

# Understanding and Mitigating the Kremlin's Acts of Economic Aggression

A Monograph

by

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## Abstract

Understanding and Mitigating the Kremlin's Acts of Economic Aggression, by Ms. Jenna Tajchman, 56 pages.

Former Soviet and Russian economies are interdependent. The Kremlin uses economic aggression tools to maintain this interdependency and retain these countries as buffer states with the European Union and North Atlantic Treaty Organization (NATO). If the US government understands these interdependencies, it can reduce the impact of the Kremlin's economic aggression on targeted countries and, subsequently, lower their political and economic risk of standing firm against the Kremlin. Therefore, this research examined three phenomena: (1) how the Kremlin exploited economic interdependency to coerce its buffer states; (2) how the US government reacted to the Kremlin's economic aggression broadly and in Moldova; and (3) if and how US government foreign assistance helped Moldova to decrease its economic dependence on Russia from 2003 to 2019. It found that the Kremlin primarily used four geoeconomic tools to coerce its buffer states: economic aid, trade policy, energy supplies, and migrant labor policy. The most effective tool was economic aid provided to frozen conflicts within its buffer states, which prevented them from joining NATO and the European Union. In the Moldovan case, the Kremlin used these four geoeconomic tools in an attempt to stop Moldova from aligning with the West. Subsequently, the US government took policy actions and provided foreign assistance to counter the Kremlin's economic aggression in Moldova from 2003 to 2019. Through the US Agency for International Development, the US government helped Moldovan citizens to decrease their economic dependence on Russia, most significantly in the areas of export markets and seasonal labor migration.

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## Abbreviations

AA	European Union Association Agreements
CIS	Commonwealth of Independent States
CISFTA	Commonwealth of Independent States Free Trade Area
CMKI	Countering Malign Kremlin Influence
CRIEEA	Countering Russian Influence in Europe and Eurasia Act of 2017
CRIF	Countering Russian Influence Fund
DCFTA	Deep and Comprehensive Free Trade Area
DOD	Department of Defense
EAEU	Eurasian Economic Union
EDI	European Deterrence Initiative
EU	European Union
FSR	Former Soviet Republic
GDP	Gross Domestic Product
MCC	Millennium Challenge Corporation
NATO	North Atlantic Treaty Organization
NSC	National Security Council
NSS	National Security Strategy
OSCE	Organization for Security Co-operation in Europe
TBT	Technical Barrier to Trade
USAID	US Agency for International Development
WTO	World Trade Organization

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## Chapter One: Introduction

In 2003, many former Soviet republics (FSRs) were economically dependent on Russia. This dependence included export markets, remittances generated by migrant workers, and the source of natural gas needed to heat homes and power industry. Simultaneously, many FSRs, including the frontline nations of Georgia, Moldova, and Ukraine, began aligning with the European Union (EU) and United States, while also cooperating with the North Atlantic Treaty Organization (NATO). The Kremlin, losing influence over these countries to Western nations and organizations, used forms of economic aggression to “punish” them in an attempt to force their governments to align with the Kremlin.<sup>1</sup> Over the past sixteen years, many FSRs acquiesced when threatened with trade blockades, migrant labor restrictions, and energy supply cuts. Recognizing the coercive economic power of the Kremlin over FSRs, the US government deployed targeted foreign assistance, primarily implemented by the US Agency for International Development (USAID), to decrease these countries’ economic dependence on Russia. However, the Kremlin continues to coerce countries through economic aggression.

There is a growing volume of research and discussions centered on the Kremlin’s economic aggression towards FSRs. However, there is no exclusive study focusing on the actions and implications in Moldova. Further, publicly available reviews of USAID foreign assistance activities in Moldova stop in 2012. They focus mostly on USAID efforts, fail to describe the greater US government strategy governing these activities, and provide limited information on effective measures to counter the Kremlin’s economic aggression.

### Research Question

Did US government foreign assistance help Moldova decrease its economic dependence on Russia from 2003 to 2019?

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<sup>1</sup> Eugene Rumer et al., *Illusions vs Reality: Twenty-Five Years of U.S. Policy Toward Russia, Ukraine, and Eurasia* (Washington, DC: Carnegie Endowment for International Peace, February 2017), 20-23.

## Hypothesis

From 2003 to 2019, the Kremlin made a series of economic aggression attempts to coerce FSRs, including Moldova, to comply with the Kremlin's political will. During this time, US foreign assistance helped Moldova to decrease its economic dependence on Russia.

## Methodology

This research aims to understand if, why, and how the US government helped to decrease Moldova's economic dependence on Russia from 2003 to 2019. To do so, the monograph first develops a theoretical framework to address the research question and hypothesis. Next, it examines the landscape of tools available to the Kremlin to coerce others, the use of these tools against FSRs, and the Kremlin's coercive behavior as applied to Moldova from 2003 to 2019. It then identifies the US government's policies and strategies to counter this behavior as well as the results of the US government's effort implemented through foreign assistance in Moldova. The research concludes by asking if the US government's assistance did increase Moldova's ability to stand firm in the face of the Kremlin's threats.

## Significance of this Study

The Kremlin uses several forms of aggression against FSRs, many of which are US allies, to coerce them to comply with its will. Military aggression is very visible in international media. However, economic aggression is often less known and the true political context driving it frequently remains unclear. Further, economic aggression usually negatively affects a greater percentage of the population than military aggression. Should the US government wish to effectively partner with FSRs to increase their independent decision-making ability, it must understand the economic interdependency of former Soviet economies with Russia and the tools available to the Kremlin to coerce FSRs. With this understanding, the US government can use targeted foreign assistance help these countries to take actions to ensure that future anticipated or actual economic aggression by the Kremlin has minimal coercive power over them. This, in turn,

will allow our allies to make the best possible low-risk decisions with minimal consequences from the Kremlin. In July 2019, USAID launched its Countering Malign Kremlin Influence development framework to direct further foreign assistance programming in FSRs.<sup>2</sup> This monograph also intends to inform implementation of that development framework to increase its likelihood of success.

## Chapter Two: Theoretical Framework

Economic coercion tools are increasingly known, studied, and used to attempt to force belligerents to acquiesce. Likewise, foreign assistance is increasingly successful in providing incentives and tools to countries targeted by acts of economic coercion so that they can minimize their risk associated with not complying with the aggressor government's will. Following is a review of the applicable theory and literary materials to develop this study's theoretical framework and bring clarity to terms used in this monograph. This section also includes a brief discussion on the role of foreign assistance to support US government national interests, including countering the Kremlin's influence over our allies. The chapter concludes with a theoretical framework, which will inform the analysis conducted in subsequent chapters to answer the monograph's research question.

### Economic Coercion and Geoeconomics

Daniel Drezner (2003) defines *economic coercion* as “the threat or act by a sender government or governments to disrupt economic exchange with the target state, unless the target acquiesces to an articulated demand.”<sup>3</sup> He goes on to describe the following economic coercion theory model of action:

The sender threatens to interrupt the status quo and block a stream of economic change with the target unless the sanctioned country acquiesces to a specific demand made by the

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<sup>2</sup> USAID Administrator Mark Green's Remarks on Countering Malign Kremlin Influence, Press Release (Washington, DC: US Agency for International Development, July 5, 2019).

<sup>3</sup> Daniel W. Drezner, “The Hidden Hand of Economic Coercion,” *International Organization* 57, no. 3 (2003): 643.

sender. If the target complies, sanctions are not imposed. If the target stands firm, the sender faces a choice between backing down or carrying out its threat and imposing sanctions. Sanctions impose costs on both the target and sender relative to the status quo by disrupting economic exchange. There are differences within the individual modeling efforts, but this is the basic narrative.<sup>4</sup>

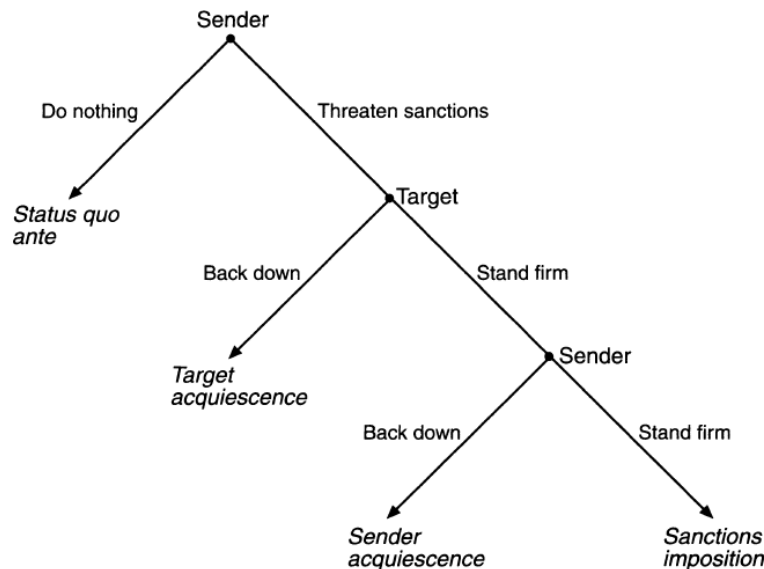


Figure 1. A model of economic coercion. Daniel W. Drezner, “The Hidden Hand of Economic Coercion,” *International Organization*, 57, no. 3 (2003), 645.

Linking economic coercion to geopolitical aims, in their book *War by Other Means*, Robert Blackwill and Jennifer Harris, 2016, discussed means to conduct war beyond military interventions. They focused heavily on *geoeconomics*, which they defined as, “The use of economic instruments to promote and defend international interests, and to produce beneficial geopolitical results; and the effects of other nations' economic actions on a country's geopolitical goals.”<sup>5</sup> Further, they emphasized that geoeconomics “combines the logic of geopolitics with the tools of economics, viewing the economic actions and options of a given state as embedded within larger realities of state power.”<sup>6</sup>

<sup>4</sup> Drezner, 645.

<sup>5</sup> Robert D. Blackwill and Jennifer M. Harris, *War by Other Means* (Cambridge: The Belknap Press of Harvard University Press, 2016), 20.

<sup>6</sup> *Ibid*, 24.

Blackwill and Harris identified seven economic tools that can be applied to geopolitics: trade policy, investment policy, economic and financial sanctions, cyber, aid and economic assistance, financial and monetary policy, and energy and commodities.<sup>7</sup> Further, a government is more capable of effectively using geoeconomics to their benefit if they have “geoeconomic endowments.” These endowments are: (1) the ability to control outbound investment; (2) large domestic markets with a high degree of domestic control that can quickly respond to import bans; (3) influence over commodity and energy flows; and (4) control over the global financial system.<sup>8</sup>

In *Shrewd Sanctions*, Meghan O’Sullivan described how economic tools are an alternative to the use of force through military action and can complement diplomatic efforts to protect US interests abroad.<sup>9</sup> She highlighted the use of foreign assistance as an incentive to combat threats to US interests. Though specifically applied to the US context, O’Sullivan identified the importance of coercive economic actions, referring to sanctions, to isolate and pressure countries to submit to US will.<sup>10</sup> She defined *sanctions* as, “Deliberate withdrawal of normal trade or financial relations for foreign policy purposes.”<sup>11</sup> She noted that they are most easily applied when the sender believes it dominates the world’s economy and will feel minimal impact resulting from their implementation.<sup>12</sup>

O’Sullivan also shared observations on US application of unilateral sanctions. She found that, despite globalization and economic integration, unilateral sanctions can cause political and economic damage to the target. These sanctions were most effective when targeted at products that had very limited alternative market opportunities; thus, the country could not easily switch to

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<sup>7</sup> Blackwill & Harris, 49.

<sup>8</sup> Ibid, 87-92.

<sup>9</sup> Meghan L. O’Sullivan, *Shrewd Sanctions* (Washington, DC: Brookings Institution Press, 2013), 2.

<sup>10</sup> Ibid, 3.

<sup>11</sup> Ibid, 12.

<sup>12</sup> Ibid, 13-14.

new markets for these products.<sup>13</sup> Typically, sanctions are perceived to have negative effects. However, as O'Sullivan cited, in Libya in 1982, US sanctions on their oil forced the Libyan government to invest in European markets causing Libyan-European market integration and providing more lucrative markets for Libyan oil.<sup>14</sup>

## US Foreign Assistance

The National Security Council (NSC) develops US national security interests articulated through the National Security Strategy (NSS). Through the interagency process, the NSC allows the US government to determine its national security foreign policy first and its implementation instrument or mix of instruments second.<sup>15</sup> The Department of Defense (DOD), State Department, and USAID deploy defense, diplomacy, and development policy instruments, respectively, to protect national security interests abroad.

USAID is the US government's lead development agency. It implements US foreign policy by expanding stable, free societies, creating markets and trade partners for the United States, and fostering good will abroad on behalf of the American people. USAID receives the largest allocation of foreign assistance among government agencies and implements long-term development and humanitarian assistance programs. The US government defines *foreign assistance* as, "Aid given by the United States to other countries to support global peace, security, and development efforts, and provide humanitarian relief during times of crisis. It is a strategic, economic, and moral imperative for the United States and vital to US national security."<sup>16</sup>

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<sup>13</sup> O'Sullivan, 303.

<sup>14</sup> Ibid, 403.

<sup>15</sup> D. Robert Worley, *Orchestrating the Instruments of Power: A Critical Examination of the U.S. National Security System* (Lincoln: University of Nebraska Press, 2015), 308-309.

<sup>16</sup> Dianne E. Rennack and Susan G. Chesser, *Foreign Assistance Act of 1961: Authorizations and Corresponding Appropriations*, (Washington, DC: Congressional Research Service, R40089, 2011), 1-3; USAID, "Who We Are," accessed 5 August 2019, <https://www.usaid.gov/who-we-are>. The US government also delivers foreign assistance in the form of Security Assistance. Security Assistance is delivered primarily through the Department of Defense. The Department of State also implements security assistance

Though foreign assistance is often considered a development instrument, Robert Worley (2015) classified it as an economic instrument that complements military assistance under a broader foreign aid umbrella.<sup>17</sup> The State Department directs both USAID's and DOD's foreign aid implementation to assure it aligns with US government foreign policy objectives, as outlined in the NSS.

