



# Weekly Briefing

**Poland External Relations briefing:  
Recent Poland Foreign Policies  
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As discussed in the Polish media the most challenging issues in Polish foreign policy are dedicated to the further integration of so-called the core of the European Union. The further integration will be delivered by shaping common budget for the eurozone. French President Emmanuel Macron and German Chancellor Angela Merkel agreed in Meseberg that Paris and Berlin want a joint European response to the migration crisis and create the common budget of the euro area. The head of the German government said that the eurozone's budget was to serve investments and reduce disparities between EU countries. Moreover, the eurozone budget is also to protect its zone countries from crises. According to Macron, the eurozone budget might be already applied in 2021.

The idea of creating a separate budget for the eurozone, or 19 countries of the Community, is not a new idea. The core question remains here: will this time by the European leaders not lack the determination to implement this idea? Is it a matter of months or years? And finally what will be the impact on the Polish foreign relations as a whole? What kind of reaction will be from the Polish side and what kind of leverages might be created to strengthen Polish position in the current context? From the perspective of France-Germany relations, we might acknowledge that once the idea will be supported by two important players in the European Union others probably will follow.

From the Polish perspective, it is certainly not beneficial as long as Poland is outside the euro area. Because it will probably end up with a smaller amount of money in this larger budget for the entire Union. For the countries, the North, which has trade surpluses that are doing quite well, like Germany or Benelux, will not have such a strong impact that might have on countries that are recipients of the European funds, including Poland. Rather, they will focus on transfers within the euro area, which is necessary for more harmonious development.

On the one hand, the greater resilience of the euro area to financial crises would also be good for the Polish economy, that is heavily depended on Western

Europe and the stabilization seems to be appropriate for the economic exchange. On the other hand, if Poland remains outside the euro area at the moment when, for example, Poland will issue joint debt, even to a small extent, Poland will have serious development barriers. First of all, Polish companies will pay more for loans. More than all euro countries, and no more than some of them, because that interest rate will go down. This will make our competitive position worse and Polish entrepreneurs will have serious development barriers.

On the other hand, the big threat of marginalization of our role in European politics and probably smaller inflow of funds, because the eurozone, which dominates even more strongly in the Union, will strive to develop, equalize the level of economic development in individual countries of the eurozone in order to conduct independent, but common monetary policy in more effective manner. Those countries that would remain outside the euro area would probably have to reckon with the fact that the budget of the entire European Union would lose its significance and inflow of funds e.g. cohesion funds would be much lower.

Although it must be stipulated that, with each subsequent budgets Poland would to a lesser extent, be a beneficiary of the net inflow of EU funds. The proposed actions and mechanisms to counter the negative impact of the crisis like unified unemployment policy or uniform mechanism supporting investments in countries that are struggling with problems should be perceived as the good solution in the time of the economic crisis. From the point of view of Poland, it would be much better to participate in all these mechanisms. It should also be remembered that if the European Union introduces such actions, e.g. joint unemployment benefit, it may turn out that support for it among the citizens of the euro area countries will also definitely increase. And this integration will be able to accelerate and not slow down, as expected part of our political class now, which seems quite a big mistake in the face of the outcome of the last political elections in Europe.

In the above-discussed context the issue is how should Poland respond to this greater integration - should Poland adopt the euro? According to Piotr

Kuczyński from the Xelion Investment House, Poland should not enter the eurozone until its economy is close to at least Spanish, French, and closer to German, the better. If we look at the moment that Europe is starting to leave us, it is so dangerous for the Polish economy. The Polish government, as argued by experts, should decide the future date of joining the eurozone. For example, Sweden, which is starting to go this way and decides to join the eurozone in 2025. At present, virtually all European Union countries outside the euro area meet the conditions that would allow them to join like Bulgaria, and Romania, also the Czech Republic. So it's hard to expect politicians from these countries not to take this step. And it may turn out that we will stay with the Hungarians outside the eurozone and Polish government will face the dilemma of being outside of the monetary union.

The further integration of the eurozone should be perceived as the solution to all problems within the European Union. The second important issue is the fact that the United Kingdom did Brexit, and countries of the euro area will be responsible for an even greater percentage of the economy of the entire European Union. In the time of the UK leaves the EU, further coordination of EU economy can be competitive not only in relation to the American economy but also for example in China. Furthermore, the integration of the euro area is seen as a guarantee of the financial and political stability of the entire Union. From the perspective of the further integration, the budgetary decisions of the euro area of parliament should be decisive. It would reflect the population of the euroland and strengthen the democracy in the European Union. In practice, as argued by the French economist Thomas Piketty from the Paris University of Economics it could translate into the following proportions: 24 percent German deputies, 20 percent French, 18 percent Italian 14 percent Spanish. This national parliaments participation should be very important in the areas of making difficult decisions, for example on budget cuts, the will of the sovereigns, that is the nations, and not only the EU administration should be taken into account. According to Professor Jacques Delpla from the University of Economics in

Toulouse, European democracies will not survive further financial crises and drastic budget cuts, including wage cuts, and the creation of safeguards against crises is crucial for the survival of the euro area. From this perspective, the four scenarios of defense against crises are possible: federal budget, banking union, rejection of the financial markets as a key element in eliminating shocks and financial crises and a common guarantee fund constructed on the basis of traditional insurance models.

### **Conclusions**

The major point of the discussed issues is to what extent the government in Poland prioritize the economic cooperation with the Eurozone, and how it will cope with the upcoming challenges. In 2017 The National Bank of Poland closed the Office for Integration with the Euro Area and renamed the Convergence and Competitiveness Bureau to the Competitiveness Bureau. Teresa Czerwińska, the Minister of Finance pointed out that *this is a worrying trend to create a budget in the Union budget*. However, you will be able to relate to it, she added, if we learn more details. On the other hand Jerzy Kwieciński the Minister of Investments said that such ideas have been appearing for many months. In his opinion, they are often the result of high ambitions of some politicians or some countries. He also reminded that the EU budget for all countries must accept. According to the deputy minister of foreign affairs Konrad Szymański, the prospect of creating some form of the eurozone budget *is dangerous first of all for the financial interests of the rich countries of the North (EU), which are under political pressure to limit such expenses today*. According to his predictions, French-German plans have been criticized by many countries of the eurozone in the government coalition in Germany.

At the moment the Ministry of Foreign Affairs has placed the hard security issues first. This is particularly visible in the light of latest consultation between Poland and the United Kingdom. As both sides agreed the UK and Poland are committed to meeting the NATO target of spending at least 2% of GDP on

defense, and 20% of that on major equipment capabilities and recognize that Euro-Atlantic integration remains an important driving force of reforms in Georgia and Ukraine. On the other hand, this might not leverage Poland position inside the European Union.

As mentioned by the government French-German proposal for the differentiating of the EU members should not be perceived as the threat to Polish position in the European Union. However, the question of leverages that will build Polish position in Europe remains unanswered. Close relations with the United Kingdom and the United States might be perceived as not adequate by the European partners, especially in the context of the growing tensions between Europe and Washington.