

**Overview:** In this edition of showCASE, our experts look at two halves of the English-speaking world and their relationship with Europe. In one half, Commonwealth member Australia is moving closer to the European Union with a recently-concluded trade agreement. In the other half, the UK is still close to Poland but continues its drift away from the continent with Brexit.

## Australia as an EU Partner

By: *Richard Pomfret, CASE Fellow, Professor of Economics at the University of Adelaide*

The European parliament has recently given a green light to the proposed European Union (EU) – Australia trade agreement, setting [guidelines](#) for trade talks. In his State of the Union Address on 13 September 2017, the European Commission President, Jean-Claude Juncker began by reaffirming the EU’s openness to business and then stated “[t]oday, we are proposing to open trade negotiations with Australia and New Zealand.” (emphasis in the [official printed version](#)). This proposal has been previously embraced by Australia, and a [framework agreement](#) was signed in August.

Past EU-Australia relations have been cordial but not warm. Australia lost its major agricultural market when the UK joined the EU. Agriculture continues to be a source of discord even though farm products now account for a small part of each partner’s trade. One of the few EU-Australia agreements concerns wine, but suspicion remains, e.g. over EU efforts to include “[prosecco](#)” as a geographic indicator in an EU-China accord.

Agricultural details may dominate FTA negotiations, but agriculture is not the major driver, and should be



*Photo: Reuters*

manageable. The recently concluded and implemented [Canada-EU Trade Agreement](#) provides a blueprint to facilitate negotiations. With few non-agricultural goods facing serious tariff barriers in either Australia or the EU, the major goal will be to negotiate WTO+ measures in areas such as trade facilitation, services, investment, and intellectual property rights.

For many Australian firms, trade with Europe has been discouraged by high trade costs. However, the obstacles of distance are falling. Information and communications technology advances continuously improve the quality and reduce the cost of real-time communication. [In 2018](#), non-stop Australia-EU air service will begin between Perth and London. Already, large Australian firms such as News Corp in the media, [Westfield](#) in shopping malls and [Macquarie](#) in infrastructure, as well as niche producers of consumer goods such as Aesop, Rip Curl or Billabong have a European presence.

A particular concern for Australia is the [low level](#) of participation in global value chains (GVCs), which so far have centred [on the EU or on East Asia](#). This development was highlighted by the disappearance in 2017 of Australia's integrated [car manufacturing](#) which cannot compete with cars produced in GVCs. Since 2015 the iconic GM brand *Holden* has been assembled at the Opel plant in Gliwice (Poland) from components sourced from across Europe before being shipped to Australia.

The WTO+ elements of a EU-Australia trade agreement could help Australian producers to participate in EU-based GVCs. More imaginative commentators see Australia as a link between EU and East Asian GVCs, or as a base for European firms' operations in Asia (a suggestion made in passing in the EU's 2015 [Trade for All](#) White Paper). With a business culture and lifestyle familiar to most Europeans and on convenient time zones to the main Asian centres, Australia can offer a good intermediate solution.

The extent to which these hopes will be fulfilled is, of course, uncertain, but the EU-Australia trade agreement will be another step towards global economic integration. Already since 2004 [trade between eastern Europe and Australia has boomed](#), albeit from a low base, as Australia's imports of cars assembled in Poland, Slovakia, and the Czech Republic are accompanied by commodity exports to those countries. The outcomes are as unpredictable as Holden cars coming from Gliwice, but there will be specialization in an increasing number of niches as global production networks become the norm.

## Poland and the UK: Will There be Good Relations After Brexit?

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By: [Klaudia Wolniewicz-Slomka](#), *Economist at CASE*

