LUPTA VALUTARĂ ÎN CALITATE DE PRACTICĂ A DESTRĂMĂRII ZONEI EURO: LOGICA GEO-ECONOMIEI ÎN LOCUL TEORIILOR EUROPENE INTEGRAȚIONISTE

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Deoarece destrămarea zonei euro a devenit o realitate şi teoriile de integrare europeană , astfel cum sunt definite în teoriile existente, eşuează în a oferi o speranță pentru salvarea integrității monetare a UE, logica geo-economiei este predominantă între statele europene. În special, aceasta înseamnă că zona euro a introdus lupta valutară față de valutele statelor membre ale UE care nu folosesc moneda euro. Argumentul este că a apărut o schimbare de paradigmă departe de solidaritate față de politica destul de limitată, fapt diferit de ceea ce a fost înțeleas de integrare europeană până în prezent.

Această lucrare prezintă o abordare geo-economică pe două niveluri pentru a analiza cum si de ce actuala destrămare a zonei euro-structurală şi politică, sunt rezolvate prin intermediul unor războaie valutare. La nivel teoretic, articolul susține că un astfel de comportament subminează sistematic statutul monedei euro ca monedă de încredere publică şi reformulează beneficiile economice şi importanța internațională a UE. Categoria empirică a lucrării arată că moneda euro este percepută ca un instrument de diferențiere ce împiedică ritmul procesului de extindere reală a UE, care a început în 2004 . Eforturile din zona euro de a adopta structura sa instituțională şi de guvernare exclusivă în ciuda riscurilor potențiale implicate, oferă toate elementele ale aceastei demonstrații.

Concluzia duce la teza că trebuie să ne gândim mai mult despre geo-economie, acest exemplu specific fiind războaie valutare, pentru a discerne dacă această paradigmă de IPE a devenit fie un obstacol sau un vehicul al "jocului" integrării europene.

Cuvinte-cheie: Zona euro, război valutar, geo-economie, integrare europeană, IPE .

CURRENCY WARFARE AS PRACTICE OF THE EUROZONE'S *EFFILOCHEMENT*: THE LOGIC OF GEO–ECONOMY IN LIEU OF THE EUROPEAN INTEGRATION THEORIES

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Since the Eurozone's Effilochement has become a fact and European integration theories, as defined in existing theories, falls short of offering a hope for the salvation of EU's monetary integrity, the logic of geo-economy is prevailing among the European states. In particular, it means that the Eurozone has introduced currency warfare against the currencies of EU states that do not use the euro. The argument is that a paradigm shift away from solidarity towards quite narrow-minded policy has occurred; different from what has been understood by European integration thus far.

This paper outlines a two - level geo-economic approach to analyse how and why the current Eurozone's Effilochement - structural and political - are solved by means of currency wars. On a theoretical level, the paper argues that such behaviour systematically undermines the status of the euro as a currency of public trust and reframes the economic benefits and international importance of the EU. The empirical tier of the work shows that the euro is perceived as a differentiation tool to impede the tempo of the real enlargement process of the EU that began in 2004. The Eurozone's efforts to adopt its exclusive institutional and governance structure despite the potential risks involved, provide all the elements of this demonstration.

The conclusion leads to the thesis that we need to be think more about geo-economics, this specific example being currency wars, to discern whether this paradigm of IPE became either a hindrance or a vehicle of the European integration 'game'.

Key words: *Eurozone, currency warfare, geo-economy, European integration, IPE.*

JEL Classification: N14, O23, F30. F50

Introduction

Since the Eurozone's *Effilochement*[1] has become a fact and European integration, as defined in existing theories, falls short of offering a hope for the salvation of EU's monetary integrity, the logic of geo-economy is prevailing among the European states. In particular, it means that the Eurozone (EZ) has introduced currency warfare against the currencies of EU states that do not use the euro (nEZ).

The argument is that a paradigm shift away from solidarity towards quite narrow-minded policy has occurred; different from what has been understood by European integration thus far.

The EZ is going to be wider from the beginning of 2014 thanks to the membership of Latvia[2]. Paradoxically, the political success of Latvia becomes another failure of the EZ inasmuch as it has demonstrated that its members are unable to integrate any of the larger nEZ states.

[1] Effilochment, fr.: a process of tearing to shreds.
[2] "Commission Concludes that Latvia is Ready to Adopt Euro in 2014," (2013). Press Release, European Commission, Brussels, 5 June: 1-3.

There is overwhelming evidence that a new model of integration is being applied.

This paper outlines a two-level geo-economic approach (Haliżak 2012, Luttwak 1991) to analyse how and why Eurozone's current *effilochement*-structural and political-is solved by means of currency wars. On a theoretical level, the paper argues that such behaviour systematically undermines the status of the euro as a currency of public trust and alters the economic benefits and international importance of the EU. Its empirical tier demonstrates that the euro is perceived by the EZ and especially by Germany-its hegemon-as a differentiation tool to impede the tempo of real enlargement process of the EU that began in 2004.

I start with the notion of a currency war used as a geoeconomic instrument by states (Dunin-Wąsowicz 2012). The second part of the paper reviews how various stages of such recent wars were exercised by Germany against the Czech Republic, Hungary and Poland (CHP). In the third part I analyse Eurozone's efforts to adopt its exclusive institutional and governmental structure despite the potential risks involved. The paper concludes with some considerations on why we need to be thinking more about the paradigm of geo-economics, this specific example being currency wars, that contributes to the theory of the European integration 'game'.

1. The logic of geoeconomic currency wars – make it or break it?

How should we think about currency wars? The issue had its greatest currency in the political theory of the 1920s and 1930s (Lieu 1939, Keynes 1932, Einzing 1931, Krzyżanowski 1926). Since then the practice has been hardly considered by scholars. It emerged in the political sphere after over 80 years, when upheavals of the global financial crisis within the period of 2007-2012 hasted their revival (Ahamed 2011, Irwin 2011, Collignon 2010). A currency war entails states that, in defence of their wealth and power, are apt to use the logic of geoeconomy. It postulates, that solving world's contemporary dilemmas by means of warfare does not always become a zero–sum game (Luttwak 1990/1991: 18-21). Alternatively, by harnessing monetary policy instruments as military ones, hostile currency collisions *do* have a profound impact on distribution of power within the international arena (Gilpin, 1981). Consequently, such competition between states may and *does* trigger currency wars which damage both the principle and practice of cooperation within the world financial space, as well as, in the international monetary system (IMS), understood as the main structural component of this space (Dunin–Wąsowicz: 331-340).

