

Monthly Report

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EU-Caucasus Trade and Political Relations in the Wake of the Ukraine War

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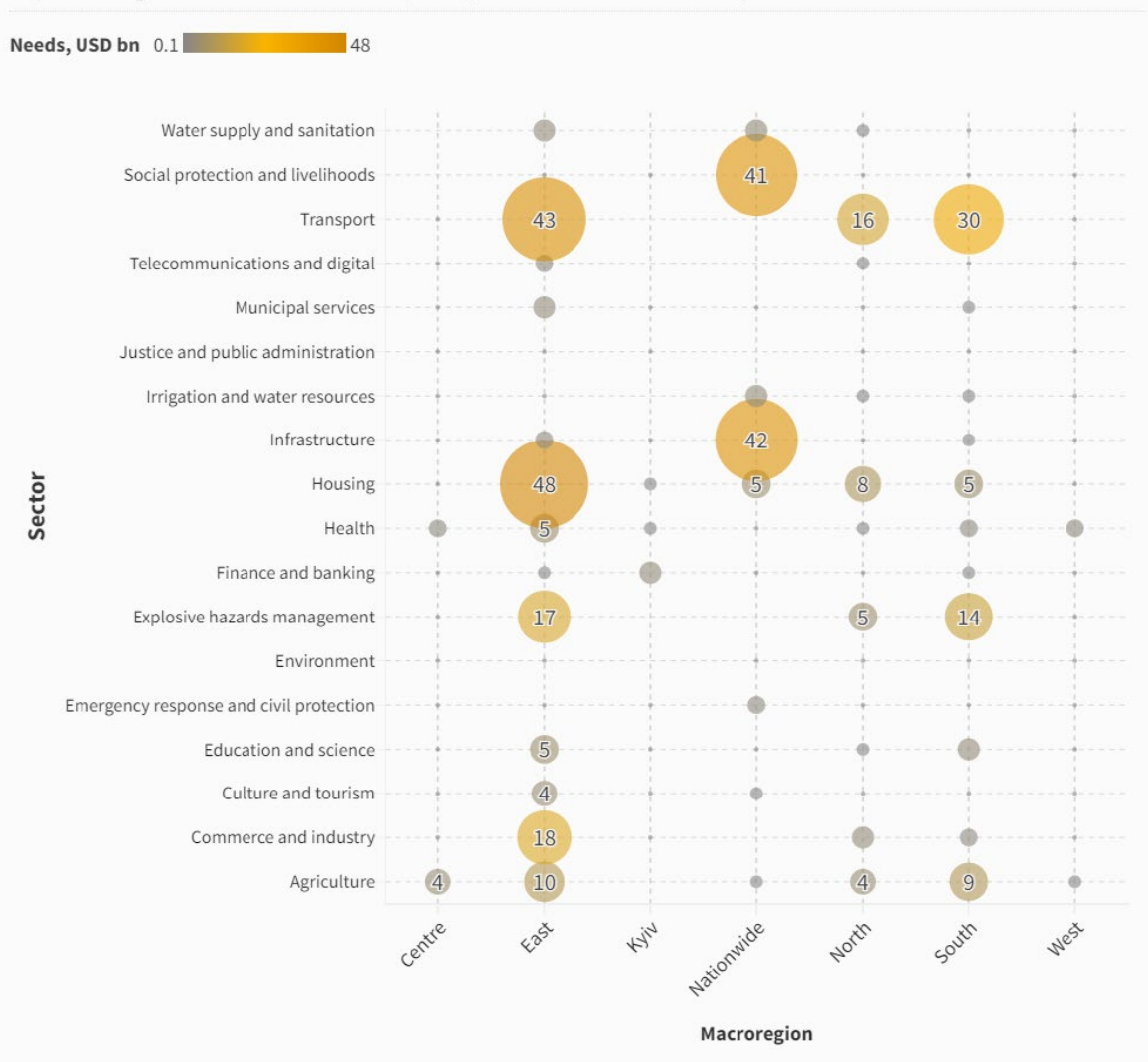
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Chart of the month: Estimated reconstruction needs in Ukraine

BY ARTEM KOCHNEV

Estimated Reconstruction Needs, USD bn

Rapid Damage and Needs Assessment (RDNA), World Bank as of February 2023



Note: Nationwide costs are costs that cannot be attributed directly to an individual region. Geographical scope: territories controlled by Ukraine's government as of 1 February 2022. Regional groupings are as follows: Centre: Cherkasy Oblast, Kirovohrad Oblast, Poltava Oblast, Vinnytsia Oblast; East: Dnipropetrovsk Oblast, Donetsk Oblast, Kharkiv Oblast, Luhansk Oblast; Kyiv: the city of Kyiv; North: Chernihiv Oblast, Kyiv Oblast, Sumy Oblast, Zhytomyr Oblast; South: Kherson Oblast, Mykolaiv Oblast, Odesa Oblast, Zaporizhzhia Oblast; West: Chernivtsi Oblast, Ivano-Frankivsk Oblast, Khmelnytskyi Oblast, Lviv Oblast, Rivne Oblast, Ternopil Oblast, Volyn Oblast, Zakarpattia Oblast.

Source: World Bank (2023).

The chart illustrates the scale of Ukraine's reconstruction needs across Ukrainian macroregions, using those territories controlled by Ukraine as of 1 February 2022. At over USD 400bn, the reconstruction needs are more than double total Ukrainian production for 2022; this is beyond the country's financing capacities. The East and South of the country have experienced the highest levels of destruction, followed by the North and Kyiv, which were active theatres of war in spring 2022. Security-related issues – lack of housing, land contamination and destroyed infrastructure – drive the largest amount of reconstruction needs. Agriculture, commerce, industry and energy generation follow next, reflecting the need for massive investment in productive capacities.

The security concerns that stem from proximity to the aggressor country, as well as such issues as destroyed housing and unexploded ordnance, may hamper the return migration of productive population groups. The current demographic composition – skewed as it is towards the elderly – is likely to lead progressively to a reliance on fiscal transfers. In terms of industry composition, the core industries in the East – located in Donetsk and Luhansk oblasts – have been severely affected. Without active government intervention and support, there is limited potential for the region to recover on its own. This could potentially lead to a poverty trap.

However, one positive aspect is that there is the potential for swift policy intervention without much resistance from industrial lobbies and oligarchs associated with the Soviet legacy. This opens up the opportunity to promote more advanced technology and production in the course of the reconstruction phase, which could help alleviate the economic challenges faced by those regions most heavily impacted.

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Opinion Corner^{*}: EU enlargement reality check – integration rather than membership

BY JAN MUŚ¹

Despite the optimistic declarations by many EU leaders, the ambitions of Ukraine and Moldova regarding membership of the EU are likely to be put on ice indefinitely. This is strongly suggested by the case of the Western Balkans, where there has been far more integration (in terms of the economy and remittances) than actual institutional inclusion in EU structures. This often gives rise to the criticism that the EU's policy on its eastern periphery reflects the expansionary process of a capitalist economy, rather than its much-vaunted democratic values. This may undermine its soft power in the regions concerned.

In the early 2000s, the unexpectedly rapid improvement in macroeconomic indicators and the political ease with which the Central European and Baltic states had become integrated into the EU encouraged EU decision makers to continue the process of enlargement, along the same lines as in the early 1990s. However, Ukraine, Moldova and the Western Balkans are unlikely to reprise the Central European 'dream'. Enlargement fatigue will probably prevail over enthusiasm; and economic calculation over political promises. Extension of the *status quo* is, in my opinion, harmful to both the EU and the nations seeking to join.

POLITICAL BENEFITS OF EU ENLARGEMENT LESS CLEAR CUT THAN IN THE 1990S

First of all, the international geopolitical environment has changed profoundly. Let us look back at the early 1990s: among other things, the US and its Western allies were at the time concerned about the stability of Central Europe. The Baltic states split from the Soviet Union in 1991 – as did Ukraine and Belarus, along with other former Soviet republics. However, it was not until 1994 that the Russian Army finally left Poland and Eastern Germany. Back then, the danger of a reversal of the political and economic changes in Central Europe was still perceived as being very real. Many international relations experts – representing the then-dominant neo-realist school of thought – even warned that, in the absence of integration into the EU and Western structures more generally, the post-Soviet bloc would prove hostile to the West. Indeed, the current Russian war with Ukraine – a direct consequence of the shock and trauma inflicted by the developments of the early 1990s on the post-Soviet power elites in the Kremlin – serves as a potent reminder that those warnings were by no means unfounded.

Back then, it was Germany (by then the most powerful state in Europe), backed by several other EU member states, that had clear goals regarding the political orientation and economic model of the Central European and Baltic peripheries: their EU integration was seen as the best way of preventing them from potentially falling back into the Russian sphere of influence.

^{*} Disclaimer: The views expressed in the Opinion Corner section of the Monthly Report are exclusively those of the authors and do not necessarily represent the official view of wiiw.

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By contrast, neither the Western Balkans, nor Ukraine and Moldova have any powerful sponsor state prepared to push hard enough for their full EU membership. Following the enthusiasm of the 1990s, EU enlargement thereafter became a hostage to the consensus requirement of EU decision making. Although formally kept separate from the EU enlargement process, after the 2004 enlargement this requirement became a major obstacle, with countries like Poland (and now Hungary) blocking the EU's actions. On the one hand, the lack of EU consensus on the matter means that the inclusion of the Western Balkans, Ukraine and Moldova in the EU is currently out of the question. On the other hand, the unanimity required in the field of common foreign and security policy (CFSP) also means that any additional EU enlargement – and diversification – would further hamper EU actions abroad, especially in its 'near neighbourhood'. The fact that there is little or no prospect of this requirement being lifted and of qualified majority voting being introduced as a rule in the area of CFSP further discourages the invitation of new members. Enlargement fatigue is a consequence of the fact that neither Paris nor Berlin wishes to see a more complex and more complicated political scene in the EU: from their point of view, economic integration is good enough; institutional membership merely serves to increase the risk of political deadlock. The difference in the level of development of member states guarantees different perceptions of such crucial issues as the green transition or agriculture.

ALREADY HIGH LEVEL OF ECONOMIC INTEGRATION

Secondly, why bother with a challenging political integration, when economic integration has already made great strides? The protracted accession process for the six Western Balkan (WB6) countries and Ukraine's pro-EU shift after 2015 have brought all these states much closer to the EU in terms of trade, investment and regulation. Both the Western Balkans and Ukraine are already well established within the EU division of labour, and data provided by the European Commission indicate clearly that the EU remains the dominant trade partner of the Western Balkan states, 'accounting for over two-thirds (67.6%) of the region's total trade ... Overall, this trade expansion has been to the benefit of the EU's Western Balkan partners; in the last 10 years, the region increased its exports to the EU by 145% against a more modest increase of EU exports to the region of 81%.² Still, the EU has a significant trade surplus with the WB6 countries, amounting to EUR 7.9bn in 2020, EUR 8.5bn in 2021 and EUR 11.4bn in 2022.

The case of Ukraine is similar: 'The EU is Ukraine's largest trading partner, accounting for 39.5% of its trade in 2021 ... Total trade between the EU and Ukraine reached almost €52.4 billion in 2021, almost doubling since the entry into force of the [Deep and Comprehensive Free Trade Area] in 2016.'³ The role of the EU in Ukraine's foreign trade has received a further boost since the war began: the EU became the destination for 57% of Ukraine's goods exports in 2022 – largely on account of agricultural products. As a result of the Black Sea Grain Deal and the trade liberalisation measures on the EU side (the EU has temporarily suspended all restrictions on trade with Ukraine), the share of agri-food exports from Ukraine to the EU increased year on year by 9 percentage points in 2022, to reach 53% (at the same

² European Commission, 'Western Balkans: EU trade relations with the Western Balkans. Facts, figures and latest developments'. https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/western-balkans_en (accessed 28.5.2023).

³ Delegation of the European Union to Ukraine, the European Union and Ukraine, 13.07.2022. https://www.eeas.europa.eu/ukraine/european-union-and-ukraine_en (accessed 28.5.2023).

time, the share of the export of metals decreased to 14% of overall trade in commodities – about two thirds of the previous level).⁴

Conversely, the EU's exports to Ukraine are much more advanced and are mainly composed of machinery, transport equipment and vehicles, electrical machinery and pharmaceutical products. Ukraine still runs a significant deficit in commodities trade with the EU – EUR 6.8bn in 2020, EUR 4.3bn in 2021 and EUR 2.5bn a year later. Trade in services amounted to an additional EUR 4.2bn of deficit in 2021.⁵ So, a surplus and a favourable trade structure – could things be any better for the EU?

The Western Balkan countries, Ukraine and Moldova already provide the EU economy with both cheap labour and qualified professionals, most of whom are young, healthy, ambitious, and often in possession of desirable skills and a knowledge of languages. Migrants either support labour-intensive sectors (such as tourism, construction, maintenance, deliveries, sales, etc.) or else provide high-quality services (for example in finance, health care or IT). Thus, the EU can replenish its own ever-more-rapidly evaporating labour force. Figures from the UN Refugee Agency put the number of refugees from Ukraine in the EU at over 5m.⁶ Part of this group will stay in the EU. Total labour immigration from the Western Balkan states to the EU probably also exceeds 5m. According to the Organisation for Economic Co-operation and Development (OECD), 'In 2020, more than one in five citizens born in the [WB6] region lived abroad, predominantly in a handful of OECD countries.'⁷ This does not mean that those people are not needed at home, but EU employers pay better and provide more stable employment, while the governments provide better public services. On the other hand, the transfer of private remittances helps the economies back in the home countries.

CONCLUSION

The EU enlargement process has effectively stalled, leaving a dangerous amount of scope for belligerent interpretations. But what would be the political rationale for offering EU membership to the Western Balkan countries, Moldova and Ukraine, which already provide the EU with labour and ready access to their markets? Why include, say, Milorad Dodik, the president of Republika Srpska, in sensitive discussions about the future of Europe or the EU's policy towards Russia? Why include Ukraine's President Volodymyr Zelensky in the decision-making process regarding Russian sanctions or reparations? The fruits of the economic integration of those countries into the EU are already largely available, while the political risk to the EU of including its south-eastern and eastern neighbours in its political structures can be minimised. Thus, there is good reason to believe that the ultimate goal of the Western Balkan countries, Moldova and Ukraine – that of EU membership – is a long way away, even as their substantial economic integration keeps on progressing.

⁴ Pindyuk, O., 'Ukraine: Economy defying the odds', wiiw Forecast Report, Spring 2023, p. 126. <https://wiiw.ac.at/wiiw-forecast-reports-ps-50.html> (accessed 28.5.2023).

⁵ European Commission, 'Ukraine: EU trade relations with Ukraine. Facts, figures and latest developments'. https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/ukraine_en (accessed 28.5.2023).

⁶ UNHCR, Operational Data Portal: Ukrainian Refugee Situation. <https://data.unhcr.org/en/situations/ukraine> (accessed 28.5.2023).

⁷ OECD, 'Labour migration in the Western Balkans: Mapping patterns, addressing challenges and reaping benefits'. <https://www.oecd.org/south-east-europe/programme/labourmigrationinthewesternbalkans-page.htm> (accessed 28.5.2023).

This situation undermines the perception of the EU on its peripheries as a reliable partner, and gives rise to popular arguments about its 'imperialist' and 'expansionist' character. By dragging out the enlargement process, it is discouraging further reform in those countries that are hoping to join. In my view, it is vitally important to provide Ukraine, Moldova and the Western Balkan countries with a credible EU accession anchor, in order to minimise the negative consequences of the current stalemate.

