

POLICY MEMO

**Perspectives on a Potential Deepened Political Cooperation
between Poland, Romania and Hungary**

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Abstract

The present material aims at identifying and exploring the extent to which Warsaw, Bucharest and Budapest could cooperate more closely, taking into consideration the fact that Poland and Hungary are due to have the Presidency of the EU Council in 2011. From a methodological standpoint, the authors have looked at the existing institutionalized framework of relations, which gives an initial signal about the possibilities of having or not deepened political cooperation on major issues of common interest for Poland, Hungary and Romania. The main areas where the three countries might cooperate include the Common Agricultural Policy, the Cohesion policy, energy, missile shield defense, Danube Strategy and Eastern Partnership, provided they overcome a series of structural and strategy-related obstacles. While Poland emerges as the strongest country not only of the Visegrad group, but also of Central and Eastern Europe, and not the least determined to join Europe's big players, Romania has a lot of catching up to do in terms of economic strength and bargaining power within the EU and NATO.

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* The views expressed in this article are strictly personal and do not involve in any way their institutional affiliations.

1. How does this Potential Trilateral Fit into the Existing Institutional Formats?

Agnes NICOLESCU

Central and East European countries have shared the difficult experience of transition to democratic political systems, the absolute common priorities for them in the past two decades being the accession to EU and NATO membership. What made the difference among Central and Eastern European countries were the varying degrees in the processes of democratization and, later on, in building up market economies between V-4 member states and the other countries in the region. There are still consistent internal and external obstacles which hamper the actual cooperation process inside the group: from an internal perspective, strong domestic policy inconsistencies limit member states' possibilities of action at a national and regional level, which renders policy coordination on specific issues even more difficult to achieve. There are also strong external conditional factors which determine to a great extent the scale and direction of policy-making even inside the V-4 core: an example is provided by the strong orientation of the Polish foreign policy towards an active engagement in Europe's Eastern neighbourhood, which is not equally shared by the others partners in the V-4 group, but represents a common interest with Romania.

A Romanian trilateral cooperation with Hungary and Poland is quite difficult and unlikely to be achieved to an equal extent with both partners. Bucharest's bilateral relations with each of the two countries are not yet developed to their full potential. It is important to point out that Poland and Hungary have conducted traditional cooperation relations inside the Visegrad group for almost two decades. Member countries still face problems in finding a common response and approach to their concerns. Despite the fact that V - 4 member states still have to identify concrete cooperation venues, this forum has already gained a strong traditional character, which renders existing members more likely to engage in negotiations between themselves before proceeding to support their cause or positions inside the EU institutions. The benefits of this practice in terms of ensuring and cultivating mutual confidence are obvious. At the same time, the V- 4 group is very unlikely to actually expand, in order to take onboard weaker states from the region.

Shaping up a working framework of cooperation between Visegrad countries and Romania is a complex task, given the geopolitical context and the particularities of relations between Poland, Romania and Hungary. When searching for common topics of political collaboration in the area, policy makers should bear in mind the ultimate utilitarian purpose of an instrument aiming to secure more political weight for Central and Eastern European countries and, thus, facilitate a more coherent and efficient use of the opportunities offered by EU's membership.

2. Recent Developments with Impact on the Potential Polish-Romanian Hungarian trilateral: a Glimpse at Possible Future Divisions

When analyzing the potential of a political collaboration between Romania and Hungary, particular attention should be paid to the existing bilateral cooperation formats, including the joint Romanian-Hungarian government sessions. It is very likely that the Hungarian Presidency of the Council will focus on the Danube Strategy, a topic which also enjoys high attention from Romania. Another topic which poses increased interest for both Romanian and Hungarian decision-makers is energy in all its aspects.

From a Romanian perspective, a specific field where Bucharest can best work with Warsaw is the Eastern Partnership, given that the former has been noted as a constant supporter of this initiative. It is in the best interest of both states to see increased modernization in Ukraine, Moldova and Russia, as this should translate in time into increased economic relations between Central and Eastern European countries and Moscow. Apart from the regional focus on the Eastern Partnership dimension and the need to support further democratization of the EU's Eastern neighbourhood, as important as these aspects may be for both Romania and Poland, deepened cooperation is needed in order to ensure common positions on major issues such as energy security and the necessity to reassure Moscow that the missile defense system to be installed in Poland and Romania is not directed against Russia. At the same time, Polish diplomacy has managed to achieve a deepened political dialogue with Russia that other Eastern European countries can only aspire to, Romania included.

