

QUO VADIS MOLDOVA: EUROPEAN INTEGRATION, EUROASIATIC INTEGRATION OR STATUS QUO?

POLICY DOCUMENT

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■ Introduction

Due to its geographic position, Moldova has constantly been at the crossroad of the most important integrationist processes on the European continent: European and Euro-Asian integration. Although Moldova chose as early as in 2005 the first option as the main strategic objective for its foreign and domestic policy, the society and the political elite is still divided with regard to the two integration options. This division has become even larger in the past years on the background of domestic political tensions, deeper integration in the European Union and the acceleration of the establishment of the Euro-Asian Economic Union, based on the Russia-Belarus-Kazakhstan Customs Union (RBK CU) established in 2010. This issue becomes even more relevant on the eve of the Eastern Partnership Summit in Vilnius, when Moldova is expected to sign the Association Agreement (AA) with the European Union, which includes a clause regarding the establishment of the Deep and Comprehensive Free Trade Area (DCFTA). To this effect, it is necessary to replace the political speculations on this subject, which have become more frequent lately, with an objective and rational analysis on the economic and social effects of Moldova's joining the DCFTA with EU and RBK CU. This paper makes an overview of the main implications and risks of Moldova's two integration options.

The document includes a short analysis of the main characteristics of the dynamics and structure of Moldova's foreign trade with the EU and the CIS, which presents the main commercial partners of our country and the most important categories of exported and imported products. The document continues by featuring the differences and implications of the legal framework regarding the joining the DCFTA and RBK CU. Afterwards, the economic and social impact of the integration options for Moldova, including the Transnistrian region, is described. In this context, the most vulnerable economic sectors that could incur certain losses in case of accession to DCFTA or RBK CU have been identified. In addition, the study analyses the implications of both options on some areas, which are highly important and sensitive, such as the migration processes, the reintegration of the country, energy security and foreign policy.

The methodology used to develop the study consists in adjusting the calculations made earlier by EXPERT-GRUP based on the computable general equilibrium model, as well the analysis of the available document regarding the contents of the Association Agreement with the EU, the agreements signed by the RBK CU members, the experience of other countries who have already chosen one of these integration options and the analysis of findings presented in other relevant studies.

The main assumptions underlying this analysis are listed below.

- *Assumptions for the estimation of the impact of accession to DCFTA¹:*
 - Cancelling Moldova's customs duties for imports from the EU and Turkey:
 - 8% increase of agricultural sector production costs, necessary to meet the sanitary and phytosanitary European standards.
 - A 5% increase in export prices for Moldovan agrifood products exported on the European market, for Moldova's industrial products the European tariffs are already zero.

¹ Prohnițchi, V., „Strategic comparison of Moldova's integration options: Deep and Comprehensive Economic Integration with EU versus Accession to the Russia-Belarus-Kazakhstan Customs Union”, Economic Analysis and Forecast Paper No 3/2012, Expert-Grup

- 20% increase of export prices for the agricultural products and 5% of export prices for Moldovan industrial products exported on the Turkish market².
- *Assumptions for assessment of the impact of accession to RBK CU.*
 - Cancelling Moldova's customs duties for the RBK CU imports.
 - 2.7 times increase of Moldova's customs duties for imports from all countries except RBK CU.
 - A 10%-30% discount to the import price Moldova pays for natural gas from Russia.

² This increase of export prices was estimated by the author based on an analysis of the current tariffs applied by the EU and Turkey on imports from Moldova and a calculation of the impact on the prices perceived by exporters after the cancellation of such tariffs. For an analysis of the trade policy tools please see the WTO, ITC and UNCTAD, 2011.

■ Key Messages

Both the EU and the CIS market will remain strategically important for Moldova on the long run, therefore the selected integration option should not be detrimental to any of these markets. To this effect, accession to DCFTA is more expedient simply because it does not exclude the participation in the free mutual trade agreement with the CIS countries. Following accession to DCFTA, Moldova could have a facilitated trade regime with strategically important markets and with Turkey, which, in 2013, has become the third most important destination for Moldova's exports. At the same time, accession to RBK CU implies a deeper form of integration, which Moldova is not ready for. In this case, Moldova would have to concede to the Russian Federation the autonomy for deciding on the tariff policy and to align to the RBK CU tariffs, which are much more protectionist. In addition, accession to RBK CU is incompatible with the accession to DCFTA. Moldova's possible accession to RBK CU would determine the EU to cancel the Autonomous Trade Preferences granted to Moldova and to increase significantly the tariffs for imports from Moldova, which would affect significantly Moldovan producers' competitiveness on the EU market. This could decrease the total exports by approximately 9% and increase the country's economic dependency on the CIS market, and particularly the Russian Federation. On the other hand, accession to DCFTA would propel export growth by over 11% and contribute to their significant diversification.

Accession to DCFTA would bring net economic and social benefits for Moldova, while RBK CU will have adverse effects. Econometric estimations show clearly the advantages of accession to DCFTA with EU. Thus, calculations suggest that, in case of accession to DCFTA, Moldova's economy will grow by 6.4%, while in case of joining the RBK CU it would go down by 4%³. The advantages of joining DCFTA relate to a larger access of Moldovan producers on the markets of the EU, Turkey and other world outlets, due to worldwide recognition of EU standards. At the same time, imports' liberalization would increase competition on the domestic market, which would eventually contribute to price reduction, diversification and products of a higher quality. Aside from increasing Moldova's attractiveness for investments, this would increase population's welfare and the competitiveness of Moldova's economy. On the other hand, accession to RBK CU would cause local producers to lose the EU market, which attracts about 45% of the total exports both from the right and the left sides of the Nistru River. This is due to the obligation to adopt the Russian custom policy and adjust to the Russian standards, which are not recognized internationally. Therefore, **aside from the tariff barriers, Moldovan exporters will have to face important non-tariff barriers on the EU market and not only.** At the same time, due to higher customs tariffs for imports, the price for consumer products and investment products imported from the EU would increase. This would erode the competitiveness of the Moldovan economy, the investment climate and people's welfare.

To minimize the risks and maximize the benefits of DCFTA, the authorities will have to make considerable efforts to enhance the business environment, adjust the quality infrastructure and speed up the structural reforms. Although the final effect is beneficial, joining to DCFTA also implies a series of risks, particularly for a number of agro-industrial sectors, which are less competitive and at the same time are protected by customs tariffs that will be gradually eliminated in the following years (ex: meat products, milk, sugar, bakery, juice and fruit). On the other hand, there are a number of risks regarding the application of some non-tariff barriers by the Russian Federation on the export of wine, apples and other fresh fruit from Moldova. However, such risks

³ If we do not take into account the hypothesis of a 30% decrease in the price for the gas imported from the Russian Federation, the economy could shrink by about 10%.

may be mitigated by accelerating the alignment to the EU quality standards and by channeling more financial resources and technical assistance in the area. At the same time, significant improvement of business climate is crucial for creating the necessary conditions for economic entities to reorganize their activity and be able to migrate from the vulnerable sectors to the more competitive ones. In addition, this would facilitate the relocation of labour force from the agrifood sector, which will decrease by 3%, to other economic sectors that will benefit from trade liberalization with the EU.

