showCASE
No. 66| 05.03.2018

CASE – Centrum Analiz Społeczno-Ekonomicznych
CASE – Center for Social and Economic Research

Overview: In this issue of showCASE, our guest experts from the Corvinus University of Budapest recount the economic and political relations between the Visegrad and the Central Asian countries after 1991 and discuss the most recent opportunities for tightening cooperation between these two regions.

New Opportunities for Cooperation Between the Visegrad Four and Central Asia

By: Aigul Kazhenova, Researcher, and Márton Krasznai, Scientific Director, Center for Central Asia Research, Corvinus University of Budapest

Political and economic ties that existed before 1990 between Czechoslovakia, Hungary, and Poland on the one hand and Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan on the other took a nosedive after the collapse of the socialist system in these countries and the beginning of transition to democracy and market economy. Central Asian countries found themselves in a more difficult situation than their V4 counterparts. When they became independent in 1991, to a certain extent it was a premature birth. The collapse of the Soviet Union caught the elites and peoples of the republics mostly unprepared. The first post-independence years in Central Asia brought economic downturn, hardship and social instability. The republics lacked the means and coherent, long-term economic strategies that would allow them to preserve their economic and political links with the former "fraternal" countries of Eastern Europe.

ASTANA, KAZAKHSTAN - A view of the Bayterek monument and observation tower. Sergei Bobylev/TASS/Forum

Since foreign trade was a state monopoly under Communism, Central and East European countries had developed trade and economic relations with their Central Asian partners through the central apparatus in Moscow. After 1991, these ties were transformed into inter-state relations, and the V4 countries and their Central Asian partners had to rebuild their economic relations practically from scratch. Export of fossil fuels, primarily oil from Kazakhstan to V4 countries showed the greatest resilience thanks to earlier investments in Central Asia by East and Central European countries and the existence of a pipeline network inherited from the Soviet Union. But complicated negotiations on debts inherited from Soviet times, upstream investments and the ensuing haggling about transit fees did not make it easier to maintain earlier trade volumes even in this area where strong mutual interest in the continuation of earlier cooperation existed.

Political relations between the V4 and Central Asian countries fared not much better after 1991 than the economic links. Central Asian countries made serious efforts to strengthen their ties with core European Union (EU) and NATO countries as a way of consolidating their newly won independence from Russia and develop balanced, multi-vector foreign policies. V4 countries, themselves just freed from Soviet occupation, and not yet EU or NATO members were not regarded by Central Asian governments as partners of choice in building a new set of balanced relations. On the other hand, Central Asia was not a priority for the EU, perhaps with the exception of Tajikistan, where a bloody civil war broke out in 1992. But it, too, received limited attention, as it could not "compete" with conflicts that were closer to Europe.

The first EU Central Asia Strategy, adopted in 2007, barely mentioned the opportunities for more effective assistance to Central Asian countries created by the accession of V4 countries three years before. The 20-page Strategy dedicates a single sentence to this issue: "Lessons learnt from the political and economic transition of Central and Eastern Europe can also be offered." The transfer of transition experience to Central Asia by the countries that had the most extensive, first-hand knowledge about this problem – the V4 Group – has never received significant targeted funding.

Declarations on the desirability and usefulness to rebuild close ties between V4 and Central Asian countries were finally translated into concrete action in February 2018, when the Hungarian V4 Chairmanship convened the foreign ministers of the nine countries in Budapest to give political momentum and initiate concrete actions on establishing closer cooperation among them. The Hungarian initiative came in time to provide ideas and concrete proposals for the development of a new Central Asia Strategy by the EU to be adopted by late 2019.

Strengthened political, trade, economic, educational and research cooperation between V4 and Central Asian countries, as part of broader cooperation between the EU and Central Asia, comes at the moment of deep going geopolitical and geoeconomic changes in and around Central Asia, driven by China's Belt and Road Initiative (BRI) and by the efforts of the Russian Federation to further expand the Eurasian Economic Union.

