

Moldova

Status Index		4.1	Management Index		3.3
(Democracy: 2.2 / Market economy 1.9):					
System of government	Parliamentary-presidential Democracy		Population	4.3 mill.	
Voter turnout	n. a.		GDP p. c. (\$, PPP)	2,150	
Women in Parliament	12.9 %		Unemployment rate	n. a.	
Population growth^a	0.4		HDI	0.700	
Largest ethnic minority	35 %		UN Education Index	0.86	
			Gini Index	36.2	
Data for 2001 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2001. Sources: UN Human Development Report 2002, 2003.					

1. Introduction

In more than one respect, the Republic of Moldova provides a unique case in post-communist transition. The third dimension of transition – nation and state building – predominated in the first phase (i.e. from the late 1980s and the declaration of independence of 23 August 1991 until the elections and independence referendum of February/March 1994) of transition. Eventually, popular support for the agenda of national self-determination and reunification with Romania propagated by the Popular Front under perestroika dwindled. Conversely, the reactive mobilization of minorities, predominantly on the part of Moldovan territory on the left bank of the Dneestr River, resulted in secessionism.

After a short outburst of armed conflict in 1992, the Dneestr Republic of Moldova (PMR) that had declared independence on 2 September 1990, *de facto* seceded from the Moldovan state with active support from Moscow. Consequently, the political and economic transition processes on the left and right bank of the Dneestr have diverged increasingly and therefore the current report (unless noted otherwise) only refers to the territory *de facto* under sovereign control of the government in Chisinau.

The unresolved territorial conflict, the controversy over Moldovan nationhood and the country's dependency on Russian energy resources, moreover, have all exacerbated the challenges of transition management. With the February/March 1998 elections socio-economic concerns replaced national issues as prime mobilizing force, with popular discontent in the results of economic reform and transition hardship resulting in the only outright and unreformed communist government in former Eastern Europe. The current report focuses on the

presidencies of Petru Lucinschi (January 1997-April 2001) and Vladimir Voronin (since April 2001) with the four corresponding governments. More specifically, the “examination of criteria” assesses the status quo in March 2003; the “evolution” section includes both the Lucinschi and Voronin presidencies, whereas the “management” section is concerned with the communist rule of the past two years only.

2. History and characteristics of transformation

As (inconclusive) consolidation of nation and state building took precedence, democratic and especially economic reform reached the top of the Moldovan political agenda (too) late. The short period of public mobilization for national self-determination as well as political and economic reform beginning in 1988, but ended with the victory of the Popular Front championing reunification with Romania and the ban on the Communist Party after the August 1991 coup in Moscow.

Thereafter, however, an elite coalition of former communist nomenclature and moderate reformers favoring independent statehood (i.e. Moldovanism) and led by President Mircea Snegur gained ground. Both reunificationists and Moldovanists, however, failed to make a determined effort for economic reform: The Popular Front assumed that the upcoming reunification with Romania would make any separate Moldovan reform efforts futile, whereas Moldovanists made a determined effort to gain control of the relevant state institutions. This power struggle, the disadvantageous initial situation and the Dnestr conflict all blocked economic reforms although democratic institutions were established.

In 1994 the Moldovanists managed to impose their political agenda, take over key political institutions, and marginalize the reunificationists. Typically, in 1997 Lucinschi took power with the promise to reunite the state by resolving the Dnestr conflict and the promise of a successful and “painless” transition to a market economy. When Lucinschi’s failure on both accounts became obvious in 2001, communist leader Vladimir Voronin won his campaign with the two very same promises.

The transition to a pluralist democracy in Moldova has remained highly controversial and inconsistent since the first phase of democratic take-over of the existing institutions of the Moldavian SSR in the late 1980s. The consolidation of democratic institutions and procedures impinged directly on the controversies of statehood (reunification with Romania and the reintegration of the PMR) as well as on the relative power of the executive and legislative powers (that more often than not representing contrary position in issues of statehood).

As far as the transition to a market economy is concerned, Moldova had been among the poorest states of Europe even during communist times. Thereafter, its lack of natural resources, the loss of the industrial sites on the left bank, its reputation of violent conflict, dependency on Russian natural and energy resources, reduced access to the CIS market, the politicization of (economic) relations with Romania, and its position in-between CIS and Southeastern Europe combined to create extremely unfavorable circumstances for economic reform and recovery. Typically, the weak state of Moldova faced economic pressure from both the Western IFIs and the CIS, and responded with wavering political orientations and simulated reforms to both sides.