Accession to RBK CU will lead to the perpetuation of the Russian monopoly over Moldova's energy sector. Integration in the Eurasian energy policies through accession to the RBK CU initiative and then to the Eurasian Union will determine the abandonment of the Energy Community. Also, harmonization with the EU energy legislation (including the "the Third Energy Package") will be stopped. As a result, Moldova will be deprived of the incentives it needs in order to modernize its energy system, and to interlink to and integrate with the European energy system. Eventually, it will not be possible to ensure energy security, as it will be impossible to eliminate the monopolies and diversify the sources and the routes for energy products delivery (electricity and natural gas). At the same time, **the 30% reduction of prices for natural gas delivered by Gazprom, expected to follow after the accession to RBK CU, is uncertain due to the lack of a clear legal framework that would regulate this subject.**

Failure of the Transnistria authorities to cooperate during the implementation of DCFTA provisions will have adverse effects on the economy of the region. The Transnistrean economy is deeply anchored into the EU economy. About 45% of the region's exports went to the EU market in 2012. Due to its failure to cooperate during the implementation of DCFTA provisions, the main Transnistrean exporters will lose the EU market. This will have obvious consequences on the economic situation in the region, which is already fragile. Estimations show a 5% drop in the economy of the region if DCFTA is not implemented. On the other hand, the implementation of DCFTA will have beneficial effects due to the opportunities to expand exports on the EU market, Turkey, and other countries and the increased attractiveness for investments in the region. Thus, Transnistrean economy would expand by around 3.5% if DCFTA were implemented in the region.

Though accession to DCFTA implies a series of short-term risks for the countries' reintegration process, in the long term this will have beneficial effects. This is due to the lack of cooperation by Transnistrean authorities in the DCFTA implementation, which will most likely persist in the following several years which will alienate the districts on the left side of the Nistru River from those of the right side, both politically and economically. In addition, the more demanding requirements regarding the control of the origin of goods, particularly those coming from the Transnistrean region, could create tensions between the Chisinau and Tiraspol authorities. However, the benefits from DCFTA will increase the attractiveness of the right bank of the Nistru River for the population from, but mostly for companies on the left bank eager to maintain and even increase their access to the EU market. This would facilitate relocation of companies from the Transnistrean region and would determine the economic elite and the civil society to increase pressure on the political elite from the region to implement the DCFTA provisions.

A strategy is needed for an efficient communication about the effects of the integration options, particularly in the rural areas and in the districts on the left bank of the Nistru River. DCFTA is the most optimal integration option both economically and politically; however the local population knows little about its implications. This information vacuum, particularly in the rural

areas and the Transnistrian region, creates preconditions for public opinion manipulation for political interests. As a result, the Government should implement an active strategy to inform the population about the essence and the effects of both integration options: joining the DCFTA and accession to RBK CU. At the same time, a more active involvement of the European Union Delegation in Chisinau and of other relevant institutions is needed to support the awareness-raising efforts.

Finally, the orientation to the East represents a forced and ambiguous option, with proven commercial disadvantages for RBK CU Member States⁴. Lately, increased tensions between the RBK CU member states have been noticed⁵, which reduces its credibility for potential members. In addition, this option undermines Moldova's sovereignty in economic, political, and energy terms. At the same time, this would create a very adverse context for political and economic integration in the EU, which would compromise the EU integration efforts, started in 2005. By contrast, DCFTA does not imply changing the development vector, it is more attractive due to the incommensurable economic opportunities as compared to those offered by RBK CU, being based on a much more robust and predictable legal framework.

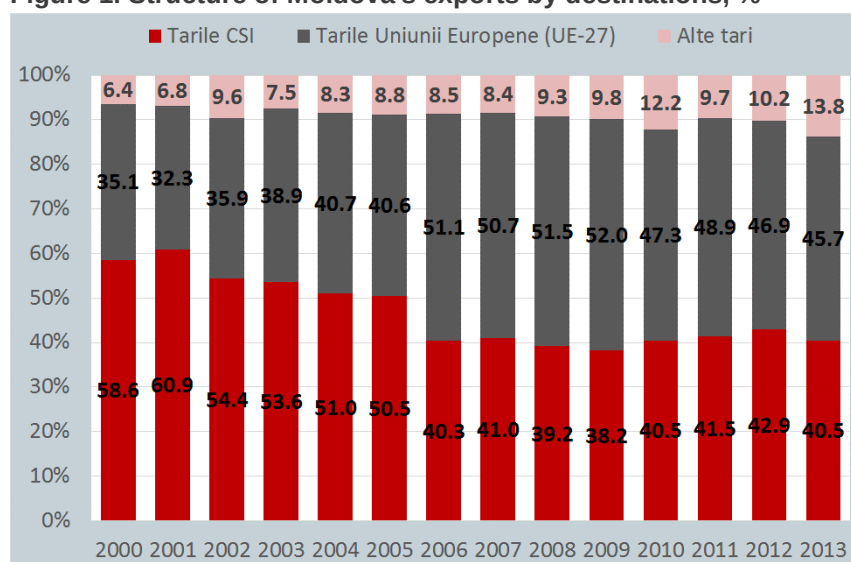
■ Evolution of Moldova's Foreign Trade with the EU and CIS

The foreign trade structure is relatively balanced, with EU being the main sales market. EU has been Moldova's main exports partner since 2006 under the influence of at least three important factors. The first one is the imposition of a ban on wine imports from Moldova by the Russian Federation, which has led to a significant drop of exports on this market and the reorientation of some wine companies toward the EU or other alternative markets. At the same time, accession of Romania – one of Moldova's main commercial partners - to EU in 2007 has strengthened statistically the EU market position as a main destination for Moldova's exports. Finally, during the analyzed period, there was a gradual liberalization of the trade regime; the EU provided a number of incentives for the Moldovan exporters under the General System of Preferences (GSP and GSP plus) and Autonomous Trade Preferences, which are still valid. It is also necessary to note that, during the recent years, a slight reduction of the EU and the CIS share in total exports occurred in favor of other countries, particularly Turkey. In 2013 Turkey became the third most important export partner of Moldova (Figure 1).

⁴ Проблемы Белорусии с экспортом - Зеркало недостатков Таможенного Союза, 13 June, 2013. Available at : <http://www.iarex.ru/articles/37695.html>

⁵ Украина и Таможенный союз: проблемы интеграции, 22 March. Available at: http://gazeta.zn.ua/internal/ukraina-i-tamozhennyi-soyuz-problemy-integracii-_.html

Figure 1. Structure of Moldova's exports by destinations, %



Source: National Bureau of Statistics

Moldova's exports to EU primarily consist of industrial products, while those to the CIS market – of agrifood products. In 2012, around 16% of the total exports to EU were electrical cables exported mostly to Romania, followed by sun-flower seeds (7.7%) exported mostly to Italy and Romania, walnuts (6.4%) exported to Italy and Greece, chairs and similar items (5.3%) exported to Hungary and Poland and women's apparel (3.6%) exported to Italy and Germany. At the same time, wines are the main product exported by Moldova to CIS (mainly to Russia and Belarus), with a share of 11.5% of the total exports in 2012. These are followed by medicines (9.6%) and brandy (5.4%) exported to Ukraine and Russia, fresh apples (4.3%) and stone fruits (3.1%) exported to Russia (see Table 1).

