

**BORDER COOPERATION AND NEIGHBOURHOOD
AN IMPERATIVE FOR THE REGIONAL DEVELOPMENT.
CASE STUDY: REPUBLIC OF MOLDOVA**

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1. Introduction
2. Foreign trade activity of Republic of Moldova
3. The role of regional cooperation
4. Euro regions
5. Joint Operational Programme Romania-Ukraine-Republic of Moldova 2007-2013
6. Romania and the European Integration of Republic of Moldova
7. Conclusions

Abstract:

While a further extension is not a priority for the EU financial assistance to EU, EU accession to financial assistance is a top priority for Republic of Moldova. Romania and Ukraine can contribute significantly to this goal, given the experience of three states in the border cooperation. We propose that through this approach to identify the solutions that may underlie a wider cooperation given the principles and priorities in the EU neighborhood policy.

Keywords: border cooperation; neighborhood policy, strategic regional partnership, project finance, euro region.

JEL Classification: P48, R58

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1. Introduction

In the development cooperation process in Europe, participation in projects carried out through regional initiatives is a precondition for the European integration.²

The legal framework of the policy and regional development is provided mainly by the Law No. 438-XVI regarding regional development, setting objectives, institutional framework, specific skills and tools to achieve regional development policy in the Republic of Moldova. This law corresponds to Moldova's European integration aspirations, and foresees the creation of two European regions of level NUTS II (North, Centre), as well as smaller regions NUTS level III (South, Gagauzia³, transnistrian region and Chisinau), taking in the account the number of people in the region.

The general objectives of regional development policy relates to reducing the existing regional imbalances, stimulating balanced and sustainable development across the Republic of Moldova, revitalization of "disadvantaged areas", the prevention of new imbalances, strengthen the financial opportunities, institutional and human resources for socio-economic development of regions, stimulation of interregional and international cooperation that contributes to economic and social⁴.

In order to implement the regional development policy, six regions have been established, which cover the entire territory of Moldova. The main areas that can be targeted by regional policies are: enterprise development, employment, attraction of investment, technology transfer, SME sector development, infrastructure improvement, environmental quality, rural development, health, education, education, culture.

2. Foreign trade activity of Republic of Moldova

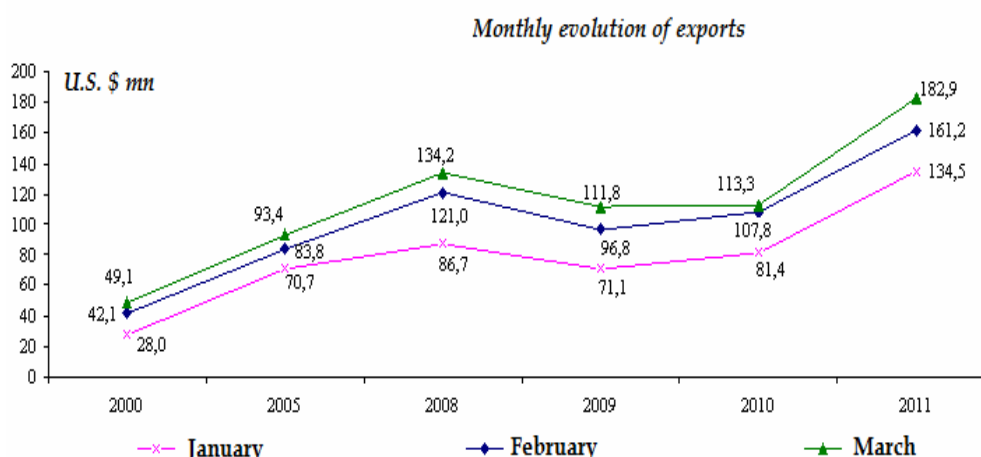
² See Europe and the Transition Process in the Republic of Moldova, Südosteuropag Gesellschaft Conference Report, Berlin, 2-3 July 2004, p.7.

³ Gagauzia is an autonomous territorial entity with special status as a form of self-determination of the Gagauz, is an integral and inalienable part of the Republic of Moldova. Under art.111 of the Constitution of the Republic of Moldova, Gagauzia settle independently, within its competence, in the interest of the entire population, issues of political, economic and cultural. Within the Gagauz autonomous territorial unit all the rights and freedoms are guaranteed under the Constitution and laws of the Republic of Moldova.

