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Approaching Endgame? The changing economic viability of the post-Soviet de facto state of Transnistria in the context of Russia's war against Ukraine

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Approaching Endgame?

The changing economic viability of the post-Soviet de facto state of Transnistria in the context of Russia's war against Ukraine



MA Thesis in Russian and Eurasian Studies

Faculty of Humanities

Leiden University

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Introduction

Over the last decade, scholarly attention has been extensively devoted to EU-Russia competition over the ‘contested neighbourhood’: those countries intending to integrate with western institutions but are regarded by Russia as belonging to its ‘sphere of privileged interests’ (Averre 2009; Delcour 2017). One component of the ‘contested neighbourhood’, which has recently gained scholarly and practical interest are the unrecognized secessionist entities situated within these states. Evidently, these entities form an anomaly to the conventional units of the international system, namely collectively recognized sovereign states, and due to their illegality suffer from non-recognition and a ‘stigmatized’ status. (Geldenhuis 2009; Ker-Lindsay 2018). Consequently, de facto states lack the capacity to participate in formalized trade relations with the broader international community, the so-called ‘economic costs of non-recognition’, while external actors conventionally impose isolationist policies (Kemoklidze and Wolff 2020; Pegg 1998). Meanwhile, due to their ambiguous status, secessionist entities permanently fear the prospect of forceful reintegration with their parent state (Ker-Lindsay 2012; Kolstø 2006). Yet, within this hostile environment, post-Soviet de facto states have developed into seemingly stable entities. As such, the research question will be as follows: *What factors (internal and external) influence the economic viability of a de facto state and thus prolong secessionist conflicts? How do changes in these factors influence prospects for de facto state – parent state reintegration?*

In order to answer these research questions, this thesis critically assesses the existing scholarly literature on various aspects of de facto statehood and sustainability. Ultimately, it concludes that de facto state economic viability, and economic survival strategies in particular, has largely been understudied. These issues impact de facto state agency and thus provide a better lens to understand how de facto states act towards parent states and vice versa. Drawing from two notable exceptions, the theory-building works of Broers (2015) and Marandici and Leşanu (2021), this thesis adds new empirical data in a changed geopolitical context to study Transnistria as a critical case enhancing our understanding of de facto state economic viability and parent state reintegration strategies. After formulating the hypothesis, this thesis applies the qualitative research method of content analysis to a variety of sources pertaining to Transnistria’s economic model, including interview data from the author’s research internship in Chisinau. Following this analysis, this thesis presents conclusions regarding the research questions and hypothesis, while acknowledging some of the work’s

shortcomings. Overall, this thesis has established, by adopting a multi-actor perspective on the economic viability of Transnistria, that Transnistria's economic model is under unprecedented pressure due to changes in its external environment, which opens up opportunities for the Moldovan government to pursue reintegration policies.

The main findings are both academically and practically relevant. Firstly, this work contributes to present (academic) knowledge on de facto state economic survival strategies, patron-client relationships, parent state reintegration strategies and de facto state agency, which has scholarly relevance to both international relations and area studies. Secondly, this thesis shows that Russia's invasion of Ukraine has ultimately weakened Transnistria's strategic position and led to changes in the structural (economic) parameters regarding the settlement of the Transnistrian conflict. This corresponds to an insight presented by Dembińska and Mérand (2019), arguing that the conflict between Moldova and Transnistria should be regarded as 'dynamic' rather than 'frozen'.

Literature review

Scholarly literature discusses various factors explaining de facto state sustainability. It is argued that these entities have effectively engaged in state-building: creating state-like institutions, providing social services and ensuring the overall economic viability (Blakkisrud and Kolstø 2011). Others emphasize that de facto states heavily depend on the economic, financial and military support of an external patron (Blakkisrud and Kolstø 2012; Kolstø 2020). Recently, scholars focus on the implications of the ‘engagement without recognition’ framework, which entails a policy shift: in order to counter patron state dominance, the EU aims to enhance its linkage and leverage vis-à-vis de facto states through increased engagement, as opposed to disregard and isolation, while upholding non-recognition. This, in turn, has implications for the de facto state’s ability to diversify links with external actors (beyond the patron state) strengthening the entity’s economic viability and de facto statehood (Ker-Lindsay 2017; Pegg 2017).

Against this background, scholars debate how to conceptualize these entities and practitioners seek to shape more effective policies. In order to situate this thesis within the broader literature, a critical assessment of the relevant literature is presented. Firstly, this review offers support to a more nuanced perspective on the traditional narrative of de facto states, which has conceptualized these entities as geopolitically instrumentalized puppets of their external patrons and widely treated as ‘pariahs’ of the international system, by demonstrating that de facto states effectively engage in state-building processes, possess bounded agency and enjoy more implicit acceptance and engagement opportunities than would be imagined at first sight. Secondly, the research gap is outlined. In short, it is presented that de facto state economic viability, and in particular economic survival strategies within a changing geopolitical environment, has largely been understudied. These issues impact de facto state agency and thus provide a better lens to understand how de facto states act towards parent states and vice versa. Applying new data to a case used for theory-building offers new analytical and empirical insights (Marandici and Leşanu 2021).

This review considers three bodies of literature regarding de facto state economic viability, namely on de facto state state-building processes, perspectives on patron-client relations and the policy framework of ‘engagement without recognition’. Specifically, the focus is on the economic aspects of state capacity.

The ‘stationary bandit’: state-building in de facto states

Originally, the literature disregarded post-secession state-building processes. Instead, scholars have noted that secessionist authorities are primarily driven by murky economic interests and accordingly conceptualized secessionist entities as ‘criminalized black holes’ and ‘corrupt’. Indeed, Kolosov and O’Loughlin characterize secessionist authorities as “criminal or quasi-criminal organisations”, which engage in illicit activities, such as the smuggling of weapons and money laundering (1999, 152). Thereupon, King (2001) states that economic benefits primarily explain why certain actors engage in (secessionist) conflict. These actors successfully hijack the secessionist agenda for their own economic gain. This idea pertains to the ‘greed thesis’, which is applied to unrecognized secessionist entities by stressing that elite self-enrichment through the ‘shadow economy’ creates an interest to uphold the status quo leading to conflict prolongation (Collier 2000). Therefore, elite interests could form an obstacle towards a political settlement (Kemp 2005). Hence, the literature was originally dominated by the perception that these newly formed unrecognized secessionist entities are “little more than criminalised badlands driven by shadow economies and greedy elites” (Caspersen 2008, 130). However, Blakkisrud and Kolstø (2011) stress that regardless of what motivates secessionist elites, certain ethnic or regional grievances or self-enrichment, over time separatists are forced to become ‘state-builders’, as state-building processes are a prerequisite to uphold the status quo allowing for the shadow economy in the first place.

The literature progressed by developing de facto state conceptualizations that acknowledge state-building. In order to maintain the status quo and legitimize the secessionist authorities’ rule, Lynch drew a parallel with the work of Tilly regarding state-building processes in Europe by stating that de facto states manage to ascertain their authority by acting as a ‘racketeer state’. According to Tilly (1985, 170-171), “someone who produces both the danger and, at a price, the shield against it is a racketeer.” Lynch (2004), in turn, argues that de facto authorities effectively act as racketeers by exploiting the immediate setting of insecurity, created by their own secessionist endeavour, in the aftermath of the secessionist conflict by providing security at a price. Another take on state-building and internal resource extraction is captured by the metaphor of the ‘stationary bandit’. The work of Olson (1993) starts out by claiming that the situation of anarchy is suboptimal, as so-called ‘roving bandits’ engage in uncoordinated competitive theft, which is harmful for the economic development of a region, as it eliminates incentives to produce and invest. Both the

‘roving bandits’ and the population could gain from order. Following Olson’s argument, a more optimal outcome would be the case when a ‘roving bandit’ transforms into a ‘stationary bandit’ by engaging in the monopolization and rationalization of domestic resource extraction through taxation. The stationary bandit provides the public good of order, as it has an interest in maintaining the monopoly of domestic resource extraction, which provides a more predictable environment for investment and production (Ibid.). In order to optimize the process of public good provision in exchange for taxation, the stationary bandit over time becomes a state-builder interested in the economic development of the territory, as it increases the spoils of taxation (Blakkisrud and Kolstø 2011). Ultimately, all sides gain from well-functioning property rights. According to Marandici and Leşanu (2021, 340), “de facto states subsist if the rebel elites provide order and refrain from arbitrary expropriation and outright theft.” This necessitates de facto state authorities to turn into a ‘stationary bandit’ and adopt state-building tasks, as it increases internal resource extraction, partly allowing for augmented self-enrichment, and as state-building contributes to the entity’s overall viability.

After de facto secession is achieved, ‘war-makers’ need to transform into ‘state-makers’. Bakke, Linke, O’Loughlin and Toal (2018, 160) characterize this moment as a credible commitment problem, as “by winning the war, the separatists have made a commitment, either implicit or explicit, to rule, and they now need to make that commitment credible.” In order to create a durable entity, the separatists need to ensure popular support and trust, as some form of permanent population is a prerequisite to maintain a viable entity with a stable tax base. This concern is especially manifold in the context of a de facto state. Firstly, as a general rule de facto states result from some sort of secessionist conflict frequently leading to a ‘demographic crisis’ negatively impacting the already limited population base (Caspersen 2012, 84). Secondly, while an immediate mass exodus is a concern, emigration comprises a permanent threat to the entity’s viability. As life within an unrecognized entity comes with uncertainty, inhabitants continuously weigh their options, especially by evaluating the living conditions within the parent state. Therefore, de facto authorities are incentivized to maintain a sufficient standard of living convincing their inhabitants to stay. Scholarly literature assesses that this requires de facto states to make their ‘commitment to rule’ credible through the provision of public goods (Bakke et al., 2018). The resulting internal support and legitimacy following from adopting state-like functions through providing public goods, such as safeguarding external security, maintaining internal stability,

offering healthcare and education, are of crucial importance to de facto state viability (Caspersen 2015).

Overall, this body of scholarly literature has developed significantly by acknowledging the importance of state-building processes in de facto states. While at first these entities were conceptualized as ‘driven by shadow economies and greedy elites’, Blakkisrud and Kolstø (2011) correctly note that, regardless of what motivates secessionist elites, over time state-building becomes inevitable. The role of the de facto state as a ‘state-builder’ was discussed with regard to two aspects: the de facto authorities transforming into a ‘stationary bandit’, in relation to the work of Olson (1993) on taxation, and thereupon how state-building, and relatedly public goods provision, contributes to the entity’s overall viability. Both these aspects are important for our understanding of the functioning of de facto states, as they structure relations between the ruler and the population. These aspects, in turn, pertain to the relationship between state-building and internal legitimacy. Upholding the latter through public goods is key, as it prevents emigration, which would derail the secessionist endeavour. However, as the next section demonstrates, state-building is not solely an internal process, as resources from external actors are essential.

Patron-client relations: do not cross the red line!

In the next section literature demonstrates that de facto state state-building processes require the external aid of a patron. As the relationship between the patron state and the de facto state is highly asymmetrical, since the patron state ensures the secessionist entity’s viability, this relationship is widely conceptualized as a patron-client relationship, characterized by a heavily dependent de facto state and a patron state seeking geopolitical gain. Earlier literature was mainly devoted to studying de facto state sustainability in relation to a patron state. Thereafter, the debate concentrated on analysing the impact of patron assistance on de facto state agency. The central question was whether a de facto state ought to be regarded as a patron’s puppet or an actor in its own right demonstrated by client disobedience.

When studying factors explaining de facto state sustainability, scholars have differentiated between internal and external dynamics pertaining to the consolidation of de

facto statehood. Indeed, various authors have analysed state- and nation-building processes within de facto states through developing functional state structures, progressing (imperfect) democratisation and fostering a collective identity (Blakkisrud and Kolstø 2011; Caspersen 2008; Dembińska 2019; Kolstø and Blakkisrud 2008; Popescu 2006; Protsyk 2013).

However, scholars have emphasized the supremacy of external aspects in accounting for de facto state sustainability, as the external patron's aid is regarded as the main factor explaining the continued existence of de facto states (Kolstø 2006). In other words, the patron state is of existential importance.

Certainly, the extent of military support offered by an external actor is a vital factor explaining de facto state survival, deterring the parent state's attempts of forceful reintegration and freezing the status quo (Blakkisrud and Kolstø 2012; Florea 2017). This has induced Walter (2002) to write about the negative effects of stable and extensive external military support on conflict resolution, as a de facto state is not incentivized to accept a settlement valued less than the status quo. Furthermore, the patron state's role is not limited to the security domain, as at times the patron state also sustains de facto states by funding the majority of the state budget and assisting in the provision of welfare services (Blakkisrud and Kolstø 2012; Caspersen 2009). Due to its enormous leverage, a patron state is able to exploit the dependent de facto state to pursue its geopolitical objectives (Ambrosio and Lange 2015). In light of this highly asymmetrical relationship, some scholars have argued that de facto states function as geopolitical leverage by destabilizing the parent state within the context of a strategy of coercive diplomacy and regional power projection (Abrahamyan 2020; Kopeček 2020). Within this paradigm de facto states are merely perceived as puppets of their patron, which are obliged to comply to their patron, due to the nature of the relationship, and thus this paradigm disregards their agency and capability to act as a foreign policy actor in their own right (Artman 2013).

However, another body of literature relating to the patron-client relationship argues that a de facto state is capable of demonstrating some form of independent agency. This willingness to sometimes disobey the patron's wishes is both linked to public sentiments within the de facto state relating to the patron state, favourable or distrustful, and the entity's broader strategic objective, namely independence or broader integration with the patron state. Indeed, studies on the sentiments of people in Eurasia's de facto states demonstrated that geopolitical attitudes may vary (O'Loughlin, Kolosov, and Toal 2011, 2016). Hence, a patron state is not exclusively perceived as a partner, but could also be viewed as a threat (Kolstø

2020). Accordingly, the de facto authorities could be incentivized to keep the external patron at arm's length to retain some autonomy.