Table 1. Structure of Moldovan exports to EU and CIS, by the main 5 groups of products (Harmonized classification system HS-2007, four-digit level)

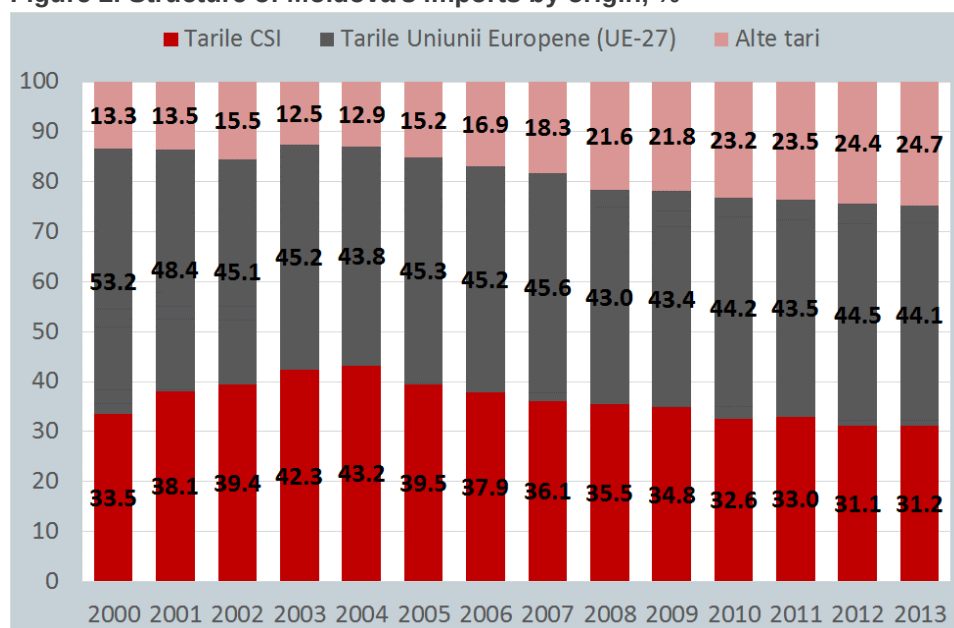
Type of goods	% of total exports to EU	Main partners	Type of goods	% of total exports to CIS	Main partners
Wires, cables and other insulated electric conductors	16.3%	Romania	Grape wine	11.5%	Russia, Belarus
Sunflower, cotton seeds or their fractions	7.7%	Italy, Romania	Medicine	9.6%	Ukraine, Russia
Nuts, fresh or dried	6.4%	Italy, Greece	Liqueurs, spirits and undenatured ethyl	5.4%	Ukraine, Russia
Chairs and parts thereof	5.3%	Hungary, Poland	Apples, pears and quinces, fresh	4.3%	Russia
Women's or girl's suits, jackets and other articles of apparel	3.6%	Italy, Germany	Stone fruits, fresh	3.1%	Russia

Source: UN Comtrade

EU is Moldova's main partner for imports, while CIS's share in the total imports is decreasing continuously. The Moldova's economy is linked to the EU one through imports as well. Therefore, most investment and consumer goods come from this destination. At the same

time, the share of imports from third countries is increasing, particularly due to imports from China and Turkey (Figure 2).

Figure 2. Structure of Moldova's imports by origin, %



Source: National Bureau of Statistics

Both markets are important of energy imports. However, the EU is also an important source of raw material for the local companies. In 2012, about 16% of the total imports from EU were petroleum products from Romania, followed by medicine (5.4%) imported from Italy and Germany; cables, insulated conductors and optical fiber (4.1%) imported from Austria; and motor cars (2.9%) imported from Germany. At the same time, most imports from CIS are various types of energy resources. Around 30% of total imports from CIS is gas supply from Russia, followed by oils based on petroleum products (10.8%) imported from Russia and Belarus, tobacco products (3.8%) imported from Ukraine and petroleum gas obtained from other hydrocarbons (3.6%) imported from Russia and Kazakhstan (Table 2).

Table 2. Structure of Moldovan imports from EU and CIS, by the main 5 groups of products (Harmonized classification system HS-2007, four-digit level)

Type of goods	% of total imports from EU	Main partners	Type of goods	% of total imports from CIS	Main partners
Petroleum oils, bitumen, distilled	16.0%	Romania	Gas and gas products	30.1%	Russia
Medicine	5.4%	Italy, Germany	Petroleum oils or oils obtained from bituminous minerals, other than crude;	10.8%	Russia, Belarus
Insulated conductors and cables, optical fiber cable	4.1%	Austria	Cigars, cigarillos and cigarettes, of tobacco or tobacco substitutes	3.8%	Ukraine
Passenger motor cars	2.9%	Germany	Petroleum gases and other gaseous hydrocarbons	3.6%	Russia, Kazakhstan
Hairdressing products	1.6%	Romania	Coal, briquettes	1.5%	Ukraine

Source: UN Comtrade

Eventually, both the EU and the CIS markets are strategically important for Moldova. While the EU is the main destination for exports of industrial products, in CIS are sold mainly agrifood products. This is explained by the much more demanding EU sanitary and phytosanitary requirements than the CIS ones, which represent the main non-tariff barrier for most local producers of agrifood products. At the same time the EU is also important in terms of the raw material needed for the local industrial companies, while CIS and especially Russia is the main supplier of energy resources.

Though both markets are strategic, in the recent years an increasing integration of Moldovan producers in the EU market has been noticed. Empiric estimations show an increased elasticity of Moldovan exports to the EU economic fluctuations, which show a deeper linkage of the local production to the EU economy⁶. Of course, this implies a series of risks, given the economic issues in the region; however it is beneficial for the establishment of DCFTA with the EU, which will support the natural trade processes between the EU and the Republic of Moldova.

The economy of the Transnistrean region is also strongly linked to the EU market. Except for the energy supplies to the districts on the right bank of the Nistru River, in 2012, about 45% of the total exports of the Transnistrean companies were oriented to the EU (particularly Romania, Italy and Germany). The main categories of products exported to EU are textiles, footwear and metals⁷.