'China plus X': how might it work?

BY WALTRAUT URBAN

With a share of around 20%, China is by far the largest source of imports to the EU. This raises concerns over one-sided dependence and potential vulnerabilities and has given rise to calls for diversification: the so-called 'China plus X' strategy. However, empirical studies show that only about 14% of Chinese imports can be considered to be of strategic importance. For some of those – such as rare earth minerals, active pharmaceutical ingredients, Li-ion batteries and solar products – the potential for diversification is particularly low. This calls for supportive government measures.

The disruption to supplies felt during the COVID-19 pandemic and following the Russian invasion of Ukraine – both of which episodes highlighted a critical dependence on supplies from a single country – has triggered debate among policy makers, the business community and the public on the extent to which economic engagement with China is desirable for the EU. To cap it all comes the suspicion that the Chinese government, which is coming to resemble the Russian administration ruling in its increasingly authoritarian style of ruling, and which in fact controls all sectors of the Chinese economy, might – in the event of deteriorating political relations or for strategic reasons – be inclined to impose restrictions on trade with the EU.¹

The idea of 'decoupling' from the Chinese economy has spilled over from the US to Europe; but given the exceptional importance of China as a supplier to the EU and as a major market for EU products,² the formula 'China plus X' was devised instead. This essentially means: 'Stick with China as a major economic partner, but try to diversify in order to avoid one-sided dependence and potential vulnerabilities, and to increase Europe's resilience in the event of disturbances in economic or political relations with China.' In this focus on trade diversification, we will discuss how such a strategy could look, by addressing the following questions:

- › Which imports should be diversified?
- › Who should take action to diversify?
- › To where should the EU diversify?

¹ In 2010, for instance, China stopped its 'rare earth' exports to Japan, which was almost entirely dependent on China for these metals, after a fishing trawler dispute between the two countries (Hui, 2021). A more recent example is the implicit blocking of imports from Lithuania to China in December 2021, after the government in Vilnius allowed a Taiwanese representative office to open under the name of 'Taiwan' (instead of the city Taipei) – something the Chinese government considered a 'clear breach' of the 'One-China policy' (<https://www.reuters.com/article/china-lithuania-trade-idUSKBN2I10Y7>).

² In 2022, China ranked first in EU imports (with a share of 21%) and third in EU exports (with a share of 9%).

WHICH IMPORTS SHOULD BE DIVERSIFIED?

To implement a 'China plus X' strategy successfully, any critical dependence on China should be discovered before it materialises, as diversification will take time. And indeed, the aftermath of the COVID-19 pandemic saw the emergence of a number of empirical studies that identified products and sectors where the EU economy is 'critically' respectively 'strategically' dependent on imports from abroad (meaning that these products are important for the security, safety and functioning of the EU and its member states). Some empirical studies, such as MERICS (2020), focus on the EU's critical imports from China only; others, such as European Commission (2021) or Reiter and Stehrer (2021), take a broader view, but identify China as a major source of critical imports.

Although the various studies take different methodological approaches, with certain divergences according to the different definitions of 'critical' and 'strategic' products, their results are largely consistent. In all the studies, the EU displays a critical/strategic dependence on a relatively small share of around 14% of Chinese imports. The product groups that the EU is critically dependent on, and that are therefore the most important candidates for trade diversification, are mainly raw and processed materials, electronic products, and some chemical and pharmaceutical/medical products.³ The EU economic sectors affected most are the high-tech sectors (electrical equipment, electronics, machinery), the chemicals and pharmaceutical sector, and alternative energies.

WHO SHOULD TAKE ACTION TO DIVERSIFY IMPORTS?

In the first place, it is the task of individual firms to manage their supply chains and to diversify their foreign supplies, so as to minimise the risk of supply disruptions. However, while a greater number of suppliers ('supplier redundancy') makes supply chains more robust, it also makes them more costly.⁴ Therefore, entrepreneurs will always have to balance the risks of a narrow dependence against the potential costs of diversification, and weigh them against the cost of alternatives, such as re-shoring or increased stockpiling.

However, in the case of 'critical' or 'strategic' dependences, as defined above (i.e. when the core interests of a country are affected), governments should support the import diversification efforts of private firms. This could be done by providing background information, such as sector studies and analyses of possible source countries for diversification and by pursuing a forward-looking, active trade policy to facilitate access to alternative markets, including the formation of strategic partnerships to secure a stable supply of critical materials.⁵ Also, if private investment by EU companies is needed for diversification, this could be supported by, for example, special financing facilities and guarantees. Some of these measures have already been included in various EU programmes and strategies, such as the recent proposal for a European Critical Raw Materials Act (European Commission, 2023).

³ All studies are based on commodity trade data at the HS 6-digit level, the most detailed level available for all countries in the world. Unfortunately, sufficiently detailed data for the world-wide trade in services are not available.

⁴ In the light of supply disruptions due to COVID-19, the OECD (OECD, 2020) suggested a number of measures to make supply chains more resilient, including 'stress tests', to identify the costs of possible supply disruptions and to prepare for mitigation measures in advance. See also Simchi-Levi and Simchi-Levi (2020).

⁵ One such agreement – the Canada-EU Strategic Partnership on Raw Materials – is already in force; and in November 2022, on the fringes of the COP27 in Sharm El-Sheik, Egypt, the EU signed two memorandums of understanding, establishing a 'strategic partnership on raw materials' with Kazakhstan and with Namibia.

Furthermore, federal and local governments, as well as other public institutions that have a responsibility to provide the population with basic goods (such as health care, staple foods etc.), should try to diversify their foreign suppliers, probably using appropriate procurement practices. Likewise, the providers of basic infrastructure (e.g. railways, ports, telecommunications) – which may be public or private, but are typically regulated by the government – should avoid one-sided supplies from any country, including China. Last, but not least, the security apparatus (military, police) needs to diversify important supplies, in order to ensure that public order continues to function properly in the event of supply disruptions.

Often, close cooperation between the public sector and private stakeholders is useful in addressing the issue of diversification. One example is the 'structured dialogue' with relevant actors in the pharmaceutical value chain, public authorities and other stakeholders, under the EU's Pharmaceutical Strategy for Europe.⁶

TO WHERE SHOULD THE EU DIVERSIFY?

The studies presented identify a number of critical/strategic product categories, where the diversification of EU imports away from China to other countries is necessary to reduce the EU's potential vulnerabilities. But diversification will only reduce the vulnerabilities effectively if the full supply chain is taken into account; this requires very detailed analysis of the production processes.

Several such in-depth studies have already been carried out or initiated by the EU Commission – in particular, in the field of critical raw materials and renewable energies (European Commission, 2020a; 2020b; 2021; SCRREEN, 2023; Carrara et al., 2023). After some general considerations regarding which countries should be targeted for the diversification of critical imports away from China, we discuss a few important product categories where the potential for import diversification is particularly low.

General considerations

For many critical/strategic products, EU companies will be able to find a considerable number of suppliers apart from China; but prices will typically be higher, as the main reason why EU companies source from China is its outstanding price competitiveness.

One focus of critical/strategic products is on electronic products. As is well known, East and Southeast Asia is the global production hub for such products. The main candidates for diversification of high-value-added electronic products are Japan, South Korea, Taiwan, Singapore and Malaysia. Outside Asia, the US is also an important supplier of high-tech electronic products. However, alternative suppliers for technologically less-sophisticated electronic products – which in fact make up a large part of EU imports from China – are harder to find, as China occupies a dominant position in this field.⁷ However, with rising production costs in China and increasing technological know-how in the region, certain lower-income countries such as Vietnam, Thailand and India could become ever more

⁶ https://ec.europa.eu/health/human-use/strategy/dialogue_medicines-supply_en

⁷ A special case is semi-conductors: China is a leading producer of older, technologically less-advanced chips, so-called 'mature nodes' (≥ 28 nm), which are essential for the European car industry, the machine industry and many medical apparatuses. The only substantial alternative producer in this field is Taiwan (Hess, 2023).

competitive. European firms could also take advantage of the EU's bilateral free trade agreements with many countries in the region.⁸

Another important group of critical/strategic products is made up of raw and processed materials. In this field, production sites around the globe are well documented, but access to supplies can be difficult, as there is a worldwide race for raw materials. Existing and prospective 'strategic partnership agreements' between the EU and resource-rich countries could be helpful in this respect; but only one – the Canada-EU Strategic Partnership on Raw Materials – is so far in force. Private investment by European companies in mining and the processing of raw materials would also be an important means of securing supply.

Some critical/strategic product categories where diversification is particularly difficult

In the case of rare earth minerals (RE), the EU is highly dependent on imports from China,, which dominates the entire global RE value chain, and only a few suppliers exist outside China. By 2020, China had a 63% share of global RE ore mining and provided 90% of global RE metal production and 93% of RE magnets (Carrara et al., 2023: 54). Rare earth minerals and products (RE magnets) are indispensable components in wind turbines, electric cars and many of the electrical devices that are essential for Europe's 'green transition'.

However, the situation is changing, albeit slowly. RE mines have (re)opened in the US, Australia, Myanmar, India, Thailand, Malaysia and elsewhere. Some RE compounds are made in Japan, the UK, Russia and South Korea (European Commission, 2020b; SCRREEN, 2023). RE magnets are produced in Japan – and a few in Vietnam and Thailand as well, although by Canadian and Japanese companies (US Department of Energy, 2022). But refined material used in RE magnets is supplied by only one significant operator outside China: the Australian Lynas company. Nevertheless, new refining plants are planned in Canada and India, and construction of a big RE magnet refinery recently commenced in the UK and should start operations soon.⁹ To make the EU less dependent on imports, the European Raw Materials Alliance (ERMA) was launched in 2020, with the purpose of promoting projects that cover the entire value chain – from mining to magnet making – within the EU (Carrara et al., 2023: 55).

Another important group of products on which the EU exhibits critical dependence is active pharmaceutical ingredients (APIs). APIs are the 'active' (medically effective) components in a pharmaceutical drug (in contrast to 'excipients' – fillers, etc.). China provides 45% of EU imports of APIs (in volume terms); it is followed by India, while significant volumes also come from the US, the UK and Indonesia.¹⁰ However, it is not that easy to diversify away from Chinese imports, as each country specialises in certain products; moreover, India, for instance, depends heavily on inputs from China. In the higher-quality sector, Singapore and Switzerland are potential alternative suppliers (European Commission, 2021: 63).

⁸ There are, for instance, free trade agreements (FTAs) between the EU and South Korea, Singapore and Vietnam, and the Economic Partnership Agreement with Japan. https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/negotiations-and-agreements_en. An EU-Australia FTA is under negotiation.

⁹ 'UK's first magnet refinery given huge financial boost as first ever strategy for supply of critical minerals published', Department for Business, Energy & Industrial Strategy, Press release, 22 July 2022. <https://www.gov.uk/government/news/uks-first-magnet-refinery-given-huge-financial-boost-as-first-ever-strategy-for-supply-of-critical-minerals-published>.

¹⁰ In value terms, the picture is quite different: Switzerland and the US are at the top, providing 30% apiece of extra-EU API import values, followed by Singapore and China (European Commission, 2021: 64).

Two other product categories that are essential for the EU's decarbonisation efforts but that offer very limited scope for diversification are Li-ion batteries and solar products. Li-ion batteries are used in electric vehicles and for the storage of electric energy. In 2018, China had a 66% share of global Li-ion battery production, followed by South Korea and Japan with a combined 20%. The EU share was only 3% (European Commission, 2021). Furthermore, processed materials and components used in battery production are also heavily concentrated in China and Japan. Given the limited scope for diversification, the European Battery Alliance was founded in 2017; and in 2018 the EU Commission launched its Strategic Action Plan on Batteries, with the aim of building a European value chain for Li-ion batteries and becoming the second most important Li-ion battery producer, after China (European Commission, 2021). According to branch insiders, as of July 2022, about 40 'gigafactories' for Li-ion batteries were under construction in Europe, including established cell producers from East Asia (China, South Korea) and Sweden, as well as some automotive original equipment manufacturers (e.g. Tesla, VW) (Murray, 2022). But China remains the dominant supplier of the raw and processed materials used in these batteries. Thus, diversifying imports of these materials, too, is of great importance in reducing supply risks – for instance, by establishing secure trade agreements with other source countries, such as Australia (Carrara, 2023: 31).

Solar energy is considered a cornerstone of the EU's future energy system. But whereas it was once a pioneer in this field, the EU has now become almost entirely dependent on imports from China, which has a virtual monopoly on the global production of solar panels and the value chain that makes it possible to produce them. Only recently has India started to build up its own solar industry. In 2020, 75% (by value) of the solar panels imported by the EU came from China; and if China-linked producers in Southeast Asia are included, that share goes up to 80% (Widmar, 2022). Given this situation, the EU Solar Photovoltaic Industry Alliance was formed,¹¹ with the aim of establishing a full solar photovoltaic value chain in Europe and so reduce dependence.¹² But even if the various hurdles – such as startup funding, access to critical raw materials and a lack of cost competitiveness – can be overcome, it will be neither possible nor desirable to squeeze China out of the huge and growing European market for solar panels (Kratz et al., 2022).

CONCLUSIONS

China is by far the largest single supplier of extra-EU imports of commodities, with an import share of 21% in 2022. This raises concerns over one-sided dependence and potential vulnerabilities. However, only a relatively small proportion of Chinese imports (in the region of 3% of total extra-EU imports, equivalent to 14% of EU imports from China) is considered 'critical' or 'strategic' importance (meaning that the product is highly important for the security, safety and functioning of the EU economy). These include mainly raw and processed materials, electronic products and some chemical and pharmaceutical/medical products. (If we also include consumer goods – which are generally regarded as 'non-critical' – the share of products where the EU is heavily dependent on imports from China is significantly higher.)

¹¹ This industry alliance is part of the EU solar strategy (REPowerEU), published on 18 May 2022, alongside broader EU plans to end Europe's reliance on Russian fossil fuels, following the invasion of Ukraine (Simon, 2022).

¹² Reportedly, India has been quite successful in implementing a similar strategy, although supported by trade measures as well (Widmar, 2022).

Alternative suppliers to China can be found in advanced industrialised and newly industrialising countries. The focus is largely on the Asian region (electronics!), but the US, Canada, Australia, Norway and Switzerland are also potential sources – although prices there are typically higher and the quantities that could be supplied in the short term are not adequate to cover the EU's large demand. However, especially for some product groups that are very important for the EU's 'green transition' (e.g. rare earth minerals and magnets, batteries, solar panels), potential suppliers outside China are few and far between. In this case, if the EU is to become less dependent on China in the medium to long term, the only solution will be to find a proper substitute product, by investing in R&D and building a supply chain within the EU itself. In cooperation with the business community, the EU Commission has already launched certain initiatives in this direction. However, despite diversification and re-shoring in certain fields, China will remain an important supplier to the EU, due to its huge production capacities and its outstanding cost competitiveness – in line with the above formula of 'China plus X'.

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EU-Caucasus trade and political relations in the wake of the Ukraine war

BY BERNHARD MOSHAMMER

Although, as the largest export destination and the second-biggest source of imports, the EU is a key trading partner for the Caucasus region, EU-Caucasian political relations continue to be dominated by issues that extend beyond the sphere of trade. The war in Ukraine has shifted the dynamics of power in the region, fostered the debate on Georgia's potential EU membership and brought the EU into the role of mediator in the Nagorno-Karabakh conflict – a consequence of Russia losing its leverage in the region, due to its own war in Ukraine.