Indeed, client state disobedience has led some scholars to apply Putnam's two-level game theory to patron-de facto state bargaining (Putnam 1988). His main thesis is that the outcome of the negotiations is subject to the range of acceptable negotiation outcomes determined by the negotiations on two levels, namely on the inter-state and intra-state level. Thus, domestic constraints could impact the outcome of patron-client negotiations. For example, Ambrosio and Lange (2015) and Kolstø (2020) have demonstrated that the Abkhazian societal attitudes have pressured Russia to make some concessions regarding Abkhaz autonomy in the negotiations on bilateral agreements. This finding of a de facto state demonstrating agency in its relations to the patron state is somewhat surprising, given the context of non-recognition and asymmetrical dependence. As such, domestic pressure could empower a de facto state in the bargaining process with the patron state. These insights imply that the patron-client relationship arises from some common interests, but not a full overlap of strategic objectives.

Ultimately, this body of literature forms a critique on the literature associated with the puppet paradigm, as de facto states do not exclusively adhere to the patron's wishes and therefore this paradigm is too simplistic (Blakkisrud and Kolstø 2012). The case of Abkhazia proves that, in the case of a governmental and societal willingness to pursue independent statehood, a de facto state is capable of defying the logic of asymmetric power relations in bilateral negotiations with the patron. Therefore, Comai (2018) reconceptualizes de facto states as 'small dependent jurisdictions', which allows for acknowledging external dependency and a degree of agency in shaping the relationship with the patron state. Only some works study under which circumstances the patron is willing to tolerate client disobedience. For instance, Kosienkowski (2020) illustrates that Transnistria's client disobedience was met by Russia threatening to cut the gas supply and withhold funds, possibly as a punishment regarding the embezzlement of funds by the Transnistrian authorities (Całus 2017). Resultingly, scholars have perceived de facto states to enjoy bounded agency, as the patron is still crucial to the survival of the client state (Berg and Vits 2020; Blakkisrud and Kolstø 2012; Blakkisrud, Gelashvili, Kemoklidze, and Kolstø 2021).

Overall, it is notable that a geopolitical perspective dominates the literature pertaining to the patron-de facto state relationship. For this reason, the majority of scholars take an outside-in perspective, which entails studying patron-client relations from the patron state

viewpoint. The central theme relates to which strategic benefits engagement with a de facto state could offer. As such, the de facto state is perceived as a puppet, which is instrumentalized for the patron's geopolitical gain. De facto state agency or actorness is disregarded. Fortunately, a more inside-out perspective is increasingly present. These publications present de facto states as central in their analysis by examining their strategic objectives and perceptions of the patron state. Furthermore, the respective findings have challenged the traditional narrative, which disregards de facto states as the patron state's puppets, by demonstrating that de facto states are capable of showing some agency in relation to the patron. Thereby, de facto states are best perceived as actors in their own right with a bounded form of agency, as the existence of a patron is still essential to their survival. If no red lines are crossed, client state disobedience could be tolerated.

Not purely 'pariahs': engagement without recognition

In the next section literature is presented relating to actors beyond the patron state contributing to the de facto state's economic viability, namely the parent state and broader international community. Despite the fact that de facto states have continued to struggle to obtain broader international recognition, time has benefited de facto states as it has allowed them to consolidate de facto statehood, continuously increasing the practical and psychological hurdles to reintegration (Blakkisrud and Kolstø 2012). Consequently, the status quo has become more entrenched. As de facto states are clearly 'here to stay', parent states and the broader international community are in need of an approach beyond isolationist policies. In this light, the framework of 'engagement without recognition' has been proposed. The key development in this literature relates to the assumption that de facto states have been purely regarded as 'pariahs of the international system', suffering from the 'economic costs of non-recognition', as scholars have shown that there is more implicit acceptance and engagement with these entities than the traditional narrative presumes (Pegg 1998).

In general, the international community has an unfavourable posture towards unilateral secession. Hence, de facto states are widely regarded as unlawful and illegitimate entities violating the territorial integrity of the parent state. Therefore, the stigmatized status of de facto states is accompanied by near universal non-recognition (Ker-Lindsay 2018; Kolstø 2006). The underlying reasoning of sovereign states for their unfavourable posture towards

unilateral secession, and thus de facto states, is that secession ought not to be regarded as an effective means towards obtaining sovereignty, as this could cause an imitating effect and consequently destabilize the international system (Forsberg 2013). In line with political and legal reasoning, the literature was dominated by the assumption that sovereign states predominantly formed either punitive or neutral policies towards de facto states (Pegg and Berg 2016). In this sense, parent states have successfully portrayed secessionist entities as illegal and de facto occupied territories, which has had a restricting effect on engagement (Caspersen 2012; Geldenhuys 2009). As such, international and parent state non-engagement with de facto states was regarded as “the default position” (Caspersen 2012, 40). According to Pegg (1998, 177), the following policies towards de facto states exist: “actively opposing them through the use of embargoes and sanctions; generally ignoring them; and coming to some limited acceptance and acknowledgement of their presence.” Subsequently, Lynch (2004) extended the range of policies by adding the option of forceful reintegration through military means and Berg and Toomla (2009) reconceptualized limited acceptance as more direct engagement.

Evidently, the most common policy of actors beyond the patron state towards de facto states is political and economic isolation (Geldenhuys 2009). On the political level, this is manifested by a strategy of ‘diplomatic disregard’, which entails efforts not to legitimize the de facto rulers along with non-recognition (Hoch 2011). Economic isolation is used to reinforce the strategy of political isolation by means of geoeconomic tools, such as trade restrictions, economic sanctions and impeding access to finance (Geldenhuys 2009). Such parent state policies supposedly lead to a lack of foreign investment in the de facto state resulting in a deterioration of the economic situation and living standards, which would threaten the internal legitimacy of the de facto authorities (Caspersen 2009). To this end, isolationist policies aim to impel the secessionist authorities to make political compromises and strengthen the relative power position of the parent state (Hoch 2011). In other words, these policies are designed to impair the prospect of continued de facto statehood and to increase the likelihood of reintegration through negotiations. However, various scholars have offered critique to such isolationist policies and claim that, for diverse reasons, these could have adverse effects. Firstly, on the societal level, the population living in the de facto state is separated from the parent state, which limits people-to-people contacts and makes the ‘rally around the flag’ effect easier to exploit by the secessionist leadership (Frear 2014; Relitz 2019). On the government level, a de facto state could be dissuaded to participate in what it

judges to be an asymmetrical conflict resolution process (Ker-Lindsay and Berg 2018).

Lastly, on the geopolitical level, isolationist policies could lead to heavier reliance on a patron state (Caspersen 2009; Ker-Lindsay and Berg 2018). Following these arguments relating to the harmful effects of isolationist policies, punitive approaches towards de facto states could have counterproductive effects and thus harm the outlook of reintegration.

Accordingly, both scholars and practitioners are increasingly devoting attention to the concept of ‘engagement without recognition’. This concept was first raised by Peter Semneby, who sought to develop a new EU-strategy towards Georgia’s breakaway territories without incriminating on the principle of territorial integrity (De Waal 2017). In essence, the new policy would enhance the EU’s linkage and leverage vis-à-vis de facto states. This concept was further elaborated in a policy paper by Fischer (2010) and gained ground in academia when Cooley and Mitchell adopted it (2010). In effect, this policy concept seeks to distinguish between the international legal aspect of sovereignty and the governance dimension of a de facto state. Engagement could take shape in forms of ‘hard engagement’, in the political and economic domain, or ‘soft engagement’ in the cultural domain with the explicit objective of obtaining strategic leverage and weakening the influence of a patron state (Berg and Pegg 2018; Caspersen 2018; Cooley and Mitchell 2010; Fischer 2010). Supposedly, engagement and de-isolation could lead to more fruitful reconciliation initiatives in the medium and long term.

However, this EU proposal of adopting a non-punitive policy towards de facto states was sceptically perceived by parent states, as it is feared that by effectively treating de facto states as fully sovereign ‘creeping recognition’ could arise (De Waal 2017). In response, Ker-Lindsay (2015) has argued that ‘accidental recognition’ cannot arise, as recognition remains a legal and political concept that needs a formal declaration to be conclusive. Therefore, the extent of engagement with a de facto state in the ‘engagement without recognition’ framework does not influence the issue of recognition. Nonetheless, Caspersen’s (2018) case studies show that parent states and de facto states have fundamentally different reasons for engaging with one another. While a parent state desires to alter the status quo through conflict resolution, a de facto state aims to both foster the prospect of international recognition and to decrease its strategic vulnerability, namely by reducing its dependence on an external patron by diversifying its resource base (Caspersen 2018).

Overall, when evaluating the literature pertaining to de facto state relations beyond the patron state, a development is noticeable concerning the treatment of de facto states as ‘purely

pariahs of the international system'. Furthermore, scholars have criticised existing practices towards de facto states by arguing that isolationist policies predominantly have counterproductive effects. As such, the 'engagement without recognition' framework has shown that non-punitive approaches have gained favour and perceptions of de facto states are malleable (Ker-Lindsay 2018; Pegg and Berg 2016). Apart from two studies that have analysed the effects of economic engagement on parent state – de facto state confidence-building (Blakkisrud et al., 2021; Kemoklidze and Wolff 2020), there is a lack of case studies providing analytical and empirical insights on engagement of both the parent state and other international actors with a de facto state (Relitz 2019). This has led to under-theorization of the topic of 'engagement without recognition'. Additionally, the extent to which de facto states demonstrate capacity of shaping some form of independent foreign policy via the 'engagement without recognition' framework is also under-studied (Berg and Vits 2018). In this sense, this question returns to the matter of whether de facto states ought to be perceived as having bounded agency or are merely geopolitically instrumentalized puppets.

The research gap

This literature review has established the need for studying de facto states through a more nuanced perspective, as opposed to the traditional narrative pertaining to de facto states, by having demonstrated that de facto states effectively engage in state-building processes, possess bounded agency and enjoy more implicit acceptance and engagement opportunities than would be imagined at first sight. While taking this reconceptualization into account, the proposed research would engage with the following research questions: *What factors (internal and external) influence the economic viability of a de facto state and thus prolong secessionist conflicts? How do changes in these factors influence prospects for de facto state – parent state reintegration?* The adopted structure of the review attempts to demonstrate that the dynamics pertaining to de facto state economic viability are best understood through the prism of a triangular relationship: patron state, de facto state and parent state (and affiliated actors). Therefore, this thesis seeks to address two under-studied phenomena. Firstly, there is a general lack of case studies providing analytical and empirical insights about the merits of the 'engagement without recognition' framework. Secondly, de facto state economic viability, and in particular their economic survival strategies, has largely been understudied. These

issues impact de facto state agency and thus provide a better lens to understand how de facto states act towards parent states and vice versa. Moreover, this thesis aims to apply new empirical data in the context of Russia's invasion of Ukraine to enhance our understanding of de facto state economic viability and parent state reintegration strategies. Thus far, it remains unclear to what extent the mechanisms of de facto state economic survival and prospects for de facto state – parent state reintegration are impacted in the context of the war. Therefore, the remainder of this thesis seeks to make a contribution to the existing literature by adopting a multi-actor perspective on the economic viability of Transnistria in the context of changing geopolitical circumstances.

Research Design

Theory

When taking a broader look at the existing literature on (post-Soviet) de facto states, one can observe that, as illustrated by the literature review, various aspects pertaining to their functioning and continued existence are discussed. However, as some scholars have remarked, the aspects of the working and the rationale of the adopted model of the de facto state political economy are commonly disregarded (Harvey and Stansfield 2011). On the one hand, this is understandable, due to the fact that (economic) data are not always readily available and otherwise suffer from the issues of reliability and verifiability. On the other hand, this is problematic because it limits our understanding of vital aspects relating to de facto state viability. Consequently, why de facto states opt to structure their political economy differently is understudied and therefore undertheorized. Yet, the theory-building works of Broers (2015) and Marandici and Leşanu (2021) prove to be notable exceptions. Following a discussion of these works, the theoretical model is slightly modified and new data are introduced.

Firstly, Broers (2015, 269) makes a compelling case for the need of a “more differentiated and case-sensitive understanding” of the functioning of (post-Soviet) de facto state political economies. In this respect, Broers argues that de facto elites adopt different economic survival strategies depending on the degree of internal resources and the possibility to engage with external actors, which lead him to theorize three ideal-type models of de facto state resource extraction: ‘subsistent’, ‘rentier’ and ‘monopoly mediator’. Essentially, Broers (2015) theorizes de facto state resource extraction on a spectrum between primarily endogenous and exogenous oriented political economies. The adopted resource extraction model has implications for state-society relations. When the economic viability of the de facto entity predominantly depends on internal resource extraction, there is a larger degree of elite-society bargaining and resultingly increased internal legitimacy. However, if the adopted economic survival strategy primarily depends on resources from external actors, this elite-society negotiation does not arise and the de facto authorities engage in redirecting the (external) rent to certain groups in order to guarantee their loyalty (Ibid., 274).

Returning to the ideal-type models, the ‘subsistent’ model entails that resources are primarily, yet not exclusively, extracted from internal sources, which leads to a relatively weak state that needs to provide social services with limited resources. The ‘rentier’ model, in contrast, entails that de facto state economic survival is largely determined by a patron state. This results in fundamentally different state-society relations, as the de facto authorities can more or less function autonomously from society because there is no ‘bargaining process’ required regarding resource extraction. Instead of acquiring resources bottom-up, the de facto authorities distribute rents derived from the patron state. This model has two major implications: due to the lack of dependence on internal resources, the tax system is underdeveloped; and secondly, power rests with political and economic elites, whose personalized relations lead to corruption (Ibid., 274-275). The risk associated with this economic model is the existential dependence on the external patron. Lastly, Broers (2015) theorizes an intermediate model, the so-called ‘monopoly-mediator’ model. This model is characterized by a wish to develop more prominent forms of internal resource extraction, while the necessity of this capacity is limited, due the support of an external patron. Thus, the resulting state-society relations will be structured by elites engaging in ‘negotiated extraction’ or ‘rentier allocationism’ (Ibid., 275). Marandici and Leşanu (2021) have thereupon created a theoretical framework for post-Soviet de facto state economic survival strategies. An adaptation of this framework (including actors beyond the patron and parent state) is displayed in figure 1.

