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SOME LESSONS FROM MOLDOVIAN HISTORY AND THE NEW  
CHANCE, THE NEW CHALLENGES, MISTAKES, AND USEFUL  
EXPERIENCES.

By

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### *Abstract*

Since 1812 when Russia occupied Bessarabia, tearing it from the medieval state of Moldova, people in this territory have experienced much hardship and desperation but never had such favorable conditions for deciding its destiny as now. During this time, the territory was chopped up and shared and the people could do nothing. The big countries were deciding their fate. When the USSR collapsed, Moldova gained a real chance to develop as an independent state and end the vicious circle of uncertainty.

Although now the economical situation of Moldova is not very good, the willingness of the democratic community to help the new states attain democracy provides a great opportunity for Moldova. Even though Moldova has made significant steps implementing reforms, and is well ahead with these reforms in comparison to other states of the former USSR, it has already made many mistakes that worsen its situation.

Analyzing the experiences of Southern Asian countries and Poland, and comparing them with steps taken in Moldova, it becomes clear why Moldovian reforms didn't bring the desired results. The Asian countries made reforms easier for their people by taking well-defined steps. They made corrections when something didn't work or when moving to another stage of reforms. That was suitable for them since their economy, although not effective, nevertheless was working. For Moldova, which inherited a segment of the former USSR economy and has no resources, the situation deteriorates day by day. Reforms must be provided quickly and decisively like in Poland. Poland tried for ten years to make reforms, but only the program begun



in 1990 succeeded. This was because the program was well planned and strictly executed. Previous programs failed and brought the country to a disastrous position by 1990. This shows that only a short, well-defined and decisive program has a chance to succeed in such cases. Delaying reforms can only cause the situation to deteriorate.

This paper does not have the aim to give concrete economic solutions but rather to emphasize the chance that Moldova has now. There also are identified some mistakes that should be avoided in the future, and finally, some insights on how other countries resolved similar problems.

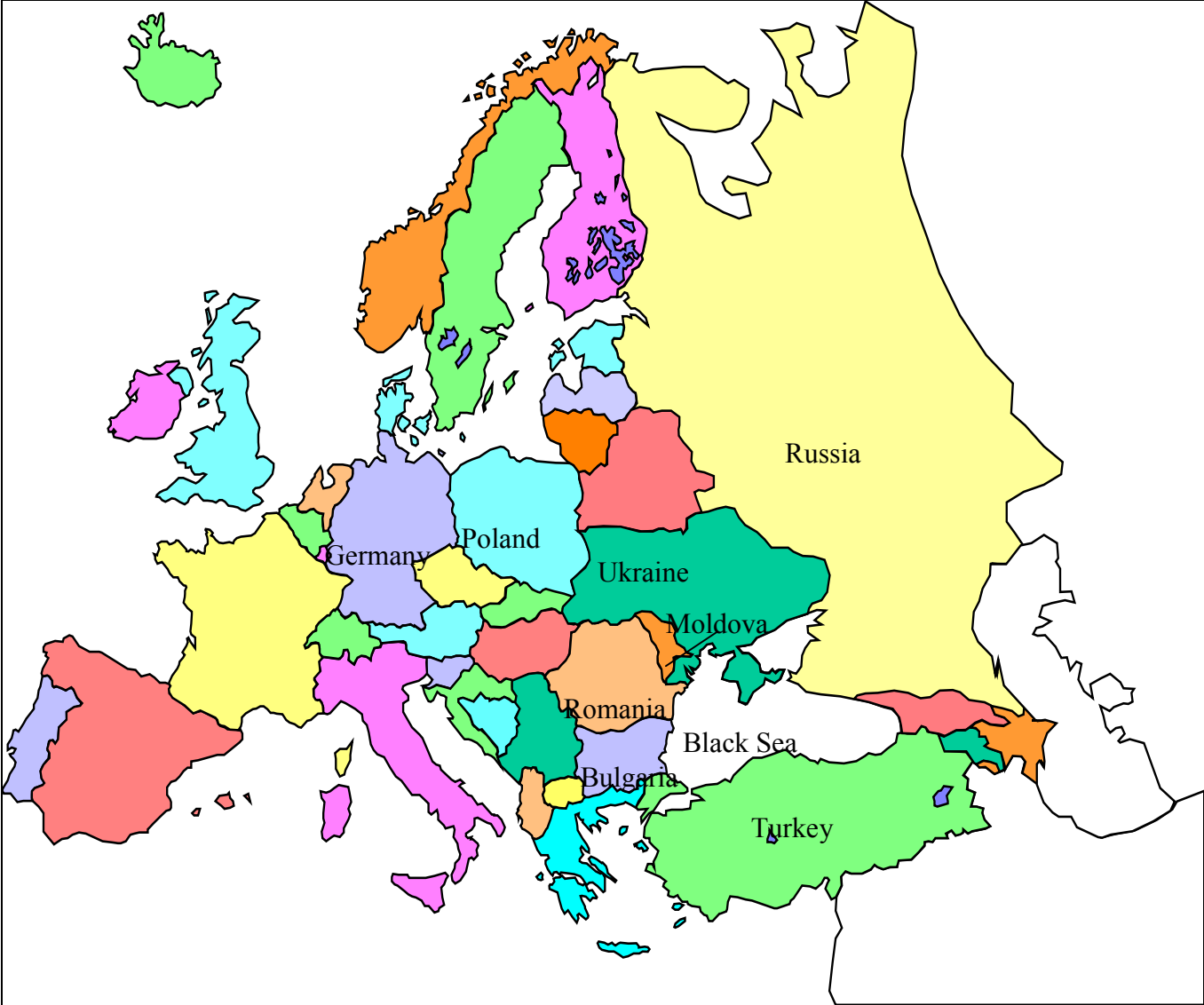


Figure 1 Europe

## HISTORICAL MOLDOVA



Figure 2 Historical Moldova

## Part 1

### Introduction

The historical location between the Russian, Ottoman, and Austro-Hungarian empires has put such imprints on Moldovian destiny, that consequences coming from history influence the present and the future of this country. Since 1711, when the Russian army led by Peter the Great appeared for the first time in Moldova,<sup>1</sup> the territory known as Bessarabia changed hands between Romania and Russia several times.<sup>2</sup> This territory includes the eastern part of the medieval state Moldova, which is the current territory of Republic of Moldova, except the southern part that now belongs to Ukraine (see map on page x). The changes coincided each time with the political and economical decline or rise of Russia.

What is the present situation of Moldova? Is it the next loop of that vicious spiral or a chance to take a tangential way to come out of it? It is difficult to predict the future of Moldova, but two distinct things are there. First, there are lessons from the historical events of this spiral, which have been repeated each time in a similar scenario. Second, there is the chance to consolidate as an independent state, where one of the main factors to become reality, is taking into account these lessons.

Since the 15<sup>th</sup> century, when the Moldovian State appeared, uncertainty and hardship in this land were characteristics for the next few centuries. Empires and states appeared and disappeared in history as nations struggled for survival or dominance. In this struggle they fought each other cruelly for power, fame, and wealth. It's not clear what conditions make some nations so

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<sup>1</sup> Nicholas Dima, "From Moldavia to Moldova," Columbia University Press, New York, 1991, Page 11

<sup>2</sup> Ibid. Page 1.

powerful and glorious in certain time frames and then become the subject of conquest by other strong nations. Moldova had its powerful peak and fall as well.

