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CASE – Center for Social and Economic Research

Overview: In this issue of showCASE, our experts assess the (disappointing) outcome of the African Union - European Union Summit, dubbing it a wasted opportunity to truly re-shape cooperation between the two continents. We also take a look at the border between Northern Ireland and the Irish Republic, which has slowly begun to re-materialize as a troubling side-effect of the Brexit process.

Parole, Parole, Parole… (Another EU-Africa Summit, Another Wasted Opportunity)

By: Katarzyna Sidło, Political Economist at CASE

Towards the end of last week (29-30 November 2017), African Union (AU) and European Union (EU) leaders met in Abidjan, Côte d'Ivoire to attend the 5th EU-AU Summit and work on “defin[ing] the future direction for cooperation between the two continents.” Ostentatiously, the main focus of the event was to be placed on youth, or more precisely, on “Investing in Youth for a Sustainable Future.” However, it soon became clear that it is mobility and migration that is the top priority for both sides.

Photo: Reuters

Prompted by the publication of much-quoted report on slave markets and the general scale of human trafficking that is taking place in Libya released by CNN earlier in November, the African and European leaders agreed on repatriating back to their home countries around 3,800 African migrants detained in Tripoli. As welcome as such a decision is, the number agreed on is not nearly enough; according to Moussa Faki Mahamat, President of the Commission of the African Union, the estimated number of African migrants stuck in Libya is between 400,000 and 700,000. Moreover, it is not fully clear how “voluntary” these repatriations will be and, crucially, who will pay for them.

The most impressive fact about this deal is that it was made at all, for no other tangible solutions were announced regarding the three other priorities outlined in the joint EU-AU declaration, “peace and security,” “economic opportunities for youth,” and “cooperation on governance.” Admittedly, a rather clear message has been sent to both young people and NGOs and civil society organizations, but that message was “keep out." As reported by the European NGO Confederation for Relief and Development (CONCORD), Deutsche Stiftung Weltbevölkerung (DSW), and others, civil society organizations were unexpectedly banned from speaking at the Summit. In a joint statement, the EU and AU Steering Committee of Civil Society Organizations strongly 'condemn[ed] and reject[ed] the censorship' of the CSOs as 'a sad precedent' showcasing reduction of space for civil society, especially in Africa.

The move should probably be understood as a clumsy nod of the EU leaders towards some of their more authoritarian African colleagues. What would be worrying is if this was a new EU strategy aimed at remaining an influential player on the African continent. For while the EU is still the largest aid donor to African countries, contributing USD 20 billion each year, and remains its biggest trade partner (total value of EU-Africa trade in 2016 amounted to nearly EUR 262 billion), China is emerging as a major player on the continent. Indeed, the second China-Africa Investment Forum (CAIF) took place in Morocco directly before the EU-AU Summit. According to the Chinese Press Agency Xinhua, over 10,000 Chinese companies operate on the African continent and China-Africa trade rose over 20-fold between 2000 and 2014, reaching approximately USD 220 billion (declining to roughly USD 170 billion in 2015). Moreover, Chinese financing, usually coming in the form of credits and loans – and without any preconditions – amounted to USD 94.4 billion between 2000 and 2015. All this has not been unnoticed by the African countries' citizens as well; according to a AfroBarometer, China is perceived as the second-greatest power (23%) exerting influence in their homelands, right after the former colonial countries (28%), with and close to two-thirds (63%) seeing Chinese influence as "very" or "somewhat" positive.

While experts, including CASE analysts, have long argued that the EU must revise its stance of conditionality towards its partners (as well as prospective members) and focus on priorities that are crucial to all parties involved, compromising the values of democracy is not the right way to go forward. Such an approach will surely backfire at one point or another, both in the partner countries in question and at home, as the EU drifts away from what is supposed to be a core and non-negotiable issue.

A much more prudent strategy would involve focusing on the economic development of African countries. However, this needs to be done by way of forming partnerships, making smart investments, and supporting exchange of knowledge and experiences. The announced plan to raise EUR 44 billion in private money by 2020 for investment in African in five core investment areas (sustainable energy, Micro, Small and Medium Sized Enterprises [MSMEs], sustainable agriculture, sustainable cities, and digital development) can be a good start. But without support of the right institutions, civil society amongst them, such efforts will continue to come to naught.

Brexit and the Irish border

By: Monika Rębała, Communications Officer at CASE

Let sleeping dogs lie, warns a famous British proverb. However, many a "sleeping dog" has been awakened by Brexit, with one of the most contentious ones being arguably the issue of the 499-kilometre (310-mile) border dividing Northern Ireland from the Irish Republic. After almost 30 years, the border has suddenly become a subject of intense negotiations again.