The lack of capital, modern technology, and a well-trained workforce continues to pose a serious challenge to economic decision makers of all Central Asian countries. China's Belt and Road initiative promises major investments in the regional infrastructure, bringing much needed capital and technology and dramatically reducing transport costs. The long-term success of BRI in Central Asia depends on the rapid improvement in governance. Without improvement in the business environment, in particular in the rule of law, massive investment in infrastructure may not sufficiently stimulate domestic economic growth, provide public goods, increase the resilience of societies and thus strengthen political stability and economic and environmental sustainability. It might even exacerbate existing problems such as corruption. Since neither China nor the Russian Federation have engaged in capacity building programs in these areas, continuation and expansion of EU assistance would greatly help Central Asian countries in taking full advantage of the promised "investment tsunami". The V4 countries could play a particularly important role in providing such assistance by sharing the experience of their political and economic transition with Central Asian partners.

Another area where V4 countries can offer useful experience to their Central Asian partners is sub-regional cooperation. The improvement in the political relations between Uzbekistan on the one hand and Kyrgyzstan and Tajikistan on the other is removing long-time obstacles to revitalizing sub-regional cooperation. Cooperation among the five countries on issues such as the joint management of shared water and energy resources or achieving environmental sustainability in the Aral Sea Basin could complement regional cooperation in larger frameworks, like the Eurasian Economic Union, the Belt and Road Initiative, or the Shanghai Cooperation Organisation. The "light model" of sub-regional cooperation with almost no institutional framework but highly efficient and regular political consultations, modelled on the V4, would allow Central Asian countries to kick-start much needed sub-regional cooperation without cumbersome negotiations on the institutional and legal frameworks.

This week: According to the preliminary data released by the Polish Central Statistical Office (GUS), seasonally unadjusted GDP grew by 5.1% y/y in Q4 compared to 4.9% y/y in Q3. The growth, strongest in six years, was helped by investments, which expanded by 11.3% y/y. Overall, investments contributed 2.4 percentage points to the growth rate, while consumption added 3.5 percentage points. Foreign trade contributed negative 0.8 percentage points.

GDP (Q4 2017)

4.3% y/y (est.)

Down from 5.2 % in Q3 2017

Inflation (Jan 2018)

1.9% y/y

Down from 2.1% in Dec 2017

Unemployment (Jan 2018)

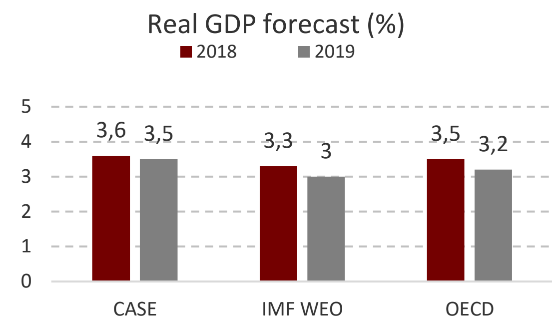
6.9%

Up from 6.6% in Dec 2017

NBP Base rate

1.5%

From 2% in Mar 2015



This week: Russia's second largest bank, VTB, made RUB 44.8 billion net profit in Q4, beating market expectations. In the entire 2017, the state-owned VTB made a net profit of RUB 120.1 billion, raising its bank net interest margin to 4.1% from 3.7% in 2016. According to VTB's President Andrey Kostin, the bank improved its market share in the retail business, bolstered its funding structure and realized income from fees and commissions.