⁴ For details see Law no. 438-XVI from 28.12.2006, the Government Decision no.127 from 08.02.2008, in which was decided to create the institutional framework and regulations and were approved Regulations for the operation of those institutions.

PUBLIC ADMINISTRATION & REGIONAL STUDIES
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According to official statistics, exports of goods in the Republic of Moldova in March 2011 totaled U.S. \$ 182.9 million, by 13.5% more from the previous month and by 61.5% more - compared to March 2010.



Source: <http://www.statistica.md/newsview.php?l=ro&idc=168&id=3392>

In January-March 2011 exports totaled U.S. \$ 478.6 million, higher volume achieved in the corresponding period of 2010 with 58.2%.

| | January-March 2011 | | Structure,% | | The degree of influence of groups of countries to the increase (+), decrease (-) of exports and imports,% | |
|----------------------------------|--------------------|----------------------------|---------------|--------------|---|-------------|
| | million dollars | In % of January-March 2010 | January-March | | January-March | |
| | | | 2010 | 2011 | 2010 | 2011 |
| EXPORT - TOTAL | 478,6 | 158,2 | 100,0 | 100,0 | 8,1 | 58,2 |
| of which: | | | | | | |
| European Union countries (UE-27) | 243,1 | 158,1 | 50,9 | 50,8 | -0,2 | 29,5 |
| CIS countries | 175,9 | 152,2 | 38,2 | 36,8 | 7,4 | 19,9 |
| other countries | 59,6 | 180,2 | 10,9 | 12,4 | 0,9 | 8,8 |
| IMPORT - total | 1099,2 | 144,0 | 100,0 | 100,0 | 1,3 | 44,0 |
| of which: | | | | | | |
| European Union countries (UE-27) | 445,4 | 145,6 | 40,1 | 40,5 | 4,3 | 18,3 |
| CIS countries | 411,2 | 143,1 | 37,6 | 37,4 | -4,7 | 16,2 |
| other countries | 242,6 | 142,6 | 22,3 | 22,1 | 1,7 | 9,5 |
| TRADE BALANCE - TOTAL | -620,6 | 134,7 | 100,0 | 100,0 | x | x |

PUBLIC ADMINISTRATION & REGIONAL STUDIES
 6th Year, No. 1 (11) – 2013
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| | January-March 2011 | | Structure,% | | The degree of influence of groups of countries to the increase (+), decrease (-) of exports and imports,% | |
|----------------------------------|--------------------|----------------------------|---------------|------|---|------|
| | million dollars | In % of January-March 2010 | January-March | | January-March | |
| | | | 2010 | 2011 | 2010 | 2011 |
| of which: | | | | | | |
| European Union countries (UE-27) | -202,3 | 133,1 | 33,0 | 32,6 | x | x |
| CIS countries | -235,3 | 137,0 | 37,2 | 37,9 | x | x |
| other countries | -183,0 | 133,5 | 29,8 | 29,5 | x | x |

Source: <http://www.statistica.md/newsview.php?l=ro&idc=168&id=3392>

Exports of goods destined for EU countries (EU-27) totaled U.S. \$ 243.1 million (58.1% more than in January-March 2010), holding a 50.8% share in total exports (50,9% in January-March 2010).

CIS countries were present in Moldova's exports, accounting for 36.8% (January-March 2010 - 38.2%), which corresponds to U.S. \$ 175.9 million. Exports of goods to these countries rose by 52.2% compared with January-March 2010.