(I) Hence, "currency wars" is a multidimensional notion, which comprises of three factors/levels indicating the aims (I) of such war, attributes (II) as well as their mechanisms (III):

(II) a hegemon of the world financial space has been deploying a strategy of a pre-emptive currency conflict, which is threatening to destabilize or remodel the world or regional financial spac

(III) a strategy is equal to a specifically stable monetary or exchange rate policy determining the conditions of attainability of the world currency, as well as, the arrangements of sudden changes within world capital flows. Thus, every country is able to continue only such monetary policy, which goals have to stay in line with the strategy provided by the hegemon;

(IV) a conflict is never announced, thus difficult to be qualified as activities which are continued within the framework of foreign monetary policy of the hegemon and directed against the strategic goals of *monetary-cum-exchange-rate* policy of other states.

All of the above factors/levels of the notion inform us that a currency war is in fact a conflict over principles of monetary policy, which mechanisms determine the world balance of payment (BoP). This balance had easily existed when states used bullion currency (Eichengreen 1996). On the other hand, the immanent feature of the fiat system is the creation of imbalances. In their consequence surpluses and deficits emerge on trade/current accounts in the world financial geoeconomic space.

One has to differentiate between two basic types of imbalances: scheduled and destabilising. Scheduled imbalance (I-S) arise as a result of a multilateral agreement in regards to the rules of stability of the international monetary system. Such was the Bretton Woods Agreement. It assumed that the surplus in trade or payment balance in the IMS was equal to the acceptance of hegemon's trade or current account deficit (Rodrik 1986). The dynamics of global finances can cause the imbalance of the second type that is signified by uncontrolled surpluses and deficits. This may constitute a fundamental imbalance (I-F)[1], which prevents effective state economic policies as well as - as noted in the 70s by Robert Koehane and Joseph Nye – contributes to the rise of tension in economic relations between states (Koehane & Nye 1973). The I-F generates a pressure to limit, change direction or accelerate capital flow in order to reconstruct a balance.

Indeed, the standard instruments of monetary and exchange rate policy used by the hegemon, within the framework of the international monetary system (IMS), in times of peace, function as a 'dyad of stability' (DS). It is established in order to create the I-S to keep sustaining economic cooperation based on certain rules agreed by the main actors of the world financial space.

These are its hegemon and states, which have relatively strong currencies and/or significantly take part in international trade and/or possess substantial political strength.

[1] It is worth to note, that Bretton Woods Agreement indicated the possiblity of the existance of a fundamental imbalance, however its definition was not provided; MD-W; comp: Eichengreen, B. (1996). *Globalizing Capital*, Princeton University: 96-100.

In general, the 'dyad of stability' supports the political system promoted by the hegemon. As soon as the hegemon modifies her attitudes about the political canon of relations within the international financial arena, it attempts to change DS into a 'dyad of *destability*' (DD). The latter one assumes an automatic conversion of the function of the hegemon's currency from a 'safe-haven' currency into one of a 'threat'. Conflict is withheld in the moment of conversion of I-F into I-S.

Such understood currency war, that should not be equated with transitory currency manipulations (Bergsten & Gagnon 2012), can be presented in the sequential game model. It is known in game theory as the Stackelberg's duopoly model (Sargent & Wallace 1981)[1]. According to its rules, the hegemon that instigates a currency war is winning this war, as long as, she is able to pressure states to macroeconomic adjustments in regards to mechanisms of monetary and exchange rate policy, imposed by her.

The assumed definition of a currency war enables identifying the main actors of a regional financial space and its currency regime. Thus it can be applied to the EU, where Germany acts as the hegemon (Blyth & Matthijs 2011, Bulmer & Paterson 2011, Laski & Podkaminer 2011). It is a hegemon of a special kind. It is obliged by EU treaties to observe the rule of common European good with regard to the economic relations within the EMU. In particular, it is assumed that every member of the monetary union is to comply with the provision of art. 121.1 of the Lisbon treaty which says that economic policy, including the policy of exchange rates, becomes the common concern in the EU[2]. However, it is found that in practice of European monetary integration Germany used to act in concert with the logic of geoeconomy. In pursuit of its economic power, she strongly but indirectly affects EMU members *via* its own specific macroeconomic policy[3] and/or European institutions used by her as geoeconomic instruments. It, thus, created a number of bilateral 'dyads of *destability*' within EMU in order to secure its strategic political aims. Since 2007, the crisis in the Eurozone resulted in the eruption of such DD in a form of currency wars, during which Germany strongly executed its status of a hegemon (Ahamed 2011, Grauwe de 2009). From then on, the trust in the euro as a common European currency weakened significantly amongst Europeans. Overall, during the period September 2007-September 2013 it dropped by 12 percent from 63 percent to 51 percent (Eurobarometer 2013).

2. Hidden European currency wars: Germany v. nEZ

Can currency wars fulminate against the nEZ as it had happened in the Eurozone? Can they undermine the perception of the euro? My answer to these questions is: 'yes'. Moreover Germany has to be named as the center of incitig these difficulties. First of all, the course of monetary policy actions of more than a decade demonstrates that Germany's adherence to the geo-economics paradigm is capable of catalysing a political condition in which a currency war is perceived as a regulating or stabilising mechanism between the EZ and the nEZ. The debt crisis in the Eurozone made this perception more salient. However, since a currency war is a long-lasting phenomenon, the starting point of which is hard to determine, for the sake for the analysis this one is identified as beginning in the year 1999. At that time the euro was introduced and Germany started to act as the hegemon of the EMU by breaching its legal basis[4]. It thus decided to implement a long-term internal deflation strategy that resulted in rapid German exports increase alongside lower labour costs. Such strategy coincided with a specifically stable monetary and exchange rate policy which influenced the policy of the states—especially neighbouring ones (Becker & Jäger 2011), as explained in part 1. Indeed, as the hegemon crystallised, the other main actors became the three larger states of nEZ that joined EU in 2004 (as members of EMU with derogation). What meant that they had to fulfil certain rules in order to be let in by EZ countries, especially by Germany, and become members of the EZ. These countries are the Czech Republic, Hungary and Poland (CHP). In reality, all of them are ready to adopt the euro. Each of CHP has carried policies determining their real convergence with the EZ. However, due to Germany's specifically stable macroeconomic policies, all of them have experienced tensions between the national currency and the euro within the process of convergence.

It is hence indispensable to answer three questions. First, in what way do the mechanisms of monetary and exchange rate policy utilised by the hegemon of the European geoeconomic space determine these tensions? Second, how are these tensions an element of the intra-European *Theatre of Currency War Operations* (TCWO)? And third, whether and how they imply changes to considering the status of the euro as a currency of public trust and international importance of the EU?

