

President Dodon's visit to Brussels – Contemplating economic suicide

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The newly elected President of Moldova, Igor Dodon, makes his first visit Brussels on February 7th, following his first visit to Moscow in January, where he announced his wish to repeal his country's Association Agreement with the EU and to join the Eurasian Economic Union instead. While this cannot happen until and unless the parliamentary elections in 2018 return a parliamentary majority supporting his Socialist party, his statement has already inflicted damage by creating strategic uncertainty over Moldova's European orientation. Dodon's argument seems to ignore the huge restructuring of Moldovan trade towards Europe and away from Russia that has taken place over the last decade. To try to set the clock back would be a disastrous move – effectively committing economic suicide for Moldova.

Next week on February 7th, President Igor Dodon of Moldova is expected to arrive in Brussels for his first meeting with the European Union since his election in November 2016.

Dodon's political agenda is overtly 'pro-Russian' and is set against the Association Agreement with the EU that has been fully in force since July 2016. This agreement contains a Deep and Comprehensive Free Trade Area (DCFTA), which gives Moldova full access to the EU market for virtually all products, while Moldova can take up to ten years to reciprocate by eliminating its tariffs on imports from the EU.

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Dodon's first trip to Moscow

President Dodon made his first foreign visit to Moscow on January 16-17th, holding talks with President Putin and other leading Russian officials. At his press conference with President Putin, Dodon said that the Association Agreement “has done Moldova no good” and that he would back its repeal and initiate active cooperation with the Eurasian Economic Union instead. At the press conference following the meeting on January 17th Dodon declared:

We are pragmatists and we understand that there is an association agreement with the European Union. By the way, I have repeatedly come out against signing the agreement. I believe that the agreement has done Moldova no good. We have lost the Russian market and, strangely enough, our exports to the EU have also fallen. In other words, we have received nothing from signing the agreement. And I cannot rule out that after the next parliamentary election, this will be the position of the parliamentary majority and I will support that position. There is the Socialist Party and I hope they will get a parliamentary majority and the agreement will be repealed.

Regarding cooperation with the Eurasian Economic Union, it is very important. Mr Putin has spoken about this. In the morning I had a meeting with the leadership of the Eurasian Economic Commission. Today I put forward an initiative to sign a framework memorandum on cooperation with the EAEU. We agreed to begin consultations within the next few weeks and sign this memorandum in the next few months. It is not at odds with the agreements that Moldova has signed at this point with other partners, but it is the first step toward rapprochement.

I asked Mr Putin to consider the possibility of Moldova getting observer status in the Eurasian Economic Commission. I believe this is a good step for us to see what needs to be done and how, as well as to gather information from both sides.¹

For the time being, however, Dodon does not have the power to follow through with this ambitious agenda, since his constitutional competences as president are weak, and the parliamentary majority and government are dominated by parties with a pro-European agenda that do not agree with him. However, new parliamentary elections will be held no later than 2018, when Dodon eyes winning a parliamentary majority, and thereby acquiring the necessary support to pursue his objectives.

¹ See <http://en.kremlin.ru/events/president/news/53744>

Moldova's trade structures have changed radically towards Europe

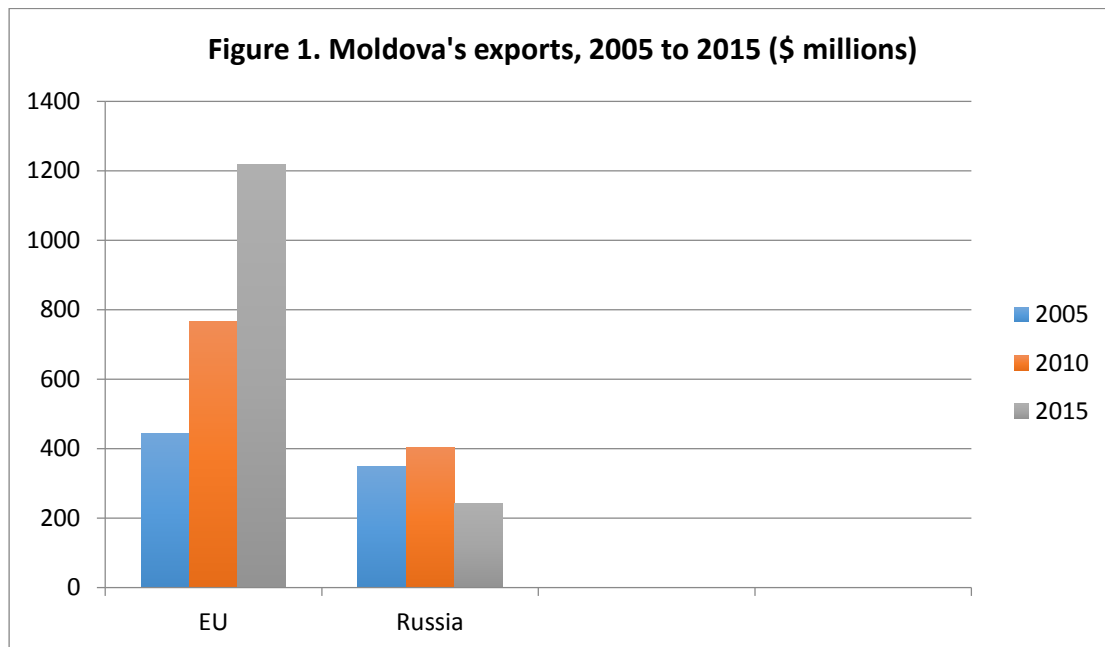
For his visit to Brussels it is first of all pertinent to get the facts straight. Over the last decade Moldova's trade structure has massively changed in the direction of the EU and away from Russia. The primary facts are as follows (see also Figure 1):