Top 26 partner countries for exports, which had 95.0% of the total, were:

| | January-March 2011 | | Structure,% | | The degree of influence of groups of countries to the increase (+), decrease (-) of exports and imports,% | |
|-----------------------|--------------------|----------------------------|---------------|--------------|---|-------------|
| | million dollars | In % of January-March 2010 | January-March | | January-March | |
| | | | 2010 | 2011 | 2010 | 2011 |
| EXPORT - TOTAL | 478,6 | 158,2 | 100,0 | 100,0 | 8,1 | 58,2 |
| of which: | | | | | | |
| Russian Federation | 116,7 | 155,4 | 24,8 | 24,4 | 7,9 | 13,7 |
| Romania | 75,0 | 152,5 | 16,2 | 15,7 | -2,9 | 8,5 |
| Italy | 45,8 | 136,1 | 11,1 | 9,6 | 1,5 | 4,0 |
| Ukraine | 32,5 | 170,6 | 6,3 | 6,8 | 1,7 | 4,4 |
| Germany | 28,8 | 180,3 | 5,3 | 6,0 | -0,1 | 4,2 |
| United Kingdom of | 23,4 | 140,4 | 5,5 | 4,9 | 1,7 | 2,2 |

PUBLIC ADMINISTRATION & REGIONAL STUDIES
6th Year, No. 1 (11) – 2013
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| | January-March 2011 | | Structure,% | | The degree of influence of groups of countries to the increase (+), decrease (-) of exports and imports,% | |
|--|--------------------|----------------------------|---------------|------|---|------|
| | million dollars | In % of January-March 2010 | January-March | | January-March | |
| | | | 2010 | 2011 | 2010 | 2011 |

| | | | | | | |
|------------------------------------|------|-------|-----|-----|------|-----|
| Great Britain and Northern Ireland | | | | | | |
| Turkey | 22,0 | 171,5 | 4,2 | 4,6 | 2,3 | 3,0 |
| Belarus | 19,9 | 125,8 | 5,2 | 4,2 | -1,7 | 1,3 |

Source: <http://www.statistica.md/newsview.php?l=ro&idc=168&id=3392>

The analysis of exports by country reveals that the increase in deliveries to the Russian Federation (55.4%), Romania (52.5%), Ukraine (70.6%), Germany (80.3%), Italy (36.1%), Poland (2.4 times), Turkey (71.5%), United Kingdom of Great Britain and Northern Ireland (40.4%), United States of America (2, 8 times), Greece (61.9%), Belarus (25.8%), Bulgaria (2.6 times), Lithuania (3.0 times), Hungary (3.4 times).

Structure of merchandise exports, according to Standard International Trade Classification, indicating a continuous growth of traditional activities for the Moldovan economy.

Exports of miscellaneous manufactured articles were on the first place, with a share of 22.6% of total exports. In this section a significant share in exports held clothing and accessories goods (59.2% of total section and 13.4% of total exports), furniture and its parts (14.3% and 3.2% of the total section of total exports) and footwear (12.3% of total section and 2.8% of total exports).

Exports of crude materials inedible, except fuels were ranked third with a 16.4% share of total exports. In this section of goods seed and fruit oil represented 69.8% of total section and 11.4% of total exports, and metalliferous ores and metal waste 22.8% and 3.8% respectively.

Exports of machinery and transport equipment were ranked fourth, representing 14.0% of total exports. In this section held a significant share in export the goods of electrical machinery (48.0% of total section and 6.7% of total exports), machinery and general industrial applications (16.5% of total section and 2.3% of total exports), machinery specialized for particular industries (13.3% of total section and 1.9% of total exports), road (8.6% and 1.2% of the total section of total exports).

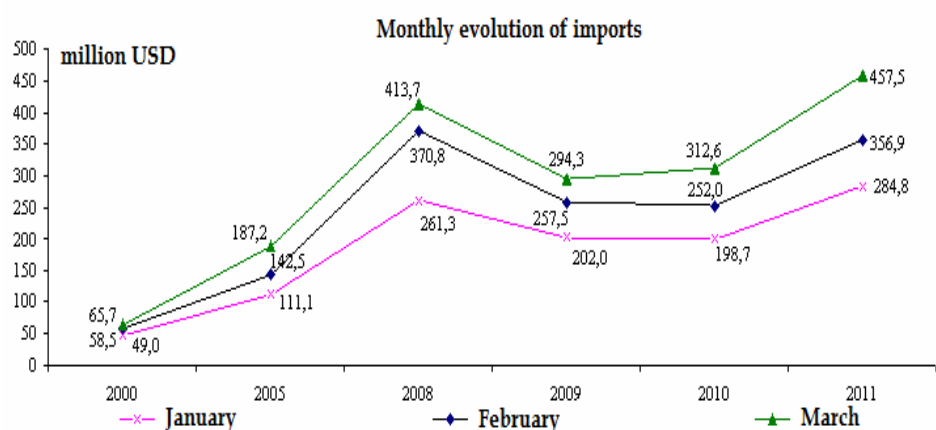
Imports of goods in March 2011 totaled U.S. \$ 457.5 million, up 28.2% from the previous month and 46.4% - compared with March 2010.

