

Connectivity and Co-operation in Conflict Contexts. Trade-related issues in Transnistria and the Donbas region

Academic Conference “Towards the Vision of a Common Economic
Space from Vancouver to Vladivostok”

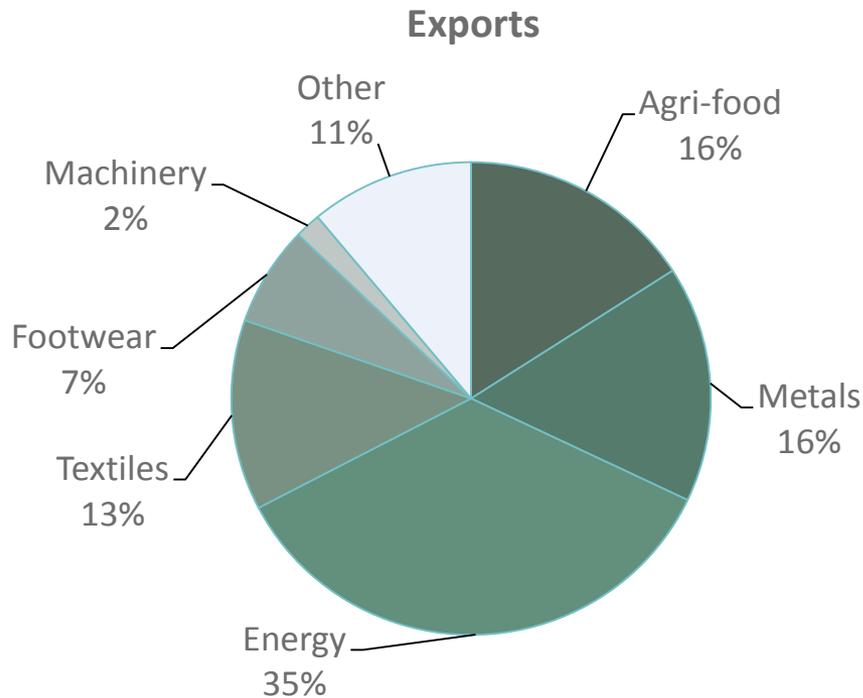
Dr Ricardo Giucci, Berlin Economics

Linz, 15 May 2017

Part 1

Trade-related issues in Transnistria

1. Exports are of key importance for Transnistria



Source: Customs Committee of PMR, 2016, incl. trade with right-bank

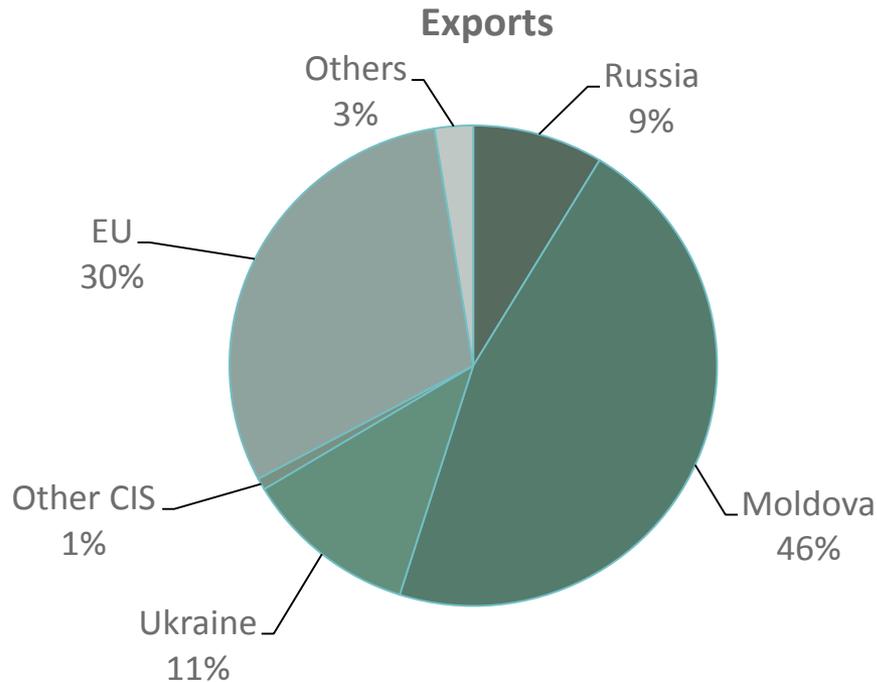
Exports

- 2016: USD 530 m
- Equivalent to 52% of GDP
- **Thus:** Crucial economic role

Structure of exports

- Large electricity exports
- Important role of metals
- But also agri-food, textiles and footwear
- **Thus:** Diversified structure

2. EU is an important export destination



Source: Customs Committee of PMR, 2016, incl. trade with right-bank

Regional structure of exports

- EU and right-bank Moldova are main destinations
- EU:
 - Almost 1/3 of exports
 - Agri-food, textiles and footwear
- Right-bank Moldova: Large electricity deliveries

3. Access to the EU market: Current and future

Since 2016: Duty-free access to EU in the context of the EU-Moldova DCFTA

Future access: Depends on DCFTA implementation in Transnistria

If DCFTA is implemented

- Duty-free status maintained
- Improved access for some products due to harmonized standards
- Result: Increase in GDP of up to 3.6%¹

If DCFTA is not implemented

- Heavy permanent decline of 5.2%¹ of GDP

→ DCFTA implementation is a key economic issue for Transnistria

¹ Berlin Economics (2013): The Impact of the EU-Moldova DCFTA on the Transnistrian Economy: Quantitative Assessment under Three Scenarios; available at: <http://berlin-economics.com/wordpress/en/studies/>

4. DCFTA-implementation is demanding, but feasible

Trade policy: Removal of import tariffs vis-à-vis the EU

- 2016: 50% of import tariffs reduced to 0%
- 2017: Remaining 50% to be removed

