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NEWSLETTER

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Synthesis and Foreign Policy Debates

The newsletter is developed by Sorina Ștefârță, editor-coordinator

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News in Brief



The European Union will allocate 140 million Euros to the Eastern Partnership member states, including the Republic of Moldova, for urgent needs in combating the effects of the COVID-19 pandemic. Another 700 mln Euros will go to reduce the social and economic effects caused by the crisis in the six countries. The decision is part of the EU's overall response to the coronavirus pandemic. "These are very difficult times not only for the EU, but also for the partner countries. We must do everything we can to mitigate the impact of the pandemic on human life and livelihoods. Today's package responds both to the immediate needs of health systems and to the long-term needs of the most vulnerable social groups and small and medium-sized enterprises that are the backbone of the economies of the six countries," said Olivér Várhelyi, the EU Commissioner for the European Neighbourhood Policy and Enlargement Negotiations.



Among the immediate needs established by the European Commission is the support for the healthcare system in the Republic of Moldova, by providing medical devices and equipment for personnel, such as laboratory kits, ventilators, masks, goggles, safety suits. Earlier, the United States also announced that, despite the major difficulties it faces, Washington will provide our country with 1.2 million dollars to strengthen the capabilities of laboratories and communication in risk situations. In recent weeks, the Republic of Moldova has received several humanitarian aid to combat the COVID-19 pandemic, donations coming from Switzerland through UNDP, China, the Russian Federation, Poland, last, Soros Foundation. The World Bank will also provide businesses with additional funding for ongoing and new projects to support them both in the context of the pandemic and in the post-crisis period. Recently, the WB board approved the mobilization of about 150 billion dollars over the next 15 months to help the developing countries mitigate the impact on the economy.



President Igor Dodon does not rule out the postponement of the presidential elections due in autumn, taking into account the assumptions of the World Health Organization, according to which a new wave of the COVID-19 pandemic could be repeated. "If in the autumn we have a situation as it is now and the state of emergency will be instituted, it is obvious that the elections will be postponed. But I hope very much this will not happen", said the head of state. In the context of this proposal, the honorary president of the PDM, Dumitru Diacov, launched the idea of returning to the system of electing the president of the country in Parliament. "Let's not talk about postponing the election, but about returning to the election of the president in Parliament. The presidential institution must become a factor of stability, political balance and national consensus. The leaders of the parties must fight for the Executive, for the position of prime minister and for the possibility of carrying out the electoral programme, but also for the right to form the parliamentary majority, which ensures the activity of the Government with normative acts", wrote the veteran of the Moldovan politics on Facebook.

COVID-19: the litmus paper of the world governments



Sorina Ștefârță

What seemed like a science fiction Hollywood movie script two months ago (a film on this topic was shot, by the way, a few years ago), and a reality still unlikely in our part of the world only one month ago, today has

become a reality we face daily and which we will have to learn to live with. COVID-19.

The new coronavirus attacked like an invisible weapon and, in just a few months, it has knelt the entire planet, causing the worst humanitarian crisis

since World War II, and - as economists are anticipating - an unprecedented economic recession in all areas and in all countries. The most economically and socially developed regions, including the countries of the European Union and

► the United States of America, have been ruined, as a sand castle, by the healthcare and economic systems, while millions of people have already lost their jobs. De facto, the microscopic virus turned out to be the litmus paper that exposed all the incompetence and the sins of the current governments, all the wrong economic calculations made and the lack of solidarity in a supposedly supportive world, but also the few moral qualities of those whom we elected to save us.

The Republic of Moldova is by no means an exception - or, if it is, it is rather a negative one in the way it manages the crisis. How will we as well as the others get out of this situation that caught us rather unprepared? What do governments in other countries do to lessen the social impact of the pandemic and what do (not) we do, given the already historical poverty that we are struggling with? Read about this in this edition of the Newsletter.

I see three solutions for the Republic of Moldova: launching a tax reform, accessing IMF funds and a controlled devaluation of the national currency



Foto: bunaziuabistrita.ro

Cornel Ban, associate professor of international political economy at the Copenhagen Business School, Denmark

The global crisis, caused by the COVID-19 pandemic, has exceeded the public health dimension. In hundreds of countries, the quasi-total stopping of the economy, as a result of the quarantine regime instituted by governments, is already estimated at billions of losses to public budgets and millions of jobs lost. Economists talk about a recession worse than the 2009 one, while politicians launch economic and fiscal measures in an attempt to avoid total disaster. What are the world's

prospects for the economy? And ... what will the people affected by this cataclysm do? Find out about it from Cornel Ban, associate professor of international political economy at the Copenhagen Business School, Denmark.

The planet must breathe, but not at this gloomy price

■ ***Mr. Ban, since the outbreak of the COVID-19 crisis in China there has been three to four months, while in Europe it has been ravaging for about a month and a half. What is its economic impact today and what can we expect in a time horizon of 6-12 months?***

■ Its impact is terrible - almost seven million unemployed in the USA and already four million in France. Initially, it was said to be the biggest crisis since 2008, but we are heading toward the biggest crisis since 1929 and even higher if we do not reduce mortality dramatically. The Canadian virologist who developed the remedy for the terrible Ebola virus speaks for another year until the vaccine. The economic scenarios discussed vary: countries that combine quarantine, large-scale treatment, and testing of tens of thousands of people per day can restart the economy in three to four months. Those who will not do this - and I fear it is also valid for the USA - will go through a prolonged crisis that will affect us all, given the current economic interdependence. The Harvard economics professor, Kenneth Rogoff, talks about the worst crisis in the USA over the past 100 years.

The battle is above all medical. This crisis is closer to a natural disaster than to a recognizable economic crisis.

■ **How motivated is the exaltation of the fact that “the planet stopped”, “breathes”, etc.? What does this break mean from the social and economic point of view? Because there are millions of people around the world who earn their bread in a daily run?..**

■ This kind of approach looks like a form of social cruelty to me. The planet, of course, must breathe, but not at this gloomy price. We are talking about millions of avoidable deaths. Obviously, there are opportunities too. A prolonged crisis, with the state taking over a part of the private sector, would mean greater capacity to change the economy to make it more social and sustainable. But all this depends on the kind of state you have. We know that in our part of the world there is a risk that the state will be easily colonized by extremely narrow and rapacious private interests.