PUBLIC ADMINISTRATION & REGIONAL STUDIES
6th Year, No. 1 (11) – 2013
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In January-March 2011 imports totaled U.S. \$ 1099.2 million, higher than the volume achieved during the previous year with 44.0%.

Imports from European Union countries (EU-27) amounted to U.S. \$ 445.4 million (with 45.6% more than in January-March 2010), holding a 40.5% share in total imports (40.1% in January-March 2010).

Imports of goods from CIS countries had a value of U.S. \$ 411.2 million (with 43.1% higher than in January-March 2010), which equals a 37.4% share in total imports (37, 6% in January-March 2010).



Source: <http://www.statistica.md/newsview.php?l=ro&idc=168&id=3392>

Top 36 partner countries for imports, which had 97.0% of the total, were:

| | January-March 2011 | | Structure,% | | The degree of influence of groups of countries to the increase (+), decrease (-) of exports and imports,% | |
|-----------------------|--------------------|----------------------------|---------------|--------------|---|-------------|
| | million dollars | In % of January-March 2010 | January-March | | million dollars | |
| | | | 2010 | 2011 | 2010 | 2011 |
| IMPORT - total | 1099,2 | 144,0 | 100,0 | 100,0 | 1,3 | 44,0 |
| of which: | | | | | | |
| Russian Federation | 235,1 | 133,3 | 23,1 | 21,4 | 17,1 | 7,7 |
| Ukraine | 128,6 | 139,2 | 12,1 | 11,7 | 0,8 | 4,7 |
| Romania | 107,2 | 157,9 | 8,9 | 9,8 | 1,8 | 5,1 |
| Germany | 78,2 | 148,2 | 6,9 | 7,1 | 0,4 | 3,3 |
| China | 77,7 | 121,1 | 8,4 | 7,1 | 1,8 | 1,8 |
| Turcey | 71,1 | 179,5 | 5,2 | 6,5 | 0,2 | 4,1 |
| Italy | 64,6 | 135,8 | 6,2 | 5,9 | 1,0 | 2,2 |

PUBLIC ADMINISTRATION & REGIONAL STUDIES
6th Year, No. 1 (11) – 2013
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| | January-March 2011 | | Structure,% | | The degree of influence of groups of countries to the increase (+), decrease (-) of exports and imports,% | |
|---------|--------------------|----------------------------|---------------|------|---|------|
| | million dollars | In % of January-March 2010 | January-March | | million dollars | |
| | | | 2010 | 2011 | 2010 | 2011 |
| Belarus | 36,8 | de 2,3 ori | 2,1 | 3,3 | -0,8 | 2,8 |
| Greece | 25,3 | 159,6 | 2,1 | 2,3 | 1,3 | 1,2 |
| Polond | 22,9 | 133,1 | 2,3 | 2,1 | 0,2 | 0,7 |
| France | 21,0 | 150,7 | 1,8 | 1,9 | -0,1 | 0,9 |
| Hungary | 20,5 | 179,1 | 1,5 | 1,9 | 0,0 | 1,2 |

