

The EU's neighbouring countries: emerging from the global crisis

How are the neighbouring countries of the EU emerging from the global crisis? This question is at the centre of this Paper.

The global crisis is still having a profound impact on all regions in the world. Some regions ran into a deep crisis while economic growth in other regions only slowed down. The crisis affected the welfare level of most economies significantly and some may have longer-lasting effects.

This publication, which is an annual publication of the European Commission that focuses on the eastern and southern neighbouring countries of the EU, describes the recent economic, monetary and financial developments in these regions. All countries that are part of the European Neighbourhood Policy (ENP) framework are covered.

The ENP encompasses the EU's immediate neighbours by land or sea. The countries along the southern rim of the Mediterranean are Algeria, Egypt, Israel, Jordan, Lebanon, Libya, the Occupied Palestinian Territory, Morocco, Syria and Tunisia. The countries to the east of the EU which form the Commonwealth of Independent States are Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

Other countries analysed are Russia and the Gulf Cooperation Council (GCC) countries – Saudi Arabia, the United Arab Emirates, Bahrain, Kuwait, Oman and Qatar. This year, for the first time, Central Asia is also included given its growing importance, in particular for the EU's eastern neighbours.

This Paper falls into three main parts. The first part gives an overview of welfare developments in the eastern and southern neighbours of the EU, in comparison with the EU, the US, EFTA, the GCC and developing Asia and argues the case for ongoing reforms to ensure future growth. The second part summarizes the similarities and differences in developments for the southern neighbours (the "Med"-region) and the eastern neighbours (the "ENP-CIS and Russia"). The third part contains comprehensive individual country reviews of each of the ENP countries.

Throughout the Paper, there is thus an increasing degree of detail per region and finally per country. Without loss of consistency, the individual parts of the Paper can be read separately.

Conclusions and policy issues emerge throughout the Paper.

Broadly speaking, eastern neighbours and Russia have felt the impact of the crisis more directly and more suddenly than southern neighbours. Sharp adjustments in exchange rates and in confidence took place, reflecting the higher dependence on foreign inflows and commodity exports, stronger financial linkages, and the openness of financial accounts. Although the financial systems of Mediterranean neighbours appear to have been more resilient to the initial shock these countries have no means been immune to the downturn and risk facing a prolonged adjustment process as the feedbacks to the real economy weigh in.

Economic growth for the Mediterranean region is expected to increase slightly in 2010 in comparison with 2009, on average from 3.4% to 3.7%. In sharp contrast, the eastern neighbours will rebound more sharply, from a 8.0% contraction in 2009 to 3.5% growth in 2010, which is however still 4%-points lower than before the crisis. The emergence from the global crisis is thus more rigorous for the eastern than for the southern neighbours. In terms of welfare, the steep growth paths may be re-found.

But, the fiscal stance has deteriorated in almost all countries. Deepening of integration in international markets and far-reaching structural reforms are needed to exploit investment opportunities abroad, to foster foreign investment in the region, and introduce innovative production techniques to boost productivity. It is by deepening the economic and financial integration, rather than by isolating from international markets by protectionist measures, that the benefits of globalization can be reaped. Enhanced economic and financial integration will be beneficial, but only with adequate oversight consistent with international best practices.