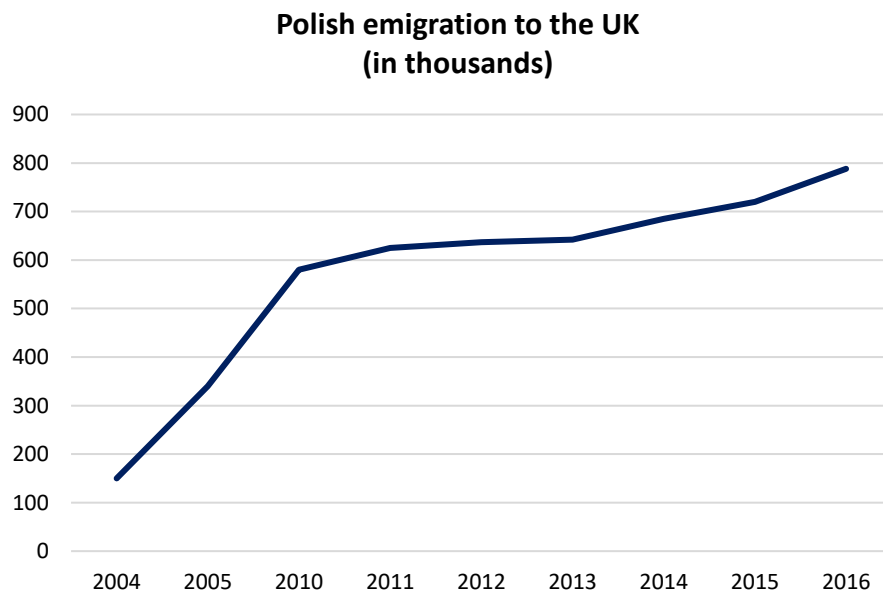
The narrative surrounding the Brexit vote has been quite pessimistic, with pundits claiming [‘a mass exodus of EU workers’](#), [economic](#) and [political](#) isolation of the United Kingdom (UK), and perhaps even [collapse](#) of the European Union (EU). And while many of these dark scenarios may come true in the medium-term, at the moment it seems that the British will not have to worry about one thing at least: their relationship with Poland, which seems to be improving on different levels and in different fields. Since the Brexit vote, the [number of Poles in the UK](#) has actually *increased*, one of the most popular Polish retail brands LPP (owner of Reserved) opened its first store in London, and a Polish Studies program at the University of Cambridge was launched. In addition, the Ministers of Defense and the foreign Secretary of Poland and the UK met in London and discussed defense cooperation (so called [‘Quadriga meeting’](#)) and representatives of British government met with the Polish minority in the UK and discussed their situation after Brexit. Will such comity continue if the UK does finally sever its links with the EU? Or are the politics of Euroscepticism just bringing the two closer temporarily?

The UK and Poland have always been close in terms of their foreign policy and the end of communism in Poland and accession to the EU meant that Polish workers could emigrate to the UK for work. According to the Central Statistical Office of Poland, at the end of 2016, around 2.5 million Poles were living temporarily abroad, most of them (2.1 million) in EU Member States, ([GUS](#)). However, among EU countries, the largest number of Polish



Photo: Reuters

emigrants are residing in the United Kingdom, 788,000 in 2016. Since the EU accession in 2004, Polish population in the UK has been constantly growing. Even the Brexit vote and ongoing negotiations has not stopped the flow of Poles coming to the UK, as, in 2016, there was a significant increase ([9.4%](#)) in the flow compared to 2015. Many of these additional emigrants have been eager to secure residency rights in the light of unclear post-Brexit regulations regarding free movement of people.



Source: [GUS](#), 2017

Also on the rise has been the number of Polish businesses in the UK. Although no precise data for 2016 is available, according to the Department for International Trade at the British Embassy in Warsaw, around [200 companies](#) from Poland have expressed interest in entering the British market since 2014. Recently, one

of the biggest Polish retail companies, LPP, started operating on the British market; their first Reserved store in London was opened with great fanfare by British supermodel Kate Moss. Currently, there are an estimated [30,000 Polish business](#) in the UK and around [85,000 self-employed Poles](#), according to Boris Johnson, British Secretary of State for Foreign and Commonwealth Affairs, who presented these numbers during the inaugural meeting for the Polish-British Belvedere Forum in October 2017. Karolina Szymanek from Department for International Trade at the British Embassy in Warsaw confirmed this trend, noting that, “in 2015, out of [650,000 new companies](#) registered in the UK, over a quarter were registered by non-British citizens, and Polish nationals were the biggest group among them.” It seems that the UK market is still perceived as an important and business-friendly market (goods worth EUR [6 billion](#) were exported to the UK by Poland in the first and second quarter of 2017) and many Polish entrepreneurs are [likely to start](#) their international expansion from the UK. Whether this remains the case once the UK exits the EU is debatable, however.

