

Economic connectivity in European conflict regions

- The case of Transnistria -

**Workshop at Vienna Institute for International Economic Studies
(wiiw)**

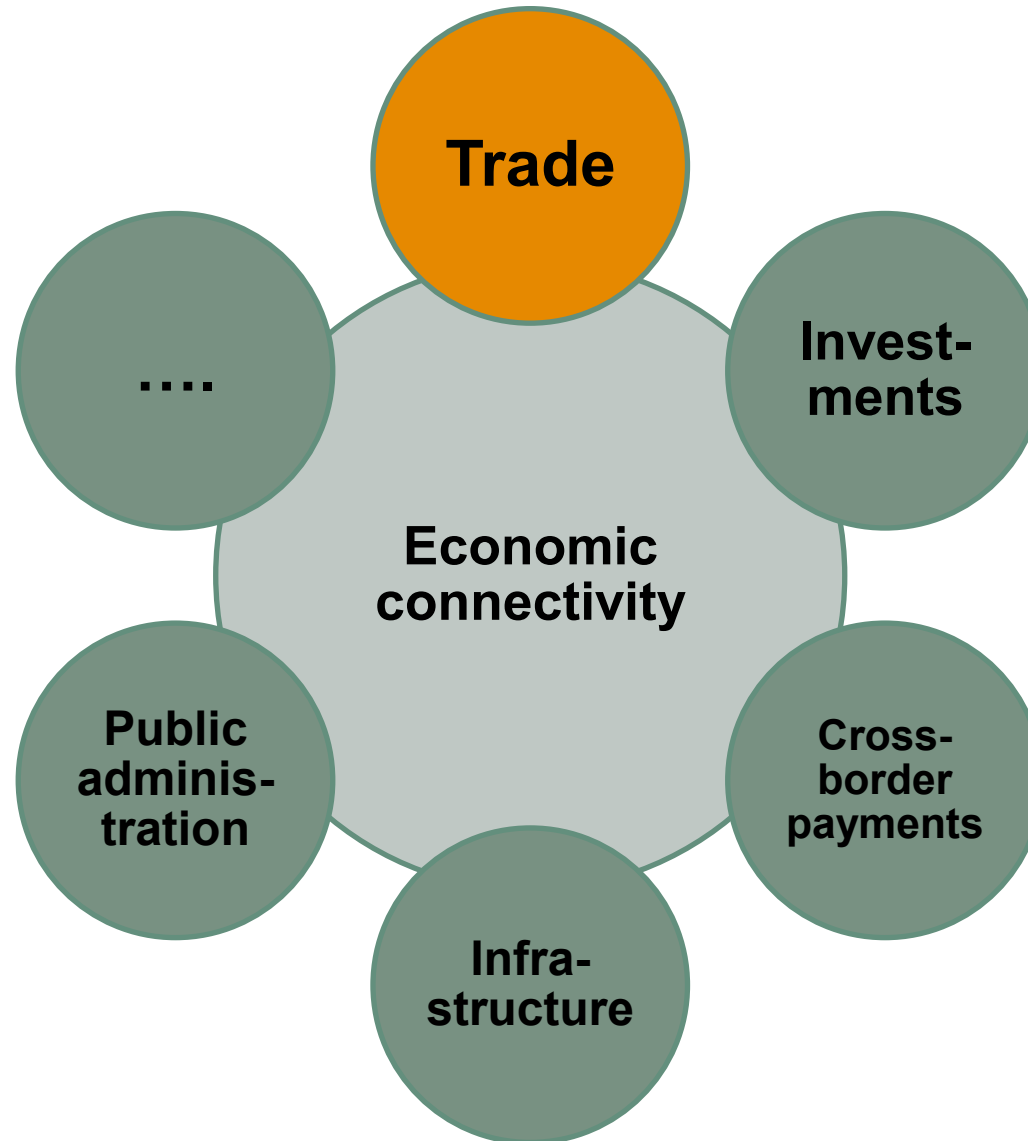
Jörg Radeke, Berlin Economics

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The case of Transnistria

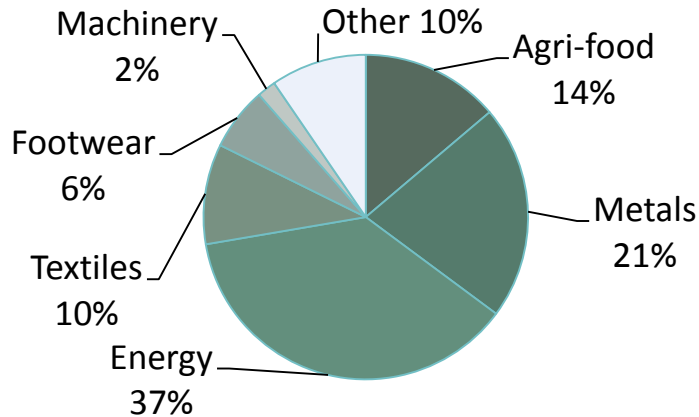


Channels for economic connectivity



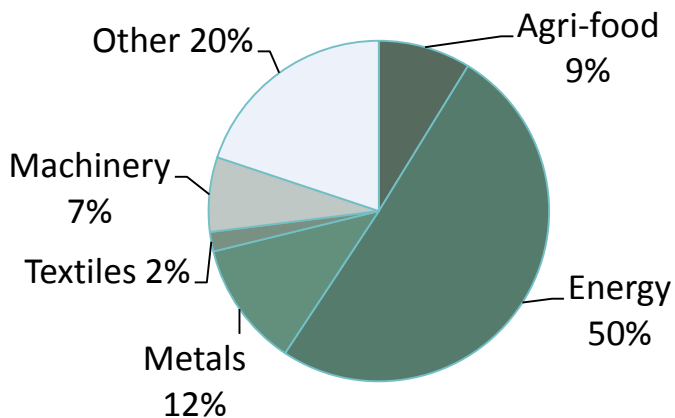
(1) Trade channel

Exports



Source: Customs Committee of PMR, 2015, incl. trade with right-bank Moldova