⁶ A. Lupusor, "Could the decrease in Moldovan exports to EU in 2012 affect the negotiations on the establishment of a Deep and Comprehensive Free Trade Area?", Expert-Grup, 2012

⁷ „The Impact of the EU-Moldova DCFTA on the Transnistrian Economy: Quantitative Assessment under Three Scenarios”, Berlin Economics, 2013

■ Legal Framework of the Deep and Comprehensive Free Trade Area (DCFTA) and Customs Union "Russia-Belarus-Kazakhstan" (RBK CU)

The establishment of DCFTA between Moldova and the EU will create better opportunities for Moldovan exporters thanks to lower prices for the exported products. DCFTA implies primarily mutual cancellation of the customs quotas and tariffs for trade between these two entities. At the same time, a precondition for this is the signature of a free trade agreement with Turkey. Moreover, the efforts made in order to adopt the EU standards will be fully compensated, as these standards are recognized internationally, meaning that exporters will be able to export easier to any part of the world. Therefore, to fully benefit from DCFTA, Moldova's public authorities and companies will have to make efforts to adopt the quality standards and comply with the EU requirements.

The main risks related to DCFTA are related to tougher competition for Moldovan producers due to goods imported from EU and imposition by Russia of non-tariff barriers to exports. The elimination of customs tariffs on imports from the EU will expose some agro-industrial sectors, which are less competitive, to a number of negative shocks which will impact the activity of many domestic companies. At the same time, Russia could tighten up the quality requirements for the Moldovan products, which might expand to the entire RBK CU, involving the current and future members. This will create additional hindrances for the exporters oriented to this market, particularly wineries and producers of fresh apples and other fruits.

Accession to RBK CU will not have a significant impact on fostering exports from Moldova. Although accession to RBK CU also implies elimination of all customs tariffs for imports and exports between its member states, the impact on exports will be minor. This is due to the fact that the current Free Trade Agreement with the CIS countries, signed by Moldova as well, already envisages no customs duties for most cross-border transactions between the Commonwealth states.

An important advantage of Moldova's accession to RBK CU is the reduction of prices for the gas supplied by Gazprom due to elimination by the Russian Federation of the 30% customs tariff for the export of this product. However, this advantage is counter-balanced by the obligation for the Republic of Moldova to align to the common customs policy. Specifically, this implies adjusting the Moldovan customs tariffs to those of the Russian Federation, which has a decisive role in developing and promoting common customs policy in RBK CU. Taking into account the fact that currently Russian customs tariffs are on average 2.6 times higher than the Moldovan ones⁸, this will cause massive increase in costs for products imported from the non-CIS countries. It will **affect population's welfare and will increase the price for equipment and technological machines imported from the EU.**

For the Republic of Moldova to be able to increase the customs tariffs, in case of accession to RBK CU, it will have to initiate a tumultuous and lengthy process of negotiations within WTO. Trade partners that are WTO members could ask for compensatory measures in exchange for the increase of some customs tariffs by Moldova. Thus, accession to RBK CU is extremely difficult to achieve, including from the technical point of view.

⁸ World Trade Organization, World Tariff Profiles 2012, p. 114-136. Available at:

■ Economic impact of DCFTA and RBK CU for the Republic of Moldova

DCFTA provides the consolidation of the basic market institutions, which involves reforming the judicial system, securing fair competition and protection of ownership rights. DCFTA is not just a free trade regime by which the signatory parties give up customs tariffs; it also includes the legal and institutional harmonization. Therefore, by acceding to DCFTA, the Republic of Moldova is prompted to reform its justice system in order to ensure protection of ownership rights. Basically, DCFTA contains the necessary elements for an appropriate environment for business development. This will foster entrepreneurial activity and improve the country's image as a business destination. Reducing barriers for imports from the EU will increase EU technologies' competitiveness on the Moldovan market and will provide support for technologic modernization in all economic sectors.

In the case of DCFTA, reducing customs tariffs will contribute to cost reduction for products imported to Moldova, which will lead to price reduction, increase the competition and the diversity and quality of products. Protection of domestic producers is often applied at the expense of population's welfare; by maintaining customs tariffs and anemic competition prices remain relatively high. Therefore, the elimination of these tariffs will lead to the drop in prices for consumer products, while the increased competition will enhance the products' quality; this will imply more advantages for consumers. According to estimations based on the computable general equilibrium model, DCFTA's coming into effect will determine the following price reductions: -9% for clothing, -3.3% for textile, and -7.1% for oil and vegetal and animal fats, -3.4% for fruit and vegetables and -2.1% for alcoholic and non-alcoholic beverages⁹ (Table 3).

Accession to RBK CU will result in a series of important price hikes, despite the reduction in prices for the natural gas imported from the Russian Federation. This is caused by the fact that Moldova will be obliged to fully reconsider its customs policy and align it to that of Russia, which is much more restrictive. As a result, bringing national customs tariffs up to the level of those in RBK CU will determine the increase in the cost of goods imported from the third markets, which will increase the price level in Moldova. Although a possible decrease in the price for the imported gas would reduce inflation effects, pressures on the price level will remain high. According to empiric estimations, accession to RBK CU will determine price increase by about 13% for apparel, 2.5% for textiles, about 3% for oil and vegetable and animal fats, 2.2% for fruit and vegetables and by about 2% for alcoholic and non-alcoholic beverages¹⁰ (Table 3).

⁹ Prohnițchi, V., „Strategic comparison of Moldova's integration options: Deep and Comprehensive Economic Integration with EU versus Accession to the Russia-Belarus-Kazakhstan Customs Union”, Economic Analysis and Forecast Paper No 3/2012, Expert-Grup

¹⁰ Idem

Table 3. Comparison of the impact of strategic options upon the price level at the main categories of products

Scenario of accession to DCFTA with EU	Price changes	Scenario of accession to CU RBK	Price changes
Items of apparel	-9.0%	Items of apparel	+13%
Textile products	-3.3%	Textile products	+2.5%
Vegetable and animal oils and fats	-7.1%	Vegetable and animal oils and fats	+2.2%
Alcoholic and non-alcoholic beverages	-2.1%	Alcoholic and non-alcoholic beverages	+2.0%
Fruits and vegetables	-3.4%	Fruits and vegetables	+2.2%

Source: Prohntichi (2012) and calculations of authors

In case of joining the DCFTA, the decrease in the consumer products' prices will be accompanied by higher investments, which will enhance the population welfare, while the accession to RBK CU will have an opposite effect. The estimates show clearly that DCFTA option is of greater benefit to the population. The cheaper products and higher income will increase the households' consumption expenditures by 7.8%. This will also increase the savings, thus their share in GDP will go up by 4.6 p.p., which will enlarge the funding base of investment projects. At the same time, in case of Moldova's accession to RBK CU, the consumption will decrease by about 3.5% and the savings share in GDP - by 2.0-2.5 p.p.¹¹.

The implementation of DCFTA will foster the trade between Moldova and the EU and will not cause major distortions in implementing the cross-border transactions with other countries. Moldova will be free to enter into free trade agreements with any other country or regional integration structure. This option will contribute to the growth of exports by 11.2% due to the stronger accession of domestic products on EU and Turkey market. Due to the reduction of customs fees, the imports for all products will increase by about 6.1%, which will generate competitive pressures on the local producers. A faster growth of exports comparing to imports will alleviate the problem of the trade deficit, whose share in the GDP will drop by 2.6 p.p.