■ **The World Trade Organization has estimated that the economic impact of the current pandemic will be greater than that of the 2008 financial crisis. What does this mean for specific individuals? What about businesses – small-, medium-, and large-sized ones?**

■ This means mass unemployment, unpaid rates, waves of bankruptcy of small businesses that imply social proximity. It means a more difficult economic recovery. In our part of the world, the return to subsistence agriculture is not excluded for the unemployed who will no longer have the option of seasonal migration and, possibly, even for those who were doing better than that. The severity of unemployment in advanced countries is absolutely terrifying, and - given that the economy is largely closed and, therefore, does not produce taxes and fees - governments cannot afford generous technical unemployment at 30 percent of the workforce more than for several months. Even the austerity made to lower the export prices, as it was done

in the last crisis, does not work, because this time everyone is with his/her foot on the break regarding consumption as you have nowhere to sell. It's like a short circuit across multiple networks. Something unprecedented.

■ **How long will companies be able to keep their non-working employees? In what areas will the first bankruptcies occur and how long will it take to get back to normal?**

■ The digital sector, freight transport, and supermarkets will be only slightly affected. The automotive production and air transport are already in decline. It took between five and ten years, depending on the country, to overcome the 2008 crisis. Now I am afraid the recovery will take longer because of the simultaneous, large-scale destruction of demand and supply.

At the level of the EU member-states, it was indeed a small disaster

■ **An international pandemic also requires a coordinated global response. Until now, the EU states have acted separately, and Italy's case is eloquent in this regard. Was the absence of the European countries from the Italian crisis deliberate or rather unconscious? What economic consequences will this absence have, at least at the initial stage? And what about the lack of solidarity? How could these influence the European project?**

■ There are two levels here. One is about the economic support at the level of the EU states and here, indeed, it was a small disaster, when the Netherlands, Germany, Finland and some Eastern countries refused to share the debt of the European states through the so-called Euro-Bonds (which would mean a slight increase in the interest rate for their companies), as the Mediterranean countries, France, Ireland and Belgium have demanded. It is unfortunate this resistance to Euro-bonds in a period of unprecedented collective trauma. I would have expected it to be a reason for cementing the European

project, after ten years of conflict and disintegration. De facto, the shockingly sneaky remarks of a high-ranking Dutch official addressed to Italy and Spain at a time when these countries were stacking thousands of dead daily in the hospital morgues was a disaster for the European solidarity. Of course, Germany helped Italy with one million masks and an air bridge for patients, linking Lombardy to Cologne, but it remained reserved when it comes to Italy's economic drama caused by the virus.

Another level is that of the EU institutions, where things went better. After the initial hesitation (for which the head of the European Commission later apologized), the Commission Executive has moved quite quickly: has unblocked the transport corridors affected by severe border closures; has urged countries producing medical equipment not to block exports; has suspended restrictive fiscal rules for states and has committed huge sums to support jobs and businesses (100 billion euros), medical systems (37 billion in addition to all the surplus in this year budget), eight billion for SMEs, and 300 million for the discovery of a virus vaccine. For its part, the European Central Bank (ECB) has pumped nearly 1 billion into financial markets in order to help companies and governments refinance on secondary markets. And the list goes on. In short, the bureaucracy has done the right thing, but the solidarity between the reach and least affected states by the crisis and those with economic problems and very affected remains a disappointment.

■ **To what extent can we talk about threats to the Euro zone and the Euro? During the 2008 crisis, there have been lots of discussions about the disappearance of this currency...**

■ Except for the scenario of a medical cataclysm, the Euro has high chances of survival. This is in the interest of the countries with strong economies; the ECB can pump the necessary liquidity ... Those who bet against the Euro on the financial markets in the last crisis have lost lots

of money. Now, most likely, it will be the same.

■ **All states facing COVID-19, including the EU countries or the USA, have encountered a lack of basic medical equipment such as masks and gloves. One of the explanations is that all these industries have been ... evacuated to Asian regions with cheaper labour force, therefore, many experts anticipate a process of re-industrialization of the West. How realistic is this idea?**

■ That's right, but I would be more attentive at the details. Not all European countries has had such problems, and the difference between the Asian, Nordic, Germany or Austria, on the one hand, and Great Britain and the USA, on the other, is huge in favour of the first ones. The difference lies in the fact that the first ones either had a still impressive industrial power, or were prudent enough and had stocks and intensive therapy capacities on a "socialist" scale. Germany, by the way, is the largest manufacturer of pulmonary ventilators and it has not been deceived by the theory that there is no point in having many intensive care beds (the neoliberal *new public management*, which introduced market principles in the healthcare system that wreaked havoc on the Italian and British systems). France is somewhere in the middle and has shown that, despite the extreme shock, the government can mobilize a viable healthcare system, doubled by impressive logistics (air bridges with Asian manufacturers, high-speed passenger trains urgently converted to high-speed trains for the sick that relieved the overcrowded hospitals). The repatriation of industrial capacity from Asia to Europe is inevitable after this shock and not only in terms of healthcare needs in the event of a pandemic. Many large companies have found themselves, since January, with the supply chains blocked by the Chinese healthcare crisis. Dependency on China has played havoc in the European hospitals, which have found themselves unable to order enough masks, suits, etc. China supplies 40 percent of the antibiotics needs of Germany, Italy and France. The world has bet the people's health on some commercial chains that proved to be made

of wax at the very first pandemic... After COVID-19, I think, few will risk this.

Beyond the healthcare crisis is the economic crisis. Let's take the Hubei province, the homeland of the virus, which is an assembly hub of sophisticated electronic products, car parts, and pharmaceuticals for the world market. Not less than 300 of the largest multinationals had operations there. The pandemic has knocked out their supply chains, with only a quarter of them having alternative locations to move their operations to. I bet that the clear efficiency of the 'just-in-time' production will be replaced by the resilience obsession. And that would be a responsible way. Reshoring operations were in progress even before COVID, as a result of the increasing automation, but in the area of large businesses now there is an increasing agitation to accelerate this process. However, I do not think that we will see a movement towards national autarchy, rather a greater regional concentration of the European industrial capacity will occur, which is ultimately good news for the countries of Eastern Europe. Given the known demographic limits, the re-Europeanization of large value and supply chains will push up wages in these countries. Respectively, the money that until yesterday was invested in China will flow to Moldova, Belarus or Albania.