Ireland is the only country that shares a land border with the UK, and Britain and Ireland have operated a common travel area since the 1920s. More importantly, their businesses and labor markets have been highly integrated since 1973, when both countries joined the European Economic Community (the EU's precursor). Further integration was achieved with a single electricity market established in 2007.

With a long history of cross-border cooperation, re-imposition of a hard border will cause economic hardship for Ireland. The sharp fall in the pound against the euro after the Brexit referendum has already affected Irish companies, as exports to Britain have become less competitive, and imports cheaper. The UK is Ireland's largest trading partner, with 34% of Irish exports of goods and services going to the EU (and almost half of those to Britain); moreover, approximately 40 % of total agri-food and over 60 % of prepared consumer food products were exported from Ireland to the UK in 2016. A "hard border" could be particularly devastating for Northern Ireland, with 57% of its exports heading to the EU, and the Republic of Ireland being the largest market for its goods.

Photo: Reuters

An unpublished report by the Irish Revenue Commissioners indicates the enormous physical and economic impact Brexit will impose upon companies which trade with the UK. "This extra layer of formalities for movements that are currently intra-union movements will not only place a considerable administrative burden on traders, it will also have a negative impact on trade flows and delay the release of goods," says the report. Ireland would have to transform its customs infrastructure, which will take both significant amounts of time and money. The border checks would also directly affect between 23,000 and 30,000 cross-border workers.

Taoiseach (Irish Prime Minister) Leo Varadkar has publicly threatened to veto moving EU talks with the UK on Brexit further unless London gives credible answers to Ireland's concerns regarding this state of affairs. Britain, in turn, has been arguing that the issue cannot be resolved until a UK-EU trade and customs agreement is made, but, as with much of the Brexit negotiations, is sending contradictory signals. On the one hand, Downing Street vowed not to introduce any physical infrastructure on the border with the Irish Republic; on the other, it hinted that the UK will leave the single market and customs union. The problem, of course, is that these two positions are mutually exclusive.

It is therefore not surprising that politicians are looking for different solutions that will help to avoid introduction of any physical infrastructure at the border. The Irish foreign minister, Simon Coveney, and Pascal Lamy, former director of World Trade Organization (WTO), suggested that Northern Ireland should be given a special administrative status. They cited an example of Hong Kong (a former British colony) and China, which, despite being part of one country, operate different customs and trade regimes and maintain separate WTO-member statuses.

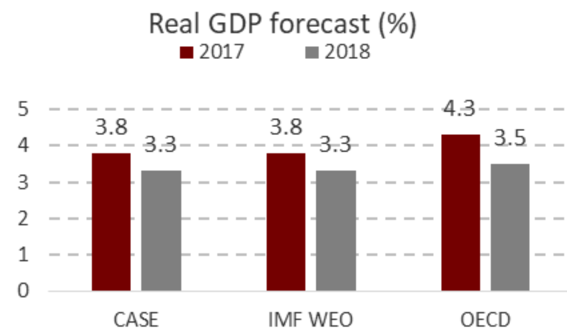
However, should this happen, Britain would be a beneficiary of the onward transfer of goods from Northern Ireland, so it seems unlikely that the EU would agree on this kind of deal. Moreover, the Democratic Unionist Party (DUP) in Norther Ireland is strongly against such a solution, arguing that it could be the first step towards incorporating Norther Ireland within the Irish Republic. As Ms. May's minority government is propped up by the DUP's 10 MPs in key votes, she cannot afford ignore their dissent.

Apart from stirring a political storm, re-imposing a hard border potentially could have even more explosive socio-political consequences as well. The Good Friday peace agreement of 1998, which ended the decades-long civil conflict in Northern Ireland, committed the British and Irish governments to removing border controls. Mr. Chris Hazzard, member of Sinn Fein (an Irish Republican party dedicated to the reunification of Ireland and the political wing of the IRA), has recently said that any attempts to increase security around the Irish border could lead to civil disobedience.

With the Brexit clock is ticking, the pressure to find a solution to the Irish border issue will keep on rising. If London does not close negotiations on trade by October 2018, Britain can exit the EU in March 2019 without any deal (Parliament needs around six months to implement the changes in law). Should this happen, trade between the EU and the UK would need to be conducted under the WTO rules. This means that all goods exchanged between the UK and the EU – including Ireland – would be subject to a default range of tariffs. Barring any change in Britain's stance, the hard border would then become a fact, along with all of its deleterious consequences, meaning that the dog may still lie but will be fenced in another yard.

