reviewed and amended the Law on Individual Entrepreneurial Patent, and on Carrying Out Ad Hoc Inspections in order to simplify the registration procedure of the individual entrepreneurs and enhance the protection of the legal rights of the representatives of the business structures. Appearance of new subjects: enterprises and firms and, in particular, entrepreneurs and wage workers conditions quite a different managerial and organizational configuration of firms. Quite often there occur cases of increasing opposition and growth of social tension in the organization and society as a whole.

In this case we are talking about economic stability of the enterprise and material support for employees, about the social position of wage workers, their feelings and participation in the social life of the enterprise etc., honesty and decency of the entrepreneur towards his employees and external partners and so on. True social responsibility of entrepreneurship contributes to the removal of social contradictions, which increase during the period of transition to the market economy, in order not to enhance its negative consequences, which include growth of unemployment, poverty, environmental pollution, etc.⁶.

The current status of the small business sector is related to a large extent to the functioning of the system of control entities within the state. At the moment most entrepreneurs display a negative attitude towards the activities of these entities. They note that the tax service, customs, Economic Crime Department, etc, have a negative effect on the development of small businesses (63.3 % – 89.6 %). Such an attitude is mostly related to current negative social-psychological positions of officials, who, according to respondents, are aimed at disorganizing the entrepreneurial process and at getting personal benefits.

Essentially, the problem of the civil services is identified in the fact that the idea of socially “responsive” and limited bureaucracy has not yet entered the public conscience or practice in the post-Soviet space. What Transdnistria is dealing with now is obviously a bureaucratic corporatism which claims to have unlimited control over public economy and life⁷.

There are two main reasons why the decisions made by state officials are followed by negative social consequences. First of all, it is the lack of knowledge among the civil servants, the lack of information about the processes that occur within the entrepreneurial environment. The deviations from the socially relevant goals of the organizations occur due to the disparities of individual-egoistic, group, corporate and public interests. The contradictions between these interests form the core of all socioeconomic and political problems of the human society throughout history.

The process of ethicizing state-management activity is extremely complicated and contradictory. First of all, all obstacles of honest entrepreneurial activities need to be removed from the tax legislation so that state officials would not be able to “correct” continuously the law and tariffs for different activities while meanwhile they correct their own remuneration by unlawful means.

It has to be emphasized, that the economic and social aspects of production are closely inter-related. An entrepreneur motivated by the desire to gain profit finds ways of combining factors of production, manufactures products (economic aspects), and in the course of labour activities human living conditions are reproduced, as well as people themselves and public relations (social aspects). At the same time one has to take into consideration that in order to resolve social problems there is the need for resources that can be obtained only through economic means. Quite often underdevelopment of the social side of production prevents increase of economic results.

Therefore, the dialectic is as follows: achievement of social goals is based on economic growth, and in turn, economic growth depends on efficient use of social factors.

It is necessary not only to combine the costs of expansion of entrepreneurial activities with the costs on “human capital” but also to ensure the close collaboration of economic and social efficiency factors aimed at their strengthening. The creation of an awareness of the interrelatedness of the economic and social aspects of the entrepreneurial activities, of the essence of the social functions of entrepreneurship, by the majority of representatives of state structures, and most importantly – of their real action from the position of social responsibility would help to overcome the negative image of the entrepreneur that exists among the population and would create more favourable conditions for the development of market relations⁸.

Despite the unanimous opinion of the respondents regarding the permanent infringement of the entrepreneurial rights and freedoms, only 1.7 % applied to court when their own rights were violated. The main reason for this is the lack of confidence in the judiciary system and in the impartiality of the local judges (38.9 %), some entrepreneurs fearing pressure from the state bodies (18.1 %). Other reasons mentioned by people are the lengthy and tiresome judicial proceedings (15.3 %) and the lack of funds for services of defenders (12.5 %). To a major extent the presented statistical results reflect the currently existing system of social-psychological interactions between state and private entities that experience serious difficulties and lack of trust in relations with each other.

All in all, the interviewed entrepreneurs perceive their social status as an extremely bad one, 91 % of the total number of the respondents considering the level of social protection to be low. Many entrepreneurs noted the weakness of the state regulations addressing the social protection of the small business sector and those of the wage workers who work in the private sphere. First of all, they speak about the lack of sound pension provision for individual entrepreneurs (33.7 %). The pension reform that was carried out does not contribute to the comprehensive accounting of years of service for the representatives of the entrepreneurial sector but it reduces the chances for good quality state support in spite of the hard work of the individual entrepreneurs in the current difficult economic situation. To the negative effects the respondents also added the lack of personal safety of the entrepreneurs and of their family members and property with respect to criminal invasions.

Connected to this, the development of the set of measures implemented by the law enforcement bodies involved in combating organized crime, racket, corruption and economic crimes requires the support of specialized private security companies and security services. For these measures and activities an appropriate legislative and material framework needs to be formed, the network of firms ensuring the safety of the entrepreneurs’ property has to be expanded (parking lots, warehouses, etc.), including those companies that manufacture specialized technical security equipment (alarm systems, audio and video systems, etc.). In completion to all of these measures the creation of a system of arbitration courts for entrepreneurs is needed and of special units of bailiffs that would provide a quick and efficient execution of the court rulings⁹. All that would enable the significant strengthening of the entrepreneurs’ security, ensuring the social protection of the employees of small businesses and making the entrepreneurial activity more attractive for the various groups of the population. The consequence of these changes would be the growth of the number of jobs and of the small business entities, their removal from the shadow economy and the increase of the contribution of small businesses to the resolution of the socioeconomic problems of the society. Development of small business requires the implementation of measures related to social protection and safety in small business. The implementation of the scheduled measures would allow the improvement of the pension system and social and medical insurance which would serve the interests of small businesses. It is necessary to resolve problems of social

protection of employees of small enterprises, labour safety and operational safety, especially bearing in mind high risk inherent to this sphere of activity.