- Moldovan exports to the EU rose from \$444 million in 2005 to \$1,218 in 2015, thus an increase of 274%.
- Over the same period its exports to Russia declined from \$347 million to \$241 million, thus a decrease of 30%.

Also in the shorter-run alongside the negotiation, signing and entry into force of the Association Agreement with the EU, the story is the same:

- Moldovan exports to the EU rose from \$1,103 million in 2012 to \$1,218 million in 2015, an increase of 11%, while exports to Russia declined.

Even if Russia ended its sanctions against Moldovan exports, and these returned from \$241 in 2015 to their 2010 level of \$404 million, they still would not amount to more than one-third of the Moldova's current level of exports to the EU (Figure 1).



A similar and indeed spectacular picture emerges for the Transnistrian region, which has also increased the share of its exports going to the EU from 20% in 2005 to around 66% in 2015-16, while exports to Russia fell drastically from 40% in 2005 to 8% in 2014. This shows that even the Russian-controlled breakaway region

has had to move radically towards the EU market, which President Dodon fully ignored during his visit to Moscow.

The reasons for this are clear. The EU has been liberalising imports from Moldova already for some years since 2006 (with the General System of Preferences - GSP, GSP+), and more actively after 2008 (Autonomous Trade Preferences), before signing the Association Agreement.

Russia's punitive sanctions against Moldova

Meanwhile Russia chose to do the opposite and to sanction imports from Moldova with politically manipulated technical standards, especially health standards for agricultural products (of both vegetable and animal origin).

Moscow's political choice was that Moldova should be severely punished because it was cooperating more closely with the EU. In particular, in September 2013, Russia banned the import of Moldovan wines; in July 2014 it banned the import of fresh fruit and vegetables; and in August 2014, it introduced import duties on 19 categories of products (contrary to the obligations under the CIS free trade agreement, which both countries ratified).²

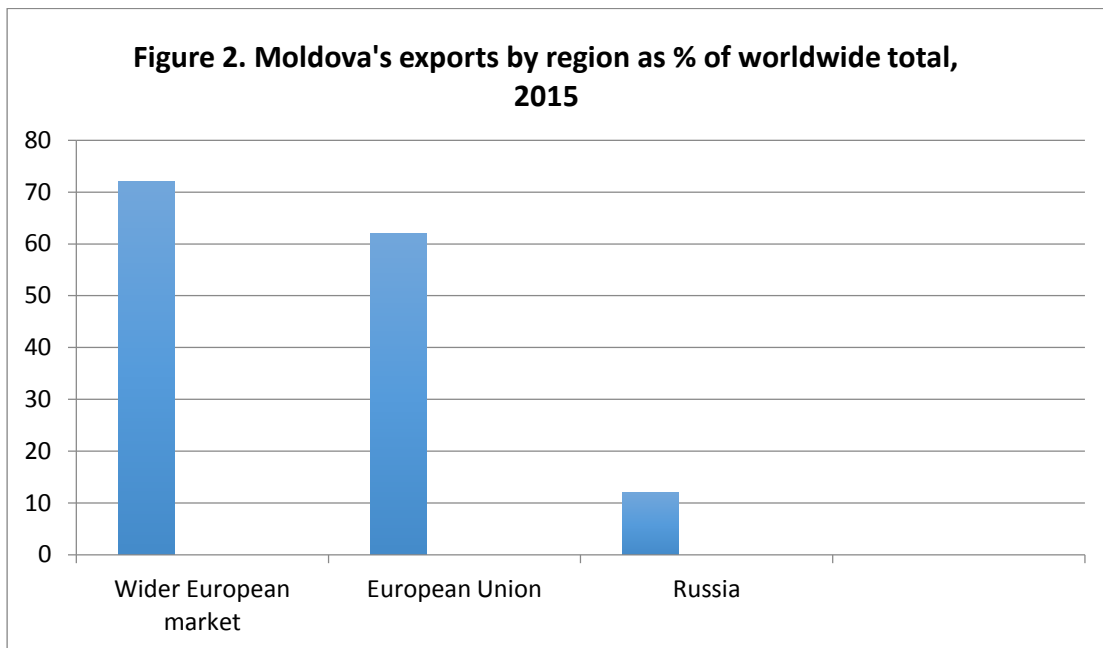
It is absolutely contrary to WTO rules to manipulate scientifically objective technical standards for political purposes, but Russia does not take WTO rules seriously when they run counter to its geopolitical wish to bully and punish small neighbours for insubordinate (i.e. independent) behaviour. Russia has applied the same methods, in parallel, to Ukraine and Georgia.