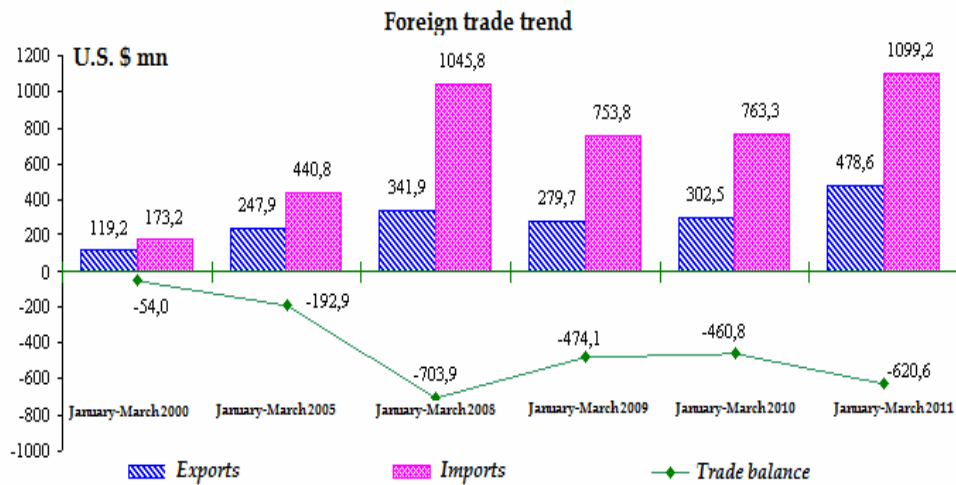
Source: <http://www.statistica.md/newsview.php?l=ro&idc=168&id=339>

The analysis of imports by country reveals that the increase in deliveries of Russian Federation (33.3%), Romania (57.9%), Ukraine (39.2%), Turkey (79.5%), Germany (48.2%), Belarus (2.3 times), Italy (35.8%), China (21.1%), Greece (59.6%), Hungary (79.1%), France (50.7%), United States of America (+ 49.7%), Poland (33.1%), India (76.0%), Switzerland (2.1 times) Kazakhstan (3.7 times), Bulgaria (48.0%).

Structure of imports of goods, according to Standard International Trade Classification, indicating continued leadership in products necessary for the functioning economy as well as those intended for human consumption.

Imports of machinery and transport equipment had a 19.3% share in total imports. In this section of goods a major share in imports have held electrical machinery (26.7% of total section and 5.1% of total imports), vehicles (25.1% and 4.8% of the total section of total imports), machinery specialized for particular industries (16.0 and 3.1% of the total section of total imports), machinery and general industrial applications (13.4% of total section and 2.6% of total imports), machinery and equipment and telecommunications and sound recording and reproduction (12.5% of total section and 2.4% of total imports).

Imports of manufactured goods classified mainly by raw material held a 16.9% share in total imports, mainly yarn, fabrics and textiles (28.9% of total section and 4.9% of total imports) iron and steel (15.1% of total section and 2.6% of total imports), paper, paperboard and articles of paper pulp, paper or paperboard (12.7% of the total section and 2.1% of total imports), fabricated metal articles (11.6% of total section and 1.9% of total imports), non-metallic mineral articles (11.5% of total section and 1.9% of total imports).



Source: <http://www.statistica.md/newsview.php?l=ro&idc=168&id=3392>

3. The role of regional cooperation

Republic of Moldova is a member of United Nations, Council of Europe, Organization for Security and Cooperation in Europe, World Trade Organization, International Monetary Fund, World Bank, European Bank for Reconstruction and Development.

However, the integration of the Republic of Moldova in the context of the multilateral international cooperation has been completed in the last 20 years by drawing more and more obvious regional dimension through participation in:

Central European Initiative, the Stability Pact for South Eastern Europe Cooperation, The Process in Southeastern Europe Cooperation, Initiative in South Eastern Europe, the Danube Cooperation Process, Black Sea Economic Cooperation Organization and GUAM / GUUAM.

In the context of the law developed in Republic of Moldova, the main objectives of the regional development are:

- reduction of the existing regional imbalances by stimulating a balanced development, through the accelerated recovery of the delays in the development of disadvantaged areas as a result of historical conditions, geographical, economic, social, political, and preventing the emergence of new imbalances;
- correlation of government policies and sectorial activities in the regions by encouraging initiatives and by building local and the regional resources in order to develop sustainable socio-economic and cultural development of these;
- stimulation of interregional, domestic, international and border cooperation, including the Euro-regions and development regions

participation in the structures and organizations that promote these economic and institutional development for the purpose of projects of common interest.