The expansion of democracy and the delegation of authority “down” the corporate hierarchical ladder broadens the area / possibility of free choice. We must highlight the importance of the individual moral space which would serve as an internal barrier preventing the use of the civil servants’ official status for purely egoistic or anti-social purposes.

In order to improve the efficiency of the state support for small businesses, a set of measures need to be elaborated aimed at overcoming negative tendencies. Meanwhile, three main areas of activities have to be distinguished: first, a basic bringing in order the external environment of small businesses; second, exercise of regulatory pressure on the internal environment, primarily through selective direct resource (first of all financial) support of small enterprises; third, organizational self-improvement of the system of state support.

Therefore, for the purpose of normal functioning and development of the small and medium business sector it is necessary to provide economic, legal, organizational, psychological and other conditions. While providing support to the small entrepreneurs the society and its institutes have to exert influence over this social group in order to improve its qualitative characteristics, streamlining its composition and functioning. It means that it is necessary to exclude from its composition and functioning various dysfunctional elements and phenomena and to provide for progressive shifts in the professional and spiritual morals of entrepreneurs.

With regret we have to state that it is the small business sector that had the bad fortune during the course of economic transformations in the country. There is no effective system of promoting establishment of small enterprises, or any mechanism for supporting them. No state development program was elaborated for this important sector of the market economy.

Today medium and small businesses require comprehensive social protection, changes in the system of social insurance, etc.

The development of small businesses assumes the implementation of measures related to the social protection and safety of the sector. The execution of the planned actions would allow for the improvement of the systems of pension and those of the social and medical insurance in the interests of small enterprises and society as a whole. The problems of the social protection of the employees of small enterprises, the labour protection and safety measures have to be addressed taking into consideration the high risk inherent to this sphere of activity.

The existing situation undermines the incentives for the entrepreneurial activities, which are the only ones that can lead to structural reorganization and, therefore, to overcoming of the economic recession. It is clear that in today’s situation just an initiative from small enterprises is not sufficient. Only correct steps of economic reforms could lead to the development of the small business sector, which would serve as an impetus for the development of the market economy as a whole.

One cannot but note also the influence of the Moldovan-Transdnistrian conflict on the development of the entrepreneurship. Non-settlement and socioeconomic and political instability related to it slows down the implementation of the necessary measures for the efficient development of the medium and small businesses and generates future related uncertainties and concerns among the entrepreneurs on both banks of the Dniester/Nistru.

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Galina Selari

MOLDOVA AND TRANSDNIESTRIA: THE REGIONAL ECONOMIC DIMENSION

The aim of the present article is to analyse the impact of the Transdnistria “factor” on the dynamics of development of the whole Moldova from the point of view of: (i) transit of the flow of commodities from CIS countries to the Balkans and back; (ii) “Moldo-Moldovan” trade between Moldova and Transdnistria including re-export; (iii) flows of commodities of the informal economy of both banks of the Nistru / Dniester. Argumentation is given for the necessity of synchronisation of economic and political actions to develop mutually acceptable formulas of conflict settlement. Mutual economic interests, consistent actions to form a common economic space and joint overcoming of accumulated barriers causing disintegration are regarded as the basis for successful and sustainable overcoming of the state of conflict in the two economies.

Official documents discussed at different stages of the negotiation process and signed by the parties, materials of various studies on economic aspects of the Moldova-Transdnistria issue, as well as data of the statistical services of Moldova, Transdnistria, Russia and Ukraine are used in this article.

For almost two decades the “frozen conflict status” of Moldovan–Transdnistrian relations has had a direct influence on the formation, development and the very existence of the Republic of Moldova, the strengthening of its statehood, the transformation of the economy and society.

During the years of “parallel development”, both the forms and substance of relations between Moldova and Transdnistria were changing: from obvious opposition and military conflict in spring-summer 1992 to relatively positive development in 1996-2000 and a new cycle of tension (since 2001). Obviously, such unpredictable communication has influenced and is still influencing the stability and quality of socioeconomic development on both banks of the Nistru / Dniester.

Having emerged as a phenomenon of local confrontation, the Moldovan-Transdnistrian conflict is steadily stepping over the limits of bilateral relations between Right- and Left Bank and acquiring a strongly marked *regional dimension*.

Traditionally, the international community (Europe, USA, CIS, Russia and Ukraine in the first instance) has participated and tried to facilitate unification of Moldova through political settlement without taking into consideration and sometimes ignoring the economic component of the issue. Meanwhile, *new challenges, events and decisions of the last years* as shown by aggravation of economic relationships between Moldova and Transdnistria first and foremost (the so-called “economic blockade”, activation of privatisation processes and issues of their legitimacy from the point of view of Moldova and the international community, a developing autonomy of the region’s infrastructure), *bring purely economic issues again and clearly to the forefront, which nothing but intensifies the regional significance of relationships between Moldova and Transdnistria.*

Within a relatively short historical period, both Moldova and Transdnistria, neither of which have had previous traditions of independence, have managed to build bases of statehood (recognised and unrecognised) and market economy which are not quite mature according to many aspects and which have their “own” structural and institutional distortions.

At the same time, despite the differences in the nature of transformation of the economies and more complicated conditions of development than in Moldova (the unrecognised status, lack of financial credits), the trajectory of the key indicators of Transdnistria is very close to the phases of movement of the Moldovan economy: market adaptation and ascent to the peak of 1997; decline

influenced by the Russian financial crisis of 1998; then, the same as in Moldova, new revival of economic activity and seven years of economic growth. This is explained by both hidden preservation of interdependence between the two economies and their common export-import orientation towards CIS (Russia, Ukraine) and the European Union (Germany, Italy and Romania).