Moldova reached its apogee relatively shortly after its appearance as a state, during the reign of Stephan the Great. After annexation by Russian in 1812, the eastern part of Moldova was chopped up many times due to surrounding state's interests. The Republic of Moldova appeared in 1992 as a territory far smaller than the eastern part of medieval Moldova (Bessarabia), which was annexed in 1812. During that time, the ethnic group structure of the population of these territories was changed in artificial ways. The taken territories are lost, perhaps forever, but there are historical lessons that we must take into account when deciding the future destiny of this country. These lessons prompt us to follow a way to the consolidation of independence rather than to repeat historical mistakes that each time lead to the same result.<sup>3</sup>

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<sup>3</sup>Ibid

## Part 2

### **The Chronology of Events and Their Impact on Territory and Population**

The contextual elements that contributed to the current situation began to take shape much earlier than 1812, when Russia occupied Bessarabia. In its struggle for sovereignty, Moldova began to look for allies from the earlier years of its existence. That was characteristic for most small states at this time of uncertainty, and especially for Moldova, which was at the intersection, where three of the most powerful empires, Ottoman, Russian and Austro-Hungarian, began to take shape. In searching for allies, most of the time the Moldovian state's situation deteriorated and it became dependent on one or another empire.

The first attempt to find an ally to oppose the Turks, the closest and most ambitious empire in that time, was made by Stephan the Great. He tried to approach the Russians but was bitterly disappointed.<sup>4</sup> Perhaps he realized better than future leaders that, in a struggle for survival, it is better to rely on your own self than on allies, who often betray and shift alliances. That was reality and Moldova became a subject of trade between big states over the next centuries. At different times a number of well-known historical personalities were involved in deciding the fate of Moldova. These personalities, beginning with the Turkish sultan Bayazid II and continuing with Peter I, Elisabeth I, Alexander I as well as Napoleon, Wilhelm, Bismarck, and ending with Hitler and Stalin, played significant roles in Moldovian destiny, occupying and dividing it into pieces to meet their interest.

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<sup>4</sup> Nicholas Dima, "From Moldavia to Moldova," Columbia University Press, New York, 1991, Page 11

At the beginning of 16<sup>th</sup> century and by the end of his reign, Stephan the Great was exhausted from continuous wars against the Turks, and clearly saw that his successors would not be able to resist the Turkish Empire. Moldova was surrounded by hostile Christian princes who often attacked it instead of assisting against the Turks. Therefore he counseled his son Bogdan the Blind to seek an alliance with the Sultans.<sup>5</sup> In 1511, Bogdan concluded a treaty with Bayazid II accepting Turkish custody. The treaty was pretty favorable for Moldova compared to conditions of other Balkanik states that were occupied by the Turks. It included such things as the recognition of the right of Moldovian princes to rule the country, while the territories of other occupied countries were divided into regions ruled by Turkish governors, and were regarded as integral parts of the Ottoman Empire.<sup>6</sup> The Treaty included an article that recognized Moldova as an independent state and accentuated the non-interference of Turks in Christian religion. It also contained the promise of Turkey to defend and preserve Moldovian integrity, and the prohibitions to Turks to buy or own land in Moldova or to build mosques. As compensation for protection, Moldova shall assist Turkey with armies in case of war and shall send every year to Turkey 4,000 Turkish gold pieces, or 11,000 lei, 40 falcons and 40 mares as a gift (Peshkesh).<sup>7</sup>

During that period, the Moldovian population lived relatively well, except those people in “rayas”, the zones around the Turkish forts on the Danube River. These people were forced to feed the Turkish garrisons. In 1520, after a conflict between Moldova and Poland, Turkey made an alliance with the Poles and occupied Tighina, a fort on the Dniester River, where they established another “raya”. Nevertheless, in 1529, they reaffirmed the treaty.

During the reign of Michael the Brave, the Prince of Wallachia, who occupied Moldova and Transylvania and united all Romanians, the status of Moldova was changed for a short time. Soon

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<sup>5</sup> Popovici Andrei, “The Political Status of Bessarabia”, Washington D.C., Ransdell Inc., 1931, Page 42

<sup>6</sup> Ibid. Page 46

Moldova returned to its old status under the Turks. This occurred when Michael the Brave was assassinated.

In 1634, during the reign of Vasile Lupu, another treaty was signed between Moldova and Turkey. The new treaty repeated the articles of the old one, with some amendments. These amendments included giving the Turks preference in the purchase of produce of the country in ports on the Danube River, thus emphasizing that Turks shall not be permitted to enter the country. The gift (Pesches) for that protection rose from 4,000 to 10,000 gold pieces. Most important for our topic is article 5, which stated that “The frontiers of Moldova would be preserved intact in their entirety”.<sup>8</sup>

Relations between the Turks and Moldova deteriorated many times, not only because of the Turks, but also often as a result of Moldovian striving to reach full independence. So it was in 1711 when Russian armies, in their expansion, invaded Moldova. As a result Moldovian Prince Dimitrie Cantemir signed a treaty, the purpose of which was to dissolve forever the bond existing between Turkey and Moldova.<sup>9</sup> After the Turks defeated the Russians and Prince Cantemir fled to Russia, the Turks occupied Hotin, a fort in the northern part and established a “raya” there also. In the beginning, they had only two “rayas” on the southern edge of country. By 1711, the Turks occupied all main forts. After 1711, the boyars of Hotin were deprived of their lands and the Sultans began to usurp more and more rights of Moldova.<sup>10</sup> From that time, the Turks replaced the Moldovian princes with Greek administrators that were sent from Istanbul.<sup>11</sup>

The next chance for Moldova to escape the Turkish yoke was in 1736. In a war between Turkey and Austria, Russia appeared as an ally of Austria, occupied Hotin and advanced

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<sup>7</sup> Ibid. Page 44

<sup>8</sup> Ibid. Page 48

<sup>9</sup> Ibid. Page 52

<sup>10</sup> Popovici Andrei, “The Political Status of Bessarabia”, Washington D.C., Ransdell Inc., 1931, Page 54



victoriously into Moldova. In the desire to get rid of the Turks, the Moldovians hailed the Russians. But soon they were bitterly disappointed because Russia behaved arrogantly and regarded Moldova as a Russian territory. The Moldovians realized that between two evils the Turks were preferable, at least outside of the “rayas”.<sup>12</sup> After Turkey ended the war with a victory, the Turks returned Hotin from the Russians and things reverted to their original way.

In 1768, when another war broke out between Russia and Turkey, some of the boyars and bishops were seduced by Russian promises for a better future. They were induced to ask Empress Catherine to take Moldova under her protection.<sup>13</sup> But the involvement of Russia in Poland, where it occupied Volhynia and Podolya, resulted in the peace treaty at Kutchuk Kainardji. There at Kutchuk Kainardji in 1774, started the first sale of Moldovian territories by pieces. During the negotiations, Austria, which was a mediator between Russia and Turkey, demanded as a price for mediation, a strip of land in the northern part of Moldova. This strip of land should serve for Austria as a direct link to Galicia, which they took from Poland.

When Austrian troops entered northern Moldova, they annexed a much larger region. This region, which they called Bukovina, remained a point of dispute between Romania and Austria, then Russia and now Ukraine.<sup>14</sup> There, Russia, for the first time, gained a formal right to get involved in Moldova. By Article VII of this treaty, Russia was “permitted” to protect the Christian religion in the Turkish Empire. This somewhat vague clause became the basis for all further Russian actions in the Balkans and most particularly in the Danubian Principalities.<sup>15</sup>

After the first “successful” sale, Moldova became a market subject for other countries in 1808. The mediator in sales was Emperor Napoleon. The role Napoleon played caused heavy

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<sup>11</sup> Nicholas Dima, “From Moldavia to Moldova,” Columbia University Press, New York, 1991, Page 11

<sup>12</sup> Popovici Andrei, “The Political Status of Bessarabia”, Washington D.C., Ransdell Inc., 1931, Page 54

<sup>13</sup> Nicholas Dima, “From Moldavia to Moldova,” Columbia University Press, New York, 1991, Page 11

<sup>14</sup> Ibid. Page 12

consequences for Moldova. In October 1808, at a secret convention at Erfurt with Russian Tzar Alexander II, France accepted the annexation by Russia of Finland, Moldova and Wallachia, promising help to obtain recognition of these annexations in negotiations with Great Britain.<sup>16</sup> For that, Russia would help France in the event of a Franco-Austrian war. Although by 1812, Napoleon changed his allies and priorities, the seeds of that treaty led to the disintegration of Moldova.