4. Euro regions

According to the vision of the Council of Europe and of the European Union, a key to economic prosperity and political stability in Southeast Europe is the cooperation.

Thus there been adopted many programs that have supported cross-border cooperation projects. One of the most common forms of cross-border cooperation in Central and Eastern Europe are Euro regions. Republic of Moldova is party to three cross-border initiatives such as Euro regions:

- Lower Danube (1998) - composed of Cahul (Moldova), Braila, Galati and Tulcea (Romania) and Odessa (Ukraine);
- The Upper Prut (2000): composed of districts Balti and Edinet (Moldova), Botosani and Suceava (Romania) and Chernivtsi region (Ukraine);
- Siret-Prut-Nistru (2002): composed of districts Ungheni, Chisinau Lapusna and Orhei Soroaca (Moldova), Iasi, Piatra Neamt and Vaslui (Romania).

The three countries involved in the Euro region have concluded numerous economic and cooperation agreements, most of them benefiting from the existence of trilateral Romania - Republic of Moldova - Ukraine, which was established by Romania's involvement in the plan of the regional and subregional cooperation more than 15 years ago⁵.

5. Joint Operational Programme Romania-Ukraine-Republic of Moldova 2007-2013.

The Joint Operational Programme Romania-Ukraine-Republic of Moldova 2007-2013 is financed by the European Union through the European Neighborhood and Partnership Instrument. The program aims, in the context of secure borders, to stimulate the development potential of the border area, by encouraging contacts between partners on both sides of the border, in order to improve the social and economic environment.

⁵ Romanian European Institute, The impact assessment apud Leland Conley Barrows III/2005 (eds.), South East Europe - The Ambiguous Definitions of of the Space / L'Europe du Sud-Est - Les definitions ambiguës d'un espace, UNESCO-CEPES, Publisher Encyclopedic, Bucharest, 2002, p. 177-198.

The program area consists of parts of three neighboring countries, namely Botosani, Galati, Iasi, Suceava, Tulcea and Vaslui of Romania, Odessa and Chernovtsy regions of Ukraine and the whole territory of Republic of Moldova.

Joint Operational Programme Romania - Ukraine - Moldova for the six years mentioned has a total budget of 137.4 million euros, of which grant funds provided by the European Union through the European Neighbourhood and Partnership Instrument is approximately 126 million euros, while the Partner States should participate in financing projects with approximately EUR 11.4 million euros. The program aims to support projects that promote economic and social development, environmental protection, emergency preparedness, and infrastructure investment projects in transport, energy, drinking water supply plan, and local community's actions to promote educational, cultural and sport exchanges, the development of civil society. The projects have a transboundary nature and are developed in partnership between organizations in the one side of the border. To be eligible, in the projects must be involved at least a Romanian partner and a partner from Ukraine or Moldova. Beneficiaries of this program may be the regional and local public authorities, non-governmental organizations, associations, universities, research institutes, educational organizations / training.

6. Romania and the European Integration of Republic of Moldova

Beyond the specific elements, the three regions mentioned above establish cooperation in the fields of environment, agriculture and land management, sustainable development and employment, transport and telecommunications, tourism, civil society, media, development and implementation of new technologies; education, research and culture; contacts "people to people", border security.

Cross border cooperation programs were both numerous, but their impact remains small. The most important factors limiting the effectiveness of Euroregions are the lack of an integrated approach of Euroregions, as an instrument of foreign policy of the three countries and their sustainable development strategies; lack of action plans with clearly defined objectives and priorities; relatively low economic potential of the regions involved, lack of experience and relatively weak competence of the local authorities and regional administrative structures, the excessive focus placed on programs rather than the information and consultation in programs for the development; and limited financial resource.

However, the Euro regions have promoted good neighborly relations and encouraged the accumulation of experience in cross-border

cooperation, experience that can be an important support in the implementation of the Neighbourhood Policy. Also, as a member of the EU the regional policy instruments can be used to complement the New Neighbourhood and Partnership Instrument, to enhance the activities of the three regions.

In order to support the European aspirations of Republic of Moldova, Romania, can occur distinctly through at least two strands: bilaterally by providing direct aid and at European level, through their approaches undertake as a member of the EU.