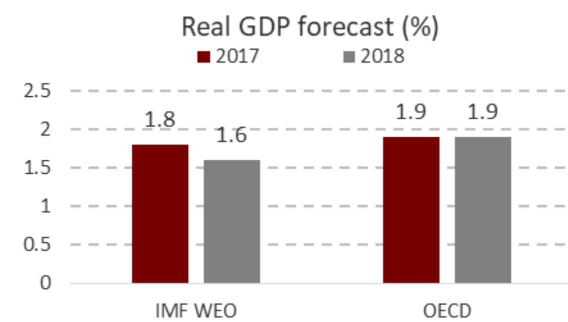
This week: The Central Statistical Office revised its estimates of GDP in Q3 2017 upwards to 5.2%. While consumption remains the foundation of the Polish economy, growth was also supported by net exports, which amounted to 1.1% in Q3. However, investment is still below expectations, with businesses concerned about an uncertain institutional environment and interventionist government policies.

GDP (Q3 2017)	Inflation (Oct 2017)
5.2% y/y (est.)	2.1% y/y
Up from 4.2% in Q2	Down from 2.2% in Sep
Unemployment (Sep 2017)	**NBP Base rate**
6.6%	1.5%
Down from 6.8% in Aug	From 2% Mar 2015



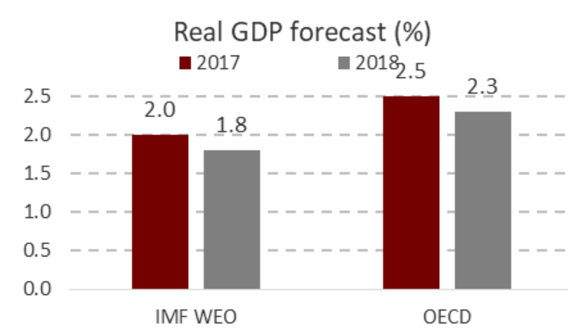
This week: Russia, OPEC and other non-OPEC oil producers found common ground during a meeting in Vienna, Austria. The outcome of the meeting was uncertain until the last moment because of the last week's announcement by the Russian economy minister, who declared the OPEC oil deal harmful for the Russian economy. As a result of the meeting, the current deal due to end in March 2018 will be prolonged until the end of that year.

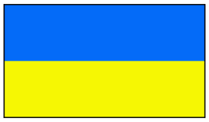
GDP (Q3 2017)	Inflation (Oct 2017)
1.8% y/y (est.)	2.7% y/y
Down from 2.5% in Q2	Down from 3.0% in Sep
Unemployment (Oct 2017)	**CBR Base rate**
5.1%	8.25 %
Up from 5.0% in Sep 2017	From 8.5% in Oct 2017



This week: Unemployment fell by 20,000 (non-seasonally adjusted) to reach 2.386 million in November, over 160,000 less than the same period last year. The decrease is stronger than forecasted, pushing the unemployment rate down to 5.2%. This strong labor market performance is one of the main reasons behind the continued growth of the German economy, which also benefits its trade partners in Central and Eastern Europe.

GDP (Q3 2017)	Inflation (Oct 2017)
2.8% y/y	1.5% y/y
Up from 2.3% in Q2	From 1.8% in Sep
Unemployment (Oct 2017)	**ECB Deposit rate**
3.7%	-0.4%
Up from 3.5% in Sep	From -0.3% Dec 2015





This week: Adoption of the 2018 budget brought about expectations of increases in all social payments linked to the subsistence minimum. The minimum wage in 2018 is set to increase to 3,723 UAH and the minimum pension, following the latest pension reform, will amount to 79 UAH more than the living wage for disabled people, i.e. 1,452 UAH.

GDP (Q3 2017)

2.1% y/y

Down from 2.5% in Q1

Inflation (Oct 2017)

14.6% y/y

Up from 16.2% in Aug

Unemployment (Q2 2017)

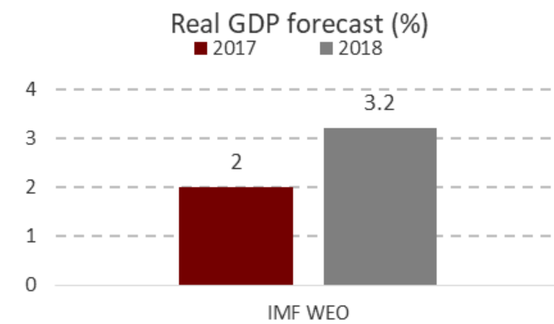
9.1%

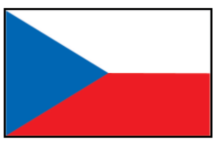
Down from 10.5% in Q1 2017

NBU Base rate

13.5%

From 12.5% in Sep 2017





This week: The Czech Army is going to invest more than EUR 39 billion (CZK 1 billion) in new combat drones. General Josef Bečvář, the chief of the General Staff of the Armed Forces, said that the Czech military has already been using drones such as Insitu, but would like to invest in ScanEagle drones that will cost around EUR 8 million (CZK 200 million). According to DefenseNews, Prague is planning to raise its defense budget to EUR 2.25 billion(CZK 57.77 billion).