Cooperation between Poland and Great Britain is also booming in the fields of education and research. With almost one million Poles residing in the UK, Polish is the second most popular language in the UK and more and more people are becoming interested in enrolling in Polish Studies at the university level. The first program of this kind was launched five years ago at Oxford University, and this year the University of Cambridge (in conjunction with the University of Warsaw) followed suit. The Polish Ministry of Science and Higher Education assigned [approximately GBP 3.1 million](#) to the University of Warsaw for this program.

Latest political events also show the governments of the UK and Poland are making efforts to maintain good relations regardless of Brexit. Ministers of Defense and Foreign Secretary of both countries recently (12 October 2017) met in London to discuss, among others, [a common Defence and Security Co-operation Treaty](#). British politicians such as Boris Johnson or Alan Duncan have increasingly addressed the Polish minority in the UK, and earlier this year, the British government organized a meeting with Poles living in the UK with a clear message: “[we welcome you, we value you, and Polish people in the UK are here to stay](#).” At the same time, however, British Prime Minister Theresa May has been much more careful with her promises, noting that her main focus is on Britons living abroad ([as long as their rights are protected, the rights of migrant, including Poles in the UK are protected too](#)). Moreover, the official position of the government regarding free movement of people appears to be changing daily, creating substantial uncertainty on the shape of the final deal with Brussels. Whether the rights of Polish citizens will actually be protected, and what this means for the future of relations between the two countries, is something that May and her government have not made up their mind on yet.

Regardless of what may happen with Brexit, cultural and historical affinities remain. Poland seems on the whole to be a highly British-friendly nation, especially compared to Germans, the French, Italians, or Spaniards. According to a [survey](#) by Stefanie Walter of the University of Zürich, almost 50% of Poles favored a softer EU approach to Brexit (rather than a hard line which forces a hefty “exit tax” on the Brits). It is likely that the historical roots will continue to run deep, meaning that, even the prospect of Brexit may not be able to sever the economic links between the two countries.



**This week:** According to estimates from the Central Statistical Office, prices of goods and services in October increased by 2.1 % y/y and 0.5% m/m. Inflation has been boosted mainly by rising prices of food and seasonal clothing. Experts predict that, due to inflation and rising wages, the Monetary Policy Council might increase reference rates as soon as at the beginning of 2018 in order to avoid overheating of the economy.

**GDP (Q2 2017, est.)**

↑ **4.4% y/y**

Up from 4.2% in Q1

**Inflation (Oct 2017, est.)**

↓ **2.1% y/y**

Down from 2.2% in Sep

**Unemployment (Sep 2017)**

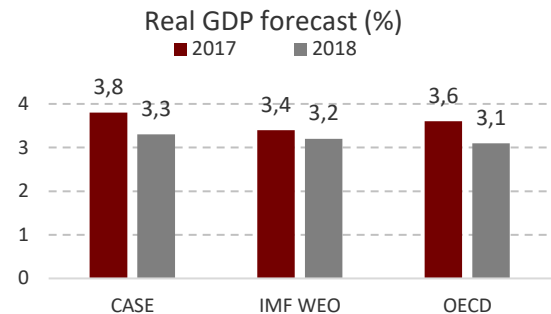
↓ **6.8%**

Down from 7.0% in Aug

**NBP Base rate**

**1.5%**

From 2% Mar 2015



**This week:** In the period from January to October 2017, Gazprom increased gas exports by 9.2% y/y, to 157.15 billion cubic meters. The increase was targeted mainly to countries along the proposed Turkish Stream pipeline. According to Gazprom, supplies to Macedonia increased by 50%, to Serbia by 27.6%, to Hungary by 25.9%, to Turkey by 22.5%, to Bosnia and Herzegovina by 13.2%, to Greece by 12.5%, and to Bulgaria by 7.4%.