Accession to RBK CU will mean losing trade facilities on the EU market, which will lead to the decrease of Moldovan exports on this market as well. In this case, EU will cancel the Autonomous Trade Preferences, which the Moldovan exporters currently benefit from, and will apply a much more restrictive tariff regime. The decrease of exports by about 9% will cause the reduction of population's incomes and as a consequence the demand for imported goods will decrease. At the same time, the rise of import customs tariffs for third states will result in rising prices for the products imported in Moldova, causing the drop of imports by about 4.5%. The stronger reduction of exports relative to imports will worsen the trade deficit, whose share in GDP will increase by about 2 p.p.¹²

Nevertheless, the establishment of DCFTA implies also some short-term risks for the most uncompetitive sectors of the economy. The enterprises that will fail to adapt to the European quality standards and will remain less effective and competitive in relation to its EU competitors will obviously suffer. It relates especially to some less competitive sectors, which are currently protected by the customs tariff. This problem is particularly sharp in the case of agrifood products,

¹¹ Idem

¹² Idem

where the level of protection is much bigger, while the EU quality requirements are much tougher. These include meat products, dairy products, sugar products, juices, fruits. Therefore, many enterprises operating in these sectors will suffer an adverse competitive shock during the first period after the trade liberalization with the EU. Thus, according to the estimates of EXPERT-GRUP, the accession to DCFTA will cause the reduction of agricultural products by about 3%.¹³

The benefits of joining the DCFTA will exceed the short-term costs incurred by some local enterprises. The faster growth of exports over imports, paralleled with the improvement of the investment climate, will additionally lead to the economic growth by 6.4%. At the same time, the production output will increase gradually by 1.9% (construction) and 21.3% (apparel and footwear). The growth of the economic activity will determine also the rise in wages: salaries for skilled labour force will rise by 4.4%, for medium-skilled workers - by 6.5% and for low-skilled workers - by 5.9%¹⁴. Due to the stimulation of the economic activity, consumption and foreign trade, we could expect an essential increase in the budgetary revenues (by over 1.6%).

The accession of the Republic of Moldova to RBK CU will cause considerable losses to the economy. The increase in the trade deficit will cause a reduction of the GDP by about 4.0%. The decrease of production will range between 2.0% in the construction field and 12% in the field of apparel and footwear manufacture. At the same time, the households' consumption is expected to fall by 4.5%, which will result in reduction of budgetary revenues by about 2.0% and share of savings in GDP by 2.0-3.0 p.p.)¹⁵.

Table 4. Compared economic impact of accession of Moldova to DCFTA and RBK CU, % against the main balance

<i>Indicator</i>	<i>DCFTA</i>	<i>RBK CU</i>
Gross Domestic Product	+6.4%	-4.0%
Households' consumer expenditures	+7.8%	-4.5%
Volume of exports	+11.3%	-9.0%
Volume of imports	+6.1%	-4.5%
State Budget Revenue	+1.6%	-2.0%

Source: Prohniitchi (2012) and authors' calculations

The impact of RBK CU on the local business environment is unfavorable in the long run. This is determined by the negative image of the political regimes (qualified as "authoritarian" or "non-democratic") in the RBK CU States. Because of incompliance with the principles of the rule of law and the interference of political factor in the act of justice, the court sentences against the business people disloyal to the central power have a high incidence in the RBK CU States. These issues do not encourage in any form the setting up and doing business in these countries. Consequently, accession to RBK CU will lead to the dissemination of these deficiencies over Moldova, which is involved in various reforms in line with its commitments to the EU. Thus, the RBK CU membership would cool the engine of reforms based on the conditionality imposed by the EU, which will inevitably lead to the deterioration of the country's business environment. Another possible negative impact in case of accession of Ukraine to RBK CU is the facilitation of the penetration of Russian monopolistic groups in the key sectors of the economy. The major risk associated with choosing the RBK CU option is the impossibility of creating a stimulating business

¹³ Idem

¹⁴ Prohniitchi, V., „Strategic comparison of Moldova's integration options: Deep and Comprehensive Economic Integration with EU versus Accession to the Russia-Belarus-Kazakhstan Customs Union”, Economic Analysis and Forecast Paper No 3/2012, Independent Think-Tank "EXPERT-GRUP".

¹⁵ Idem

environment for the local business, which would correspond to the requirements for attracting European business environment (investments, technologies, innovative business models, new services, etc.). At the same time, the increase of tariffs at the RBK CU level will reduce the competitiveness of the technologies from other areas, which will slow down significantly the country's modernization.

■ The Impact of Accession to DCFTA and RBK CU on Migration

The Association Agreement (AA), which is expected to be signed together with DCFTA, offers a clear legal framework for the cooperation in migration management (both illegal and legal). This will underpin the dialogue between EU and the Republic of Moldova, based on solidarity, mutual trust, joint responsibility and partnership¹⁶, all supported by the legal framework of AA. The Moldovan workers, employed legally in EU, will enjoy the same rights as the European citizens. This will consolidate significantly the rights of Moldovan workers and will combat the discriminatory aspects (in terms of working conditions, remuneration or dismissal). Though EU has not assumed expressly the commitment to facilitate the employment of workers from AA signatory countries¹⁷, nevertheless it refers to the preservation of the existing facilities. In the case of the Republic of Moldova it may include the Mobility Partnership, initiated in 2008¹⁸. Besides the legal migration, this instrument promotes circular and temporary migration. However, the Partnership activities aim at encouraging the return of Moldovan people and their involvement in business.

The option of the Republic of Moldova's accession to RBK CU offers a set of benefits for migration, such as labor market liberalization within the Union's Member States. Thus, the citizens could be employed regardless of the quotas imposed by authorities for foreign workers. Besides, it is envisaged to exclude the obligation to have work permits, and the persons arrived in any RBK CU will have to register themselves within 30 days after their arrival¹⁹. Currently, according to the bilateral agreements between the Republic of Moldova and Russia²⁰, the citizens will have to get registered with the Federal Migration Service of the Russian Federation within three working days. At the same time, membership at RBK CU provides social protection to workers from Member States, only if it corresponds with the norms of the state, where they will stay. Here we have to mention that, unlike RBK CU, an AA with EU offers explicitly to workers from the signatory states the same rights as those enjoyed by European citizens, regardless of the country where migrants carry out their economic activity.

¹⁶ According to Article 16 of the Association Agreement between EU and Member States, on the one hand, and Ukraine, on the other hand, the dialogue on migration will be based on fundamental principles of solidarity, mutual trust, joint responsibility and partnership, p.18. Available at:

http://glavcom.ua/pub/2012_11_19_EU_Ukraine_Association_Agreement_English.pdf

¹⁷ The statement is based on the fact that AA ratified with Ukraine will not differ significantly from the one negotiated with the Republic of Moldova, in particular if we refer to the non-economic chapters.