Let us note that statistically, 2000-2007 were generally successful for the economy and population of Moldova and Transdnistria:

- *doubling of GDP both in Moldova and Transdnistria compared to 2000;*
- *in the same period time, revenues of the State budgets of Right- and Left Bank increased by almost 5 times allowing an increase of salaries in the public sector and pensions;*
- *Note that in Moldova an increase in budget revenues resulted also in reduction of external liabilities. On the contrary in Transdnistria, the tendency of further accumulation of public debt was preserved (a growth by almost two times);*
- *average annual capital investments growth rate (12% in Moldova, 13% in Transdnistria) exceeded the GDP growth rates (6% in Moldova, 10% in Transdnistria);*
- *despite existing difficulties, a significant export growth, compared to 2000: three times in Moldova and two times in Transdnistria. Its pro-European orientation increased: from 35% to 51% in Moldova and, respectively, from 19% to 35% in Transdnistria;*
- *real average monthly salary of a person employed in the economy went up: by 2.5 times in Moldova and twofold in Transdnistria. The zone and depth of poverty decreased.*

However this positive progress on both banks of the Nistru / Dniester was steadily balanced by negative circumstances, also rather similar:

- *the economy was recovering mainly due to a favourable environment in the foreign markets and an increase in consumption stimulated by steadily growing remittances from labour migrants and salary increases;*
- *the creation of new jobs did not neutralise the tendency to a decrease in employment (over 2000-2007, by 18% in Moldova and 21% in Transdnistria), and more than 40% of the economically active population worked abroad;*
- *the chronic lack of investments held back the processes of renewal in industry, agriculture, infrastructure sector (energy, roads and transport, water supply etc.);*
- *a growing imbalance of foreign payments: threefold in 2007 in Moldova, and twice bigger import than export in Transdnistria, current account deficit constituted 10% and 40% of the GDP, respectively;*
- *the never-ending struggle with inflation, more successful in Moldova and less effective in Transdnistria.*

A characteristic feature of the Moldovan and Transdnistrian economies largely determining the success and stability of development consists of their high dependence both on export (an important – and almost the only in the case of Transdnistria – source of formation of foreign exchange reserves) and import (there are almost no own raw materials, energy, material and technical resources). The same factors largely explain also the unreasonable, compared to partner countries, economic openness of *the whole* Moldova, especially Transdnistria (*Table 1*).

Table 1

Level of economic openness of Moldova and Transdnistria
(foreign trade turnover in % to the GDP)

	1996	2000	2005	2006	2007
Moldova	110	97	117	112	114

Transdnistria	161	393	277	198	230
Russia	31	53	45	38	45
Ukraine	72	91	85	81	78

Sources: Statistical yearbook RM, 2002., Chisinau, 2002; Statistical yearbook RM, 2008., Chisinau, 2008; Statistical yearbook TMR for 1990, 1995-1997, Tiraspol, 1998; Statistical yearbook TMR for 2003-2007, Tiraspol, 2008; Federal State Statistics Service of RF, <http://www.gks.ru>; State Statistics Committee of Ukraine, <http://www.ukrstat.gov.ua/>

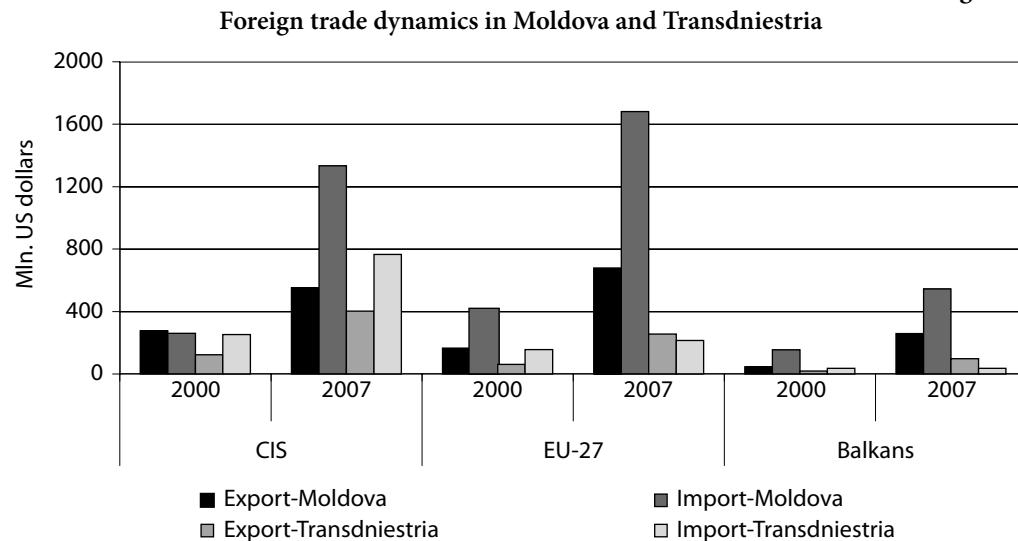
This more than obvious reality – an exceptionally high dependence of Moldovan and Transdnistrian economies on stability and reliability of export–import supply chains – largely explains the influence of limitations in this sphere on the content of the budget, on economic entities and on the population of both banks of the Nistru / Dniester.

Today, there is enough evidence that the decade of preferred foreign trade orientation of Moldova and Transdnistria to the East (CIS) is being replaced by an understanding of the necessity of looking for new partners, diversification of external relations and access to new markets.

In the recent years, there was a “breakthrough” of Moldovan-Transdnistrian export to the Mediterranean region and the Balkans. In this direction, the key and vital significance for export belongs to ports of Odessa – Ilichivsk. There is hope that the appearance of Moldova’s own sea gateway – the port of Giurgiulesti, will not only create additional conditions to broaden partnership relations of Moldovan-Transdnistrian economic entities with countries of the Black Sea region, but will also stimulate their mutual cooperation, given favourable circumstances.