It is necessary to transfer the responsibility for the loss of income by the people to the state

■ **Another phenomenon that can be observed these days is nationalization of the health system. In Spain, private hospitals were taken over by the state during the crisis. France announces that immediately "after", it will invest heavily in the healthcare. Can this be a beginning of a rethink of economic organization: from the neoliberalism dominated by market interests to a system of social interests and public good?**

■ A few years ago, I wrote a book (*Ruling Ideas: How Neoliberalism Goes Local*, Oxford University Press, 2016) in which

I conclude that the neoliberal ideas are very easy to put on the euthanasia chair, because they adapt very easily through hybridization with the opponent's ideas. Nowadays you can meet decision-makers who are neoliberal when it comes to fiscal policy, social-democrats regarding social policies and Keynesians in monetary policies. The neoliberal Boris Johnson nationalized the private railways and passed a law that states the state pays 80 percent of your pre-crisis salary if you are left in technical unemployment. The same is the neoliberal Florin Cîțu in Romania, where the replacement rate of the salary is similar (75 percent).

However, let us not confuse the crisis etatism, used to keep the system standing, with the death of neoliberalism - the same architects of the economic emergency would, if they could, put the system on the old wheels, after the crisis ... But their ability to do so depends on how long the crisis will last and I think that anything is possible, even the euthanasia of neoliberalism, if the countries at the top of the economy pyramid are devastated by millions of dead and the biggest financial crisis over the last hundred years, as Rogoff thinks. But here we venture into a field of radical uncertainty and I prefer not to risk too much with predictions. As a rather unreformed social-democrat and ecologist, I hope, however, to live the primacy of a system dominated by the emphasis on the public good, the neoliberalism being in its essence not only socially and ecologically destructive, but also tempted by political authoritarianism, as shows colleague Quinn Slobodian in a recent book highly celebrated in good universities.

■ **Some countries have rapidly launched comprehensive packages of measures to cushion the impending economic crisis. What should and could the Republic of Moldova, whose economy is more than fragile, do in order to mitigate the effects of the crisis?**

■ The Republic of Moldova has very little room for budgetary manoeuvre to launch an ambitious shock absorber package. There are three possible fronts of action here. First, it is time to launch an ambitious

fiscal reform that will make the economic elite of the society pay and I recommend in this respect the Bulgarian and Polish reform (the Bulgarian one brings some percent of GDP to the Budget). Ideally, it is good to make fiscal reforms in the cycle of economic growth, but now there is no choice and we need solidarity, otherwise we are going to face big problems. Second, in the very short term, the country is eligible to access the emergency funds made available without conditionalities (ie without austerity) by the IMF. The Fund has \$40 billion available for such requests. Third, a controlled devaluation of the national currency would help the exports and further diminish the decrease in consumption given the country's dependence on remittances in stronger currencies.

■ ***When we also depend on imports, including of energy, and remittances, etc., how justified are such actions as delaying payments on current invoices?***

■ The nature of the crisis we are going through is that what matters most is not what is justified, but what is inevitable. Without the transfer of state responsibility for the loss of income by the people those bills will remain unpaid anyway, most people living from one month to the next or, as you say, from the remittances that will stop because of the crisis in the West. Even in the USA almost half of the population that does not have savings on which to survive the losses for a few months of the job. This argument is even more valid for poorer countries, where the state will have to deal with the utility companies...

If we do not overcome the ongoing medical war, the effects of the current collapse will extend for many years ahead

■ ***Doctors say, however, that COVID-19 will not be able to destroy the humanity; economists say the world has survived the darkest recessions, and psychologists say we can come out with new opportunities from any crisis. What would they be in this case?***

■ It is clear that it will not destroy humanity. After all, it's a mild virus compared to the Spanish flu, which has killed many more people, and whose favourite victims were the teenagers and young people. At the same time, if the virus keeps us inside our homes for a year or more, we will witness a major economic cataclysm with drastic results. The IMF, for example, envisages the takeover by states of large companies, in the event of their collapse. The result will most likely be a mixed economy with a large state sector in addition to the private sector, with indicative planning elements, as in post-war France. Under the shock impact we will obviously be more digital... But I don't think education will move too much online as the education act has suffered because of this way of teaching. I say it from my own experience of the last three weeks – education is very much of a social work; you can't automate it too much. Submitting forms, however, does not require this social function, so we do not lose much, digitizing it.

■ ***But how can we digitalize the production that needs human labour, in the agriculture, for instance? And, ultimately, how to maintain jobs?***

■ The possibilities of automation in agriculture are enormous, but here we should be careful, because the forms of agro-business and especially those of industrial zootechnics, the challenge is enormous. In fact, in just ten days, a large part of Europe has gone on an alert pace on the massive subsidization by the state of wages, through technical unemployment, Kurzarbeit etc. The measure is Keynesian (maintaining a minimum aggregate demand), but also pragmatic (companies keep their reserve of qualified people to (re) start after, hopefully, the virus is stopped by the vaccine). In addition, other Keynesian ideas such as large state and/ or EU funded infrastructure projects, universal minimum income, state financial guarantees for large employers in difficulty, are already being discussed. We are talking about an exceptional state in the political economy of the world, but it is not at all clear how temporary these measures will be, given

that the effects of the current collapse will extend for many years ahead if we do not overcome the medical war in full swing.

■ ***Any light at the end of the tunnel?***

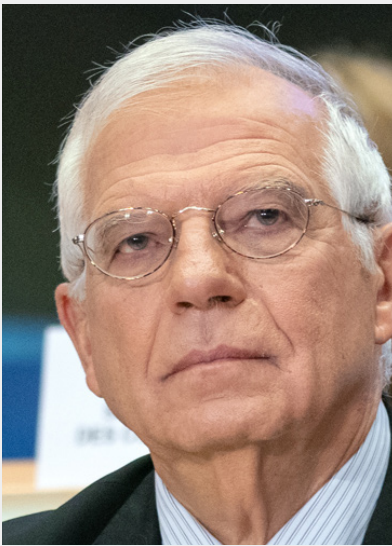
■ Personally, I hope this window will open to an ecological and social-democratic re-establishment of the relations between the market and society, but I am afraid that in many countries it will go on paternalistic authoritarianism. The problem is political, technically speaking. The state this time is in a position of power over the private sector and can use the moment to reap the benefits. Let me give you an example. At the time we speak, airlines and the associated industry are preparing for bankruptcy. Even the best managed ones can stay alive for only a few months, given the current collapse of air travel. As a solution, Professor Mark Blyth from Brown University in the USA and London financier Eric Lonergan propose the following scheme: companies are offered zero interest credit (the British state borrows at negative interest rates, so it can afford it); 30% of their shares are bought at ridiculous prices now; instead, the company agrees to give the state the option to buy its shares at the current low price, not to give management bonuses and to not fire staff. Over a year or two, when the company recovers and the shares grow, the state becoming a shareholder receives dividends that go to the Budget. Imagine what that would mean for a state with shares in dozens of large, viable companies in normal times, but which cannot survive for a few months in quarantine. Blyth and Lonergan propose that these shares be managed by a national prosperity fund, whose shareholders will be those without assets. In short, in this way, the state becomes a large shareholder, the jobs are saved and the firms, which otherwise would have succumbed, remain alive. And this is just one of the reforms through which capitalism can be further embedded in our collective priorities. It remains to be seen to what extent the political-economic dynamics will lead us in this direction.