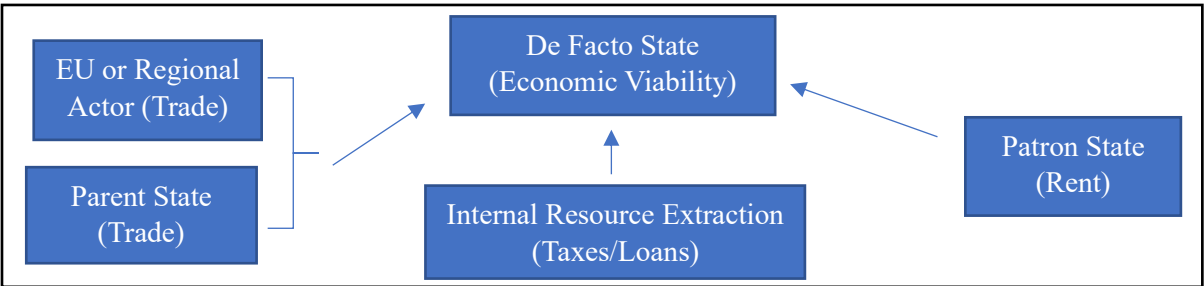


Figure 1: Framework for de facto state economic survival strategies. Based on the work of Marandici and Leşanu (2021).

This diagram aims to exhibit the dynamics pertaining to de facto state economic viability through the prism of a triangular relationship between the patron state, political and economic elite actors engaging in internal resource extraction, and the parent state and affiliated actors. Based on the theoretical discussion, two hypotheses will be presented regarding the implications of a changing geopolitical environment on the economic viability of a de facto state and the corresponding prospects for de facto state – parent state reintegration.

Hypotheses

H1a: Due to the ‘bounded agency’ of a de facto state, it is expected that unstable geopolitical circumstances will undermine the economic viability and hence the strategic position of a de facto state, as it would be less capable of balancing between external actors.

H1b: If the conditions of *H1a* are fulfilled, it is expected that the parent state will be empowered to pursue reintegration policies, which positively influences the prospects for de facto state – parent state reintegration.

Case selection

This thesis will utilize a single case study. As defined by Gerring (2004, 342), a case study is “an intensive study of a single unit for the purpose of understanding a larger class of (similar) units”. Indeed, the comparative context is key to a case study, as the case relates to broader theories and concepts aiming to foster our understanding of a certain phenomenon (Heath and Halperin 2017). This thesis will apply an existing theory, as set out above, to a new context, which is manifested by applying new data to a case used for theory-building. In this sense, the case of Transnistria has been selected, as it provides a critical case to apply existing theory (Gerring 2004). Returning to the ideal-type models of Broers (2015), Transnistria exhibits characteristics of a ‘rentier’ model. Internal resource extraction is limited, as the economic viability and public good provision is largely guaranteed by distributing rents derived from the patron state. Protsyk (2006) further illustrates that state-society relations within Transnistria are characterized by an oligarchic system of rule coupled with marginal taxes and substantially funded education and health care. In general, de facto states that adopt this economic survival strategy manage to maintain a reasonable level of internal legitimacy and are quite stable, despite fluctuations in patron state support (Kosienkowski 2020). However, what makes the Transnistrian case different is that it adopts a very foreign-oriented economic model, while the entity lacks direct access to the patron state introducing a dependence on Ukraine. This stands in contrast to other post-Soviet de facto states, such as Abkhazia and South Ossetia. Therefore, the Transnistrian case provides new

and useful insights into how a de facto state possibly alters its economic survival strategy in light of the geopolitical circumstances and illustrates the corresponding implications for the prospects of de facto state – parent state reintegration.

One note on the typology: this thesis uses the terms Transnistria and president, as opposed to the ‘Transnistrian region’ or ‘so-called president’, to improve the readability. This does not imply legitimacy.

Method of analysis and data collection

In order to analyse possible changes in Transnistria’s economic model, this study utilizes content analysis, a qualitative research method, to analyse official data from the Transnistrian authorities, Moldovan government reports, Moldovan and Transnistrian news articles, academic secondary sources, public statements and a number of interviews conducted with officials and civil society representatives during the author’s stay in Chisinau (see Table 1). The use of data from the Transnistrian authorities requires some elaboration. It is accepted among experts that the data on the official websites of the Transnistrian ministries are usually quite reliable. The problem is not the raw data, but the fact that it is presented in a manipulative way to present a certain picture. For example, export data are presented in a politically convenient and misleading way. As the scale of exports to Russia is limited, it is more convenient to include a statistic on the total trade with Russia, which due to the size of gas imports from Russia is quite large. This allows for manufacturing a political message claiming that Russia is Transnistria’s ‘primary trading partner’. Furthermore, some trade statistics pertaining to the Commonwealth of Independent States (CIS) are exaggerated. Exports are calculated in a creative way, including exports to right-bank Moldova (technically still in CIS), Ukraine (not in CIS), Russia and other CIS-members. As a result, the share of exports to the CIS, associated with Russia and ‘the Russian World’, is higher than that to the EU. Nonetheless, the raw data remain reasonably reliable and useful, as long as manipulative presentations are taken into account.

Table 1*List of interviewees*

	Function	Institution
Interviewee 1	Analyst	German Economic Team in Moldova/Berlin Economics
Interviewee 2	Analyst	Community WatchDog.MD (NGO)
Interviewee 3	Government official	Moldovan Ministry of Energy, Government of the Republic of Moldova
Interviewee 4	Adviser to Moldovan government	EU High Level Advisers' Mission to Moldova
Interviewee 5	Government official	Bureau of Reintegration, Government of the Republic of Moldova
Interviewee 6	Analyst	Initiative 4 Peace (NGO)
Interviewee 7	Analyst	European Union Institute for Security Studies
Interviewee 8	Analyst	Centre for Eastern Studies (OSW)
Interviewee 9	Policy officer	Embassy of the Kingdom of the Netherlands to the Republic of Moldova

Source: author's interviews in Chisinau (June 2023-February 2024)

Case Study: Transnistria

Chapter 1: Historical background

The Transnistria conflict is regularly mischaracterized as an ethnic conflict. It is not possible to neatly divide the conflict parties along ethnic lines. Moreover, although regional identities differed, there was no deep hatred between the people on both sides of the Nistru river. Nonetheless, factors relating to ethnicity should not be disregarded, but perceived as a tool rather than the root cause of conflict. Linguistic and cultural issues were used to legitimize the claim to power of the Moldovan and Transnistrian elites. Conflicting political and economic interests between the Popular Front, a sociopolitical movement in the Moldovan SSR opposing Soviet policies of russification, and the Transnistrian Russia-oriented elite are the underlying cause of conflict.

Certainly, the rise of the Popular Front in the 1980s created uncertainties among the Transnistrian population regarding their linguistic and cultural freedoms, but more importantly, the Transnistrian elites, who were very much reliant upon close relations with Moscow, feared that their power and privileges would be threatened by the prospect of Moldovan independence or even a potential union with Romania. The Transnistrian elite therefore sought to advance their political and economic interests by instrumentalizing factors relating to ethnicity, such as history, language and culture, to foster inter-group fear and promote secession (Kaufman 1996; Kolstø, Edemsky and Kalashnikova 1993; Roper 2010). The resulting conflict claimed 1,000 lives and hostilities only ended after the decisive military intervention of the Russian 14th army, which compelled Moldova to sign the 1992 ceasefire agreement. Afterwards, the high degree of cross-border interaction resumed depicting the conflict as “an extremely contentious political dispute” (De Waal 2018, 35).

1.1 – Moldova’s turbulent modern history

At the heart of the secessionist conflict lay different perspectives on Moldova’s modern history, which enabled the instrumentalization of ethnicity (De Waal 2018; Roper

2010). In 1812, in the wake of the Russo-Turkish war and the signing of the Treaty of Bucharest, the historical region of Bessarabia, approximately corresponding to contemporary right-bank Moldova, was annexed by the Russian Empire, as previously also ensued with Transnistria in 1792. While Bessarabia retained a significant degree of autonomy at first, from the mid-nineteenth century, it became subject to policies of russification: the status of the Russian language was raised, self-rule was limited and the demographic composition was altered through an influx of predominantly Russian settlers (Roper 2010). Meanwhile, this period of oppression intensified pan-Romanian nationalism, which was able to gain political force in the context of the First World War and the Russian Revolution. The newly formed national assembly declared the region to become the independent Moldovan Democratic Republic of Bessarabia and subsequently voted for integration with Romania in 1918, which decoupled the contemporary right- and left-bank (Kaufman 1996). While the former would become a part of Romania for 22 years, the latter remained under Russian influence. Importantly, in 1924, the contemporary territory of Transnistria and the Ukrainian Podilsk Raion received the status of the Moldavian Autonomous Soviet Socialist Republic (MASSR) as part of the Ukrainian SSR (King 1998). The purpose of this artificial political creation was to “create a springboard for a reconquest of Bessarabia” exhibited by the proclamation of Chisinau as its symbolic capital (Kolstø, Edemsky and Kalashnikova 1993, 978). The industrialization of the region led to substantial migration of primarily ethnic Ukrainians and Russians fostering a Sovietized identity.

Following the Molotov-Ribbentrop Pact, the Soviet Union acquired Bessarabia leading to the revision of administrative borders. In June 1940, the majority of Bessarabia and modern-day left-bank Moldova jointly formed the Moldavian Soviet Socialist Republic (MSSR). According to Kaufman, this created an “ethnic affinity problem,” which was exacerbated by differences in their collective memories (1996, 120). Firstly, the annexation of Moldova fostered feelings of anxiety among the Moldovans, as they perceived their Moldovan identity to be threatened in a Russian-dominated Soviet Union. The Soviet russification policies justified these fears. However, in the decade preceding independence, the push for an independent Moldovan state or reintegration with Romania sparked feelings of fear among the Russia-oriented population of Transnistria, as these developments would transform their group into a minority. Secondly, this fear was supported by the differing collective memories containing experiences of domination by the other group. For the Moldovans this experience was based on the periods of oppression under the Russian Empire

and Soviet Union. In contrast, the Russia-oriented population of left-bank Moldova based their fear on their experience regarding the Second World War, when they suffered from the repression of fascist Romania, allied to Nazi Germany. Therefore, the collective memories of both sides justified different fears regarding Russian or Romanian domination (De Waal 2018; Kaufman 1996).

The period of Soviet rule over Moldova demonstrates that these Moldovan fears related to Russian domination were justified, as Soviet russification policies developed grievances among the Moldovans. The aim of Soviet policy in the post-war period was to construct a Moldovan identity by disconnecting it from Romania (Roper 2010). Hence, the Cyrillic alphabet was imposed on the Moldovan language, the Russian language became the primary language in public life and “Moldova’s history was rewritten to deny any legitimate connection to Romania and to exaggerate the region’s ties to Russia” (Kaufman 1996, 121). In addition, the share of ethnic Russians in Moldova practically doubled during the Soviet period, which introduced an ethnic socio-economic cleavage over time, as ethnic Russians were overrepresented in desirable industrial management functions and political institutions (Roper 2010). While the Moldovans were underrepresented in these areas, they were overly present in the inferior agricultural sector. In this essence, scholars portray the MSSR to constitute ‘two republics in one’: whereas the left-bank was dominated by heavy industry with a primarily Russia-oriented or immigrant population, in right-bank Moldova agriculture prevailed with a Moldovan population (King 1999). Thus, the MSSR came to be divided geographically along the lines of two competing elites on either side of the Nistru, which were either influenced by Romania or supported russification policies. While the left-bank elite had a firm grip over Moldovan politics till the 1980s, the Gorbachev era brought uncertainty to existing power relations (De Waal 2018).

1.2 – Perestroika and two competing claims to sovereignty

As in other Soviet republics, Gorbachev’s reforms of the late 1980s inadvertently created the space for nationalist mobilization and public expressions against russification (Roper 2010). In Moldova these expressions were first expressed by the gradually expanding Popular Front, a political movement promoting the Moldovan identity by arguing for Moldovan to become an official state language and advocating for political independence

from the Soviet centre (Kaufman 1996). While at first the Popular Front aspired to acquire Moldovan sovereignty, their political objective later altered to unification with Romania (Kolstø, Edemsky and Kalashnikova 1993). The radicalisation of their political platform, especially regarding language policy, caused unease among the Transnistrian elite. Indeed, in what Crowther typifies as ‘reactive nationalism’, the privileged position of the Transnistrian elite in the political and economic domain was threatened, which necessitated a response from the ethnic minority to retain the status quo (Crowther 1991). The 1989 language law, raising the status of Moldovan to state language using the Latin alphabet, was despised by the Transnistrian elite for two reasons: it signified a change in the balance of power in all aspects of life from the Russian- to Romanian-speakers and was regarded as a stepping stone to unification with Romania (Kolstø, Edemsky and Kalashnikova 1993). These developments exposed the main dividing line in Moldovan society: two competing political elites with different ideas about the future of Moldova in accordance with their self-interest, namely loosening or retaining ties with Moscow (Roper 2010). In response to Moldovan political developments, referenda were organized in which the population of Transnistria (and right-bank Bender) asserted their desire to obtain sovereignty from Chisinau. Consequently, while the two incompatible claims to sovereignty arose providing the basis for the ensuing conflict over the status of Transnistria, the dissolution of the Soviet Union in 1991 led to broader ramifications (De Waal 2018).