In autumn 1811, Russia and Turkey renewed peace negotiations after the Russians defeated the Turks at Ruschuk. The French envoy notified the Turks of their intention to march against Russia. They made it clear that should Turkey make any territorial concessions to Russia, France would occupy the ceded territories and would give them to Poland.<sup>17</sup> The Russians, being informed of Napoleon's plans of invasion, were seeking a quick peace with the Turks. Therefore, the Russians stopped the demand of both Danubian Principalities, stating that they would be satisfied with only Moldova.<sup>18</sup> The outcome of these negotiations was decided by the diplomatic skills, or better to say the lack of them, in the Turkish delegation. "It's a shame that the Russians, who own one-fourth of the earth, should bargain for the insignificant slice of territory included between the Siret and Prut Rivers, which is of no use of them" stated the Turkish delegate Ahmed in a passionate speech. This meant the ceding of all Danubian forts.<sup>19</sup> The Russians, who didn't expect so much from the Turks, were pleasantly surprised.<sup>20</sup> After Ahmed notified the Sultan about that, the Sultan advised him not to give up the mouths of the Danube with the forts Ismail and Chilia. The Russians, who were preparing for Napoleon, were ready to return

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<sup>15</sup> Andrei Lobanov-Rostowski "Russia and Europe, 1789-1825", Page 404

<sup>16</sup> Ibid. Page 182

<sup>17</sup> Popovici Andrei, "The Political Status of Bessarabia", Washington D.C., Ransdell Inc., 1931, Page 62

<sup>18</sup> Ibid. Page 63

<sup>19</sup> Ibid. Page 63

<sup>20</sup> Ibid. Page 64

everything to the Turks, but Kutussov made a desperate move by advancing to Bucharest, and the Turks signed the peace treaty. The Treaty of Bucharest confirmed all previous treaties concerning the status of the Romanians, but Bessarabia and the delta of the Danube River, were transferred to Russia.<sup>21</sup>

The protests by high dignitaries of Moldova weren't heard in Europe. At this time European countries were concerned with Napoleon's aggression. The way in which the Russians resolved the restriction of the Tilsit Treaty was characteristic for them. Article XXI of the Tilsit Treaty committed Russia to withdraw her troops from Moldova and Wallachia. The Russians made a diplomatic move by naming the region between the Prut and Dnester Rivers as Bessarabia. Since the Tilsit Treaty did not mention "Bessarabia" Russian troops could remain there.<sup>22</sup> Since that time, Russia has viewed the eastern part of Moldova as her integral part and every time Bessarabia has tried to decide its own destiny, it was perceived by the Russians as a violation of their legal patrimony.

The disintegration of the Moldovian Principality was illegal from all aspects. First, Turkey had no right to split and distribute Moldovian territory. Article 1 of the Bilateral Treaty recognized Moldova as a free and independent country. Article 5 stated that the frontiers of Moldova would be preserved intact in their entirety. Article 12 committed Turkey to protect and assist Moldova.<sup>23</sup> Moldova paid a regular tribute for three hundred years, but Turkey violated the treaty twice. The first time was when they gave Bukovina to Austria and the second time when they gave Bessarabia to Russia. Russia then violated the conditions of the Tilsit Treaty that committed her to withdraw all troops from the Danubian Principalities, by using a diplomatic trick.

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<sup>21</sup> Ibid. Page 407

<sup>22</sup> Nicholas Dima, "From Moldavia to Moldova," Columbia University Press, New York, 1991, Page 13

Forty-four years later, Russia was forced to give southern Bessarabia to Moldova as a requirement of the Paris Treaty. This treaty limited Russian access to the Black Sea and the Danube River after the Crimean war. The Congress of Berlin in 1878, however, gave these districts back to Russia.<sup>24</sup> Russia simply announced to Prussia and Germany about her intention to disregard the Paris Treaty. With the support of Whilhelm and Bismarck, Russia gained these territories back.

After 1812, Russia introduced such “innovations” like inauguration of a pure Russian system of administration, excluding the Romanian language from all public life in 1828,<sup>25</sup> and colonization of southern regions with other nations.<sup>26</sup> It’s not clear if that colonization was made purposefully, but in 1940, when the southern regions were given to Ukraine, the sole criteria was the smaller number of Moldovian people in relation to other nation’s people.

The Russian revolution of 1917 gave Bessarabia the chance to separate from Russia. On December 2, 1917 Bessarabia declared itself an autonomous republic, then on January 24, 1918 an independent country. On March 27, 1918, the Bessarabian Council voted to reunite the country with Romania.<sup>27</sup> At the Paris Peace Conference on March 9, 1920, the three great western powers consented to the reunion of Bessarabia with Romania.<sup>28</sup> Meanwhile the USSR created along the boundary with Romania, the Moldovian Autonomous Soviet Socialist Republic (MASSR), to induce Moldovians in eastern Romania to be incorporated in the USSR. It was formed in southwest Ukraine along the Dnester River and only 30% of the population were Romanians.<sup>29</sup>

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<sup>23</sup> Popovici Andrei, “The Political Status of Bessarabia”, Washington D.C., Ransdell Inc., 1931, Page 48

<sup>24</sup> Ibid. Page 70

<sup>25</sup> Ibid. Page 95

<sup>26</sup> Ibid. Page 88

<sup>27</sup> Nicholas Dima, “From Moldavia to Moldova,” Columbia University Press, New York, 1991, Page 17

<sup>28</sup> Ibid. Page 17

<sup>29</sup> Ibid. Page 23

The unification lasted until 1940 when Moldova became a subject of trade for other actors. At this time Hitler and Stalin decided the fate of Bessarabia. The German-Soviet pact of “non-aggression” signed in 1939 had a secret protocol that shared spheres of interests. Under this arrangement the Soviet sphere of interests was to include Finland, the Baltic States, the eastern part of Poland, as well as Bessarabia.<sup>30</sup> On June 27, 1940, the USSR “asked” Romania, by ultimatum, to evacuate troops from Bessarabia in four days. But, on June 28, the Red Army invaded the provinces two hours before Romanian troops were to begin withdrawal.<sup>31</sup>

An interesting aspect is the manner in which Romanian troops left Bessarabia. Of course it was impossible and very dangerous to oppose the USSR, but giving up the territory without any small opposition, looks like Romania renounced these territories. If Romanian troops rendered a little opposition to Russian troops, that would accentuate the forced seizure and would not appear as a benevolent cession. Later, in 1946, the Paris Peace Treaty fixed the new Soviet-Romanian boundary in accordance with the Soviet-Romanian “agreement” of June 1940. This “agreement” was, in effect, an ultimatum.<sup>32</sup>

Immediately after the invasion, the Soviets started to introduce administrative units. By Soviet accounts, the population of Bessarabia and northern Bukovina desired to create a socialist republic together, but in accordance with Kremlin instructions, northern Bukovina, as well as the Bessarabian districts of Hotin, Ackerman and Ismail were given to Ukraine.<sup>33</sup> From the MASSR, only a narrow strip of land along Dnester River was included in the new Moldovan Soviet Socialist Republic (MSSR). The rest was given back to Ukraine.

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<sup>30</sup> Ibid. Page 26

<sup>31</sup> Ibid. Page 28

<sup>32</sup> Ibid. Page 30

<sup>33</sup> Ibid. Page 32.