World Bank's rating on International Trade Indicators

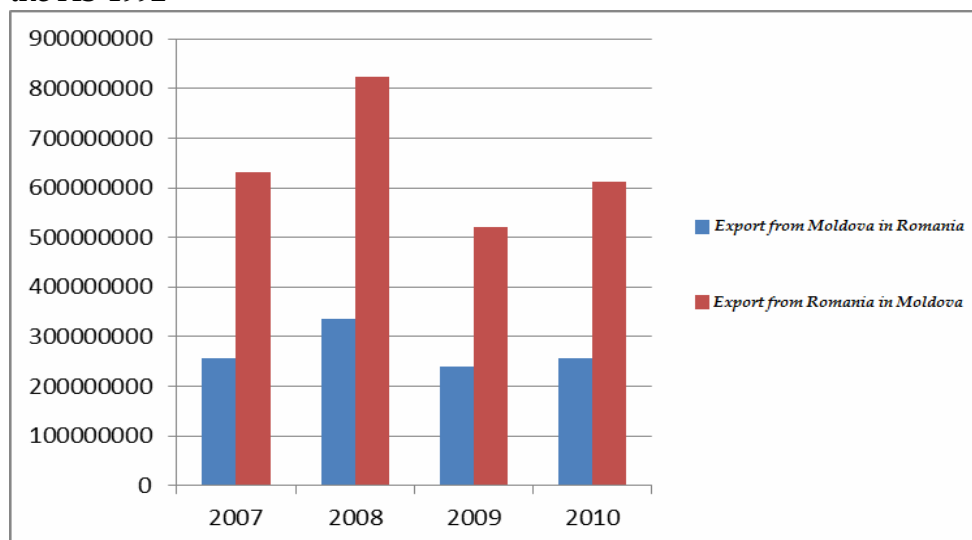
| | Total countries | Romania | Moldova |
|-------------------------|-----------------|---------|---------|
| Trade policies | 125 | 25 | 11 |
| External conjuncture | 125 | 82 | 27 |
| Institutional situation | 183 | 55 | 94 |
| Trade facilitation | 155 | 59 | 104 |
| Trade result | 157 | 17 | 20 |

Source: World Trade Indicators 2009/10

http://info.worldbank.org/etools/wti/docs/Moldova_taa.pdf

http://info.worldbank.org/etools/wti/docs/Romania_taa.pdf

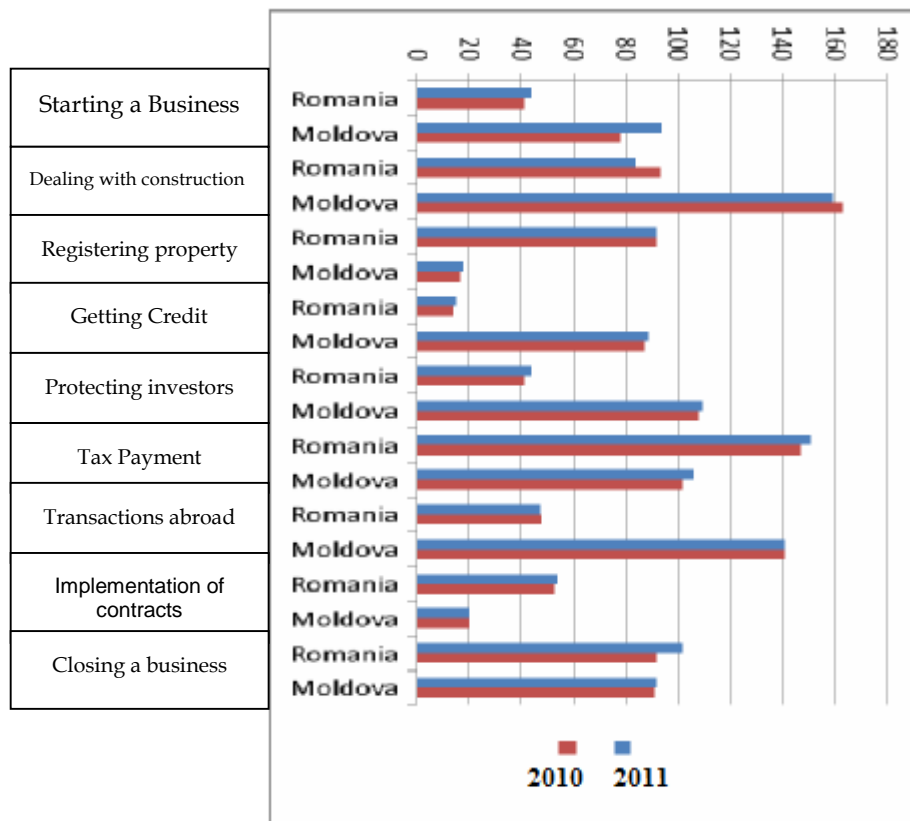
Bilateral trade between Romania and Moldova (U.S. \$ million) under the HS-1992