## Post-Cold War Foreign Policy and Assistance

In October 1992, President George H.W. Bush signed the Freedom for Russia and Emerging Eurasian Democracies and Open Markets Act, also known as the Freedom Support Act, into law. This act, passed by Congress with bipartisan support, authorized the US government to provide foreign assistance to twelve newly independent states.<sup>18</sup> The act intended to help these countries transform from command-and-control to free-market economies, promote democracy, denuclearize, and protect human rights. Both the Bush and Clinton administrations supported the foreign policy argument that the economic security of FSRs would improve US national security.<sup>19</sup> The Freedom Support Act would go on to provide \$15 billion of assistance to twelve FSRs from 1992 to 2012.<sup>20</sup>

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programs. Source: US Department of State, "What is U.S. Government Foreign Assistance?", accessed 6 August 2019, <https://www.foreignassistance.gov/>

<sup>17</sup> Worley, 232.

<sup>18</sup> The twelve republics were: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan. All were FSRs. The Freedom Support Act also assisted socialist republics that were not part of the Soviet Union. These included Czechoslovakia (present day Czech Republic and Slovakia), Bulgaria, Poland, and Romania, which are all now members of the EU. Source: Philip H. Gordon and Daniel Rosenblum, "The Freedom Support Act: 20th Anniversary," last modified September 21, 2012, accessed December 22, 2019, <https://2009-2017.state.gov/p/eur/rls/rm/2012/198152.htm>.

<sup>19</sup> Kimberly A. Zeuli and Vernon W. Ruttan, "US Assistance to the Former Soviet Empire: Toward a Rationale for Foreign Aid," *The Journal of Developing Areas* 30, no. 4 (July 1996): 514-515.

<sup>20</sup> "The Freedom Support Act: 20th Anniversary."



Though the Freedom Support Act strengthened relations with many FSRs, US-Russian relations soured. In 2008, Russia began illegally occupying Georgia's South Ossetia and Abkhazia regions and recognized their independence. In 2014, it annexed Crimea from Ukraine and invaded the Donbass region. Following these sovereignty violations, the US government upheld the "Stimson Doctrine" and refused to recognize the Russian-forced territorial changes.

The Stimson Doctrine originated in 1931 to 1933 when US Secretary of State Henry Stimson developed the US response to Japanese occupation of Manchuria. Stimson recommended a policy of non-recognition of the Japanese regime in Manchuria and its newly acquired territory. Under the Stimson Doctrine, the US policy of non-recognition of territorial changes executed in violation of treaties became a preliminary action before use of economic sanctions or military force. Declaring non-recognition of the aggressor's actions also established the ideological grounds for a war should it develop.<sup>21</sup>

Currently, in addition to Georgia and Ukraine, the US government also applies the Stimson Doctrine to Transnistria, Moldova. In 1992, Russian troops supported local separatists to occupy the Transnistrian territory. From 1992 to present, this Russian-backed territory operates as an autonomous region within Moldova and remains a frozen conflict.<sup>22</sup> The US government does not recognize this territorial change and adheres to the policy that Moldova must retain Transnistria to ensure its territorial integrity.

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<sup>21</sup> Richard N. Current, "The Stimson Doctrine and the Hoover Doctrine," *The American Historical Review* 59, no. 3 (April 1954): 540–542.

<sup>22</sup> A "frozen conflict" typically describes a situation where an active armed conflict ended, but there is no mutually agreed upon political resolution or treaty. These territories are often unrecognized by the international community and are sometimes called "gray zones." For a more detailed discussion on FSR frozen conflicts, please see: Agnia Grigas, *Frozen Conflicts, A Tool Kit for US Policymakers* (Atlantic Council, Dinu Patriciu Eurasian Center, July 2016); Cristian Urse, "Solving Transnistria: Any Optimists Left?," *Connections* 7, no. 1 (2008), 59.

## Theoretical Framework

Blackwill and Harris shared a conclusion about Ukraine, which could be applied to any FSR, “The only hope for Ukraine to withstand Moscow’s disruptive policies is to stabilize its economy, and that in turn depends extensively on American and European use of geoeconomic tools—trade, loans, grants—and the assistance of international lending institutions.”<sup>23</sup>

Considering this observation and based on the previous discussion of economic coercion and geoeconomic tools as well as the roles and purposes of US government foreign assistance, the proceeding research will test the following theoretical framework. The framework consists of three theories.

First, *if* the Kremlin decides to force its will on a target country, *then* it will threaten to disrupt economic exchange with the target country (Drezner) by using one or more geoeconomic tools (Blackwill and Harris) to coerce the target country to acquiesce.

Second, *if* the US government observes the Kremlin’s use of economic aggression against a FSR *then* the US government will deploy foreign assistance to the target country to offset the impact of the Kremlin’s aggressive act.

Third, *if* the target country uses US foreign assistance to mitigate the effects of the Kremlin’s economic aggression, *then* the target country will no longer perceive the Kremlin’s economic aggression acts as threatening enough to prevent it from making political, economic, and military decisions counter to the Kremlin’s demand.

This framework intends to inform how the US government responds to the Kremlin’s acts of economic aggression against any FSR. This research will apply the framework to the target country of Moldova.

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<sup>23</sup> Blackwill and Harris, 256.

## Chapter Three: Russian Economic Aggression in the Former Soviet Union

Chapter Three will evaluate the first portion of the theoretical framework:

*If* the Kremlin wishes to force its will on a target country, *then* it will threaten to disrupt economic exchange with the target country (Drezner) by using one or more geoeconomic tools (Blackwill and Harris) to coerce the target country to acquiesce.

To evaluate this theory, this chapter will identify the Kremlin's view of its near abroad and associated political goals. Then, it will outline the breadth of geoeconomic tools available to the Kremlin and describe application of these tools in its near abroad. Chapter Five will then take the same theory and apply it to evaluate how the Kremlin used its geoeconomic tools to coerce Moldova from 2003 and 2019 and the associated impacts.

### The Kremlin's Near Abroad

As a continental power, Russia sought buffers states, mostly located in Eastern Europe, to distance itself from its Western European historic adversaries.<sup>24</sup> Starting in 1992, Russia began viewing its "near abroad", which are its former Soviet neighbors, as states with limited sovereignty. They believed that these states cannot survive without Russia--therefore they will return.<sup>25</sup> The Baltic States quickly distanced themselves from Russia, but the other FSRs remained close. For those that remained close, the Kremlin then forced them to make a binary choice: choose Russia or become Russia's enemy.<sup>26</sup> No matter their choice, the FSRs find themselves in a tug-a-war between the Kremlin and the West.

From the Kremlin's perspective, NATO's enlargement was the West's way of redrawing its spheres of influence. These new Western spheres were encroaching on FSRs, which were the

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<sup>24</sup> Worley, 101.

<sup>25</sup> James Sherr, *The New East-West Discord: Russian Objectives, Western Interests*. (Clingendael Institute, 2015), 17.

<sup>26</sup> Denis Cenusa et al., *Russia's Punitive Trade Policy Measures Towards Ukraine, Moldova and Georgia*, Centre for European Policy Studies Working Document (Brussels, September 2014), 12.

main zones of competition between Russia and the West. Therefore, restricting Georgia's, Moldova's, and Ukraine's abilities to move westward became an indicator of the Kremlin's ability to retain influence over its buffer states.<sup>27</sup> It also reflected the Kremlin's ability or inability to be a great power.

## The Kremlin's Economic Tools

A high priority for the Kremlin is maintaining influence over its neighbors to ensure they remain buffer states that keep the EU at a distance. As early as 2000, Russian's foreign policy recognized that it may need to use "all its available economic leaves and resources for upholding its national interests."<sup>28</sup> The Kremlin proceeded to use economic aggression to influence its targeted buffer states.

The Kremlin created economic power through exclusive institutional balancing. For example, together with Belarus and Kazakhstan, Russia created Commonwealth of Independent States (CIS) in 1991. In 2011, the Kremlin partnered with Belarus and Kazakhstan again to create the CIS Free Trade Area (CISFTA). Today, nine FSRs are part of the CISFTA. In 2014, the Kremlin created another integration plan, the Eurasian Economic Union (EAEU), to offer an exclusive alternative to the EU and the World Trade Organization (WTO) for those FSRs who had yet to join.<sup>29</sup> The Kremlin then attempted, with varying success, to economically coerce the FSRs to join the EAEU rather than the EU or WTO. It continued to force the binary choice of Russia or no Russia.<sup>30</sup>

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<sup>27</sup> Rumer et al., 24.

<sup>28</sup> "The Foreign Policy Concept of the Russian Federation" (The Russian Federation, June 28, 2000).

<sup>29</sup> The EAEU largely emerged from and replaced the Eurasian Economic Community. The EAEU is separate from the Eurasian Customs Union.

<sup>30</sup> Denis Cenusa et al., 12.

Institutional balancing was not enough. As identified by Blackwill and Harris, the Kremlin has seven economic tools at its disposal. Following is a review of how the Kremlin has historically used each tool.

### Energy and Commodities

Oil and gas revenues fund Russia's economy, drive its geopolitical ambitions, and guide its international relations.<sup>31</sup> Russia is the second largest producer of natural gas, behind the United States. From 2005 to 2018, Gazprom, a Russian parastatal, earned over \$1.6 trillion in revenue.<sup>32</sup> The Kremlin used this money to reduce its national debt, buy foreign exchange reserves, and fund its geopolitical priorities.<sup>33</sup> For example, in 2010, Ukraine agreed to let Russia's Black Sea fleet remain in Crimea in exchange for a gas price discount that would supposedly save Ukraine \$40 billion over ten years.<sup>34</sup> The Kremlin tore up the agreement after annexing Crimea in 2014.<sup>35</sup> Similarly, in 2011, when Belarus faced economic hardship and struggled to feed itself, the Kremlin offered \$14 billion of loans and reduced gas prices in exchange for full control over the gas pipeline that transits Belarus, carrying Russian gas to Europe.<sup>36</sup> Expanding its influence, Gazprom purchased the gas companies in Armenian and Kyrgyzstan in 2014.<sup>37</sup> Gazprom also owns fifty percent of Moldovagaz, a Moldovan-Russian

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<sup>31</sup> Nikos Tsafos, *Who's Afraid of Russian Gas? Bridging the Transatlantic Divide*, CSIS Briefs (Center for Strategic and International Studies, May 2018), 2.

<sup>32</sup> "Gazprom OAO Revenue 2006-2019," *Macrotrends LLC*, accessed January 22, 2020, <https://www.macrotrends.net/stocks/charts/OGZPY/gazprom-oao/revenue>.

<sup>33</sup> Tsafos, 2.

<sup>34</sup> Philip P. Pan, "Ukraine to Extend Russia Naval Base Lease, Pay Less for Natural Gas," *Washington Post*, April 22, 2010.

<sup>35</sup> Alexander Cooley, *Whose Rules, Whose Sphere? Russian Governance and Influence in Post-Soviet States*, Task Force White Paper (Carnegie Endowment for International Peace, June 30, 2017).

<sup>36</sup> Andrew E. Kramer, "Gas Deal with Belarus Gives Control of Pipeline to Russia," *New York Times*, November 25, 2011.

<sup>37</sup> Blackwill & Harris, 85.

joint stock company, and has on-going gas development projects in Kazakhstan, Kyrgyzstan, and Uzbekistan.<sup>38</sup>

Natural gas supply is vital to many FSRs. They use gas to generate electricity that powers industry and heats homes during extremely cold winters. Unlike oil, which can be transported easily by ship, rail, or truck, gas is most often transported by pipelines, especially to and through the FSRs, many of which are landlocked. During the Soviet Union, pipelines were built to transfer Siberian gas to many FSRs and into Western Europe. These predefined linkages lend nicely to monopolization, on which the Kremlin frequently capitalizes. From 1991 to 2013, the Kremlin threatened or actually cutoff gas more than fifty times.<sup>39</sup> When gas cutoffs are threatened, governments are faced with decisions to shutdown industry and fears that some citizens may freeze to death during the dead of winter. They have little choice but to give into the Kremlin's demands.

January 1, 2009 marked a pivotal moment in Russian gas trade. Following an inability of Russia and Ukraine to settle on a price for Russian gas supply to Ukraine and the transit tariff for Russian gas to traverse Ukraine, Russia cut gas supplies to Ukraine. This not only affected Ukraine. Over eighty percent of Russian gas destined for Europe transited Ukrainian territory in 2009. Thus, sixteen EU member states and Moldova received no gas supplies from January 7 to 20, 2009. This damaged Russia's reputation as a gas supplier and Ukraine's reputation as a dependable gas transit country. It caused Europe and Russia to look for alternative transit routes. Europe also began exploring other sources of gas and ways to support FSRs dependent on

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<sup>38</sup> Maria Shagina, "Moldova's Fragile Energy Security," *New Eastern Europe*, last modified March 14, 2018, accessed January 22, 2020, <https://neweasterneurope.eu/2018/03/14/moldovas-energy-security/>; "Projects," *Gazprom*, accessed January 22, 2020, <https://www.gazprom.com/projects/>.

<sup>39</sup> Keith Johnson, "Putin's Gas Gambit Backfires," *Foreign Policy*, December 12, 2013.

Russian gas.<sup>40</sup> A 2017 Baker Institute study concluded that the Kremlin's attempts to use energy as a weapon ultimately drove countries out its orbit.<sup>41</sup>

In 2015, Ukraine reduced its dependence on Russian gas supplies by buying reverse flows from the EU.<sup>42</sup> However, as of 2016, Belarus, Estonia, Latvia, and Moldova were completely dependent on Russian gas.<sup>43</sup> With few or no viable gas alternatives, these countries remain vulnerable to the Kremlin's use of gas cutoffs as a form of economic coercion.

### Trade Policy

According to Blackwill and Harris, trade can be used through positive inducement, however, countries may use it to coerce others.<sup>44</sup> During the Soviet Union, Russia was the primary destination for FSR products. Thus, after the dissolution of the Soviet Union, those relationships persisted and trading with Russia remained a familiar, and often the easiest, option for most FSRs. Russia continued to reinforce these historical trade ties with preferential trade terms.<sup>45</sup> The Kremlin became well positioned to use trade as a geoeconomic tool, and so it would.

The Kremlin leverages the CISFTA to support its geopolitical agenda. Standing firm on its threat that countries must choose either Russia or the EU, but not both, in 2016 the Kremlin suspended Ukraine's duty-free trade with Russia under the CISFTA. The Kremlin took this action after Ukraine signed EU Association Agreements (AA) that included free trade with the EU. The

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<sup>40</sup> Simon Pirani, Jonathan Stern, and Katja Yafimava, *The Russo-Ukrainian Gas Dispute of January 2009: A Comprehensive Assessment* (Oxford Institute for Energy Studies, February 2009), 1.

<sup>41</sup> Gabriel Collins, *Russia's Use of the "Energy Weapon" in Europe*, Issue Brief (Rice University's Baker Institute for Public Policy, July 18, 2017).