¹⁸ The Mobility Partnership is focused on 3 dimensions: legal migration, combating illegal migration, migration and development. Available at: <http://www.mfa.gov.md/mobility-partnership-ro/>

¹⁹ The agreement on the status of migrant workers and their families, signed in Sankt-Petersburg on 19 November 2010 by RBK CU Member States, which entered into force on 1 January 2012. Available at: <http://adilet.zan.kz/rus/docs/P100001044>

²⁰ Agreement between the Government of the Republic of Moldova and Government of the Russian Federation on mutual visa-free travels of citizens of the Republic of Moldova and citizens of the Russian Federation, signed in Moscow, on 30 November 2000 and Protocol to the Agreement between the Government of the Republic of Moldova and Government of the Russian Federation on mutual visa-free travels of citizens of the Republic of Moldova and citizens of the Russian Federation, signed in Moscow, on 7 March 2006. Available at: <http://www.mfa.gov.md/sfaturi-calatorie/ru/>

RBK CU stipulates a series of situations when it will be allowed to introduce quotas from workers from Union's Member States, without qualifying it as a form of discrimination²¹.

There are many and ambiguous conditions limiting the access to labor market, which allows for a high margin of discretion upon for their application by RBK CU Member States. In essence, this provision offers to Union's Member States the possibility to decide unilaterally to limit the access to their labor market. At the same time, no supranational institution will be able to intervene to protect the workers' rights against discrimination. Thus, though in process of integration, the RBK CU labor market is still non-uniform and vulnerable in the context of eventual political interferences by RBK CU Member States. **An opposite reality will be ensured by the non-discrimination principle envisaged by AA, consolidated by a dialogue based on solidarity, mutual trust, joint responsibility and partnership²².**

■ Integration Options from the Perspective of Reintegration of the Republic of Moldova

The Transnistrian economy is very dependent on the community market and, therefore, abnegation of DCFTA will involve major costs for their enterprises and population. Though DCFTA is offered to the Republic of Moldova as an integral state, the reluctance of Tiraspol authorities to implement the provisions of this agreement on the left bank of the Nistru River creates many economic challenges and legal ambiguities. Thus, it is not clear how the rules of origin will be checked, as well as the quality of products originating from the Transnistrian region. Likewise, it is not known how in general the Transnistrian companies will be able to export to EU, as long as the legal and institutional framework of that region is not harmonized with the community one, and the Transnistrian authorities are applying their own customs duties. Moreover, we may assume the scenario according to which the DCFTA provisions will be applied only on the territory controlled by the Chisinau authorities. This will determine EU to annul the Autonomous Trade Preferences that the Transnistrian region is currently enjoying and apply the MFN tariffs, which are quite high for the products exported by the companies from that region. In this case, the textile products and metalware will become automatically more expensive on the EU market by about 12%, and the footwear - by 17%. This will decrease the exports of Transnistrian companies to EU by about 25%, causing an economic drop by about 5%.

DCFTA will have a positive impact on the region's trade, because the EU exports will be free of any taxes, thus allowing companies from the left bank of the Nistru River to maintain the community market. At the same time, similarly with the rest of the Republic of Moldova, the imports will be liberalized gradually for the more sensitive products and quicker for the investment goods and raw materials. In the short run, the metals, textile products and ready made clothes will remain the most competitive exports to the EU. At the same time, the light industry manufacturers (textile, readymade clothes, footwear), which is exporting a large share of its products to Italy and Germany, have a high "real" competitiveness, which will be enhanced once all trade barriers are canceled. In addition, taking into account the higher demand in EU countries for organic

²¹ Article 6. The agreement on the status of migrant workers and their families, signed in Sankt-Petersburg on 19 November 2010 by RBK CU Member States, which entered into force on 1 January 2012. Available at: <http://adilet.zan.kz/rus/docs/P100001044>

²² According to Article 16 of the Association Agreement between EU and Member States, on the one hand, and Ukraine, on the other hand, the dialogue on migration will be based on fundamental principles of solidarity, mutual trust, joint responsibility and partnership, p.18. Available at: http://glavcom.ua/pub/2012_11_19_EU_Ukraine_Association_Agreement_English.pdf

agricultural products, the liberalization of exports to EU offers to this region the chance to harness its potential in this sector.

Compliance with the DCFTA provisions could attract more investments in the region, which will foster the economic development, job creation and enhanced people's welfare. Improved commercial conditions are always accompanied by increased investment capacities and as a result by higher revenues for producers and exporters. In the case of Transnistria, the domestic investment capacities will be complemented by larger investments, either by Russian owners, or by the new investments from the Republic of Moldova or the EU²³. With the growth of investments and exports, the region's economy could grow by about 4.0%.

The participation of Transnistria, together with the right bank, to DCFTA implementation will offer indirect stimuli for the country's reintegration, by uniting economically both sides in a joint context of a free trade zone with the EU. These processes imply in particular parallel harmonization of the legal framework on both banks in areas covered by DCFTA; integration of the system of guarantees in product safety to the similar EU standards; indirect uniformization of the rules for competition, intellectual property protection, etc. on both banks; closer contacts between Chisinau and Tiraspol, as well as between central authorities and Transnistrian companies.

The risks for the reintegration process are more pronounced in the case of accession to RBK CU. Loss of economic advantages offered by the economic integration in the EU, coupled with the higher customs duties required by RBK CU, will diminish even more the attractiveness of the right bank. At the same time, Transnistria will enjoy preferential treatment from Russia (raw materials, price for gas), which will increase the dependency on the Russian market and will widen the gap with the right bank.

■ Implications of DCFTA and RBK CU on the energy security

DCFTA offers guarantees for energy security. The Association Agreement, which DCFTA is a part of, envisages cancellation of the double price for the exported energy products, which will have to have a similar cost with the one established for domestic consumption. The Agreement will prohibit customs duties, quantity restrictions and other actions with a similar effect for the imports and exports of energy goods. Besides, the parties will have to refrain from actions that could generate arbitrary discrimination. This will offer Moldova more certainty regarding its cooperation in the energy sector. Regarding the delivery of gas and electricity, the parties will have to comply with the provisions of the Energy Community Treaty, focusing on the establishment of a single regulatory framework in the European area, which will guarantee security of energy products deliveries (electricity or natural gas). Inevitably, this will require harmonization of the national legislation to the EU energy regulations.

The Association Agreement with EU sets proper preconditions for the consolidation of energy infrastructure, which will enhance the energy security. The Agreement envisages cooperation in the gas trade, ensuring of sustainability and deliveries security. At the same time, signatories of Association Agreement assume the commitment to make efforts to facilitate the infrastructure of gas transmission and storage. In addition, the parties shall cooperate for a further development of the respective infrastructure. The infrastructure interconnections should be planned and energy strategies should be developed taking into account the energy capacities and systems, owned by the signatory parties. Though the principles of solidarity is not very spread,

²³ Prohnițchi, V., Lupusor, A., Transnistria and the Deep and Comprehensive Free Trade Agreement: a little stone that overturns a great wain?, Independent Think Tank "Expert-Grup", 2013

mandatory cooperation and development of energy projects with the participation of all signatories is a form of integrating the energy systems on the basis of reciprocity.