■ ***Thank you very much for the interview, professor.***

Sorina Ștefârță

Editorial

An Eastern Partnership that delivers for all



Josep Borrell,
EU High Representative for
Foreign Affairs and Security
Policy



Olivér Várhelyi,
EU Commissioner for European
Neighbourhood Policy and
Enlargement Negotiations

In this challenging time, marked by the coronavirus outbreak, we can see how important international cooperation is. Over the last decade, the Eastern Partnership has brought concrete benefits for people in the Republic of Moldova and across the European Union's eastern neighbourhood.

In the Republic of Moldova, with the support offered to SMEs, the European Union helped create around 6000 new jobs, with the number of companies exporting to the EU increasing by 51%. From a regional perspective, EU initiatives like Mayors for Economic Growth gathered already 40 municipalities all over the country, helping them in the creation of plans to boost local economic development. Over the years, the European Union brought better living conditions to Moldovans with its assistance to the energy sector, with around 200,000 people benefiting from secure and locally produced energy, more than 300 schools, kindergarten, hospitals and community centres connected to biomass heating systems and about 25,000 students being

aware of energy resources which are green and renewable.

Last but not least, the EU has been active in the civil society sector, with tailored support for people who need it the most. In 2019 alone, about 619 vulnerable persons benefitted free of charge of services and products offered by social enterprises; start-ups and small businesses were created by people with disabilities and new jobs were made available, including for women and youth. The elderly received support via the five centres created in Moldova within the Life Long Learning initiative.

We need to do even more and better

To ensure our partnership continues to deliver in the fast-changing world of today, we need to do even more and better. To shape our priorities, we consulted last year with people, businesses, organisations and governments of 33 countries from across our shared region. While there was an appreciation for the results achieved, there was also a clear expectation

that we enhance our cooperation when it comes to jobs and prosperity, investments, connectivity, good governance and common challenges such as climate change and the digital transformation.

And now we presented our response to these consultations with long-term objectives for our policy beyond 2020. Our continued engagement with the Eastern Partnership countries remains a key priority for the European Union. Our proposals for the future are ambitious yet achievable. They build on existing cooperation but also identify areas where we need to go further. They are built on fundamental values as the heart of the EU project, such as the rule of law, protection of human rights and fight against corruption.

Concretely, we are proposing to our partners to work together on the following objectives:

- **Together for resilient, sustainable and integrated economies:** Strengthening the economy is key to meeting

citizens' expectations and reducing inequality and for making our partnership a success. We will focus on job creation and economic opportunities, through increased trade, investments, stronger connectivity, in particular in transport and energy, and linking education, research and innovation better with private sector needs.

● **Together for accountable institutions, the rule of law and security:** Good governance and democratic institutions, the rule of law, successful anti-corruption policies and security are essential for sustainable development and the consolidation of democracy. They are the backbone of resilient states and societies as well as strong economies.

● **Together for environmental and climate resilience:** To protect our world for generations to come, we all need to take responsibility. The EU will work with its partners to improve the resource-efficiency of economies, develop new green jobs and promote local and renewable sources of energy.

● **Together for a resilient digital transformation:** The EU will further invest in the digital transformation of our partners, aiming to extend the benefits of the Digital Single Market to partner countries. Our joint work will also focus on strengthening e-Governance, scaling up digital start-ups and supporting the cyber resilience of partner countries.

● **Together for resilient, fair and inclusive societies:** Free and fair elections together with transparent, citizen-centred and accountable public administrations are essential for democracy. The EU will continue to focus on these key areas, engaging with civil society, which needs to be given sufficient space, and supporting free, plural and independent media and human rights, as well as ensuring mobility and people-to-people contacts, all particularly important also due to growing disinformation against EU values.

Over the past decade, trade between the EU and its eastern partners has nearly doubled. Over 125,000 small and medium-sized businesses have directly benefitted from EU funding, creating or sustaining more than 250,000 jobs. We are better connected thanks to improved transport links and easier access to high capacity broadband. And according to recent surveys, the EU is the most trusted international institution among Eastern Partnership citizens. We will keep this results-oriented approach and look to do much more together in the face of today's challenges, including when it comes to crises such as COVID-19 pandemic.

And through this we will build an even more ambitious Eastern Partnership that delivers for all and continues to bring our shared continent closer together.

We urgently need a new employee protection mechanism

The legal framework gives employers a great deal of flexibility in managing labour relations...

Marcel Spatari,
economist, director
of Syndex Romania



One of the arguments of the opponents of the sanitary measures in the context of the COVID-19 crisis is their disastrous impact on the economy and especially on the low-income population. An argument that can be summarized as follows: *who does not die today of COVID, will die of hunger tomorrow. Although many thus justify their disobedience to the Government requirements, the argument in question is not without truth. The legal framework of the Republic of Moldova offers employers a great deal of flexibility in managing the labour relations, while the consequences of economic crises are mainly borne by employees. Read in the article below about the risks involved, the lack of a concrete state mechanism to support the employees during the quarantine period, including for the long-term sustainability of companies, by the economists Marcel Spatari, director of Syndex Romania. [The full version of the article](http://www.sic.md) can be found on www.sic.md.*

■ **What measures have been taken so far and why they do more harm than good to employees?**

On March 17th, the Parliament of the Republic of Moldova instituted the state of emergency for 60 days, which expressly provides for “the prohibition of resignation of workers, except for cases provided by the normative acts”. At first glance, this is a positive provision - it is assumed that workers will keep their

jobs. In practice, however, its effects on the protection of employees are null: 1) the provision refers to “resignation” (voluntary) and this means that the dismissals are not limited in any way; 2) the introduction of the exception for the “cases provided by the normative acts” leaves much room for interpretation; 3) there is no mechanism for controlling compliance with this provision and as a result, the employers will handle the situation as it suits them best. If they want to dismiss the employee, they will be able to do so.