Another major obstacle is represented by contradictory positions of V4 and V4 Plus member states towards Russia. Moscow has already intensified its cooperation with major energy companies in France, Germany and Italy and continues to support the South Stream gas project. As a response, a tendency to oppose the Russian monopolistic approach towards gas distribution and transportation has already begun shaping up among Central and Eastern countries.

At the same time, recent developments - such as the Danube Strategy and common concerns over a more efficient use of the European structural funds by the new member states, as well as shared security interests - contain the basic premises for further cooperation in the region. These opportunities should be increasingly pursued over the next year, as two of the Visegrad states will hold the Presidency of the EU Council.

As reflected during a visit to Bucharest of Mikolaj Dowgielewicz, secretary of state for European Affairs in Poland, particular areas of interest for Romania and Poland concern the Common Agricultural Policy, the Cohesion Policy, and energy. The two states also share a common position on the need to maintain proper funding for the policies which are subscribed to the economic, social and territorial objectives. Both sides agreed on the advantages of maintaining the current structure of European funds' system. As regards the future of the Common Agriculture Policy after 2013, Bucharest and Warsaw agree that the reform needs to take into consideration the peculiarities of the new member states, and that its objectives must be regarded from the perspective of economic competitiveness and cohesion¹.

¹ Meeting with Mikolaj Dowgielewicz, Secretary of state for European Affairs in the Polish Ministry for Foreign Affairs, Department for European Affairs, <http://www.dae.gov.ro/articol/1158/intrevederea-cu-miko-aj-dowgielewicz-secretar-de-stat-pentru-afaceri-europene-in-cadrul-mae-polon>, last accessed on July 31st 2010.

3. Collective defense, Energy Security and Western Balkans - Still on the Minds of Central - Eastern Europeans

Taking into consideration the recent Memorandum signed by Germany and Russia, which sets the bases for a joint ministerial commission for security, Romania and Poland should join efforts in supporting a transparent security framework in the region, as the provisions of the Memorandum are particularly important for the EU's Neighbourhood Policy. With regard to the provisions of the Memorandum, it is essential that EU states work for a fair representation of all the parties involved in the Transnistrian crisis. In order to achieve this objective, more effort should be put into properly putting on the agenda the issue of the continued Russian military presence in Transnistria. This unsolved situation, a product of the failure to meet the international commitments of 1999 under the Treaty on Conventional Arms in Europe, remains a serious vulnerability for Europe's Eastern flank and the general security climate. At the same time, considering the fact that NATO and Russia have pledged at the Alliance's Lisbon summit in November to deepen their relations in sensitive areas, such as the missile defense sector, it is recommended that Romania pay increased attention to this commitment, so as to ensure a constructive approach throughout the entire implementation process, alongside Warsaw.

Poland has already significantly improved bilateral relations with Moscow, a fact which is likely to pay off in terms of political and economic relations in the medium and long run. An important indication of the improved relations between Warsaw and Moscow is the fact that Russian Foreign Affairs Minister Sergey Lavrov has participated in an annual reunion of Polish ambassadors. The Russia media remarked on a positive note the unique character of this visit, while saluting Warsaw's initiative². This significant shift in the Polish-Russian relations might pose challenges in terms of policy orientation and elaboration for Romanian decision-makers, including with regard to the approach towards the Eastern Partnership or even cooperation inside NATO on topics of common interest. In September 2010, Polish President Bronislaw Komorowski met separately with French and German leaders Nicolas Sarkozy and Angela Merkel, and called for a summit in Warsaw of the three "Weimar Triangle" countries. The visit to Paris and respectively Berlin came after President Komorowski's trip to Brussels, where, during talks with the European Commission's President Barroso, the Polish leader reasserted his country's support for ensuring that the next EU budget includes a continued commitment to the cohesion fund³.

Considering these aspects, Bucharest should refrain from any counterproductive statements or attitudes in its relations with Moscow, as well as from tackling issues related to any changes of territorial nature in the proximity of its borders. Such a discourse is likely to prove especially counterproductive in Romania's relations with both Russia and major allies in both NATO and the European Union, not to mention the fact that mending the implications of such an approach is costly in terms of time and diplomatic efforts. Contrary initiatives are not likely to yield positive results, as both NATO and EU seek to stimulate continued stability at their borders, and especially in their Eastern neighbourhood.