In the case of the Eastern option, which envisages accession to the RBK CU for the short run, and accession to the Eurasian Union for the long run, we underline an acute lack of any information regarding the energy sector regulations. This is determined by the low transparency of the preparation of the legal basis for the Main Treaty of the Eurasian Union, which consists in merging the legal frameworks of RBK CU and Common Economic Area. At the same time, Russia's promises to decrease the prices for the delivered gas are not supported by an appropriate legal framework, which would back the offer legally and would exclude any possibilities of political manipulations. In general, the discussions regarding the price for hydrocarbons can become political very easily, taking into account in particular the inconsistencies and pressures exerted by the Russian side in its relations with Ukraine and the Republic of Moldova. Moreover, the distrust in the feasibility of this offer is reinforced by the negative experience in the energy relations between Russia and countries that already joined the RBK CU (in particular, the case of Belarus).

RBK CU poses risks for the transposition of the "Third Energy Package" and participation of the Republic of Moldova in the Energy Community. Given the constant opposition displayed by Russia towards the Energy Community and the EU energy directives, accession to RBK CU could prevent the Republic of Moldova from signing the "Third Energy Package"²⁴. In other words, accession to RBK CU is a first step towards alignment to the Eurasian Union, in process of establishment, expected to be completed in 2015. The transfer of competences from national authorities to the Economic Eurasian Commission (EEC), which coordinates the activity of RBK CU and Common Economic Area, was completed in 2012. In essence, the Commission is the first supranational body responsible of integration policies in the Eurasian area, including in the energy sector. Therefore, after accession to RBK CU some of the duties of the national authorities will have to be delegated to the EEC, which means the beginning of integration in the energy policy area. Thus, abandonment of the Energy Community and gradual drifting away from the acquis communautaire in the energy sector will become an inevitable process for the Republic of Moldova.

Accession to RBK CU will increase the energy dependency of the Republic of Moldova on Russia, and the negative impact caused by the departure from the Energy Community, and the inherent non-adoption of the "Third Energy Package", will be felt by the entire national energy system. S.A. "Moldova-Gaz" will keep its monopolist position on all segments of the gas market, where it owns 100% of the gas supply and over 80% of the distribution market (it owns a transport company and 13 distribution companies)²⁵. The adverse effects will also impact the potential funding and investment opportunities for energy security consolidation, which implies construction of interconnection networks with EU countries. Besides, without the conditions required by the "Third Energy Package" and the EU support provided through the Energy Community, the position of the Republic of Moldova on the regional energy will diminish. This will affect significantly the negotiation power with SAD Gazprom, including on the gas price and new delivery contracts with the Republic of Moldova.

²⁴ As a result, in its position of a Member State of the Energy Community (since 2010), the Republic of Moldova must transpose the European energy legislation.

²⁵ Surugiu R., Third Energy Package and its Impact on the Energy Sector of the Republic of Moldova, Policy Paper, 22 February 2012, Independent Think Tank "EXPERT-GRUP", p. 14. Available at: <http://expert-grup.org/ro/biblioteca/item/333-pachetul-energetic-iii-%C5%9Fi-implica%C5%A3iile-acesteia-asupra-sectorului-energetic-al-republicii-moldova?lang=ro>

■ Implications of the integration options on the foreign relations of the Republic of Moldova

Moldova's accession to RBK CU is incompatible with joining the DCFTA with EU and, respectively, with the European integration vector, pursued over the past few years. Besides the negative economic aspects, related to the more expensive imported products and worsened investment climate, this option will compromise the Association Agreement, which encompasses the DFCTA. As a consequence, the EU will have to review the bilateral framework (envisaged in AA) of the relations with the Republic of Moldova and exclude the aspects related to economic integration. Without the economic side, the political integration of the country in the EU will be made impossible. Therefore, accession to RBK CU will make it difficult to establish an updated legal framework for the RM-EU relations. Thus, **the European integration will be slowed down or even stopped, which will have a negative impact on the relations with the Member States,** which are currently supporting politically, diplomatically and/or financially the Republic of Moldova getting closer to the EU.

The risk generated by the Eastern option will endanger the country's national interests, including the European integration. For sure, an Association Agreement separated from DCFTA will not meet the priorities of the European Neighborhood Policy of EU and are against the principles of the Eastern Partnership (EP). Or, the latter is based on the political and economic integration with EU of the PE countries. Therefore, accession to RBK CU will endanger the reforms and transformation of Moldova according to the European model. This will contradict the country's strategic interest of European integration.

Signing of the Association Agreement (which indispensably envisages DCFTA) allows maintaining free trade regimes with the CIS countries. In such conditions Moldova, as part of DCFTA with EU, will have the possibility to develop further the economic cooperation with all CIS countries, including with Russia and other RBK CU states. This is stipulated expressly in the Association Agreement between EU and Ukraine (the document is available online, but so far has no legal effects)²⁶. In addition, according to an official position, formulated by the European Commission, AA/DCFTA provides for beneficial reforms for all parties involved and excludes the zero-sum game. Additionally, the European side confirmed that AA/DCFTA is compatible with the economic cooperation relations, established with the CIS countries²⁷.

Though an AA with EU corresponds fully with the national priorities of the Republic of Moldova, Russia expresses reserves and opposition regarding the European option of the country, which could impact adversely the Moldo-Russian relations. According to the warnings invoked by some Russian dignitaries, the Chisinau authorities will encounter a series of difficulties after signing the AA/DCFTA. The mentioned sensible areas relate to the Transnistrian conflict, Moldovan emigrants, gas deliveries and Moldovan exports on the Russian market (in

²⁶ According to Article 39 of the Association Agreement between the European Union and its Member States, of the one part, and Ukraine, of the other part, the Agreement does not preclude the maintenance or establishment of customs unions, free trade areas or arrangements for frontier traffic except insofar as they conflict trade arrangements provided for in AA, p. 29. Available at:

http://glavcom.ua/pub/2012_11_19_EU_Ukraine_Association_Agreement_English.pdf

²⁷ European Commission, "Armenia: EU position on the latest developments", Bruxelles, 4 September 2013. Available at: http://europa.eu/rapid/press-release_MEMO-13-766_en.htm

particular wine and fresh fruit). As a conclusion, following the pressures²⁸ already exerted or suggested as future intentions by the Russian side, the Eastern orientation is a forced and ambiguous option, with commercial disadvantages already felt by other RBK CU countries ²⁹ (for example, lower exports³⁰). On the one hand, this undermines the sovereignty of the Republic of Moldova, and on the other hand, it creates a very unfavorable context for the political and economic integration in the European Union.