Meanwhile, the population grew extremely weary of the political rhetoric on economic reform and began to see transition to a market economic as a bigger threat to personal subsistence than the minimal guaranteed incomes of a largely state-controlled economy. The net result is a run-down economy and a communist government inclined to make concessions to Moscow rather than to accept conditional Western reform assistance.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

3.1.1 Political regime

(1) Stateness: Basically since the founding of Moldova as an independent state in 1991, the authorities in the capital of Chisinau have failed to implement the state's monopoly on violence for the entire territory: Whereas the 1994 autonomy arrangement with the Gagaus minority has ended this fundamental (but minor in size) challenge to state authority on the right bank, Chisinau has no authority whatsoever over the left bank area plus the adjacent city of Bender on the right bank. On the right bank, however, the state's monopoly is established and largely unchallenged.

In Moldova as a state with a one-third minority population the 1994 constitution has established a civic concept of the nation, whereas the government had adopted the zero-option for citizenship with the end of the USSR. Reunificationists champion the abolishment of Moldovan citizenship altogether, but would at least introduce a ethnic-historic criterion like in Estonia or Latvia (i.e. the criterion of citizenship at the time of Soviet occupation in 1940). All citizens have the same civic rights, but large groups challenging the state's constitution exist with both reunificationists and the rulers in the quasi-state of PMR. Conversely, the Moldovan security forces never developed any political pretenses and are subject to political (of not civic control).

Currently, Moldova has returned to secularization: State and church are largely separate and religious dogmas certainly have no influence on political decision-making whatsoever. So of the controversies concerning different Orthodox churches in Moldova do involve the state authorities, however: The government's church registration procedure has discriminated against the Bessarabian Church and also refused recognition of Muslims, the True Orthodox Church and the Mormons on the urging of the Moscow Patriarchate's branch in Moldova.

Basic administrative structures have been created in all three *de facto* parts of Moldova – Moldova, Gagausia, and PMR. Again, the state authorities in Chisinau have no control over the administrative structures on the left bank.

(2) *Political participation*: Ever since the partially free elections of 1990, Moldova has had democratic elections on the national and local level at regular intervals. Typically, opposition parties have accused ruling politicians of abusing their office and state resources in party-political campaigning. Not surprisingly in view of the political-ideological polarization, each election has seen accusations and some reports on physical intimidation of political opponents. Generally, elections have determined governments, there are no unelected office-holders, but the authorities in the PMR capital of Tiraspol have frequently hindered the left bank's population in participating in Moldovan national elections.

Thus, the elected rulers have the effective power to govern on the right bank, but not at all on the left bank. The democratic deficit is not one of veto powers, but rather a clear case of a political-territorial enclave: The military has never aspired to political influence and the influence of the Orthodox Moscow patriarchate is limited to issues of church registration. In right-bank Moldova as a centralized state, the power of the state representatives remains high on the local level as well as on the level of the 40 *judeti* and 10 *judet*-free cities (currently reformed into 10 *raions*).

Moldova has witnessed a significant growth of endogenous bottom-up civil or political society movements in recent years, considering the low starting level. Formally, no restrictions apply to the right to assemble and associate freely – in right-bank Moldova. In praxis, the reunificationist opposition faces obstruction, e.g. while organizing political demonstrations in early 2002. Eventually, the Council of Europe requested an explanation from Moldova about the decision to suspend the (reunificationist) Christian Democratic Popular Party temporarily and about other measures contrary to the right to freedom of association, assembly, and expression. Typically, NGOs and civil society organizations are either fully sponsored affiliates of international NGOs or linked to the state and/or the communist party as grass-root organizations.

The state and the ruling political party, however, do not control the public sphere or the media. Plurality of media outlets exists, although TV and radio are state-

dominated. In recent controversies, the authorities have demonstrated an inclination to curb the freedom of the press and opinion, e.g. by blocking foreign broadcasts from Romania, but also from Russia. A January 2003, the Council of Europe report criticized excessive government control, inappropriate media legislation, and harassment by law-enforcement authorities as the newly-adopted broadcasting law provides for many forms of direct political interference and state censorship, although the national broadcaster was transformed into a public institution last year.

(3) *Rule of law*: Over the past decade, Moldova has created a state architecture separating executive, legislative and judiciary powers institutionally. The absolute majority of the communist party in parliament, however, has produced a *de facto* dominance of the executive power (i.e. the president) over a parliament with a fragmented opposition. Correspondingly, there has never been in Moldova a clear political will to create an independent judiciary. Hence, the reform of the judiciary has been largely rhetorical and often the measures taken only appeared to support it. Obstacles of political, economic and institutional order have hampered the emergence of an actually independent and professional judiciary. The current judiciary system in Moldova has been developed through gradual abandonment of the old-time Soviet legal policy and institutions. Justice in Moldova is administered by the Supreme Court, Court of Appeals, local tribunals and common courts; with the Supreme Magistracy Council appointing and transferring judges, investigating them or initiating proper disciplinary action against them. Recently, the Moldovan judicial system was seriously damaged through a number of measures taken by Moldova's current communist government, including a series of detrimental legislative amendments.