GDP (Q3 2017)

1.8% y/y

Down from 2.5% in Q2 2017

Inflation (January 2018)

2.2% y/y

From 2.5% in Dec 2017

Unemployment (Jan 2018)

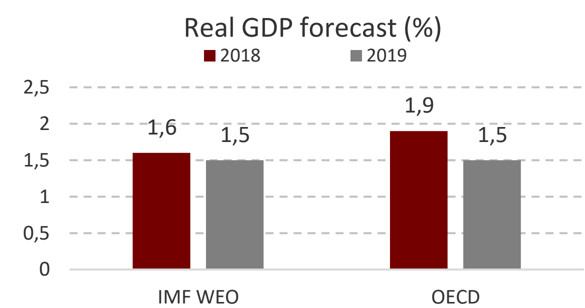
5.2%

Up from 5.1% in Nov 2017

CBR Base rate

7.5 %

From 7.75% in Jan 2018



This week: The Federal Administrative Court in Leipzig ruled that cities have the right to ban diesel engines in order to improve air quality levels. Driving bans have delivered a heavy blow to Europe's largest car market, where one third of cars run on diesel. The share prices of German car manufacturers dropped immediately after the court decision but recovered later. The Environment Minister Barbara Hendricks said that driving bans could be avoided and other strategies would be explored.

GDP (Q4 2017)

2.9% y/y

Up from 2.8% in Q3 2017

Inflation (Feb 2018)

1.2% y/y (est.)

Down from 1.4% in Jan 2017

Unemployment (Jan 2018)

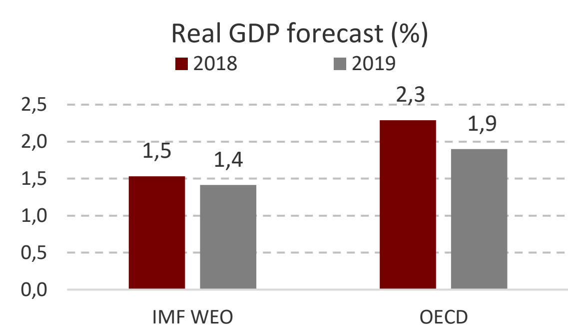
3.6%

Up from 3.5% in Dec 2017

ECB Deposit rate

-0.4%

From -0.3% in Dec 2015



This week: General Electric's transportation unit signed a USD 1 billion deal to supply 30 freight locomotives to the Ukrainian Railways. The framework agreement includes the supply of additional locomotive kits over 10 years, overhaul of old locomotives in the Railways' fleet, and long-term maintenance services. It is hoped that the deal will help modernize the country's transportation infrastructure and enhance its position as a European rail hub.

GDP (Q4 2017)

1.8% y/y

Down from 2.1% in Q3

Inflation (Jan 2018)

14.1% y/y

Up from 13.7% in Dec

Unemployment (Q3 2017)

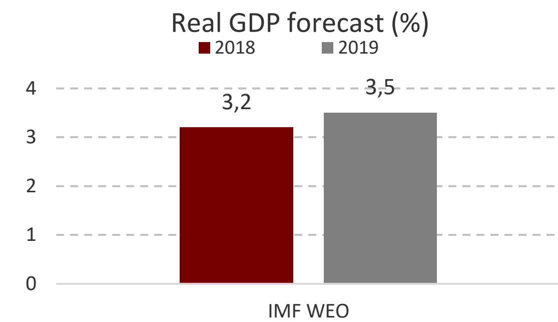
8.9%

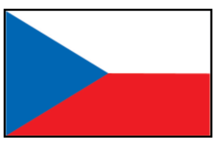
Down from 9.1% in Q2 2017

NBU Base rate

16.0%

From 14.5% in Dec 2017





This week: The Czech investment in mutual funds has grown by 12% and reached CZK 483.5 billion in 2017, the Association for the Capital Market (AKAT) reported last Monday. Since the outbreak of the 2008 crisis, domestic investment in mutual funds has almost doubled and, compared to the 2016, went up by around CZK 53 billion during the last year.