<sup>42</sup> "Ukraine," *US Energy Information Administration*, accessed January 27, 2020, <https://www.eia.gov/international/analysis/country/UKR>.

<sup>43</sup> Anna Shiryayevskaya and Elena Mazneva, "Russian Gas," *Bloomberg*, July 8, 2018.

<sup>44</sup> Blackwill & Harris, 50.

<sup>45</sup> Paul Stronski and Richard Sokolsky, *The Return of Global Russia* (Washington, DC: Carnegie Endowment for International Peace, 2017), 7.

Kremlin's actions only affected Russian-Ukrainian trade. No other CISFTAs signatories followed suit.<sup>46</sup>

In other cases, the Kremlin successfully used technical barriers to trade (TBTs) to ban select imports from target countries. TBTs typically result from countries imposing new product standards on imported goods, usually agricultural products.<sup>47</sup> This could be a sanitary or phytosanitary standard like food safety, limits on the presence of pests or pesticides, or a quality standard. Often, the testing procedures for these standards are not transparent to the exporting nation. Thus, once a TBT is imposed, the importing nation uses this new technical barrier to limit or stop importation of the selected goods. TBTs may result in customs agents destroying products at the customs control points of the importing country. When the products do not reach their final destination, the importer does not pay the exporter who, subsequently, does not pay the agribusinesses and farmers who supplied the goods. Thus, TBTs prove advantageous when imposed on agricultural products originating from agrarian nations.

When neighboring countries chose to align with Western influences—whether the EU or NATO—the Kremlin frequently threatened and imposed TBTs. These barriers were imposed on food products of neighboring countries following their actions to align with the EU. For example, in 2014, the Kremlin banned imports of Ukrainian Roshen-branded chocolates following a 2013 disagreement between Russia and Ukraine over gas transit and the possibility that Ukraine would sign a free trade agreement with the EU. Similar TBTs were imposed on the EU, Georgia, Lithuania, Moldova, Tajikistan, and the United States.<sup>48</sup>

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<sup>46</sup> “Russia Suspends Free Trade Agreement with Ukraine,” *The Moscow Times*, December 16, 2015.

<sup>47</sup> “Technical Information on Technical Barriers to Trade,” *World Trade Organization*, accessed January 27, 2020, [https://www.wto.org/english/tratop\\_e/tbt\\_e/tbt\\_info\\_e.htm](https://www.wto.org/english/tratop_e/tbt_e/tbt_info_e.htm).

<sup>48</sup> Katelyn Fossett, “This Man Decides Whether Russians Consume Moldovan Wine, Lithuanian Cheese, and Ukrainian Chocolate,” *Foreign Policy*, October 10, 2013.



## Economic and Financial Sanctions

Blackwill and Harris identified two key variables to successful sanctions: (1) global market share, which is most effective when a country monopolizes supplies of a commodity or good; and (2) domestic market size or loss of access to that market.<sup>49</sup> Russia dominates the supply of gas to many FSRs. Thus, raising the price or cutting the supply is an effective tool of coercion. When the Russian market was a substantial buyer of goods, imposing trade embargoes on those goods can prove devastating to the target countries. When assessing the vulnerability of sectors to embargoes, Moldovan analyst Ana Popa highlighted two factors that influence the impact of the embargoes: (1) the percentage of the product's contribution to a country's gross domestic product (GDP); and (2) the sector's exposure as defined by the number of people deriving income from the sector.<sup>50</sup> In 2014, reacting to EU sanctions placed on Russia following its actions in Ukraine, the Kremlin imposed trade blockades on agricultural products originating from the EU including fruit, vegetables, and dairy products.<sup>51</sup> Lithuania and Poland were the most affected countries. Prices in the fruit and vegetable sectors fell 13.3 percent in Lithuania and 11.2 percent in Poland.<sup>52</sup> However, Russia had over EUR 3.4 billion of welfare loss from its self-imposed ban of EU food products, whereas the EU's welfare loss was only EUR 126 million.<sup>53</sup> The Kremlin has used access to energy resources and access to their domestic consumer market as tools of economic coercion against FSRs and the EU, but with varying impacts on the receiver and sender.

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<sup>49</sup> Blackwill & Harris, 58

<sup>50</sup> Ana Popa, *Moldova and Russia: Between Trade Relations and Economic Dependence* (Chisinau: Expert-Grup, April 2015).

<sup>51</sup> Susanne Kraatz, *The Russian Embargo: Impact on the Economic and Employment Situation in the EU*, Briefing, Employment and Social Affairs (Brussels: European Parliament, 2014), 3-6.

<sup>52</sup> Pierre Boulanger et al., "Russian Roulette at the Trade Table: A Specific Factors CGE Analysis of an Agri-Food Import Ban," *Journal of Agricultural Economics* 67, no. 2 (2016), 279.

<sup>53</sup> *Ibid*, 285.

## Aid and Economic Assistance

Blackwill and Harris disaggregated aid into military aid, bilateral development assistance, and humanitarian assistance. They called it geoeconomic aid when it is used to by strategic influence.<sup>54</sup> Historically, the Kremlin has used bilateral development and military assistance to accomplish its political goals.

The Kremlin uses bilateral assistance packages to aid its immediate neighbors. A *Financial Times* article estimated that the Kremlin spends between \$7 billion and \$12 billion annually to support Belarus, which entices it to remain a member in the EAEU.<sup>55</sup> In December 2013, the Kremlin offered a “bailout package” to help Ukraine’s struggling economy. This followed Russia’s imposition of sanctions on Ukraine and Ukraine not signing EU political and free-trade agreements in November 2013. Ukraine accepted the package.

The Kremlin’s economic assistance to Ukraine was not welcomed by all. Ukrainian President Yanukovich’s acceptance of the Kremlin’s aid as a trade for closer ties with the EU sparked domestic outrage. Many Ukrainians proceeded to march on the Kyiv’s Independence Square, known as Maidan, in February 2014. Yanukovich then fled across the Russian border. The Ukrainian parliament impeached him, installed an interim president, and signaled a strong desire to turn west. Realizing that the Kremlin was losing its strong hold in Ukraine, in March 2014, Russia annexed Crimea and invaded the Donetsk and Lugansk regions of eastern Ukraine. These conflicts persist with uncertain endings.

The most powerful geoeconomic tools the Kremlin possesses is the economic assistance provided to breakaway regions within FSRs. These may be regions that existed before the Soviet Union dissolved (Nagorno-Karabakh in Azerbaijan, 1988), those created during the transition to independence (Transnistria in Moldova, 1992), or new territories created by the Kremlin

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<sup>54</sup> Blackwill & Harris, 68.

<sup>55</sup> Lilia Shevtsova, “Putin’s Attempt to Recreate the Soviet Empire Is Futile,” *Financial Times*, January 7, 2014.

(Donbass in Ukraine, 2014). In total, the Kremlin supports eight breakaway regions.<sup>56</sup> All these regions, except Crimea, have parallel governing institutions that are not under the parent nation, little to no official recognition as a territory, Russian support to and infiltration of their security and intelligence organizations, and their own currencies.<sup>57</sup> These largely ungoverned spaces raise security concerns to NATO and the EU and restrict the host countries from joining these organizations. The value of the Kremlin's financial support to these regions is unknown. What is known is that these economies are not self-sustaining and would collapse without Kremlin intervention.

### Investment Policy

State-directed foreign direct investment, including government-to-government investments, is a geoeconomic tool to influence target countries. The volume of Russian state investment abroad is unknown. What is known is that the Kremlin's largest investment opportunity is directing state-owned Gazprom. This includes the purchase of part or all of FSR national gas companies and gas distribution infrastructure (Moldova in 2006; Armenia and Kyrgyzstan in 2014), which allows the Kremlin to control these companies and infrastructure. A 2014 article in the Russian newspaper *Gazeta* shared that annual Russian investment in Ukraine and Moldova was \$2 billion and \$70 million, respectively. Whether or not this is state investment, the Kremlin can direct businessmen to start or stop investing in FSRs.<sup>58</sup>

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<sup>56</sup> These eight regions are: Donetsk, Luhansk, Crimea, and Sevastopol in Ukraine; Abkhazia and South Ossetia in Georgia; Transnistria in Moldova; and Nagorno-Karabakh in Azerbaijan. Source: Janusz Bugajski, *Unresolved Conflicts Benefit Moscow* (Center for European Policy Analysis, July 31, 2018).

<sup>57</sup> Cooley, *Whose Rules, Whose Sphere? Russian Governance and Influence in Post-Soviet States*.

<sup>58</sup> Сергей Алексашенко, "Европейский выбор: преступление и наказание [European Choice: Crime and Punishment]," *Gazeta.Ru* (Moscow, July 6, 2014), accessed January 23, 2020, [https://www.gazeta.ru/comments/2014/07/05\\_a\\_6098741.shtml](https://www.gazeta.ru/comments/2014/07/05_a_6098741.shtml).

## Financial and Monetary Policy

According to Blackwill and Harris, there are three financial and monetary policy geoeconomic tools: (1) a country's currency global footprint; (2) the ability to raise low-cost funds; and (3) the ability to affect another country's borrowing costs.<sup>59</sup>

In today's world, there are only two reserve currencies—the dollar and euro. However, many FSRs send migrant laborers to Russia who remit home in Russian rubles. Thus, when the Russian ruble devalues, the value of remittances decreases. For example, in 2014, a fifty percent devaluation in the Russian ruble caused Tajikistan's remittances to halve contributing to Tajikistan's growth rate shrinking from 7.4 percent in 2013 to 4.2 percent in 2015.<sup>60</sup> Though many FSRs are dependent on the Russian ruble, the Kremlin has little incentive to devalue its currency to punish others because it would cause hardship at home. Further, as the Kremlin's revenues decrease because of lower oil and gas prices, it has less resources to use to affect the financial and monetary policies of others.

## Cyber

Blackwill and Harris shared that for a cyberattack to be considered geoeconomic, it should meet two criteria: (1) it must be state-sponsored and (2) it must attempt economic influence. They further defined geoeconomic cyberattacks as “those making use of economic or financial market mechanisms and seeking to impose economic costs as part of a larger geopolitical agenda.” Among the FSRs, the Kremlin directed a cyberattack on Estonia in 2007 following their removal of a Soviet war monument. The attack disabled government agency websites including two national banks and impacted all major commercial banks and telecommunication companies. In 2015 and 2016, Russian hackers, believed to be directed by

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<sup>59</sup> Blackwill & Harris, 75-76.

<sup>60</sup> Edward Lemon, “Dependent on Remittances, Tajikistan's Long-Term Prospects for Economic Growth and Poverty Reduction Remain Dim,” Migration Policy Institute, last modified November 14, 2019, accessed February 29, 2020, <https://www.migrationpolicy.org/article/dependent-remittances-tajikistan-prospects-dim-economic-growth>.

their government, hacked into the Ukrainian power grid and shutdown portions of it.<sup>61</sup> According to the US Cybersecurity and Infrastructure Security Agency, since March 2016, the Kremlin sponsored cyberattacks targeting US government and other organizations within the energy, nuclear, commercial facilities, water, aviation, and critical manufacturing sectors.<sup>62</sup>

Investigators struggle to identify the originator of the cyberattacks to know if they are state-sponsored, carried out by criminals, or a mix of the two.<sup>63</sup> Thus, it is difficult to know the frequency and impact of geoeconomic cyberattacks the Kremlin conducted in FSRs. Despite not knowing its footprint, the Kremlin has demonstrated its capacity to use cyberattacks against FSRs and Western governments. Potential cyberattacks in FSRs remain a critical vulnerability that could be exploited by the Kremlin, if it has not yet done so already.

### Migrant Labor Policy

An additional opportunity for coercion not identified by Blackwill and Harris is an economy's employment of migrant workers and the remittances they send home. In 2018, individuals in Russia transmitted over \$20 billion of remittances out of Russia, of which \$18.9 billion went to FSRs. As shown in Table 1, the most remittance-dependent FSR economies in 2018 were Kyrgyzstan and Tajikistan where remittances comprised of 24.7 percent and 21.6 percent of their GDP, respectively.

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<sup>61</sup> Samantha Raphelson, "Report: Russian Hackers Had The Ability To Shut Down U.S. Power Plants," NPR, last modified March 16, 2018, accessed February 29, 2020, <https://www.npr.org/2018/03/16/594371939/u-s-accuses-russia-of-cyberattacks-on-energy-infrastructure>.

<sup>62</sup> "Alert (TA18-074A): Russian Government Cyber Activity Targeting Energy and Other Critical Infrastructure Sectors," *US Cybersecurity and Infrastructure Security Agency*, last modified March 15, 2018, <https://www.us-cert.gov/ncas/alerts/TA18-074A>.

<sup>63</sup> Michael Schwirtz and Joseph Goldstein, "Russian Espionage Piggybacks on a Cybercriminal's Hacking," *The New York Times*, March 12, 2017.

Table 1: Remittances sent from Russia to former Soviet republics, 2018

Destination country	Value of remittances sent from Russia (\$ billions)	2018 GDP (\$ billions)	Value of remittances as a percentage of GDP, 2018	Rank of most to least Russian remittance-dependent economies
1 <b>Armenia</b>	<b>0.81</b>	<b>12.43</b>	<b>6.53%</b>	<b>3</b>
2 Azerbaijan	0.78	46.94	1.66%	8
3 Belarus	0.56	59.66	0.94%	9
4 Estonia	0.16	30.73	0.52%	11
5 Georgia	1.06	17.60	6.00%	5
6 Kazakhstan	0.40	179.34	0.22%	12
7 <b>Kyrgyzstan</b>	<b>2.00</b>	<b>8.09</b>	<b>24.74%</b>	<b>1</b>
8 Latvia	0.21	34.41	0.61%	10
9 Lithuania	0.11	53.43	0.21%	13
10 Moldova	0.53	11.44	4.67%	7
11 <b>Tajikistan</b>	<b>1.63</b>	<b>7.52</b>	<b>21.62%</b>	<b>2</b>
12 Turkmenistan	0.00	40.76	0.00%	14
13 Ukraine	7.87	130.83	6.01%	4
14 Uzbekistan	2.80	50.50	5.55%	6
<b>Totals</b>	<b>18.92</b>	<b>683.70</b>	<b>2.77%</b>	

*Sources:* The World Bank, “Bilateral Remittance Matrix 2018,” The World Bank Group, accessed January 23, 2020, <http://pubdocs.worldbank.org/en/904591573826885707/Bilateralremittancematrix2018-Oct2019.xlsx>; The World Bank, “World Bank National Accounts Data (Current \$),” The World Bank Group, accessed January 23, 2020, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>.