The results of these Stalin's territorial reforms, appeared in 1991 when the USSR was dissolved and the Republic of Moldova found itself without any access to the sea because the districts of Ackerman and Ismail were given to Ukraine. On the strip of land on the left bank of the Dnester River received from Ukraine, the pro-Russian population organized a communist phantom- republic, fighting for the reunion with Russia.

## **Part 3**

### **Political Aspects or Lessons Worthy to be Learned**

In 1991, Moldova became an independent state. Looking to the future, it is important to take into consideration the current situation, but more important is to look back at the lessons of history. Although the economic situation is very difficult now, past lessons show that joining either side doesn't promise a new prospective for Moldova. To unite again with Romania would mean to ignore historical experience and repeat again the mistakes that would bring the same results. The fact that Moldova was in the sphere of influence of Russia obliges it to now weigh every decision carefully. History shows that Russia has given up territories reluctantly. Chechnya is an actual example. The only exceptions of giving up territories in Russian history are Finland and Poland. The status of independent state and the support of western states perhaps saved Finland and Poland from total Russian occupation. Their independent status was a strong argument even for such an odious country as was the Soviet Union.

Recognition of Moldovian independence by the world community opened wide horizons but, at the same time, created big challenges. The main challenge for Moldova is to prove its viability. In earlier times, the main criterion of viability was the ability of the state to defend itself. Now, since the world has changed, the main factor is to survive economically. There are only two choices, to build up a viable economy, which would consolidate the state, or to be absorbed by other states. To respond to these challenges it is useful to review the lessons learned from history.

The first and main lesson is about the status of Bessarabia. Since 1812, when Bessarabia was torn from the Moldovian Principality, the status of disputed land made the situation unstable.

Because of this status, this territory shifted back and forth between Russia and Romania. To unite now with Romania would mean to confirm again the status of the disputed land, because Russia owned it for about 150 years and would not tolerate its loss in favor of Romania. It would be just a question of time, as it was in the past. The status of independent country shielded Finland, which also was “gratefully” granted to Russia by Napoleon together with the Danubian principalities in 1808 at Erfurt. Another example is Poland, whose territories were contested for years by two big countries, Russia and Germany. Its background, as an independent state, made the major states at the Potsdam Conference in 1945 regard Poland as an international subject, not as a disputed territory. The status of independent state didn’t save the Baltic countries from occupation, but provided that the western powers would always recognize the illegality of their occupation by Russia.

The second lesson is the status of Bessarabia as a peripheral province that didn’t allow its full multilateral development. From 1812 until the revolution of 1917, Russia viewed Bessarabia, as well as other peripheral provinces, only as sources of natural resources. Bessarabia was an agricultural province without a developed industry or road network. After Bessarabia reunited with Romania in 1918, it found itself in a similar situation. The continuous debates about the status of Bessarabia with Soviet Russia made the situation uncertain, and the industrial infrastructure wasn’t developed. In the period of unification from 1918 until 1940, the Bessarabian wide-track railroad wasn’t rebuilt to match the Romanian narrow-track railroads.

The postwar period didn’t change the situation too much. The Moldovian SSR continued to be a source of agricultural production for the USSR. Consisting of only 0.2% of Soviet territory, Moldova produced approximately 2.3% of all Soviet agricultural produce.<sup>34</sup> That was possible not only because of fertile soil but also by extensive exploitation of lands with pesticides and



herbicides, which poisoned soil and water for future generations. Though some industrial infrastructure was developed in postwar MSSR, it was concentrated primarily on the left bank of the Dnester River. The enterprises on the right bank were oriented to production of components for military complex enterprises in Russia and became useless when Moldova separated from the USSR. Two power plants were built on the left bank. Now, the Russian minority controlling the region threatened to cut off electricity to Moldova.<sup>35</sup>

The third lesson is about the major impact on the intellectuals of Bessarabia, which occurred each time when changes took place. The first impact occurred in 1940, when the Red Army occupied Bessarabia and the first wave of teachers, doctors, judges and other public employers, fearing the communist regime, left the country along with the Romanian army. In 1940, the Soviet “NKVD” continued the crippling of education, healthcare and other public systems. They exiled to Siberia the intellectual employers for “collaboration with Romanian bourgeois regime”. On the eve of war, the Soviets deported some 150,000 people from Bessarabia and Bukovina.<sup>36</sup> At the same time, the vacant places were filled with Slavic “specialists”. During 1940, over 13,000 specialists were assigned from Russia, Ukraine and Belorussia.<sup>37</sup> In 1944, when the Romanian Army withdrew, the intellectuals remembering the bitter experience of 1940, again left Bessarabia. The NKVD purges that followed in 1945-1947 completed the “job” when “the exploiting classes were deported to the remote parts of USSR for reeducation”.<sup>38</sup> These changes of “masters” always affect the intellectual portion of the nation and then it takes decades to restore it.

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<sup>34</sup> Nicholas Dima, “From Moldavia to Moldova,” Columbia University Press, New York, 1991, Page 2

<sup>35</sup> Ibid. Page 151

<sup>36</sup> Ibid. Page 44

<sup>37</sup> Ibid. Page 43

<sup>38</sup> Ibid. Page 45

Fourth is the lesson of “Bosnia and Herzegovina”. The intermingled population requires careful steps before taking important decisions. Of course, that doesn’t mean that smaller ethnic groups can dictate the state policy. But, it requires a balanced policy, when decisions affect the interests of an ethnic group. A course of uniting with Romania certainly would worsen the situation. The strong supporter, like Russia, could provide the escalation of conflict, providing war material and men to the secessionist elements, as they did in 1992. The same situation occurred in Bosnia when Bosnian Serbs, who were in the minority but were supported by the Serbian army, began to fight for the formation of a Serbian republic Krajina. That resulted in the destruction of the entire country. The experience of our own tragedy in 1992 provides the same lessons.

The roots of the 1992 conflict in Moldova derive of course from Moscow. But, the extremist declarations of right radicals caused deterioration of the situation and unintentionally played into the Moscow game. For the Russians, Moldova is “a key to Balkans”.<sup>39</sup> That requires from Moldova more careful steps in the way to democracy. One of the main justifications of the Russian reluctance to withdraw the 14<sup>th</sup> Army from the Transnistrian region, is fear by the Russian-speaking population of a possible unification with Romania. Any talk about unification would cause a further delay in the withdrawal of Russian troops and their weapons, enough to equip a 150,000 to 200,000-strong army.<sup>40</sup> That would tense the situation further in the region and stop foreign investment, thus curtailing economic development. The OSCE representative, General Roman Harmoza, confirmed this position on February 9, 2000. He declared that the recent initiative of the Moldovian National Liberal Party about the creation of an interstate union with Romania is interpreted in Transnistria as a first step to the unification of two states, and

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<sup>39</sup> European Security Magazine, Volume 8, Summer Number 2, 1999, Page 151

<sup>40</sup> Ibid. Page 156

turns up an essential obstacle in the process of negotiations.<sup>41</sup> Recently, the Russian Ministry of Foreign Affairs denounced their commitment to the 1999 OSCE summit in Istanbul about the withdrawal of Russian troops from Transnistrian region until 2002. The argument for this step in his words is the fact that “Duma”, the lower chamber of Russian Parliament, didn’t ratify previous agreements of the 1994 OSCE summit about withdrawal of their troops. The main reason for non-ratification is the unresolved conflict that is kept in such state by of some of the “Duma” deputies, due to their anti-Moldovian position.<sup>42</sup> This situation resembles that of the Kutchuk Cainardji treaty of 1774. The difference is that then the Russians justified their presence in the region as protection of Moldovian Christians from Turkish Muslims, but now for the protection of Russians from Moldovian Christians. As we have seen for two hundred years, Russians haven’t changed their policy of “protectionism” much.