While the Popular Front’s pan-Romanian agenda led to substantial fear among the population of left-bank Moldova, these fears were instrumentalized and intensified by the Transnistrian elite to spark a secessionist conflict, as challenging the Moldovan government’s authority was in their best interest. The aforementioned competing claims to sovereignty led to an ethnic security dilemma in the context of the dissolving Soviet Union, which prompted the organization of paramilitary forces (Kaufman 1996). While all-out conflict lasted around two months, the preceding six months were characterized by small-scale violence and rising tensions with specific regard to intimidate and remove pro-Chisinau policemen on Transnistrian territory (De Waal 2018). When the conflict escalated, neither side had a proper army. Nonetheless, the Transnistrians had reasons to believe that Russia would support their military campaign, as they provided covert military support prior to the conflict and had a military contingent stationed on the left-bank. Transnistria, in turn, offered Russia an opportunity to maintain a military footprint and political influence in the region. Therefore, it is possible that Moscow’s posture might have incited Transnistrian opportunism, as the

Russian 14th Army ultimately openly intervened tipping the military balance of power in favour of Transnistria (Kaufman 1996).

1.3 – The ceasefire agreement and the new status quo

In July 1992, a ceasefire agreement was signed between the Republic of Moldova and the Russian Federation. While the ceasefire agreement has been successful in preventing the reoccurrence of violence, some of the provisions have not materialized, such as the anticipated withdrawal of the Russian military contingent resulting from dialogue between Chisinau and Moscow (Rosa 2021). As a result of the agreement, a demilitarized Security Zone was established; a tripartite Joint Control Commission was created to oversee the activities of the joint Moldovan, Transnistrian and Russian peacekeeping force; and the freedom of movement of people, goods and services was to be guaranteed. Russia also maintained a military presence in the separatist entity by reclassifying the Fourteenth Army into the sized down Organizational Group of Russian Forces (OGRF) of around 1,500 soldiers, which is tasked with the supervision of the decommissioned Soviet-era ammunition depot in Colbasna. However, this force is largely merely Russian on paper, as 90% of these troops are local Transnistrians with a Russian passport (Ibid.). Meanwhile, the so-called *Pridnestrovian Moldavian Republic* has failed to secure the recognition of any recognized sovereign state, including its patron Russia.

Ever since the ceasefire, the conflict has gradually transformed into a protracted conflict. The threat of violence reoccurring is minimal, but more than 30 years of negotiations have not brought substantial results regarding conflict settlement. Although both the Russian-backed Kozak Memorandum in 2003 and the Ukrainian-backed Yushchenko Plan in 2005 came close to finding an arrangement, the status of Transnistria remains disputed. Whereas Moldova regarded the former as undesirable because of the powerful role it would give Transnistria within a federalized Moldova, as Transnistria would have a veto over Moldova's foreign policy, the latter was regarded by the separatists as an asymmetrical federation harmful to their power position (Ibid.). Meanwhile, Russia has not fulfilled its 1999 Istanbul Summit Commitments, as Russia's illegal military presence has merely been downscaled and not fully withdrawn (OSCE 1999).

Furthermore, the OSCE negotiation framework has been widely criticized for two major reasons. Firstly, Russia performs a dual role within the conflict settlement process: both as a mediator between the conflict parties and a key supporter of Transnistria. Secondly, the OSCE framework treats Transnistria as an equal to right-bank Moldova, which has both legitimized the existence of the de facto state and granted it far-reaching competences, such as the right to “unilaterally establish and maintain international contacts in the economic [...] domain” (OSCE 1997, 2). Because of disagreements on the bigger issues, focus has shifted to resolving socio-economic issues and implementing confidence-building measures. Currently, the only functioning negotiation framework is the so-called 1+1 format in which Chisinau and Tiraspol engage in dialogue under the auspices of the OSCE. The so-called 5+2 format, which includes Moldova and Transnistria as ‘conflict parties’, the OSCE, Russia and Ukraine as ‘mediators’ and the EU and US as ‘observers’, is dysfunctional since Ukraine no longer wishes to engage in a negotiation framework involving Russia.

Chapter 2: Multi-actor perspective on the economic viability of Transnistria

2.1 – Russia (patron state)

Transnistria offers Russia an instrument, or leverage, to protect its geopolitical interests in Moldova. In order to hamper Moldova's Europeanization, Russia has an interest in either prolonging the conflict or ensuring that Transnistria becomes a veto player on Moldova's foreign policy. For this reason, as seen in the 2003 Kozak memorandum, Russia seeks to institutionalize its influence by promoting a federal framework, while not granting Transnistria recognition like other de facto states (Berg and Vits 2022). Russia offers the region diplomatic, economic and military support under the guise of 'compatriot policies'. The patron's backing is of existential importance, as stated by the region's first President Smirnov (Nezavisimaya Gazeta 2010). Despite the asymmetric dependence, occasionally tensions arise in the relationship when Russian funds are greatly misappropriated causing Russia to cease supporting Smirnov in 2011 (Kosienkowski 2020). Overall, the patron-client relationship is sustained by mutual benefit.

However, according to an international analyst, when Sheriff took over all branches of power in 2016, Russia started to approach Transnistria with cautiousness and a more cynical attitude. Moscow does not really trust Sheriff because they are perceived as businessmen and thus not ideologically driven, which makes their loyalty more questionable. In this context, direct budget support from the Kremlin ceased. Apart from 'Putin's additional', a monthly contribution of 10-15 dollars per pensioner per month, Sheriff is responsible to generate its own funds based on the region's industrial capacity and free gas (Interviewee 8). In essence, Russia seeks not to contribute more than necessary to sustain the secessionist region, which is nevertheless pro-Russian and has Russian boots on the ground.

2.1.1 – The gas subsidy mechanism

Russia plays a vital role in sustaining the competitiveness of the Transnistrian economy and the stability of the region at large (Caľus 2023). Since 2009, the separatist

authorities receive Russian gas for free, which has allowed for the implementation of the so-called gas subsidy scheme (Kosienkowski 2020, 192). This mechanism ensures the entity’s economic viability reaching far beyond merely providing the energy source for the region’s heavy industry.

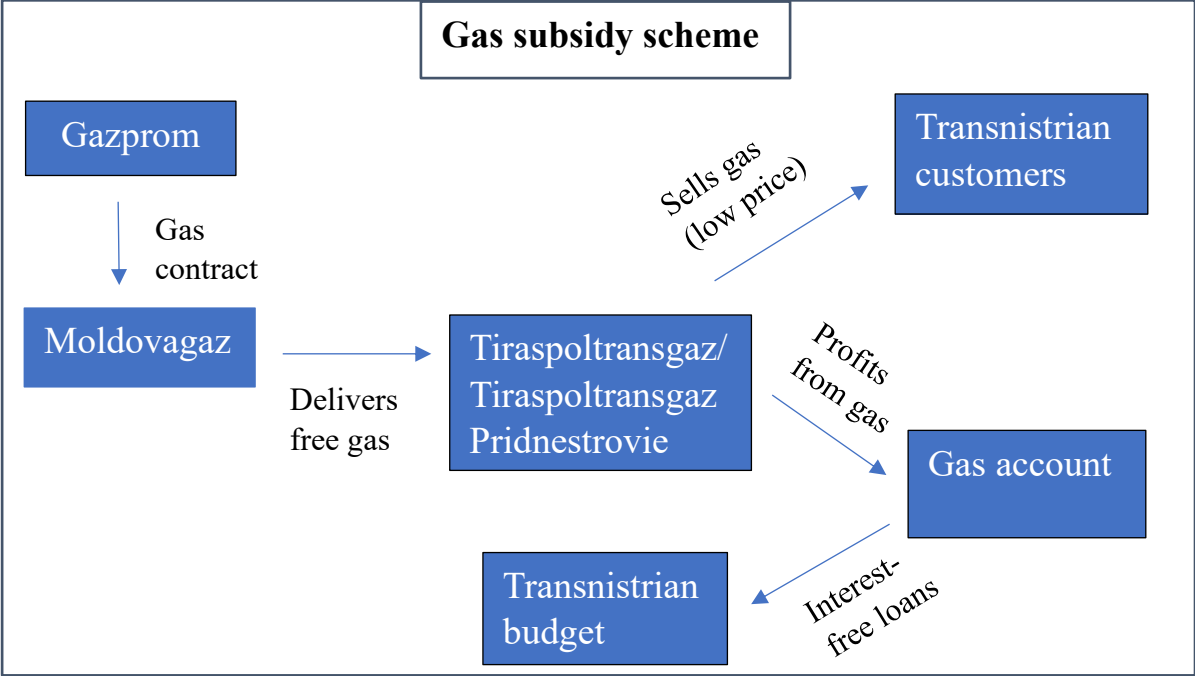


Figure 1: Gas subsidy scheme Transnistria. Note: There is no indication that the de facto authorities repay the loans (Interviewee 1, 2).

As the Russian Federation has not formally recognized Transnistria, the gas supply operates in the framework of a Gazprom-Moldovagaz contract. Both Chisinau and Tiraspol refuse to pick up the bill for the gas consumed on the left-bank. Occasionally, Russia instrumentalizes the resulting gas debt (approximately 7-8 billion USD) to pressure the Moldovan authorities. However, Gazprom does not terminate the contract because Russia still perceives Transnistria to hold strategic value (Interviewee 2).

As illustrated in figure 2, there is a gas contract between Gazprom and Moldovagaz, designating a certain amount of gas to right-bank Moldova (1.2 bcm) and consigning another part to Transnistria (2.0 bcm). The part that goes to left-bank Moldova is thereupon acquired by local gas suppliers and transmission system operators (Interviewee 1). In this regard, there are two regional actors, namely Tiraspoltransgaz and Tiraspoltransgaz Pridnestrovie. Both of them are not recognized by Chisinau. Prior to 1992 all the infrastructure was owned by the Moldovan state, but in 1995 and later in 1998 all infrastructure was acquired by Moldovagaz, including the infrastructure located in Transnistria. This branch of Moldovagaz is called Tiraspoltransgaz. The Transnistrian authorities placed this infrastructure as equity under

Moldovagaz to partly repay their gas debt. Due to a debt-equity swap, a part of the debt of Moldovagaz was written off for the acquisition of shares by Gazprom. In 2005, President Smirnov issued a decree that nationalized all the property of Tiraspoltransgaz under a newly created entity, namely Tiraspoltransgaz Pridnestrovie. Thus, there are two operators. These entities can be distinguished as follows: “Tiraspoltransgaz Pridnestrovie has contracts with the consumers, receives funds and finances the separatist budget, while Moldovagaz is signing deals with its branch Tiraspoltransgaz” (Interviewee 2). All the debt resulting from non-payment is accorded to Tiraspoltransgaz.

Returning to figure 2, Tiraspoltransgaz does not reimburse Moldovagaz for the gas designated for left-bank Moldova. Instead, the value of this gas is recorded in the books of Moldovagaz as debt to Gazprom. Thereupon, Tiraspoltransgaz Pridnestrovie sells this gas to consumers within the region, which range from households and SMEs to large-scale industrial plants. The latter consumers have the highest demand for gas and accordingly compose the biggest share of revenue to Tiraspoltransgaz Pridnestrovie. The biggest local consumers are two energy-intensive and energy-inefficient enterprises: MMZ and MGRES. Both these entities acquire the gas at ‘dumping prices’, but produce goods that are sold abroad at market price (Kosienkowski 2020, 192). As a result, due to the low production costs, MMZ and MGRES have a huge competitive advantage allowing them to operate on the European market. As such, due to the free gas, these Soviet era production facilities continue to provide a valuable source of employment and taxes contributing to the overall political stability of the separatist region.

Other local consumers also contribute to the gas operator’s revenue, but this is marginal (Interviewee 2). However, in this instance, the domestic legitimacy component of the gas subsidy scheme is more important. At the beginning of 2023, the Transnistrian authorities shared that energy tariffs for the local population are significantly lower in comparison to right-bank Moldova (gas up to 27 times lower and electricity 3.5-5 times lower) (Novosti Pridnestrov’ja 2023b). These very low energy tariffs significantly improve the lives of the region’s population and contribute to a perception that people are better off living on the left-bank than on the right-bank (Kosienkowski 2020, 193). Thus, the gas subsidy mechanism is also a political instrument fostering the domestic legitimacy of the de facto state and its leadership.

On the supply side of the equation, the gas is indeed sold at significantly lower than market prices, but considering that the gas is obtained for free, the gas sales generate purely

profit. The majority of these profits are allocated to the budget of the Transnistrian authorities, officially recorded as loans through the so-called gas account, but it seems that the de facto authorities do not actually repay these loans. Effectively, it is a form of budget support (Interviewee 1). Moldovan experts analysed the revenues of the gas account over the period 2007-2016 and concluded that these comprise on average 35.3% of total expenditures (Parlicov, Şoitu and Tofilat 2017, 33). The gas account is used to compensate for the perpetual budget deficits and is thus crucial to the payment of pensions and salaries of public employees (Interviewee 8). As such, the performance of the region's industry and the capability of the Transnistrian authorities to provide public goods are closely interconnected. This, in turn, means that exogenous economic circumstances, as the Transnistrian economy almost exclusively produces for exporting purposes, strongly impact public finances. When global economic circumstances are favourable the industry will produce approximately at full capacity, which leads to a high demand in gas positively influencing the Transnistrian authorities' budget. However, in times of dire exogenous economic circumstances, such as when the region's main export partners suffer from a recession, the impact is strongly felt by both the region's industry and the separatist leadership. Thus, the separatist authorities reap the benefits of the gas subsidy scheme in favourable economic times, but are struck twice as hard when demand falls in the main export destinations (Dembińska and Mérand 2019, 21).