**GDP (Q2 2017)**

↑ **2.5% y/y**

Up from 0.5% in Q1

**Inflation (Sep 2017)**

↓ **3.0% y/y**

Down from 3.3% in Aug

**Unemployment (Sep 2017)**

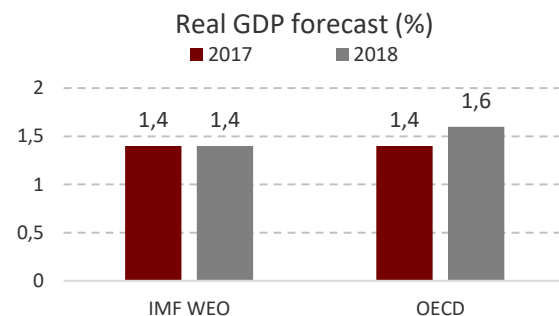
↑ **5.0%**

Up from 4.9% in Aug 2017

**CBR Base rate**

**8.25 %**

From 8.5% in Oct 2017



**This week:** Sales of diesel-propelled personal cars declined further in October, falling nearly 18% y/y. In contrast, sales of gasoline-driven cars have been steadily increasing and now account for 61% of all personal vehicles. Shares of hybrid and electro vehicles remain modest. CO<sub>2</sub> emissions increased slightly as a result of the rising number of gasoline vehicles.

**GDP (Q2 2017)**

↑ **2.1% y/y**

Up from 2.0% in Q1

**Inflation (Sep 2017)**

**1.8% y/y**

From 1.8% in Aug

**Unemployment (Aug 2017)**

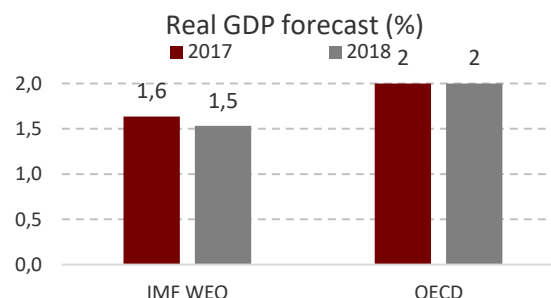
↑ **3.7%**

Up from 3.6% in July

**ECB Deposit rate**

**-0.4%**

From -0.3% Dec 2015





**This week:** During a visit to Canada, Ukrainian Prime Minister Volodymyr Groysman proposed to implement a number of joint projects in the aerospace industry, including airplane engineering and satellite construction. Currently, Ukraine and Canada are discussing the construction of the transport aircraft Antonov An-132, whose engines are to be supplied by Pratt & Whitney Canada, as well as of a space launch complex in Nova Scotia.

**GDP (Q2 2017)**

↓ **2.3% y/y**

From 2.5% in Q1

**Inflation (Sep 2017)**

↑ **16.4% y/y**

Up from 16.2% in Aug

**Unemployment (Q2 2017)**

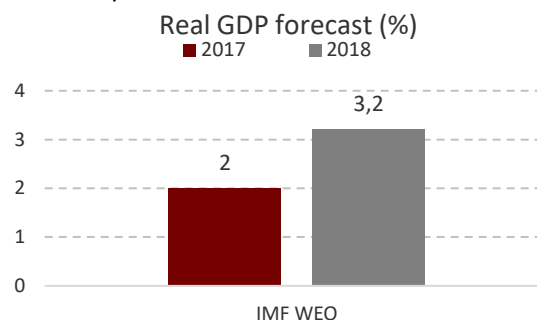
↓ **9.1%**

Down from 10.5% in Q1 2017

**NBU Base rate**

**13.5%**

From 12.5% in Sep 2017



**This week:** Economic sanctions and a weak ruble have resulted in large-scale sales of luxurious properties in the western Czech spa town of Karlovy Vary. Estimates of real estate agents indicate that up to a fifth of all apartments owned by Russian citizens are offered for sale. Moreover, many luxury businesses in the city are potentially facing closures and must look for new clientele in areas such as Middle East or South-East Asia.

**GDP (Q2 2017)**

↑ **4.7% y/y**

Up from 3.0% in Q1 2017

**Inflation (Sep 2017)**

↑ **2.7% y/y**

Up from 2.5% in July

**Unemployment (Q2 2017)**

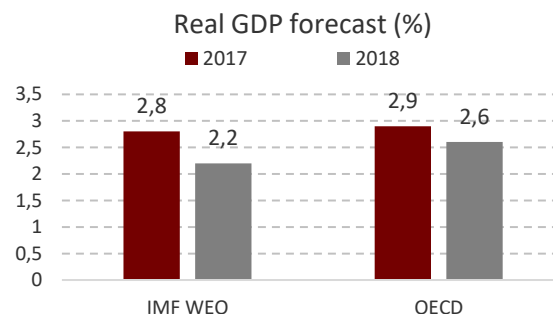
↓ **3.0%**

Down from 3.4% in Q1

**CNB Base rate**

**0.25%**

From 0.05% (4 August 2017)



**This Week:** According to a survey conducted by the German-Hungarian Chamber of Industry and Commerce, the majority of German companies based in Hungary are satisfied with the way their business is performing. Almost 70% of the 100 companies that participated rated their business situation as “good”, while only 3% rated it as “bad”. These are the most optimistic results since 2005, according to Budapest Business Journal.