[1] see also Collignon, S. (2003). "Is Europe Going Far Enough? Reflections on the Stability and Growth Pact, the Lisbon Strategy and the EU's Economic Governance," European Political Economy, Vol. 1, No 2:230.

[2] Art. 121.1 [ex art 99.3 EC] states that „Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council, in accordance with the provisions of Article 120", TUE, cons.version (2012). 6655/7/08 REV 7, Brussels, 12 November.

[3] Within EMU, real exchange rate adjustment can only be brought about through changes in domestic prices and wages; Mundell, R. (1961). „A Theory of Optimum Currency Areas, American Economic Review, September: 60.

[4] Compare the notion of the minimal hegemony. It is the situation when the hegemon is no longer strong enough to devise systematically policies capable of serving common interests; Cafruny, A., Ryner, M. (2006). „The EMU and the Transatlantic and Social Dimensions of the Crisis of the European Union," Central and East European International Studies Association 4th Annual Convention, Tartu: 3.

As answers are many-sided and cannot be limited to the portraiture of monetary policies used, in the next two subunits I trace the issue also within a wider political context.

2.1 Złoty vs. Euro

Suggestions to include the Polish currency into the European monetary regime first came about in the early 90s and coincided with the debate about the possibility of pegging the Złoty (PLN) to the Ecu. These deliberations were put to an end by the 1993 decision of the European Council in Copenhagen about the obligatory character of the EMU and the common European currency for the future member states of Central and East Europe (Temprano–Arroyo & Feldman 1998). However, scheduling the process of its introduction remained an open issue. The 1995 Madrid summit decision-that is three years before formal accession negotiations commenced-pointed that the "creation of an economically and monetarily stable environment"[1] is the only suitable way of carrying out a "gradual and harmonious integration of EU candidate countries", apparently it turned out to be an announcement of a long and complicated process. Nevertheless, a year later Poland attempted to pursue a one-sided euroisation option (Bratkowski & Rostowski 1999). These attempts were stopped by the EU, and during accession negotiations of 1998-2002 Poland received EMU membership status with derogation[2].

Beginning in 2003, that is before formal accession to the EU in 2004, first official warnings came from the EZ discouraging new member states-and so Poland as well-from adopting the euro fast[3]. They were motivated economically and related to the German assumption known as the coronation strategy that the convergence within the EMU should be the last stage of monetary integration (Maes 2002). The analyses claimed that premature membership in EZ could subject Poland – as country with GDP much below EU average – to massive shocks that could hamper its developmental and budgetary capabilities.

True, it was difficult to judge the power of such warnings during the preaccesion period. At least Poland's experience of intense economic cooperation with Germany of 1993-1998 was not explicitly negative. Polish exports to Germany increased in spite of accumulating a serious deficit in trade balance[4] (Tab. 1). At the same time, there was no unequivocal opinion nor analyses with regard to the functioning of the EMU understood as an optimum currency area (Eichengreen, Hagen, von, 1993).

Nobody could have supposed that Germany would be found amongst these countries which started to infringe systematically the provisions of the Maastricht treaty, as well as, the Stability and Growth Pact (SGP). Hence, the views predicting potential shocks were considered with certain ambivalence. On one hand, the need to adopt the euro as fast as possible, and motivated by a certain *raison d'etat,* was articulated. It was stated, following the European integration principle' reasoning, that maintaining the division within the EMU of states using different currencies has to be treated a counter-productive strategy because of undermining the common interest of EU and each state separately (Rybiński 2004).

On the other hand, some scholars and politicians shared the same anxiety as EU experts. Eventually, Poland from accession in May 2004 started to pursue the so-called "I'd like to, but I'm afraid of…" tactics in relation to the EZ membership. Even though the authorities attempted to fulfil the provisions of Treaty of Maastricht, they did not make serious efforts to obtain membership[5]. One of the examples of the above-mentioned policy attitudes was the statement from 15 October 2007, issued by Sławomir Skrzypek, the former president of the National Bank of Poland. It declared that Poland, apt to fulfil the criteria of convergence, would be ready to enter ERM II[6] at the beginning of 2009. In 2011, the Prime Minister, Donald Tusk, has declared that Poland is ready to enter euro zone in 2013. Currently, this kind of commitment relates to the year 2020 constituting quite a failure of Polish hopes to become a full member of the EU at the onset of the XXI century.

Examination of the PLN-EUR relations in reference to the theoretical approach towards the phenomenon of currency wars may supplement this political insight with new elements. Yet, on the verge of the planned introduction to the euro, Poland held a slight surplus trade balance (Tab. 1) with Germany mostly thanks to low labour costs (Chart 3). At the same time the economy performed well (Chart 6).

However, starting from 2006, the inflationary effects of catching up process as well as the attempts to increase wages have resulted in a growing trade deficit with Germany which followed the strategy of internal devaluation.

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[1] European Council (1995). Conclusions, Madrid, 15-16 December.

[2] Art. 122 [109k] TWE; Wojtaszek, E., Mik, C., opr. (2000). *Traktaty europejskie*, Kantor Wyd. Zakamycze. 149-150.

[3] The EC commissioner Pedro Solbes warned against premature attempts at EMU participation by saying that „countries (would) lose their exchange rate flexibility, while the process of structural change, cathing up and fiscal consolidation is not yet finished", He also stated that 2-years period of participation of new mamber-states in the ERM may be set on more restrictive conditions than bilateral band of 15 percent; Reuters, 23 May; in: Dunin-Wąsowicz, M. (2003). „L'union économique et monétaire dans les pays en voie d'accession – intérêts économiques et politiques", Reflets et Perspectives de la ve économique, Vol. XLII, No 3, DeBoeck Université, Brussels: 81.

[4] Schuller, B.-I. (2002). „The Trade Relations between Germany, Poland, the Czech Republic and Hungary during the 1990s," University of Skövde, April: 18-19.

[5] "Integracja Polski ze Strefą Euro: Uwarunkowania Członkostwa i Strategia Zarządzania Procesem" [Poland's Integration with the Euro Area: Conditions of Membership and the Strategy of the Management Proccess] (2005). Ministerstwo Finansów, August: 1-48.

[6] "Poland set to join ERM II in 2009, says Skrzypek"; Central Banking ((2007). 16 October: http://www.centralbanking.com/central-banking/news/1407130/poland-set-join-erm-ii-2009-skrzypek [Access: 20 October 2007].