2.1.2 – The impact of the war: unease in Tiraspol

Prior to Russia's invasion of Ukraine, right- and left-bank Moldova were both dependent on Russian gas. For decades, Gazprom was the sole gas supplier of right-bank Moldova, as corrupt political elites in Chisinau prevented diversification efforts, which kept Moldova vulnerable to Russian energy blackmail. From 2000 onwards, several Moldovan 'National Energy Strategies' were adopted making numerous references to the importance of diversification for the country's energy security, but 'no major progress' was made until mid-2019 (Tofilat and Parlicov 2020, 8). In 2019, the first major step was made to break this dependence. Instead of a positive change in political will, this development was due to external factors. At the time, it was uncertain whether the transit agreement between Naftogaz and Gazprom would be extended. In case of failed negotiations, this would have implications for all countries relying on Russian gas supplies through Ukraine towards the Balkan

countries, including Moldova. These countries were connected by the trans-Balkan gas pipeline, which functioned from a single flow from north to south. Due to the pressing need for an alternative supply route for Russian gas, the trans-Balkan pipeline came to be operated in reverse-flow, which secured the supply of gas to the Balkans via Turkey (Interviewee 2). In October 2021, the gas interconnector with Romania (Iasi-Ungheni-Chisinau) was completed and operational, although falling short to cover the country's overall consumption. Nonetheless, the new gas infrastructure significantly increased Chisinau's capacity to diversify its energy suppliers (Interviewee 3).

Amid Russia's war against Ukraine and following the instalment of a pro-European government the preceding year, Gazprom decided to cut gas supplies to Moldova by 30% in October 2022 (Reuters 2022). Although Gazprom officially claimed that the reduction was caused by technical issues, analysts agreed that it was a political decision to destabilize Moldova and drive a wedge between Chisinau and Tiraspol (Interviewee 2). The decision of Gazprom also had implications for Transnistria, which was likewise supplied with reduced volumes of gas: in comparison to October and November the previous year, these were reductions of 30 and 40 percent. For this reason, the Transnistrian authorities introduced an 'economic state of emergency' formulating a framework for energy saving. President Krasnoselsky stressed that the population should not be impacted and instead gas supplies were reduced to the region's industry, such as MGRES, MMZ and Ribnita cement plant (President PMR 2023a, 2023b). The latter two even halted production, while the former focused mainly on generating electricity for consumers on the left-bank. This, in turn, led to a decline in tax payments and revenues to Transnistria's budget, though this did not pose an immediate problem for the provision of social welfare benefits (Novosti Pridnestrov'ja 2022). Nonetheless, the regime showcased that the region's economy is fully dependent on free Russian gas, as it resulted in lower production and electricity generation.

This had spill-over effects for right-bank Moldova, as 70%-80% of its electricity is generated by the MGRES power plant, which under the economic state of emergency was reduced to merely 27% of the right-bank's total demand and in November completely halted leading Moldova to import electricity from Romania at a price 4 times higher (Newsmaker 2022; Ziarul de Garda 2022). In December, the situation was resolved by means of a gas-for-electricity agreement between Chisinau and Tiraspol in which the right-bank supplied all of the gas supplied by Gazprom in exchange for cheaper electricity. However, this is not

regarded as a long-term arrangement in Chisinau, as Moldova seeks to foster alternative energy supplies in close cooperation with Romania (also see section 2.3.1) (Interviewee 4).

Meanwhile, since December 2022, right-bank Moldova no longer buys Russian gas. Due to EBRD financial aid, Moldova secured enough gas supplies to endure the winter, while the Iasi-Ungheni-Chisinau interconnector and the trans-Balkan pipeline proved their value (EBRD 2022). Afterwards, Moldova persistently pursued energy diversification in close cooperation with Romania turning a crisis into an opportunity to rid itself of Russian energy blackmail. In contrast, Transnistria continued to consume free Russian gas, but this arrangement becomes uncertain from 2025 onwards, as the Ukrainian company Naftogaz has indicated that it does not plan to extend the transit agreement with Gazprom (RELM 2023b). Currently, debate in Chisinau and Tiraspol focuses on whether workaround options would exist that allow the continued supply of free Russian gas to Transnistria (Newsmaker 2023, 2024a; RELM 2024a). If Moldova would need to procure gas from the European market, it would end the region's economic competitiveness and trigger a humanitarian crisis in the region. Although a short-term solution that upholds the status quo seems probable, Victor Parlicov, the Moldovan minister of Energy, has stated that the regime of free gas imports to Transnistria "will not last forever" (Stiri 2024). Overall, the war complicates Russia's role as patron state, while Moldova has become more resilient towards Russian energy blackmail.

2.2 – Transnistria (de facto state)

As the literature review established, over time separatists are forced to become 'state-builders' and consolidate de facto statehood. Although Transnistria was "the sole post-Soviet de facto state that did not inherit a set of state-like structures for ethno-territorial autonomy", it has developed the institutional structure of a state post-secession, including a judicial system, national bank, law enforcement agencies and president and parliament (Blakkisrud and Kolstø 2011, 188). The latter two are elected for a five-year term. As the unrecognized status of the entity presented various lucrative rent-seeking opportunities, Transnistrian politics and its political parties largely came to represent personal or business interests, as opposed to societal interests.

The region's first president and 'founding father', Igor Smirnov, sought to shape the newly created institutions in accordance with his personal interest. By means of constitutional changes, Smirnov managed to concentrate all power in the executive branch, which is under his presidential rule (Isachenko 2009). In order to assert control over the region's rent-seeking opportunities and income, Smirnov's family controlled the region's customs service and energy transactions through the local branch of Gazprombank (Balmaceda 2013). Notably, some estimates indicate that the Transnistrian Customs' budget is significantly larger than that of de facto state itself (ICG 2006). The high level of embezzlement by the Smirnov family led to a common joke of people referring to Transnistria (official abbreviation PMR) as 'Papina i Moia Respublika' (Daddy's and My Republic) (Isachenko 2009).

Under these circumstances, a new elite interest group emerged: the Sheriff holding. Sheriff, owned by Transnistrian oligarchs Viktor Gushan and Ilya Kazmaly, became the region's largest company holding monopoly power in numerous strategic sectors. Being involved early on in the (illegal) privatisation of state factories and contraband business, Sheriff developed into an economic power. In part, this was possible due to a 'special arrangement' with the Smirnov family, which entailed that in exchange for Sheriff's backing, it would be entirely exempt from paying taxes and import duties (Ibid.). While Sheriff was at first satisfied with the economic privileges granted by the Transnistrian leadership, it later desired direct political influence through its affiliated 'Renewal Party'. In 2005, Sheriff's party secured a majority in parliament by gaining 10 more seats than Smirnov's Respublika (Blakkisrud and Kolstø 2011). Although various attempts to alter the constitution and limit the powers of the presidency failed, the parliament provided a stage for open disagreement on economic issues. Another shift in Transnistrian politics was caused by the withdrawal of Russian support in 2011, due to the huge scale of misappropriation of funds. The new president, Evgeny Shevchuk, had a background in the Renewal Party, but had been in conflict with Sheriff since 2009. The following presidential term was marked by tension between the region's leadership and Sheriff, as Shevchuk aimed to impose stricter rules on Sheriff. In 2016, Sheriff's candidate, Vadim Krasnoselsky, won the presidential election, which secured full control over the region's politics entailing the completion of the 'Sheriff Republic' (Całus 2017).

2.2.1 – The weaknesses of the region’s economy

The Transnistrian economy is centred around four large industrial plants: the MGRES power plant, the MMZ steelworks, Tirotext (textile production), and the Ribnitsa Cement Plant. As the Transnistrian market is negligible, these industrial plants almost exclusively (around 95%) produce for export purposes constituting the majority of the region’s GDP (Całus 2013, 1). While these industrial plants form a valuable source of employment and taxation, there are two interconnected weaknesses relating to the economic structure of Transnistria. Firstly, the economy is heavily import- and export-dependent, which makes its performance dependent on exogenous circumstances. As Transnistria lacks raw materials, the region’s industry is dependent on a stable external supply of iron, gas and coal (Merle 2021, 8). Furthermore, an

economic downturn in the main export destinations would lead to a drop in demand, which, in turn, would reduce industrial output and its role in the region’s economy.

Secondly, the industrial sector is dominated by just two industrial plants, as seen in figure 3.

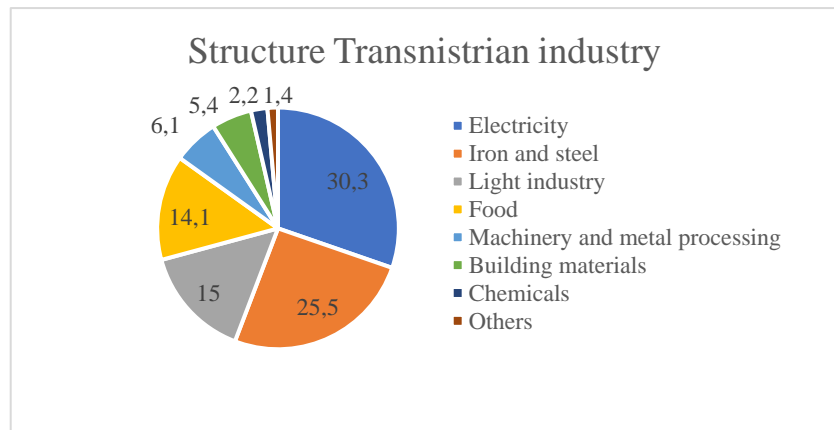


Figure 3: Structure of the Transnistrian industry (in % of total industry in 2019). Source: Transnistrian Ministry of Economic Development

Indeed, the MGRES power plant, mainly producing electricity for right-bank Moldova, and MMZ steelworks, primarily exporting to the EU, accounted for 30.3% and 25.5% of the total industrial output. In total, MMZ and MGRES accounted for more than half of the region’s industrial output and export revenues. Although Tirotext and the Ribnitsa Cement Plant also significantly contribute to the region’s economy, the strong reliance on the production of MMZ and MGRES leads to an undiversified economic composition (Radeke 2018). Local entrepreneurship, embodied by small- and medium-sized enterprises, is insignificant in size and value (Całus 2013). Consequently, the state of the Transnistrian economy is volatile, in relation to global economic processes. The two structural factors underlying this volatility are the fact that the Transnistrian economy is centred around inefficient and energy-intensive industries, which is thereupon dependent on their ability to engage in foreign trade (Balmaceda 2013, 447-48). The general lack of modernization and

poor diversification cause the region's economy to be vulnerable to geo-economic and geopolitical circumstances. Thus, while de facto states generally almost exclusively rely on a patron state, Transnistria is a 'paradoxically globalized de facto state' (Merle 2021).

In order to assess the entity's economic viability, broader demographic trends need to be taken into account. As stated, some form of permanent population is a prerequisite to maintain a viable entity, which is particularly challenging for a de facto state. Firstly, as a general rule de facto states result from some sort of secessionist conflict frequently leading to a 'demographic crisis' negatively impacting the already limited population base (Caspersen 2012, 84). Secondly, in the medium-term, the social and economic insecurity that accompany the protracted conflict leads to uncertainty among the population incentivizing some to temporarily or permanently leave. Both these factors apply to Transnistria. The result is a permanent and steady decline of the region's population, due to both a negative natural population growth and emigration (Crivenco and von Löwis 2022). The census data published by the Transnistrian authorities show three snapshots of the total population: 706,000 in 1990, 554,000 in 2004 and 475,665 in 2015 (Marandici 2020, 72). However, a Moldovan civil society expert claims that these numbers are inflated (Interviewee 6). The Russia-paid 'pension supplements' and former provision of direct budget support were calculated and granted based on the population numbers. This gave Tiraspol an incentive to overstate the number of inhabitants allowing for greater embezzlement. Estimates among Moldovan state officials and civil society members vary between 250,000-350,000 people. The majority of this estimate is comprised of pensioners or 'government' employees of all sorts, in education and law enforcement or other civil servants (Ibid.). When we look at the dependency coefficient, the ratio that shows the number of pensioners in proportion to the number of people working, of the 'official data' of 2019, there are 1.3 workers per pensioner (Crivenco and von Löwis 2022). Therefore, welfare provision seriously burdens the region's economy and budget.

2.2.2 – Sheriff's rule: employing the 'monopoly mediator model'

Earlier, various de facto state economic survival strategies were presented on a spectrum between primarily endogenous and exogenous oriented political economies (Broers 2015). Currently, Transnistria employs an intermediate model, the so-called 'monopoly-

mediator model' or an 'oligarchic model'. While state-building processes have contributed to developing a fiscal system, internal revenue extraction by no means covers the region's expenditure necessitating financial involvement from Sheriff and the revenue of gas sales on the internal market (Marandici and Leşanu 2021). Since 2016, Sheriff has gained full control over the region's politics. Consequently, it can set the rules pertaining to taxation for itself (Interviewee 8).

In general, taxation is not the authorities' main source of income. While the fiscal burden is largely carried by the region's enterprises, the separatist leadership has significantly reduced this burden due to large-scale tax evasion (Isachenko 2009). As a result, Transnistria has a very basic fiscal system. The only corporate tax that the authorities maintain is the 10% sales tax. There is no value added tax, no corporate income tax and almost no excise tax (Marandici and Leşanu 2021). According to a Moldovan civil society expert, this is a conscious choice of Sheriff: "It would be against their own financial interest to implement a proper fiscal system because they would charge themselves. For them it is cheaper to cover the basic needs of the population: salaries and pensions with the money they collect from the sales of gas" (Interviewee 6). Accordingly, Sheriff can under- or overreport its sales depending on how much it wishes to contribute to the region's budget, which is approximately 60% of the region's taxes (Interviewee 8). In essence, Sheriff runs the region as its own business. The objective is not to make the region prosperous, but to safeguard Sheriff's business interests by keeping the region's population content while maintaining control over resource flows.

The de facto authorities maintain 'a loose fiscal bond' with the Transnistrian society (Isachenko 2009, 64). However, as there are not many people and half of the population are pensioners, who are not paying taxes, the revenues from personal income tax are insignificant. In addition, 40% of the working population are on the government payroll, which burdens the budget. At times, when the budget is really tight, Sheriff transfers additional money and becomes directly involved in providing public goods. Therefore, excluding important factors such as Russian gas and the European market, without Sheriff the region would collapse (Interviewee 8). In other words, while the economic model is quite foreign-oriented, it remains monopolistic as to who controls it.

