



## Brief No 1/2017-18

**Jean Monnet Chair: Dr Milenko Petrovic**

*The European Union and Europeanisation of Wider Europe and the World*

**Policy Briefs Series:**

**Developments in South-Eastern Europe and the Eastern Partnership Countries**

## ***General socio-economic trends and relations with New Zealand***

The region of South-Eastern Europe or the Balkans and the Eastern Partnership countries comprises sixteen relatively small countries (excluding Ukraine) all of which – except for Greece – were until the early 1990s ruled by communist regimes and had effectively no political, economic or cultural relations with New Zealand during their communist past. Following the collapse of the communist regimes in Central and Eastern Europe and the South Caucasus, in the late 1980s and the opening of the enlargement process of the European Union in Central and Eastern Europe, three post-communist states from the Balkans – Bulgaria, Romania and Croatia – joined the EU by 2013, while all their neighbours, labelled (together with Croatia) by the EU ‘the Western Balkans’, have expressed a strong desire to follow the pathway of these three. Currently, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Albania hold the status of official EU candidates, while the remaining two – Bosnia and Herzegovina and Kosovo have a longer way to go and are still considered as only potential candidates for EU membership. Unlike Central and Eastern Europe and the Western Balkans, the six countries from the Eastern Partnership are not offered membership perspective to the European Union. The Eastern Partnership, which is an offshoot and the Eastern dimension of the European Neighbourhood Policy is the EU’s policy initiative to forge closer ties with the six countries in Eastern Europe and the South Caucasus (namely: Armenia, Azerbaijan, Georgia, Belarus, Moldova, and Ukraine). The partnership seeks to promote regional stability through trade agreements and democratic institution-building. The Programme offers partner countries tariff-free access to the EU’s single market in exchange for their adoption of trade-related and political EU legislation.

Despite much greater political and economic openness of all these countries during their post-communist history, New Zealand’s political, economic, cultural, trade and

tourist relations with all the post-communist Balkan states and the Eastern Partnership countries have remained marginal at best. However, some positive recent trends, especially in relations with the new EU member states from the region of post-communist Europe indicate that there is potential for significant improvement of all types of relations between New Zealand and the Balkan states and the Eastern Partnership countries. The main objective of the EUCN policy Briefs on developments in South-Eastern European states and the Eastern partnership is to raise awareness among the NZ intellectual and wider public, particularly the political and business elites of the main social-political and economic developments in this group of states as a pre-condition for identifying potential opportunities for the improvement of cooperation. The two policy briefs that the EUCN will issue annually for the next three years will cover the following aspects of the contemporary developments of the Balkan States and the Eastern Partnership countries:

- General macroeconomic and social trends in the region and their impact on NZ trade, tourism and its socio-cultural and people-to-people links with the Balkan and Eastern Partnership countries
- Socio-political conditions and developments in the respective countries with regard to intra-regional cooperation and progress in democratisation and the European integration process. Particular attention will be paid to providing an overview of the current state of play as regards the Western Balkan states’ attempts to meet the official political and socio-economic conditions for EU accession, EU relations with the Eastern Partnership countries, and the latter’s progress in democratisation and in complying with the socio-political and economic requirements of the Eastern Partnership.