The results of such policy have been fortified both by undermining the SGP and cheap imports from China which partially crowded out imports from Poland (Silgoner *et al*)[1]. These three factors particularly then were to sharpen the bilateral economic relations and along with the crisis of 2007. This is why Poland has abandoned the relatively low and steady interest rate policy, which in April 2006, provided the country with a title of one of the three countries with most stable prices in the EU. In consequence Polish currency weakened significantly, first in 2009 and later, also in 2011 (Chart 5)[2] when Germany, oppressed by recession, introduced the policy of limiting the outflow of capital. In general, starting from the beginning of the crisis until 2012, PLN-EUR exchange rate showed high changeability. This is why Poland, unlike states in the South, could enter the path of developing a surplus in its trade balance with Germany, however its overall balances were negative (Tab. 2).

In sum, German policy within the EMU based on the premises of geoeconomy, which inherently disregard the principle of common European good (relating to strive for relative advantage against other states), influenced badly Poland's path towards membership in the EZ. Thus, Poland, which soon after accession was heading for convergence, decided to drop the policy of strict compliance with the Maastricht criteria, not only in relation to monetary policy. This decision bore fruit and for a while guaranteed moderation of the influence the EZ crisis and the slump in Germany had on Polish economy. Nevertheless, the recession has endangered Poland at length. Following the policy of EBC, the authorities of the National Bank of Poland, were forced to implement policy of low interest rates[3]. This, in turn, has been triggering a jettison effect amongst people toward the euro. In 2002, 63 % of the Polish population was convinced that, one day, the euro should replace the Polish złoty. The current public opinion poll done by TNS Polska states that the only 11% of respondents are to understand the adoption of the euro as the good solution for Poland and its economy[4]. What is more, the present government sought it necessary to abandon the constitutional provision of abiding budget threshold of public debt at the level of 50% of GDP[5]. Besides, legal projects aimed to limit the independence of the National Bank of Poland are under the governmental consideration.

2.2 Koruna and Forint vs. Euro

In principle, in late 1990s the authorities and the elites of the Czech Republic and Hungary were much more sceptical about the idea of accepting the euro than the Polish[6] ones. The dominating opinion in both countries was that the EZ project was an exclusionary undertaking. Indeed, the EZ demanded from new members a more *sophisticated* approach towards convergence criteria in comparison to long-term EU members. Therefore the Czech Republic and Hungary decided to introduce the euro no sooner than in 2010. Current statements of such intent refer to the year 2020 or after.

How then were the policies of the koruna (CZK) and the forint (HUF) limited by the hegemon of the EMU? The experience of the Czech Republic from the pre-negotiation period (1993-1998) was ambiguous (Tab. 1). Its trade with Germany grew, although the trade of Germany with the Czech Republic grew much faster: by four times[7]. Moreover, the mode of relations CZK v. DEM mirrored the general developments in the Czech economy where the current account registered a high deficit, and financial flows on the capital account were huge (Smidkova 1998). In effect, koruna strengthened strongly by keeping on average a real appreciation at that time. Nevertheless, Czech Republic decided to apply the 'catching up' strategy thanks to developing its export with Germany (Tab. 2). Thus, next round of strong appreciations occurred, especially in the 2002, by more than 10% alongside marginally low trade balance with Germany. In the years 2002-2005, Czechs, again following Germany, have significantly lowered the unit labour cost (Chart 4). This is why, in the middle of 2005, the National Bank of the Czech Republic introduced historically low interest rates of 1.75%. After 2006, the Czech Republic officially resigned from accepting the euro in 2010. Once they abandoned the low interest rates strategy, the real exchange rates of koruna - euro started to grow, mainly via increase of trade with Germany. In 2009 however, the Czech Republic witnessed a severe recession, similar to what was happening in Germany.

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[1] Silgoner, M., Steiner, K., Wörz, J., Schitter, Ch. (2013). „Fishing in the Same Pool? Export Strengths and Competitivenes of China and CESEE in the EU-15 Market," Working Paper Series no 1559, EBC, June: 28-29.

[2] At the second part of 2011 ocurred a strong depreciation of the Polish złoty and then within the period of September-December 20011 the NBP interviened on the money market; Information Bulletin (2011). NBP, IB 4/2011; Shambaugh, J.C. (2013). „Rethinking Exchange Rate Arrangements after the Crisis," George Washington University and NBER, Washington, DC, April 16–17: 9.

[3] In March 2013 a reference rate is established at 2,5 percent and is is balanced by the deposit rate kept at 1 percent; NBP (2013). http://www.nbp.pl (Access: 29 March 2013).

[4] In 2002, 63% of the Polish people were convinced that, one day, the Euro should replace the Polish złoty. The current public opinion poll done by TNS Polska has said the the only 11% of respondents are to understand the adoption of the Euro as the good solution for Poland and its economy; PAP (2013). "Sondaż: 55 proc. Polaków uważa, że przyjęcie euro będzie czymś złym," Gazeta Wyborcza (daily), 25.06: 7; Dunin-Wąsowicz, M. (2003), "L'union économique…", op. cit.: 73–88.; Compare also European Central Bank (2013). "Annual Review of the International Role of the Euro," Frankfurt, July 2013: 29.

[5] By the end of July 2013 both chambers of the Polish Parliament Sejm accepted the governmental claim of loosing the fiscal discpline; PAP (2013). "Sejm za zawieszeniem pierwszego progu ostrożnościowego," Gazeta Wyborcza (daily), 26.07: 15.

[6] Dunin-Wąsowicz, M. (2007). "Sovereignty and Money in the Process of European Integration – From the Dual Perspective"; in: Piasecki, R. (ed.) (2007). *Transition of Central European Economies and Enterprises*, SWSPiZ, Łódź:117–136.

[7] Schuller, B.-J., (2002). "The Trade Relations…," op. cit.: 14.

Thus, after the first increase of interest rates, starting from 2010, they have been lowered again (Chart 5) and trade balance both with Germany and intra-EU grew. At the same time however, deficit on current accounts widened. It was the floating exchange rate of koruna, which became the main shock absorber for the Czech Republic's economy[1] and then the efforts to continue the 'catching up' process failed. Hence, the functioning of the EMU-especially viewed in the context of German attitudes toward principles of monetary and macroeconomic policies in the monetary union- have ensured Czechs that the euro is a project about narrow political and economic goals rather than about true European integration (Adam *et al.* 2012:11).