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<sup>41</sup> “INFOTAG” Available from Internet “<http://ournet.md> – Moldovian Internet Resources”, Feb 9.2000

<sup>42</sup> Ibid. Jan 11.2000.

## **Part 4**

### **Economic Aspects and Experience of Other Countries**

#### **The Actual Situation and Causes that Slow Reforms**

The current situation for Moldova is twice as difficult as in Eastern European countries or Asia. This situation is caused by the fact that the transition to the market economy coincided with the separation from the whole USSR economy. The Moldovian economy was a part of that larger economy. An economy oriented to the satisfaction of country needs is necessary to be built from the fragments of the old economic system. The fragmented economy, lack of resources, and lack of experience, requires undertaking a state program in order to prioritize the most necessary economic sectors.

In this situation, as the experiences of South Korea and China show, the government's role is crucial in reforms. All steps in South Korean reforms were carefully waged and planned. When the expected results were not achieved, government introduced corrections in laws.

Moldova has liberalized foreign trade and investment by adopting legislation that treats foreign investors equal to domestic ones.<sup>43</sup> The "Law on Normative Land and Prices" gives all investors the right to lease or buy non-agricultural lands and plots through land auction.<sup>44</sup> Investment incentives also include a 50% tax break during the first five years for investors with invested capital of more than \$250,000. Despite new legislation about economic activity in Moldova that is favorable for investments, the reforms are not effective enough due to a number of objective and subjective factors. Objective factors include scarcity of resources, unresolved

Transnistrian conflict and the unfavorable climate for agriculture in 1984 and 1986. The first subjective factor is the reluctance of government in 1993-1996 to perform decisive privatization when the situation in the economy was more favorable because most enterprises worked. Although a lot of small and medium sized enterprises were privatized since 1993, privatization via tender is progressing slowly.<sup>45</sup> The second factor is the unsatisfactory performance of adopted economic laws. Although actual legislation provides equality to foreign and domestic investors, the program of 1997-1998 included privatization with 25% paid up front and the rest in quarterly payments for domestic investors, but from foreign investors, was required the total payment on the spot. In addition, 28 enterprises are to be privatized in accordance with parliament approved individual projects.<sup>46</sup> The third factor includes increased budget deficit, subsidizing of a number of consumer goods, and big foreign loans that are used for current consumption rather than invested in development of the productive sphere.

Because the economical reforms weren't conducted decisively, gradual and indecisive steps taken by government didn't give a positive effect, as in Poland, where all steps were made concurrently and results were seen in a short time. A mistake was made when existing big state enterprises weren't included in the first round of privatization. Then these enterprises were operating and worth more. Now when more of them are bankrupt, they are not as attractive to foreign investors. Such electronic giants like "MEZON" and "ALFA", refrigerator and tractor factories were producing and had skilled workers back in 1994. Now, when these enterprises are on standby, they can't attract investors and are worth significantly less. The figures in Table 1 show how two enterprises that are important for the Moldovian economy gradually declined.

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<sup>43</sup> Country Review 1999/2000, Page 52, Available from the Internet on <http://www.Country Wach.com>, Jan 6.2000

<sup>44</sup> Ibid. Page 53

<sup>45</sup> Ibid. Page 52

<sup>46</sup> Ibid. Page 52

**Table 1 Production of Refrigerators and TV sets in 1993 - 1996**

<b>Year</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>
<b>Refrigerators (Th units)</b>	58	53	24.1	1.2
<b>Televisions (Th units)</b>	167	106	42.6	14.4

Source: Russia & Eurasia Facts and Figures Annual p.403

In Poland, for example, this process was reversed. The Law of Privatization from 1990 authorized the identification of state firms of vital importance for the Polish economy and their privatization first.<sup>47</sup> The same policy of privatization was recommend for Moldova by the International Monetary Fund (IMF). The main conditions by the IMF for continuation of collaboration with Moldova in 2000<sup>th</sup> year, are the developments of an efficient budget, privatization of some strategic enterprises like “Moldtelecom”, those from the energy sector, and those from wine and tobacco processing industries.<sup>48</sup> As we see, Poland privatized the strategic enterprises to increase production thus resulting in benefits that provide privatization and foreign investments.

Although in Moldova steps were taken slowly to avoid shock, that didn't save the people from the shock that arrived, and is longer because the reforms didn't give the desired result. The situation of dependence on the energy resources, raw materials and the lost market in the East requires important reforms, which would give results in the short term. The amount of external debt from 1993 to 1997 in Table 2 shows that Moldova borrowed an average every year of some \$200 million. Basically, these are debts for imported energy resources that Moldova lacks. These debts grew constantly through 1999. Then the debt curve went up drastically. That is caused by

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<sup>47</sup> Raphael Shen “The Polish Economy”, New York, Westport, Connecticut, London, Page 151

the fact that in 1999-2000 Moldova will have to spend 25% of its budget to repay the interest on loans that were taken earlier.<sup>49</sup> That situation is a result of mistaken, prolonged and indecisive reforms.

**Table 2 External Debts Position**

<b>Year</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
<b>External Debts (\$ US Millions)</b>	\$278	\$499	\$681	\$844	\$1,040

Source: Country Review 1999/2000 Country Watch.com

The situation is worsened by two other factors, which affect the Moldovian trade with other countries. First the Transnistrian regime controls all bridges on the Dnester River and is a serious obstacle for the transit to the eastern countries. Second, Ukraine applies country of destination rules to tariffs and excise duties, and imposes a tax on goods in transit due to concerns that these goods will be illegally sold in the Ukraine.<sup>50</sup> These duties make Moldovian goods expensive in Commonwealth countries and cause problems for exports. In addition, the gas and fuel imported from Russia and Commonwealth countries also have duties imposed that make them more expensive. The production of most electricity in the Transnistrian region and transport of all imported gas through it worsens the situation. That factor made the situation with debts for energy even more confused.

### **The Trade Imbalance and the Danger of Economic Dependence**

Our short experience of independence shows that it's important to have a balanced ratio of trade with other countries. First, a big ratio of trade with countries with unstable economies

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<sup>48</sup> "INFOTAG" Available from Internet "<http://ournet.md> – Moldovian Internet Resources", Jan 11.2000.

<sup>49</sup> Russia and Eurasia Facts and & Figures Annual, Page 401

makes the Moldovian economy dependent on the economic situation of these other countries. Any crisis in a big country can significantly affect the economic situation of a smaller country. Thus, in 1998, the economic trouble of Russia, with whom Moldova conducts 55% of its trade, was a major cause of the 8.6% drop in the Moldovian GDP.<sup>51</sup> The Russian financial default of 1998 had a relatively small impact on their huge economy but a really disastrous effect for Moldova, which had signs of stopping its economic decline by that time. In 1999, the Moldovian GDP dropped by 5% and inflation increased to 40%. According to the Vice Premier Minister Slopac, the main cause of this situation was the economic crisis in Russia and the consequences that the latest problem had on our economy due to the preponderant orientation of exports toward the eastern markets.<sup>52</sup> The figures in Table 3 show the tendency of Moldovian trade with Russia in the period 1993-1997. Although imports decreased during this time, the exports increased, keeping the trade ratio excessive.

**Table 3 Moldovian Trade Ratio with Russia**

<b>Year</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
<b>Imports</b>					
<b>in % of Total Trade</b>	35	47	33	27	29
<b>Exports</b>					
<b>in % of Total Trade</b>	36	51	48	54	62

Source: Country Review, Country Watch.com.