EU expansion to the East, the “new neighbourhood” policy and, importantly, steadily developing trade preferences for the access of both Moldovan and Transdnistrian goods to European markets, provide their growing attractiveness for Right- and Left Bank Moldova (Figure 1). Of course, it is necessary to take into account the different structures of the Moldovan export base (70% of it is production of food and light industry) and that of Transdnistria (rolled metal products – 60%, machinery and equipment, textiles).

Figure 1



Sources: Statistical yearbook of RM, 2008, Chisinau, 2008; Statistical yearbook of TMR for 1996-2001, Tiraspol, 2002; Statistical yearbook of TMR for 2003-2007, Tiraspol, 2008

Remarkable is the fact that such an impressive breakthrough to the outer world occurred against the background of intensification of inner proneness to conflict of economic and trade relationships of Moldova and Transdnistria. We will just mention that in recent years, Moldova’s share in Transdnistria’s foreign trade turnover, while remaining relatively stable in terms of export (about 10%), went sweepingly down in import from 10% in 2000 to 2% in 2007, i.e. the officially documented flow of commodities from Moldova to Transdnistria has basically been minimised. One could say that Moldova has “voluntarily” abandoned the Transdnistrian market.

Moldo-Moldovan (Moldovan-Transdnistrian) trade. Trade and economic relationships between Moldova and Transdnistria are far from being transparent. These relations are basically maintained based on the interests of economic entities, bypassing the actions of official Chisinau and Tiraspol, and every so often even the legal norms effective on both banks of the Nistru / Dniester.

Its notable that after 1990, the range of Moldo-Moldovan relationships was rather wide:

“Do what you want – trade with whomever you want”. According to the Protocol decision “On Settlement of Issues in the Sphere of Activity of Customs Services of the Republic of Moldova and Transdnistria” from March 1996 till August 2001 clearance of cargos from / to Transdnistria was done using customs identification of the Republic of Moldova.

“Legalisation” of export-import activity of Transdnistrian enterprises: The Republic of Moldova introduced new customs procedures at its borders, while Transdnistria was deprived of the right to use Moldovan customs identification of goods. Then came the requirements for registration of Transdnistrian enterprises in the State Registration Chamber of RM and “sudden” problems with authorisation documents for Transdnistrian international carriers and others. Consequently, Transdnistria counteracted as well – a special 100% customs duty was introduced for Moldovan goods and migration control and a transportation tax (10% of the cost of goods) for motor carriers not registered in the territory of Transdnistria. Free trade with Ukraine was established unilaterally, and so forth.

It is obvious that all these joint attempts to decide political problems by method of “force” do not favour free movement of goods and services between the two banks.

Nevertheless, the vitality of traditional trade relations and personal contacts between economic entities working on both banks of the Nistru / Dniester rests on their interests, thanks to which the trade between the two banks of the Nistru / Dniester, although it contracted, did not fade altogether.

Table 2

Structure of foreign trade in Moldova and Transdnistria (%)

	EU-27		EU-15		CIS		Russia		Ukraine		CIS countries except Russia, Ukraine, Moldova (Transdnistria)		Moldova/Transdnistria		Other countries	
	2000	2007	2000	2007	2000	2007	2000	2007	2000	2007	2000	2007	2000	2007	2000	2007
Export																
Moldova	35,06	50,63	21,68	26,42	58,56	41,01	44,53	17,34	7,52	12,51	6,49	11,15	10,56	1,65	6,38	8,36
Transdnistria	19,04	35,27	10,14	10,81	38,34	55,45	22,7	42,93	2,08	4,36	13,55	8,16	9,49	6,46	42,62	9,28
Import																
Moldova	53,22	45,56	29,1	25,64	33,46	36,15	15,38	13,51	13,47	18,62	4,6	4,01	3,94	1,27	13,32	18,29

Transdnistria	33,97	18,94	19,81	12,86	54,64	67,64	27,3	32,38	13,75	20,92	8,79	12,38	10,78	1,96	11,39	13,42
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Sources: Statistical yearbook of RM, 2008, Chisinau, 2008; Statistical yearbook of TMR for 1996-2001, Tiraspol, 2002; Statistical yearbook of TMR for 2003-2007, Tiraspol, 2008

While the Moldovan share in the foreign trade turnover of Transdnistria is steadily decreasing (from 10% in 2000 to 4% in 2007), the Moldovan market still remains to be important for Transdnistrian producers: only the amount of goods that was registered by Transdnistrian customs service and entered Moldova from Transdnistria in 2007 amounted to USD 47 million (about 7% of total export). For comparison, the amount of export to all “old” countries of the European Union (EU-15) amounted to USD 79 million or 11% of cumulative export. Note that in the difficult times of the “wine embargo”, more than 50% of cognacs and wines produced in Transdnistria entered none other than the Moldovan market. Unfortunately, the Transdnistrian market has been almost closed for Moldovan goods in the recent years. Back in 2000, Moldova held quite an “honourable” fourth place in import, ceding in volumes only to Russia, Ukraine and Germany, whereas today (2007 statistics), the right bank only comes in at the bottom of the ten leading partners of Transdnistria in terms of import.

Paradoxically, Ukraine’s participation in the implementation of export-import procedures established by Moldova related to clearance of export-import transactions for Transdnistrian economic entities did not have a negative impact on foreign trade relations between Transdnistria and Ukraine. Moreover, beginning with 2003, there is a free market regime with Ukraine (goods, except for excisable, produced and imported from the territory of Ukraine, are not subject to customs duties).¹ The result was a reduction in supplies of Moldovan goods against a fourfold (!) increase in the turnover with Ukraine, compared to 2000.