²⁸ Resolution adopted by the EPP Political Assembly on Russian pressure exerted on the Eastern Partnership countries, 5 September 2013, Brussels. Available at: <http://ru.scribd.com/doc/166006007/EPP-Resolution-on-Russian-pressure-on-Eastern-Partnership-countries>

²⁹ Проблемы Белорусии с экспортом - Зеркало недостатков Таможенного Союза, 13 June 2013. Available at: <http://www.iarex.ru/articles/37695.html>

³⁰ Проблемы Таможенного союза, 14 March 2013. Available at: <http://www.asia-centre.com/problemy-tamozhennogo-soyuza/>

■ Annex: Comparable Effects of Moldova's Accession to DCFTA and RBK CU

		DCFTA	CUSTOMS UNION
FOREIGN TRADE	Advantages	• Increase in exports by 11.3%. • Increase in imports, including of investment goods, by 6.1%. • Decrease in the share of trade deficit in GDP by 2.6 p.p.	• Improved commercial exchanges between the Republic of Moldova and RBK CU members. • Possible reduction of the import price for gas by 30%.
	Risks	• Competitive shock from the products imported from EU and Turkey on the agrifood sector. • Arbitrary increase by the Russian Federation of its quality requirements for the products exported from Moldova (in particular wines and fresh fruit).	• Reduction of commercial exchanges with other countries than RBK CU. • Decrease in exports by 9.0%. • Increase in the share of trade deficit in GDP by about 2 p.p. • Reduction of imports by 4.5% and more expensive investment products imported from other countries than RBK CU.
ECONOMIC GROWTH	Advantages	• DGP increase by 6.4%. • Increase of the production volumes between 1.9 and 21.3%, depending on the sector. • Increase of household's consumer expenses by 7.8%.	
	Risks	• Reduction of agricultural produce by 3%. • Worsening of the financial situation in a number of enterprises from the most vulnerable industrial sectors (meat products, sugar, dairy, fruit).	• DGP decrease by 4.0%. • Decrease of the production volumes between 2.0% and 12%, depending on the sector. • Decrease in consumption by 4.5%.

PRICES	Advantages	• Consumer goods cheaper by 2.1% to 9%, depending on the product.	• The gas supplied by Gazprom cheaper by about 30%.
	Risks	• Increase in the price of the gas supplied by Gazprom, with chain effect on all industrial and consumer goods.	• Increase in the producer prices by 1.0-1.3%. • Consumer goods more expensive by 2% to 13%, depending on the product.
ENERGY SECURITY	Advantages	• Integration to the European energy system, by adopting the energy acquis communautaire (including of the "Third Energy Package"). • Independence and energy security enhanced by interconnecting to the European energy networks. • Attraction of investments for infrastructure modernization.	• Possible cheaper gas (by 30%).
	Risks	• Pressures exerted by SAD Gazprom and, as a result, uncertain gas deliveries and prices.	• Maintenance of the Russian monopoly in the energy (gas) sector. • Abandonment of the Energy Community and loss of European investments in infrastructure and interconnection projects. • Impossibility to guarantee a preferential gas price, due to the lack of a legal framework, which would ensure the 30% threshold and dilute the monopolies in RBK CU (and then in the Eurasian Union).
LABOR MARKET	Advantages	• Increase in the salaries for low-skilled workers by 5.9%. • Increase in the salaries for medium-skilled workers by 6.5%. • Increase in the salaries for	• Reduction of informal employment. • Maintain employment in agriculture.

		highly-skilled workers by 4.4%.	
	Risks	• Increase of informal employment by 7.0%. • Growth of unemployment.	• Decrease in the salaries for low-skilled workers by 3.0%. • Decrease in the salaries for medium-skilled workers by 3.5%. • Decrease in the salaries for highly-skilled workers by 2.0%.
BUDGET REVENUE	Advantages	• Increase of budget revenue by 1.6%.	
	Risks		• Decrease of budget revenue by about 2.0%.
BUSINESS ENVIRONMENT	Advantages	• Enhancement of the business environment as a result of institutional reforms. • Establishment of proper preconditions for more capital inflows in the Republic of Moldova. • Involvement of EU companies in investment projects in the Republic of Moldova and augmentation of the competitiveness of various sectors of the national economy. • Taking over and implementing competitive business models and modern technologies from EU.	
	Risks	• Increased competitive pressures exerted by the low-price imported products, in particular in the agrifood sector.	• Reduction of the competitiveness of the national economy due the spreading of the existing institutional drawbacks in the RBK CU states (rule of law, competition, political interference). • Increased vulnerability of the national economy, determined by the higher dependency on the

			RBK CU countries, whose economy is based on exports of fuels and is very sensible to foreign and domestic shocks. • Weaker competition because of the advancement of monopolies from RBK CU in the national economic sectors (e.g. energy sector). • Undermining of the country's image as a place for doing business.
MIGRATION	Advantages	• Preservation of the existing facilities for legal employment (in the case of the Republic of Moldova - Mobility Partnership). • Ensuring the same rights for Moldovan workers as for the European ones and prohibition of any form of discrimination. • Bilateral dialogue on migration management based on principles of solidarity, mutual trust, joint responsibility and partnership; • Cancellation of visas, depending on the progresses with VLAP implementation.	• Workers could be employed regardless of the quotas for foreign workers. • No need any more for work permits. • Registration within 30 days since the arrival in one of the RBK CU countries (instead of the 3 days, stipulated now in the existing Moldo-Russian agreements).
	Risks	• Probability of delays with visa liberalization as a result of the political processes within EU (elections in the European Parliament and establishment of the new European Commission - 2014).	• Possibility of introducing some discriminatory measures (quotas, restrictions for certain economic sectors, etc.), depending on the political decisions of the RBK CU states.
FOREIGN RELATIONS	Advantages	• Enhancement of the bilateral cooperation for purposes of economic reforms. • Improvement of the political, economic and other relations	• Intensification of the economic relations with RBK CU states.

		with EU Member-States. • Elimination of geopolitical conditionality in the relations with Russia. • Advancement of Moldo-Russian relations, provided that the artificial issues are overcome and a permanent comprehensive communication is ensured.	
	Risks	• Worsening of the economic relations with Russia, with protectionist measures introduced by the latter against the Republic of Moldova.	• Deadlock in the EU-RM relations, due to the need to readjust the bilateral legal framework. • Halt in the reforms and transformation of the Republic of Moldova.
COUNTRY'S REINTEGRATION	Advantages	• A unified system of rules in product safety, consumer protection, etc. • Uniform technical, phytosanitary, sanitary standards on both banks, aligned to the European standards. • Similar conditions in intellectual property protection, public procurements, competition. • Enhanced relations of cooperation (between sectors, authorities of both banks, central authorities and Transnistrian companies). • Harmonized legislation, on both banks, in the areas covered by DCFTA.	• Lower legislative and institutional gaps in the economic environment of both banks (over the past few years the Transnistrian region has been harmonizing its law with the Russian one).

	Risks	• Wider gaps between the two banks, resulting from two different integration vectors. • Higher economic isolation of the left bank of the Nistru River, with negative implications on the negotiation process.	• No economic incentives for a more active involvement of the left bank in the negotiation process. • Annulment of the preferential trade regime offered by the EU (ATP) and introduction of customs duties for the EU exports from both banks.
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