On March 23rd, the Commission for Exceptional Situations approved the Provision no. 3 “to support the business environment”. The expectations were that the business would be told what to do with employees in the absence of activity. However, the Commission offered some minor measures, which mainly consisted in delaying the declaration and payment of income taxes in the case of small businesses. Nor does the moratorium on the various state controls, introduced on March 23rd, help companies withstand financially, keep their employees and pay salaries during the quarantine period. On the contrary, the provision of March 23rd made the employees even more vulnerable, because the moratorium ties their hands and those of the Labour Inspectorate. In other words, the possible abuses of the employees by the employers, during the period when the risk of these abuses increases significantly, will remain uncontrolled.

Moreover, on March 24th, the Provision no. 4 of the Commission for Exceptional Situations has inactivated, during the state of emergency, a series of provisions of the Labour Code regarding the dismissals. This gives employers green light to lay off employees without any limit - something that should be unacceptable to union organizations. A diametrically opposed situation is in the European states that, on the contrary, protect their workers during this period. For example, in Romania, during the state of emergency, collective dismissals are prohibited. Moreover, in Romania, the budget covers

an allowance of up to 75% of the average gross salary in the country for employers directly or indirectly affected by the sanitary measures, based on an affidavit. Although not without problems, the solution implemented by the Romanian government is close to the models applied in the western Europe, where the state covers up to 100% of the technical unemployment allowance cost. In the Republic of Moldova, therefore, the state plays a minor role - it does not actually pay the technical unemployment, but only exempts the allowances from taxes.

■ **What will happen to the employees during the quarantine period?**

Quarantine has already affected many sectors - from shops and hairdressers to factories and construction sites. In some sectors, the drop in the activity is caused not only by quarantine measures, but also by the collapse of demand on the foreign markets: for example, car factories in Europe are gradually closing down and the component manufacturers in the Republic of Moldova are no longer receiving orders. In the short term, the sectors that can move relatively easily to forms of distance work, such as IT or consulting, are the least affected. But, if the forecasts for a new global economic crisis come true, they will face difficulties in the long run.

During periods of decreased activity and sales, the companies will seek to reduce costs in all possible ways and, unfortunately, those who will suffer first from such cuttings will be the employees. The only norms that can be activated are the provisions of the Labour Code, which favours employers to the detriment of employees. However, there are several legal- though not fair - solutions that the employers can use:

- Granting paid leave that the employers have to offer throughout the year anyway, with all the rights respected.
- Stopping of activity: according to art. 801 of the Labour Code, employers must

pay 2/3 of the salary, but not less than the minimum wage.

- Technical unemployment: according to art. 80 of the Labour Code, employers pay an allowance that is not less than 50% of the basic salary.
- Suspension of individual employment contract (Articles 77 and 78 of the Labour Code), by agreement of both parties. An unpaid leave for more than one month represents a suspension of the employment contract.

Termination of the employment contract, pursuant to art. 82 (j), invoking “circumstances that do not depend on the will of the parties in the case of force majeure” - and the emergency situation seems to fall within the notion of force majeure.

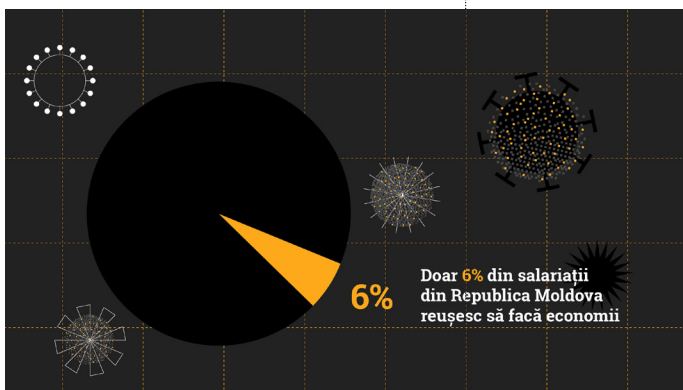
Also, the employers could modify the employment contracts in the sense of changing the level of wages, the programme or the working rules. These changes are possible with the agreement of both parties, of course, but the bargaining and intimidation power of employers is much higher than that of employees in the current period. Thus, in addition to the loss of income in the short run, there is a risk that the changes made will remain valid also after the quarantine.

■ **What was the response of the Unions in the context of the pandemic crisis?**

So far, the response of trade union organizations has been very modest. On March 20th, the National Confederation of Trade Unions of Moldova (CNSM) published a list of recommendations that suggest working from home, individualized work programmes with flexible regime, part-time work, registration of work-stop and granting paid leave to the employees. The last recommendation in this list - “granting (based on the written request of the employee and with the consent of the

employer) an unpaid leave (according to art. 120 of the Labour Code)" - is quite surprising. This solution is clearly unfavourable to the employee and makes him/her alone bear the economic effects of the quarantine period, without any support from the employer or state. Moreover, the recommendation runs counter to the spirit of the Declaration of the International Trade Union Confederation of March 16th, 2020, which called for economic stimulus packages that would include maintaining incomes to cover the costs of housing, electricity, food and other essential needs, as well as extending the social protection for all workers, regardless of their employment status. Therefore, the CNSM recommendations represent a kind of concession: we agree with lower incomes during the times of crisis or even with no incomes, but keep the employment contracts.

■ **Why drastic reductions in employee incomes, unpaid leave and layoffs are dangerous for the economy?**



According to a 2019 Syndex study, only 6% of employees in the Republic of Moldova manage to make savings. This shows their minimal capacity to cover their mandatory monthly expenses from their own savings - even in normal times, 2/3 of the employees fail to cover these expenses or cover them with difficulty. Thus, in addition to the devastating social impact that the drastic decrease in the employees' incomes will have,

this will inevitably lead to a decrease in consumption, respectively affecting the sectors that will not cease their activity such as the agri-food sector.

Also, the long-term sustainability of companies will be seriously affected. The labour market in the Republic of Moldova has shown visible signs of tension in the last two years. Employers were already facing increasing difficulties in finding labour force, before the virus crisis. If employers in certain sectors such as HoReCa lay off their current staff, when their work is resumed, it will be very difficult for them to find other employees. This also applies to other sectors, including the auto parts manufacturing companies from the free economic areas, which are very active in the labour market and have made considerable efforts to attract employees, including by developing the long commutes to work. In addition, the decrease in the number of employees and the reduction of their remuneration will lead to a decrease in the budget revenues (health and social insurance funds, income tax, VAT, etc.), which will most likely extend after the quarantine period.