Such a nervous reaction of the Transdnistrian economy to Moldova’s attempts to systematise the customs rules, with the actions of the Ukrainian partners being taken relatively calmly, could be explained by a stable distrust of official Chisinau, its readiness to *consistently* fulfil its commitments. Let us recall that the Moscow Memorandum on the Bases of Normalisation of Relationships between the Republic of Moldova and Transdnistria (1997) provides that Transdnistria has the right to independently establish and keep international contacts in economic, scientific and technical and cultural spheres,² with the acknowledgement of Transdnistria as an independent *economic* entity confirming the legality of the Left Bank’s external economic activity at the time of Moldova’s accession to the World Trade Organization.

Economic pragmatism in making decisions that affect such a sensitive sphere of trade both for Moldova and Transdnistria could form the basis for solving many important economic issues: unification of registration requirements for enterprises, avoiding double taxation of economic entities’ income etc. With such an approach, the creation and maintenance of a common register of economic agents for the two economies could become not a “stumbling block”, but a “building block” in the restoration of a common economic space. Subsequently, one could also think of intra-Moldova production cooperation in engineering, light industry, furniture and food industry, and of joint, meaning more effective, product promotion in domestic and foreign markets.

Russia’s attention to Moldova is traditional, but in the history of independent Moldova, it became more obvious primarily due to the events in Transdnistria: 1992 – to stop the military activities; 2003 – to promote the D. Kozak plan of the federalization of Moldova; in 2006 – to overcome the “economic blockade” of Transdnistria after strengthening of customs procedures at the Moldovan-Ukrainian border and, finally, today – to find an acceptable formula for settlement of the Transdnistrian issue, particularly through personal contacts of Moldovan and Transdnistrian leaders.

The Russian Federation is a strategic partner of Moldova and Transdnistria. This is steadily realised in several areas:

- Russia acts as a guarantor country in negotiations on political settlement of the “Transdnistrian conflict”. Since 1992 in Transdnistria, a Russian contingent of peacekeeping forces is present in Transdnistria, an Operational Group of the Russian military Forces and the corresponding infrastructure (aerodrome, arms depot and facilities);
- Close economic interaction shows up not only in foreign trade (in 2007, the share of Russia in the total volume of the foreign trade of Moldova and Transdnistria, respectively, amounted to 14.5% and 36.5%), but also in the financial sphere, investments (Russian shareholders own winemaking and engineering enterprises on both banks of the Nistru / Dniester), industrial cooperation etc.;
- The geo-economic situation of Moldova and Transdnistria (proximity to the Balkans, the Danube and Odessa – Ilichivsk, a major trade port on the Black Sea) attracts Russian interests into the economy of our region, primarily, on the basis of benefits of transit of gas and electricity through it. At the same time, the junction location of Moldova in the regional transit to the Balkans can be effectively used only in the absence of the internal Moldovan-Transdnistrian force majeure: Transdnistria is a kind of “bottleneck” for Moldova’s transit opportunities;
- The Russian market gives jobs to a significant part (more than 50%)³ of labour migrants of the whole Moldova, whose money transfers significantly support the incomes of Moldovan and Transdnistrian households.
- Due to the multiple citizenship system: according to the data of 2004 population census more than 10% of population (56 thousand people) in Transdnistria are citizens of the Russian Federation. In right bank Moldova, about 6 thousand people (0.2% of the population) have citizenship of countries of the CIS and the Baltic states;

Foreign trade exchange between Russia and right / left bank Moldova has developed in different ways, both according to amounts and commodity composition. Traditionally, before 2005, Moldova registered a stable positive balance in foreign trade exchange with Russia (more than USD 100 million). In 2006, the situation changed drastically: limitations in supplies to Russian markets first of crop products and the “wine embargo” reflected on the foreign trade balance (Table 3). On the contrary, the Transdnistrian foreign trade balance was traditionally negative. In practical terms, Russia provides TMR a commercial loan of USD 50-90 million every year, which allows the region to keep control over the macroeconomic situation. Moreover, a positive balance in commodity turnover between Transdnistria and Russia registered in 2005 nothing but stresses the specific character of Russian-Transdnistrian relations: it was Russia rescuing Transdnistria under the conditions of difficulty for metal export to European markets (introduction of double control of export). Note should also be made of Russia’s firmly-loyal attitude to payment, or rather its absence, for the natural gas consumed by the industry and population of Transdnistria (in 2008, for instance, the size of the “gas” credit was about USD 250 million; it exceeded the revenue part of the Transdnistrian budget).⁴

Table 3
Export-import relationships of Moldova, Transdnistrian and Russia, USD mln

	2000		2005		2006		2007	
	Moldova	Transdnistria	Moldova	Transdnistria	Moldova	Transdnistria	Moldova	Transdnistria

Export	210,0	73,2	347,5	231,5	182,0	195,2	232,7	312,1
Import	119,4	126,1	267,8	189,3	417,0	199,9	498,6	366,4
Balance of trade	90,5225	-52,9	79,6476	42,2	-235,0087	-4,7	-265,9097	-54,3

Source: Statistical yearbook of RM, 2008, Chisinau, 2008; Statistical yearbook of TMR for 1996-2001, Tiraspol, 2002; Statistical yearbook TMR for 2003-2007, Tiraspol, 2008.

Until recently (2006), primarily wine products were exported from *Moldova* to Russia, moreover, *three quarters* (!) of Moldovan wines and cognacs were traditionally sold in the Russian market. As a result, Russia was a substantial and leading export partner for Moldova for more than 15 years, far ahead of others. The well-known events of 2006-2007 changed the situation drastically: almost no wine was supplied to Russia. In 2008, the situation improved significantly, but Moldovan winemakers still have not managed to regain their lost positions. Romania came to the forefront in terms of export.