In the context of Russia's war against Ukraine, the Transnistrian authorities were compelled to mitigate a number of shocks to the region's economy, which indirectly also impacted the entity's budget. In response to Gazprom's reduction of natural gas supplies to

Moldova, an economic state of emergency was declared limiting the overall industrial production (IPN 2022). Most notably, the supply of electricity to right-bank Moldova was temporarily suspended and the region's industrial plants had to reduce their activity. A downturn in industrial activity indicates a decline in gas sales to the main domestic consumers, which, in turn, entails a blow to the public budget. Therefore, Moldovan economic analysts concluded that the de facto authorities would inevitably need to adopt a more restrictive fiscal policy (Expert-Grup 2022).

Indeed, Transnistria implemented austerity measures. Firstly, fiscal reform targeted certain small enterprises. While formerly individual entrepreneurs applied for a business license for a set monthly fee, in 2023 a tax was introduced requiring the payment of a fee equal to three percent of the total amount of sales (Ministry of Economic Development PMR 2022). The new taxation scheme is more lucrative to the Transnistrian authorities. According to a Moldovan civil society expert, the fiscal reform is telling in two ways: firstly, it indicates that Transnistria and Sheriff are going through challenging times, as they are suffering from budget deficits. Hence, they strive to increase taxation revenues. However, a conscious choice is made not to radically and comprehensively change the region's fiscal system, as this would entail charging themselves. Instead, small enterprises are targeted (Interviewee 6).

Additionally, the restrictive fiscal policy also comprised cuts in public budget expenditures, namely in health care. Interestingly, President Krasnoselsky reframed the budget cuts to measures comprising a process of '*optimizatsia*,' or more effectively spending funds related to health care, which represent 20% of total budget expenditures (Novosti Pridnestrov'ja 2023a). This is noteworthy because the Transnistrian economic model is traditionally social in nature implying that the state plays an active role in providing welfare to its citizens (Protsyk 2006). Overall, these austerity measures ought to be interpreted as indications that, due to the war, the attractiveness of the region's economic model and the capacity to present the region as a successful separatist entity is declining (Interviewee 7).

At the end of 2023, the separatist authorities adopted the budget for 2024 with a 'record deficit' entailing that half of the planned expenditures were not covered (RELM 2023a). Nonetheless, although increased financial involvement of Sheriff is likely, it remains hard to estimate the gravity of the economic situation in Transnistria, as the de facto authorities have stopped publishing economic statistics since 2022.

2.3 – Moldova (parent state)

2.3.1 – Energy: transforming the interdependent relationship

Post-independence, Moldova has remained in a precarious position regarding the supply of electricity. In this respect, Chisinau severely relies upon Transnistria, as MGRES generates roughly 78% of the right-bank’s total electricity consumption (Energocom 2024). Hence, the right-bank has not totally cut its dependence on Russian gas, while the power plant located in Transnistria continues to consume this gas. Concurrently, as the region’s largest gas consumer MGRES is a significant actor within the gas subsidy scheme (Tofilat and Parlicov 2020, 5). As such, according to Deputy Prime Minister for Reintegration, Oleg Serebrian, Chisinau and Tiraspol find themselves in a “state of interdependence”. During three decades of independence, little to nothing was done to alter this status quo because past governments were “afraid to implement large-scale energy projects that would increase the independence of the Republic of Moldova, so as not to displease Moscow” (Ziarul de Garda 2024a). Along the lack of political will, which was aggravated by high-level corruption and the ‘curse of cheap energy’, the state was also short in funds and private investors lacked a business case to construct a power plant on the right-bank, due to the unfair competition of MGRES (Interviewee 1; 2; 6). Therefore, there were no incentives to transform the interdependent relationship allowing Russia to promote the financial interests of the separatist regime, while keeping Moldova dependent on Russian gas.

Effectively, two vulnerabilities impede Moldova’s energy security, namely infrastructure and energy generation capacities. Firstly, Moldova’s energy infrastructure dates back to Soviet times, when the right- and left-bank formed the MSSR. Critical infrastructure, including the power plant, was constructed in Transnistria. MGRES performs as an energy hub with the majority of regional powerlines converging on the left-bank (see figure 4). Only one out of seven interconnection points on high-voltage lines crosses the Moldova-Ukraine border directly on the right-bank and the main

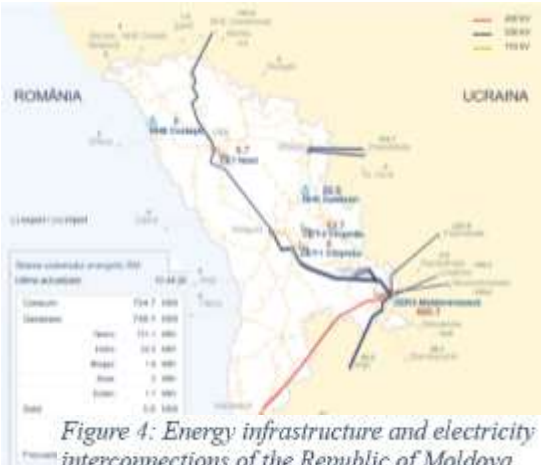


Figure 4: Energy infrastructure and electricity interconnections of the Republic of Moldova. Source: Moldelectrica.md

interconnection with Romania (Isaccea-Vulcănești) goes through MGRES before connecting to Chisinau (Tofilat and Parlicov 2020). Whereas the two interconnections in the east deliver power to MMZ in Ribnita, another four in the southeast are directly connected to MGRES. The powerline in the north, the one not crossing Transnistria, does not cover the entire electricity consumption of the right-bank (Interviewee 2). As such, the Soviet legacy entails that Chisinau depends on energy infrastructure under the control of Tiraspol and there is insufficient direct interconnection with the European energy market. Secondly, the energy generation capacities on the right-bank are limited. These are comprised of the combined heat and power plants in Chisinau and Balti and a small share of renewable energy (16% and 4% of total consumption) (Interviewee 1; 4). For decades, the energy sector has played a critical role in sustaining Transnistria, as the energy infrastructure and the lack of energy generation capacities compelled consumers on the right-bank to inadvertently finance separatism (Tofilat and Parlicov 2020).

The newly adopted National Security Strategy (NSS) of Moldova acknowledges the aforementioned challenges and identifies the persistent dependence on electricity produced on the left-bank as a security risk (Presidential Administration 2023, 15). Evidently, the war has drastically changed perceptions on energy security, especially as Russian missile attacks on Ukrainian energy infrastructure led to power outages in Moldova (Interviewee 7). The NSS embodies the importance of rethinking energy security and ameliorating the situation regarding the supply of electricity. In this respect, the most crucial step has been taken: in March 2022, Moldova's electricity grid synchronized with the European Network of Transmission Systems Operators for Electricity (ENTSO-E) (Interviewee 3). Formerly, both Moldova and Ukraine were included in the Russian-led CIS energy system. This decision allows Moldova to import electricity from Romania (and the EU). While the integration with the European energy network is a game-changer for Moldova's energy security, as seen in autumn 2022 when Gazprom reduced gas deliveries to Moldova and MGRES briefly halted electricity deliveries to the right-bank, the existing infrastructure does not allow Moldova to fully benefit from this move. However, the war, and the occasionally unreliable supply of electricity from Ukraine and Transnistria, has increased Chisinau's desire to accelerate the construction of interconnections with Romania to guarantee safety of supply (Interviewee 7).

Currently, construction is underway of a direct (bypassing Transnistria) high-voltage powerline between Vulcanesti and Chisinau (see figure 5). This undertaking was proclaimed by President Sandu as *“undoubtedly one of the most important projects since independence, which represents a turning point between two stages - a Moldova vulnerable to those who can turn off the gas or electricity at will and an independent Moldova free to choose where to buy electricity, at the best price and without the pressure of political blackmail from the outside”* (Ministry of Energy 2024). While this project will be completed in 2025, the Moldovan government pursues increased integration into the European energy market through two additional high-voltage powerlines: Strășeni-Gutinaș and Bălți-Suceava (Ibid.). Once the Vulcanesti-Chisinau powerline is completed and operational, Moldova’s energy system will be interconnected with neighbouring Romania to the extent that there is sufficient capacity to provide for the right-bank’s total consumption. On a technical level, Chisinau’s electricity dependence on Tiraspol will cease in 2025, but the issues of affordability and the (unfair) competitive advantage of MGRES would still pose challenges (Interviewee 1; 4).



Figure 5: Direct high-voltage powerline between Vulcanesti and Chisinau (bypassing Transnistria and MGRES). Source: Radio Europa Liberă Moldova.

Meanwhile, Chisinau also invests in energy efficiency, which decreases overall energy consumption, and electricity generation capacities through renewables. The Moldovan minister of Infrastructure and Regional Development, Andrei Spinu, stated that the government’s objective is that renewable energy would compose 30% (this was 6% in 2022) of the country’s total electricity consumption by 2026 (Radio Moldova 2023). While reaching this target would be significant, renewable energy comes along with the issue of balancing, which necessitates a stable energy source underscoring the important role of MGRES as “grid stabilizer” in the medium-term (Ziarul de Garda 2024a). There are two aspects that diminish the value of MGRES to the separatists in the long-term. Firstly, due to the lack of modernization, its technology is becoming increasingly obsolete and inefficient, needing more gas to extract the same amount of energy (Interviewee 2; 6). Secondly, Moldova seeks to co-invest in the Romanian Nuclearelectrica, which possibly could replace MGRES for balancing

purposes (InfoMarket 2023). Therefore, while in the medium-term it is possible to reduce the role of MGRES as a distribution hub and electricity generator, its value for balancing can only be replaced in the longer term.

Currently, the contract of Energocom with MGRES runs till the end of 2024 (RELM 2023c). The Moldovan government's reasoning for extending the electricity supply contract is pragmatic. The right-bank procures the electricity from the left-bank at half the price compared to regional alternatives. Furthermore, until 2025, due to insufficient interconnection with Romania and Ukraine being unable to sell electricity, it is technically impossible to imminently end Moldova's electricity dependence on MGRES. Presently, the electricity deal works because it is mutually beneficial (Interviewee 9). Whereas Tiraspol ensures a significant source of budgetary income, Chisinau obtains cheap electricity while developing alternatives to achieve energy security. The current contract thus presents a compromise, while the interdependent relationship between Chisinau and Tiraspol is slowly transforming into one-sided dependence. Once the planned interconnections secure safety of supply, Transnistria loses leverage indicating that energy contracts would be more beneficial towards Chisinau, as it can negotiate from a much stronger position.

2.3.2 – The EU: trade as an engagement tool

Transnistria does not exclusively depend on Russian gas, but also on access to the European market, the region's main export destination. In contrast to common punitive policies towards de facto states, Chisinau takes a permissive attitude, as it allows Transnistria "the right to unilaterally establish and maintain international contacts in the economic sphere" (OSCE 1997, 2). Over time, Transnistria positioned itself strategically between East and West utilizing both linkages to sustain its economic model. In this regard, Transnistria's economic survival strategy is grounded in 'multiple asymmetric dependence' (Dembínska and Mérand 2019). Transnistria has adopted a very foreign-oriented model, which has positively affected the entity's survival, but also allowed Moldova and the EU to set certain conditions to Transnistrian exports, such as the registration of Transnistrian companies in Chisinau. Thus, Transnistria's reliance on exports has enabled the instrumentalization of trade as a valuable engagement tool between Chisinau and Tiraspol, while also facilitating a degree of economic reintegration (Berg and Vits 2022).

The synthesis of three factors heightens the importance of trade as an engagement tool. Firstly, the Transnistrian conflict only partially disrupted existing trade links, due to the extensive economic interconnectivity between the communities across the Nistru, which continued throughout the 1990s. Thereupon, the value of trade as an instrument to manage or transform conflict dynamics is amplified in two ways: the geographic isolation of Transnistria from its patron and the fact that the separatist authorities have adopted an economic model that depends on revenues from exports instead of taxation (Douglas and Wolff 2018, 7-10). Thus, Moldova and the EU possess powerful (economic) ‘carrots’ regarding Transnistria to foster a cooperative attitude.

Prior to the war, it is noticeable that closer EU-Moldova relations facilitated the re-orientation of Moldovan exports; and Transnistrian exports in parallel. This trend was instigated by the Autonomous Trade Preferences (ATP) regime, accelerated by the Deep and Comprehensive Free Trade Area (DCFTA) and further solidified in the context of the war, as Ukraine closed the border section with Transnistria (Interviewee 7). Interestingly, EU-Moldova talks on the implementation of the ATP and DCFTA took place in the context of Transnistria dealing with worsening economic circumstances, which made the region’s turn to Europe a necessity, rather than a choice.

In 2008, the ATP was granted to Moldova coming into effect the following year. Companies from Transnistria were allowed to participate in this trade regime on the condition that they register in Chisinau (Douglas and Wolff 2018). This development transpired against the background of the negative effects relating to the global economic crisis. Transnistria’s economy is largely dependent on global demand for the region’s produce. Diminishing global demand implies less exports, which, in turn, means a decline in industrial output leading to the region’s budget revenues to fall, due to a drop in demand for gas. This vicious chain reaction occurred in 2008, when worldwide demand for metallurgic produce and cement dropped. As a result, in the last quarter of 2008, both the region’s industrial production and budget declined by 20-30% (Rodkiewicz 2009, 3). Consequently, Tiraspol was obliged to be pragmatic regarding trade policy, as ATP participation required the registration of Transnistrian companies in Chisinau, which hampered its claim to independence. Under the ATP regime, the registration of Transnistrian companies in Chisinau more than doubled from 301 to 820 companies between 2007 and 2012 (Secrieru 2017).