The war in Ukraine has drawn increasing attention to the Caucasus region, with Armenia, Azerbaijan and Georgia at its heart. Since the outbreak of war, that region has also gained importance as a destination for Russians seeking refuge from the Russian regime and/or conscription, and for Russian capital. Azerbaijan is also playing a role in the EU's efforts to diversify its energy supplies over the medium term away from Russia. Overall, the war in Ukraine has shifted the dynamics of power in this region. Georgia has stepped up its ambitions to join the EU, while Armenian-Azerbaijani relations are dominated by the conflict over Nagorno-Karabakh, the most violent conflict to have erupted in the immediate aftermath of the fall of the Soviet empire, yet one in which the EU has, until recently, largely been sidelined as a mediator. This article looks at trade and political relations between the EU and Armenia, Azerbaijan and Georgia, and at the EU's increasing role in Nagorno-Karabakh conflict resolution.

THE REGION AT A GLANCE

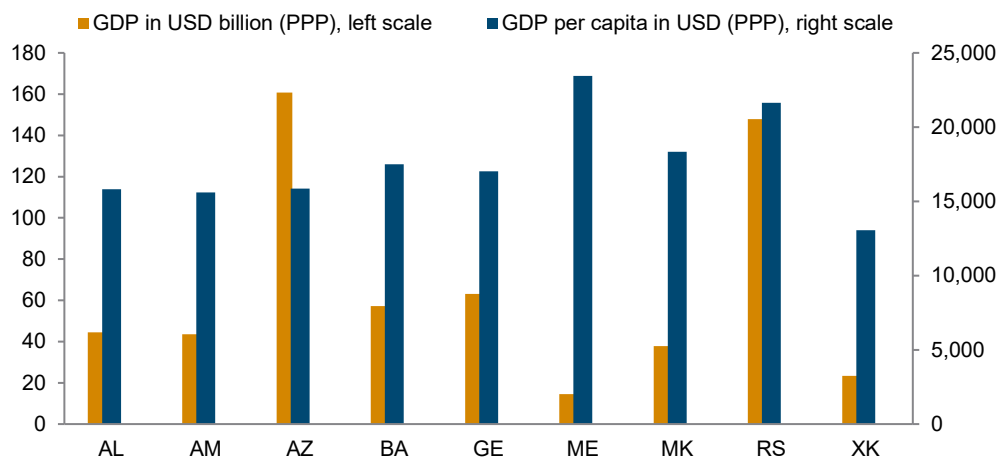
In terms of territory and population, the Caucasus region – comprising Armenia, Azerbaijan and Georgia – is comparable to the six Western Balkan (WB6) states (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia). The three Caucasus states have a population of 16.6m and cover 186,000 km², while the WB6 have 17.7m inhabitants in an area of 204,500 km². The territory of Azerbaijan is slightly larger than that of Serbia; Armenia is comparable in size to Albania; and Georgia is marginally bigger than Bosnia and Herzegovina and Montenegro put together. Azerbaijan's population of 10.1m makes up more than half of the region's entire population.

In economic terms, the WB6 countries are out in front. However, in 2022 the nominal GDP of WB6 was only 11% higher than that of the Caucasus, down from 54% the year before. This was on account of the major influx last year of Russian investment into the Caucasus, which led not only to economic activity picking up in the Caucasus, but also to an appreciation of the Armenian Dram (AMD) and, to a lesser extent, the Georgian Lari (GEL).¹ In terms of purchasing power parity (PPP) which takes account of these nominal exchange-rate effects, WB6 GDP was 22% higher than that of the Caucasus region in 2021 (Figure 1). In terms of size, Azerbaijan's economy is comparable to Serbia's, though its GDP per

¹ From 2021 to 2022, the AMD appreciated against the USD from 480 to 394, while the GEL appreciated from 3.09 to 2.70. The Azeri Manat (AZM) follows a managed float to keep its exchange rate near 1.70 per USD.

capita is lower; Armenia's GDP and GDP per capita are comparable to those of Albania; while the GDP of Georgia is comparable in volume to that of Bosnia and Herzegovina, though its GDP per capita is closer to the (lower) level of North Macedonia.

Figure 1 / Caucasus region and the Western Balkans in comparison, 2021



Source: World Development Indicators.

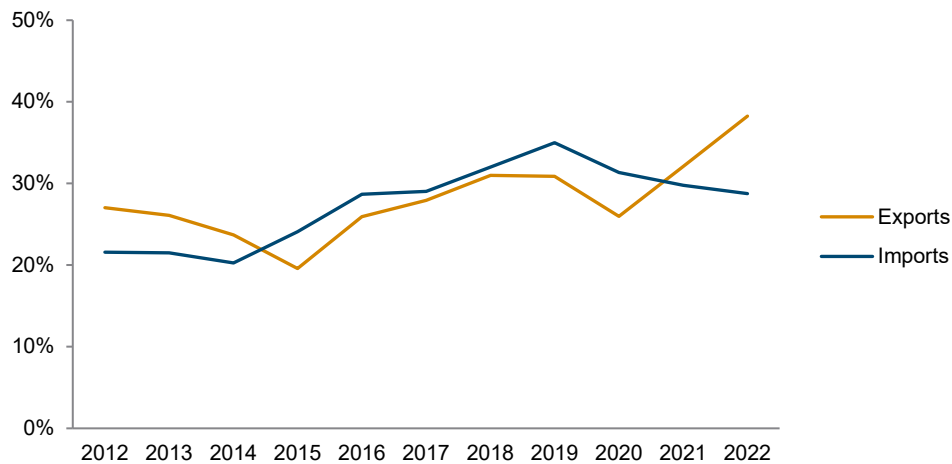
Both the Corruption Perceptions Index and the Press Freedom Index can serve as proxies for the political situation in Armenia, Azerbaijan and Georgia.² In the Corruption Perceptions Index for 2022, Georgia was ranked joint 41st, along with Czechia; Armenia came in at 63rd (with Montenegro 65th); and Azerbaijan was ranked 157th. Azerbaijan's ranking puts it behind Russia (137th) and all the Central Asian states, except Turkmenistan.

In the 2023 Press Freedom Index, Azerbaijan is also ranked far lower than the other two countries, at 151st, which is comparable to Belarus (ranked 157th). Georgia is 77th (Ukraine 79th and Hungary 72nd); while Armenia comes in at 49th (Romania 53rd). In both press freedom and corruption perceptions, the autocratic Azerbaijan thus lags far behind Armenia and Georgia.

TRADE PATTERNS

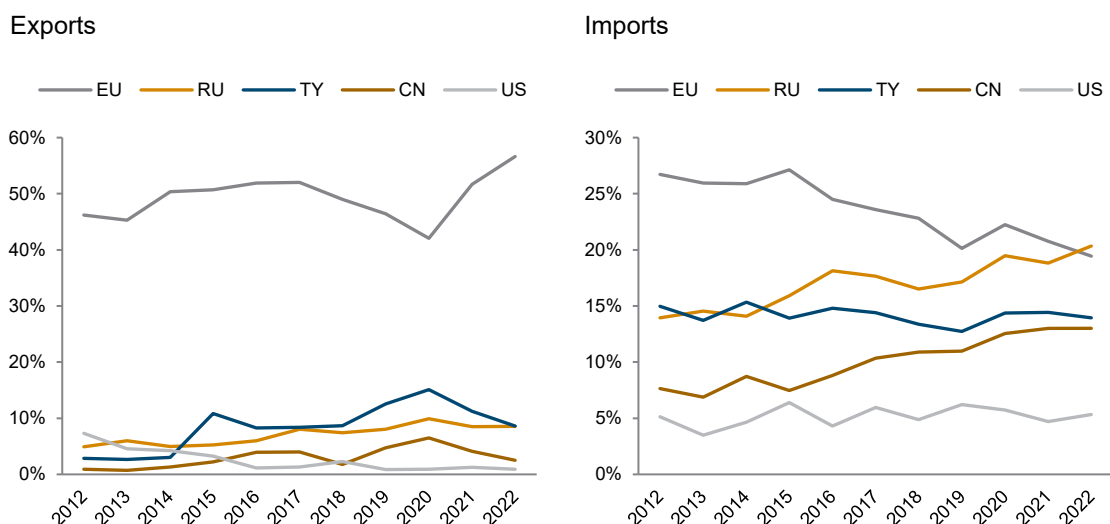
Goods exports made up 38% of regional GDP in 2022, while imports accounted for 29% (Figure 2). Azerbaijan, which is well endowed with fossil fuels, accounted for 80% of the region's exports in 2022, Georgia for 11% and Armenia for 9%. Its share of imports was lower, accounting for 41% of the total, while the figure for Armenia was 35% and for Georgia – 24%.

² It should be borne in mind that these indices measure the *perception* of something in a given country.

Figure 2 / Exports and imports of goods as share of regional GDP, 2012-2022

Source: IMF, World Development Indicators, national sources.

The Caucasus region's top trading partners are the EU, Russia and Turkey. Together they accounted for 74% of the region's exports and 54% of its imports in 2022. The fourth-biggest import partner is China, which accounted for 13% of the region's imports in 2022. The EU is the region's key export partner: in 2022, 57% of all exports went to the EU, followed by Turkey (9%) and Russia (9%) (Figure 3). The EU was also the second-biggest source of imports into the region in 2022, accounting for 19% of the total (behind Russia, with 20%).

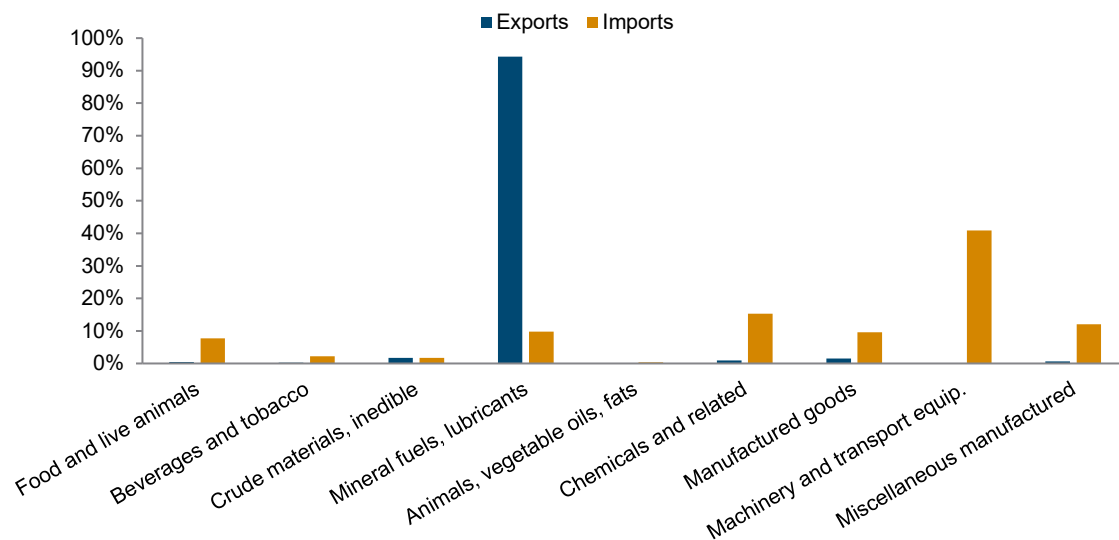
Figure 3 / Main trading partners of the Caucasus region in goods trade, 2012-2022, %

Source: IMF, own illustration.

In general, the Caucasus region's exports are dominated by (Azerbaijan's) natural resources. Like its trading partners, the structure of the region's imports is far more diversified. Imported commodities are typically processed foods, vehicles and machinery.

Moving from the general to the specific, the Caucasus region's exports to the EU are even more heavily dominated by oil and gas: as Figure 4 shows, 94% of regional exports to the EU in 2022 were of oil and gas. Imports from the EU, on the other hand, are far more diversified. The most important sectors here are machinery and transport equipment (which accounted for 41% of all imports) and chemicals (15%).

Figure 4 / Key sectors in trade of the Caucasus countries with the EU, % of total, 2022



Source: European Commission, EU Comext.

THE CURRENT STATE OF EU RELATIONS WITH ARMENIA, AZERBAIJAN AND GEORGIA

The importance of the EU as a trading partner for the countries of the Caucasus is not reflected in the depth of their political integration with the bloc, which is largely driven by other factors – in particular, the Nagorno-Karabakh conflict and the interests of the key alliances involved – Russia-Armenia especially, but also Turkey-Azerbaijan.

The EU has several channels for pursuing political and economic relations with its neighbours: politically there is the European Neighbourhood Policy (ENP); economically there are trade agreements; and in the energy sector there is the Energy Community. The degree of integration through these channels reflects the three states' differing ambitions towards European integration.

European Neighbourhood Policy

The ENP is the umbrella for the EU's relations with those of its immediate neighbours that are not candidate countries. In geographical terms, this ranges from Morocco in the west to Azerbaijan in the east. Launched in 2003, the ENP is differentiated into two tiers: the Southern Neighbourhood and the Eastern Partnership area (EaP). Armenia, Azerbaijan and Georgia fall within the EaP area.³

³ Other EaP countries were Belarus, Moldova and Ukraine. Belarus has suspended its cooperation, since the EU stepped up sanctions following the regime's 'not free and fair' elections in 2020.

Considering that the ENP area consists of 16 countries, the EU's budget for it in the period 2021-2027 is comparatively small: EUR 19.3bn in 2021 prices, or approximately a quarter of the entire budget for EU–third country cooperation. By way of comparison, one year into the Ukraine war, financial assistance from the EU institutions to Ukraine alone amounted to EUR 30.3bn.⁴ Overall, EUR 19.3bn is adequate to finance dedicated projects, but nowhere near enough to leave a significant mark in the EU neighbourhood.

Trade agreements

Access to the single market through trade agreements is a key pillar of the EU's soft-power policies shaping its relations with its neighbours. EU trade agreements can be broadly placed into three categories: free trade agreements (FTAs), economic partnership agreements (EPAs) and Association Agreements (AAs). FTAs focus primarily on trade itself, through reciprocal market opening, while EPAs are more comprehensive than FTAs and AAs are broader political agreements. These comprehensive agreements also entail partial implementation of the EU *acquis*.⁵

The type of agreement with the EU reflects the varying degrees of ambition of the Caucasian states towards the EU. Georgia – which has applied for candidate status – has signed an AA with the EU that has been in force since 2016, with a Deep and Comprehensive Free Trade Agreement (DCFTA) forming an 'integral part'.⁶ For its part, Armenia upgraded its initial Partnership and Cooperation Agreement to a Comprehensive and Enhanced Partnership Agreement (CEPA), in force since March 2021. As far as EU-Azerbaijan trade relations are concerned, it is still the Partnership and Cooperation Agreement from 1999 that applies; negotiations on an upgrade were put on hold in 2019.⁷

There is a long-running academic debate on the added value of DCFTAs for partner countries. Prior to February 2022, the main weakness or flaw of DCFTAs was seen to lie in the fact that they attached enlargement conditionalities, while holding out no clear prospect of a country becoming an EU member. This made implementation of DCFTAs politically difficult in partner countries, as those countries were uncertain what the actual 'carrot' was that they were being offered: after all, implementing EU rules and regulations and transposing them into national law takes considerable resources, especially if the benefit to the partner country in a particular field remains unclear or minimal compared to the potential economic cost.