The following groups dominate in the structure of *Transdnistrian export* to the Russian market: “ferrous metals and their products” (products of the Moldovan Steel Works, Ribnita) – about 70% and “machinery and equipment” – 10% (2007).

However, there is a notable *similarity in the structure of Moldovan-Transdnistrian import*: energy products supplied from Russia are in the first place (more than 50% of the Russian import). Though, *de jure*, the price for natural gas is the same for Moldova and Transdnistria starting from 2001, *de facto* only the right bank is getting closer to the average European price for gas. Historically, Transdnistria “pays” for the consumed gas at “mercy prices”, which in fact increases competitiveness of Transdnistrian products in external markets, makes cheaper institutional services provided by the government and makes cheaper payment of utility services for the population (currently, for example, residents of Transdnistria pay for gas at tariffs that are five times lower than those paid by the population of Moldova).

Let us also note that there is a stable growth in supplies, particularly from Russia, of “non-conventional” goods for this region – food products and beverages both to Moldova and Transdnistria. It seems that we can now do no more than be nostalgic about the times when Moldova was by rights considered to be an all-Union orchard and a “preferred” supplier of food products!

Relationship with Ukraine – the nearest neighbour, a guarantor country, and a leading trade partner are a priority for Moldova-Transdnistria and determine the dynamics of their relations to a great extent.

Issues of bringing order to the Moldovan-Transdnistrian border (1222 km, including 470 km of the Transdnistrian section) are both politically and economically significant for both countries.

The Agreement on the State Border was signed by the Presidents of Ukraine and Moldova in 2000. So far, Ukraine and Moldova have already demarcated two thirds of the common border, and there is hope that the parties will start demarcation works also in the central (Transdnistrian) section in the nearest future,⁵ which will allow closing the issue of the border between Ukraine and Moldova once and for all. Progress in this direction is especially important: for various reasons, the Moldovan side has been steadily “skipping” the beginning of demarcation of exactly this section fearing that there would appear Transdnistrian marking, not Moldovan marking, on the pillars.⁶ It appears that the change in the Moldovan stance was greatly influenced by insistent recommendations and support of the EU Border Assistance Mission.

Let us recall that for the first time Moldova and Transdnistria tried to solve the issues of harmonisation of the customs legislation and of liquidation of internal customs checkpoints back

in 1996. At the same time, agreement was reached based on an inter-governmental accord related to the establishment of common customs posts at the border with Ukraine and to the liquidation of internal Transdnistrian customs check-points at the entrance to the region from the direction of the Republic of Moldova.⁷ However, these agreements never came into being, although they contributed to quite an effective dialogue between customs services of the Right- and Left Banks.

In May 2001, the parties practically reached an agreement on the implementation, starting from September 1, of the *joint (Moldova-Transdnistria) customs control at the state border between the Republic of Moldova and Ukraine*.⁸ Reality turned out to be much more complicated: September 1, 2001 virtually became a “starting point” of the still steadily aggravating conflictual state of the Moldovan and Transdnistrian economies. Causes of this conflictual state are closely related to the border regime, or rather to the changed⁹ and still periodically changing foreign economic activity rules for Transdnistrian economic entities.

Taking into account that direct access to external markets is possible for Transdnistria only through Ukraine, the effectiveness of the changes in foreign economic activity rules implemented by Moldova has been and still is determined by involvement or non-involvement of Ukraine in their implementation. Facts are a stubborn thing: the Ukrainian factor is far more weighty here than the Russian one.

At the beginning, irrespective of objections made by Transdnistria, Chisinau’s efforts to bringing order at the border were supported by Russia and the USA. The State Customs Committee of the Russian Federation in its letter addressed to the RM Government specified that it was not going to recognise or admit for execution certificates issued by anyone but authorized Chisinau central authorities.¹⁰ Ukraine’s response was notably late, mainly for the reason of active involvement of Ukraine’s economy in the circulation of goods in the Transdnistrian zone (Ukraine is steadily in the lead in Moldovan/Transdnistrian import). Despite objections made by Moldova and mutual (!) accusations of failure to fulfil previously reached agreements, the Transdnistrian segment of the border continued to operate in the same regime. Nevertheless, it was precisely in 2001 that the notion of “economic blockade” appeared, and losses triggered by it constituted USD 170 million according to Transdnistria’s estimates¹¹. Apropos, according to some reports, Ukraine “lost” about USD 8 million because of the toughening of customs control over Transdnistrian-Ukrainian transit at the Russian-Ukrainian border.¹²

The protocol on “Mutual Recognition of Transport, Trade and Customs Documents” was signed by Moldovan and Ukrainian customs services not sooner than *two years* later (on May 15, 2003). At the same time, the Government of the Republic of Moldova established for Left Bank economic entities: (i) conditions of temporary registration with the RM Registration Chamber, (ii) licensing procedures, and (iii) procedures of reimbursement of customs import duties, except for duties for customs clearance of products.¹³ Officially, Ukraine stopped the flow of goods with customs identification of goods issued by Transdnistria. However, taking into account the fact that the most important transfer points of Kuchurgan and Slobodka not only continued their “normal” operation, but also developed (more than USD 2 mln were invested by the Ukrainian side into technical reconstruction of the Kuchurgan railway junction), it becomes clear why only Moldova was accused of “economic” blockade.

In Summer 2004, because of the “school” blockade (schools working according to curricula approved by the Ministry of Education of Moldova were denied Transdnistrian registration, which almost resulted in the failure of the education process) the rules of foreign economic activity changed again. Starting from August 1, 2004, *all* economic entities located in the *whole* territory of the country within its state border were asked to conduct foreign import transactions in strict compliance with the National legislation and international regulations, to which the Republic of Moldova was a party. Validity of all acts contradicting laws of Moldova was suspended.¹⁴ In other

words, “special rules” of foreign economic activity for economic entities of the left bank were cancelled. The economic interests of Moldova and Ukraine did not coincide yet again: starting from August 1 (!), Ukraine unilaterally stopped execution of the Protocol of 15 May 2003, and already on August 17, 2004, Moldova officially informed the Ministry of Foreign Affairs of Ukraine that starting from August 20 of the same year transit of goods for physical persons through 11 transfer points of the Moldovan-Ukrainian border (Transdnistrian segment) was stopped.