Second, an unbalanced ratio of trade and the growing debts to Russia, undermine the independence of Moldova. The more debts that a country has, the more questionable is its

<sup>50</sup> Ibid. Page 378

<sup>51</sup> CIA, The World Fact Book 1999 – Moldova, Available on the Internet Dec 24 1999



independence. Political independence means very little, when economic dependence continuously grows. Baltic countries resolved this problem by balancing trade with Russia. The import and export ratio of Estonia with Russia consists of 13.5% and 16.4%, respectively, of total trade.<sup>53</sup> The Lithuanian ratio of trade with Russia consists of 24% of export and 25.5% of import.<sup>54</sup> The Latvian ratio of trade with Russia is 25%.<sup>55</sup>

One of the main reasons for such a big ratio in trade with Russia is the lack of Moldovian energy resources and the preponderant agricultural production of the Moldovian economy. Agricultural production is not required in neighboring countries, but is demanded on the Russian market. This mutually advantageous trade, at first look, disfigures the market economy to which Moldova is proceeding. First, it discourages the consumers to seek other energy resources and the furnishers to seek other markets for agricultural production. Second, it makes the small Moldovian economy dependent on huge Russian energy corporations. These corporations dictate conditions and prices in opportune moments. Third, taking into consideration the continuous growth of energy resources prices, coupled with artificial increases, and the decreasing prices in agricultural production, coupled with its dependence each year on meteorological conditions, make this trade resemble blackmail. Finally, energy debts constitute the main portion of all debts and that makes Moldova more and more dependent on Russia. The growing economic dependence on Russia can make Russians increase political demands, such as maintenance of their troops in Moldova or dictating political course.

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<sup>52</sup> "INFOTAG" Available from Internet "<http://ournet.md> – Moldovian Internet Resources", Jan 12.2000.

<sup>53</sup> The Statesman Yearbook 1998-99, St. Martin's Press, Page 518

<sup>54</sup> Ibid. Page 911

<sup>55</sup> Ibid. Page 883

## **The Problems in Agriculture and Experience of Other Countries**

The reforms in the agricultural sector didn't bring the desired result because they were protracted. That fact was recognized recently by the executive director of the Agency for Reorganization of Agriculture.<sup>56</sup> Unlike Poland, who performed quick, coherent reforms, and China and South Korea, who did gradual, coherent reforms, Moldova started gradual reforms without a concrete program. That made the situation similar to that of Bulgaria, Romania and Russia, which made painful, incoherent reforms. The miracle in the success of Poland, China and South Korea was in the coherence of reforms.<sup>57</sup>

One necessary step in economic policy should be the determination of priorities in the agricultural sector. Privatization in the agricultural sector leads to the situation where many farmers produce the same crops, making the local market overloaded and causing devaluation of their products. For example, wheat, corn and sunflower seeds are the most widespread products cultivated by farmers after privatization, though the production of tobacco and sugar beets is much more profitable due to their deficiency in neighboring countries and higher prices. Taking into consideration the limited access to information about demands and prices on agricultural products on international markets, a governmental program is necessary to provide information to the farmers to encourage and facilitate their entrance into the international market. Poland encountered the same problem during reforms. In "Polish Economy", Raphael Shen emphasizes the importance of timely market information that would help Polish farmers keep abreast of domestic and foreign demands and information regarding production supply and their prices.<sup>58</sup> China's approach in agriculture was different from the Polish approach. It started as a dual-track

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<sup>56</sup> "INFOTAG" Available from Internet "<http://ournet.md> – Moldovian Internet Resources", Jan 6.2000.

<sup>57</sup> Kazimierz Z. Poznanski "Poland's Protracted Transition", Cambridge University Press, Page 197

<sup>58</sup> Raphael Shen "The Polish Economy", New York, Westport, Connecticut, London, Page 168

approach, distributing land and liberalizing the agricultural sector in 1978 and then the industry in 1984. State procurement prices for agricultural products were raised and free markets were allowed. The gradual transition from a planned state production that was 90% in 1978 and 5% in 1993 to market production allowed the gradual convergence of state-controlled prices (5.6% in 1978) and market prices (82.7% in 1993).<sup>59</sup> That allowed a non-shock transition from state to market prices on food.

For Moldova, which already began protracted shock liberalization, it is too late to follow the Chinese model, but such action like a fair raising of procurement prices on agricultural products would ease the farmer's burden with surpluses. Low state procurement prices make farmers reluctant to sell their production. Internal markets overfilled with agricultural production decrease market prices and make the agricultural sector very unprofitable. This is because of "non-internal" prices on fuel and parts for machines required for production. In addition, farmers cannot export to external markets due to small quantities of surpluses. Thus, a fair state procurement program of farmer's surpluses would release the brakes in agricultural reforms.

### **The Role of Protection of Internal Market in Initial Phase**

Facilitating the export of local furnishers on international markets, the government should coordinate the accessibility of imported goods to the local market. The flooding of the market with cheap and low-quality goods damages the production of local goods. The lack of protection on local products makes possible such a paradox as the delivery of food products from Poland when the agricultural sector is the main product of the Moldovian economy, and local furnishers cannot realize production. The flood of cheap and low quality textiles from Turkey makes the

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<sup>59</sup> Wing Thye Woo, Stephen Parker, Jeffrey D. Sachs, "Economies in Transition", The MIT Press, Cambridge Massachusetts, London England, Page 20

local factories reduce production and that has a dual impact, affecting workers and the flow of taxes into the budget. Moldovian textile enterprises constituted a large part of light industry of MSSR and now most of them are idle or operate at minimum capacity. It is not excessive to say that textiles are one of the few goods on which Moldova has no restrictions for export on the European Union market.

South Korea and China resolved this problem by encouraging the import of production machinery but protecting internal markets from imported consumer goods that could be produced locally. Thus, South Korea had a long period of export promotion and import protection during the 1970<sup>s</sup>. That was followed by trade liberalization in the 1980. China started reforms by first promoting exports and direct foreign investments. Imports were liberalized later.<sup>60</sup>

### **The Role of Foreign Investments in Success of Reforms**

When following the way to real independence, it is useful to study the experience of other countries. The closest country, and representing one of the best examples of rising from the crisis, is Poland. One of the secrets of that miracle is the liberalization of property for foreign investments. Since Jan. 1989, foreign investors may own 100% of companies on Polish soil.<sup>61</sup> The Law of 1991, about new foreign investments, eliminated most licensing and allowed the free repatriation of profits and invested capital, thus eliminating the main barriers. More than half of capital privatization projects was executed with the use of foreign capital.<sup>62</sup> By 1993 there were 11, 473 joint ventures. Now most of the privatized enterprises through foreign equity investment show very good economic performance, and in many of them an in-depth restructuring process

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<sup>60</sup> Ibid. Page 232

<sup>61</sup> The Statesman Yearbook 1998-99, St. Martin's Press, Page 1135

<sup>62</sup> Wing Thye Woo, Stephen Parker, Jeffrey D. Sachs, "Economies in Transition", The MIT Press, Cambridge Massachusetts, London England, Page 147

has been launched.<sup>63</sup> The figures in Table 4 show the proportionality of growth of foreign investments and real GDP in Poland in 1990-1995.

**Table 4 Polish GDP and Foreign Investments in 1990-1995**

<b>Year</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>
<b>Foreign Investment</b> <b>(In \$ US millions)</b>	\$10	\$117	\$284	\$580	\$542	\$1,134
<b>Real GDP</b> <b>(In % to previous year)</b>	88.4%	92.4%	102.6%	103.8%	105.2%	107%

Source: Wing Thue Whoo, Stephen Parker, Jeffrey Sachs, *Economies in Transition*, The MIT PRESS Cambridge Massachusetts, London England 1997 p.143.