These remittances stabilize FSR economies and can make countries extremely reliant on Russia. For example, in 2008, Tajikistani citizens’ remittances totaled fifty percent of the economy’s GDP.<sup>64</sup> Up to that point, Tajikistani workers could enter Russia without an international passport. In 2015, the Kremlin, in a push to coerce countries to join their EAEU,

<sup>64</sup> The World Bank, “Personal remittances, received (% of GDP) - Tajikistan,” The World Bank Group, accessed January 23, 2020, <https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=TJ>.

introduced new identification requirements for all countries that were not members..<sup>65</sup> In the case of Tajikistan this timing coincided with their hesitation to join the EAEU because of a desire to keep Russia at arm's length and to avoid financial penalties that would ensue due to Tajikistan's WTO membership. Both Tajikistan and the Kremlin stood firm. The new policy caused remittances sent home by Tajikistani migrant laborers to drop from \$3.4 billion, or thirty-seven percent of GDP, in 2014 to \$2.3 billion, or twenty-seven percent of GDP, in 2015..<sup>66</sup>

## Conclusions

The Kremlin frequently uses economic aggression to either attempt to stop countries from partnering with the EU or NATO or punish them after a decision was made. This finding supports the theory evaluated in this chapter. Further, the Kremlin appears to use its economic power to make FSRs and their breakaway regions dependent on Russia. Lastly, the Kremlin rarely offers warning before enacting its chosen form of economic aggression, which increases the economic devastation of their actions.

Based on the analysis presented in this chapter, the Kremlin's most effective geoeconomic tools are economic assistance, trade policy, and migrant labor policy. Migrant labor policy that governs laborers' ability to obtain work and send remittances home was not identified by Blackwill and Harris as a geoeconomic tool, but should be considered. Economic assistance to sustain breakaway republics in FSRs to prevent their membership in NATO and the EU is the Kremlin's most powerful, long-term, geoeconomic tool to ensure they have buffer states. The Kremlin's economic support to FSRs through assistance, remittances, and by being a large export market also highlights the largest economic interdependencies of the FSRs with Russia. For example, should the Russian economy constrict or collapse, those countries and breakaway

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<sup>65</sup> John C. Daly, "Russia's New Passport Regulations Impose Additional Hardships on Tajik Migrant Workers," *Eurasian Daily Monitor* 11, no. 212 (November 26, 2014).

<sup>66</sup> The World Bank, "Personal remittances, received (% of GDP) - Tajikistan."

republics sustaining their economies based on Kremlin assistance would likely also collapse. This would include Belarus and the eight regions supported by the Kremlin. Further, countries like Kyrgyzstan and Tajikistan, which are heavily dependent on remittances sent home from migrant laborers in Russia, could also collapse.

When used by the Kremlin, the remaining geoeconomic tools either have short-term or very little effects over coercing the FSRs. For example, control over energy resources appears very effective short-term coercive tools to remind FSRs that the Kremlin has power over them. However, the Kremlin's unreliability as a gas supplier caused gas customers to diversify their energy resources, thus reducing their long-term dependence on Russian gas. The potential for using cyberattacks to coerce governments has not been widely tested in the FSRs, but has potential due to weak FSR ability to combat this threat. Investment, monetary, and financial policy are rarely effective tools for the Kremlin. This is partly because Russia is perceived as a regional, not global power and its economy is stagnating due to sanctions and reduced hydrocarbon revenues.

## Chapter Four: Russian Economic Aggression in Moldova

Chapter Four will also evaluate the first portion of the theoretical framework:

*If* the Kremlin wishes to force its will on a target country, *then* it will threaten to disrupt economic exchange with the target country (Drezner) by using one or more geoeconomic tools (Blackwill and Harris) to coerce the target country to acquiesce.

Building on Chapter Three, this chapter will zoom in and evaluate the most relevant geoeconomic tools as applied by the Kremlin to Moldova from 2003 to 2019.

### Understanding Moldova

Moldova's 1994 constitution set its course. The young democracy solidified three decisions in its constitution: (1) Moldova would be a neutral country; (2) the regions of



Transnistria and Gagauzian would be granted an autonomous status; and (3) Moldovan would be the official language.<sup>67</sup> For this country of 3.3 million people nestled between Romania to the west and Ukraine to the east, these choices are as important now as they were in 1994.<sup>68</sup>

Moldova's neutrality leaves it balancing East and West, but not taking sides. Thus far, Moldova has not joined the EUEA, EU, or NATO. It was not a founding member of the CIS, but did join in December 1991. It participates in the EU Eastern Partnership. In 1994, Moldova began cooperating with NATO and signed its first Individual Partnership Action Plan in 2006.<sup>69</sup> NATO helps Moldova to improve its expertise, interoperability, military education and training, peacekeeping capabilities, and public sector reform.<sup>70</sup> Despite strong encouragement from the Kremlin to choose sides, Moldova has yet to make a lasting commitment to the East or the West.

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<sup>67</sup> Gagauzians speak Gagauz and Russian languages and Transnistrians speak primarily Russian and Ukrainian. Following pro-Romanian cultural and language reforms in 1990, both Gagauzians and Transnistrians began forming their own governmental structures. These populations declared the "Republic of Gagauzia" and "Dnestr Moldovan Republic" as separate republics in August 1990 and September 1990, respectively. Source: Charles King, *The Moldovans: Romania, Russia, and the Politics of Culture* (Stanford: Hoover Press, 2013), 146-147. Through the 1994 constitution, Moldova granted the two republics were granted autonomous status. Source: US Agency for International Development, *20 Years of USAID Economic Growth Assistance in Europe and Eurasia*, Review (Washington, DC: USAID, 2013), 105.

<sup>68</sup> Moldova's population statistic of 3.3 million people is the July 2020 estimate. Source: Central Intelligence Agency, "Moldova," *The World Factbook*, accessed February 29, 2020, <https://www.cia.gov/library/publications/the-world-factbook/geos/md.html>.

<sup>69</sup> North Atlantic Treaty Organization, "Relations with the Republic of Moldova," last modified October 12, 2018, accessed February 28, 2020, [https://www.nato.int/cps/en/natohq/topics\\_49727.htm](https://www.nato.int/cps/en/natohq/topics_49727.htm).

<sup>70</sup> Expressing the Sense of the House of Representatives with Respect to Enhanced Relations with the Republic of Moldova and Support for Moldova's Territorial Integrity, H. Res. 745, 115th Cong., 2d sess. (February 18, 2018).



Figure 2. Map of Moldova. Kamil Calus, *Gagauzia: Growing Separatism in Moldova?*, OSW Commentary (Centre for Eastern Studies, 2014).

Transnistria, or as it self-identifies, the Pridnestrovian Moldavian Republic, is located on Moldova's eastern border with Ukraine. Transnistria's existence came at a price. In 1992, violent conflict between Transnistrian separatists and the Moldovan army ended when the Moldovan army lost to the separatists, which had support from the Russian army, formerly the Soviet 14<sup>th</sup> Army. The skirmish left over 1,000 people dead or wounded.<sup>71</sup>

The Kremlin took control of Transnistria. As part of the Russian-Moldovan-Transnistrian ceasefire agreement, Russia deployed peacekeeping troops to Transnistria in 1992, which remain there today.<sup>72</sup> The 1,500 or so Russian troops have two missions: (1) peacekeeping, and (2) guarding one of Europe's largest ammunition depots that outlived the Soviet Army. Transnistria, now home to 150,000 to 200,000 Russian citizens, has its own government, army, currency, and border control.<sup>73</sup> In 1995, the Russian parliament declared Transnistria as a "zone of special

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<sup>71</sup> King, 178.

<sup>72</sup> Urse; Inessa Baban, *The Transnistrian Conflict in the Context of the Ukrainian Crisis*, Research Paper (NATO Defense College, December 2005), 6.

<sup>73</sup> Baban, 6.

interest for Russia.”<sup>74</sup> Nevertheless, the region’s autonomous status, backed by Russian peacekeeping troops and Russian subsidies, restricts the Moldovan government’s ability to govern the space. This was reinforced in 2004 when the European Court of Human Rights found that the:

MRT [Moldavian Republic of Transdnistria], set up in 1991-92 with the support of the Russian Federation, vested with organs of power and its own administration, remains under the effective authority, or at the very least under the decisive influence, of the Russian Federation, and in any event that it survives by virtue of the military, economic, financial and political support given to it by the Russian Federation.<sup>75</sup>

The large presence of Russian citizens also may give the Kremlin the right to intervene militarily as done in Ukraine in 2014.<sup>76</sup> This raises security concerns for the EU and NATO. Thus, neither the EU nor NATO will allow Moldova to join until this frozen conflict is resolved.

Maintaining the Transnistrian frozen conflict is arguably the Kremlin’s most strategic effort and highest priority in Moldova. The Kremlin has little motivation to allow Transnistria to declare independence. Because Transnistria is bordered by the Ukraine and Moldova, if it gained independence, both countries would likely blockade the territory. Instead, Russia’s best-case scenario is to federalize Moldova with Transnistria under Russian terms.<sup>77</sup> The Kremlin attempted this in 2003, hoping to gain veto power within the Moldovan government. Their plan, known as the Kozak Memorandum, would have given the Transnistrian and Moldovan governments equal votes within the Moldovan parliament and enabled Russia, by way of

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<sup>74</sup> *Ilascu and Others v. Moldova and Russia* (European Court of Human Rights 2004), 34. Обращении Верховного Совета Приднестровья [About the appeal of the Supreme Council of Transnistria], ПОСТАНОВЛЕНИЕ ГОСУДАРСТВЕННОЙ ДУМЫ ФЕДЕРАЛЬНОГО СОБРАНИЯ РОССИЙСКОЙ ФЕДЕРАЦИИ [Resolution of the State Duma and of the Federal Meeting of the Russian Federation], (November 17, 1995).

<sup>75</sup> *Ilascu and Others v. Moldova and Russia*, 92 (European Court of Human Rights, 2004).

<sup>76</sup> Steven Woehrel, *Moldova: Background and US Policy* (Washington, DC: Congressional Research Service, April 23, 2014), 6.

<sup>77</sup> Baban, 7-10.

Transnistria, to block any undesirable legislation.<sup>78</sup> The Moldovan government rejected this proposal.

Russia's meddling is one worry. Another is that Moldovans struggle to unify around a national identity. This small nation, roughly the size of Maryland, shares historical, ethnic, and cultural ties with its Latin neighbor to the west and its Slavic neighbor to the east. Moldovan citizens typically identify as ethnic Moldovans, Romanians, Ukrainians, Russians, Gagauz, Bulgarians, Jewish, or a mix. This diversity makes Moldova a true bridge between Eastern and Western Europe. However, it also presents challenges to creating social cohesion, avails opportunities to faction society, and turns groups against one another. The inability of Moldovans to consistently speak with one voice, which often presents as indecisiveness or a lack of commitment, makes Moldova a battleground for powers seeking to sway the nation in their favor.

Part of Moldova's challenge to speak with one voice is that not all Moldovans speak the same language. Though Moldovan was named as the national language in the constitution, in 2013, the Constitutional Court ruled that Romanian is now the national language of Moldova.<sup>79</sup> Moldovan is often considered a dialect of Romanian and the court's decision appeared political. But the language diversity continues. In the 2014 national census, 9.7 percent of Moldovans who declared their mother tongue declared it as Russian and 14.5 percent of Moldovans said they spoke Russian in their daily life.<sup>80</sup> Based on the author's experience in Moldova, the number of people speaking Russian daily could reach as high as fifty percent. Further, a Moldovan's first

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<sup>78</sup> Regnum, "Меморандум Козака': Российский План Объединения Молдовы и Приднестровья [Kozak Memorandum: Russian Plan for the Unification of Moldova and Transnistria]," *Regnum*, May 23, 2005, accessed September 4, 2019, <https://regnum.ru/news/polit/458547.html>.

<sup>79</sup> "Chisinau Recognizes Romanian As Official Language," *RadioFreeEurope*, December 5, 2013.

<sup>80</sup> "Structura populației după limba maternă la recensămintele din anii 2004 și 2014, pe medii [Population structure by mother tongue at the 2004 and 2014 censuses, by areas]" (National Bureau of Statistics of the Republic of Moldova, 2014), accessed November 1, 2019, [http://statistica.gov.md/public/files/Recensamint/Recensamint\\_pop\\_2014/Rezultate/Tabele/Caracteristici\\_populatie\\_RPL\\_2014\\_rom\\_rus\\_eng.xls](http://statistica.gov.md/public/files/Recensamint/Recensamint_pop_2014/Rezultate/Tabele/Caracteristici_populatie_RPL_2014_rom_rus_eng.xls).

language is often a point of contention because it inaccurately assumes the person's political allegiance rather than parenting decisions over which the person had no control.

Kremlin propaganda is active in Moldova. Their objectives include using anti-Western sentiments to disrupt EU integration; promoting the Kremlin's official policies; and disseminating false information to spread fear and hatred among Moldovans.<sup>81</sup> Their efforts worked. According to the Moldovan Public Policy Institute, Moldovans who supported joining NATO dropped from 22.0 percent in 2009 to 10.9 percent in 2016. Likewise, Moldovans who supported joining the EU dropped from 62.9 percent in 2009 to 38.0 percent in 2016.<sup>82</sup>

Mixed identities and misinformation leaves Moldovan voters oscillating between pro-EU and pro-Russian candidates. The Kremlin recognized that installing a pro-Russian government must be done by influencing Moldovan voters. Therefore, the Kremlin reinforced its disinformation efforts with a series of targeted decisive coercive economic actions that reached beyond its government. Instead, the Kremlin targeted deep into the heart of Moldova—its people.

## Kremlin's Use of Geoeconomic Tools in Moldova

### Economic Aid

The Kremlin's largest form of economic aid to Moldova was and continues to be the subsidies it pays to Transnistria. This aid is necessary because the Kremlin recognizes that the Transnistrian economy is inefficient and unsustainable. The number of retired Transnistrians exceeds the number in the workforce and tax revenues cannot finance the region's budget needs. Transnistria would collapse without the Kremlin's financial support. Should it collapse, Transnistria would likely reintegrate with Moldova, ending its frozen conflict status. On the other

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<sup>81</sup> Dumitru Parfeni, *How the Russian Federation Uses the Informational Instrument of National Power to Influence the Republic of Moldova's Strategic Security Policy*, Thesis (Fort Leavenworth: US Army Command and General Staff College, 2006), 82-83.