Abuse of office for private gain is a key problem in Moldova, as indicated by Moldova's ranking in the TI corruption index as well as in the World Bank's state capture index that places only Azerbaijan below Moldova, among 18 countries. In terms of administrative corruption index, only Kyrgyzstan, Azerbaijan and Georgia are ranked lower than Moldova. The legal instruments for combating corruption and abuse of office are evidently insufficient. Corruption is usually registered among police, prosecutors, doctors, professors, customs and tax officers and other groups. Corruption is most pervasive in government procurement, taxation, customs, education and health. Public outcry in the media on flagrant cases remains largely ineffective as far as structural remedies are concerned. Senior officials (from the parliament and government) are often accused of corruption in the local press. Corruption and steps to stamp it out are frequent political topics. While political rivals exchange accusations of corruption, prosecutions have not occurred.

The proximity of the PMR, probably the most notorious case of a mafia-state in Europe certainly adds to the problem in Moldova proper. The importance of a strong anti-corruption strategy has been the subject of recent discussions in

Moldova. Moldova has adopted laws, regulations and penalties against corruption. The laws are not effectively enforced and corruption exists at an advanced level. In 1996, the Moldovan parliament adopted a law on combating corruption and protectionism, and established a Department to Combat Organized Crime and Corruption under the Ministry of Internal Affairs. A May 2001 decree by newly elected President Voronin created the Coordinating Council on issues for combating corruption. While in the past these efforts have dealt mainly with the symptoms of corruption, there is now an appreciation of the need for a more systemic approach involving institutional reforms, civil service reform, legal and judicial reform, and programs to strengthen public oversight, but the government faces the difficult problem of creating an efficient and corruption-resistant public administration within tight budget constraints. Many observers believe that arrears in salary payments make it difficult for judges to remain independent of official pressure and free from corruption.

Civil liberties are guaranteed by the constitution, but due to the hegemonic political authorities and the deficits of the judiciary violations often remain without redress. Human rights' reports indicate no politically motivated murders or disappearances. Some reports mention incidents of police brutality in Moldova as well as torture and politically motivated imprisonments in PMR prisons or the involvement of state officials in human trafficking. Charges have been pressed rarely in these reported cases and tend to produce no substantial results. No specific procedures to redress violations of human rights under the previous communist regime have been installed apart from the late-Soviet procedures of rehabilitation.

3.1.2 Patterns of political behavior and attitudes

(1) Institutional stability: In Moldova, the efficiency of democratic institutions, including administration and judiciary, is hampered not so much by lack of continuity or by inter-organizational frictions, but rather by a lack of human and material resources. Democratic institutions are formally accepted by relevant organizations, but in the current situation, the communist government has an absolute majority (71 out of 101 seats in parliament) in a highly polarized political landscape. Thus, neither the self-proclaimed authorities of the PMR nor some of the radical reunificationists respect the democratic institutional framework, e.g. by boycotting parliamentary session in protest of majority decisions.

Whereas the PMR has set up alternative institutions (vacating its reserved seats in the Chisinau parliament) part of the political opposition resorts to extra-parliamentary means implying that their national concerns override democratic procedures. Conversely, the communist government has recently yielded to international pressure to open a round-table dialogue with opposition and civil society outside the parliamentary framework. Thus, strong actors do not accept or

respect the democratic institutions of Moldova and in the case of the PMR hold vetoes.

(2) *Political and social integration:* Typically, the party landscape in Moldova has remained highly fragmented and volatile during transition, lacking a rooting in society and a mass membership with the exception of the revitalized Communist Party of Moldova. In many respects, political parties or alliances were created, fused and split up to comply with the ambitions and agendas of individual politicians. The polarization of the party landscape, moreover, reflects opposing views of nation and state building as well as international orientation, on the one hand, and strategies for reform and transition, on the other hand. With such a polarization on both axes of the political landscape, pragmatic cooperation and consensus building have proven extremely difficult. The creation of a civil-society round table, moreover, indicates that normal democratic mechanisms of mediation between society and the state have proven ineffective. The fragmentation of the party system in combination with the high 6 % threshold has resulted in a limited number of three parties in the current parliament and 1,79 on the Laakso/Taagepera index

The intermediate level of political society in Moldova between state and society is by and large either a subsidiary of the ruling communist party and its grass-roots organizations or geared towards ethno-national mobilization. Cooperative associations, advocacy organizations and interest groups outside these two categories are extremely weak.