The war in Ukraine has completely changed this debate. An (as yet) vague discussion of a European Political Community as a third way (alongside joining or not joining the EU) has surfaced, and – more importantly – Ukraine and Moldova were finally granted EU candidate status last year. However, such status has been denied to Georgia (at least so far), which has been a major disappointment to the Georgian side. In its opinion on Georgia's application, the European Commission suggested that the country be granted candidate status once 12 key priorities had been met, including judicial reform, de-oligarchisation and the appointment of a new ombudsperson. So far, Georgia has fulfilled only three of

⁴ IfW, Ukraine Support Tracker, <https://www.ifw-kiel.de/topics/war-against-ukraine/ukraine-support-tracker/>

⁵ Council of the European Union, Global Europe – The value of free and fair trade, <https://www.consilium.europa.eu/en/eu-free-trade/>

⁶ European Commission, EU-Georgia Deep and Comprehensive Free Trade Area, <https://trade.ec.europa.eu/access-to-markets/en/content/eu-georgia-deep-and-comprehensive-free-trade-area>

⁷ European Commission, Negotiations and Agreements, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/negotiations-and-agreements_en

the 12 points;⁸ its next enlargement assessment by the European Commission is scheduled for autumn 2023.

Overall, the Georgian public largely favours EU membership (over 80%), while the government is more ambivalent. Prominent examples of this disconnect between the public and the government include this spring's protest against a 'foreign-agents law' (largely copying the Russian law) and last year's protest calling for a membership bid in 2022 (rather than 2024, as the government wanted).

Integration of energy markets

A third channel for European integration is membership of the Energy Community. This is an international organisation based in Vienna 'which brings together the European Union and its neighbours to create an integrated pan-European energy market'.⁹ Established in 2005, its goal is to export EU energy-market rules beyond the bloc's borders. The nine contracting parties consist of the WB6 and Georgia, Moldova and Ukraine, while Armenia and Turkey have observer status. Here their degree of participation in the Energy Community again reflects the differing ambitions of the three Caucasian states with respect to the EU, ranging from full integration (Georgia), through observer status (Armenia) to not being associated at all (Azerbaijan).

The EU's role in conflict mediation

Until recently, the EU's involvement in the Caucasus region was highly asymmetric. In the Russia-Georgia conflict over Abkhazia and South Ossetia, the EU played a prominent role as moderator. And since the end of the Russo-Georgian war in 2008, it has been present with an EU Monitoring Mission (EUMM) comprising around 200 monitors in Georgia (and theoretically also in Abkhazia and South Ossetia – *theoretically*, as the EUMM has not been granted access to Georgian territory that is not under the control of the Georgian government).

However, when it comes to the Nagorno-Karabakh conflict, the EU has until recently remained a bystander. The key platform for mediation in this conflict was the Organization for Security and Co-operation in Europe (OSCE) Minsk Group, co-chaired by France, Russia and the US; hence, the EU was not at the table. However, in the second Nagorno-Karabakh war, in 2020, much of the Armenian-controlled territory (internationally recognised as Azeri) was reconquered by Azerbaijan. Further flare-ups and the Azeri blockade of the negotiated Lachin Corridor – plus the political turmoil caused by the loss of so much of what had previously been Armenian-controlled territory – placed Armenia under increasing external pressure (from Azerbaijan), as well as political pressure at home. Russia's unwillingness (or inability) to support Armenia (not least on account of its own war in Ukraine) has completely altered the geopolitical dynamics in the region. In autumn 2022, Armenia sent the EU a request for it to operate a civilian monitoring mission – an EU Mission in Armenia (EUMA), similar to the EUMM – to monitor the Armenian side of the border with Azerbaijan.¹⁰ Also several rounds of peace negotiations chaired by the EU have taken place since autumn.

⁸ BNE IntelliNews, Georgia fully implements only three out of 12 EU recommendations, <https://intellinews.com/georgia-fully-implements-only-three-out-of-12-eu-recommendations-282468/>

⁹ <https://www.energy-community.org/aboutus/whoweare.html>

¹⁰ European Union External Action Service, EU Mission in Armenia (EUMA), https://www.eeas.europa.eu/euma/eu-mission-armenia-euma_en

To illustrate this shift, the 2020 ceasefire between Armenia and Azerbaijan was brokered by Russia, and Russia was the only country to deploy a peacekeeping mission to the region. However, the EU's involvement has increased significantly over the past year, and it has hosted meetings involving the Armenian and the Azerbaijani presidents on the fringes of the European Political Community summits of October 2022 and June 2023. In May, meetings were held in Brussels, and a further meeting is scheduled for July. The increased efforts by both sides have raised hopes of a final agreement over this territory, which is internationally recognised as Azerbaijan's. Such a settlement, alongside Armenia's reduced political dependence on Russia, could lead to a further future rapprochement between Armenia and the EU.

CONCLUSION

The EU is a key trading partner for the Caucasus region in terms of both exports and imports. Regional exports to the EU consist primarily of oil and gas (originating from Azerbaijan), while imports are far more diversified – ranging from food products, through coke and petroleum products to vehicles. However, the integration arrangements of the Caucasian countries with the EU are driven less by the significance of trade relations and more by political considerations that extend far further. The war in Ukraine has altered the geopolitical dynamics in the region by weakening the role of Russia, especially in mediation of the Nagorno-Karabakh conflict between Armenia and Azerbaijan, and has created opportunities for the EU to step in. Ramped-up talks between Armenia and Azerbaijan offer some hope and could potentially strengthen Armenia's orientation towards the EU. As for Georgia, which has EU accession aspirations, it has some very challenging months ahead before the European Commission publishes its latest assessment this autumn.

Monthly and quarterly statistics for Central, East and Southeast Europe

The monthly and quarterly statistics cover **22 countries** of the CESEE region. The graphical form of presenting statistical data is intended to facilitate the **analysis of short-term macroeconomic developments**. The set of indicators captures trends in the real and monetary sectors of the economy, in the labour market, as well as in the financial and external sectors.

Baseline data and a variety of other monthly and quarterly statistics, **country-specific** definitions of indicators and **methodological information** on particular time series are **available in the wiiw Monthly Database** under: <https://data.wiiw.ac.at/monthly-database.html>. Users regularly interested in a certain set of indicators may create a personalised query which can then be quickly downloaded for updates each month.

Conventional signs and abbreviations used

%	per cent
ER	exchange rate
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices (for new EU member states)
LFS	Labour Force Survey
NPISHs	Non-profit institutions serving households
p.a.	per annum
PPI	Producer Price Index
reg.	registered
y-o-y	year on year

The following national currencies are used:

ALL	Albanian lek	HUF	Hungarian forint	RSD	Serbian dinar
BAM	Bosnian convertible mark	KZT	Kazakh tenge	RUB	Russian rouble
BGN	Bulgarian lev	MKD	Macedonian denar	TRY	Turkish lira
BYN	Belarusian rouble	PLN	Polish zloty	UAH	Ukrainian hryvnia
CZK	Czech koruna	RON	Romanian leu		

EUR euro – national currency for Montenegro, Kosovo and for the euro-area countries Estonia (from January 2011, euro-fixed before), Latvia (from January 2014, euro-fixed before), Lithuania (from January 2015, euro-fixed before), Slovakia (from January 2009, euro-fixed before), Slovenia (from January 2007, euro-fixed before) and Croatia (from January 2023, euro-fixed before).

Sources of statistical data: Eurostat, National Statistical Offices, Central Banks and Public Employment Services; wiiw estimates.

Online database access



wiiw Annual Database



wiiw Monthly Database



wiiw FDI Database

The wiiw databases are accessible via a simple web interface, with only one password needed to access all databases (and all wiiw publications).

You may access the databases here: <https://data.wiiw.ac.at>.

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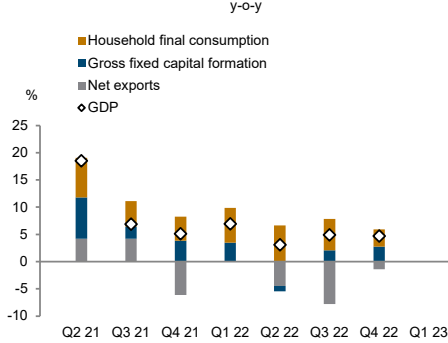
Service package available

We offer an additional service package that allows you to access all databases – a wiiw Membership, at a price of € 2,700. Your usual package will, of course, remain available as well.

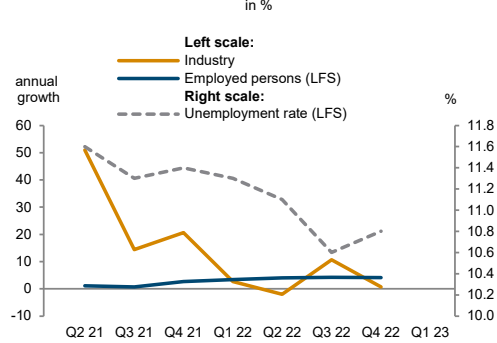
For more information on database access for Members and on Membership conditions, please contact Ms. Barbara Pill (pill@wiiw.ac.at), phone: (+43-1) 533 66 10.

Albania

Real GDP growth and contributions



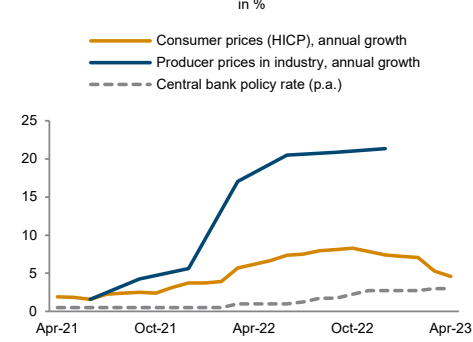
Real sector development



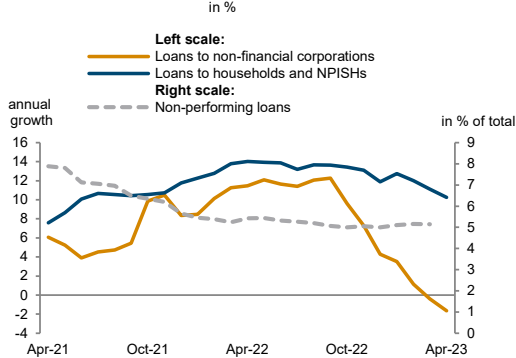
Unit labour costs in industry



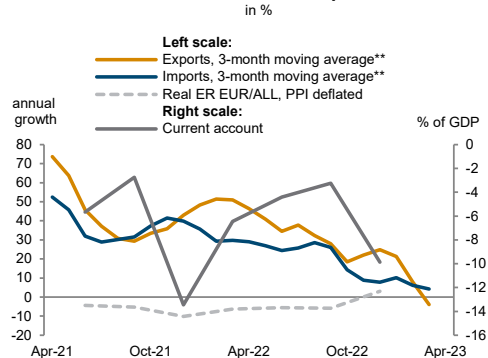
Inflation and policy rate



Financial indicators



External sector development



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

**EUR based.

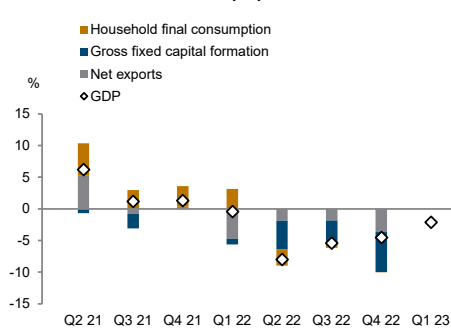
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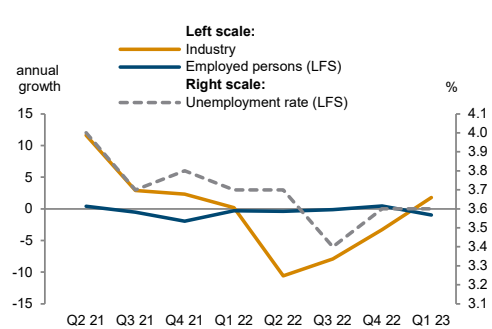
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Belarus

Real GDP growth and contributions



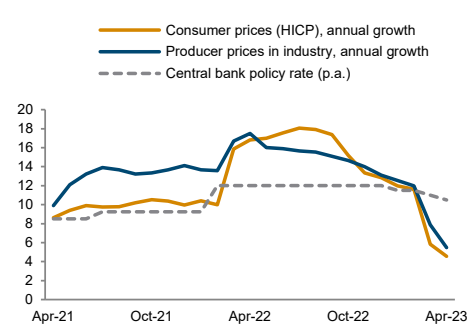
Real sector development



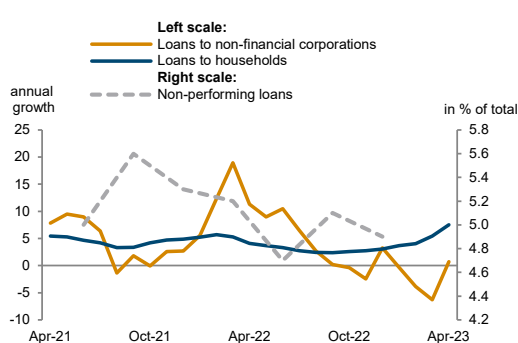
Unit labour costs in industry



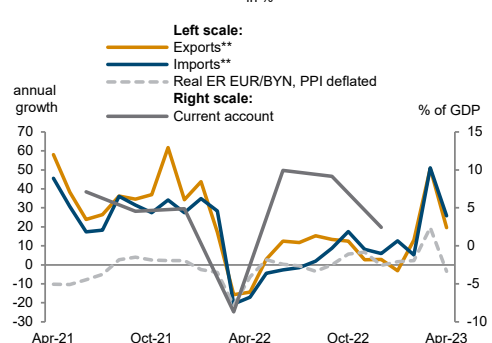
Inflation and policy rate



Financial indicators



External sector development



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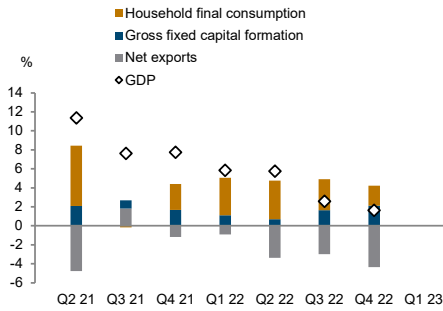
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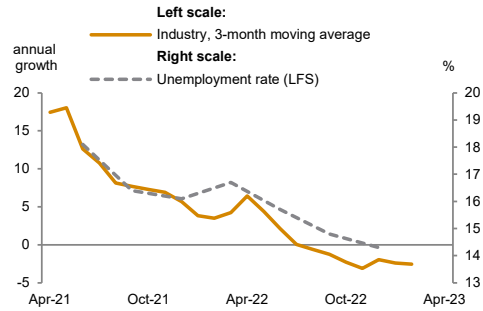
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Bosnia and Herzegovina