## 1. General macroeconomic trends

In 2017, the economies in the region of South-Eastern Europe or the Balkans have expanded steadily and are continuing to increase in 2018. In Croatia, the economy grew steadily after gaining membership of the European Union and recovered from a six-year recession in 2015 as membership brought opportunity for Croatia to expand its market to European internal market. On the other hand, since 2016, the government adopted tax reform policies to stimulate domestic consumption and foreign investment. In 2017, its real GDP kept growing but still dropped by 0.8% compared with that in 2016. It's projected to stay at 2.8% in 2018. The unemployment rate reduced to around 12% in 2017 and 2018. More youth succeeding in getting jobs. However, due to demographic dynamics and migration outflows, the labour force has been shrinking. The inflation rate picked up to 1.1 % and 1.6% respectively in 2017 and 2018 because of falling unemployment, wage increases as well as rising of commodity prices. The Albania and Montenegro economies grew faster than other countries thanks to large projects assisted by foreign direct investment. In Macedonia and Serbia economic growth was weak in 2017. Political unrest in Macedonia largely affected investment while the cold winter in Serbia significantly affected agricultural output and construction activity. However, the economies recovered in 2018 and are expected to grow in 2019.<sup>i</sup> Bosnia-Herzegovina has kept a steady economic performance since 2015 until the present. Though the unemployment rate in Kosovo decreased by roughly 5% in 2017, it had the highest unemployment record in the region. Bosnia-Herzegovina had significant employment growth in 2017 as more than 200,000 new jobs were created in the private sector in the region. Albania had the lowest unemployment rate in the region in 2017 and is projected to be so again in 2018. According

to the World Bank, the region's poverty rate declined by around 1 % due to economic growth and more vacancies in job markets in 2017. Almost 125,000 people were lifted out of poverty since 2016. The economic outlook is promising and is projected to rise from 2.6% in 2017 to 3.3% in 2018. (see World Bank Group Western Balkans regular economic report, No.12). The transition from a centrally-planned economy to an open market-economy, greatly stimulated economic boost in Bulgaria. The country's GDP per capita kept rising in 2017 and 2018, and its unemployment rate dropped to 9.2% in 2017 and continued falling in 2018. The economic situation in Romania also continued booming in 2017. According to the World Bank, the population in poverty in the country decreased from 10% in the ten year's timeframe from 2007 to 2017.<sup>ii</sup>

The economy continues to grow in the countries of South-Eastern Europe in 2018. According to the World Bank, the Balkans regular economic report<sup>iii</sup> and International Monetary Fund world economic outlook, Kosovo and Albania are expected to grow at around 4% by the end of 2018. Serbia has almost recovered from last year's slowdown caused by extremely cold weather and rebound to 4% from 1.9%. The economy in Macedonia also rebounded, though still at a slow speed. Until October 2018, Montenegro's growth was 0.6% lower than last year. In Bosnia and Herzegovina, economic conditions are stable this year. Though more than 90,000 jobs were created, unemployment rate in the region has only slightly changed. (See Table 2). To maintain positive economic growth in the future, higher exports and domestic structural reforms are necessities. Although the states in South- Eastern Europe have the highest unemployment rate in comparison with that in Western Europe and some Eastern Central European states, their economic situations in 2017 were far superior to that of the EU's six Eastern Partnership countries. Among the six Eastern Partnership countries, Georgia,

Moldova and Ukraine signed Association Agreements with the EU in 2014. The three countries have better performance in terms of approximation and linkage to the EU norms, values and political and economic integration.<sup>iv</sup> As it is clear from the following tables, the three countries' GDP per capita and real GDP

growth have been increasing since 2014. The inflation rates in Ukraine, Belarus and Azerbaijan have been dropping greatly since 2014 as well.