<sup>82</sup> IMAS-INC Chisinau, *Barometrul Opiniei Publice [Public Opinion Barometer]* (Moldova: Institutul de Politici Publice [Public Policy Institute], November 2009), 109, 111; CBS, *Barometrul de Opinie Publică [Public Opinion Barometer]* (Moldova: Institutul de Politici Publice [Public Policy Institute], October 2016), 78, 91.

hand, if Transnistria would willingly economically integrate with Moldova or become economically independent, it would no longer need the Kremlin's assistance and could sever ties.

Thus far, the Kremlin has successfully turned Transnistria into an aid-dependent economy. The Russian government publishes little to no information about the foreign aid it provides. Sources cite that the annual amount of aid provided by the Russian government to Transnistria ranges from \$27 million to \$150 million.<sup>83</sup> This assistance typically comes in the form of energy, humanitarian, and ad hoc subsidies. Humanitarian aid provides retirement income to pensioners. Its 2012 ad hoc subsidies included \$10 million small business development and \$30 million to stabilize the Transnistrian currency. The Russian government also financially supports Transnistria's security force and law enforcement. However, no data is available about the value of this support.<sup>84</sup> Energy subsidies will be discussed in the energy section below.

Nevertheless, economic assistance, primarily used to sustain Transnistria's status as an autonomous region within Moldova and a frozen conflict, plays a critical role in the Kremlin's strategy to maintain Moldova as a buffer state. Further, the Kremlin subsidizes Transnistrian citizens to sustain the region while attempting to make life in Russian-backed Transnistria appealing to Moldovans. Should the Moldovans believe life is better in Transnistria, they would be more likely to vote for a pro-Russian government that would strengthen ties with Moscow rather than Brussels or Washington.<sup>85</sup>

### Energy commodities

Moldova currently receives nearly all its gas from Russia. The gas transits Ukraine and enters Moldovan territory through Transnistria. In Transnistria, approximately two-thirds of the

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<sup>83</sup> Kamil Calus, *An Aided Economy: The Characteristics of the Transnistrian Economic Model*, OSW Commentary (Centre for Eastern Studies, May 14, 2013), 5; Iulian Ernst, "Transnistria Slumps as Moscow Pulls the Strings," *BNE Intellinews*, May 27, 2016; Владимир Соловьев, "Дмитрия Рогозина Не Ждали и Дождались [Dmitry Rogozin Was Not Expected and Waited]," *Коммерсантъ*, April 17, 2012.

<sup>84</sup> Calus, 5.

<sup>85</sup> *Ibid*, 6-7.

gas is consumed. Part of Transnistria's gas consumption is used to produce electricity at the Cuciurgan power plant, of which the controlling stake is owned by a Russian state-owned enterprise. Transnistria then sells this electricity to the rest of Moldova, supplying approximately eighty percent of its need.<sup>86</sup> Transnistria stopped paying for its gas consumption in 2006. Transnistria uses gas and electricity sales to subsidize its economy—another form of economic assistance from the Kremlin.<sup>87</sup> As of December 2018, Moldova “owed” Gazprom \$6.4 billion for its gas consumption throughout Moldova. However, only \$500 million of this total was consumed in the non-Transnistrian regions of Moldova. From the Kremlin's perspective, Moldova is responsible for all \$6.4 billion, which equates to fifty-four percent of Moldova's 2018 GDP.<sup>88</sup>

In addition to the gas debt issue, Moldova and the EU recognize that Moldova's dependence on Russian gas remains a vulnerability. Fifty percent of the national gas supplier, Moldovagaz, is owned by Gazprom. Moldova suffered one targeted gas cutoff in 2006. The gas was cut when Gazprom doubled the gas price and the Moldovan government disagreed.<sup>89</sup> Like several other European countries, Moldova was left without gas in January 2009 when Ukraine and the Kremlin warred over their gas contracts. This highlighted Moldova's vulnerability to Russian-Ukrainian gas negotiations. Moldova now fears that when the Kremlin is able to bypass Ukraine to supply gas to Europe, that Moldova will be left with an undependable gas supply.<sup>90</sup> Currently, the Moldovan government is working with Romania's Transgaz company to extend a

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<sup>86</sup> Maria Shagina, “Moldova's Fragile Energy Security,” *New Eastern Europe*, last modified March 14, 2018, accessed January 22, 2020, <https://neueasterneurope.eu/2018/03/14/moldovas-energy-security/>.

<sup>87</sup> Baban, 5.

<sup>88</sup> Gazprom, *PJSC Gazprom Financial Report*, 2018, 152.

<sup>89</sup> “Russia Cuts Gas to Moldova,” *RadioFreeEurope*, January 2, 2006.

<sup>90</sup> Joe Sargent, “Moldova Gas Pipeline to Be Extended,” *Construction Europe*, May 2, 2019.

pipeline from the Romanian-Moldovan border to Moldova's interior. This would provide an additional gas source, but may not be online until 2021 or later.<sup>91</sup>

Rather than use gas supply as a geoeconomic tool against Moldova, the Kremlin uses Transnistria's gas debt accumulation as a weapon. It also has leverage over varying the gas prices. These factors may weigh on the minds of cash-strapped Moldovans when at the ballot box as they choose which political party will get them cheaper gas and not transfer Transnistria's gas debt to them or their children. Going forward, Moldova should continue to diversify its gas supplies and supply routes, but should also consider diversifying its electricity suppliers as well.

### Trade Policy and Economic Sanctions

The Kremlin used trade policy and economic sanctions as geoeconomic tools to punish and attempt to manipulate Moldovans. The Kremlin used TBTs to restrict entry of Moldovan goods, typically agrarian products, into Russia's market. The Kremlin did not stop there. To promote division, the Kremlin did not always enforce the same barriers on products originating from Transnistria and Gagauzia.

In 2003, Moldovan President Vladimir Voronin struggled to resolve Transnistrian frozen conflict. After failed negotiations with Moscow that year, Voronin turned west, to neighboring Bucharest, Romania, for alliance. Following Ukraine's Orange Revolution in 2004, Moscow became uneasy with its buffer states' desires to forge relationships beyond the Kremlin. This fear was intensified when Moldova and Ukraine proactively collaborated to generate their own solution to a shared Transnistrian problem. In 2005, Moldova also signed an EU Action Plan of reforms to facilitate its Euro-Atlantic integration.<sup>92</sup> That same year, the unhappy Kremlin,

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<sup>91</sup> Moldovagaz, "The Gas Sector of Moldova - National and Regional Security Issues" (presented at the CESEC Gas Plenary and Working Group Meeting, Brussels, October 8, 2019), accessed January 20, 2020, [https://ec.europa.eu/energy/sites/ener/files/documents/tbrf\\_state\\_of\\_play\\_moldova\\_08102019-final.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/tbrf_state_of_play_moldova_08102019-final.pdf).

<sup>92</sup> Bureau of European and Eurasian Affairs, *Country Assessments and Performance Measures - Moldova* (Washington, DC: US Department of State, January 2007).



interested in undermining the now Western-leaning Voronin, slapped Moldova with embargoes on meat, fruits, and vegetables. These embargos affected almost one-quarter of all Moldovan agricultural exports.<sup>93</sup> The import ban was extended to a wine ban in 2006.

The wine ban was devastating. Wine is one of Moldova's only export products with its entire value chain completed in country. The industry directly and indirectly employs nearly 200,000 people.<sup>94</sup> In the early 2000s, Moldova exported eighty to ninety percent of their wine to Russia.<sup>95</sup> In 2003, Moldovan wines comprised forty-five percent of all Russian wine imports.<sup>96</sup> Further, Moldovan wines were grown for Russian not Western European palates—making them sweet rather than dry. The inability to quickly shift export markets shocked wine and grape producers. Producers lost \$180 million of their normally \$300 million wine market in just eight months.<sup>97</sup> The Russian government claimed a TBT—that the wines contained heavy metals and pesticides.<sup>98</sup>

Moldovans take immense pride in their wine production. The Kremlin used this to their advantage too. In 2006, Russian Interior Minister, Rasheed Nurgaliev, said seventy percent of all Moldovan wines were counterfeit.<sup>99</sup> Upon arriving in Moldova in 2007, the author was told of the effects of the ban. Moldovans were depressed during grape harvest because they had no market for the grapes. They shared how winery employees were not paid for their work. Over 100

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<sup>93</sup> USAID/Moldova, *FY 2006 Operational Plan* (Washington, DC: USAID, June 13, 2006), 4.

<sup>94</sup> USAID, *Strengthening the Wine Sector: Moldova's Living Legend*, Technical Brief (Washington, DC, April 2015), 1.

<sup>95</sup> Mark Baker, "Corked," *Foreign Policy*, August 2015.

<sup>96</sup> DAI, *Assessing Competitiveness In Moldova's Economy*, Assessment (Bethesda, MD, July 2004).

<sup>97</sup> Baker, "Corked."

<sup>98</sup> Alexandru Stratan, Alexandru Fala, and Victoria Clipa, "Risks to the Agri-Food Sector of Republic of Moldova Associated with Restrictions Imposed by the Russian Federation on Moldovan Imports," *Procedia Economics and Finance* 32 (2015): 325.

<sup>99</sup> Valentina Basiul, "2006: Ofensiva Rusiei: „războiul Vinului” Și Gaze La Prețuri Dublate [2006: Russian Offensive: 'The Wine War' and Gas at a Doubled Price]," *RadioFreeEurope*, August 16, 2016.

wineries would close as a result of the ban.<sup>100</sup> It came as no surprise when Eric Wiener, in his 2008 book *The Geography of Bliss*, named Moldova the unhappiest country in the world.<sup>101</sup>

Moldova saw the wine ban mostly lifted in 2007. This came at a political price. Voronin attempted to weaken ties with Romania by publicly accusing Bucharest's granting of Romanian citizenship to Moldovans as trying to Romanize the Moldovan population.<sup>102</sup> The Moldovan government threatened to block Russia from joining the WTO, but stood down.<sup>103</sup> Finally, Moldova established a new quality-control regime for its wine industry to respond to the Kremlin's wine-specific TBT.<sup>104</sup>

The Kremlin continued to torment Moldova with bans. In 2013, Moldova prepared to initial EU AAs, which included Deep and Comprehensive Free Trade Area (DCFTA) provisions. Moldova's initials would not only cement their unwillingness to join the EAEU, when fully implemented, these agreements would give Moldova duty-free access to EU markets. New, high-value EU markets would provide an alternative to Russian markets and decrease economic leverage of the Kremlin over Moldova.

In September 2013 while visiting Chisinau, Russian deputy prime minister, Dmitri Rogozin, warned that it would be "a grave mistake" should Moldova initial the agreements. Later

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<sup>100</sup> Christian Oliver, "Moldovan Winemakers Struggle as Russia Vies with EU for Influence," *Financial Times*, April 8, 2014.

<sup>101</sup> Eric Weiner, *The Geography of Bliss*, First eBook edition. (New York: Hachette Book Group, 2008), 185.

<sup>102</sup> In 1991, the Romanian government passed legislation that restitutes Romanian citizenship to any people and their decedents who lived on Romanian territory prior to "Soviet occupation" in 1940. Moldova and parts of Ukraine were part of Romania prior to 1940. Therefore, some citizens of these two countries are eligible to apply for Romanian citizenship, which equates to EU citizenship. Sources: Ministerul Justiției [Ministry of Justice], Autoritatea Națională Pentru Cetățenie [National Citizenship Authority], Romania, *Procedura de Redobândire a Cetățeniei Române Art. 11 [The Procedure for Regaining Romanian Citizenship Article 11]*, vol. Article 11, n.d.; *Romanian Citizenship Offer to Moldovans: Exaggerated Fears in the European Union*, Press Release (European University Institute, May 12, 2009).

<sup>103</sup> Urse, 67.

<sup>104</sup> Baker, "Corked."

that month, the Kremlin imposed another wine ban on Moldova.<sup>105</sup> When announcing the wine ban, the Kremlin made no explicit link to Moldova's foreign policy.<sup>106</sup> However, the Kremlin did not ban wines originating from pro-Russian autonomous regions; they were deemed safe.<sup>107</sup> Another TBT, the official reason the Kremlin gave for the ban was that they found traces of plastic in barrels of Moldovan devin, a version of cognac. Then Moldovan Agricultural Minister, Vasile Bumacov, shared that, "In our devin was a 0.16 trace [of plastic] but in the water in Russia they are allowed 0.2, in the EU 0.3. We had less than in the mineral water."<sup>108</sup> When the ban was instituted, Russia accounted for thirty percent of Moldova's wine market.<sup>109</sup>

The Kremlin's attempts were in vein—Moldova initialed the EU's Association Agreements, and went on to ratify them in 2014. The Kremlin reacted to the ratification by extending embargoes to pork meat (April 2014) fresh and canned fruits and vegetables (July 2014), all kinds of meat (October 2014).<sup>110</sup> Despite the bans, in 2015, producers in Transnistria were approved to ship apples to Russia.<sup>111</sup>

The Kremlin's bans were well targeted. In 2013, 43.9 percent of Moldova's fruit exports went to Russia. Similarly, 93.3 percent of Moldova's vegetable exports landed on Russia's market.<sup>112</sup> Further, as an agrarian country, Moldova's agriculture sector is a large employer and

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<sup>105</sup> David M. Herszenhorn, "Russia Putting a Strong Arm on Neighbors," *The New York Times*, October 22, 2013.

<sup>106</sup> Baker, "Corked."

<sup>107</sup> Michael Birnbaum, "Russia Pressures Moldova and Ukraine Ahead of Signing of E.U. Association Agreement," *The Washington Post*, June 26, 2014.

<sup>108</sup> Tessa Dunlop, "Why Russian Wine Ban Is Putting Pressure on Moldova," *BBC*, November 21, 2013.

<sup>109</sup> Baker, "Corked."

<sup>110</sup> Stratan, Fala, and Clipa, 327.

<sup>111</sup> US Agency for International Development, *Moldova Agricultural Competitiveness and Enterprise Development (ACED) Project*, Final Activity Report (Washington, DC: US Agency for International Development, March 2016), 7.