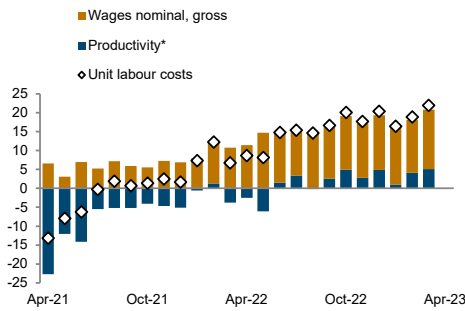
Real GDP growth and contributions
y-o-y



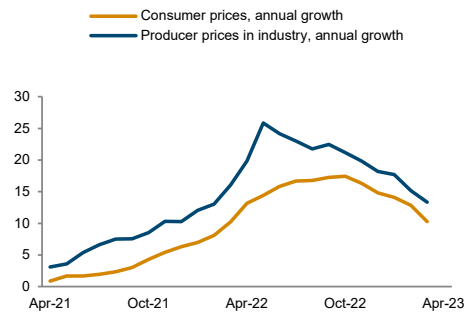
Real sector development
in %



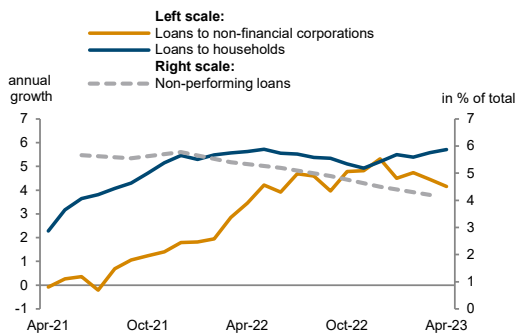
Unit labour costs in industry
annual growth rate in %



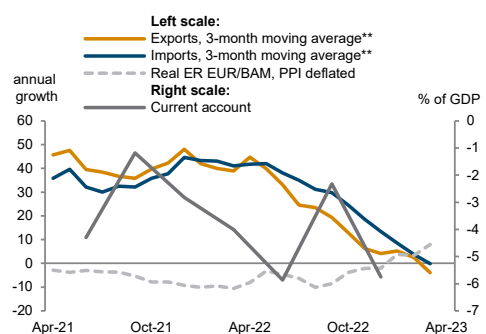
Inflation
in %



Financial indicators
in %



External sector development
in %



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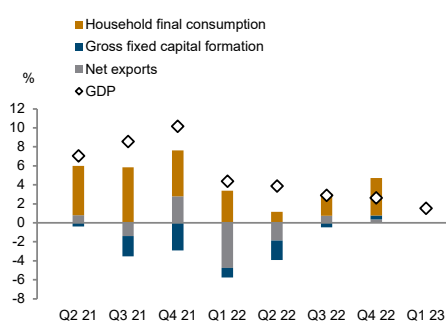
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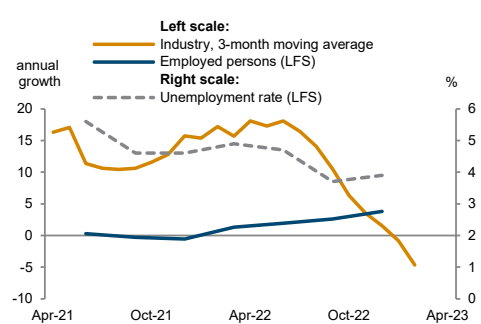
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Bulgaria

Real GDP growth and contributions



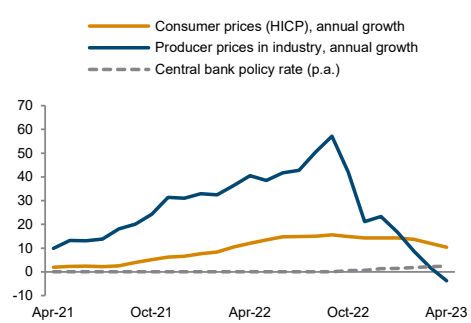
Real sector development



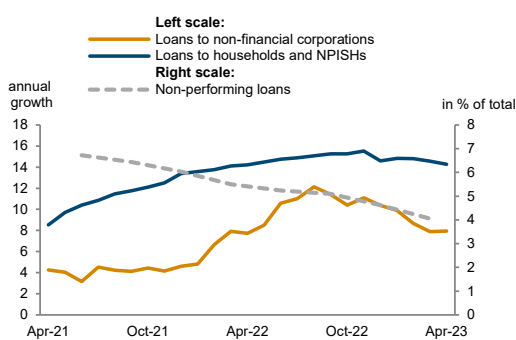
Unit labour costs in industry



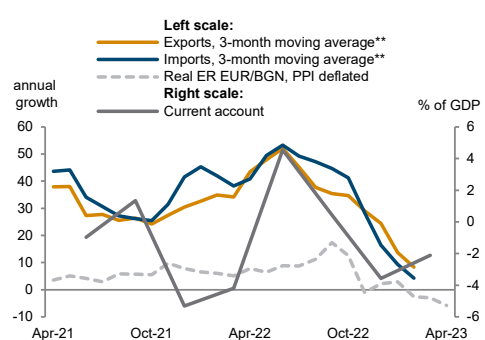
Inflation and policy rate



Financial indicators



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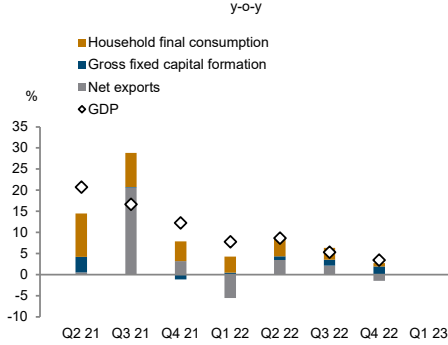
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

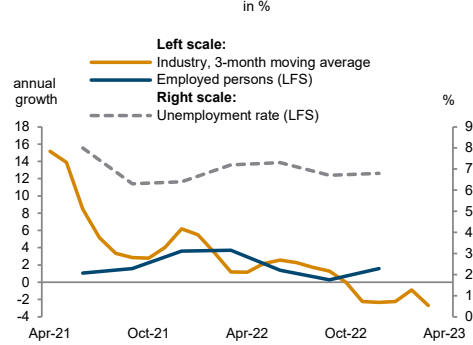
<https://data.wiiw.ac.at/monthly-database.html>

Croatia

Real GDP growth and contributions



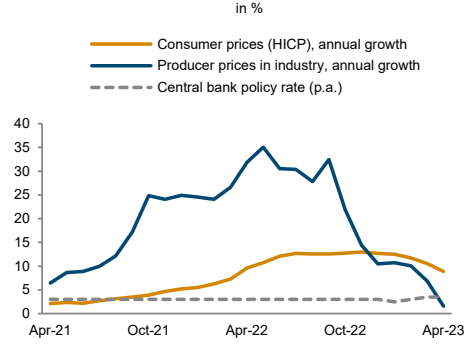
Real sector development



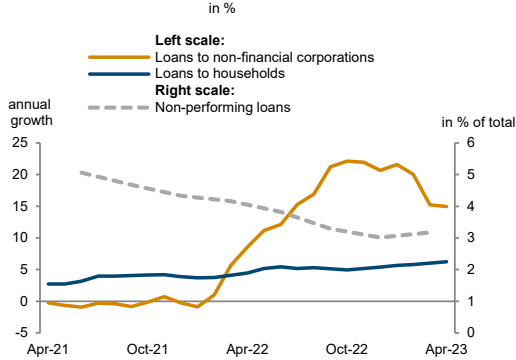
Unit labour costs in industry



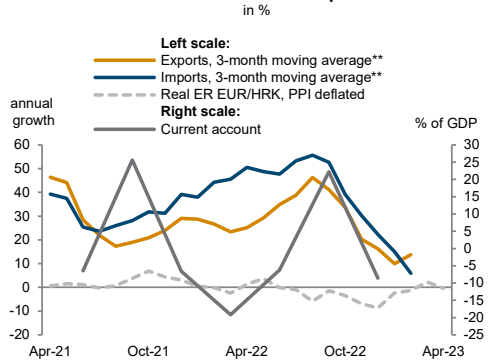
Inflation and policy rate



Financial indicators



External sector development



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

**EUR based.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

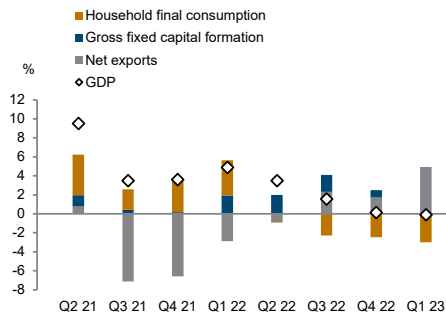
Baseline data, country-specific definitions and methodological breaks in time series are available under:

<https://data.wiiw.ac.at/monthly-database.html>

Czechia

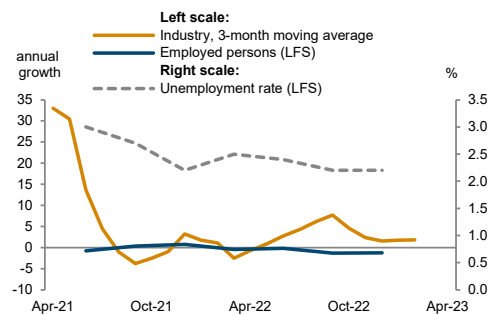
Real GDP growth and contributions

y-o-y



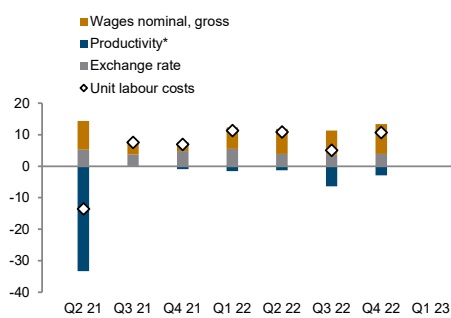
Real sector development

in %



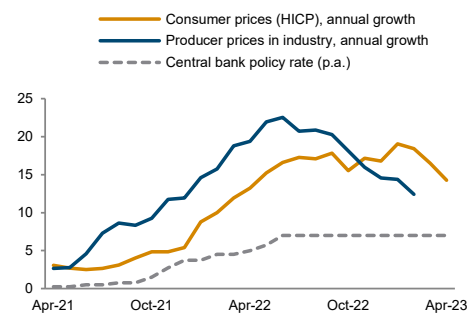
Unit labour costs in industry

annual growth rate in %



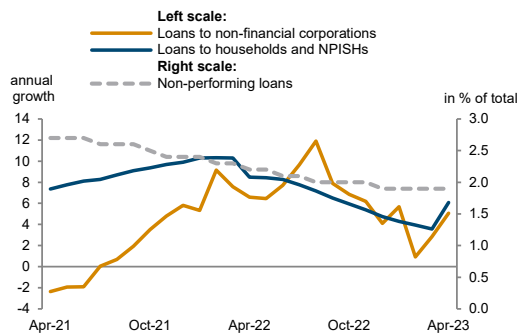
Inflation and policy rate

in %



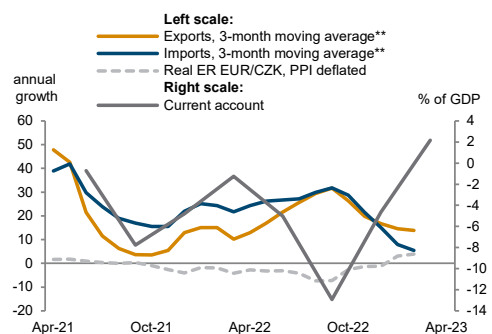
Financial indicators

in %



External sector development

in %



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

**EUR based.

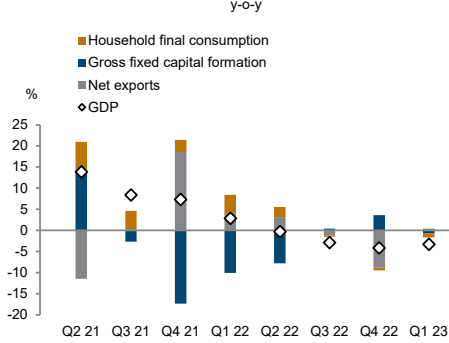
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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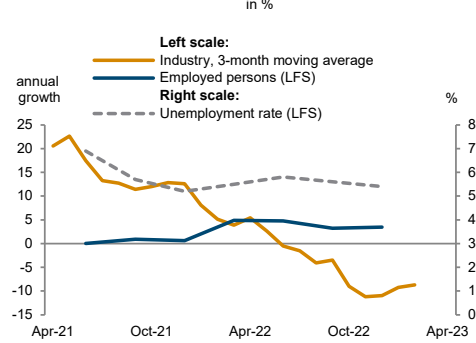
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Estonia

Real GDP growth and contributions



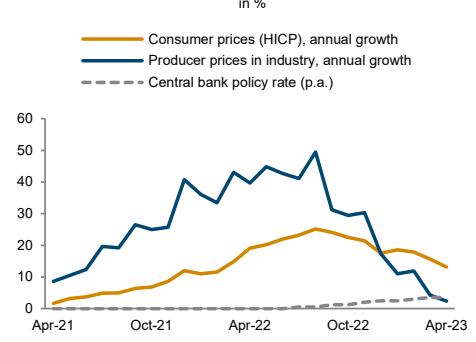
Real sector development



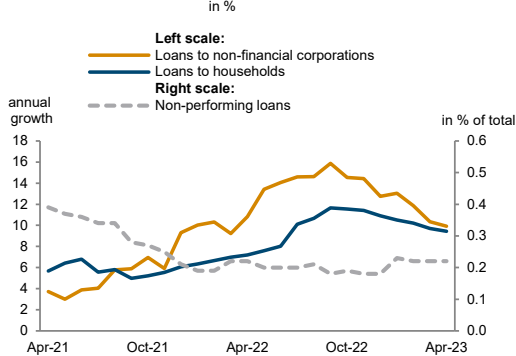
Unit labour costs in industry



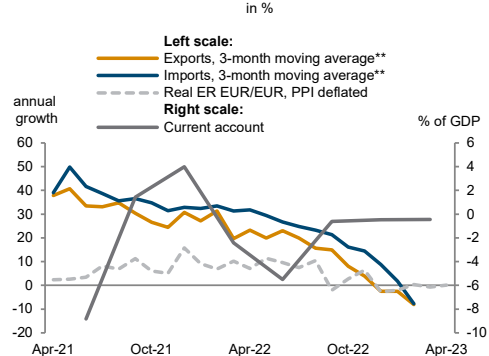
Inflation and policy rate



Financial indicators



External sector development



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

**EUR based.

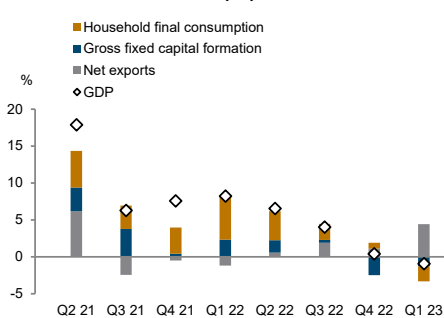
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Baseline data, country-specific definitions and methodological breaks in time series are available under:

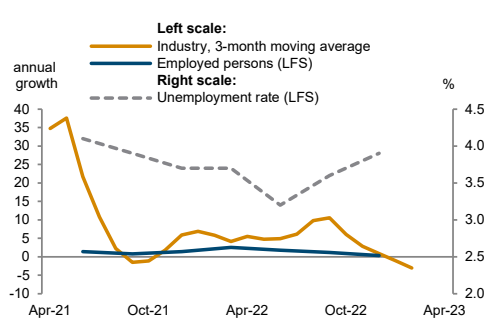
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Hungary