² "J.P., Goodbye High Drama", *The Economist*, September 4th 2010, http://www.economist.com/blogs/easternapproaches/2010/09/polish_foreign_policy, accessed on November 29th 2010.

³ Idem 2.

Many times, positions do not converge among original V4 Group members themselves, a fact that has direct impact upon actual political cooperation. Most of the countries inside the group are strongly dependent on the Russian gas and oil. Another direction in which the three countries might work together should be stronger lobby for European rules on mutual assistance in case of energy crises, in order to prevent interruptions of gas flows. The tendency inside the group, though not formalized, is to seek support or consultation with the other member states for specific objectives, while being ready to negotiate or show support to the partners in return. Romania's participation in this format thus depends on its ability to find enough substantial common subjects, on which a more lasting cooperation can be built up.

Specific subjects where Romania can work on alongside Hungary and Poland include the position towards the candidate countries in the Western Balkans and South Eastern Europe such as Croatia and Serbia, the latter being a neighbour of both Romania and Hungary. At the same time, it is important to see to what extent the three above mentioned countries achieve convergence on a series of significant topics such as the implications of these countries' accession to the EU, the situation of minorities in the region and the international status of Kosovo. Although all three countries support a thorough stabilization and integration of the Western Balkans in the Euro-Atlantic community, their positions contrast with regard to topical issues such as the status of Kosovo are quite divergent: Bucharest has repeatedly reiterated⁴ its rejection of Kosovo's statehood while Budapest and Poland have acknowledged this status for the above mentioned region. Bucharest's view of the matter is shared by Slovakia, another Visegrad state with strong minority presence on its territory.

One particular topic where Romania can closely work with Hungary is the European Strategy for Danube, especially on projects aiming to ensure the economic development of local communities lying on the riverside through increased capacity to attract and use existing EU funds. One of the most promising opportunities offered by the Danube Strategy - worth pursuing - is the trans-European VII – TEN – T transportation corridor, which aims to put to greater value Danube's role as a priority transportation route inside the European Union. At the same time, potential factors which could hamper deepened political cooperation between the countries bordering Danube – among which we mention the different degrees of development as well as contrasting visions and objectives - should not be overlooked.

⁴ Declarație cu privire la Avizul consultativ privind „Conformitatea cu dreptul internațional a declarației unilaterale de independență a instituțiilor provizorii de autoguvernare din Kosovo” al CIJ, <http://www.mae.ro/index.php?unde=doc&id=44519&idlnk=2&cat=4> , accessed on August 22nd 2010.

4. *An economic and financial overview of the region*

Gabriel SZEKELY

The economic dilemma of uncertain political will

The global financial crisis had a visibly different effect on the members of the Visegrad Group. Poland emerged as a champion of the entire European Union in terms of resiliency and strength, managing to circumvent almost all the negative effects of the crisis that ravaged not only Europe, but the entire world economy. While the rest of the EU was struggling with high unemployment, reduction of private consumption, massive budgets deficits (caused either by excessive spending and the implementation of governmental programs designed to support the banking sector and the economy) and economic stagnation or a downright plunge in the negative territory of growth, Poland was the only European country that avoided a decline of GDP, completely bypassing the continent-wide recession that crippled the EU.

Not the same can be said about the rest of the members of the Visegrad Group, that have all experienced a significant contraction of GDP in the most virulent period of the crisis (in 2009, GDP declined in Slovakia by 4.7%, in the Czech Republic by 4% and in Hungary by 6,1%), even though the future prospects look more promising (Slovakia is expected to experience a GDP growth of 3.4% in 2010 and 3.3% in 2011, the Czech Republic – 1% in 2010 and 2.2% in 2011, Hungary – stagnation in 2010, growth of 2.8% in 2011). The financial position of Hungary is less stable and the government in Budapest has had to call on the IMF and European Commission in order to secure a loan to ensure the strengthening of its own economy.

Out of the members of the group, Romania is the weakest in terms of economic solidity, and, after an abysmal economic performance in the third quarter of 2010, in which the GDP suffered a new contraction, most voices of economic clout and expertise envisage a rather bleak 2011. Alongside the poor economic conditions, Romania has to deal with tough austerity measures (wage reductions for public sector employees; raising the value-added tax by 5 percentage points), a pledge given to international financial institutions (like the International Monetary Fund and World Bank) and the European Commission, that will likely limit growth and, consequently, reduce the ability to project political clout on the foreign front. The worst case scenario for Romania would imply the benching of foreign political projects due to the difficult economic position, if those foreign political projects exist at all.