Similar conclusions can be drawn from the analysis of the forint-euro relation. A few years before the accession, Hungarian trade with Germany was expanding strongly - relative to total trade and GDP - and Hungary noted a slightly positive balance of trade (Tab 2). However, at that time there were real appreciations of the Hungarian forint and the German mark depreciated in real terms toward the forint[2]. After EU accession, the situation did not change much, although Hungary traded with Germany well. The Hungarian attempts to implement inner deflation by introducing an inflation targeting regime turned out to be a failure and the forint appreciated further along the strong inner deflation of Germany.

The political efforts to stabilise the Hungarian currency politically by proclaiming in 2008 year 2012 as time of attaining the level of readiness to enter the EZ were also a failure. Thus, in 2009 Hungary, followed Germany and run into a severe economic breakdown. Eventually, Hungary was plagued by low growth and high debt for much of the last decade. Moreover, Hungarian government has decided to implement a legal act, which put limits on the independence of the Hungarian National Bank. At the same time, some reforms dismantling the monitoring of public finances were introduced (Kopits 2011). Both changes have demonstrated strong anti-euro sentiment mirroring the fears that EMU has become a project which is going to blow out the EU and its status as an important political actor of the international arena (Kirchick 2013).

2.3 Specificity of the TCWO

The cases described point out the tensions occurring in the monetary and exchange rate policy in CHP in the context of German monetary policy. Indeed, from the CHP point of view, German exchange rate policy in years 1993-1998 was favourable towards trading, although it was directed at its inner devaluation, which supported Berlin's ambitions of fulfiling of the Maastricht criteria to join the monetary union.

Ergo, it was perceived as positive in terms of extending the EU. The accession negotiations (1998-2003) have not particularly changed the situation. Nevertheless, an expensive euro, used by Germany from 1999, as well as her specific internal macroeconomic policies imposed difficult process of appreciation of CHP national currencies. The period since the membership in the EU till the outbreak of the crisis exacerbated these problems and narrowed policy options or responses to external shocks that have previously buffeted Polish, Czech and Hungarian economies. Consequently, in years 2009-2012 all of these states were forced to modify their strategic goals and halt running policies which could bring them closer to the membership in the EZ.

In sum, currency wars executed according to geoeconomic interests, are not just about currency and economics, they are also very much about politics. One could say that in the case German v. CHP the period 1999-2012 of their trade relations was characterised by the existance of diverse DD which led to different types of imbalances either between these states or between the EZ and the nEZ. Clearly, to quote Robert Mundell, economic strength of the country with its own currency relies on this country only (Mundell 1961). Nevertheless, the external conditions in form of *monetary-cum-exchange-rate-policies* executed by the hegemon of a currency union may negatively modify its economic status. Not surprisingly, this has been the case of these three states that were in German's line of economic fire. Eventually, it revealed that the EMU can be perceived as a classical monetary alliance in which the actions of the states are determined by their economic strength rather then as an unique undertaking based on the endorsment of the principle of a European common good within the framework of the economic and monetary policies. The international role of the currency of such EMU may decline (ECB 2013).

3. The European integration theories: off the point?

Could the described course of events have become foreseeable by CHP in a preaccesion time? Possibly 'yes'. However, this could only have been though under the assumption that an enlarged Europe-and thus EMU-would exacerbate both political and economic conflicts amongst its members.

Indeed, at the end of the XX century the European debate was dominated by the vast body of analyses indicating that the three deficits-the democratic deficit of EMU, the deficit of an economic government and a political union or the deficit of common identity-would lead to major problems in the EU (Verdun 1998, Płowiec 1993, Sandholtz 1993).

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[1] Czech Republic-2013 Article IV Consultation Concluding Statement (2013). IMF, Washington, May 20: http://www.imf.org/external/np/ms/2013/052013.htm [Access: 5.06.2013].

[2] Schuller, B.-J., (2002). „The Trade Relations…," op. cit.: 13.

At the same time, research on European monetary integration focused on certain conditions upon which convergence could appear (Dyson 2002, Radaelli 2000, Moravcsik 1998). However negative monetary occurrences - denying the ideational influence of European integration – were not to necessarily taken into consideration by CHP. Their then generally positive attitudes toward the developments within the EMU were justified. From some expert reports came insights that a monetary union could become an exemplar of politics that follows the principle of a European common good (Collignon 2000, Milward 1992). The argument was that the provisions of the European treaties incorporated this principle in relation to the monetary and exchange rate policies. Hence, the Czech Republic, Hungary and Poland-strategically oriented towards joining the political space of Western Europe-had not voiced fundamental political controversies which would undermine German attitudes toward the principle upon which accession negotiations to the EU and thus to the EMU were based on.

Nevertheless, as shown by Luttwak and Gilpin, sudden disruption and economic malaise, or unique conditions such as financial hyperglobalization may jeopardise attitudes toward cooperation and unleash conflict that originates in differentiated distributional interests. In consequence, states strive to consolidate their economic power by aiming to expand their geoeconomic space in the international system by employing different types of warfare. In the case of the EMU, the course of integration has evolved into a process of disintegration caused by Germany's quest for the leadership within the European financial structures. There were two factors, which intensified the propensity of Germany to act with severity against other states. The first one is bound to the functioning of the EZ[1]. However, it was the crisis-the second factor-which affected further difficult German relations with other states within the framework of the EMU.

To consider the first issue, one must say, that in heyday of the euro the expertise with regard to the relations of the EZ v. nEZ was not developed enough. It was beyond discussion that nEZ had to stick firmly to the Maastricht criteria and thus there were almost no analyses, which questioned its economic or political rationale (Gros *et al.* 2002). The rejection of the Lithuanian membership into the EZ in 2006 based on the argument that the Lithuanian inflation exceeded the level accepted by the Commission as referential (2.66%) by 0.06%[2] was the evidence that thinking about the idea of integration was somewhat duobius (Baltaduonis & Jurgilas 2006).

In particular, the troublesome monetary politics of Germany toward CHP were perceived as an exception rather than the rule of divergence, which could not be applied toward the states of the EZ (Gros *et al* 2002:71).

In fact, there were a few experts who were seriously considering the argument that at least two criteria of the real convergence such as the criterion of the price stability as well as the exchange rate criterion should be reinterpreted (Pisani-Ferry *et al.* 2008). Consequently, within CHP has appeared an afterthought that monetary relations between states-even within the framework of one political bloc such as the EU-have to be subordinated to its competitive character.