■ **What can be done?**

In the states that are concerned about the long-term sustainability of the enterprises and take care of

the employees, the governments have established mechanisms to cushion the effects of the economic crises, including through funds allocated for the maintenance of labour relations and the solvency of the employees. The French model is very illustrative in this regard - it provides for the possibility of partial activity, which allows to reduce the personnel costs of a company in difficulty, to keep the skills inside it

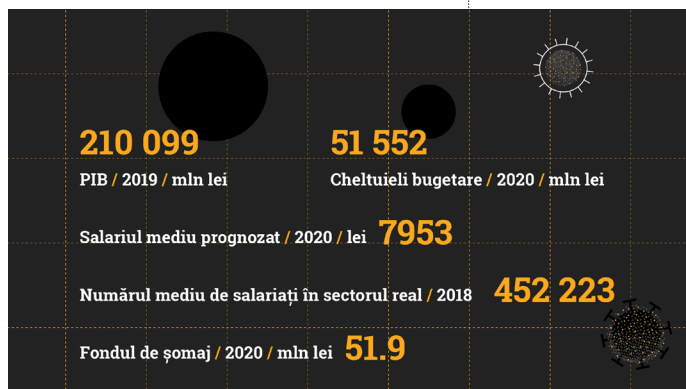
and to mitigate the repercussions on the remuneration of the employees through the intervention of state that serves as insurer and buffer of negative effects. Part-time work is a collective measure, meaning that it applies to a collective of workers - which may represent all or part of the employees of a company - and not to each individual employee.

During the part-time work, the company receives funds from the Budget and from the unemployment fund, which it transfers to employees in the form of a specific allowance which represents at least 70% of their remuneration and cannot be lower than the minimum wage in the economy. During the part-time work, the employment contracts are suspended but not terminated. This mechanism is not new, it was introduced in 2013, resulting from the experience of France in the financial crisis of 2008. In the current situation, the access of companies to financing has been simplified. France is not an exceptional case, similar tools are applied in Germany, Italy, Belgium, Poland, Spain, Czech Republic and so on. According to estimates, during the last economic crisis, over 221,000 jobs were saved in Germany, over 120,000 in Italy and about 50,000 in Belgium.

Technical unemployment in the Republic of Moldova - as defined by art. 80 of the Labour Code - does not provide any contribution from the unemployment insurance system, and all financial costs are placed on the employer's shoulders. Respectively, the notion of technical unemployment here is only theoretical, as it is not supported by any mechanism for ensuring and cushioning the effects through state intervention. In the context of the social-economic effects of quarantine, a government-funded technical unemployment mechanism could be a breath of air for the companies and employees who suffocate not only because of the virus, but also the lack of savings.

■ What are the costs?

Partial unemployment measures in France seem to be the most generous in Europe at the moment, so it is useful to see what their estimated maximum cost is. Initially, the French government estimated that partial unemployment



would cost around 8.5 billion Euros, which represents about 0.3% of the country's GDP and about 2.5% of the planned budget expenditures for 2020. Meanwhile, reports have shown that the measure has come to cost 2.2 billion Euros per week, because the companies made massive use of this mechanism. The official data show that by March 24th, 3.7% of the private sector employees were partially unemployed.

Based on the data from France, a general estimate of the cost of a similar instrument in the case of a smaller and less complex economy of the Republic of Moldova can be made. If 3.7% of the employees in the real sector entered technical unemployment with compensation payment from the Budget, taking into account the average salary of 7953 MDL forecast for 2020, this measure can be estimated at approx. 133 million MDL a month. If such a measure had been used for three months, the total cost would be 0.2% of GDP/ 0.8% of the Budget. In the scenario where the technical unemployment measures were more comprehensive in the Republic of Moldova than in France and had covered 10% of the employees in

the real sector for three months, the impact would be 0.5% of GDP/ 2.1% of the state budget.

The estimated cost in the above scenarios is a maximum one, if the state covered 100% of the technical unemployment allowance expenses and if this measure was as popular as in France or even more popular – the latter, however, is unlikely. In fact, in order to have access to state funds for technical unemployment, companies need to fill in detailed documentation, which is a serious administrative barrier. Thus, it is expected that if such a mechanism was implemented in the Republic of Moldova, it would be accessed especially by medium and large-sized companies that have the resources and capacity to complete the required steps.

■ Where to get money from?

According to the unemployment fund provided in the Budget for 2020 - only 51.2 million MDL - the amounts of 133-360 million MDL per month may seem astronomical. It is obvious that the implementation of a true technical unemployment mechanism cannot be ensured from the existing unemployment fund and that a reallocation of the budgetary funds and the supplementation of the state resources in the short-term would be needed.

However, the slowdown and stopping of economic activities will also hit the public budget revenues. President Igor Dodon has already announced about the probability of the failure to collect revenues of six to seven billion MDL this year. Respectively, the Government will already have a growing deficit if it keeps the planned levels of spending for 2020. The most realistic scenario

for covering the costs of implementing partial unemployment according to the Western model would be to reallocate the budgetary resources planned for non-priority spending. For instance, from the account of the investment expenses, provided at the level of 5.6 billion MDL, considering that for many businesses and employees now the problem is one of survival in the direct sense of the word.

It is clear that together with the decrease in the budget reviews, the state will have to look for new sources of financing. In this regard, the situation on the financial market is rather favourable - the liquidity of the banks is valued at billions, that is large enough to finance a public technical unemployment mechanism. And the external partners such as the IMF are ready to quickly release resources, and the fact that the total amount of the state debt does not exceed ¼ of GDP indicates that the Government can still obtain loans relatively easy. The funds obtained could be used for measures useful to the business environment and the population, by financing technical unemployment.

In addition to the allocation of significant funds, the Executive should develop concrete and detailed procedures for implementing such a mechanism. But the initiative is unlikely to come from the Government - the mechanism seems too complex, expensive and difficult to implement at first sight. This is precisely why it is necessary to involve the social dialogue partners: unions, employers, business associations, and civil society. This consolidated effort is necessary to openly demand concrete measures of economic assistance for the enterprises for the period they will stop the activity in order to keep the jobs and maintain the income of the employees. Equated with the huge socio-economic costs of stopping the economic activity over a long period - nobody knows how long the quarantine will last - the financial and administrative costs of a state-funded technical unemployment mechanism seem to be very appropriate and necessary.