In 2010, after the launch of the EU Eastern Partnership program, EU-Moldova Association Agreement negotiations (including DCFTA) commenced. During this process,

Tiraspol participated as observers, as Chisinau sought to extend DCFTA provisions to Transnistria, similar to the application of the ATP (Kemoklidze and Wolff 2020). Initially, the Transnistrian authorities were determined to prolong the ATP under which it “could export certain quotas of their goods to the EU market without paying customs fees” (Caľus 2016). DCFTA implementation would replace the asymmetrical benefits provided by the ATP for “a more symmetrical arrangement” (Berg and Vits 2022, 861). In other words, the Transnistrian authorities would be obliged to remove import duties on goods from the EU, which thus far provided a sizeable source of income. Hence, Tiraspol stressed that participating in the DCFTA would be incompatible with the region’s desire to become part of the Eurasian Economic Union. However, once again, Transnistria had limited room for manoeuvre, as the negotiations coincided with an economic downturn (Caľus 2016). In 2015, the region’s economy shrank by 20%, due to the unstable external environment, specifically the Ukrainian crisis (Lupuşor et al. 2016). In response, Tiraspol resorted to budget cuts deducting “30% from the wages of all public employees” (Istomin and Bolgova 2016, 186). To prevent further economic collapse, the Transnistrian authorities gave in after receiving Russia’s approval in November 2015.

Similarly to previous EU preferential trade regimes, the consequences of the DCFTA entering into force in 2016 were profound for the region’s export-orientation and the economic reintegration of the country. Firstly, the share of Transnistria’s exports to the EU raised from below 30% to above 40% during 2012-2017 massively outweighing the sheer 6% to the Eurasian Economic Union (Dembińska and Mérand 2019). Secondly, the number of Transnistrian companies registered in Chisinau significantly increased from 1587 to 2396 in 2017 (Gumene 2019; Secrieru 2017). Subsequently, while Transnistria safeguarded one of their economic lifelines by preserving privileged access to the European market, it lost out on import duties from EU goods and granted the authorities of right-bank Moldova more regulatory powers. In particular, Chisinau was now allowed to verify whether Transnistrian businesses were adhering to EU quality standards (Berg and Vits 2022). Therefore, given the EU’s economic weight, the DCFTA was successfully instrumentalized to strengthen economic engagement between Moldova and Transnistria.

Following Russia’s full-scale invasion of Ukraine in February 2022, Moldova applied for EU membership and obtained EU candidate status in June 2022. Eventually, at the end of 2023, the European Council provisionally decided to open accession negotiations with Moldova (European Commission 2023). While the war indirectly provided an impulse for EU

integration processes in Moldova and, by extension, Transnistria, it also complicated the region’s eastern linkage. Prior to the war, Ukraine was Transnistria’s second economic trading partner in both exports and imports. However, shortly after the war, Ukraine closed the Transnistrian section of the Moldovan-Ukrainian border. This implied the loss of direct access to the Ukrainian market and logistical nodes, most notably the port of Odesa, which led to the region’s exports to decrease by 20% (Interviewee 9). Consequently, due to the disruption of trade routes towards the East, Tiraspol became exceedingly dependent on Chisinau and the European market.

Accordingly, the Bureau of Reintegration shared that, “due to the permanent efforts of the constitutional authorities to gradually integrate the activity of economic agents from Transnistria into Moldova’s national legal space, in 2023, it observed an increasing dynamic of deepening in the region’s import and export operations with EU member states” (Government MD 2024). In particular, the communique states that, throughout 2023, the export of economic agents from Transnistria to the EU represented 70.48% of the region’s total exports – an unprecedented share since the signing of the Association Agreement.

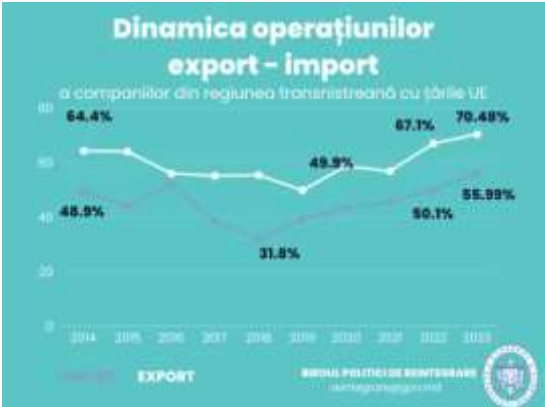


Figure 6: Dynamics of import-export operations of Transnistria with the EU. Source: Bureau of Reintegration to the Government of the Republic of Moldova.

This figure presents an increase of about 20.5% relative to 2019, when the share of the region’s exports to the EU represented 49.9% (see figure 6). In parallel, it is noticed that, throughout 2023, the region’s share of imports from the EU also increased up to 55.99%. Before the war, Transnistria primarily imported from Ukraine and Russia (Interviewee 7). Naturally, when compared to 2018, the imports from the EU present an increase of 24.19%, as this percentage was merely 31.8% at that time. Resultingly, the number of economic agents from Transnistria registered in Chisinau also ascended and, at the end of 2023, was “more than 75% higher than in 2014” (Moldpres 2024). This, in turn, presents Chisinau significant leverage over Tiraspol’s trade activities. For instance, in 2024, the Transnistrian company Elektromash closed down, as Chisinau refused to grant export permits claiming the products were ‘dual-use’ and thus incompatible with Moldova’s alignment to the EU sanctions regime (Newsmaker 2024i).

The aforementioned economic figures marking these changes in trading linkages manifest Transnistria's 'de facto integration into the European market' (Interviewee 7). Economically, these developments limit the region's agency vis-à-vis Chisinau, which advances the 'single spaces approach', the cornerstone of the government's reintegration strategy (Interviewee 5). Russia's war against Ukraine has thus accelerated ongoing developments regarding trade orientation, which complicates Transnistria's balancing act between Moldova, the EU and Russia presenting Moldova with more leverage to promote the country's gradual economic reintegration, as exemplified by the next section.

2.3.3 – Customs Duties: testcase for the reintegration agenda

On December 29, 2023, the Moldovan authorities issued a communique reminding that as of January 1, 2024, a new Customs Code would enter into force (adopted on 24.08.2021) (Ministry of Finance 2023). On January 3, the Customs Service restated the implications of the new customs provisions by reiterating that "all economic agents, including those from Transnistria, will pay customs duties based on general principles, taking into account the preferences granted in accordance with the treaties and international agreements to which the Republic of Moldova is a party" (Customs Service 2024). In other words, the new legislation superseded existing provisions, which exempted economic agents based on the territory of the Republic of Moldova that do not have fiscal relations with its budgetary system, from paying import-export custom duties. Formerly, these economic agents were paying customs duties directly to the Transnistrian authorities (Ziarul National 2024).

This step follows the government's broader reintegration strategy based on promoting the 'single spaces approach' – to have a single jurisdiction regarding law application, citizenship, social and educational services, on the entire territory of the country (Interviewee 5). The new custom provisions' objective is "to ensure the principle of equity for all representatives of the business environment in the Republic of Moldova" (Customs Service 2024). However, this principle of equity was not extended to issues such as the VAT and excise duties from which Transnistrian economic agents continue to be exempted. Including these would have constituted a more impactful measure, as excisable goods present a significant share of the region's smuggling practices accounting for sizeable revenues (Interviewee 9). Nonetheless, the annulment of the exemption on custom duties for left-bank

economic agents represents a development to include these actors in a common economic and commercial space fostering fair competition among the economic agents across the country. Given the geopolitical circumstances, Moldova is able to take a more assertive approach to promote gradual economic reintegration.

On January 5, President Krasnoselsky criticized Chisinau calling the introduction of the customs provisions ‘treacherous’ and ‘without warning’. Allegedly, the imposed customs duties would hamper economic entities and constitute “a blow to the entire population of Transnistria” (President PMR 2024a).

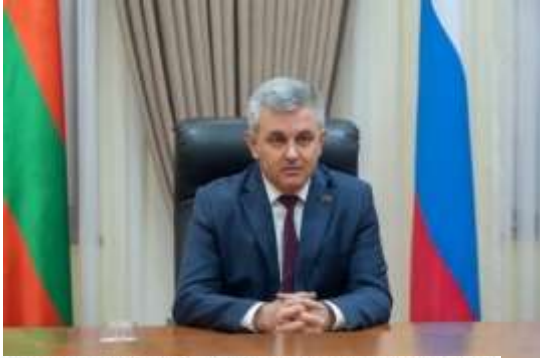


Figure 7; President Krasnoselsky during his address on January 5, 2024.

Thereupon, the president claimed that it comprises “tens of millions of dollars a year”, which Transnistrian companies would need to pay to Chisinau (President PMR 2024b). Traditionally, these duties were an important source of local budget revenue, as such duties are used to pay social obligations. Allegedly, therefore, it is unavoidable that double taxation would arise leading to “inflationary processes in the form of rising prices for most goods and a decrease in the purchasing power of the residents of Transnistria” (President PMR 2024c). In short, the updated customs provisions would have negative societal consequences. Therefore, Tiraspol urged Chisinau to leave ‘the path of aggression’ and return the money to the Transnistrian treasury (Newsmaker 2024b).

Shortly after, the Transnistrian Security council convened resulting in the introduction of various retaliatory measures (President PMR 2024d). This included that, as of February 1, legal entities under the jurisdiction of Chisinau and operating in Transnistria will pay the same prices for energy as on the right-bank. This measure will also apply to Moldovan citizens, who work in government agencies and enterprises on the right-bank, but reside in Transnistria (Newsmaker 2024c). The former would target the eight Romanian-language schools on the left-bank. Concurrently, Tiraspol will annul the ‘preferential customs regime’ for Moldovan farmers in the Dubasari district, who have agricultural lands located along the Ribnita-Tiraspol route (RELM 2024b). Previously, these farmers could ‘import’ agricultural inputs on a ‘preferential’ basis and ‘export’ the harvest in a similar manner. Tiraspol’s decision to annul the existing arrangement implies that farmers would need to pay ‘customs duties’ consistent with Transnistrian ‘legislation’. In essence, Transnistria used retaliatory measures, while adopting similar reasoning as the Reintegration Bureau.

Transnistria's pressure tactics continued throughout January and February. Firstly, on January 11, dozens of Transnistrians gathered at the checkpoint Bender-Varnitsa to protest against Chisinau's decision by holding posters stating: "you have stopped our enterprises"; "we will not pay tribute"; and "Moldova is an aggressor" (Novosti Pridnestrov'ja 2024a). The protestors' objective was to show to ordinary



Figure 8: Staged protest at the checkpoint Bender-Varnitsa.

Moldovans that they were victim to Chisinau's 'economic pressure strategies' (Newsmaker 2024d). However, in response, the Reintegration Bureau asserted that "it is important to distinguish between freedom of speech, which in Transnistria is constantly subject to censorship and persecution, and events orchestrated by propagandists who constantly violate the sovereignty and territorial integrity of the country" (Newsmaker 2024e; RELM 2024c).

Secondly, Transnistria aimed to capture the attention of Russia and the international community by convening the 'Congress of Deputies', in light of "the pressure from the Republic of Moldova, which violates the rights and worsens the socio-economic situation of the Pridnestrovian people" (President PMR 2024e). The institution's members are only summoned under exceptional circumstances regarding pressing socio-economic issues (last occurred in 2006) (Newsmaker 2024f). On February 28, at the Congress, a resolution was adopted, regarding the new customs provisions, that condemned Moldova's "destructive course of socio-economic strangulation of Transnistria" (Novosti Pridnestrov'ja 2024b). The resolution addressed various international organizations and other institutions: the Russian Federation Federal Assembly, the CIS, the OSCE and other participants of the '5+2' negotiation format, the European Parliament, the Red Cross and the United Nations. An appeal was made to Russia "to implement diplomatic measures to protect Pridnestrovie", while emphasizing that 220,000 Russian citizens permanently reside in Transnistria (Ibid.). The international organizations and bodies were requested to persuade Chisinau to reinstate the customs benefits (Novosti Pridnestrov'ja 2024c).

In response, the Russian MFA stated that "protecting the interests of Transnistria's residents, our compatriots, is a priority" (Interfax 2024a). However, Russia's support remained rhetorical. President Sandu commented that Transnistria's appeal aimed to receive money from the Kremlin (Newsmaker 2024g). Moreover, Chisinau did not backtrack on its

decision to annul Transnistria's custom benefits and financially compensated the farmers in the Dubasari district, who were targeted by Tiraspol's retaliatory measures (Newsmaker 2024h). Tiraspol failed in two regards: it did not receive support from its patron and did not intimidate Chisinau into making concessions.

One month after the implementation, the Customs Service declared that it had received an amount of 8.4 million lei, approximately 435,000 EUR, in customs duties from Transnistrian economic agents (RELM 2024d). This confirms the Reintegration Bureau's estimates, which had projected to annually receive 120 million lei or 6.2 million EUR. These numbers stand in stark contrast to the disastrous estimate used in Tiraspol's discourse, namely 30 million EUR annually (Ziarul de Gardă 2024a). Furthermore, the Deputy Prime Minister for Reintegration, Oleg Serebrian, reiterated the purpose of the new Customs Code: to include Transnistrian economic agents in Moldova's legal sphere and not the alleged 'socio-economic strangulation' of the region. In fact, the funds generated by the annulment of the customs benefits are redirected to the region in the form of scholarships, medical services and pensions (Ziarul de Gardă 2024b).

Furthermore, the vast majority of Moldova's trade, including Transnistria, is governed by preferential trade agreements with little to no customs duties, be it through the EU DCFTA, the CIS FTA, or Turkey. Indeed, Serebrian stressed that "the only country in the top 10 trading partners of Transnistria with which we do not have a FTA is China" (Ibid.). Nevertheless, due to the logistical difficulties pertaining to the war, China is an increasingly important partner for the import of metals for the region's metallurgical plants. These raw materials comprise 20% of total imports (Merle 2021). Overall, the new Customs Code presents a step to gradually reintegrate Transnistria in the common economic, fiscal and legal space of the Republic of Moldova, but by no means has the potential to affect Transnistria at the level raised by the separatist leaders and the staged protest. In reality, Tiraspol is mainly concerned about the precedent that this new Customs Code would set and the future prospects.

