



WiseEuropa



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Germany, Poland and the future of transatlantic community

Even if not ideal, the international system centered around the transatlantic community has been the best available for Poland and Germany. Its destruction would certainly increase unpredictability of the world order and hinder economic development of both countries alike.

Adam Balcer, Krzysztof Blusz, Evita Schmiege



FOREIGN POLICY AND INTERNATIONAL AFFAIRS

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Main theses

- Despite the trend of rising multi-polarity the transatlantic community of the EU and the US remains a key economic and political alliance on the globe. Nevertheless, Donald Trump's ascent as the US President changed the nature of relations between the EU and the US as will the exit of the UK from the European Union. For the first time since World War II, Trump has emerged as an American leader who questioned benefits of European integration. What is worse, some of his statements have been noticeably and openly anti-European.
- After the EU membership referendum in the UK and anticipated Brexit, a relationship between Germany and the US, in economic terms, will become the backbone of the transatlantic community due to Germany's share in economic exchange (FDI, trade in goods and services) between the US and the EU. At the same time, bilateral Polish-US economic relations have been below their potential but Poland's economy has been strongly integrated with Germany through the global value chains. By default, Poland benefits from European trade with the US, although mostly intermediated by its Western neighbor.
- Given President Trump's rhetoric and actions on trade, there still has been a risk of a trade spat between Germany/EU and the US if not a fully-fledged trade-war. It has been not only the US but also international institutions and EU trade partners that have criticized German trade surplus for a long time. Germany, in turn, repeatedly pointed out at its competitiveness and the need for the trade partners to increase theirs. With time passing, the German position regarding the country's trade surplus has become more flexible. A discussion has been ongoing about the need to step up internal German consumption and investments that could contribute to a decrease in its trade surplus.
- Poland, because of its frontier location within NATO and the EU, defines its key national interests in its relations with the US mainly in security terms. Since Russia is seen as a rising threat due to its neo-imperial policies, Polish approach and plea remains perfectly legitimate as the US remains the only reliable security provider for the country. It is critical for Poland that relations with and within NATO remain strong. This requires, however, to reconcile competing claims of President Trump of a radical increase in military spending by the European allies as a precondition to the survival of the Alliance, with those of Germany, that wants to balance military spending with other security related expenses.
- Substantial ideological differences exist between the Polish ruling elite and the Trump administration on the one side, and the mainstream of the German political elite on the other. The current Polish government of Law and Justice (PiS) positions itself as an ideological adherent of President Trump. It tries to use this ideological affiliation to leverage its ties with the US. On the other hand, the same ideological propensities of President Trump that proved so alluring for the Polish conservatives, have seriously dented America's image within the German society and, to a lesser degree, among its political elite.