Consequently, those existing are funded and installed by international organizations and international NGOs and often lack strong ties to the local populace, although they may represent their needs and interests. The state consequently negotiates with ethno-national pressure groups and/or local affiliates of the international community. Both categories of interest groups may (unintentionally) weaken democratic procedures.

The citizens' consent to and trust in democratic institutions and procedures are extremely low: In a 2001 poll, 62 % declared that their personal security is not ensured by the state. In the same year, 57 % of Moldovans believed that a system with one political party is preferable. Typically, in a 2001 survey of priority concerns democracy is not mentioned at all. Public trust in most institutions (president, parliament, judiciary, policy) is very low, with the exception of the church and mass media. Patriarchal attitudes and a lack of viable, credible political alternatives, however, has resulted in societal lethargy vis-à-vis politics.

Social, non-political self-organization and self-help are mainly concentrated on communal and family structures of economic subsistence. As small elite, almost exclusively in the capital of Chisinau, has produced social capital by teaming up with relevant international organizations. Typical for a USSR successor state,

attitudes and concepts concerning social organization are focused on the state, irrespective of the ability and willingness of the state to live up to these expectations. The issue here is not a low level of trust among the population, but rather a fragmentation of society and a dominance of the state. More far-reaching forms of social organization are limited to a rudimentary elite and mobilize the populace rather on an ad-hoc basis.

3.2 Market economy

3.2.1 Level of socioeconomic development

Social exclusion is highly characteristic of Moldova's path to a market economy, as it is extensive and structurally ingrained in the poorest country of Europe. As the indexes illustrate, social exclusion wears down the outcomes of the Soviet system. Exclusion is not yet primarily gender or education based, but causally linked to the extent of absolute poverty in Moldova, in particular in the countryside. The Gini index for Moldova is 41 (1997) and in terms of household income the lowest 10 % account for 2 %, the highest 10 % for 31 % (1997). By a 2001 estimate 80 % of the population lives below the poverty line. Conversely, adult illiteracy rate is 1.1 % and access to healthcare or education is virtually 100 % (2000). In the GDI index for gender inequalities, Moldova ranks 86th out of 146 countries (2000).

3.2.2 Market structures and competition

Economic liberalization has reached 50 % of GDP only after more than a decade of transition. The current tendency is an increasing number of products with fixed prices and a slowdown in the privatization process. Freedom House indicators for liberalization consistently give Moldova a low 4 (out of 5) in terms of privatization and micro/macro-economic policy. The extensive informal sector is partly due to the inhibitive high tariffs and taxes on business activities. According to the World Bank, Moldova's weighted average tariff rate in 2000 was 2 %, down from 4.5 % in 1999, but significant non-tariff barriers exist. Overall, companies are still subject to excessive state regulation and supervision, e.g. by means of frequent inspections. The national currency Leu became fully convertible in 1995.

Monopolies in Moldova generally concern state monopolies in key economic activities such as fixed line telecommunications services, heating, the media distribution system and electric power. The legal framework for anti-monopoly regulation is the Law on the Limitation of Monopoly Activities and the Development of Competition and the Anti-Monopoly and Competition Department in the Ministry of Economy must approve companies with foreign

equity exceeding USD 5 million. In economic praxis monopolies are hardly impeded by legislation or political action.

The devastatingly negative trade balance with all surrounding economic regions hampers liberalization of foreign trade in Moldova. Whereas the state trading monopoly was abolished in January 1992, open market operation began in 1998 only and trade restrictions were ultimately removed in April 1999 only. In a protracted process, the IMF achieved substantial progress in liberalizing prices and the foreign exchange market, in reducing trade tariffs and other trade barriers such as licensing and registration, and in implementing privatization of state assets. As Moldovan exports are focused on agricultural products, its competitiveness on the world market is low. In Moldova the banking system and the capital market are still undergoing restructuring and consolidation of a liberalized system is still ahead. Nevertheless, the increase in minimum capital requirements and a reduction of overdue credits point in a positive direction.