**Table 1. Basic social and macroeconomic indicators**

	Population (millions)			GDP per capita (PPP in international thousand\$)			Unemployment (Percent of total labour force)		
	2014	2017	2018	2014	2017	2018	2014	2017	2018
<b>South-Eastern Europe</b>									
Albania	2.89	2.88	2.87	10.91	12.52	13.34	17.5	13.8	12.2
Bulgaria	7.2	7.05	7.01	18.37	21.82	23.16	11.5	9.2	5.2
Bosnia-Herzegovina	3.57	3.51	3.5	11.02	12.78	13.49	27.5	20.5	18.4
Croatia	4.24	4.13	4.1	21.24	24.75	26.22	19.3	12.4	10
Montenegro	0.62	0.62	0.62	15.42	17.79	19.04	N/A	N/A	N/A
Kosovo	1.81	1.8	1.81	9.28	10.9	11.55	35.3	30.5	N/A
Romania	19.95	19.64	19.52	20.04	24.69	26.45	6.8	6.8	4.2
Serbia	7.13	7.02	6.99	13.5	15.06	17.56	19.9	14.1	13.7
<b>East-Central Europe</b>									
Czech Republic	10.51	10.58	10.59	30.53	35.54	37.37	6.1	2.9	2.5
Hungary	9.88	9.8	9.77	25.63	29.56	31.9	7.8	4.2	3.7
Poland	38.02	37.97	37.98	25.41	29.64	31.94	9	4.9	3.8
Slovenia	2.06	2.07	2.07	29.97	34.48	36.75	9.7	6.6	5.3
Slovakia	5.42	5.44	5.44	28.73	33.07	35.13	13.2	8.1	6.6
<b>Some Western EU Countries</b>									
Belgium	11.18	11.35	11.41	43.45	46.62	48.24	8.5	7.1	5.9
France	64.03	64.8	65.1	40.99	44.08	45.78	10.3	9.4	9.1
Germany	80.98	82.66	82.79	46.89	50.8	52.56	5	3.8	3.4
Italy	60.78	60.59	60.76	35.42	38.23	39.64	12.6	11.3	10.6
Netherlands	16.86	17.14	17.19	49.12	53.93	56.38	7.4	4.9	3.8
UK	64.6	66.04	66.47	41.07	44.29	45.7	6.2	4.4	4.1
<b>Eastern Partnership Countries</b>									
Georgia	3.72	3.73	3.71	9.27	10.68	11.49	14.6	13.9	N/A
Moldova	3.56	3.55	3.54	6.04	6.86	7.3	3.9	4.1	4.1
Ukraine	42.76	42.22	42.05	8.76	8.75	9.28	9.3	9.7	9
Armenia	2.99	2.99	2.99	8.2	9.48	10.18	17.6	18.6	18.1
Azerbaijan	9.48	9.82	9.94	17.92	17.65	18.08	4.9	5	5
Belarus	9.47	9.51	9.46	18.95	18.89	20	0.5	0.8	0.8
<b>Europe</b>	735.1	739.12	740.83	33.21	36.27	37.94	N/A	N/A	N/A
<b>New Zealand</b>	4.56	4.84	4.93	35.65	39.01	40.14	5.4	4.7	4.2

Source: International Monetary Fund, World Economic Outlook, 2019

**Table 2. Real GDP annual growth and inflation rates**

	Real GDP growth 2015-2018 (annual percent change)				Inflation annual rates (annual percent average)			
	2015	2016	2017	2018	2015	2016	2017	2018
<b>South-Eastern Europe</b>								
Albania	2.2	3.4	3.8	4.2	1.9	1.3	2	2
Bulgaria	3.5	3.9	3.8	3.2	-1.1	-1.3	1.2	2.6
Bosnia-Herzegovina	3.1	3.2	3	3.1	-1	-1.1	1.2	1.4
Croatia	2.4	3.5	2.8	2.7	-0.5	-1.1	1.1	1.5
Montenegro	3.4	2.9	4.3	4.4	1.5	-0.3	2.4	2.6
Kosovo	4.1	4.1	3.7	4	-0.5	0.3	1.5	1.1
Romania	3.9	4.8	7	4.1	-0.6	-1.6	1.3	4.6
Serbia	0.8	2.8	1.9	4.4	1.4	1.1	3.1	2
<b>East-Central Europe</b>								
Czech Republic	5.3	2.5	4.3	2.9	0.3	0.7	2.4	2.2
Hungary	3.4	2.2	4	4.9	-0.1	0.4	2.4	2.8
Poland	3.8	3	4.6	5.1	-0.9	-0.6	2	1.6
Slovakia	3.9	3.3	3.4	4.1	-0.3	-0.5	1.3	2.5
Slovenia	2.3	3.1	5	4.5	-0.5	-0.1	1.4	1.7
<b>Some WE Countries</b>								
Belgium	1.4	1.4	1.7	1.4	0.6	1.8	2.2	2.3
France	1	1.1	2.3	1.5	0.1	0.3	1.2	2.1
Germany	1.5	2.2	2.5	1.5	0.1	0.4	1.7	1.9
Italy	1	0.9	1.5	0.9	0.1	-0.1	1.3	1.2
Netherlands	2	2.2	2.9	2.5	0.2	0.1	1.3	1.6
UK	2.3	1.8	1.7	1.4	0	0.7	2.7	2.5
<b>Eastern Partnership Countries</b>								
Georgia	2.9	2.8	4.8	4.7	4	2.1	6	2.6
Moldova	-0.3	4.4	4.7	4	9.6	6.4	6.6	3.1
Ukraine	-9.8	2.4	2.5	3.3	48.7	13.9	14.4	10.9
Armenia	3.3	0.3	7.5	5	3.7	-1.4	0.9	2.5
Azerbaijan	1	-3.1	0.1	1.4	4	12.4	12.8	2.3
Belarus	-3.8	-2.5	2.5	3	13.5	11.8	6	4.9
<b>Europe</b>	1.4	1.7	2.5	2.2	2.9	1.5	2.2	2.2
<b>New Zealand</b>	4.2	4.1	3	3.1	0.3	0.6	1.9	1.6