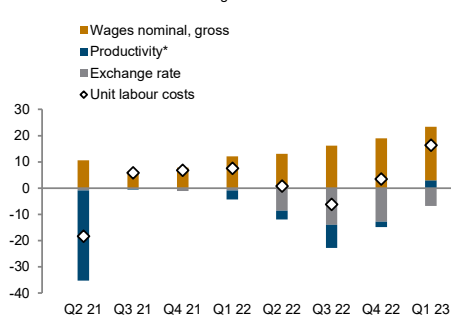
Real GDP growth and contributions



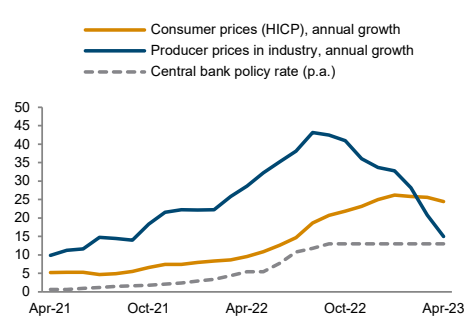
Real sector development



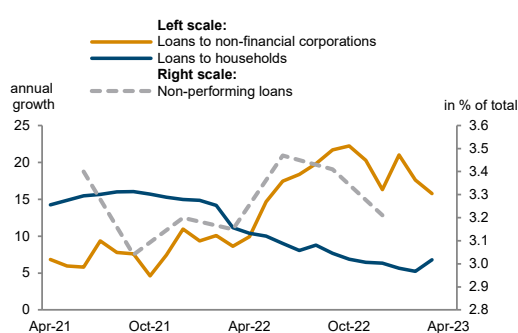
Unit labour costs in industry



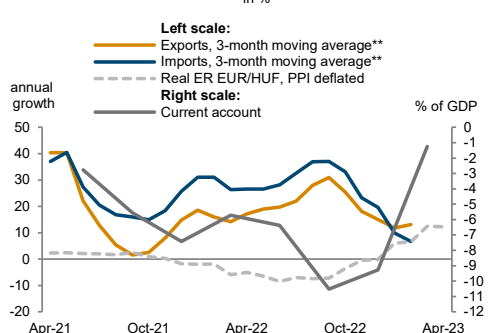
Inflation and policy rate



Financial indicators



External sector development



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

**EUR based.

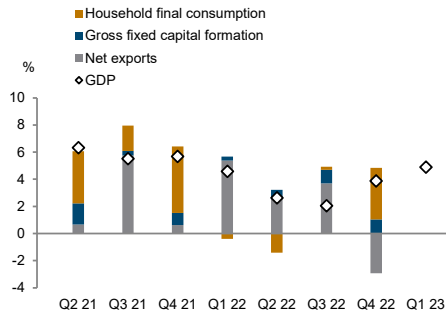
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

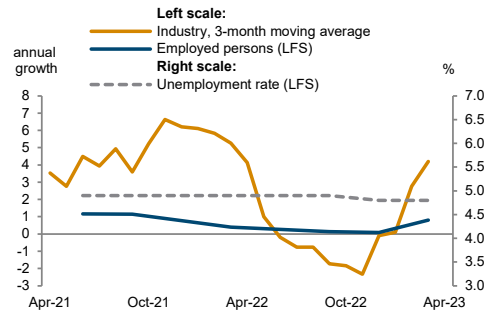
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Kazakhstan

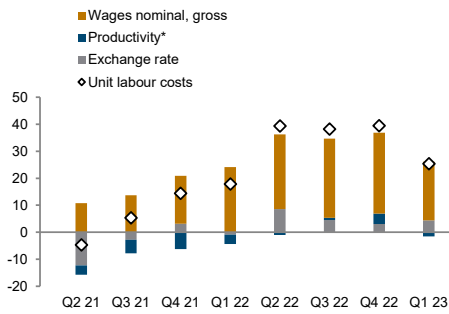
Real GDP growth and contributions
y-o-y



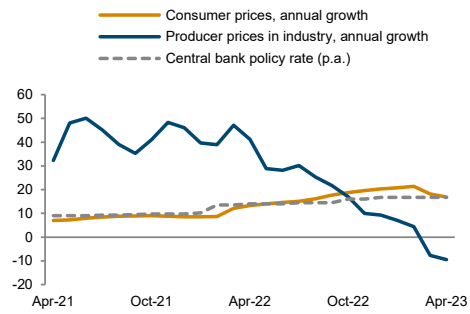
Real sector development
in %



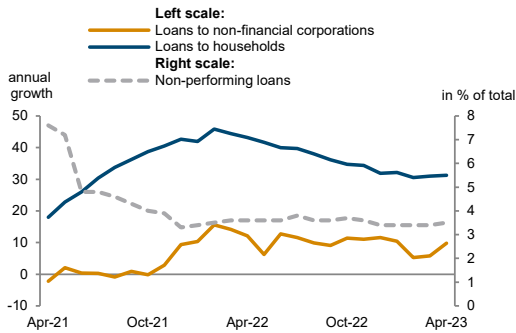
Unit labour costs in industry
annual growth rate in %



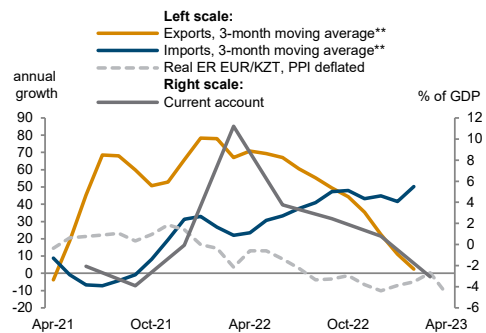
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

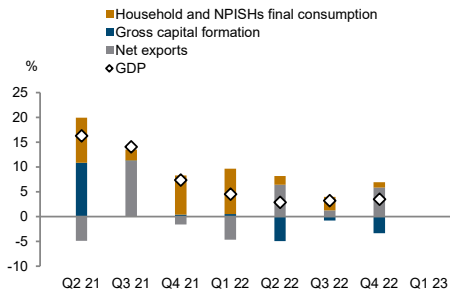
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

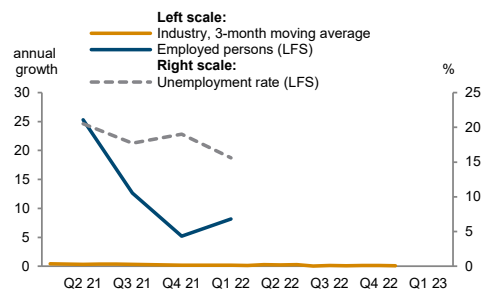
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Kosovo

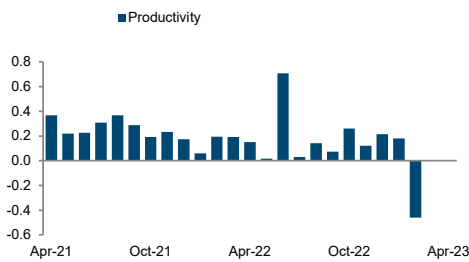
Real GDP growth and contributions
y-o-y



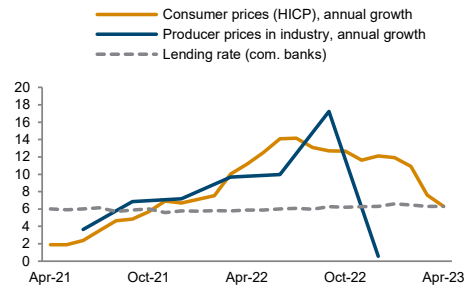
Real sector development
in %



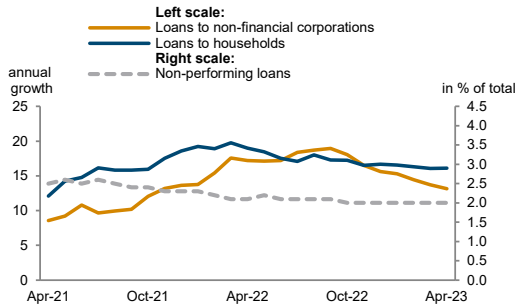
Productivity in industry
annual growth rate in %



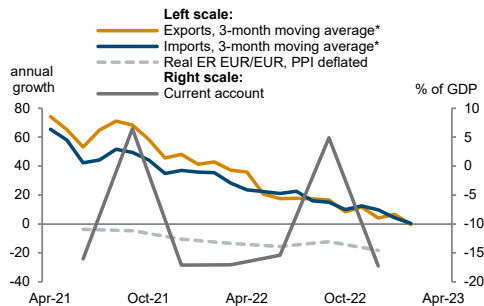
Inflation and lending rate
in %



Financial indicators
in %



External sector development
in %



*EUR based.

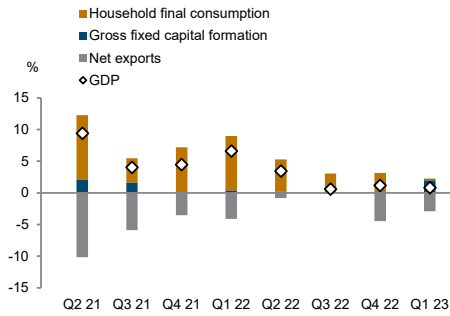
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

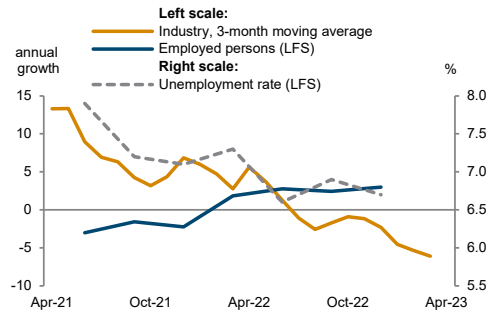
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Latvia

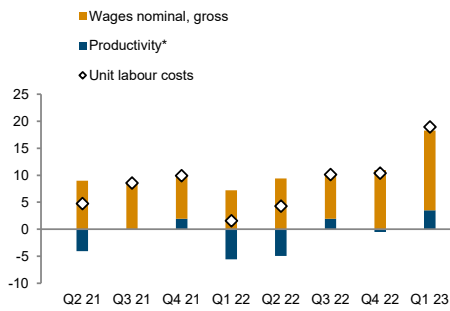
Real GDP growth and contributions
y-o-y



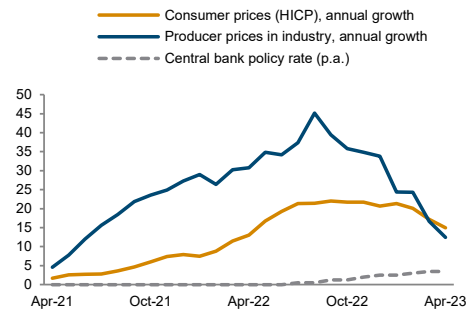
Real sector development
in %



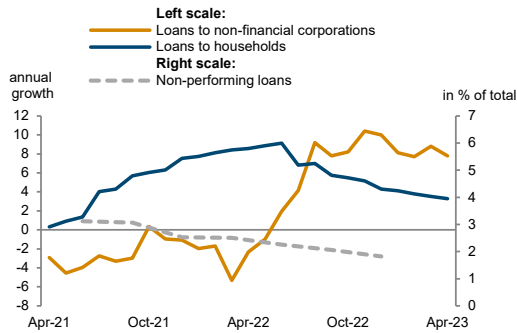
Unit labour costs in industry
annual growth rate in %



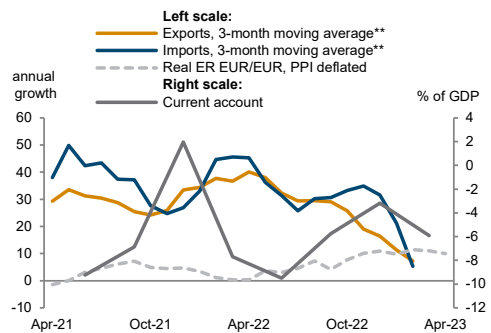
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

**EUR based.

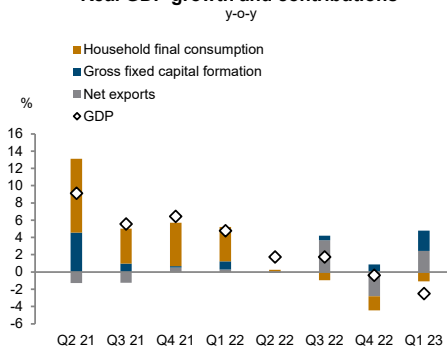
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

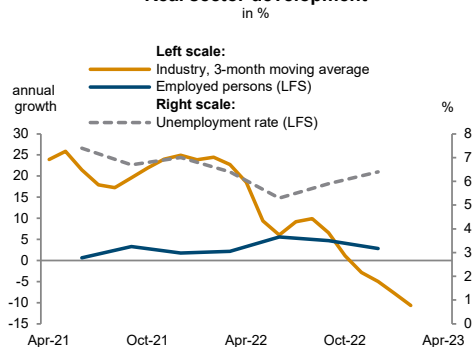
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Lithuania

Real GDP growth and contributions



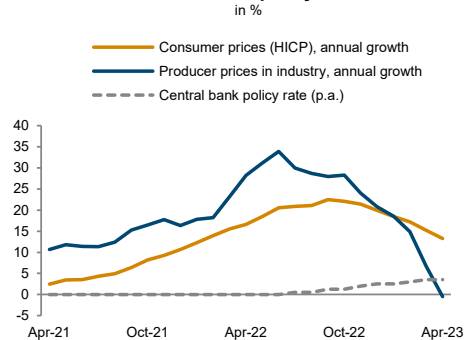
Real sector development



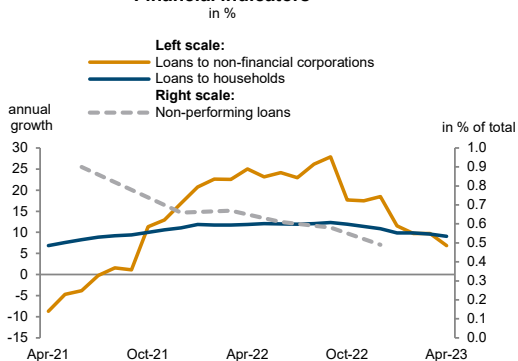
Unit labour costs in industry



Inflation and policy rate



Financial indicators



External sector development



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

**EUR based.

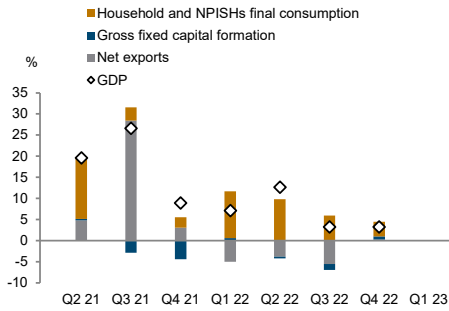
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

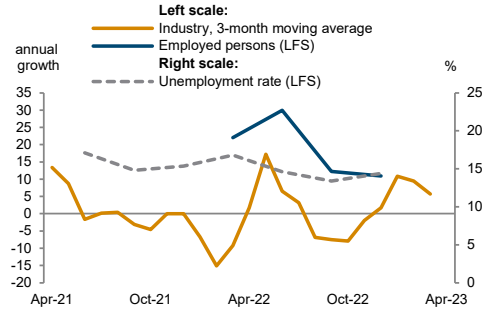
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Montenegro