However, despite a complete “economic blockade”, and due to a favourable environment in the world metal market, against the background of not always consistent Ukrainian policy in the Transdnistrian area, the period of 2004-2005 turned out to be the most successful one for Transdnistria: the highest average annual growth rate of the GDP (12%), an export surge (23% – in 2004, plus 8% – in 2005) and strengthening of its European component, and progress in the social sphere.

It is notable that Russian import to Transdnistria is usually 1.5-2 times higher than the Ukrainian. But, as is known, there is no rule without an exception: in 2003-2005 growth in foreign supplies to Transdnistria was primarily supported by Ukrainian import that exceeded import from Russia by 1.5 times.

Consultations on issues of monitoring of the central segment of the Moldovan-Ukrainian border continued, not without problems though, while Moldova practically disappeared from the Transdnistrian market.

By Summer 2005, not without assistance from international partners, the Ukrainian position regarding Transdnistria was basically formed. The Left Bank economic entities were warned that in 2006 the rules (terms) of foreign economic activity would change yet again.¹⁵

In December 2005, a Joint Statement of the Prime Ministers of Moldova and Ukraine confirmed that starting from January 25, 2006 both the (updated) mechanisms of simplified registration of Transdnistrian economic entities and the procedures of transfer of goods through the Ukrainian-Moldovan border provided for in the Protocol of May 15, 2003, will be resumed.

The Joint Statement coincided in time with the inauguration of the European Union Border Assistance Mission to Moldova and Ukraine.

Unexpectedly for the Transdnistrian side, and despite some delays, Ukraine began fulfilling its commitments starting from March 3, 2006; and the “new” rules came into effect. Tiraspol and Moscow refer to the current situation as to an economic blockade, a peaceful occupation of Transdnistria, while Chisinau, Kyiv, the OSCE, EU and the USA call it creating transparency at the border.

Today, after 3 years, the economies of Moldova and Transdnistria have basically adapted to the “new” rules, but are still in conflict. The problems have remained the same: registration, taxes, tariffs and other regulation barriers, separation of the infrastructure. But at the same time, tension heightened, economic tension, as well as tension along other vectors: Transdnistria – Ukraine, Moldova – Russia, Moldova – Ukraine, Ukraine – Russia, Russia – European Union, which makes more complicated the search for a political solution to the problem which is mutually acceptable for everyone.

The situation is also deteriorating due to inconsistencies of the actions of Moldova regarding political and economic guarantees both for the Transdnistrian business and the population (property rights, registration and taxation, relations with the budget and banking system of RM etc.), and for the region as a whole (local self-administration, financial autonomy).

While formally there is supposed to be movement towards each other: resumption of direct contacts of the Moldovan and Transdnistrian leadership, bringing back to life joint working groups to solve pressing problems in the sphere of economy, infrastructure, and the social sphere; in fact there is a continuous distancing of Moldova and Transdnistria.

Unfortunately, the synchronisation of political and economic actions did not succeed. As before, the International Crisis Group recommendation is relevant: “*measures for border and customs control should not block legal Transdnistrian trade... A reconstruction program for Transdnistria to be implemented after conclusion of a final settlement should be elaborated and publicised. Moreover, Transdnistrians should be assured that they could continue their legal business operations and that the region would keep its property and a fair share of the revenues collected in its territory*”.¹⁶

The *informal economy* is a typical problem of any economy in transition; this phenomenon did not bypass Moldova and Transdnistria either. Reasons for this are common ones: weakness of the economy, quality of the business environment aggravated by the unrecognised status of Transdnistria, mistrust towards authorities and significant social inequality.

According to the estimates of the National Bureau of Statistics of the Republic of Moldova, the share of unobserved economy – legal production, concealed from the state (full or partial tax and contributions evasion) and informal economy (production activity of households for own consumption and for sale) currently constitutes about 25% of the country’s economy (without Transdnistria). Assuming this standard ($1/4$) is also valid for Transdnistria, it would turn out that annual volumes of the shadow economy in divided Moldova comprise at least USD 1 billion.

A significant contribution to this “shadow” billion comes from contraband flows, which are stimulated by the transit location of Moldova and the unusual status of Transdnistria. Nevertheless, goods not registered by customs bodies get to the market (we pay for them). As opposed to revenues, expenses are not concealed. As a result smuggled goods are also incorporated into the GDP.

There are many schemes of informal export/re-export of goods from Transdnistria to Moldova, and not only to Moldova. Most of these schemes are based on lacunae and “vague provisions” in the regulations of Moldova itself regarding its economic relationship with Transdnistria. Besides, there is also direct smuggling involving not only economic entities of Moldova-Transdnistria, but also those from third countries.

Major large-scale financial flows of goods of the shadow economy are petroleum products and food products. Moldovan statistics indirectly indicates that shadow flows increased during recent years: import of liquid fuel to RM decreased (!) from 1.5 million tons of reference fuel in 1995 down to 800-900 thousand tons.

The capacity of the oil product market in Moldova is currently estimated to be 1.0–1.2 million tons. Major consumers of oil products (petrol and diesel fuel) are motor vehicles and agricultural equipment. Compared to the mid 1990’s, the number of motor vehicles registered in Moldova doubled, the agricultural vehicle fleet was also renewed. Meanwhile, according to statistics, consumption of petroleum products by transport decreased by 1.5 times over the same period of time, while in agriculture it was by more than 4 times (!).¹⁷

One of the preconditions for the flow of oil products from Transdnistria to Moldova was created back in 2003, when on the left bank excises for petrol (40 USD per 1 ton) and diesel fuel (20 USD per 1 ton), were reduced. In Moldova excises for these products were virtually twice as high.