Unfortunately, the privatization in Moldova didn't involve much foreign capital. In addition to contributing capital and new technology, foreign investors contribute experience in a market economy. While newly privatized Moldovian enterprises inherited the debts from the previous years of instability and the lost markets for their production in the East, Poland opened up the world market. Many of the Polish banks were privatized in a similar way. For example, the European Bank for Reconstruction and Development has 28.5% of investments in Wielkopolski Bank Kredytowy and the Dutch bank ING has 25% invested in Bank Slaski.<sup>64</sup> The capital of foreign investors in banks increases not only their effectiveness, but also credibility. The people would trust such banks, because the banks would not bankrupt suddenly which is a method characteristic of developing countries. Foreign investments and consistent reform policy

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<sup>63</sup> Ibid. Page 147

<sup>64</sup> Ibid. Page 155

provided quick results in Poland. Inflation has dropped from 249% in 1990 to 14.5% in 1997.<sup>65</sup> That made the privatization shock short and effective.

Today's availability of foreign capital for investments is an important asset for developing countries. Poland showed that the creation of suitable conditions and legal basis makes the country attractive to investors. That also made possible the introduction of new technologies and facilitated access to international markets. As Barry Hughes noted, technology is less expensive and less time-consuming to adapt than to develop. The rapid rise of the Japanese economy came during a period when Japan was a technology importer and adapter, not an innovator.<sup>66</sup>

### **The Role of Monetary, Budgetary and Fiscal Policies**

The success of Polish reforms determined the simultaneous steps needed for stabilization on the macroeconomic level. The program included restrictive monetary policy, elimination of the budget deficit, liberalization of prices, convertibility of national currency and restrictive income policy.<sup>67</sup> All these steps were made in the Moldovian economy as well, but with an interval of two or more years. Thus, Moldova began to provide a strict monetary policy with the introduction of a national currency in 1993. At the same time, prices were liberalized. But, other steps weren't performed. First, Poland introduced strict penalties for wage increases in the state sector simultaneously with other steps, while in Moldova the restrictive income policy was introduced only in 1998 when its crisis has worsened. The figures of the monthly average growth of wages by sector show the non-adequate finance policy provided by the government in 1994-1995 when reforms started. The wages in the national economy were increased by 35%. In such

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<sup>65</sup> The Statesman Yearbook 1998-99, St. Martin's Press, Page 1133

<sup>66</sup> Barry B. Hughes, "Continuity and Change in World Politics", Third Edition, Page 384

<sup>67</sup> Wing Thye Woo, Stephen Parker, Jeffrey D. Sachs, "Economies in Transition", The MIT Press, Cambridge Massachusetts, London England, Page 138

spheres as banking, finance, credit and insurance they were increased by 64%.<sup>68</sup> That was done in conditions of 1995 when the annual growth of consumer prices was only 12.1%, the annual growth of the exchange rate of national currency to US dollar was 5.3%, and reforms required strict budget.<sup>69</sup> Second, the elimination of the budget deficit wasn't performed at all and every year the budget was adopted with a deficit. By the end of year the expenditures were much more than were planned. The budget deficit figures in Tables 5 and 6 show how two countries in similar difficult situations, respected the reform requirements in the initial decisive period of reforms.

**Table 5 Polish Budget Deficit in Years of Transition**

<b>Year</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>
<b>Budget Deficit</b>	-6.7%	-2.3%	-2.2%	-2.6%

Source: Wing Thue Whoo, Stephen Parker, Jeffrey Sachs, *Economies in Transition*, The MIT PRESS Cambridge Massachusetts, London England 1997 p.140.

**Table 6 Moldovian Budget Deficit in Years of Transition**

<b>Year</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
<b>Budget Deficit</b>	-5.9%	-5.9%	-10%	-7%

Source: *Russia and Eurasia Facts & Figures Annual*, p.378

The IMF emphasized several times the slow pace of reforms in Moldova. Thus in 1997, the IMF postponed from June until July the release of \$21 million from a three year loan, due to the

<sup>68</sup> *Russia and Eurasia Facts and & Figures Annual*, Page 375

<sup>69</sup> *Country Review 1999/2000*, Page 28, Available from the Internet on <http://www.Country Wach.com>, Jan 6.2000

slow pace of privatization. In November, the IMF release was delayed until early 1998 due to suspension of energy prices and the growing budget deficit.<sup>70</sup>

The importance of maintaining a strict budgetary policy when the situation is critical demonstrates also the experience of the South Korean reforms. In 1980, due to the increase of oil prices, the economic system in South Korea began to deteriorate. South Korea had a negative economic growth rate and the wholesale price index increased by almost 40%.<sup>71</sup> The South Korean government reduced their deficit by cutting expenditures, not by increasing taxes. The tax rate remained stable during the 1982-1986 period at about 19% but the ratio of the budget deficit was reduced from the 4-5% in the 1980-1982 period to 1.6% by 1983 and to 1% by 1985.<sup>72</sup>

An important issue in the success of Polish reforms was the drastic fiscal policy in 1991. The improvement in tax collections, which was the main source of budget revenue, including the value-added tax, contributed to the economic recovery.<sup>73</sup> Tax collection, which is one of the main reform problems in Moldova, played an essential role in South Korean reforms. To overcome a lack of compliance, corruption and inert administration, which are characteristic of many developing countries, South Korea adopted a new law. To encourage voluntary taxpayer compliance, the new law allowed a tax reduction for voluntary filing of tax returns. The law relinquished all existing claims to penalties for past tax delinquencies, but pledged more drastic measures with future delinquencies.<sup>74</sup> A similar law in Moldova would relieve the situation with the tax nonpayment. The big tax indebtedness for the previous years of some economic agents

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<sup>70</sup> Russia and Eurasia Facts and & Figures Annual, Page 379

<sup>71</sup> Lee-Jay Cho and Yoon Hyung Kim, "Korea's Political Economy", Westview Press Boulder, San Francisco Oxford, Page 194

<sup>72</sup> Ibid. Page 195

<sup>73</sup> Wing Thye Woo, Stephen Parker, Jeffrey D. Sachs, "Economies in Transition", The MIT Press, Cambridge Massachusetts, London England, Page 142



put them in a desperate situation, which doesn't give them any hope of coming out of the crisis soon.

An important influence on the development of South Korean industrial enterprises was taxes. The 1967 tax reform introduced discriminatory rates between family-corporations and open corporations. Family corporations had to pay 5-10% higher taxes than open corporations.<sup>75</sup> The purpose was to induce the transformation of family-type enterprises into widely held open corporations. Another important role the law provided was to stimulate investment in development of enterprises. It allowed 50% tax reduction on profits retained for reinvestment in plant and equipment.<sup>76</sup> Later this Law was changed, since it became one of the main sources of tax evasion, but it played its role at the beginning of industrialization.

Thanks to a stable monetary policy provided by the Central National Bank, the national currency was relatively stable the last few years even though the economic situation worked against that. The problems with tax collections and lack of a strict budgetary policy, are the primary tasks to be solved for Moldova. For example, in 1999 budget revenues increased by 2.9% in comparison to previous year, while the expenditures increased by 10.5%.<sup>77</sup> That shows the lack of the consequence in budgetary policy. As we have seen from Polish and South Korean examples, the government can resolve these tasks by not interfering in the market economy but rather spurring it by providing a consistent policy. Resolving these two tasks, the government would need less foreign loans, which would ease the external debt situation.

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<sup>74</sup> Lee-Jay Cho and Yoon Hyung Kim, "Korea's Political Economy", Westview Press Boulder, San Francisco Oxford, Page 186

<sup>75</sup> Ibid. Page 188

<sup>76</sup> Ibid. Page 188

<sup>77</sup> "INFOTAG" Available from Internet "<http://ournet.md> – Moldovian Internet Resources", Jan 12.2000.

## **The Creation of an Industry Working for Export-The Strategic Aim**

It's clear that the export of agricultural products that prevails in Moldova now is not enough to cover the purchase of energy resources and raw materials. That requires a radical change in the ratio of agricultural production in favor of industrial production. Most of the newly industrialized countries reached high development by creating industry capable of producing competitive goods for export, though all of them started with liberalization in agriculture. Taking into consideration that agriculture alone can't save the situation because of energy imports, industry targeted on exports must be built. Goods that are produced should be enough to satisfy internal needs, and a large part of them should be exported in order to cover the procurement of energy resources and raw materials. These goods must be qualitative and cheap enough to be competitive on the international market.