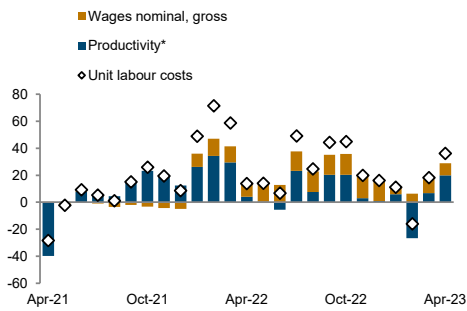
Real GDP growth and contributions
y-o-y



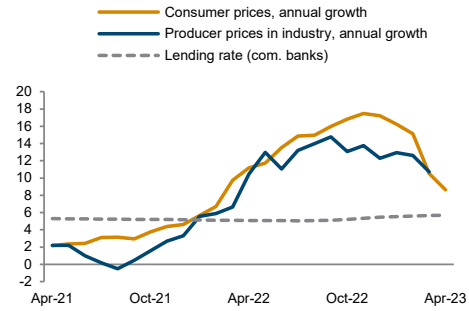
Real sector development
in %



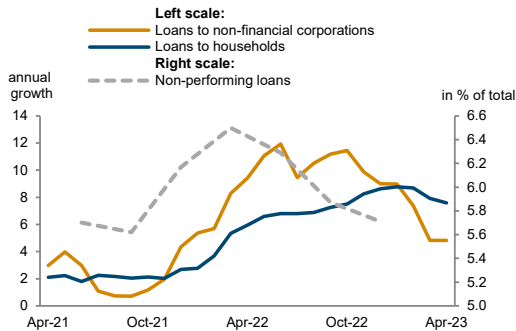
Unit labour costs in industry
annual growth rate in %



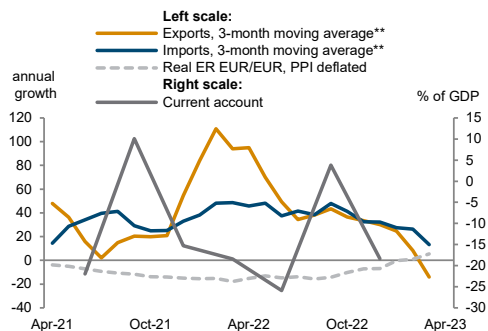
Inflation and lending rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

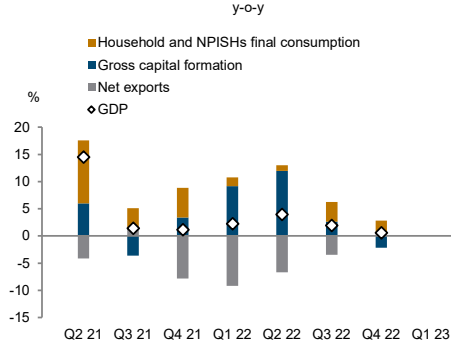
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

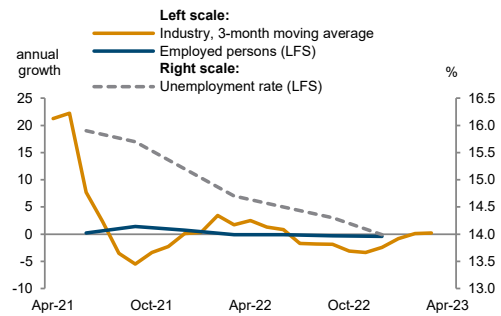
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North Macedonia

Real GDP growth and contributions



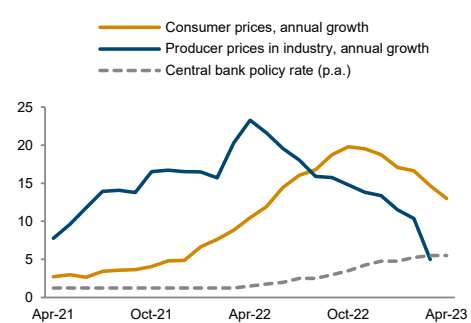
Real sector development



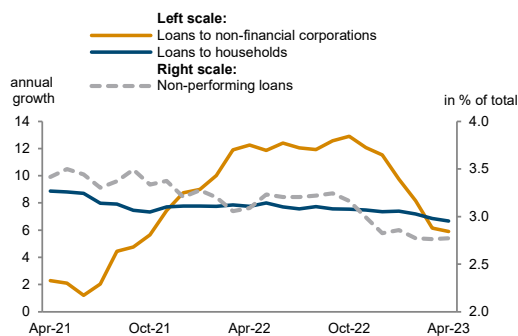
Unit labour costs in industry



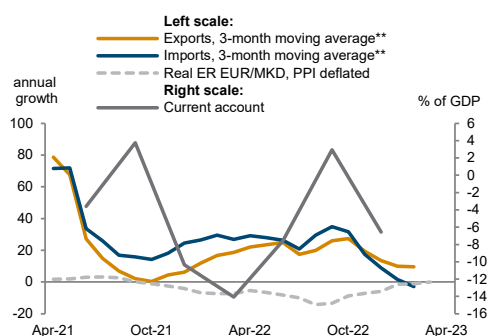
Inflation and policy rate



Financial indicators



External sector development



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**EUR based.

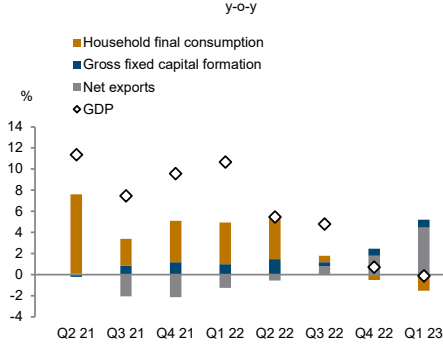
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

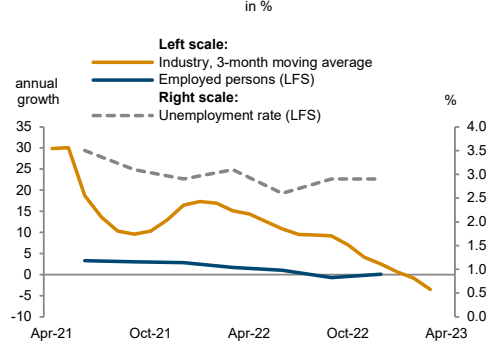
<https://data.wiiw.ac.at/monthly-database.html>

Poland

Real GDP growth and contributions



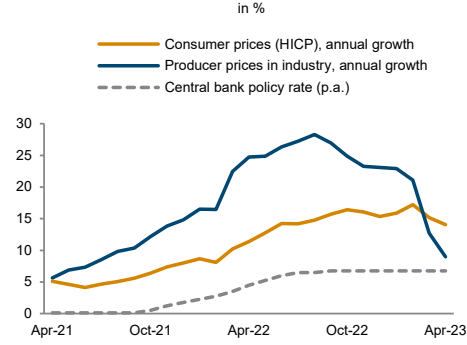
Real sector development



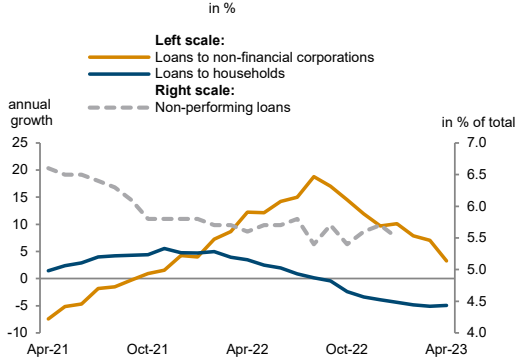
Unit labour costs in industry



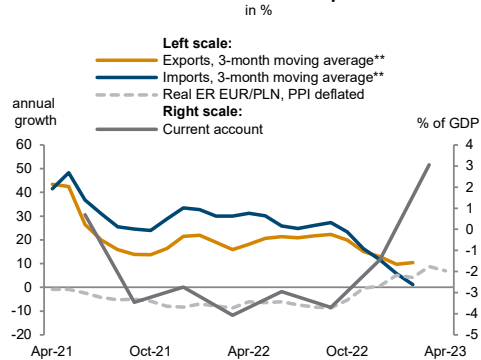
Inflation and policy rate



Financial indicators



External sector development



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**EUR based.

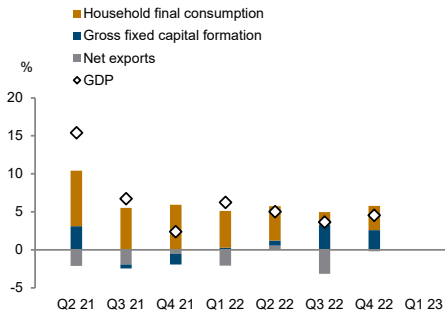
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

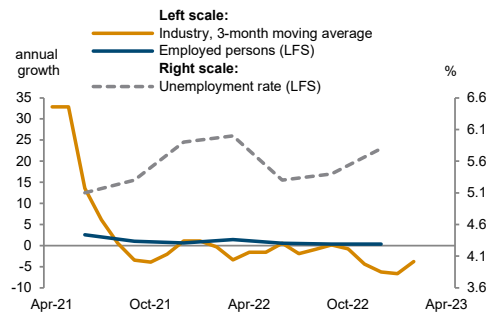
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Romania

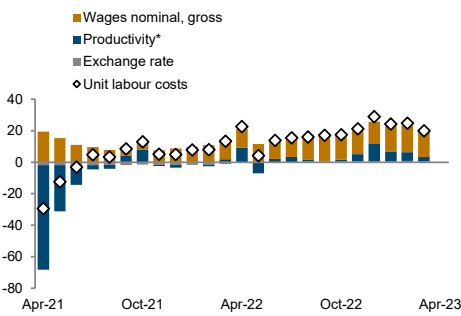
Real GDP growth and contributions
y-o-y



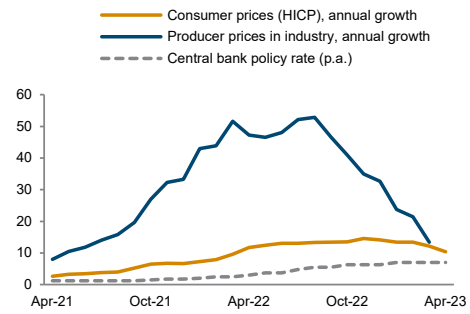
Real sector development
in %



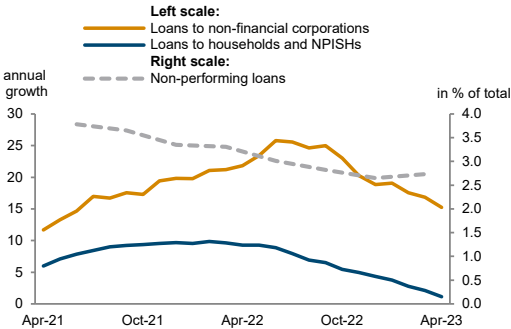
Unit labour costs in industry
annual growth rate in %



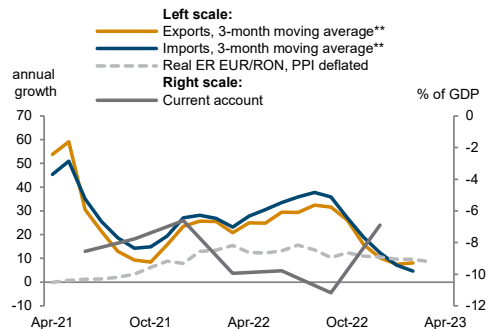
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %

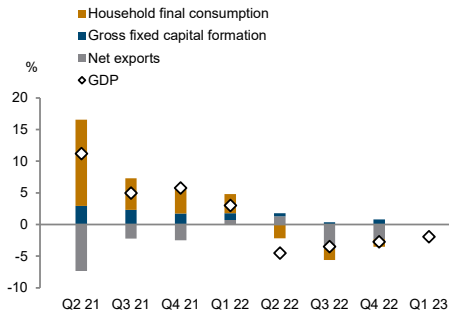


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**EUR based.

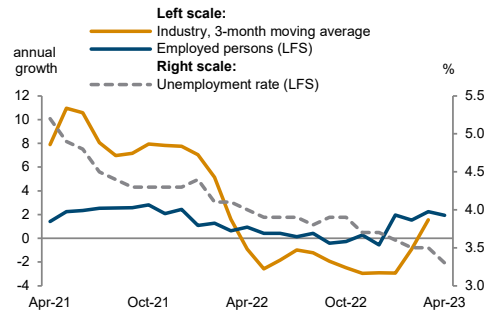
Source: wiiw Monthly Database incorporating Eurostat and national statistics.
Baseline data, country-specific definitions and methodological breaks in time series are available under:
<https://data.wiiw.ac.at/monthly-database.html>

Russia

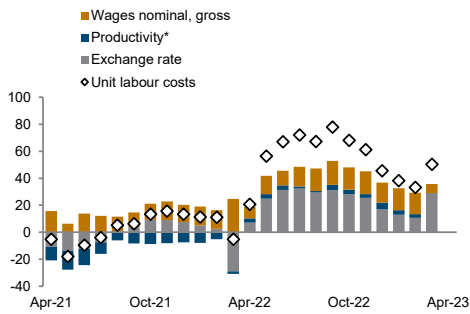
Real GDP growth and contributions
y-o-y



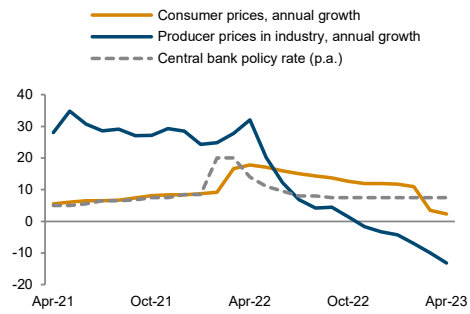
Real sector development
in %



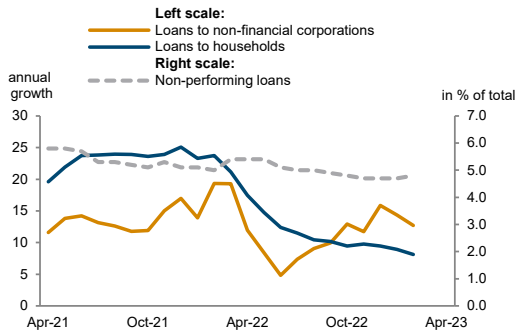
Unit labour costs in industry
annual growth rate in %



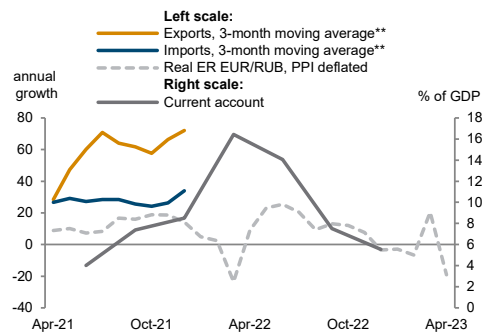
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

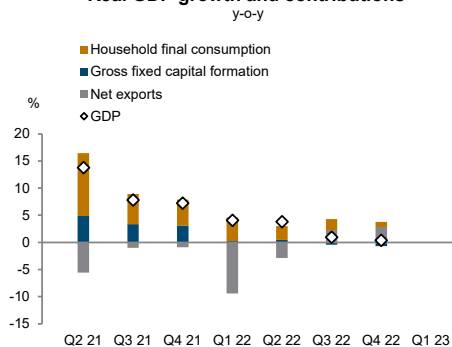
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