Imports



Source: Customs Committee of PMR, 2015, incl. trade with right-bank Moldova

Exports

- 70% of GDP in 2015
- Diversified structure
- Large electricity exports

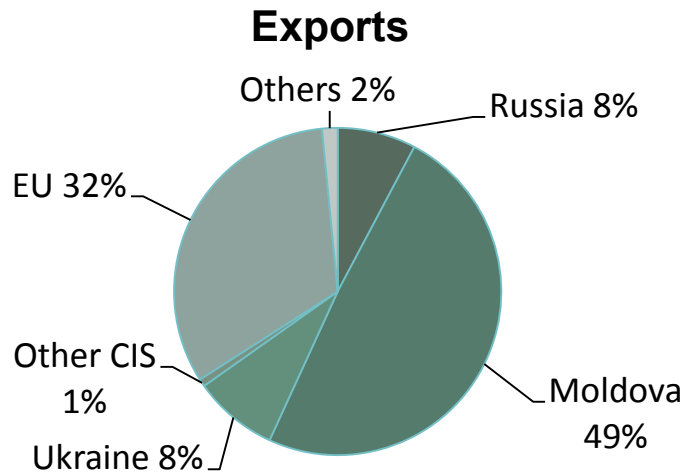
Imports

- 131% of GDP in 2015
- Large gas imports
- But many other items as well

Conclusions

- Huge importance of trade
- Unusually high trade deficit

Regional structure of trade



Export

- EU and right-bank of Moldova main destinations
- Right-bank of Moldova: Large electricity deliveries