Customs: Adjustment of tariff lines with international standards; done

Fiscal policy: Due to lower tariff revenues, need to find compensating fiscal measures; our view: VAT introduction makes sense, since it would support exports compared to current taxation

Technical standards / SPS-measures: Challenge to access EU market

Competition law: Alignment with international best practice

5. Two preconditions for DCFTA-implementation

Precondition 1

- Good co-operation with right-bank Moldova and other stakeholders
- Reason: DCFTA is a contract between the EU and Moldova

Precondition 2

- Technical support from international community
- Example: Projects from German Foreign Office conducted by Berlin Economics

6. Conclusions

Main results from our analysis on Transnistria

- Provision of duty-free access to the EU market in the context of the EU-Moldova DCFTA is a strong instrument for connectivity and co-operation
- Crucial: Instrument is based on palpable economic interests of participants

Positive effects, also from an OSCE perspective

- Strong contribution to economic development in Transnistria
- Co-operation between Transnistria and right-bank Moldova on implementation issues, thus contributing to confidence building
- Fostering of trade between Transnistria and right-bank Moldova in case of implementation of a tax reform in Transnistria
- Co-operation between Transnistria region, right-bank Moldova and the EU in the context of technical support projects

7. Implications for other conflict contexts

Case of Transnistria

- Combination of duty-free access and technical assistance works in practice
- Clear positive experience; successful approach

Why successful?

- Strong economic interest in Transnistria
- All involved sides ready to co-operate; trade issues are not heavily politicised

To be analysed and discussed

- Can this successful approach be used in other conflict contexts?
- E.g.: Sensible approach for the case of Georgia and Abkhazia?
- What about other cases?