3.2.3 Stability of currency and prices

With an inflation rate (fluctuating between almost 40 % in 1999 and less than 8 % in 1998 with an average of 22 % for 1995-2001) that is even modest compared to the actual disarray and decline of the national economy of Moldova, the Moldovan Leu has proven remarkably stable: The exchange rate of the convertible Moldovan Leu at the moment of introduction (Nov. 1993) was 3.85 MDL for 1 USD and reached a moderate 14.20 MDL in March 2003. The government's monetary policy has been relatively prudent due to IFI pressure, but a consistent inflation policy is not a priority as such. The risk of currency turmoil is reduced by large remittances by Moldovans working abroad. The National Bank is independent, but has regularly been forced to extend credit to the government.

Overall, there are serious problems with setting objectives and achieving performance of a policy for stability. Latent tendencies towards excessive spending and low effectiveness in revenue collection weaken economic credibility. Serious doubts exist whether Moldova will be able to serve its foreign debts in the medium term. Moldova is facing a heavy external debt burden; in fact, almost half of central government revenues are needed to service the country's debts.

3.2.4 Private property

Property rights and the regulation of the acquisition of property are defined formally in law, but not consistently implemented and not adequately safeguarded by law, especially against state intervention. Latent tendencies towards re-

nationalization exist. Overall, the level of state intervention is moderate: Although the constitution provides for an independent judiciary, the executive branch has exerted undue influence on the judiciary in issues of property rights.”

The process of enterprise privatization has been haphazard in Moldova and has been partly reversed under the present communist government. Typically, by mid-2001 the private sector accounted for only half of the national GDP. Mass privatization began in 1994 and was completed in 1996. In the course of mass privatization 2,235 enterprises (80 % of the total number) were privatized, as well as 191,000 flats. 40 % of all shares of privatized companies were acquired by investment funds. At the peak of mass privatization net asset value of privatization funds and trust companies was 1,2 billion Leu. Currently cash privatization is in progress, which is supposed to cover such industries as energy, tobacco and telecommunications, which are represented by large companies. Results have been mixed and overall privatization has attracted only few Western investors.

3.2.5 Welfare regime

Moldovan society is characterized by social exclusion and high poverty rates. Health care is available for the entire population, but on a very basic level. The state evidently lacks the resources and the policy capacity to combat poverty systematically. In cooperation with the World Bank, Moldova initiated a Poverty Reduction Strategy under Lucinschi. However, the preparatory process came to a standstill after the communists came to power, although policy priorities since their installation have been very much attuned to the objective of alleviating poverty. Furthermore, government officials in line ministries and local public organizations do not have adequate technical and analytical skills necessary.

The society retains elements of heterogeneity. There are a number of institutions to compensate for gross social differences. Women have significant access to higher education, public office, etc.

3.2.6 Strength of the economy

Moldova as the poorest country in Europe has failed to built on its assets and continues the economic transition policies of the first few years after independence that were assessed positively by the World Bank. External factors, the civil war of 1992 and the subsequent loss of the left-bank industrialized part of the economy and the dependency on Russia including the 1998 ruble crisis certainly contributed their share to the economic decline. The emigration of estimated 0.5-0.8 million Moldovans (one-third of the work force) to Southeastern Europe and the EU is indicative of the dire state of the economy. The rampant

black economy and the size of the state sector indicate that there hardly is a self-sustainable privately owned market economy in Moldova.

Per-capita GDP bottomed out at 304.5 USD in 1999 and has grown at a pace comparable to other Southeastern and CIS states since, but starting from a very low level. An unfavorable trade balance, extremely high debt rates (foreign debt at 12 % of GDP) and FDI at less than 4 % of GDP add in. In total, macro-economic indicators are not too negative, but especially high debt and unemployment rates offset economic development.

3.2.7 Sustainability

Moldova has to deal with a severe legacy from the communist period: The productivity of Moldovan agriculture was achieved with the massive and uncontrolled use of pesticides on the fields. For the environment the factories of heavy industry, created in the 1920s and 1930s (mainly on the left bank) were equally damaging. The green movement played some role in the late 1980s, but ecological concerns have long lost their mobilizing force (both on a macro- and a micro-economic level) in a country dominated by subsistence economy.

The Soviet time infrastructure for elementary, secondary and higher education as well as research and development is still in place, institutionally. Apart from the fact that private schools and universities have upset the structure, an absolute low in state funding and external funding has reduced much research and higher-education institutes to a nominal subsistence. Human capital is still available, but brain drain is the dominant trend among the younger generation.

4. Trend

As indicated in the introduction, both the Lucinschi and Voronin presidencies (1997-2001 and since 2001) have been taken into account. Overall, most advancement was achieved under the Lucinschi presidency and optimistically, the Voronin presidency has so far been less inclined to regression than many observers and transition experts may have feared in April 2001.