Major groups of *food products* “migrating” between the banks are wine materials, tobacco, sunflower, meat and milk from Moldova, and from Transdnistria to Moldova – imported meat and fish, corn, flour and compound feedstuffs for animal production (from Russia, Kazakhstan, and Ukraine), fruit and vegetables (from Turkey and Greece).

As in most of the cases individual efforts to stop smuggling did not have any effect (the interests of business groups appeared to be stronger than state interests), the Presidents of Moldova and Ukraine addressed the European Commission with a request “to facilitate an increase of border

control potential and movement of border control procedures closer towards international standards". Since late 2005, the EU Border Assistance Mission to Moldova and Ukraine has operated at the border. Besides professional assistance on harmonisation of standards and procedures of border management in accordance with the standards effective in the territory of EU countries, the EU Mission steadily draws the parties' (Moldova and Ukraine) attention to presence of illegal schemes of smuggling (forged certificates of origin, import of cars, meat smuggling, under-pricing etc.) causing significant damage to the budgets of both countries.¹⁸

A particular concern of the EU Mission observers is related to the central (Transdnistrian) section of the Moldovan-Ukrainian border controlled only from the side of Ukraine. Establishment of working (productive) contacts with relevant Transdnistrian services have not succeeded so far. The main reason for that is a lack of dialogue between the customs services of Moldova and Transdnistria. However, there is experience of such cooperation; it has just been "somewhat" forgotten.

The European experts have different demands to Moldova and Transdnistria.

Under-pricing of goods and forged certificates of origin fall into the area of Moldovan responsibility. The European experts note that in addition to systematic fraud related to determination of value of some goods in Moldova, there appeared a scheme involving large-scale forgery of Moldovan certificates of origin of goods.¹⁹ This is related to abuse of the system of trade preferences. A scheme is used, under which food products imported to Moldova from non-CIS countries are temporarily placed in storehouses, provided with forged certificates of origin, and then exported to Ukraine with all available preferences. According to European experts, elimination of such financial fraud requires additional effort from Moldovan colleagues.²⁰

Cigarette smuggling including forged trademarks is a special concern for the Mission, as it has a pronounced European direction. The reason for that is significant difference in local and European prices for this "unhealthy" item. "Businesspeople" from Moldova, Ukraine and Transdnistria are involved in this kind of activity.²¹

According to rumours,²² "the Dubosari Tobacco Fermentation Factory", which is officially out of operation for a long time already, produces cigarettes of world-famous brands, and in rather large batches. Programmers are also involved in the commercialisation of the manufactured products – specialists in SEO (Search Engine Optimisation), who establish and connect trade channels with own or already existing on-line internet-shops. Apropos, products of the Chisinau Tobacco Plant can be found on the internet (<http://www.cigarettesplace.net/doina-cigarettes.html>, USA), and, judging by the price, the cigarettes have left Moldova not quite legally.

Food products smuggling, chicken meat in the first place, according to experts of the Mission, is a Transdnistrian problem. The profitability of the "meat business" is high: a customs tariff for imported chicken meat is high both in Ukraine (30%) and in Moldova (20% + 100 EUR/ton). According to the Mission's estimates, only from October 2005 to April 2006, Ukrainian and Moldovan budgets have under-received EUR 43 million and EUR 18 million, correspondingly, while the Transdnistrian budget gained (?) EUR 7 million.²³

At the same time, it is noted that in 2007, compared to 2006, there was a decrease in the number of detected cases of meat smuggling from Transdnistria, though the amounts of imported chicken meat on the left bank did not go down, and, as before, exceed the norm of real consumption of the population. Such an "improvement" of the situation can only make one wonder. Perhaps this is why the "Mission recommended partner services to increase vigilance related to this issue".²⁴

It follows from the Mission's reports that the main reason of permanently emerging problems at the Moldovan-Ukrainian border, at its Transdnistrian segment in particular, consists in legislative and institutional "inconsistencies" and lack of independence of the judicial system.

Though certain progress was reached in 2007, following the recommendation of the Mission, the "nurturing" European culture of providing services, the extermination of facts of abuse of office and especially corruption will all require not only time, but "also a strong will of the politicians to succeed in this sphere".²⁵

There is no doubt, and recent years' events confirm it, that any attempt to use economic pressure to activate the negotiation process are doomed to failure. It is very much mutual economic interests that can and should form the basis that is able to "crystallise" political solutions. Successful and stable settlement of the Transdnistrian problem largely depends on consistency of actions of formation of a common economic space, joint overcoming of the accumulated barriers of disintegration, and, not less important, objective assessment of possible risks / costs, as well as advantages of the proposed settlement formulas.

Already today it is possible to foresee that from the economic point of view, issues of legal formalisation of property (results of privatisation, and in some cases newly established enterprises) and organisation of foreign trade are going to be the most painful issues. In any settlement formula a complication of the budget process and an extended "coming together" of tax systems are inevitable. The problem of external debt would also be viewed from a different angle. Possible sources of tension could be also social problems: pension schemes, health insurance, and employment.

It is particularly important for advantages and opportunities of the common economic space: joint investment projects, for example, in the sphere of infrastructure, Moldovan-Transdnistrian economic cooperation, coordinated actions, with the support of international development partners in particular, intended to solve difficult social problems (poverty reduction, expansion of employment) to appear as early as possible to help facilitate mitigation or liquidation of possible risks.

Obviously, different actions to "bridge" the two economies will be taken at different rates and with different durations, something that does not exclude, but makes particularly important, their coordination aimed at prevention of undesirable aggravations and negative effects.

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