



Weekly Briefing

**Poland external relations briefing:
Poland and Budapest 16+1 Summit
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Regarding the last 16+1 Summit in Budapest three issues should be taken into consideration: first Poland decision of not joining China-CEE Investment Fund, second promoting Three Seas Cooperation, and thirdly the future status of Belarus as the observer or the full member of 16+1 format in the future.

The first decision should be understood, at least, from two perspectives. When it comes to domestic issues Poland is more and more stronger when it comes to its fiscal policy and accumulating own capital for own investment. As prediction says Poland can investment its capital into the Central Airport alone, without any external sources. Polish government strengthen its control over fiscal revenues like VAT and other taxes. From this perspective Polish governments regained its power. Poland had a budget surplus of almost PLN 5 billion at the end of August, while VAT revenue has shot up a massive 23.5% as the government clamps down on tax fraud. Revenue from value-added tax (VAT) rose by over PLN 20 billion year on year. The government's revenue from corporate income tax (CIT) will also grow for the first time in years, increasing by more than 10 percent. Moreover last month, as said by Morawiecki - vice prime minister, and minister of Development and Finances, Poland decided to resign from IMF special credit line. Needless to say that Poland issued a special credit line of 250 million USD to Vietnam for purchasing goods in Poland. In general it shows that Polish government will play more and more independent role in shaping domestic investments environment.

The second understanding of the decision taken during 16+1 summit in Budapest might be draw from the consultations between Poland, Germany and France over the further development with China. As we know, Germany especially after Midea acquisition of Kuka company, will present more scepticism on cooperation with China than before. From this perspective we might notice that the future relations among countries within the 16+1 might be driven be external European factors namely the pressure from Germany. The

core issue here is whether both sides Poland and Germany might find common ground for the further common actions *vis a vis* China. What might be the economic and political leverages in this context? When it comes to the trade and investments' cooperation Poland is more depended on Germany than China. From the political angle Germany, as the leading power in Europe, might ease the tension in the European Union on Polish political transformation, judiciary reform and the state of democracy. This should be taken into account in Polish and Chinese calculations over the future cooperation within 16+1 format.

The second issue is dedicated to maritime cooperation. From this perspective 16+1 format should be seen as the platform for real multilateral cooperation. It is very difficult to find common cross-nation projects, however, it is not impossible. The maritime link of Three Seas: Baltic, Adriatic and Black Sea is the particular format of cooperation that Poland hopes to see as possible area for strengthening North-South relations. On the one hand, it refers to Polish traditional thinking of balancing Russia and Germany. But on the other we need to see this collaboration in more broaden perspective namely through triangle politics between China, Russia and the United States. In order to effectively implement infrastructure, transport and logistics related concepts aimed at developing trade relations within the 16+1 framework, such as the China-Europe Land Sea Express Line and the Port Area Cooperation around the Baltic, Adriatic and Black seas, relevant participants aim to work out necessary measures with China. What is worth noticing the Riga Declaration broadly presents the "Three Seas ABC" initiative announced at the Suzhou summit in 2015. It assumes the development of ports including those in the hinterland as well as logistic hubs, economic zones and transport corridors. The same message was repeated in Budapest. In this particular context the Chinese interests should be taken into account. All seventeen countries welcomed *"Croatian and Slovenian progress on Mediterranean railway corridor from Port of Rijeka and Port of Koper towards CEECs and seek to investigate, on the basis of feasibility studies, the possibility of extending the railway line Belgrade-*

Budapest through ports of Montenegro and Albania". Interestingly this projects, might follows and should be embodied into the EU-China Connectivity Platform projects. What was not mentioned in Budapest Guidelines is ongoing projects in Constanta (Black Sea port in Romania) and its future role in shaping the Three Seas cooperation.

This cooperation is not free from controversies. There is one important pillar of the future possible risks: namely the role of the United States. The American involvement in Three Seas cooperation announced by Joe Binden and then by President Donald Trump in Warsaw (July 2017, Three Seas Summit in Warsaw) might have an impact on the future relations between CEE and China, and between Poland and China in particular. Taking the interdependent approach we might wonder whether the American side will try to pressure on Poland to limit its cooperation with China? The reason is that the Maritime Silk Road links China with Europe through South China Sea. The ongoing controversies between China, the United States and its allies will impact the maritime cooperation to the extent that China will have support from the European side on 21st Century Maritime Silk Road, that covers South China Sea and all routes to Europe through Sues Channel to Piraeus port in Greece.

In the document passed in June 2017, the Chinese government declared to support maritime connectivity through different types of channels. From the Intermarium project perspective two of them are worth mentioning: the first is the China-Indian Ocean-Africa- Mediterranean Sea Blue Economic Passage and the second leading to Europe via the Arctic Ocean. Although the second does not provoke controversies, the first that has crossed the South China Sea may give rise to further discussion on China's territorial disputes.

The third issue is the future status of Belarus. At the moment Belarus is a observer and probably will have this status for quite a long time. From Polish perspective Belarus is important due to the close relations with Russia e.g. joint military drills Zapad 2017 close to the border with Poland was perceived as a real threat for Polish security. The similar approach was taken after Sino-

Russian military drills at the Baltic Sea (August 2017). The Chinese investments in Belarus e.g. Great Stone Industrial Park as well as Belarus-China military cooperation (Polonaise multiple launch rocket system) might provide the basis for more scepticism among Polish's elites, when it comes to the cooperation with China. As far as it was described in the media the MLRS delivered by China can reached targets app. in the range of 300 kilometres like Warsaw, or Baltic states. Moreover what is closely observe in Poland is the cooperation between Belarussian companies and China Academy of Launch Vehicle Technology (CALT, also known as the “First Academy”), a part of the Chinese state-owned aerospace company China Aerospace Science and Technology Corporation (CASC), Aerospace Long-March International Trade Co., Ltd (ALIT) and China Great Wall Industry Corporation.

Conclusions

From the Polish perspective the most important pillar of 16+1 is to promote Three Seas cooperation. the Three Seas Initiative should reduce the dependence on Russian energy, strengthen the development of infrastructure and develop economic ties in North-South directions. What might be considered a paradox, this initiative has been strongly supported by the United States and China. Washington tries to reach this part of Europe with its gas and oil, and counterbalance Russian influences in Europe by strengthening NATO pillar in the Eastern flank. China is also interested in connecting the South Europe-North Europe corridor to its own Silk Road initiative and find another corridor for its products to European market. This will secure its export-led economic growth and secure its position in the ongoing controversies with Germany. In other words, 16+1 format becomes a very important, and not only for its economic and investment cooperation, but has become important in term of geopolitics.

What is currently recognized in Poland when it comes to 16+1 is the growing scepticism among Polish elites. This was very visible when Polish prime minister Beata Szydlo declared in Budapest that Chinese partners are very

"difficult partners". The primary issue for the Polish government is to deal with Russian policy and any move taken by Chinese side together with Russia in Europe like navy drills at the Baltic Sea and military cooperation with Belarus and Russia will be recognized as the "red line" for deepening cooperation with China.

In the upcoming months we might recognized that Poland, although the biggest country in 16+1 will conduct less optimistic approach towards China. Being a bit disappointed, or just saying so, the Law and Justice government tents to support rather Germany and France than cooperation with Hungary or Serbia. On the one hand it should be understood from the position of middle power who hopes to play important role in European politics, and not only be the follower. On the other hand, Poland might lose its chance for being mediator between China and Europe.