Part 2

Trade-related issues in the Donbas region

1. The non-controlled area in Ukraine: Overview

Share of non-controlled area in Ukraine's official GDP and industrial output

Year	% of GDP	% of industry	Trade with GCAs
2013	8.4%	15%	Wide range of items, incl. energy/metals
2014	4.9%	6.9%	May: Start of armed conflict September: Formal restrictions
2015	1.6%	4.3%	Limited trade on coal, coke, metals and iron ore, especially within SCM (Achmetov)
2016	1.1%	3.3%	Similar situation as in 2015

- Economic relevance of non-controlled area (“NCA”) for the government-controlled area (“GCA”) has been steadily declining since 2014
- Despite heavy decline, trade continued until trade suspension in March 2017
- Main items: Coal, coke, iron ore and metals
 - Sales NCA to GCA in 2016: USD 1,577 m; mostly coal, coke and metals
 - Sales GCA to NCA in 2016: USD 584 m; mostly coal and iron ore
 - **Thus:** Significant trade surplus of NCA

2. Economic impact of trade suspension on the GCA of Ukraine

15 March 2017: Ukrainian National Security and Defense Council ordered the stop of trade with NCA (“trade suspension”), following the seizure of assets (“nationalisation”) in NCA

Impact on GDP of the GCA of Ukraine (Source: National Bank of Ukraine)

- Permanent decline: 0.7%
- Temporary decline: 0.6% in 2017, lower impact later on
- Total impact in 2017: $0.7\% + 0.6\% = 1.3\%$

Additional impact

- Less exports of metals and more imports of coal
- Thus: Negative impact on trade balance and exchange rate

→ **Considerable, but not destabilising impact on Ukraine**

3. Economic impact of blockade on NCA of Ukraine

Remarks

- So far, we have not conducted a systematic research on the topic
- Thus: Only some preliminary thoughts here

Economic impact on NCA

- Significant relevance of trade with GCA (small economy and trade surplus)
- Steel production: Difficulties in sourcing key inputs, especially iron ore
- Exports/sales: Problems due to lack of certificates of origin, etc.
- Exports to Russia? Little commercial interest, since Russia also produces coal (incl. anthracite) and steel; low degree of complementarity

Thus

- Most likely, the blockade will lead to severe economic hardship in NCA, including a surge in unemployment and/or migration
- Alternatively: Significant economic/financial external subsidies to avoid hardship

4. Conclusions

Summary of results

- Recent trade suspension has a negative economic impact on both sides
- However: Certain asymmetry
 - Very strong impact on NCA
 - Mainly temporary and manageable impact on Ukraine
- Reason for limited impact on Ukraine: Since 2014 continuous process of economic detachment of NCA from Ukraine

Economic assessment (not political!)

- Once the reasons for the recent blockade (especially the “nationalisation”) are reversed, it would be in the economic interest of both sides to restore trade

Contact

Dr. Ricardo Giucci

giucci@berlin-economics.com

BE Berlin Economics GmbH

Schillerstraße 59, D-10627 Berlin

Tel: +49 30 / 20 61 34 64 0

service@berlin-economics.com

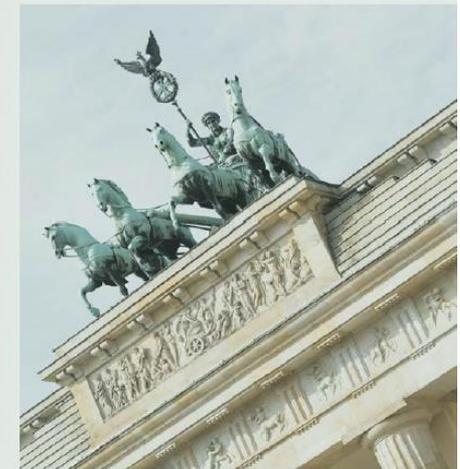
www.berlin-economics.com

Twitter @BerlinEconomics

Facebook: @BE.Berlin.Economics

 Berlin
Economics

Independent Economics
Consultancy in Emerging
and Transition Countries



www.berlin-economics.com