Source: International Monetary Fund, World Economic Outlook, October 2019

Though China's presence has been increasing in the South-Eastern Europe, the EU and the rest of Europe remain the region's largest trade partner. On average 70% of its exports goes to the EU internal market. The investment from the EU companies created job opportunities in the region. It's no doubt that accession to the Union brings more benefits for social and economic development. However, there is still a long way to go for the countries in the western Balkan region as none of the countries in the region has completed transformation of their economic system to a well-functioning market economy, though

significant progress has been made since they started aiming to join the EU. With regard to the ease of doing business, the South-Eastern European states are gradually converging with the EU, especially Macedonia which reached a score of 81.2 out of 100 in 2017. The level is close to that of Sweden and the UK, according to the World Bank.<sup>v</sup> Even Kosovo, Montenegro and Serbia reached 73 and ranked ahead of Bulgaria, Romania, and Greece. A major issue for the countries' accession to the EU is the unresolved border disputes which is the legacy of the war in the 1990s. In general, Serbia and Montenegro might gain access to the Union in

2025. <sup>vi</sup> Their economic progress will bring future cooperation opportunities for the two countries' political, economic and cultural exchange with the rest of the world, including New Zealand.

## 2. Relations with New Zealand

Despite some encouraging trends in recent years regarding bilateral imports and exports between New Zealand and the South-Eastern Europe states, they still remained marginal and vary in terms of individual countries. To date, New Zealand has no direct consulates or trade representation in the South-Eastern European states nor in any of the Eastern Partnership countries which largely explains the low level

of its economic and trade relations with these two group of states. As is shown in Table 3, the major New Zealand trade partners in the region are Bulgaria, Romania and Croatia. The total value of exports and imports between New Zealand and the Balkan states in the most recent three years ( until October 2018) are less than NZ\$100 million per year which is less than 1% of its trade volume with Europe and the European Union. The main trade partners of New Zealand in Europe still remain EU member states by far. As can be seen from Table 3, New Zealand has more than \$9, 000 million value of imports from the EU in 2017 while only roughly NZ\$53 million value of imports