The crisis-the second factor-has affected Germany's relations with CHP even further by applying an approach toward differentiation commonly known as the need for deeper integration within the EZ. Some of the provisions of the so-called Six-Pack are a specific evidence of the argument. Indeed, they are designed to improve economic governance in the EU. At the same time however, they sanction a differentiation between the EZ and n EZ by applying legal disctinctions with regard the economic policy objectives and goals to comply with (Six-Pack Regulations 2011). Signed on 2 March 2012 (by EU 25) the treaty on stability, coordination and management within the Economic and Monetary Union (so–called "fiscal compact", TSCM) becomes a subsequent example of such attitude**.** Indeed, 'fiscal compact' modifies governance within the EMU. It is however mainly addressed to the EZ states (Pisani-Ferry, Sapir & Wolff 2012). More, it does not revamp the fundamental faults of the EMU such as the lack of fiscal union or European bonds (Dunin-Wąsowicz ed. 2012). Consequently, the fiscal compact became a serious signal of the division between two parts of EU: with the euro and without the euro. Although the subsequent proposals for a radical change in the financial set-up of the euro area - such as a banking union - are going in accordance of the provisions of the Lisbon Treaty (Véron 2013, Davies 2012), they are in a breach with the idea of the European integration promoting the EU as the single political actor of the international arena. Guido Westerwelle's statement regarding the political deepening of the EZ has symbolically sealed this division (Westerwelle 2013), which is commonly disguised as the need to stick to the principle of different speeds.

Again, the process of applying by Germany the geoeconomic approach has been manifested within the framework of monetary and exchange rate policy towards accession countries in the first place. These signals have not been fully considered by politicians of the EZ[3] members (Popescu 2013, Hankel *et al* 2010).

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[1] At present, only three Eurozone states - Estonia, Luxembourg and Finland - meet the criteria of debt and deficit; ECB (2013).

[2] Baltaduonis R., Jurgilas M. (2006). "What Are the Economic Arguments Against Lithuania's Euro Bid?," Euroobserver/ Comment, 05.05. – 10:06 CET; http://www.sp.uconn.edu/~rib01002/ EUobserver.html.

[3] The Eurozone is not in essence an optimum currency area. The crisis did not cause Eurozone problems, but has merely highlighted them. Thus, the problem of the EZ is **NOT** its geograpghical size. The problem is the **LACK** of a proper fiscal coordination which intensifies the financial assymetric shocks; Hankel *et al* 2010.

Thus, the belief in desirability to establish the euro as the single currency in all states of the EU is associated with a sense of political seclusion amongst some nEZ members especially from CHP.

Conclusions: unpleasant politics and the unkind paradigm

This paper explored the nature of current process of Eurozone's *Effilochement via* currency wars. The first part developed an analytical tier that proposed the notion of a currency war. The suggested concept put forward by Dunin-Wąsowicz is built on the work of Gilpin, Luttwak and Haliżak, whose analyses in international relations sought to prove that interconnectedness and globalization are not supposed to limit conflicts, including ones in the financial space. Thus, states, instead of applying the logic of integration are likely to use the rationale of geoeconomy. It enables them to influence certain changes within the monetary space of international or regional monetary systems. This influence, expressed by currency wars, has been harnessing monetary policy instruments as if they were military ones.

The second part used that analytical proposal to demonstrate that a geo-economic approach is employed by Germany within the European monetary regime. The findings confirm that it has practised the geoeconomic approach in deploying currency wars against some states of the EMU.

Yet, this articles demonstrates how the Czech Republic, Hungary and Poland face an awkward treatment by Germany and this set in motion policies, which preclude them to come closer to real convergence with the EZ economy.

The paper revealed also a few issues with regards to the relations of the EZ v. the nEZ that till now have been overlooked. First, although currency wars within the EZ have been scrutinized, such monetary relations between the hegemon of the EZ and some nEZ states have not yet been adequately analysed. Second, these currency wars forced the Czech Republic, Hungary and Poland to back away from the political and economic strategies to adopt the euro in a predictable future. Third, the EU is unable to generate honest mechanism of EMU enlargement. Thus, the new thinking about the future of the euro as the common currency of the EU is needed. Suffice to note, at the moment of writing of this article, the situation between the EZ and the nEZ seems quite unclear: the crisis did not lead to the adoption by the EU of institutional and governance structure which would represent the interests of all states of the EMU. Just the opposite: the geoeconomic approach was launched and the exercise of inter-state solidarity became a political pretence within the EU, and the Eurozone's *effilochement* is still progressing.

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Statistical Annex
Tables: 1-2
Charts: 1-6

Statistical Annex - Tables

Table 1

Balance of Trade* and Current Account of The Czech Rp., Hungary & Poland, 1995-1998 (mln USD)

Years	The Czech Republic				Hungary				Poland			
	BoT			CA	BoT			CA	BoT			CA
	DE	Total	% GDP	Total	DE	Total	% GDP	Total	DE	Total	% GDP	Total
1995	56,4	- 3 672,3	- 7,0	- 1 367,2	85,7	- 2 501	- 5,4	- 1 266	1 041,5	- 6 154,8	- 4,4	- 6 154,8
1996	- 372,9	- 5 900,8	- 10,1	- 4 310,0	- 13,74	- 3 057	- 6,5	- 1 408	- 765,4	- 7 287	- 5,0	- 3 264
1997	- 529,6	- 4 589,6	- 8,8	- 3 210,3	1 397,8	- 1 990	- 4,2	- 1 812	- 1 724	- 16 556,2	- 2,9	-16 556,2
1998	211,5	- 2 578,2	- 4,5	- 1 044,3	1 167,1	- 2 690	- 5,2	- 3 026	- 2 175	- 18 824,7	- 1,4	-18 824,7

Sources: CNB, MNB, NBP, various volumes.
****: excluding services***
DE: Germany

Table 2

Balance of Trade* and Current Accounts of The Czech Rp., Hungary & Poland,1999-2011 (mln €)