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Expert Opinion

Dionis Cenușa: On the effects of the Pandemic - between European solidarity and the Eastern neighbourhood's resilience



Europe is learning today from its own experience how to fight the coronavirus pandemic, though it has had about two months (January-February 2020), since its outbreak in China, to mobilize its prevention capacity. How did the EU respond to the COVID-19 crisis and how it will affect the European construction, but also the Eastern neighbours of the Union? We propose below a [first evaluation of the situation](#) signed by Dionis Cenușa, political analyst, researcher and main columnist at the Info-Prim Neo Agency.

A slightly distorted agenda and somewhat delayed measures

At the level of political communication, the EU reacted to the existence of COVID-19 by launching, through the rotating Council Presidency of Croatia, the [Integrated Crisis Response, at the end of January](#). However, in practical terms, other concerns dominated the European agenda until very recently - tensions in north-western Syria ([Idlib, February 2020](#)) and the threats by Turkish President Recep Tayyip Erdogan to "open the borders" ([NYT, February 29](#)). The risk of a repeated "2015 migrant crisis" has disoriented Brussels and the Member States. While Italy was fast becoming the epicentre of the coronavirus on the European continent, the European Commission President, Ursula von der Leyen, praised Greece for taking on the role of "shield of Europe" ([Euronews, March 4](#)) against illegal crossings at the Greek-Turkish border. The reorientation of the EU toward crisis management of the COVID-19 pandemic has interrupted the handling of the situation in Greece. On the one hand, Athens needs help to manage the border and migration flows, and on the other hand, it should be convinced to uphold the right to asylum in Europe ([Guardian, March 13](#)).

After the epidemic violently hit the Italian population ([over 53,000 cases of infection and more than 4,000 deaths reported on March 23](#)), the virus advanced across the continent - to Spain (the second most severely affected European country), France, Germany and beyond. The close connections of the Eastern European diaspora and migrants with the EU member states facilitated the penetration of the virus into the Eastern Partnership states too. The increasingly dense air travel networks, as well as simplification of procedures for the movement of persons - including by simplified and liberalized visa regimes - have undoubtedly contributed to the spread of the virus. In the northern extremity of the Partnership, particularly in the Republic of Moldova and Ukraine, the epidemic has predominantly arrived via EU states. In parallel, Iran has become an additional source of risk for the Southern Partnership countries - [Armenia, Georgia and Azerbaijan](#).

Although criticized for not being quick off the mark, the EU has succeeded in developing regulatory and financial measures to counteract the effects of the health crisis and to stimulate solidarity between European states. In a partial, indirect and subtle form, the allusion

to European solidarity with the Eastern neighbours, concerning the COVID-19 pandemic, was included in the document "[Reinforcing Resilience - An Eastern Partnership that delivers for all](#)", launched by the EU on March 18, 2020.

Testing European solidarity

The EU's decision-making machinery reacted rather slowly to the first signs of the spread of the COVID-19. There were virtually no existing supranational instruments available for the sanitary protection of Europeans and the rapid, coordinated and unified counteracting of epidemiological dangers of this magnitude. European solidarity between the EU and the Member States - but primarily state to state solidarity - was challenged by the assertion of national interests. Some European governments have been overwhelmed by the rapid transmission of the virus, while others resorted to uncoordinated actions, such as restricting the sale of medical equipment to within national boundaries ([Financial Times, March 13](#)).

The lack of immediately available tools generated a wave of creativity from the European institutions. But the exceptional measures were only launched where the EU has express powers to do so (state aid, internal common market, public procurement, internal movement of goods etc.). At the same time, when Italy triggered the European Civil Protection Mechanism, the 27 member countries (plus UK which

is in the transition till December 31, 2020) and six non-EU countries participating in the mentioned mechanism, did not show any response. In the absence of aid from within the EU, China responded to the Italian call for help (*EuroActiv, March 19*), with the Chinese help subsequently extended also to Spain. US unilateralism and the inadequate EU pandemic response potentially reinforces China's "soft power" in post-COVID-19 Europe, including in Western Balkans (Serbia), and its economic-technological ambitions, such as bringing Huawei to the pinnacle of European 5G infrastructure (*Politico, January 29*).

EU, constrained by European treaties

Although the EU has been harshly criticized for not enabling European solidarity, in reality, the European Union treaties do not allow it to act differently. Primo, Art. 222 of the Treaty on the EU Functioning, abbreviated as the "solidarity clause", provides that the EU and the Member States must act in a spirit of solidarity when a Member State becomes the victim of a terrorist act or natural or anthropogenic disaster. But, from a technical point of view, COVID-19 does not fall into the category of reasons that can trigger the solidarity clause. Segundo, the European Commission can come up with proposals that could potentially lead to the activation of the solidarity clause, but their implementation requires the approval of the EU Council, meaning the national governments. Tertio, even if the clause comes into force, Member States have the right to select the method considered appropriate to transpose solidarity with the requesting party. Therefore, in its current form, the EU solidarity mechanism exhibits legal ambiguity, which impedes its substantial application, for any type of crisis and (crucially) by all member states. However, in the end, the Member States supported the "coordinated economic response" of the European Commission meant to alleviate the economic shock and financial burden of the COVID-19 crisis.

Three blocks of measures to ease the burden of the crisis

These measures can be divided into three blocks. The first block aims at simplifying the

joint procurement procedures for personal protection equipment, including from non-European producers. The possibility of reorienting the production of the European textile industry is being examined. In addition, a system of authorization for the export of personal protective equipment (gloves, respiratory masks, suits etc.) has been introduced temporarily for third countries (*EU, March 15*), which also includes the Eastern Partnership states. Medicines do not fall into this category, which allows Romania to deliver drugs to the Republic of Moldova (*Digi24, March 15*). The second block of measures concerns aid to the aviation sector, the tourism industry, businesses and employees. Airlines can derogate from the "use or lose" principle when requesting and allocating time slots in advance, between March and June 2020. The situation in the tourism industry is monitored through engagement with the relevant associations in the member countries, to identify solutions. The EU has also redirected money from existing funds to increase the liquidity available to save over 100.000 small and medium-sized enterprises (around EUR 9 billion).

To support vulnerable groups of employees, the European Social Fund (ESF) is being used, along with the proposal to establish a "European reinsurance system for unemployment benefits". The third block refers to the steps taken by the EU to support the Member States. On the one hand, the conditions for granting state aid are relaxed - both towards citizens and companies. On the other hand, the EU is proposing the mobilization of the existing and unused funds (about EUR 65 billion) - structural and cohesive ones - to identify the sources needed to (co-)finance the actions of national governments. At the same time, the EU Commission suggests maximum flexibility for the fiscal framework, giving the Member States the freedom to operate the necessary expenses to eliminate the socio-economic consequences caused by COVID. These measures are part of a legislative proposal of the European Commission - "Coronavirus Response Investment Initiative". Following the "co-decision" of the EU Council (national governments) and the Parliament, ready to speed up the legal procedures (*European Parliament, March 17*), the initiative can become implementable.