2.4 – Ukraine: complicating Tiraspol's dual alignment strategy

To complete Transnistria's external environment, another regional actor needs to be included – Ukraine. Apart from impacting the region's economic sustainability through its own bilateral relationship, Ukraine also influences Transnistria's relations with both the parent and patron state. In this regard, Transnistria sought to maintain Ukraine's 'benevolent neutrality' and prevent Moldovan-Ukrainian alignment (Kosienkowski 2012, 30). The latter would undermine the region's strategic position and ability to resist economic reintegration. Due to Transnistria's geographic isolation from its patron, the eastern vector of the region's external strategy required some form of 'dual alignment' (Istomin and Bolgova 2016). This implied maintaining conducive relations with both Russia and Ukraine, which bears fruit when relations between Kyiv and Moscow are stable. However, as will be presented, crises in this bilateral relationship have generally negatively affected Ukraine's attitude towards Transnistria fostering Moldova's strategic objectives.

As stated, Moldova grants Transnistria far-reaching rights in the economic domain (OSCE 1997). In 1996, Chisinau and Tiraspol signed a protocol on customs issues, which gave Transnistria significant autonomy regarding trade, including the right to use Moldovan custom stamps for import and export operations, on the condition that the Transnistrian-Ukrainian border section would come under joint supervision of Chisinau and Tiraspol (Kosienkowski 2012, 37-38). Despite signals of seemingly cooperative and constructive relations, Tiraspol took advantage of the protocol, while disregarding its own obligations. Therefore, the joint customs posts did not take shape. Hence, in the early 2000s, Moldova sought to gain more economic control over Transnistria's export activities by introducing policies aiming to increase regulatory control.

In this respect, Ukraine's cooperation is crucial to Chisinau. An uncooperative stance, allowing unhampered access across the border section with Transnistria, would diminish the effect of Moldova's attempts to increase its regulatory control over Transnistrian exports (Istomin and Bolgova 2016). In 2001, regional relations were put to the test, as Chisinau introduced new customs stamps, which were to be used for all import and export activities and equally applicable for trade operations on right- and left-bank Moldova. Yet, Transnistria was not provided with these new custom stamps. However, Ukraine maintained a position of neutrality and benevolence towards Transnistria (Kosienkowski 2012). This entailed that

Ukraine continued to accept the cross-border passage of Transnistrian exports and transit goods in accordance with the former framework, the old customs stamps, in place since 1996 (Ibid., 178-179). Ukraine's position therefore limited the success of Chisinau's policies to gain regulatory control over Transnistria's economy.

Furthermore, Ukraine's tolerance towards Transnistria, in turn, fostered another scheme contributing towards the entity's economic viability, namely smuggling. Due to the landlocked geographical position of Transnistria, the region's ability to export is largely facilitated by Ukrainian infrastructure. Most notably, the port of Odesa is a major gateway to foreign markets. As regional ties proliferated, the close proximity of the port to the de facto border has also led to shared engagement in the shadow economy (ICG 2006). In particular, re-export activities were lucrative to Tiraspol. This entailed that goods destined for Transnistria would transit the port of Odesa, which prevented the need to pay Ukrainian customs duties. In reality, upon arrival in Transnistria, these goods would be re-exported to their actual final destination, generally right-bank Moldova or Ukraine. In the second step of this process, import duties and VAT are again avoided by utilizing informal cross-border smuggling networks (Ibid., 4-5). Therefore, extensive profits were generated in illicit cross-border schemes.

However, the regional dynamics drastically altered following Ukraine's Orange Revolution. Kyiv adopted a more cooperative attitude towards Chisinau, with undesirable consequences from Transnistria's perspective. The implications of Ukraine's policy shift towards Transnistria were two-fold: firstly, since 2006, Ukraine adopted the new Moldovan custom stamps, which it had refused to do since 2001, and secondly, the Transnistrian border section of the Moldovan-Ukrainian border came under international supervision with the establishment of the EU Border Assistance Mission (EUBAM) (Dembińska and Mérand 2019, 22). Hence, Chisinau gained regulatory control over Transnistrian goods, as Ukraine's enforcement necessitated Moldovan documentation. Due to the additional requirements, Transnistria's export to Ukraine and Russia was disrupted, which comprised an 'economic blockade' according to Tiraspol (Protsyk 2006, 32). The shared Moldovan-Ukrainian approach increased Chisinau's grip over the Transnistrian economy, as its ability to export now depended on Chisinau's approval. However, Moldova failed to gain control over Transnistria's imports, due to Ukraine's continued unwillingness to cooperate on this issue (Kosienkowski 2012, 33).

Additionally, the EUBAM was installed to monitor smuggling hubs and routes, such as the port of Odesa, the Transnistrian-Ukrainian border section and the border crossings between right- and left-bank Moldova, with the aim of countering “criminal activities such as [...] smuggling and customs fraud” (ICG 2006, 5). In 2007, the mission reported large-scale re-exporting schemes of basic consumer goods and food, yet a decrease compared to the year prior (EUBAM 2008). Although the mission provides general oversight of the aforementioned cross-border places, it does not completely end the widespread smuggling practices.

By the mid-2000s, Transnistria’s policy of ‘dual alignment’ was complicated by tensions in Russian-Ukrainian relations, while Moldovan-Ukrainian alignment further complicated its strategic position by increasing the region’s vulnerability to Moldovan pressure. However, Transnistria’s position became less fragile, due to an intervention of its patron and Ukraine reverting to a more moderate policy. Firstly, Russia instrumentalized existing Moldovan economic dependencies to ease Chisinau’s pressure on Tiraspol. In this regard, it doubled the price for Russian gas imports for Moldova and introduced an embargo on Moldovan wine (Rodkiewicz 2011). As Russia composed the country’s largest wine importer and wine comprised the primary export product, both measures severely impacted the Moldovan economy. Apart from Moscow’s effective retaliatory measures, Ukraine’s policy towards Chisinau and Tiraspol was impacted by changes in government. The new PM Yanukovich ensured that Kyiv made a policy reversal towards ‘benevolent neutrality’ on the Transnistria issue (Ibid., 11). Concurrently, the limitations of the EUBAM’s mandate were revealed. Essentially, while the mission performs an advising and monitoring role, the overall effectiveness to counter illicit trade depended on the collaboration with their Ukrainian counterparts. This structural limitation to the work of the EUBAM hampered its ability to counter informal cross-border smuggling networks (Dias 2013). By 2010, Transnistria’s external environment further improved, as pro-Russian forces gained strength in Ukraine with Yanukovich becoming president. The dual alignment strategy was restored.

However, the fragility of Transnistria’s strategic position was again exposed, when Russian-Ukrainian relations deteriorated following the Euromaidan in 2014. Due to Russia’s military contingent within Transnistria, Ukraine came to perceive the region “as a possible foothold for a potential offensive on Odesa” and thus as a possible threat to the national security (Istomin and Bolgova 2016, 185). Hence, Ukraine adopted a stricter approach towards Transnistria. In 2015, Ukraine decided to denounce all existing military agreements with Russia. This also implied that Russian military forces were no longer permitted to transit

Ukraine to reach Transnistria isolating the existing Russian troops (Ibid.). Nonetheless, despite this positive development for Chisinau, Moldova continued to lack Ukraine's full political support. This was exemplified by the reluctance to establish joint Moldovan-Ukrainian checkpoints on the Transnistrian-Ukrainian border section. This would have allowed Moldova, while operating on Ukrainian territory, to regain full control over its borders. Only in 2017, was a first shared border checkpoint opened at the crossing point Kuchurgan-Pervomaysk with the purpose of combatting "smuggling and cross-border crimes" (Moldpres 2017). The main reason why Moldovan-Ukrainian cooperation struggled to manifest was rampant corruption. Over the years, local Ukrainian officials from the Odesa Oblast had become beneficiaries to smuggling schemes, which limited their willingness to cooperate with Moldovan initiatives to establish stricter border control (Interviewee 8).

Russia's full-scale invasion of Ukraine and the subsequent closure of the Transnistrian-Ukrainian border section present serious challenges to Transnistria's economic model. Evidently, Ukraine's decision affected its role as a trading partner to the region, due to disruptions in transportation routes and supply chains. Yet, it also negatively impacted the region's ability to smuggle. Analysts agree that the closure of the border ended 'systematic smuggling' and these practices are "no longer significant for the Transnistrian economy, budget and Sheriff" (Interviewee 8). As such, the war indirectly led to the demise of the majority of economic ties and corruption schemes that linked Transnistria to Ukraine, especially the Odesa region. This presents the completion of a process that started in 2014, as from thereon Ukraine started to perceive the region more as a security threat than a moneymaking opportunity (Ibid.).

Perhaps more importantly, the war has shattered the region's hopes of pursuing a 'dual alignment' strategy. Ukraine is engaged in all-out war with the patron state and has obtained candidate status to the EU. This creates a different environment from what Transnistria found itself in before (Interviewee 7). In particular, due to the region's close relations with Moscow, Transnistria stands increasingly isolated and can no longer count on Ukraine's ambiguous stance of 'benevolent neutrality'. Therefore, Tiraspol's economic survival strategy is increasingly focused on pointing out economic issues to its patron in an attempt to secure its commitment to provide the region with economic and financial support, while Russia is unwilling to offer more support than necessary.

Conclusion

In summary, this thesis has sought to answer the proposed research question by firstly demonstrating that the economic viability of de facto states, and in particular de facto state economic survival strategies, has largely been understudied. In line with the theory-building work of Broers (2015), de facto states adopt an economic model based on their opportunities to engage with external actors and the degree of internal resources. Accordingly, the agency a de facto state is able to assert in its relationship with the parent state, manifested by resisting reintegration strategies, depends on the external (or geopolitical) environment. In order to explore how changes in the geopolitical circumstances impact de facto state economic viability and parent state reintegration strategies, this thesis has introduced new data, the broader impact of Russia's invasion of Ukraine, to study said aspects in relation to Transnistria. To this end, this thesis attempted to acquire a multi-actor perspective on the economic viability of Transnistria by applying the qualitative research method of content analysis to a wide range of sources pertaining to Transnistria's economic model, including interview data from the author's research internship in Chisinau.

This thesis has found support for the first hypothesis: changes in the geopolitical circumstances have undermined the economic viability and strategic position of Transnistria. Ever since the 1992 ceasefire, due to its unrecognized status, the artificial competitiveness of its industry and a favourable external environment, Transnistria developed into a 'paradoxically globalized de facto state' engaging in both licit and illicit trade (Merle 2021). Meanwhile, the corruptibility of Moldovan politicians and the 'curse of cheap energy' allowed Russia to maintain a strong grip over the parent state, which averted investments in energy infrastructure that would reduce critical dependencies on Transnistria. However, in light of the war, structural (economic) parameters regarding the settlement of the Transnistrian conflict are changing. Firstly, the most immediate consequence of Russia's war against Ukraine was the closure of the Transnistrian-Ukrainian border section, which can be regarded as the conclusive failure of the region's dual alignment strategy. This development ended 'systematic smuggling', negatively affected bilateral trade ties with Ukraine, and made Transnistria exclusively dependent on Moldova for its ability to engage in licit trade, which hampers the region's strategic position. Indeed, Transnistria's unprecedented dependence on the European market presents Chisinau leverage to foster economic reintegration.

Secondly, in the context of the war and Russia's instrumentalization of energy as a geopolitical weapon, Moldova has made progress in decreasing existing energy dependencies and fostering the country's energy security. As a result, right-bank Moldova no longer consumes Russian gas since December 2022 following revitalized diversification efforts. Transnistria, on the other hand, remains entirely dependent on free Russian gas, as seen during the temporary 'economic state of emergency'. This divergence changes the dynamic in the relationship between the patron, parent and de facto state. Similarly, the context of the war provided an impetus for Chisinau to change its perception on energy security vis-à-vis Transnistria, in particular regarding the supply of electricity, as seen in the newly adopted National Security Strategy. During three decades of independence, Chisinau and Tiraspol developed an interdependent relationship, as the right-bank relied upon the energy hub and generation function of the MGRES, while the power plant formed the most important actor within the gas subsidy mechanism. As Chisinau now identifies the persistent dependence on electricity produced on the left-bank as a security risk, it seeks to take important steps regarding interconnection with the European energy market, energy efficiency and the country's own power generation capacities. The most crucial step, however, was the synchronization of Moldova's electricity grid with the ENTSO-E, which enables the import of electricity from Romania and the broader EU. Over time, Moldova will be sufficiently (directly) interconnected with Romania and have developed an increased power generation capacity through renewables that the future role for MGRES would be decreased to 'grid-stabilizer' (Ziarul de Garda 2024a). As such, in large part due to the war, Chisinau is slowly but steadily transforming the interdependent relationship into more one-sided dependence, which means that Transnistria loses both leverage and revenues through less beneficial energy contracts with Chisinau.

Thereupon, the findings also provide support for the second hypothesis: the geopolitical circumstances have empowered the parent state to pursue reintegration policies. Indeed, Chisinau takes advantage of the new geopolitical context by adopting a more assertive policy vis-à-vis Tiraspol to pursue its single spaces approach regarding Transnistria. Chisinau has acted upon the new favourable status quo by refusing to grant export permits to the Transnistrian company Elektromash, as in line with the EU sanctions regime. Similarly, despite retaliatory measures and fierce rhetoric from the separatist authorities, Chisinau remained determined not to give in to Tiraspol's demands of retracting the annulment of the customs benefits for the left-bank. This unilateral decision sets a precedent for further steps to

pursue gradual reintegration. Overall, Transnistria's economic model is under unprecedented pressure due to changes in its external environment, which opens up opportunities for the Moldovan government to pursue reintegration policies.

Nonetheless, the research underlying this thesis has certain limits and shortcomings. Firstly, as the Transnistrian authorities have not published any economic data since the beginning of 2022, it is hard to present an accurate picture of the economic situation within the region. However, it remains possible to identify trends regarding the economic viability of Transnistria, as presented. Secondly, this thesis exclusively studies the economic aspects pertaining to de facto state sustainability. The security guarantees offered by Russia's military presence are another important factor that influences the sustainability of Transnistria, especially since Moldova exclusively seeks peaceful reintegration. As such, while Moldova can seek to alter the structural economic parameters regarding the settlement of the Transnistrian conflict, a comprehensive settlement highly depends on the outcome of Russia's war against Ukraine.

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