Taken as a whole, the Visegrad Group represents a powerful voice inside the EU structure, a power resented even by the dominant nations of the European bloc, France and Germany. In this context, the presence of Romania and Bulgaria inside what could be a very powerful lobby group would certainly strengthen the level of coordination of Central and Eastern European nations regarding policymaking inside the EU.

Recently, a new paradigm is shaping up, with potentially damaging effects to the European construct, regarding the real level of political cohesion of the European Union. Even though there are no formal declarations in that regard, there are subtle nuances of a growing rift between “*the core*” of the Union (France, Germany, eurozone in general) and “*the periphery*” (recent member states, non-euro zone states, Club Med states). Without any reference to political messages, it has become clear, from an economic standpoint, that at the moment there are two distinct Europes, governed, when talking about the eurozone, by the same set of monetary policies, dictated by the European Central Bank (ECB) which are totally misaligned to the

national interest. The exporting countries and the high-deficit countries cannot function with a similar set of monetary policies, due to their contradictory structure, yet, at the moment, they are still a part of a very ambitious European project, that, though shaken, could continue to develop, but not without serious reform and structural rethinking.

Advantages of a solid V4+2 Group

§ A better coordinated policy regarding the absorption of structural and cohesion funds with the aim of creating a strong eastern border of the Union and a counterweight to the western members. In this regard, the group could benefit from a united position in attracting expertise from foreign financial institutions, like the European Bank for Reconstruction and Development (EBRD) that could provide assistance for a better management and allocation of these funds, which are available still but largely untapped, especially by Romania and Bulgaria.

§ Besides Slovakia, that already is a member of the Euro zone, the V4+2 countries are interested in adopting the common European currency at a certain point in time, when the effects of the financial crisis fade and the convergence criteria are easier to meet. Given that the accession will most likely take place at different times, the main advantage of a close knit V4+2 group is the sharing of experience. Even though very remote, the possibility of a modification of the common currency structure would have consequences that might be better withstood as a strong bloc capable of serious lobby and negotiation, taking into consideration the subtle but not invisible divide being formed inside the Union, already mentioned above in the article.

§ The V4+2 could represent a strong lobby factor when the EU budget reform will be discussed, a special point being represented by the Common Agricultural Policy (CAP) that accounts for a significant part of the EU budget. These countries also share a structural similitude of the industrial sector, due to their communist past, which could also be a direction for the coordination efforts inside the group, whether by reform or adaptation to the new economic realities. One must take into consideration the fact that the financial crisis that is still plaguing the European bloc could make mandatory the drafting of a new set of accession rules, more stringent and with stricter monitoring (the case of Greece is a good example, which went from a lower than 3% of GDP budget deficit to a number close to 14% of GDP, way over the euro zone upper limit allowed through the Stability and growth pact) to prevent the weakening of the common currency space.

§ Lobbying inside the EU against protectionism is an important effort, especially for the developing nations in the Central and Eastern Europe, a common voice being, consequently, stronger, especially when dealing with the exporting powers of the Western Europe.

§ One of the most important directions of a common effort is the *energy policy*, especially in the context of trying to break away from the Russian energy exports clout and ensuring energy independence. A very significant development in this sense is the technological breakthroughs regarding the exploration of shale gas, a nonconventional source so far, but that could evolve into an alternative to conventionally/extracted natural gas. In this respect, Poland benefits from the discovery of a massive shale gas deposit that could cover the internal consumption for 50-100 years, and, according to different studies, shale gas deposits could be found in Hungarian soil as well. There are no data regarding shale gas deposits in Romania, but if such discoveries are made, in conjunction with others in the V 4+2 space, it could

redraw the map of energy transport, usage and exploitation on the European continent and significantly reduce the dependence on Russia.

§ Financial reform represents one of the most important issues discussed right now at EU level, subjects like the bank tax, stress tests conducted on the whole European banking system, capital requirements and executive pay being highly controversial and so far, difficult to agree upon at EU level. In this respect, and considering that the financial sectors of V 4+2 are significantly less developed than Western EU members, the Visegrad group plus Romania and Bulgaria could focus on a common policy that would ensure the creation of a proper and fair legal framework in this regard.

Even though the common interest is there, one of the most difficult things to ignore is the wide gap existing among the V4 states and Romania and Bulgaria in terms of economic development, fiscal strength and perhaps political will and coherence. The outlined projects are certainly not unfeasible, the difference being made, in the end, by the amount of political will and ability of the leadership.