Sursa: Comtrade

<http://comtrade.un.org/db/dqBasicQueryResults.aspx?px=S4&r=498&y=2006,%202007,%202008,%202009,%202010&p=642&rg=2&so=9999>
<http://comtrade.un.org/db/ce/ceSnapshot.aspx?px=H0&r=642&y=2005,%202006,%202007,%202008,%202009,%202010&p=498&rg=2&so=9999>

Comparative evolution of the indicator in 2009 and 2010 Doing Business in Moldova and Romania



Source: <http://www.doingbusiness.org/data/exploreeconomies/romania>
<http://www.doingbusiness.org/data/exploreeconomies/moldova>

Seen from another perspective, we believe that in order to global improve the economic situation and the social environment of the two countries, having as model the Lower Danube Euro region⁶, also should be finalized the status of the Autonomous Region of Gagauzia and Transnistria's as well.

⁶ http://www.adevarul.ro/locale/galati/MaineIncepe-targul-Euroregiunii-Dunarea-Jos_0_452954856.html.

Gagauzia constitutional stated, is a region where the regional authorities are determined to correct imbalances in the regional economy. It is a region where a lot of investments are made, and has a strong industrial and agricultural potential. Agro-climatic conditions are extremely favorable for the cultivation of a variety of crops, especially for thermophilic species of cereals, legumes, industrial crops, vines, vegetables and fruits⁷. Republic of Moldova would have a different economic size if Transnistria would be part of a sovereign and independent State. Short and medium term, Romania should redefine its priorities in the neighborhood, given that Transnistria will eventually be part of Moldova and the European community.

7. Conclusions

In order to convert the Euro regions into effective structure for achieving the objectives of the Neighbourhood Policy, both Romania and Moldova should urgently adopt specific measures to develop cross-border cooperation, which consist of decentralization, regional planning and administrative organization in favor of increasing the role of the regional and local authorities structures, policies budget to support initiatives at regional and local communities, flexible border policy, etc..

We also believe that for the achievement of these goals is necessary to adopt a general legislative framework conducive to promote cross-border cooperation, in accordance with the principles of the Madrid Convention and of adjacent Protocols.

Finally, to strengthen the capacity of local communities and to develop cross-border cooperation is necessary to develop the human resource, the information structures, the institutional consultation and the dialogue that would support the various initiatives of the Euro regions.

⁷ For details see the Guide „Găgăuzia: oportunități pentru investiții” developed by the Institute for Social Development "The Future" and the authorities of Gagauzia: <http://www.gagauzia.md/newsview.php?l=ro&idc=403&id=534>

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Impact study III/2005 *apud* Leland Conley Barrows (eds.), *South East Europe – The Ambiguous Definitions of a Space/L'Europe du Sud-Est – Les definitions ambiguës d'un espace, UNESCO-CEPES, Enciclopedic Publishing, Bucharest, 2002*

Guide Gagauzia: „Găgăuzia: oportunități pentru investiții” developed by the Institute for Social Development „The Future and the authorities of Gagauzia:

<http://www.gagauzia.md/newsview.php?l=ro&idc=403&id=534>

Law No. 438-XVI from 28.12.2006; Law no. 438-XVI from 28.12.2006, the Government Decision no.127 from 08.02.2008, in which was decided to create the institutional framework and regulations and were approved Regulations for the operation of those institutions.