With a communist rule combining authoritarian tendencies and an absolute majority in the legislative, Moldova over the past five years has rather moved away from democracy in praxis, albeit not in a formal sense. With the Dniestr conflict unresolved, the state monopoly of violence applies to part of the territory only. Relations between Chisinau and Tiraspol have not changed substantially and fluctuated between constructive dialogue and mutual incriminations without producing many tangible, sustainable results.

Democracy as a formal procedure has remained largely unchanged, as did the popular preference for one-party rule.

Social exclusion and poverty have increased substantially due to socio-economic decline. Contrary to the European trend, Moldova's HDI (ranking 105 in 2000) fell from 0.759 in 1990 to 0.704 in 1995 and 0.701 in 2000. Thus, the decline over the past five years was minimal (-0.003), but on an extremely low level, indicating that only a small class profits from the substantial growth in GDP. Overall, these figures are rather speculative considering the size of the informal economy and remittances from Moldovans abroad.

The institutional framework for a market economy has improved slightly in the beginning, but has stalled recently due to political blockades and lack of resources. Moldova has witnessed a qualitative leap in economic development: The basic macro-economic indicators have recovered from the ruble crisis of 1998/1999: In reality, the qualitative leap has been backward. One third of the work force has left the country (most of them in recent years) and sustain a large part of the population by transfers to Moldova (estimated at several hundred million USD p.a.); the black market's share in the economy is estimated at 50 % of GDP; and income is distributed extremely unequal (Gini index is 41 for 1997). In sum, economic performance has deteriorated severely.

5. Transformation management

As indicated in the introduction, only the Voronin presidency and its Tarlev government (since April 2001) have been taken into account in the following assessment of transformation management. It is noteworthy that the hegemony of negative independent factors have reduced options for transition management to an absolute minimum, which makes it extremely speculative to assess the extent to which the PCM regime has exploited is managerial latitude.

5.1 Level of difficulty

The structural and external difficulties for sustainable economic development are extremely high. GDP per capita is low: GNP per capita was 1,700 USD in 1991 and 374 USD (-80 %). Real GDP per capita in PPP was 3,500 in 1991 and 2,230 in 2001 (-36 %). However, within the last five years the development trend was rather positive. The UNDP data for the GDP index showed an increase from 0.334 (1996) to 0.51 (2000) while real GDP remained the same: 2,122 (1996) and 2,109 (2000). In 2001 and 2002 also revealed a growth of GNP figures: by 2.1 % in 2000, by 6.1 % in 2001, and 2002 showed similar growth rates. Overall the GNP in absolute figures in 2001 only amounted to half of the GDP of 1995.

The Moldovan population is well educated by world standards: The UN education index was 0.90 for 2000.

Society has a substantial share (over 30 %) of ethnic minorities. Ethnic cleavages are only one (and not the main) dimension of the Dniestr conflict. In a way, one might also refer to a Romanian-Moldovan ethnic split in the society of Moldova. Typically, however, in the villages the issue is contained by old structures of segregation and in the cities there is little ethnic tension in daily life. Not unlike in the Baltic States, ethnic conflict is a political meta-issue of nation and state building rather than a source of everyday tension and discrimination. The ethnic cleavages are largely unrelated to socio-economic disparities.

The traditions and present development of civil-society organizations are weak: 4.00 in the Freedom House index. Low scores for institutional consolidation and functional efficiency of the rule of law and democracy.

5.2 Reliable pursuit of goals

Despite the complicated structural and external framework conditions, it is fair to describe the reform policies of the communist government as eclectic and inconsistent at best. As far as a transition to a pluralist democracy and a market economy are concerned, no long-term strategy seems discernable. Conflicting messages concerning an orientation towards Moscow and the CIS, on the one hand, and the European Union and IFIs, on the other hand, indicate a lack of elementary policy prioritization (or strong political and economic dependencies).

The government uses a political rhetoric of transition reforms without social costs. In political practice, some achievements in economic reform, e.g. in privatization, are reversed and a gradual loss of human capital is accepted for the sake of avoiding unpopular measures.

Evidently, the PCM was elected in 2001 on a ticket of status quo and non-reform. The need to cooperate with IFI has produced some additional reform and prevented strategic backtracking, but no consistent and coherent policy is presented and implemented. The low rate of FDI and international assistance, the size of the black economy (including transfers from Moldovans abroad) as well as the massive outflow of labor indicate that trust in government policies is low, but without credible alternative. The absence of massive violence and catastrophes seems assured, but consistent macroeconomic policies (e.g. no re-nationalization) not and neither are safeguards against poverty with 23.3 % of the population living below the national poverty line (i.e. 1-2 USD a day).