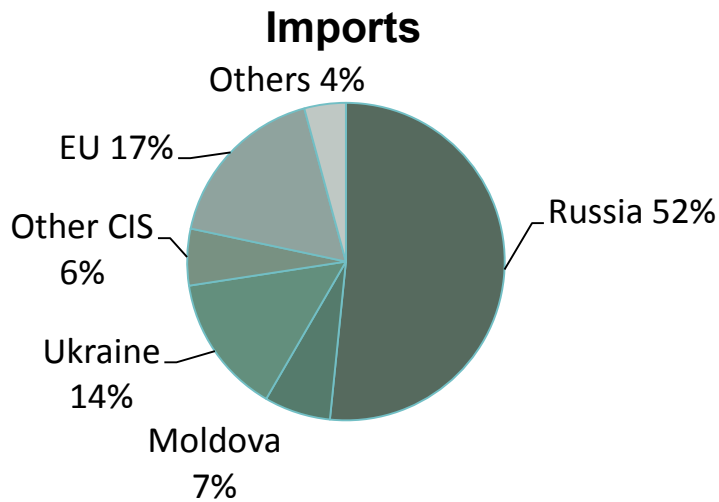
Import

- Russia: Over 50%
- Main reason: Gas imports

Conclusions

- Diversified trade structure
- Trade with East & West

Source: Customs Committee of PMR, 2015, incl. trade with right-bank Moldova



Source: Customs Committee of PMR, 2015, incl. trade with right-bank Moldova

Institutional framework for trade with Transnistria

- 2006: Joint declaration, Transnistria has to reorganise its trade relations

Trade with the EU

- Export: Duty-free access till Dec 2015 through autonomous trade preferences (ATPs) granted by EU to Moldova
- Since Jan 2016: Duty-free access benefiting from the EU-Moldova DCFTA
- Import: Average duty tariffs of ca. 7%

Trade with CIS countries

- Export: Duty-free access to CIS markets
- Import: Average duty tariffs of ca. 7%; same as for EU

Continuous free trade access requires trade liberalisation efforts by Tiraspol

(2) International payments channel

Current situation

- Moldovan National Bank (NBM) prohibits foreign banks from having corresponding accounts with Transnistrian banks as not licenced by NBM
- But: Tiraspol refuses to have banks regulated by NBM
- Almost all foreign banks cancelled corresponding accounts with TN banks
- Only one regional Russian bank remains as last channel for international payments from/to Transnistria
- But: very costly, risky, time-intensive → huge obstacle for trade

Resolution

- Option 1: Transnistrian banks submit to “de-facto” supervision through NBM
- Option 2: A Moldovan or foreign bank submits to dual regulation
- Option 3: ???

(3) Investment channel

Current situation

- A number of foreign investments visible in Transnistria
 - MMZ steel plant: Long time under Russian ownership
 - Italian textile production
- Companies from right-bank Moldova probably account for largest “FDI” share

Lessons

- FDI attraction requires “goodwill” of government in Chisinau
- Chisinau has rather liberal approach, as Moldovan companies among investors
- But: further increase in FDI requires access to free trade and international payments

(4) Public administration

Current situation

- Officially: status question, no cooperation btw. RoM and TN, hot topic
- However, behind the scenes quite a few aspect of “cooperation”
 - Moldovan customs offices checking rules of origin certification
 - Simplified registration of Transnistrian companies in Chisinau for trade purposes
 - Sanitary and phyto-sanitary controls of Transnistrian companies by Moldovan authorities

Lessons

- De-facto cooperation below the radar possible and feasible
- However, avoid touching status questions at all times
- Maybe one day Transnistrian officials are contracted to carry out “sovereign tasks” on behalf of Chisinau?

Conclusions

- Economic connectivity of Transnistrian region relatively advanced
- Trade can be a driver for other economic connectivity aspects
- Challenges for better economic integration remain, especially
 - Continuous access to free trade
 - Facilitating international payments
- Our view: further integration possible as long as status questions are left out of it
- Strong economic interest of Transnistria
- Interest of Chisinau much less clear...
- ...OSCE can assist in emphasising advantages for both sides

Contact

Jörg Radeke

radeke@berlin-economics.com

BE Berlin Economics GmbH

Schillerstr. 59, D-10627 Berlin

Tel: +49 30 / 20 61 34 64 0

Fax: +49 30 / 20 61 34 64 9

service@berlin-economics.com

www.berlin-economics.com

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