Since 2015 Moscow has begun to reopen its market partially for some specific Moldovan goods (vegetables and fruits, wines, etc.) but to a limited number of companies, the majority of them originating from the pro-Russian Autonomous region of Gagauzia and Transnistrian separatist region. Russia has thus been using its 'carrot and stick' approach to heighten tensions and divisions between pro-European central authorities of Moldova and the Gaguzian autonomy.

Moldova's new economic inter-dependence with the European market and the decline of Russia are of huge proportions. Moldova is now five times more dependent on the EU market than that of Russia, with the following shares (see also Figure 2).

- Exports to Russia 12%
- Exports to the EU 62%
- Exports to the 'wider European market' 72%

² CIS FT Agreement (<http://cis.minsk.by/reestr/ru/printPreview/text?id=3183>).



The wider European market

Moldova is currently extending its network of free trade agreements with countries of the 'wider European market', consisting of all the EU's close neighbours that have free trade agreements with it. This includes, beyond the EU itself the member states of EFTA (Norway and others), CEFTA (the non-EU Balkan states), the EU customs union (Turkey), the EU's south Mediterranean partners, and Moldova's other DCFTA partners (Ukraine, Georgia). Moldova is both free and encouraged to build up this network of free trade areas. In total this wider European market accounts for 72% of Moldova's total exports. However this would be excluded by acceding to the Eurasian Economic Union (EEU), which President Dodon proposes.

The EU has been supplying substantial macroeconomic loan assistance to Moldova alongside the IMF's substantial grant assistance, while the European Investment Bank and European Bank for Reconstruction and Development have become the biggest source of foreign investment.

Armenia's depressing experience in the Eurasian Economic Union

When considering getting closer to or even into the Eurasian Economic Union, President Dodon should further reflect on the experience of Armenia, since he is in effect putting in motion a delayed replay of the Armenian scenario of 2013. Armenia, like

Moldova, Georgia and Ukraine, had negotiated an Association Agreement and DCFTA with the EU, which was due to be signed in November 2013 at an EU summit in Vilnius. Russia was opposed to these pacts and summoned the Armenian President to Moscow two months earlier in September for a totally non-transparent meeting, except that Armenia accepted Russia's pressure to renege on signing with the EU and to join the Eurasian Economic Union. The *quid pro quo* of this *volte face* has never been revealed, but it is widely supposed to have been based on blackmail, with threats from Russia to weaken its guarantee of security for Armenia against Azerbaijan and to make life difficult for the Armenian diaspora in Russia.

As a result of joining the Eurasian Economic Union, Armenia has been obliged to raise its import tariffs at the WTO, i.e. cutting itself out of European and world markets. Armenia was so unhappy about this that it requested exemptions from the common external tariff of the Eurasian Economic Union for as many as 800 tariff lines, and had to spend its first year in the Union trying to negotiate at least transitional arrangements to slow if not to stop these protectionist steps. On top of that, the Russian economy went into recession and pulled the rest of the Eurasian Economic Union down with it. Figures show a drop of exports from Armenia to Russia from €352 million in 2013 to €176 million in 2015. In brief, if President Dodon were to look at Armenia's experience in the Eurasian Economic Union, he will not see a pretty sight.

Committing economic policy suicide

All of this means, in a nutshell, that President Dodon is already damaging the Moldovan economy by creating strategic uncertainty over its future for foreign investors. The idea of Moldova repealing the Association Agreement with the EU in order to join the Eurasian Economic Union is entirely feasible technically, and an open option politically as of today (with 40-50% support according to recent polls). However, such action would be committing as close to economic suicide as Moldova could possibly imagine.