The newly industrialized countries in South Asia approached the problem similarly in resolving that task. The policy of China and South Korea in promoting rapid industrialization included special tax incentives to local and foreign investors, especially for production of exportable goods. Their policy includes duty-free imports of raw materials and the machinery necessary for production of competitive export products, as well as income policies designed to keep wages low. These actions help maintain a hospitable environment for direct foreign investment.<sup>78</sup> The scarcity of energy resources, raw materials, and cheap qualified labor forces in Moldova, is similar to the situation of these countries, therefore, some aspects of their experience would be useful for Moldova.

The best way to begin the process of industrialization is to modernize existing light industry, namely the processing of foodstuffs. The availability of our own material and a network of

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<sup>78</sup> Barry B. Hughes, "Continuity and Change in World Politics", Third Edition, Page 388

enterprises simplify this task. To increase the quality of production to be competitive on the market, it is necessary to reconstruct the technological production lines. New technology, replacing the high-energy consuming equipment, will make production cheaper. The participation of foreign investors is again desirable, as they would facilitate access to world markets.

One of the main tasks should be the modernization of the tobacco and wine industries. These are the main assets of Moldovian light industry that didn't decline and can still provide revenue. At the end of the 1980<sup>'s</sup>, Moldova produced over 110,000 tons of tobacco. This provided 35-40% of the necessary material for tobacco factories in the former USSR. In 1999, Moldova sold 500 tons of tobacco to the "British American Tobacco" company.<sup>79</sup> Taking into consideration the fact that it is more profitable to sell finished products than raw material, technological modernization of the tobacco factory and access to the world market must be the main concerns.

The next sectors of industry able to provide quick results are the textile and tannery industries. These sectors are the easiest to boost, but the strategic target must be the restoration and modernization of electronic giants. The electronics industry is the most favorable to develop for Moldova because of its energy and resources saving.

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<sup>79</sup> "INFOTAG" Available from Internet "<http://ournet.md> – Moldovian Internet Resources", Dec 24.1999.

## **Part 5**

### **Recommendations**

1. Taking into consideration the historical lessons learned about the status of a disputed peripheral province and the impact on territory and population, Moldova has to use this opportunity and consolidate its independence. The main step in this direction should be the continuation of the firm policy toward withdrawal of Russian troops from the Transnistrian region. Keeping in mind that since the poor diplomatic skills of Turkish diplomats during the Bucharest Treaty of 1812 led to the loss of Bessarabia, the policy in relations with Russia must be promoted very carefully, relying on OSCE and other international organizations.

2. In order to reduce the economic dependence on other states, it is necessary to shape a national economy, which would satisfy internal demands. The first step should be to work out a state program. This program should specify some sectors as first priority in agriculture and industry. These should be those sectors, which would bring the most benefit to the country. Government should promote a strict, deliberate policy of the distribution and expenditure of foreign loans. It is necessary to build a modern economical power plant to satisfy the internal demands with cheaper energy. The construction of the port-terminal on the Danube River that will allow buying fuel products from the Middle East region and facilitate access to external markets should be expedited.

3. In order to boost the national economy it is necessary to attract foreign investments into the national economy. To facilitate this process, it is necessary to give priority to foreign investors until the economy is restored. The government should eliminate all possible factors that impede or discourage foreign investment. A coherent state policy toward the restoration and

modernization of the light industry should be promoted. This should begin with the modernization of food processing enterprises and textiles and continue with the development of an electronics industry.

4. In order to boost local production, temporary protection of internal markets is necessary. This can be done by increasing taxes on imported products of current consumption while decreasing those on imports of machinery and technology. The Department of Agriculture should organize an informational program of market demands and prices in order to assist the farmers in selling their products. To support farmers, it is necessary to create special funds that would give them financial credits.

5. In order to expedite reforms and shorten the shock period it is necessary to maintain a strict monetary, fiscal and budgetary policy. The main efforts should be directed to decreasing budget expenditures and improving tax collections.

## **Part 6**

### **Conclusions**

Past experience shows that history very seldom gives chances and to miss this opportunity is very costly. Bessarabia was torn from Moldova in 1812 as a result of Russian imperial expansion and the lack of diplomatic skills and irresponsibility of the Turkish Empire. This event led to more than a hundred years of Russian occupation. The Moldovian people could not do anything to decide their own destiny. In 1918, Moldova misused its chance to determine its own destiny, acting from emotional instinct rather than from a rational decision. Nevertheless this is a lesson that shows such a step is a dead end. To now join Romania would mean to repeat the same mistake again, because all disputed territories are sources of instability and unrest. In 1918 the chance wasn't realistic because Europe was engaged in WW-I. Now, when world democracies are willing to help us, we simply are obliged to accept the opportunity and consolidate our statehood.

During that time, Moldova was chopped into pieces and its territory was distributed to other nations without the people having an opportunity to object. The region was always undeveloped because it was viewed as a source of resources or a disputed territory. The intellectual portion of the population was forced to flee abroad while the remaining part was exiled and repressed. The territory was artificially colonized with other ethnic groups and a part of the local population was removed to Siberia and Kazakhstan. All these events strengthened the argument for the consolidation of statehood in order to preserve population and territory.

The economic situation has offered a lot of lessons for these past eight years of independence. Beside the objective factors such as scarcity of resources and lack of experience,

many causes of economic decline are subjective in character. Protracted reforms and maintenance of major economic relations with the East, whose economy is depressed, couldn't stop the economic decline, which appeared to stop by 1998. Russian payment default of August 1998 gave the next push and the decline continued. Analyzing our failures and the experiences of countries that were in a similar situation, but successfully boosted their economy, we can conclude the basic solutions. All three countries, Poland, South Korea and China, that we analyzed, had concrete programs and the state played the main role in reforms. The state established the laws and priorities that were the basis for successful reforms. In South Korea and China the timeframe of reforms were longer than in Poland. There were some similarities however in all three countries. All three reforms were well calculated and coherent, and all steps strictly respected, while the state stood out as the main reformer and coordinator. The role of the state is not as important during the day-to-day operation of a market economy as during the transition period. The primary reform factors were foreign investment and new technology. The state stood out as the main facilitator for their implementation. The last important factor in reforms is the will of the state in maintaining strict monetary, fiscal and budgetary policies.

The main conclusion of this paper is that Moldova has the chance to consolidate its independence and must use it. Despite the fact that the internal economic situation is very difficult, there is a very favorable external situation in the willingness of democratic countries to help Moldova integrate into the world community. Key reform factors are the meticulous analysis of the actual economic situation, developing a concrete program for a well defined period of time, strict maintenance of reform's laws and policies, and the will to stand firmly during this transition period.

## Glossary

Alfa	The newly built TV factory in Chisinau
Dnester	River in eastern part of Moldova
Mezon	The biggest electronic enterprise in Moldova
MSSR	Moldavian Soviet Socialist Republic
NKVD	The Commissariat of Internal Affairs (from 1930 <sup>th</sup> –until 1950 <sup>th</sup> conducted mass purges in former USSR)
Prut	River on western border of Moldova
Podolya	A region in western Ukraine
Siret	River on western part of medieval state Moldova
Transnistrian Region	Territory on eastern bank of Dnester river.
Transnistrian Conflict	In 1991 the non-Romanian population on the left bank declared an autonomous secessionist republic and in 1992 initiated an conflict which ended in the summer 1992 but the resolution is still not reached basically because of support of Russian “Duma” and the staying there of 14 <sup>th</sup> Russian Army.
Volhinya	A region in western Ukraine



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