GDP (Q3 2017)

5.0% y/y

Up from 4.7% in Q2 2017

Inflation (Oct 2017)

2.9% y/y

Up from 2.7% in September

Unemployment (Q3 2017)

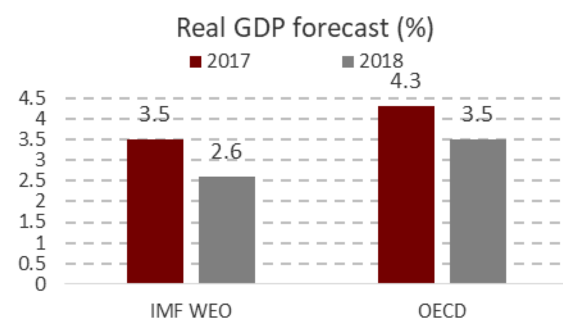
2.8% (est.)

Down from 3.0% in Q2

CNB Base rate

0.50%

From 0.25% (3rd November 2017)



This Week: According to the Hungarian Ministry for National Economy, in the first three quarters of 2017, investments in the country reached a total value of EUR 13.32 billion (HUF 4,144 billion). Investments in Q3 increased by 18.3% when compared to the same period last year. The Minister for National Economy, Mihály Varga, said that growth was seen in eighteen out of nineteen sectors of economy.

GDP (Q3 2017)

3.6% y/y (est.)

Down from 4.2% in Q1

Inflation (Oct 2017)

2.2% y/y

Up from 2.1% in July

Unemployment (Q2 2017)

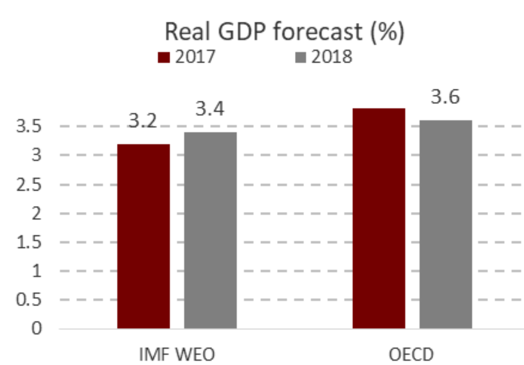
4.2%

Down from 4.3% in Q1

MNB Base rate

0.9%

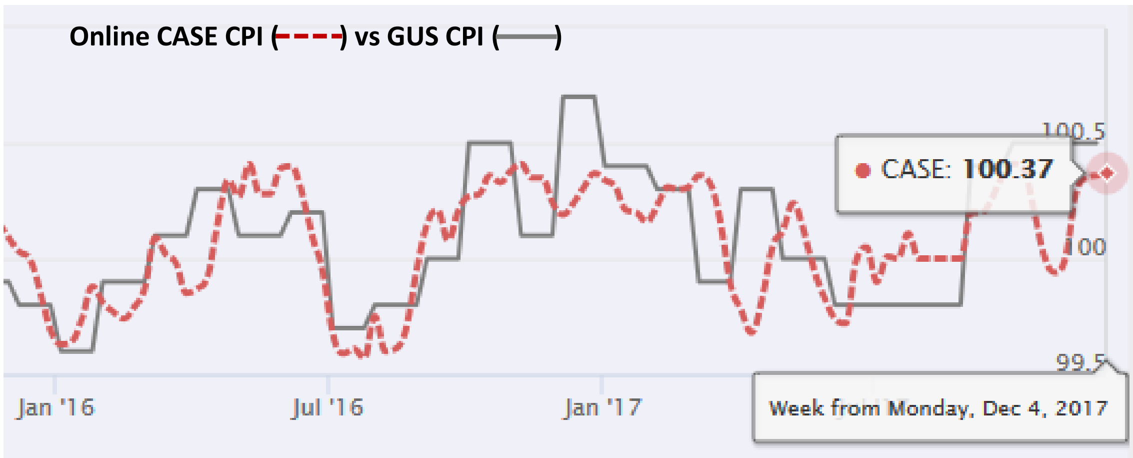
From 1.05% May 2016



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)

	GDP	Private consumption	Gross fixed investment	Industrial production	Consumer prices
2017	3.9	4.4	2.8	4.3	1.9
2018	3.3	3.3	3.1	3.7	2.1
	Nominal monthly wages	**Merchandise exports (USD, bn)**	**Merchandise imports (USD, bn)**	**Merchandise trade balance (USD, bn)**	**CA balance (USD, bn)**
2017	5.1	211.7	211.9	-0.2	-2.7
2018	3.5	221.9	223.8	-1.9	-3.9

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