<sup>112</sup> Stratan, Fala, and Clipa, 328, 330.

remains exposed and vulnerable to shocks.<sup>113</sup> These shocks do not remain with the farmers, they resonate up and down the value chains to the processors, transporters, traders, and service providers. The value lost from the wine bans alone is estimated at \$1.5 billion from 2006 to 2016.<sup>114</sup>

What the Kremlin fails to realize is that, with each ban, it introduces market uncertainty. When Moldovans invest millions of dollars to produce wine or other agricultural products, they will target a market that remains open to their product. In a *New York Times* article, Andrei Sirbu, whose family owns Asconi winery shared, “We stopped working with the Russian market in 2009. It’s a very attractive market when you look at the sales opportunities, the size of it. Just in Moscow, you can do so much business, but when you put the politics into it, that’s the problem — the political risk.”<sup>115</sup>

## Investment

Kremlin-directed investment is present in Moldova, but difficult to account. According to the International Monetary Fund’s Coordinated Direct Investment Survey, in 2018, twenty-one percent of Moldova’s \$3.9 billion of inward direct investment originated from Russia.<sup>116</sup> Unfortunately, the database does not differentiate between parastatal and private investment. However, known Russian state-owned companies operating in Moldova include MoldovaGaz, of which Gazprom owns fifty percent, Inter RAO EES, which has a controlling stake in the Transnistrian Cuciurgan power station, and Lukoil.<sup>117</sup> Nevertheless, Russian state-owned

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<sup>113</sup> Popa, 6.

<sup>114</sup> Natalia Antoci, “Impactul Sancțiunilor Economice Asupra Comerțului Exterior al Republicii Moldova [Impact of Economic Sanctions on Foreign Trade of the Republic of Moldova]” (Universitatea de Stat din Moldova [State University of Moldova], 2018), 92.

<sup>115</sup> Herszenhorn, “Russia Putting a Strong Arm on Neighbors.”

<sup>116</sup> “Coordinated Direct Investment Survey, Moldova, 2018 Inward Direct Investment” (International Monetary Fund, December 19, 2019).

<sup>117</sup> “Economic Dependence on Russia. What Has Moldova Learnt?,” Mold-Street, last modified March 29, 2013, accessed November 1, 2019, <https://www.mold-street.com/?go=news&n=7276>.

companies do have varying levels of control over vital industries, namely oil, gas, and electricity, and can use them to coerce Moldova in the future.

## Labor

Though about one million Moldovans carry Romanian passports and have the right to work in the EU, Russia still remains the dominate contributor of remittances to the Moldovan economy.<sup>118</sup> The World Bank's 2018 estimation of remittances sent home by Moldovans was \$1.83 billion or sixteen percent of Moldova's 2018 GDP.<sup>119</sup> Of these remittances, twenty-nine percent originated from Russia, nineteen percent from Italy, thirteen percent from Ukraine, and twelve percent from Romania. In 2012, remittances sent to Transnistria reached nearly \$200 million and up to eighty-six percent of these remittances originated in Russia.<sup>120</sup> Nevertheless, a Russian ban on Moldovan laborers or a tax on remittances sent from Russia to Moldova would bring noticeable negative impacts to the Moldovan economy and remittance-dependent families.

## Conclusions

Over the past sixteen years, as presented in this chapter, the Kremlin successfully used geoeconomic tools to ensure that Moldova did not join the EU or NATO. Building on Chapter Four, these findings offer a second validation for the first portion of the monograph's theoretical framework.

The Kremlin's greatest victory remains keeping Transnistria alive. As time passes, the Moldovan government and people have taken steps to diversify their gas sources and export markets to decrease their dependence on Russia. Despite these efforts, the Moldovan electorate

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<sup>118</sup> "Aproape un milion de moldoveni dețin cetățenia română! Alte sute de mii de cereri sunt în procesare [Almost one million Moldovans have Romanian citizenship! Other hundreds of thousands of applications are being processed]," *Telegraph* (Chisinau, March 28, 2018).

<sup>119</sup> The World Bank, "Bilateral Remittance Matrix 2018.," The World Bank, "World Bank National Accounts Data (Current \$), Moldova," The World Bank Group, accessed January 23, 2020, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=MD>

<sup>120</sup> Calus, 4.

continues to oscillate between East and West. Moldova's future is still undecided and the Kremlin remains aware of its opportunities.

## Chapter Five: USG Efforts to Combat the Kremlin's Economic Aggression

Chapter Five will evaluate the second and third portions of the theoretical framework:

*If* the US government observes the Kremlin's use of economic aggression against a FSR *then* the US government will deploy foreign assistance to the target country to offset the impact of the Kremlin's aggressive act.

AND

*If* the target country uses US foreign assistance to mitigate the effects of the Kremlin's economic aggression, *then* the target country will no longer perceive the Kremlin's economic aggression acts as threatening enough to prevent it from making political, economic, and military decisions counter to the Kremlin's demand.

To test these theories, Chapter Five will follow the logic of how policy, strategy, and foreign assistance projects are developed. First, to understand the context and environment, the chapter will review US-Russian relations. Next, based on challenges that surface in the environmental analysis, it will document US government strategy for combatting the Kremlin's economic aggression in FSRs. Then, the chapter will zoom into the context and US government strategy to combat the Kremlin's economic aggression in Moldova from 2003 to 2019. Finally, the chapter will examine how USAID transferred US foreign policy objectives into foreign assistance activities to combat the Kremlin's economic aggression in Moldova and the associated results.

### USG Strategy to Combat Russian Influence

This section will review US-Russian relations, identify events that influenced US foreign policy, and share how policy changes were incorporated into strategies in Moldova.

## US-Russian Relations

The United States and its allies viewed Russia as the pivotal state in Eurasia. If it succeeded at reforming itself, joining the West, and accepting the peaceful breakup of the USSR, its neighbors would all benefit; if not, then Russia and the West would revert to their previous adversarial relationship. While this approach placed greater emphasis on relations with Russia than with its neighbors, the West's policy has always stressed that these were independent, sovereign states rather than Russia's satellites. Engagement with them, from the West's perspective, was never intended to undermine or displace legitimate Russian interests.<sup>121</sup>

Since Putin first became president in 2000, US-Russian relations have been volatile.

Putin was the first president to call President Bush following the September 11, 2001 attacks. In 2002, the United States and Russia signed the Moscow Treaty to reduce nuclear arms. Putin also saw an opportunity to partner with the United States to fight the War on Terror if, in return, the United States would limit NATO expansion and accept Russia's role as a regional hegemon and mediator with the FSRs.<sup>122</sup> Russia would go on to support US actions in Afghanistan and Central Asia by allowing flyover rights, intelligence sharing, and temporary basing of US troops in Central Asia.<sup>123</sup> However, the Bush administration saw no need to give anything to Russia as reciprocation for its support to fight al-Qaeda.<sup>124</sup> This would frustrate Putin who desperately sought to build Russia into a world power.<sup>125</sup>

While the United States kept its door open to Russia, it was also supporting NATO expansion and FSR "color revolutions."<sup>126</sup> This did not sit well with the Kremlin. The color

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<sup>121</sup> Rumer et al., 28.

<sup>122</sup> William J. Burns, "How the U.S.-Russian Relationship Went Bad," *The Atlantic*, April 2019.

<sup>123</sup> Alexander Cooley, *Great Games, Local Rules* (New York: Oxford University Press, 2012), 53.

<sup>124</sup> Burns, "How the U.S.-Russian Relationship Went Bad."

<sup>125</sup> *The Policy World Meets Academia: Designing US Policy toward Russia* (Cambridge: American Academy of Arts & Sciences, 2010), 117.

<sup>126</sup> The color revolutions took place in Georgia (Rose Revolution, 2003), Ukraine (Orange Revolution, 2004), and Kyrgyzstan (Tulip Revolution, 2005). To this day, with the exception of the three Baltic states, Georgia, Ukraine, and Kyrgyzstan remain the most democratic countries among their respective regions of the Caucasus, Eastern Europe, and Central Asia. Source: Lincoln A. Mitchell, *The Color Revolutions* (Philadelphia: University of Pennsylvania Press, 2012), 1-2.

revolutions signaled Georgia, Ukraine, and Kyrgyzstan's interest in democracy and to partner with the West. Their desire to align with NATO signaled an unwillingness to let Russia be their only security partner and provider. In March 2004, NATO accepted the first wave of new members: Bulgaria, Estonia, Latvia, Lithuanian, Romanian, Slovakia, and Slovenia.<sup>127</sup>

Putin's actions during 2007 and 2008 signaled a pivot in how he viewed the United States, its role in Europe, and a growing perceived NATO threat. In 2007, at the Munich Security Conference, Putin expressed his desire to see US global hegemony end.<sup>128</sup> The Kremlin also was adamantly against Kosovo's independence from Serbia in 2008 noting that the United Nations was meddling in the affairs of other nations.<sup>129</sup> Putin shared his discomfort about NATO's strengthening and expansion with the US Ambassador to Russia, William J. Burns, in March 2008 saying, "No Russian leader could stand idle by in the face of steps toward NATO membership for Ukraine. That would be a hostile act toward Russia."<sup>130</sup> The FSRs were pulling away.

US actions during the April 2008 NATO Summit in Bucharest sent a signal to the Kremlin. During the summit, though no formal offer was made, the United States publicly backed Georgia's and Ukraine's requests to join NATO. On August 7, 2008, the Kremlin provoked Georgia to attack its breakaway region of South Ossetia. The Kremlin responded with force and US-Russian relations strained.<sup>131</sup> The United States publicly denounced the Kremlin's actions in Georgia and placed sanctions on the separatist regions. The United States, along with its allies,

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<sup>127</sup> "Seven New Members Join NATO," North American Treaty Organization, *NATO Update*, last modified March 29, 2004, accessed February 29, 2020, <https://www.nato.int/docu/update/2004/03-march/e0329a.htm>.

<sup>128</sup> "Speech and the Following Discussion at the Munich Conference on Security Policy," President of Russia, last modified February 10, 2007, accessed February 8, 2020, <http://en.kremlin.ru/events/president/transcripts/page/321>; Michael A. Orenstein, *The Lands in Between* (New York: Oxford University Press, 2019), 14.

<sup>129</sup> Orenstein, 15.

<sup>130</sup> William J. Burns, *The Back Channel* (New York: Random House, 2019), 237-238.

<sup>131</sup> Burns, *The Back Channel*, 241.



provided \$1 billion in aid for Georgia.<sup>132</sup> However, US actions would not deter the Kremlin from using force in the future.

Despite the 2009 attempts by the Obama administration to reset US relations with Russia, the relationship was beyond repair. In 2011, Russian protesters took the street accusing corruption in their parliamentary elections. They would repeat this action in 2012, accusing the government of rigging the presidential elections, where Putin won re-election. Feeling undermined in his own country, Putin proceeded to accuse the United States of meddling in his internal affairs and provoking the unrest.<sup>133</sup> In September 2012, Russia expelled USAID. In November 2013, the EU prepared to sign AAs with Georgia, Ukraine, and Moldova at Vilnius. Signing the EU AAs would put these countries on a path to EU integration and the Kremlin would lose their influence. Ambassador Burns described Putin's perception of the situation as, "Ukraine would never be just another country and tethering it to the West was an existential issue for him. He was determined to play hardball, convinced Russia's future as a great power depended upon predominant influence in Ukraine."<sup>134</sup> He went on to share that, "Putin's message was typically unsubtle: If Russia couldn't have a deferential government in Kyiv, plan B was a dysfunctional Ukraine, in which the Kremlin used an annexed Crimea and a violent and unstable Donbass to exert leverage over Kyiv."<sup>135</sup>

Following the Kremlin's invasion and occupation of the Ukrainian Crimean and the Donbass regions in March 2014, the US government reacted in several ways. Motivated by the Stimson Doctrine and other Kremlin-initiated destabilizing acts of political, economic, and military aggression against FSRs, the US government prioritized assistance to help these FSRs

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<sup>132</sup> Rice, Condoleezza. "Russia Invaded Georgia 10 Years Ago. Don't Say America Didn't Respond." *The Washington Post*, August 8, 2018.

<sup>133</sup> Rumer et al.; "Russian Election: Biggest Protests since Fall of USSR," *BBC*, December 10, 2011.

<sup>134</sup> Burns, *The Back Channel*, 288.

<sup>135</sup> Burns, *The Back Channel*, 290.

stand firm in the face of the Kremlin’s threats, sanctions, and actions. In 2014, the Obama Administration announced the European Deterrence Initiative (EDI). EDI was the first defense-related response to Russian aggression and aimed to show US commitment to the security and territorial integrity of its NATO allies.<sup>136</sup> EDI was also designed to build the capacity of Georgia, Moldova, and Ukraine to improve its own defense and work with the United States and NATO.<sup>137</sup> In August 2017, President Trump signed into law the Countering America’s Adversaries Through Sanctions Act, commonly referred to as the Countering Russian Influence in Europe and Eurasia Act of 2017 (CRIIEEA).<sup>138</sup>

To date, CRIIEEA is the US government’s largest reaction to the Kremlin’s aggression. CRIIEEA’s policy statement, found in Section 253, states, “The United States, consistent with the principle of *ex injuria jus non oritur* [illegal acts cannot create law], supports the policy known as the “Stimson Doctrine” and thus does not recognize territorial changes effected by force, including the illegal invasions and occupations of Abkhazia, South Ossetia, Crimea, Eastern Ukraine, and Transnistria.<sup>139</sup> CRIIEEA’s intentions are also reflected in foreign policy. For example, in 2019, the State Department prioritized resolving territorial conflicts in Moldova and acts of Russian aggression in Ukraine, and Georgia.<sup>140</sup>

CRIIEEA also authorized the Countering Russian Influence Fund (CRIF). The fund, which authorizes \$250 million of assistance from 2018 to 2019, allows the US government to

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<sup>136</sup> The European Deterrence Initiative was known as the European Reassurance Initiative until 2018. For more information see, Michelle Shevin-Coetzee, *The European Deterrence Initiative* (Center for Strategic and Budgetary Assessments, 2019), 3.

<sup>137</sup> *FACT SHEET: European Reassurance Initiative and Other U.S. Efforts in Support of NATO Allies and Partners*, Press Release (Washington, DC: White House, June 3, 2014).

<sup>138</sup> Countering America’s Adversaries through Sanctions Act, Public Law 115-44, 115<sup>th</sup> Cong. (August 2, 2017).

<sup>139</sup> Countering America’s Adversaries through Sanctions Act.