Eastern resilience and the role of the EU-Moldova Association Agreement

Referring to the Eastern Partnership as a "crucial element of the EU's foreign policy", EU High Representative, Josep Borrell, launched the proposal to "strengthen the resilience" of the Eastern Partners (March 18). The priorities set in the renewed approach mainly provide for the closer interconnection of the countries in the region and investment in their own sources of economic development. Borrell considers that the EU's "Neighbours' strength is also the European Union's strength". It seems clear that the COVID-19 crisis provided at least some impetus for the strengthening of the EU's priorities for the Eastern Neighbourhood. The EU Neighbourhood and Enlargement Commissioner, Olivér Várhelyi, said the EU will work closely with the Eastern neighbours to "address current challenges at all levels, including the COVID-19 pandemic" (*EU, March 18*). In addition to the promised aid for the modernization of the public health sector (medical infrastructure, training of medical personnel, access to health services), the EU will provide support to "better manage" case-related diseases, such as the coronavirus. However, this laudable promise lacks detail and it remains to be seen whether the EU will provide tangible support to tackle the current pandemic rather than helping to prevent similar situations in the future.

The EU-Moldova Association Agreement (AA) considerably exceeds the opportunities offered by the Eastern Partnership's multilateral platform. As in the field of civil protection (*IPN, April 25, 2017*), the AA contains relevant provisions in the area of public health (*Title IV, Chapter 21, Art. 113-116*). The Chisinau has committed to harmonize legislation with four European measures in the field of transmissible diseases, and the creation of an epidemiological surveillance network until 2023 year. Three provisions of the AA are essential in the context of COVID-19: 1) "increasing the capacity to prepare for threats and emergencies for public health"; 2) the integration of the country in the EU networks in the field of health; and 3)

“progressive improvement” of relations between the Republic of Moldova and the European Center for Disease Prevention and Control. Only point 3, however, can be found in [the 2017-2019 Association Agenda](#), which sets out the priority actions for the reform agenda.

Need for solutions and guidance

Based on recognized flaws in Moldovan governance highlighted by COVID-19, the EU-Moldova Association Agenda for 2020-2022 necessitates references to the fast transposition of the European acquis on the surveillance of transmissible diseases. At the same time, the EU can provide technical-financial support for the effort to map the relevant European health institutions. The Republic of Moldova should be encouraged to gradually join the institutions that currently manage the COVID-19 crisis. It is also crucial to develop a “road map” to materialize relations with the European Center for Disease Prevention and Control, a key institution with expertise and technical capabilities, whose services already benefit the countries with observer status, such as the states of the European Economic Area (three countries) and some candidate states - from the Western Balkans (Montenegro) and Turkey. The collective approach to deepen relations with the EU, initiated by Chisinau, Kiev and Tbilisi, can be updated by requesting an efficient integration in the field of public health.

Republic of Moldova needs solutions to provide guarantees to beneficiaries of the public health system and guidance for government when they are faced with epidemiological pressures. Currently,

without these tools, the situation in the country is deeply uncertain. The Moldovan authorities underestimated the depth of the relationship between the diaspora and the Moldovan migrants within the European space ([IOM, 2015](#): Italy - 142,266 Moldovan citizens, Spain - 16,202, Germany - 14,815). At the same time, it seems clear that many Moldovan citizens ignored official requirements/advice because of ignorance or scepticism towards the authorities, contributing to the easy penetration of the virus into and within the country. The non-identification of “patients zero”, the organization of new parliamentary elections in Hancesti (March 15, 2020) ignoring the local outbreaks of infection and inefficient filtering of Moldovans at the Airport facilitated the import, and subsequently, the local expansion of the virus. (...)

Due to the need to tighten up the measures, the Government convinced the parliament to adopt a motion providing for two months of a state of emergency ([March 17-May 15, 2020](#)), a period in which derogation from the obligations towards the ECHR are made, except for Article 15 ([IPN, March 21](#)). Chisinau introduced the special regime after Armenia ([March 16](#)), but before the regions of Ukraine ([Kyiv and Kharkov - March 20-21](#)) and Georgia ([March 21](#)). The Government’s actions are supervised by civil society, failures are revealed by the media in a usual *modus vivendi*. Today, however, Republic of Moldova displays some unreal images. While the army is providing vehicles to help with COVID, the church is asked to pause gatherings of parishioners, the majority of citizens stay in quarantine, which will affect the Easter celebrations. Last year, the country tested the resilience of democracy in the face of threats from

the oligarchic regime. In 2020, COVID-19 challenges the country’s resilience in the face of an exceptional health crisis, coupled with an unpopular governance.

Instead of conclusions...

So far, the European Union has displayed too little capacity to handle several crises at the same time. Despite the criticisms, the ecosystem of the European institutions has managed to produce various economic and financial measures, which give a certain sense of control of the situation. However, the national governments have the primary responsibility for circumventing and lowering the epidemic. Without drastic measures, similar to those in Spain and France, the capacity of national systems of public health to overcome and taper down coronavirus infections remains far from certain.

Concerning its Eastern neighbours, the EU openly recognizes that their resilience is a priority. The COVID crisis proved how important it is to coordinate actions both within the EU and between Brussels and its Eastern neighbourhood. Furthermore, in the last five years, the Republic of Moldova, Ukraine and Georgia have advanced economic integration with the European market and intensified human contacts, in response to the Russian’s political, commercial and military pressures. That is why the European Union responses to the coronavirus pandemic require active engagement with the Republic of Moldova, Ukraine and Georgia - by broadening political and sectoral communication, facilitating access to the European medical equipment and reviewing association agendas to reflect existential health needs in the post-COVID-19 period.

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Foreign Policy Association (APE) is a non-governmental organization committed to supporting the integration of the Republic of Moldova into the European Union and facilitating the settlement of the Transnistrian conflict in the context of the country Europeanization. APE was established in fall 2003 by a group of well-known experts, public personalities and former senior officials and diplomats, all of them reunited by their commitment to contribute with their expertise and experience to formulating and promoting by the Republic of Moldova of a coherent, credible and efficient foreign policy.



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