**Table 3. New Zealand merchandise trade (NZ\$ mil, annual)**

	2015		2016		2017	
	Exports	Imports	Exports	Imports	Exports	Imports
<b>South-Eastern Europe</b>	22.727	59.502	26.792	67.233	20.273	52.863
Albania	0.276	0.249	0.56	0.584	0.211	0.473
Bulgaria	7.068	30.116	11.290	39.482	11.606	16.941
Bosnia-Herzegovina	0.140	1.068	0.35	3.228	0.15	2.801
Croatia	2.881	2.712	5.816	4.401	2.279	4.685
FYR Macedonia	0.010	0.685	0.031	0.423	0.067	0.702
Montenegro	0.006	0.007	0.310	0.027	0.007	0.047
Kosovo	N/A	N/A	N/A	N/A	N/A	N/A
Serbia	0.750	1.552	0.885	3.513	1.550	3.379
Romania	11.596	23.113	7.550	15.575	4.403	23.835
<b>East Central Europe</b>	40.929	367.826	81.653	449.021	85.409	517.349
Czech Republic	11.103	103.296	10.280	154.937	13.151	167.956
Hungary	1.957	80.490	3.004	66.039	4.603	85.423
Poland	22.320	105.474	63.948	137.774	56.596	166.873
Slovakia	0.685	66.239	0.944	72.521	7.573	72.261
Slovenia	4.864	12.327	3.477	17.750	3.486	24.836
<b>Eastern Partnership Countries</b>	126.344	42.597	84.031	29.097	99.307	11.672
Georgia	10.683	0.388	1.688	0.213	4.611	0.418
Moldova	1.040	0.365	0.108	0.268	0.275	0.208
Ukraine	11.800	10.116	10.644	12.748	12.369	8.007
Armenia	15.771	0.064	14.766	0.125	16.850	0.050
Azerbaijan	86.665	0.107	56.358	0.184	64.078	1.035
Belarus	0.385	31.557	0.467	15.559	1.124	1.954
<b>Europe</b>	5,243.445	9,950.341	5,723.114	10,239.498	5,300.132	10,151.298
<b>EU</b>	4,934.947	9,033.574	5,405.372	9,491.239	4,846.845	9,448.443
<b>World</b>	48,396.163	51,370.699	49,324.864	52,660.152	49,873.492	53,530.299

Source: Statistics New Zealand

were from the South-Eastern Europe and some 11.6 million from the Eastern Partnership countries. The expected improvement of the Western Balkan states' relations with the EU may bring more opportunities for their more extensive bilateral cooperation with New Zealand. Following the experiences of New Zealand's trade relations with post-communist countries and new EU member states from East Central Europe and particularly Romania and Bulgaria it could be expected a more significant increase of the trade volume between New Zealand and the Western Balkan states when the latter join the EU.

**Table 4. Total number of New Zealand visitors to SEE, ECE and EPC countries (Annual-Dec)**

	2014	2015	2016	2017
<b>South-Eastern Europe (total)</b>	4,560	4,480	3,960	6,484
Albania	20	60	20	80
Bulgaria	380	500	N/A	502
Bosnia-Herzegovina	140	40	160	160
Croatia	2,440	2,200	2,680	3,600
FYR	220	280	300	420
Montenegro	80	40	80	140
Serbia	440	540	560	580
Kosovo	40	120	160	140
Romania	800	700	N/A	862
<b>Eastern and Central European Countries (total)</b>	3,340	3,880	4,660	5,800
Czech Republic	1,080	1,420	1,780	1,940
Hungary	920	880	900	1,560
Poland	740	1,160	1,320	1,460
Slovakia	440	220	320	500
Slovenia	160	200	340	340
<b>Eastern Partnership Countries</b>				663
Georgia	N/A	N/A	N/A	200
Moldova	N/A	N/A	N/A	20
Ukraine	N/A	N/A	N/A	103
Armenia	N/A	N/A	N/A	60
Azerbaijan	N/A	N/A	N/A	160
Belarus	N/A	N/A	N/A	120
<b>Europe</b>	196,840	213,940	216,900	247,840
<b>World</b>	2,275,88	2,411,56	2,611,02	2,852,74

Source: Statistics New Zealand

The current cultural and tourism exchange between New Zealand and the South-Eastern European states remain marginal in comparison to that between New Zealand and Western European states. Among the countries in the region, Bulgaria, Romania and Croatia are listed in the New Zealand visa waiver program and are also main destinations for tourism in the region, which enables

frequent mutual cultural and tourism exchange activities between New Zealand and the three countries. However, for the remaining countries, their bilateral cultural and tourism exchange activities with New Zealand are very limited. As can be seen from Tables 4 and 5, the main destination for New Zealanders in the region is Croatia. The number of New Zealand visitors to Croatia has been

steadily increasing since 2013 and has largely surpassed those to any individual East Central European country, including the three largest: Poland, the Czech Republic and Hungary. However, a negligible amount of New Zealanders chose to visit other Balkan states in

the past five years, though there was a remarkable increase of visitors from the Balkans to New Zealand in 2017. In 2013, there were 4,080 New Zealand visitors to the region and it increased to 6,484 in 2017.