<sup>140</sup> US Department of State and US Agency for International Development, *Joint Regional Strategy: State Bureau of European and Eurasian Affairs (EUR) and USAID Bureau for European and Eurasia (E&E)*, Strategy (Washington, DC: US Department of State and USAID, January 1, 2019). 16.

assist NATO and EU members as well as countries participating in NATO or EU enlargement, including Moldova, to counter the Kremlin's influence.<sup>141</sup> In Section 254, the law also recognizes that targeted countries "lack the economic capability to effectively respond to aggression by the Russian Federation without support of the United States."<sup>142</sup>

To implement the CRIF, USAID created the Countering Malign Kremlin Influence (CMKI) development framework. While launching the framework in July 2019, USAID's Administrator shared, "CMKI responds to authoritarian challenges by increasing the economic and democratic resilience of targeted countries, and working to mitigate the efforts of Kremlin soft power aggression."<sup>143</sup> CMKI has four objectives: (1) counter efforts to undermine democratic institutions and the rule of law; (2) resist the manipulation of information; (3) reduce energy vulnerabilities; and (4) reduce economic vulnerabilities.<sup>144</sup>

### USG Strategy in Moldova

Moldova remains a US policy priority because it borders NATO and the EU. Historically and presently, the US government's greatest strategic interest in Moldova is resolving the ungoverned, Kremlin-backed Moldovan region of Transnistria. Because Transnistria is an ungoverned space, it is prone to criminal activity including smuggling of arms and nuclear material. Further, Moldova and Ukraine stopped armed men attempting to go from Transnistria into Ukraine to participate in demonstrations.<sup>145</sup> Nevertheless, the Kremlin-subsidized

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<sup>141</sup> Countries participating in the NATO or EU enlargement process are Albania, Bosnia and Herzegovina, Georgia, Macedonia, Moldova, Kosovo, Serbia, and Ukraine.

<sup>142</sup> Countering America's Adversaries through Sanctions Act.

<sup>143</sup> *USAID Administrator Mark Green's Remarks on Countering Malign Kremlin Influence.*

<sup>144</sup> US Agency for International Development, *Countering Malign Kremlin Influence (CMKI) Development Framework*, Strategy (Washington, DC: USAID, 2019), 1.

<sup>145</sup> Paul Belkin, Derek E. Mix, and Steven Woehrel, *NATO: Response to the Crisis in Ukraine and Security Concerns in Central and Eastern Europe* (Washington, DC: Congressional Research Service, July 31, 2014), 12.

Transnistrian frozen conflict was and still is viewed by the United States as a form of targeted Russian aggression.

The US government supports Moldova's sovereignty and territorial integrity. In 2003, the US government expressed its dissatisfaction with Russia's proposed solution to the Transnistrian frozen conflict, known as the Kozak Memorandum, that would have given Russia veto power within the Moldovan government.<sup>146</sup> In 2005, the United States became an observer to the OSCE-led mediation of 5+2 negotiations that provides a special status to Transnistria while maintaining it as a region of Moldova.<sup>147</sup> Despite being a vocal proponent of a unified Moldova, a 2010 Office of Inspector General report noted that the Department of State under resourced its support to resolving the "Transnistria problem."<sup>148</sup> Foreign assistance planning and reporting documents from 2009 to 2017 periodically cited the US government's desires and activities to support the economic reintegration of Transnistria with Moldova.<sup>149</sup> Through high-level visits, including Vice President Joe Biden in 2011 and Secretary of State John Kerry in 2013, the US government emphasized its support for a settlement to the Transnistria frozen-conflict that preserves Moldova's international recognized borders.<sup>150</sup>

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<sup>146</sup> In February 2020, Dmitry Kozak, who oversaw the Kremlin's policy towards Transnistria, was named Russia's chief negotiator in relations with Kyiv and Kremlin-backed separatists in the Donbass. Source: "Kremlin Names Veteran Kozak as New Ukraine Negotiator," *RadioFreeEurope*, February 11, 2020.

<sup>147</sup> The 5+2 format consists of Moldova and Transnistria as the Sides, the OSCE Mission to Moldova, the Russian Federation, and Ukraine as co-mediators, and the European Union and the United States as observers. Source: *Organization for Security and Co-Operation in Europe Mission to Moldova*, Fact Sheet (Chisinau: OSCE, May 2019).; Bureau of European and Eurasian Affairs, "US Relations with Moldova," US Department of State, Bilateral Relations Fact Sheet, last modified January 7, 2020, accessed February 8, 2020, <https://www.state.gov/u-s-relations-with-moldova/>.

<sup>148</sup> Office of Inspector General, *Report of Inspection, Embassy Chisinau, Moldova* (Chisinau: US Department of State, March 2010), 7.

<sup>149</sup> Documents citing the US government's foreign assistance support to the economic reintegration of Transnistria with Moldova included Congressional Budget Justifications and Foreign Operations Assistance Fact Sheets produced by the Office of the Coordinator of US Assistance to Europe and Eurasia.

<sup>150</sup> *Remarks by Vice President Joe Biden in Chisinau, Moldova*, Press Release (Washington, DC: White House, March 11, 2011); Steven Woehrel, *Moldova: Background and US Policy* (Washington, DC: Congressional Research Service, April 23, 2014), 8.

The US government's short- and medium-term policy objectives in Moldova are linked to preserving its territorial integrity and sovereignty and decreasing Russian aggression. These objectives, supported by actions taken in both the US Executive and Legislative branches, include combatting corruption, strengthening civil society, and helping Moldova pursue Euro-Atlantic integration.<sup>151</sup>

As outlined in Chapter Four, from 2003 to 2019, Moldova faced several acts of economic aggression from the Kremlin. The US government often reacted to these acts as a part of a larger effort to counter the Kremlin's aggression across the FSRs. For example, Moldova benefits from US government's multi-country policies, funding, and frameworks including CRIIEA, CRIF, and CMKI, respectively. Moldova also receives security assistance as part of the European Deterrence Initiative.

Moldova benefited from country-specific actions taken by the US government to counter the Kremlin's economic aggression as well. After the Kremlin placed import blockades on Moldovan wine in 2005, in 2006, the Millennium Challenge Corporation (MCC) agreed to consider Moldova for a compact.<sup>152</sup> In 2010, Moldova signed a \$262 million MCC compact that largely benefited the agriculture sector, but missed helping Transnistria economically integrate with Moldova.<sup>153</sup> In 2012, two House Representatives formed the Congressional Moldova Caucus to increase awareness of the importance of US-Moldovan relations and Moldova's role in European security.<sup>154</sup> To help Moldova access additional markets, in 2012, with encouragement from the Moldova Caucus, Congress repealed application of the Jackson-Vanik amendment to

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<sup>151</sup> *Reps. Price and Olson, Moldova Caucus Co-Chairs, Encouraged By New Government Formation*, Press Release (Washington, DC: Office of Congressman Pete Olson, June 18, 2019).

<sup>152</sup> *Millennium Challenge Corporation Board of Directors Announces 2007 Compact Eligible Countries: Moldova, Jordan, and Ukraine*, Press Release (Washington, DC: Millennium Challenge Corporation, November 9, 2006).

<sup>153</sup> "Moldova Compact," Millennium Challenge Corporation, accessed February 8, 2020, <https://www.mcc.gov/where-we-work/program/moldova-compact#program-docs>.

<sup>154</sup> *Olson & Price Launch Moldova Caucus*, Press Release (Washington, DC: Office of Congressman Pete Olson, July 13, 2017).

Moldova and granted permanent normal trade relations with the United States.<sup>155</sup> Lastly, showing continued support for US-Moldova relations, in 2014, both the House and Senate passed resolutions for “enhanced relations with the Republic of Moldova and support for Moldova’s territorial integrity.”<sup>156</sup>

Resolving Transnistria remains the US government’s top policy goal in Moldova. As stated by the State Department and USAID in the 2019 Joint Regional Strategy for Europe and Eurasia, “In Moldova, our goal is to ensure Moldova’s sovereignty and territorial integrity within its internationally recognized border, with a special status for Transnistria, and to ensure Russia honors its commitment to withdraw all of its military forces from the region.”<sup>157</sup> Nevertheless, this Kremlin-backed frozen conflict remains of high concern.

## Using US Foreign Assistance to Combat the Kremlin’s Economic Aggression in Moldova

As Moldova’s development challenges changed through time, so did the types and purposes of the US government’s assistance. In 1992, when USAID began working in Moldova, USAID’s efforts supported Moldova’s transition from command and control economy to a market-oriented democracy.<sup>158</sup> In 2001, USAID’s strategic plan focused on helping Moldova to establish a market environment, stimulate the growth of private businesses to provide employment and income generation, and promote the values of democratic governance and

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<sup>155</sup> Woehrel, *Moldova: Background and US Policy*, 9, 13; Russia and Moldova Jackson-Vanik Repeal and Sergei Magitsky Rule of Law Accountability Act of 2012, Public Law 112-208, 112<sup>th</sup> Cong. (December 14, 2012).

<sup>156</sup> Expressing the Sense of the House of Representatives with Respect to Enhanced Relations with the Republic of Moldova and Support for Moldova’s Territorial Integrity, H. Res. 562, 113<sup>th</sup> Cong. (July 25, 2014); A resolution expressing the sense of the Senate with respect to enhanced relations with the Republic of Moldova and support for the Republic of Moldova’s territorial integrity, S. Res. 500, 113<sup>th</sup> Cong. 2d Sess. (July 23, 2014).

<sup>157</sup> US Department of State and US Agency for International Development, *Joint Regional Strategy: State Bureau of European and Eurasian Affairs (EUR) and USAID Bureau for European and Eurasia (E&E)*, 17.

<sup>158</sup> “Moldova History,” US Agency for International Development, last modified February 21, 2020, accessed February 23, 2020, <https://www.usaid.gov/moldova/history>.

citizen participation.<sup>159</sup> In 2013, USAID’s strategy narrowed to help Moldovan businesses become more competitive in both Eastern and Western markets, while also focusing on promoting democratic and accountable governance.<sup>160</sup>

In 2006, the US government began mentioning countering the Kremlin’s economic aggression in foreign assistance planning and programming documents.<sup>161</sup> Through time, the US government’s foreign assistance helped Moldova to address each of the geoeconomic areas used by the Kremlin to coerce Moldova.

Following is a short presentation of evidence from 2003 to 2019 describing how USAID helped Moldova to counter the Kremlin’s geoeconomic tools and stand firm in the face of the Kremlin’s economic aggression.

## Investment

Since the US government began working in Moldova in 1992, it has provided over \$1.5 billion of foreign assistance.<sup>162</sup> The annual value of US government foreign assistance obligated for Moldova reflected Washington’s understanding of the Kremlin’s aggression towards Moldova. After the Kremlin’s annexation of Crimea in 2014, like other frontline countries, Washington increased funding to USAID in Moldova to fight the Kremlin’s economic and other

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<sup>159</sup> *USAID’s Assistance Strategy for Moldova 2001-2005*, Strategy (Washington, DC: US Agency for International Development, January 2001), 2.

<sup>160</sup> *USAID/Moldova Country Development Cooperation Strategy 2013 – 2020*, Strategy (Washington, DC: US Agency for International Development, 2020), 22.

<sup>161</sup> Documents reviewed to understand the US government’s support to Moldova included: USAID Country Development Cooperation Strategies, Congressional Budget Justifications, Operational Plans, and Foreign Operations Assistance Fact Sheets produced by the Office of the Coordinator of US Assistance to Europe and Eurasia. The FY 2008 Congressional Budget Justification was the first mention found of funding Moldova to counter the Kremlin’s economic aggression, specifically trade bans and energy overdependence. Source: *Foreign Operations, Fiscal Year 2008*, Congressional Budget Justification (Washington, DC: US Department of State and USAID, February 14, 2007), 431

<sup>162</sup> Bureau of European and Eurasian Affairs, “US Relations with Moldova.”

forms of aggression. Table 2 shows the funding shifts through time. In 2017, Washington began funding Moldova under CRIF to help decrease its economic dependence on Russia.

Table 2. US foreign assistance to Moldova, 2003 to 2019

Year	Obligations (\$ Millions)						Notes
	USAID	State	MCC	Defense	Other	All Aid	
2003	18.0	4.9	0.0	2.1	18.0	<b>43.0</b>	
2004	31.0	2.3	0.0	2.8	11.9	<b>48.0</b>	
2005	15.0	2.9	0.0	2.3	12.8	<b>33.0</b>	Russia imposed trade embargoes on Moldova
2006	16.0	3.4	0.0	2.7	3.9	<b>26.0</b>	
2007	39.0	3.3	0.0	1.5	3.2	<b>47.0</b>	
2008	14.0	3.7	0.1	1.1	5.1	<b>24.0</b>	
2009	16.0	5.0	5.8	1.2	6.0	<b>34.0</b>	
2010	12.0	5.8	270.0	2.9	3.3	<b>294.0</b>	MCC Compact
2011	18.0	4.5	1.6	2.4	3.5	<b>30.0</b>	
2012	19.0	4.6	1.0	16.0	3.4	<b>44.0</b>	
2013	12.0	5.3	3.9	2.9	5.9	<b>30.0</b>	Russia imposed trade embargoes on Moldova
2014	28.0	8.3	1.6	9.0	9.1	<b>56.0</b>	Russia invaded Ukraine
2015	18.0	9.7	0.3	17.0	3.0	<b>48.0</b>	
2016	17.0	3.7	-2.4	4.5	3.2	<b>26.0</b>	
2017	30.0	3.8	-1.1	13.0	3.3	<b>49.0</b>	CRIF began
2018	31.0	5.0	-0.3	1.1	2.2	<b>39.0</b>	
2019	23.0	0.0	0.0	0.0	2.0	<b>25.0</b>	
<b>Total</b>	<b>357.0</b>	<b>76.2</b>	<b>280.6</b>	<b>82.5</b>	<b>99.7</b>	<b>896.0</b>	

Source: “US Foreign Aid by Country” (US Agency for International Development, February 20, 2020), accessed February 23, 2020, [https://explorerdev.usaid.gov/cd/MDA?fiscal\\_year=2018&measure=Obligations&implementing\\_agency\\_id=1](https://explorerdev.usaid.gov/cd/MDA?fiscal_year=2018&measure=Obligations&implementing_agency_id=1).

Part of USAID’s efforts to spur economic growth included attracting private investment to support Moldova’s development. USAID successfully partnered with the private sector to attract over \$280 million of additional investment from 2003 to 2019. This funding supported agriculture and business development activities that lessened Moldova’s dependence on Russia. Along these lines, a current USAID project, which increases Moldova’s competitiveness, boasts that “Every \$1 invested in this Project generated around \$19 in new domestic sales and exports,



and \$10 in new investments.”<sup>163</sup> Foreign assistance is a worthwhile investment of taxpayer dollars to counter the Kremlin’s economic aggression.

### Economic Aid to Transnistria

The Kremlin’s provision of economic aid to Transnistria sustains the frozen conflict and keeps Transnistria’s economy weak and dependent on Russia. To lessen Transnistria’s dependency on the Kremlin’s economic aid, the US government can help economically reintegrate Transnistria and Moldova. USAID and the larger Embassy Chisinau Country Team did recognize this need. USAID conducted “cross-border” assistance reaching out to Transnistrian businesses and agriculturalists to improve business practices, establish producer and industry organizations, and share experiences with other Moldova organizations.<sup>164</sup> This work provided a small start to much needed economic integration of Transnistria with Moldova.