5.3 Effective use of resources

Apart from the question to what extent Moldovan government reforms are always directed towards democracy and market economy, the center often fails to implement its reforms, partly due to societal resistance or elite pressure groups.

The range and quality of public services is clearly inadequate for further development and transformation. Expenditure on public health is at 2.9 % of GNP (1999), on education 4.5 % (2000).

Combating corruption is not a real government priority. Consequently, in terms of perceptions Moldova ranks among the most corrupt countries in the world (sharing rank 93 with Uganda with a score of 2.1 on the 0-to-10 CPI of Transparency International for 2002). State capture is a serious problem in the Moldovan reform process and is probably at the core of the *Raison d'être* of the PMR.

The mobilization of cultural legacies for reform is a particularly complicated issue in Moldova. As both the history and the identity of state and nation are disputed, they tend to be a source of stagnation rather than reform. Whereas as choice of orientation between "East" (Russia, CIS) and "West" (EU, Romania) is to some extent a fundamental choice in reform strategy, it is hardly debated as a rational choice. Symbols and memories of a pre-communist democratic and market-based past are extremely limited and controversial. The interwar period as a Romanian province for the right bank has strong negative connotations of economic neglect and political marginalization and is at the core of the conflict between reunificationists and Moldovanists.

The late Czarist period witnessed some democratization and capitalist development, but was largely restricted (economically) to the last two-three decades before the Russian Revolution and (politically) to the period 1905-1918. As shared cultural values are extremely hard to find and even harder to construe, the current government has not done better or worse than any previous government in instrumentalizing cultural traditions to establish inter-group solidarities and to counter inter-ethnic cleavages. Taking into account that the concept of Moldovanism, the mobilizing and integrating force of the mid-1990s has run its course, no obvious alternatives seem to be available for any government in the current domestic and regional context.

5.4 Governance capability

The flexibility and modification of (reform) policies is mostly designed and induced by the international community and IFIs and often adopted *contre coeur* by the PCM regime. Stakeholders in the elite often prevent the replacement of

failed policies. Unlike in economic reform policies, in strategies for societal integration the regime has demonstrated some flexibility and aptitude in readjustment of political decisions.

The democratic majority of the regime is offset by intra-regime divergences and the relative strength of the legislative in relation to the executive. A lack of authority, however, is not the decisive factor in the lack of consistent reform policies.

The PCM government takes the allocative impact of its policy decision into account, but for lack of a consistent, cohesive strategy often fails to improve or assess the impacts on market efficiency. Strictly speaking, one might argue that the current Moldovan leaders are extremely sensitive to their actual political leeway and demonstrate a remarkable degree of political astuteness. More often than not, however, ideological and interest-group considerations (as part of political astuteness) get in the way of the utilization of developmental opportunities: e.g. economic cooperation with Romania or heading certain kinds of IFI advice.

5.5 Consensus-building

Especially within the PCM, currently the dominant political actor, fundamental differences concerning market economy and democracy exist.

Probably the parties of the political center and the moderate wing of the PCM would have a democratic majority in case of a split within the PCM. Real reforms, however, at the moment are in no position to steer political consensus-building and are at best cooped themselves by the moderate communists. Essentially, cleavages in society are not directly reflected in the party system (except for the reunification versus statehood issue). As the positions of the PMR, the Christian Democratic Popular Party (PPCD) and the PCM on the statehood issue are fundamentally irreconcilable, containment seems to be the optimal result for the regime, and so far major escalations have been avoided or defused.

The government tries to promote solidarity, but cannot attain or strengthen societal readiness to cooperate because of fundamental cleavages and incoherent policies. Government strategy in many fields, however, relies on traditional generalized reciprocity and citizen involvement to prevent socio-economic regression.

The issue of past injustices (i.e. Stalinist repression and purges) was high on the agenda of the national mobilization and the Popular Front in the early 1990s. The current regime includes unreformed communist factions. The issue of Stalinist crimes, moreover, has become entangled with the issue of statehood and party

politics. Additionally, the priority concerns of the populations include issues of economic subsistence rather than historical justice. The mere fact that half the electorate voted for a successor to the Moldavian branch of the CPSU that has not even been renamed “socialist” or “social-democratic” and thus did not break with the past, indicates that these issues are not high on the agenda.

5.6 International cooperation

The Moldovan cooperates with bilateral and multilateral donors in the transformation process. For lack of an overarching reform strategy, the initiatives and concepts of international partners tends to drive reform activities. On the other hand, ideological and tactical considerations of the government so far prevent a systematic learning process did not take place. Torn between allegiance to the CIS and dependency on Russia, on the one hand, and reliance on Western assistance and resources, on the other hand, Moldova has become less predictable as a partner in recent years.