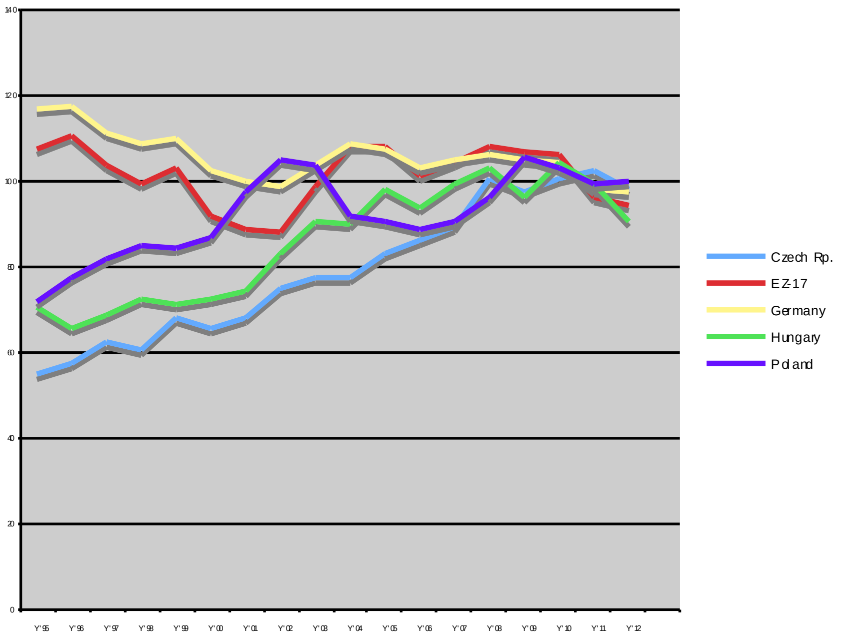
Y's	The Czech Republic					Hungary					Poland				
	BoT				CA	BoT				CA	BoT				CA
	DE	Intra '27	Total	% GDP	Total	DE	Intra '27	Total	% GDP	Total	DE	Intra '27	Total	% GDP	Total
1999	1 337	-	- 1 933	- 3,6	- 992,7	1 425	-	-2 044	- 2,6	- 3 531	- 6 267,1	-	-14 146	- 9,1	- 11 719
2000	1 488	-	- 3 600	- 6,2	- 2 567,5	2 258	-	-3 180	- 8,4	- 4 352	- 600,6	-	-13 327	- 7,7	- 11 181
2001	653	1 959	- 3 491	- 5.5	- 2 961,9	2 745	3 719	-2 496	- 5,9	- 3 577	394	- 6 413	- 8 557	- 4,6	- 6 641
2002	857	3 703	- 2 416,4	- 2,9	- 3 939,6	3 265	4 891	-2 203	- 4,8	- 4 929	- 150	- 5 461	- 7 701	- 4,0	- 5 924
2003	1 152	4 930	- 2 179,1	- 2,7	- 4 937,1	2 581	4 807	-2 898	- 5,5	- 6 382	627	- 3 078	- 5 077	- 2,4	- 4 878
2004	101	3 171	- 699,7	- 0,5	- 4 490,3	898	3 768	-2 446	- 4,3	- 7 136	- 2 084	- 5 854	-10 736	- 4,2	-10 736
2005	- 147	3 636	1 354,9	2,0	- 2 070,6	470	3 537	-1 460	- 3,2	- 6 091	3 935	- 5 019	- 5 856	- 1,9	- 5 856
2006	- 17	5 051	2 401,2	2,0	- 3 561,4	669	3 707	- 417	- 2,6	- 5 197	- 5 394	- 4 158	-10 425	- 3,0	-10 425
2007	12	7 164	4 227,8	3,4	- 3 221,7	1 050	6 518	1 370	- 0,1	- 6 602	- 8 636	- 7 953	-19 245	- 4,5	-19 245
2008	1 264	10 508	4 147,7	2,8	- 4 610,5	750	7 151	- 565	- 0,2	- 7 774	-11 530	11 828	-23 799	- 5,8	-23 799
2009	3 237	9 854	6 832	5,0	- 9 455,4	1 357	8 583	3 371	0,4	332	- 4 532	166	-12 152	- 2,8	-12 152
2010	4 217	12 712	7 916,9	5,4	- 4 142,2	2 078	10 581	3 215	5,6	1 065	- 6 286	250	-18 129	- 3,8	-18 129
2011	13 383	15 700	5 009,9	5,8	- 3 305,7	4 692	10 100	3 393	7,0	808	9 886,5	1 200	-17 977	- 3,4	-17 977

Sources: CNB, Eurostat, MNB, NBP - various volumes.
****: excluding services***
DE: Germany

Statistical Annex – Charts

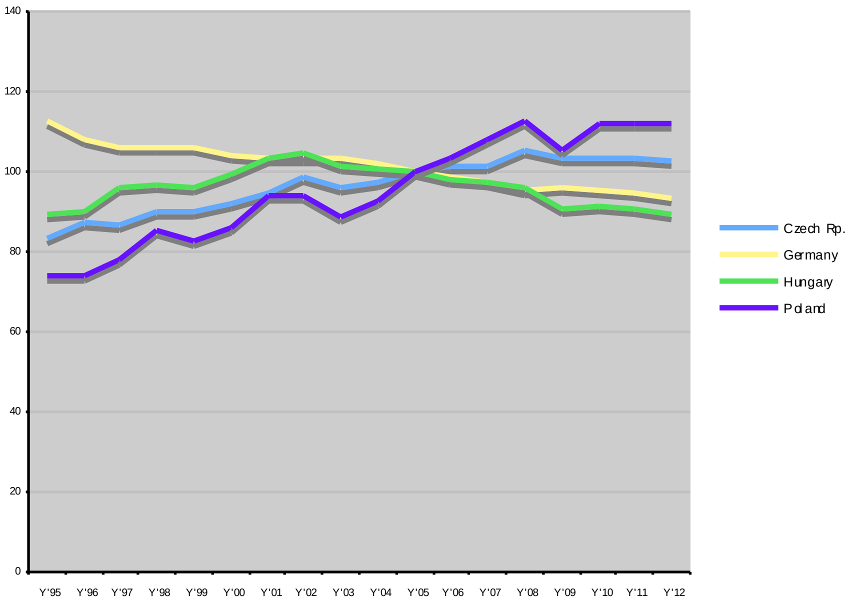
Chart 1

REER - CPI based index (1995-2012)