### Energy

Russia supplies nearly all of Moldova’s gas, much of which Moldova uses to generate electricity. Fully aware of this opportunity for the Kremlin to coerce Moldova, USAID contributed to domestic energy sector reform and helped Moldova update its legislation to comply with EU regulations. This set the stage for energy integration with Europe, rather than Russia.<sup>165</sup> To lessen the need for imported energy, USAID also worked with Moldova to increase its energy efficiency and currently supports assessment of domestic energy production

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<sup>163</sup> US Agency for International Development, *Moldova Competitiveness Project Year Four Annual Report FY 19*, Annual Activity Report (Chisinau: US Agency for International Development, 2019), 7.

<sup>164</sup> *Moldova Competitiveness Project Year Four Annual Report FY 19*, 10, 232; US Agency for International Development, *Moldova Agricultural Competitiveness and Enterprise Development (ACED) Project*, 3.

<sup>165</sup> US Agency for International Development, *Energy Regulatory & Security Program in Europe & Eurasia 2007-2017*, Final Activity Report (Washington, DC: US Agency for International Development, March 2017), 10.

opportunities.<sup>166</sup> Together, these efforts provide Moldova the necessary regulatory environment and technical resources to enable them to seek and use Western energy sources when they become available and lessen Moldova's energy dependence on Russia.

## Trade

Historically, Russia was Moldova's primary export market for its agricultural commodities. Because Moldova is an agrarian nation, its economy and its citizens notice if Moldova loses market access, including when the Kremlin imposed import embargoes. USAID helped farmers and agribusinesses find new markets before, during, and after the repeated bans.

In the early 2000s, USAID realized that Moldova's wine industry was not competitive in higher value markets outside Russia. Starting in 2005, even prior to the Kremlin's embargo on Moldovan wine, USAID targeted improvement in the quality and branding of Moldova wines to help the industry compete in new markets.<sup>167</sup> Thus, because of USAID's strategic planning, when the Kremlin embargoed Moldovan wine, USAID was prepared to help. Following USAID's assistance, by 2009, wineries began accessing and expanding sales into European Union markets, namely the Czech Republic, Poland, Romania, Sweden, and the United Kingdom.<sup>168</sup> This was a start, but more work was necessary to continue to alleviate the devastation caused by the Kremlin's wine embargo in 2006.

Though it was unrealistic for USAID's activities to completely offset the negative impacts of the 2006 Kremlin wine embargo, their efforts to increase wine quality and diversify market access paid dividends during the next embargo. USAID partnered with the wine industry

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<sup>166</sup> "Moldova Economic Growth," US Agency for International Development, last modified February 21, 2020, accessed February 23, 2020, <https://www.usaid.gov/moldova/economic-growth>.

<sup>167</sup> US Agency for International Development, *Building Competitive Industries in Moldova: Moldova CEED Final Report*, Final Activity Report (Washington, DC: US Agency for International Development, 2010), 13.

<sup>168</sup> US Agency for International Development, *Building Competitive Industries in Moldova: Moldova CEED Final Report*, 14, 32.

to create a vision that enabled it to overcome the negative implications of Russian wine embargoes. USAID then supported the industry to realize this vision and become more resilient. As a result of USAID’s activities, when the Kremlin embargoed Moldovan wine in 2013, the value of Moldovan wine exports to EU markets increased by nineteen percent in just one year.<sup>169</sup> In 2006, it was unthinkable that wineries could switch markets so quickly and successfully in the face of the Kremlin’s economic aggression. Further, USAID’s assistance enabled wine exports to non-CIS countries to grow twelve to fifteen percent each year from 2011 to 2014 and the price per bottle to increase by ten percent from 2010 to 2014.<sup>170</sup> USAID helped the Moldovan wine industry reduce its dependence on Russia while also increasing incomes earned in the wine sector.

Likewise, USAID also assisted Moldovan fruit and vegetable producers to diversify their markets in the face of repeated Russian import bans. During the 2005 Russian embargo on Moldovan fresh fruits and vegetables, USAID conducted rapid market appraisals for the targeted commodities and sent agribusinesses abroad to secure contracts.<sup>171</sup> During the 2014 Kremlin ban on Moldovan fruit and vegetable imports, USAID partnered with producers to find new markets including in Italy, Romania, Spain, and the UAE.<sup>172</sup> However, once the Russian market reopened, many producers preferred to sell products to Russia because the terms were more favorable, most notably, upfront cash payments and lower quality demands.<sup>173</sup> USAID also helped Orhei-Vit, the largest fruit and vegetable processing company in Moldova, which sources fresh produce locally,

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<sup>169</sup> US Agency for International Development, *Strengthening the Wine Sector: Moldova’s Living Legend*, Technical Brief (Washington, DC: US Agency for International Development, April 2015), 2.

<sup>170</sup> *Ibid*, 8.

<sup>171</sup> “Moldova Agribusiness Development Project,” CNFA, accessed February 23, 2020, <https://www.cnfa.org/program/agricultural-development-program/>.

<sup>172</sup> US Agency for International Development, *Moldova Agricultural Competitiveness and Enterprise Development (ACED) Project*, Final Activity Report (Washington, DC: US Agency for International Development, March 2016), 11.

<sup>173</sup> *Ibid*, 7

to obtain International Featured Standard certification so that it can sell goods into lucrative European markets, which it does.<sup>174</sup>

Lastly, USAID assisted the Moldovan government to update regulations and agribusinesses to realize the duty-free export benefits from the DCFTA to increase and sustain European market access. Moldova is taking advantage of the DCFTA—already exceeding the duty-free quotas for some eligible commodities.<sup>175</sup> USAID’s assistance has helped Moldovans to diversify their exports, improve the quality of their exportable products, and access new, higher-value markets. These efforts have lessened Moldova’s dependence on Russian markets and weakened the effectiveness of the Kremlin’s use of import embargoes as a geoeconomic tool.

## Labor

In 2010, thirty-seven percent of remittances Moldovans sent home came from Russia. By 2018, this number dropped to twenty-nine percent. Despite this drop, Moldova remains vulnerable to a Kremlin crackdown on Moldovan migrant laborers destined for Russia. USAID stepped up by helping Moldovans to acquire new skills to conduct business with the West and partnering with European companies to create jobs in Moldova. In 2005, USAID began assisting the textile and ICT sectors to become more competitive. In 2010, they added furniture and tourism as well. From 2015 to 2020, USAID, in partnership with the Swedish and British governments, continued to improve the competitiveness of four emerging heritage sectors: wine, tourism, apparel and footwear manufacturing, and ICT. Together, these sectors comprised twelve percent of Moldova’s GDP and provide income to nearly 320,000 Moldovans, or almost ten percent of the population.<sup>176</sup> USAID’s work included helping these industries take full advantage

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<sup>174</sup> *Moldova Agricultural Competitiveness and Enterprise Development (ACED) Project*, x.

<sup>175</sup> US Agency for International Development, *High-Value Agriculture Activity Annual Report*, Annual Activity Report (Washington, DC: US Agency for International Development, October 2019), 21.

<sup>176</sup> US Agency for International Development, *Moldova Competitiveness Project Year Four Annual Report FY 19*, 7.

of EU trade agreements. These efforts generated jobs and increased incomes so more Moldovans can choose to stay home instead of migrating to Russia as seasonal laborers.

## Cyber

The Kremlin's use of cybercrime to undermine Moldovan economic progress is highly likely. Following the 2015 Kremlin-backed cybersecurity attack that targeted Ukrainian power grids, in 2016, USAID funded a cybersecurity initiative for electric utility regulators in the Black Sea Region, which includes Moldova, to reduce cybersecurity.<sup>177</sup> The Department of Justice's International Criminal Investigative Training Assistance Program trained Moldovan cybercrime investigators.<sup>178</sup> The State Department also conducted a whole-of-government national cyber strategic assessment in Moldova to identify gaps and areas of potential need. To help grow Moldova's IT sector and protect it from the Kremlin's economic aggression, the State Department also supported the development and implementation of a national cyber strategy that identified Moldova's long-term strategic thinking around cyber issues.<sup>179</sup> Though only the beginning, this critical and foundational work will help protect Moldova against future geoeconomic cyber attacks.

## Conclusions

First, the US government continued to uphold the Stimson Doctrine by not recognizing Transnistria as a separate territory. Second, countering the Kremlin's economic aggression was not always explicitly mentioned in the US government's foreign policy objectives or in legislation. However, those who planned, programmed, and implemented foreign assistance

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<sup>177</sup> US Agency for International Development, *Energy Regulatory & Security Program in Europe & Eurasia 2007-2017*, 43.

<sup>178</sup> "Cyber Crime and Security," Department of Justice, last modified November 13, 2009, accessed February 23, 2020, <https://www.justice.gov/archives/opa/blog/cyber-crime-and-security>.

<sup>179</sup> Office of the Coordinator of US Assistance to Europe, Eurasia, and Central Asia, *Moldova*, Foreign Assistance Fact Sheet (Washington, DC: US Department of State, October 2018).

provided targeted aid to Moldova from 2003 to 2019 to help Moldovans cope with the Kremlin's economic coercion.

USAID was the main provider of this targeted foreign assistance. USAID's largest contributions were helping Moldovans access new and more lucrative markets for their produce and creating jobs in Moldova to reduce seasonal labor migration. USAID was able to react quickly due to its understanding of the environment and existing activity infrastructure.

The US government's foreign assistance opened doors for Moldovans. It enabled them to look westward for economic opportunities while the Moldovan government charted its way forward as a neutral nation that must balance Russia and the West. This added stability helped to fulfill the US foreign policy objective of maintaining Moldova as an economically and politically stable ally on the border with the EU and NATO. It also improved Moldova's self-reliance.

USAID's assistance cannot be directly attributed to why the Moldovan government stood firm in the face of the Kremlin's economic aggression. However, it has provided Moldovan citizens with more and alternative income generating options. Therefore, as a result of USAID assistance, more and more Moldovan citizens no longer are forced to choose Russia over the West.

## Chapter Six: Conclusions

Though the Kremlin regularly used economic aggression to coerce FSRs, the US government recognized this threat and reacted accordingly. Evidence in Moldova suggests that the US government's foreign assistance did help reduce its economic dependence on Russia from 2003 to 2019. However, it is unclear if the US government's assistance can be directly attributed to whether or not the Moldovan government chose to stand firm in the face of the Kremlin's economic aggression.

The main driver for the Kremlin to use of geoeconomic tools to coerce FSRs is the desire to maintain buffer states to distance itself from historical adversaries in Western Europe.

Maintaining influence in the FSRs is an indicator of the Kremlin's power in the region as it seeks to regain its status as a regional hegemon. Part of the Kremlin's strategy is to not let buffer states benefit from both Russia and the West. Rather, the Kremlin forces them to make a binary choice: choose Russia or become Russia's enemy. The Kremlin's strategy combined with the West's desire to win over Russian buffer states leaves these countries in a geopolitical tug-of-war that requires great skill to balance.

The Kremlin's most effective, long-term geoeconomic tool is the economic assistance it provides to breakaway regions and frozen conflicts within the FSRs. Kremlin subsidies support these unsustainable economies to keep them in existence. Their continued existence prevents their parent countries from joining NATO and the EU, thus retaining them as Russian buffer states.

The Kremlin's most effective short- and medium-term geoeconomic tools are trade policy and migrant labor policy. Though the Kremlin attempts to use gas and oil supplies as a means of coercion, it is only effective in the short-term. Further, because the Kremlin is often seen as an unreliable hydrocarbon supplier, countries dependent on their supply have sought alternative sources. Ultimately, the Kremlin has driven away its gas customers.

Russian and FSR economies are interdependent. This interdependency is maintained and exploited through the Kremlin's economic assistance and the substantial remittances and export market opportunities the Russian economy provides to the FSRs. Interdependency may equate to vulnerability. For example, should the Russian economy greatly constrict or collapse, those countries and breakaway republics sustaining their economies based on Kremlin assistance would likely collapse. This would include Belarus and the eight breakaway regions supported by the Kremlin. Further, countries like Kyrgyzstan and Tajikistan, which are heavily dependent on remittances sent home from migrant laborers in Russia, could also collapse.

Zooming into the Moldovan case, from 2003 to 2019, the Kremlin successfully used geoeconomic tools to ensure that Moldova did not join the EU or NATO. The Kremlin's greatest victory remains keeping the Kremlin-backed frozen conflict in Transnistria alive. As time passed, the Moldovan government and people took steps to diversify their export and employment markets to decrease their dependence on Russia. Despite these efforts, the Moldovan electorate continues to oscillate between East and West. Moldova's future is still undecided and the Kremlin remains aware of its opportunities.

Russia's invasion of Georgia in 2008 signaled to the United States and its allies that Russia would not let its buffer states join NATO or the EU. The United States was still not prepared to effectively react following the 2014 Russian invasion of Ukraine. Despite its desire to uphold the Stimson Doctrine, it remains unclear if the United States is prepared to handle the next Kremlin-directed violation of sovereignty of a non-NATO member. Without a push from the West, the Kremlin may keep Russian troops in Georgia, Moldova, and Ukraine indefinitely. Further, in February 2020, the Kremlin appointed Dmitry Kozak, who managed the Kremlin's relationship with Transnistria, as the chief negotiator with Kyiv regarding the reintegration of the Donbass region with Ukraine. Nevertheless, the Donbass' future may share similarities with Transnistria's history.

Countering the Kremlin's economic aggression was not always explicitly mentioned in the US government's foreign policy objectives or in legislation. This remains a shortfall because the Kremlin continues to exploit many forms of economic coercion in the FSRs. However, those who planned, programmed, and implemented foreign assistance provided targeted aid to Moldova from 2003 to 2019 to help Moldovans cope with the Kremlin's economic coercion. USAID's largest contributions were helping Moldovans access new and more lucrative export markets and creating jobs in Moldova to reduce seasonal labor migration. The US government's foreign



assistance enabled Moldovans to look westward for economic opportunities while the Moldovan government charted its way forward as a neutral nation that must balance Russia and the West.

Economic aggression remains a real threat to US allies. It is especially troublesome when the targeted aggression constrains a country's ability to progress and join the EU and NATO. However, with increased policy focus and well-targeted foreign assistance, the US government can lessen the political and economic risk faced by its allies when threatened by others, including the Kremlin.

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