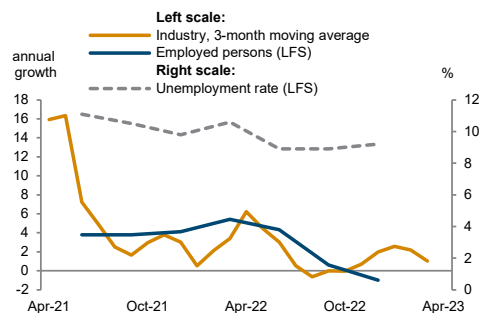
<https://data.wiiw.ac.at/monthly-database.html>

Serbia

Real GDP growth and contributions



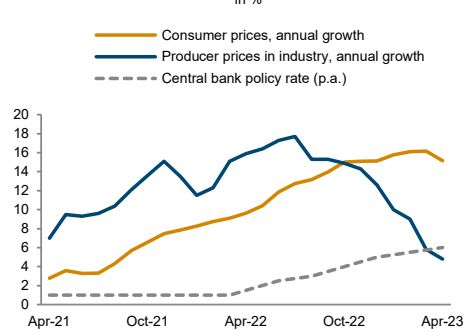
Real sector development



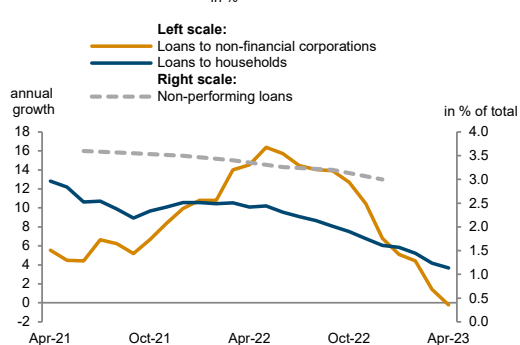
Unit labour costs in industry



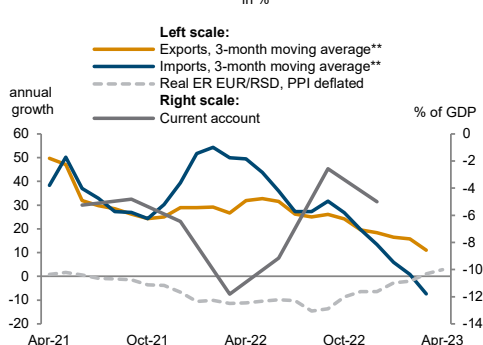
Inflation and policy rate



Financial indicators



External sector development



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

**EUR based.

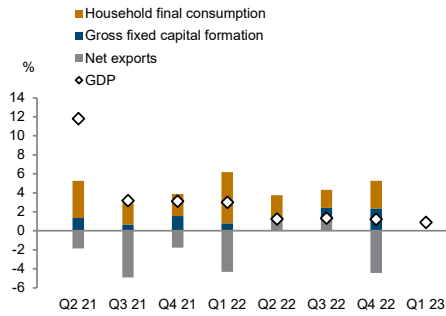
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

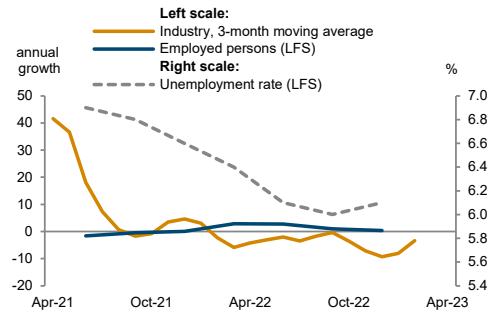
<https://data.wiiw.ac.at/monthly-database.html>

Slovakia

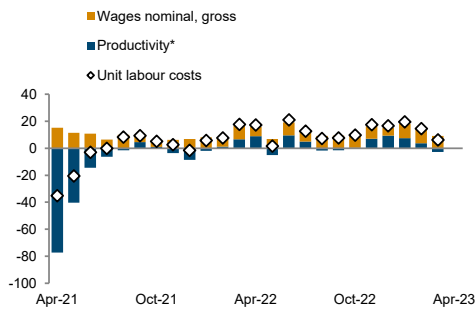
Real GDP growth and contributions
y-o-y



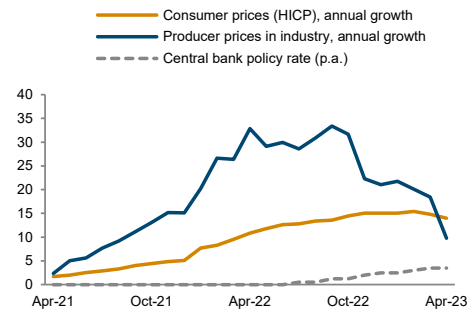
Real sector development
in %



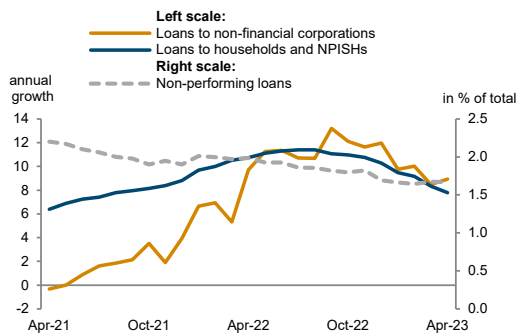
Unit labour costs in industry
annual growth rate in %



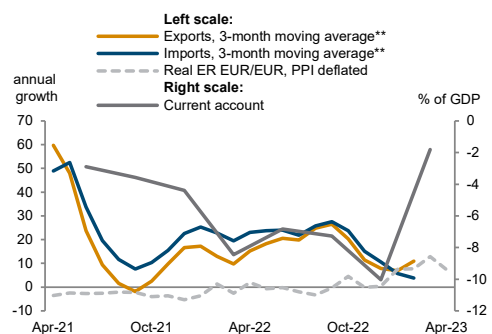
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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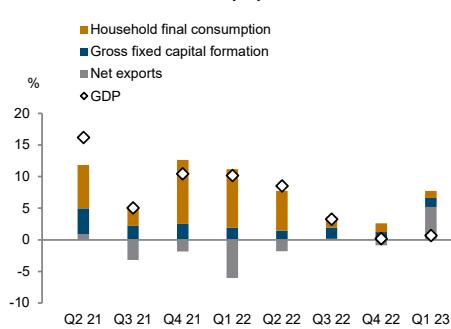
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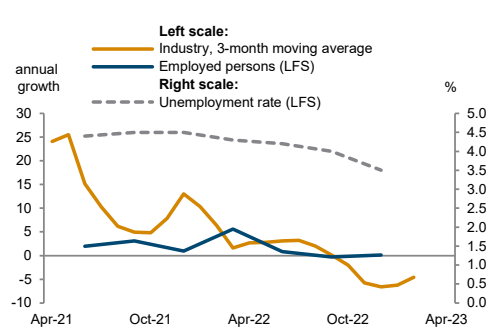
<https://data.wiiw.ac.at/monthly-database.html>

Slovenia

Real GDP growth and contributions



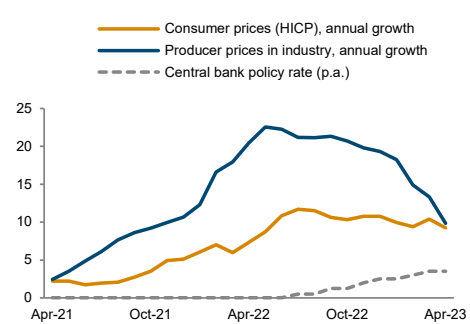
Real sector development



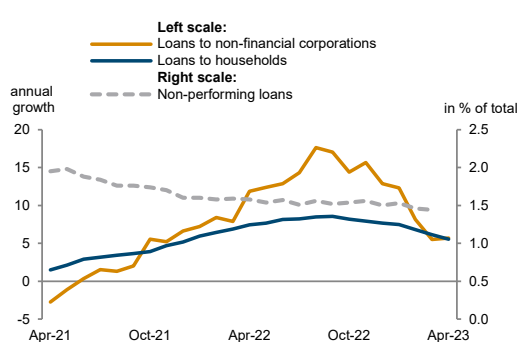
Unit labour costs in industry



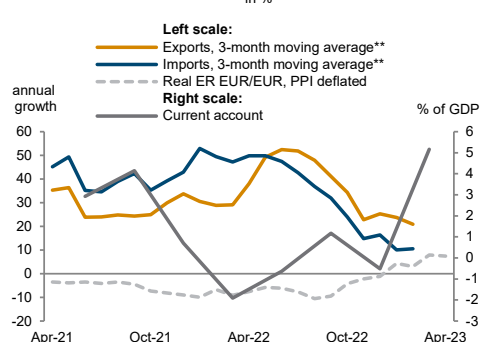
Inflation and policy rate



Financial indicators



External sector development



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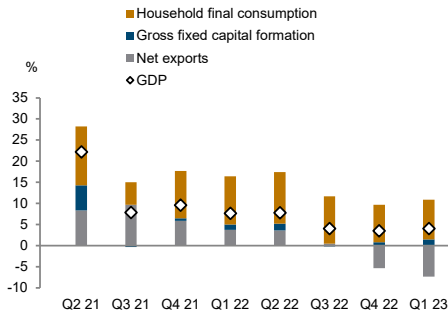
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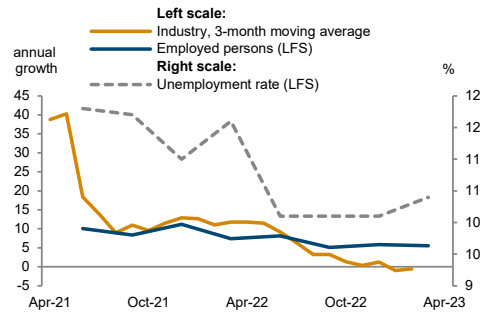
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Turkey

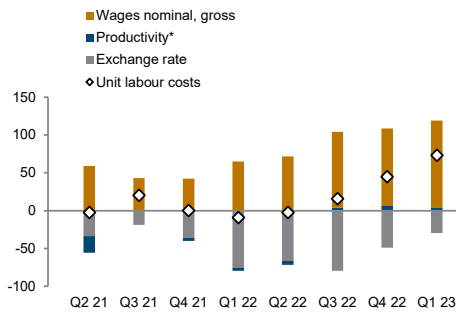
Real GDP growth and contributions
y-o-y



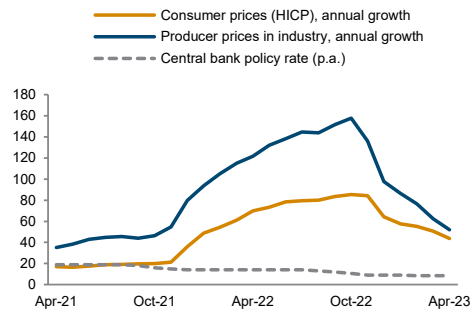
Real sector development
in %



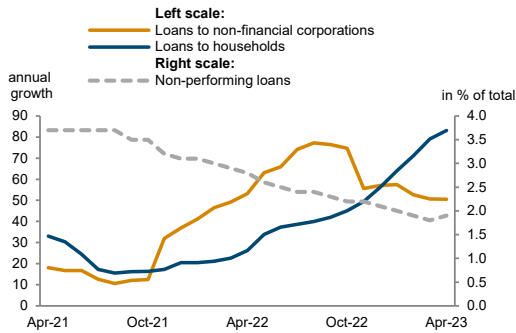
Unit labour costs in industry
annual growth rate in %



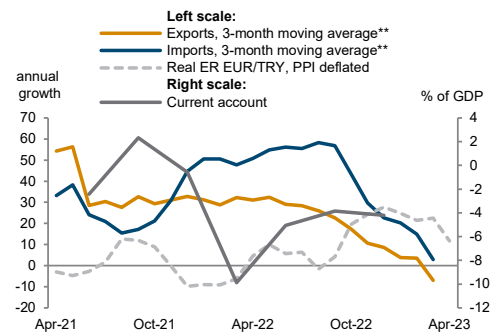
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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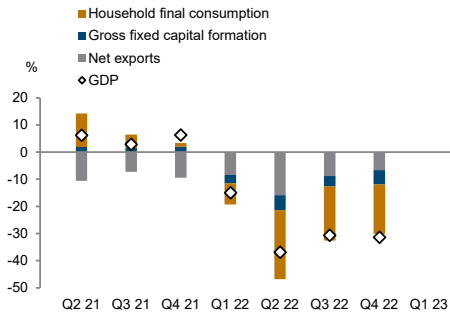
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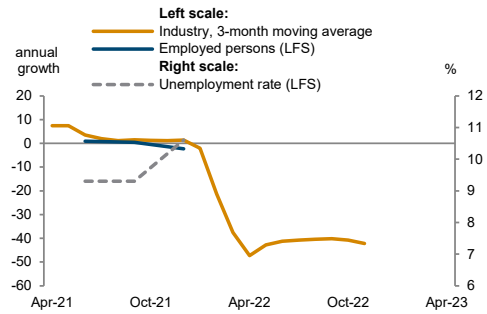
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Ukraine

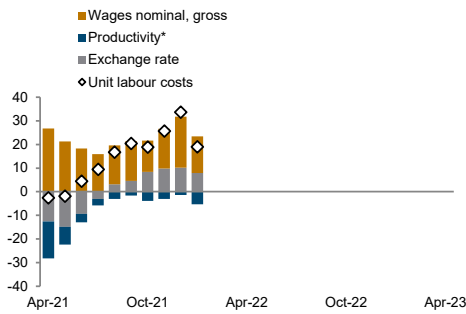
Real GDP growth and contributions
y-o-y



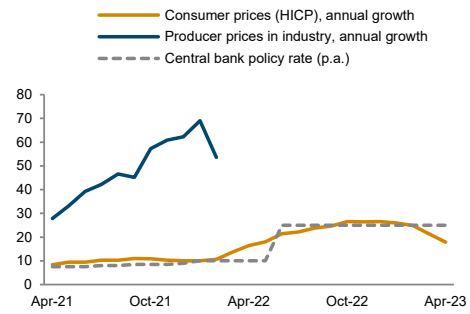
Real sector development
in %



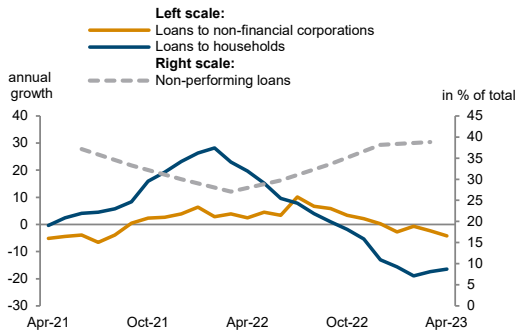
Unit labour costs in industry
annual growth rate in %



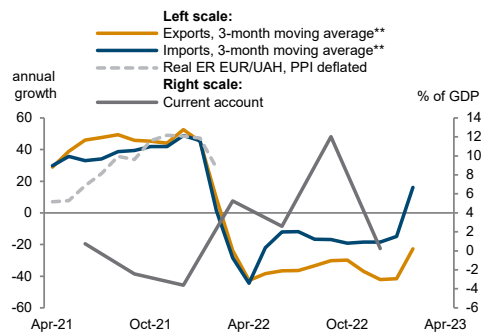
Inflation and policy rate
in %



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in %



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