



## **Weekly Briefing**

**Croatia economy briefing:**  
**Unlocking economic partnerships to strengthen Croatia's economy**  
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# **Unlocking economic partnerships to strengthen Croatia's economy**

## **Summary**

*A diversified list of economic partners is the key to surviving in an open economy. The expected economic slowdown of the European Union in the forthcoming years is a worrying sign for the Croatian economy, but also a wakeup-call for the country to strengthen its economic partnerships and ties all over the world. China, through the 16+1 initiative, offers a vital opportunity for Croatia to unlock new investment and diversify its trade sources.*

## **Introduction**

Croatia registered an economic growth of 2.6% in 2018. World Bank's early projections point to an economic slowdown in the following years; 2.5% in 2019 and 2020 and 2.4% in 2021. Croatia's projected economic slowdown follows the trend registered in the European Union (EU) as a whole, and particularly in Germany and Italy. Italy went into recession in the last quarter of 2018 and Germany has dropped its economic forecast for 2019. The importance of these two countries for Croatian exports is significant. Close to 28% of Croatia's trade exports are to both countries. Issues such as Brexit, trade conflicts and increasing competition, translate into an increasingly difficult and challenging nearby environment for the Croatian economy. Thus, the Croatian government ought to diversify the country's economic partners in an effort to increase Croatia's capabilities to sustain external shocks.

## **16+1 initiative**

The Belt and Road Initiative is an ambitious effort put forward by China to improve regional cooperation and connectivity on a trans-continental scale. The initiative aims to strengthen infrastructure, trade, and investment links between China and other countries in the world. Under the Belt and Road Initiative, China has also launched the China-CEE or 16+1 initiative aimed at intensifying and expanding cooperation with 16 European countries in the fields of investments, transport, finance, science, education, culture and particularly infrastructure, high technologies, and green technologies. Since the inception of the 16+1

initiative, China has invested billions of dollars in various infrastructure projects in Central and Eastern Europe. For the countries in the region, the success of the initiative means access to cheaper loans, more trade and ultimately more investment. Thus, this Chinese enterprise has been regarded with interest and enthusiasm in the region. Illustrative of this fact is the addition of Greece to this year's meeting in Dubrovnik, a reflection of the added value the initiative carries and the interest it has gathered among the countries in the area. Croatia is no exception to the wider panorama in Central and Eastern Europe. Its interest in the initiative has been shown in this year's organization of the summit in the coastal city of Dubrovnik. The country has already signed an important \$380 million geo-economic deal, with the China Road and Bridge Corporation, to construct the Peljesac Bridge. This major infrastructural investment is designed to connect the southernmost tourist destination of Dubrovnik-Neretva county to the rest of the mainland by linking two coastal parts over the Adriatic Sea. This year's summit has potentially unlocked the interest of Chinese investment in strategic and important sectors of the Croatian economy. Intent was demonstrated to build a car factory in southern Dalmatia's Neretva valley and interest was shown in potentially rescuing the debilitated Croatian shipyards Uljanik and 3 Maj. The initiative is an important tool for Croatia's diversification of investment and trade partners. Alongside the aforementioned issues, Croatia expects an increasing number of Chinese tourists in the country (circa 250,000 Chinese visitors in 2018), who are an increasingly open trade partner to Croatian exports, but also are expanding one of the main driver sectors of its economy - tourism.

### **Croatian trade with the major powers**

Trade between Croatia and the four major powers (EU, USA, China and Russia) displays huge disparities. While Croatia enjoys an important trade surplus with the USA (more exports than imports), the situation is completely the opposite with the EU, Russia and China. Trade relations with the USA expanded, but increasing Croatian exports to the USA and decreasing Croatian imports of American products has tipped the scale even more in benefit of Croatia. The trade situation with Russia reflect the vital imports of energy to Croatia, that remove the equilibrium between imports and exports. The USA remains as an important trade partner to Croatia as the one with which Croatia enjoys a positive trade deficit due to the greater number of exports than imports from the USA. The EU, on the other hand, is by far Croatia's most important trade partner, accounting for circa 70% of total exports and 78% of total imports (according to data from 2018). Nonetheless, the forecasted economic slowdown of the EU in the coming years is a reason to be apprehensive and could pose as a possible barrier to Croatia's

economic alignment with the other EU countries. At the moment, China represents a relatively small trade partner in terms of its volume, particularly when compared with the EU. However, it is relevant to notice that trade relations with China have intensified in recent years, both in terms of imports and exports. Nonetheless, exports to China represent less than 1% of Croatia's total exports, while in terms of imports Croatia has roughly 4% of its total coming from China (data from 2018). Thus, with regards to Croatia-China trade there is enormous growth potential that could be gradually developed into a mutually beneficially relationship.

## **Conclusion**

The expected economic slowdown of the EU should be a worrying factor for Croatia. While Croatia is an open economy that virtually trades with countries all over the world, the EU remains by far its most important trade partner. Consequently, an EU economic slowdown will have negative impacts on the most recent EU member. Thus, the challenge for politicians in the country is to increase Croatia's capabilities to sustain external shocks and smoothly navigate over possible economic turmoil. To achieve that Croatia ought to diversify its trade partners and investors, and in this manner increase its economic resilience to a particularly challenging external environment.

China represents an important partner for the aforementioned purpose. Not only is China one of the biggest economies in the world, but it has also launched an initiative showing its interest in investing and deepening its ties with the countries of Central and Eastern Europe, Croatia included. For Croatia, this represents an important opportunity to improve economic and diplomatic relations with one of the most vibrant economies in the world and a source of possible financing for strategic investments for the country. Thus, the economic cooperation between China and Croatia is an important strategic/economic tool for the Croatian government, one that can help to close the gap with the other EU countries, particularly in economic terms.