source: Ameco

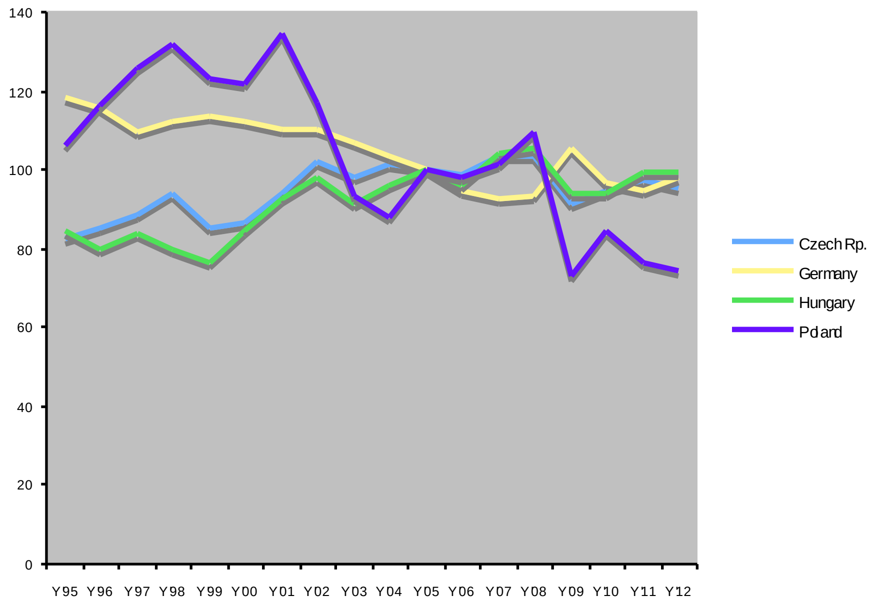
Chart. 2 REER – Export Index* (1995-2012)



Source: Ameco; **** - export of trade and services***

Chart 3

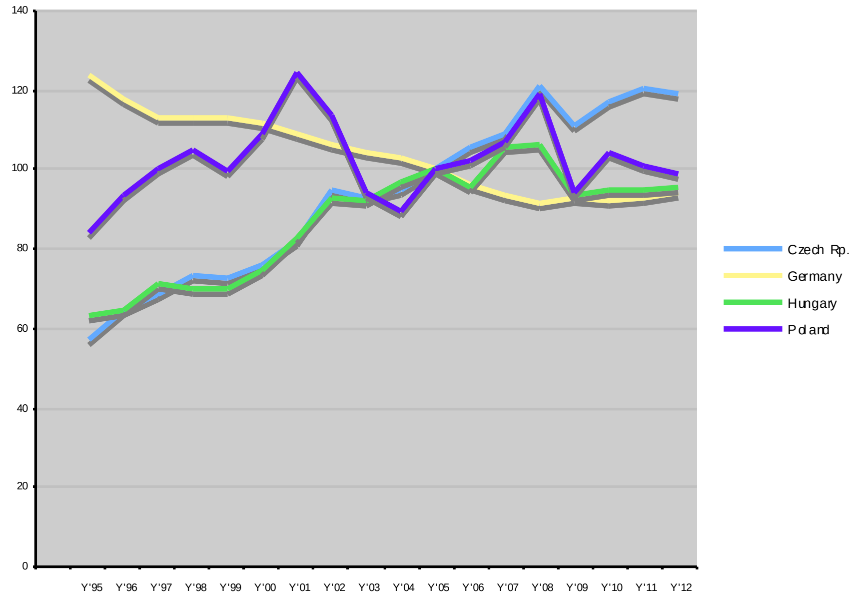
REER - Wage Costs Index (1995-2012)



Source: Ameco

Chart 4

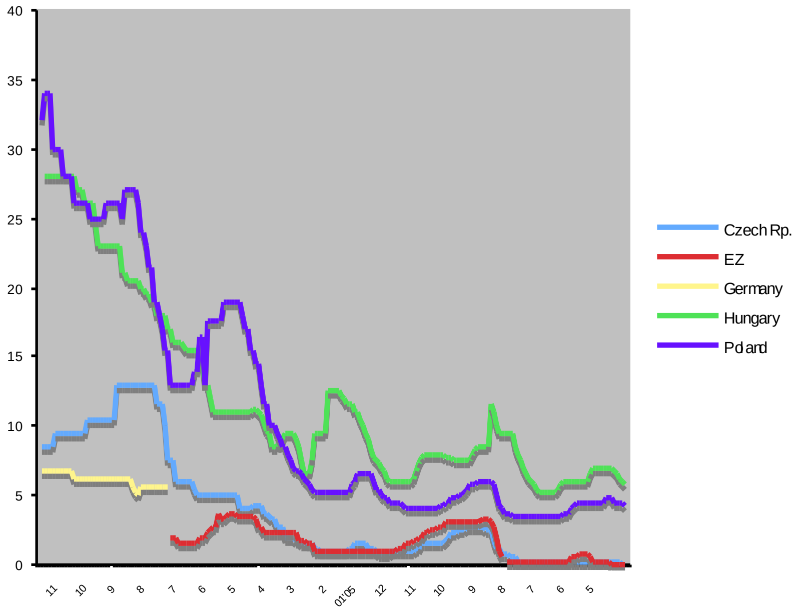
REER - unit labour costs index (1995-2012)



Source: Ameco

Chart 5

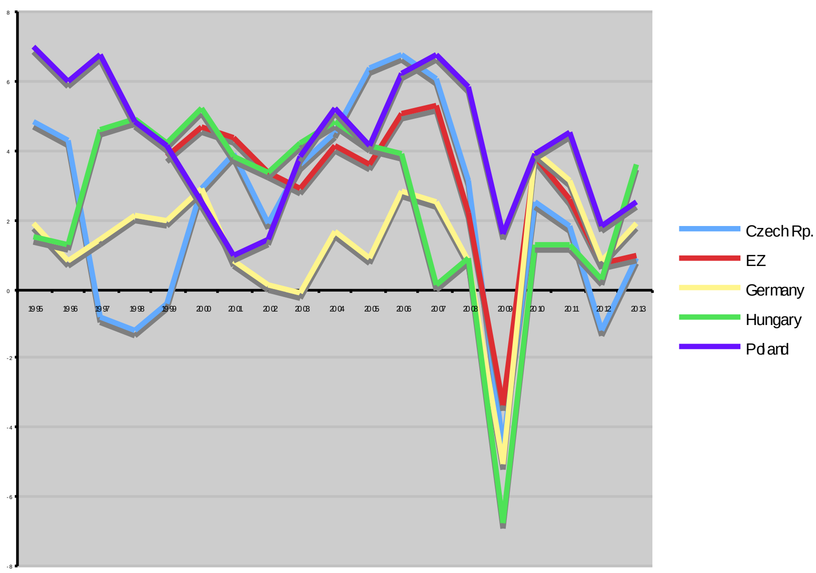
Policy Interest Rates: Czech Rp., Hungary, Germany* & EA (1995-2012)**



Sources: CNB, NBH, ECB, BB, NBP
** - data till the end of 1998*
*** - data from the January 1999*
rates of EZ - as set up by ECB in period '99-2012

Chart 6

GDP in the Czech Rp. Hungary, Poland, Germany and EZ-12, 1995-2012 (2013f)



Source: Eurostat, IMF.

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