**GDP (Q2 2017)**

↓ **3.2% y/y**

Down from 4.2% in Q1

**Inflation (Sep 2017)**

↑ **2.5% y/y**

Up from 2.1% in July

**Unemployment (Q2 2017)**

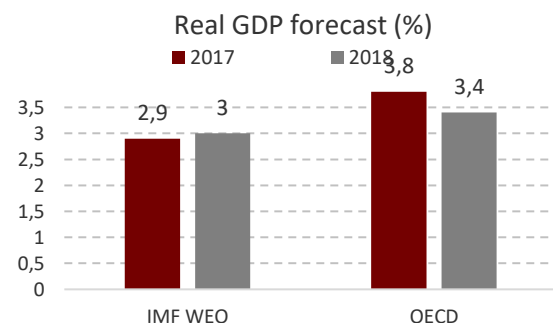
↓ **4.2%**

Down from 4.3% in Q1

**MNB Base rate**

**0.9%**

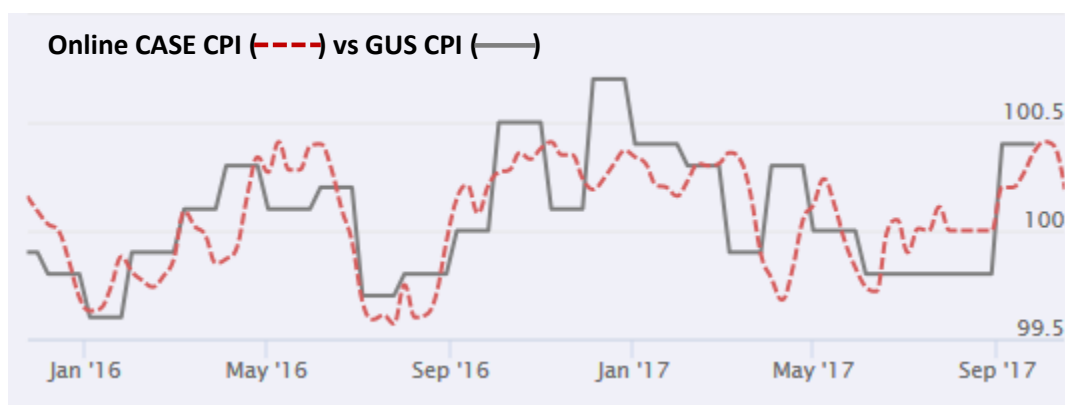
From 1.05% May 2016



### The weekly online CASE CPI

The online CASE CPI is an innovative measurement of price dynamics in the Polish economy, which is entirely based on online data. The index is constructed by averaging prices of commodities from the last four weeks and comparing them to average prices of the same commodities from four weeks prior. The index is updated weekly.

#### Our weekly online CASE CPI



### Monthly CASE forecasts for the Polish economy

Every month, CASE experts estimate a range of variables for the Polish economy, including future growth, private consumption, and foreign trade, current account balance, and the CPI.

#### **CASE economic forecasts for the Polish economy**

*(average % change on previous calendar year, unless otherwise indicated)*

	<b>GDP</b>	<b>Private consumption</b>	<b>Gross fixed investment</b>	<b>Industrial production</b>	<b>Consumer prices</b>
<b>2017</b>	3.8	4.3	2.7	4.3	1.9
<b>2018</b>	3.3	3.3	3.1	3.7	2.1
	<b>Nominal monthly wages</b>	<b>Merchandise exports (USD, bn)</b>	<b>Merchandise imports (USD, bn)</b>	<b>Merchandise trade balance (USD, bn)</b>	<b>CA balance (USD, bn)</b>
<b>2017</b>	5.1	201.6	201.8	-0.2	-4.7
<b>2018</b>	3.5	211.3	213.1	-1.8	-5.9

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