GDP (Q4 2017)

5.2% y/y

Up from 5.1% in Q3 2017

Inflation (Jan 2018)

2.2% y/y

Down from 2.4% in Dec 2017

Unemployment (Jan 2018)

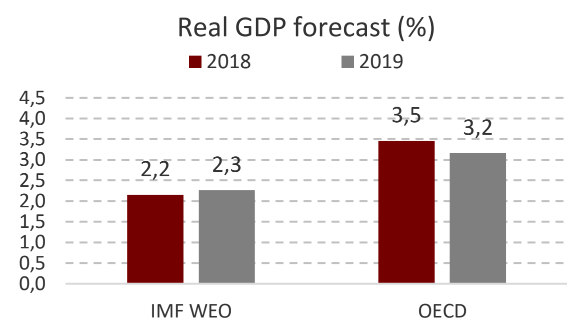
3.9%

Up from 3.8% in Dec 2017

CNB Base rate

0.75%

From 0.5% (2nd Jan 2018)



This Week: The Hungarian Minister for Financial Affairs Ágnes Hornung, has said that Hungary had received a loan of HUF 57 billion (EUR 184 million) from The European Investment Bank and the Council of Europe Development Bank in order to invest in developing the higher education system in the country. The money will be spent on renovation of campuses, educational infrastructure, and research.

GDP (Q3 2017)

3.9% y/y (est.)

Up from 3.3% in Q2

Inflation (Jan 2018)

2.1% y/y

Down from 2.5% in Nov 2017

Unemployment (Q4 2017)

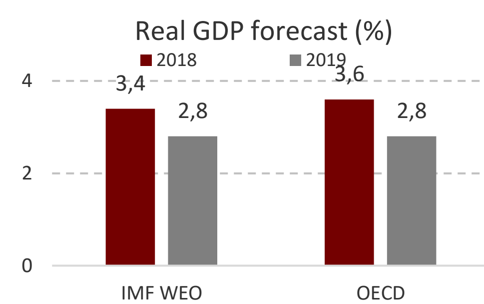
3.8%

Down from 4.1% in Q3

MNB Base rate

0.9%

From 1.05% in May 2016

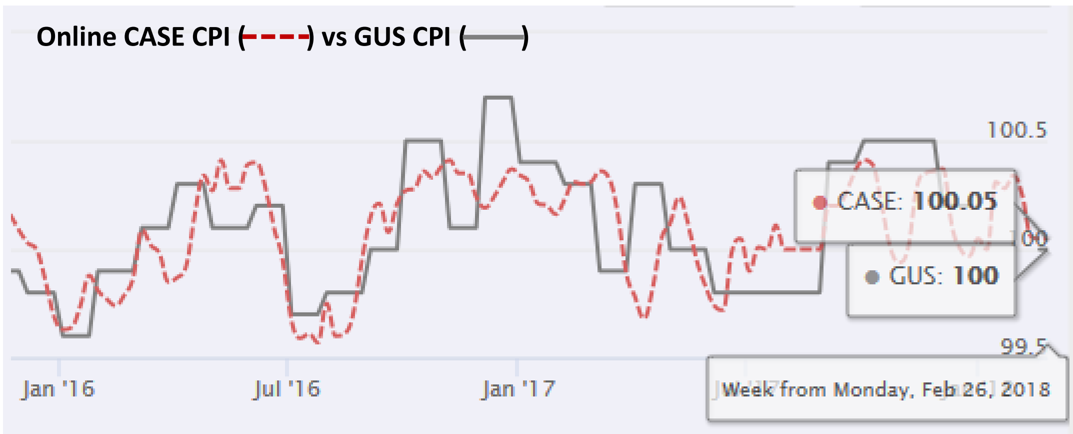


CASE Center for Social and Economic Research

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
2018	3.6	3.6	4.1	3.7	2.5
2019	3.5	3.6	3.3	3.8	2.3
	Nominal monthly wages	**Merchandise exports (USD, bn)**	**Merchandise imports (USD, bn)**	**Merchandise trade balance (USD, bn)**	**CA balance (USD, bn)**
2018	4.5	233.4	235.2	-1.8	-3.9
2019	3.7	242.7	244.6	-1.9	-4.1

For more information on our weekly online CASE CPI, please visit: http://case-research.eu/en/online-case-cpi To **subscribe** to our weekly showCASE newsletter, please click here. To see **previous issues** of showCASE, please visit: http://case-research.eu/en/showcase

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