**Table 5. Total number of visitor arrivals to New Zealand by country of residence (Annual-Dec)**

	2014	2015	2016	2017
<b>South-Eastern Europe (total)</b>	2,432	2,272	2,816	3,712
Albania	0	0	32	16
Bulgaria	592	512	560	848
Bosnia-Herzegovina	32	0	0	48
Croatia	544	480	672	800
Macedonia (FYR)	112	112	48	112
Montenegro	16	32	32	64
Kosovo	32	32	16	32
Serbia	224	208	208	336
Romania	880	896	1,248	1,456
<b>East-Central Europe</b>	10,240	10,416	12,816	15,632
Czech Republic	3,888	3,920	4,320	5,248
Hungary	1,296	1,312	1,616	2,048
Poland	3,520	3,760	5,152	6,064
Slovakia	992	912	1,040	1,232
Slovenia	544	512	688	1,040
<b>Eastern Partnership Countries</b>	2,032	1,856	1,888	1,936
Georgia	16	16	48	80
Moldova	32	64	96	32
Ukraine	1824	1520	1552	1488
Armenia	0	16	32	48
Azerbaijan	80	80	80	96
Belarus	80	160	80	192
<b>Europe (total)</b>	440,736	463,152	519,328	580,640
<b>World (total)</b>	2,853,520	3,129,312	3,494,336	3,723,344

Source: Statistics New Zealand

On the other hand, more Croatians, Bulgarians, Romanians, Macedonians and Serbians visited New Zealand in 2017 for holiday, attending conferences or visiting relatives than ever before. It is encouraging that bilateral cultural and tourist exchanges between these countries and New Zealand have slightly improved. The number of events in New Zealand promoting the national cultures, tourist sights and study in those countries has also increased in recent years. Unsurprisingly, Croatia organised most of these and even distributed scholarships to New Zealanders to study in universities in Croatia.<sup>vii</sup> As they are

approaching integration with the EU and people's living standards are improving, the cultural and tourism relationship between New Zealand and the South-Eastern European countries as well as with Eastern European Partnership countries should be expected to further improve.

---

<sup>i</sup> Western Balkans Regular Economic Report No. 12.

<https://openknowledge.worldbank.org/bitstream/handle/10986/28883/121417-WP-PUBLIC.pdf?sequence=1&isAllowed=y>

<sup>ii</sup> Romania Overview.

<https://www.worldbank.org/en/country/romania/overview>

<sup>iii</sup> Western Balkans Regular Economic Report No.14. <http://pubdocs.worldbank.org/en/194301538650996304/rev2-WBRER14-WQ-web-ENG.pdf>

<sup>iv</sup> Eastern Partnership Index, 2018. <https://eap-csf.eu/wp-content/uploads/EaP-Index-2017.pdf>

<sup>v</sup>How far from EU admission standards are western Balkan states? Valentina Romei, March 26, 2018. Financial times

<https://www.ft.com/content/1b4dc812-2d0f-11e8-9b4b-bc4b9f08f381>

<sup>vi</sup> European Neighbourhood Policy and Enlargement Negotiations.

[https://ec.europa.eu/neighbourhood-enlargement/countries/check-current-status\\_en](https://ec.europa.eu/neighbourhood-enlargement/countries/check-current-status_en)

<sup>vii</sup>Croatian Cultural Society in NZ.

<http://www.croatianclub.org/>

*Written and prepared by*

*Xiwen Wang*

*Milenko Petrovic*

*Garth Wilson*

Jean Monnet Chair Dr Milenko Petrovic  
National Centre for Research on Europe  
University of Canterbury  
Private Bag 4800  
Christchurch 8140  
New Zealand