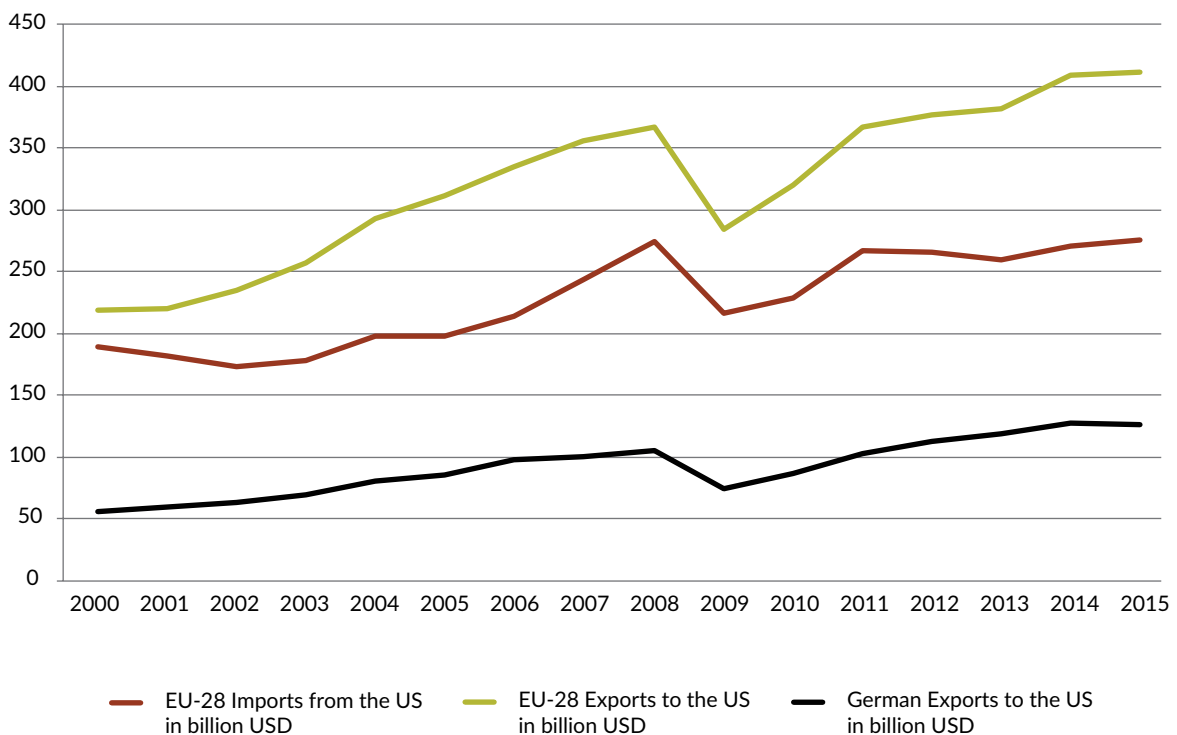
- The Polish government has been vehemently pursuing domestic policies that aim at dismantling both, the rule of law and the 'checks-and-balances'. These actions have put the country on a collision course with the EU. In consequence, Polish-German bilateral relations have also seriously deteriorated in recent months. Amongst many irritants, the Polish government has been unwilling to accept the *de facto* German leadership in the EU and its own position as Germany's junior partner. In response to the rising tensions between Poland and both, the EU and Germany, the Law and Justice (PiS) government has been seeking the US-Polish relation to function as a potential "shield" against the criticism of Berlin and Brussels. The government would willingly see Poland replacing the UK as a key political ally of the US in the EU. This, however, would still need to be a different alliance to that with London as Warsaw does not match the UK's potential nor the quality of its ties with the US.
- The Polish government has been skeptical about the long-term benefits of Poland's inclusion in the German-Polish economic value chains. To the extend, they see those value chains as a potential barrier for Poland, unhelpful in overcoming a so called "medium income trap" and as leading to a quasi-colonial, peripheral dependency that restricts the country's sovereignty. The Polish government does not share the view that long-term modernization and convergence of Poland with the most advanced economies of the West will largely need to draw on solidified Polish-German economic ties, Poland's accession to the Eurozone and, only subsequently, on increasing economic cooperation with non-European countries including the US. In consequence, the idea of a possible decoupling of the Polish economy from Germany and, more widely from the Eurozone, expressed by prominent political figures within the ruling elite may prove a dangerous self-fulfilling prophecy that ultimately undermines Polish economic development.

Economy

Evita Schmieg

The European Union and the United States of America together represent a key part of the world economy. They account for 46%¹ of the world Gross Domestic Product (GDP nominal), for 27% of global exports and 31% of global imports; together they still make up 59% of outward stock and 52% of inward stock of the global Foreign Direct Investment (2016).² In the course of globalization, trade and investment ties between the two regions became ever closer. European imports of goods and services from the United States increased from almost 300 bn. USD in 2000, by more than a half, to above 500 bn. USD in 2016. At the same time, European exports to the US almost doubled from 306 bn. in 2000 to 596 bn. in 2016³, thereby contributing to an increasing US trade deficit towards the EU. It stems from trade in goods – with a deficit of almost 150 bn. USD. In trade in services, the US traditionally disposes of a surplus (55 bn. in 2016).⁴