As the agenda of transformation to democracy and market economy is by no means unchallenged in Moldova, its image abroad is not that of a reliable and responsive partner. Especially the cooperation with the IMF and the fulfillment of the corresponding conditions has been eclectic. Moldova also failed to make the most of its gratuitous inclusion in the Stability Pact for Southeastern Europe in 2001 having failed to meet the conditions, the new government also failed to engage as an active partner and present realistic proposals for co-operation and assistance. There is a strong tendency to rate cooperation with international organizations as a asset of Moldova’s international standing rather than is a instrument to actually enhance the domestic reform process with external expertise and assistance to reduce the social costs.

Cooperation with neighboring countries is a politically explosive issue, whether it concerns Romania, Russia, or the Ukraine. The inability (or impossibility) to choose between its Western and Eastern dependencies makes it impossible for Moldova to reap the fruits of cooperation. The main cost of cooperation with IFIs and transition-relevant organization would be to accelerate the reform process without avoiding social costs. So far the PCM regime has limited this engagement for the sake of power consolidation, while trying to uphold its CIS integration. In sum, Moldova is a passive and reluctant partner in most regional and international transition-related forms of cooperation.

6. Overall evaluation

In sum, the structural and externally induced negative factors at the early stage of post-communist transition (low initial level of economic development, economic

dependency, unresolved issues of statehood and nationhood, strategic relevance, etc.) have severely restricted any government's options for democratization and market-economic reform. Once political and public mobilization shifted from issues of state and nation-building around 1997-1998, predatory elites (most of all in the Dniestr Republic) and widespread pauperization had eliminated any electoral basis for a half-way consistent reform strategy, with the disadvantageous structural and external factors still in place. The long delay in instigating reforms has eroded the basis for reform with a majority of the population preferring subsistence and one-party rule to the uncertainties of a market economy and pluralist democracy. Consequently, rather than making full use of the extremely limited options for reform, recent governments have opted for a strategy of political and economic conservatism and some reform rhetoric.

Structurally, the economic and political medium-term outlook is extremely bleak and the transition challenges correspondingly high, maybe even insurmountable. With legacies of the past as well as external and domestic factors all pointing largely in the same direction, the latitude for adequate transition management is seems minimal. Although not explicitly part of the current set of criteria, both external factors and the issue of nation and state building have resulted in delayed if not derailed transition to democracy and a market economy, giving Moldova many characteristics of a failed state and closing some of the options available to most other transition countries of the former Eastern Block and former USSR republics.

7. Outlook

It is fair to assume that only major shifts in the global and regional geostrategic constellation will unsettle the predatory regime in the PMR and reduce its negative influences on Moldova (i.e. by returning control over industry to the center, reducing black marketing and organized crime, and options for national integrations). For the Tiraspol leadership no real incentive exists for a (con)federalization solution. At the same time, no political alternative to the PCM is in sight: The miniscule pro-reform elite is highly dependent on Western assistance and lacks a popular basis, whereas the pro-Romanian elite which does have a substantial, but selective mobilizing potential fails to offer credible strategies for the main socio-economic concerns of the populace.

Romania's accession to the EU in 2007 is unlikely to produce a volte-face in Moldovan popular orientation, neither on the reform nor on the identity issue. Consequently, the most likely scenario is a continuation of communist rule going through the motions of democracy without responding to latent popular dissatisfaction and social tensions. Thus, *politically* only a split within the PCM could reshuffle the political landscape, not necessarily in a pro-reform direction.

More likely, the infighting between moderates and hardliners in the PCM will produce more policy inconsistency and paralysis.

The undiversified economy, the burden of foreign debt, and the slow pace of reform by far outweigh the relatively high growth rates (from a starting point 60 % below 1991 level in terms of real GDP). Macroeconomic instability remains a real threat. The PCM moderates will be able to contain tendencies for re-nationalization and a break with IFIs. Their economic policy, however, will remain strongly state-oriented, although too weak to really follow through on this strategy. Rather, it will comply with reform prescriptions by the IMF reluctantly. Interest from Western investors will remain low, increasingly pushing Moldova into the CIS economic sphere.

Although tax collection remains a key problem in view of the 50 % black economy plus massive influx from Moldovans abroad and the exclusion of the left bank, recurring bouts of populist measures, e.g. raising pensions and civil-servants' wages, are to be expected. In sum, the some positive and the general absence of stark negative trends in the key macroeconomic indicators signify stagnation and a delay of structural transition rather than prudent and successful transition management.