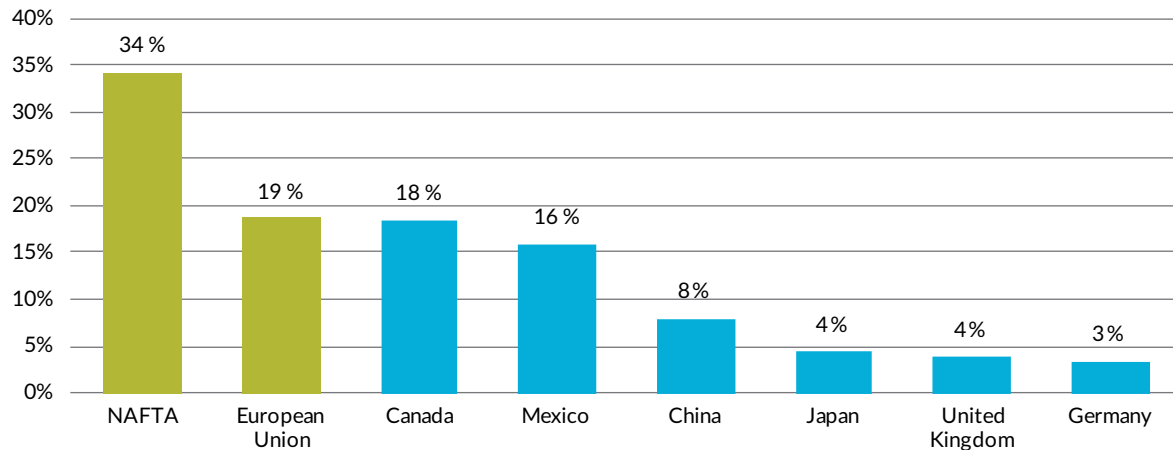
Chart 1: EU – US Imports and Exports of Goods, value in bn. US\$



- 1 UNCTADstat
- 2 UNCTAD, Trade and Investment Report 2017.
- 3 US Bureau of Economic Analysis (BEA).
- 4 US Bureau of Economic Analysis (BEA).

Transatlantic trade is of utmost importance for both regions. Behind the North American Free Trade Area (NAFTA) with a share of around 30%, the EU (around 20%) occupies the second place in the US trade volume of goods. In case of the US trade of services which was worth almost 1,2 bn of USD in 2016, the EU accounted for almost 40 percent.

Chart 2: Relative importance of US goods export markets, in percentages.



Data source: UNCTADstat, 2016 data, own calculations.

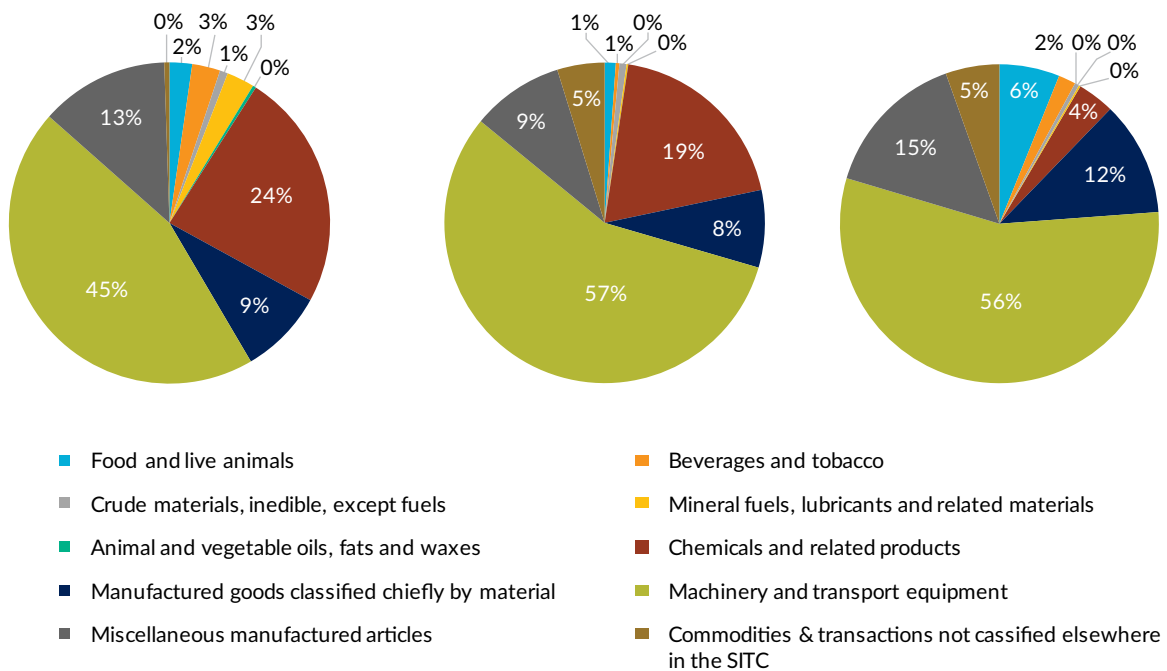
Within the European Union, Germany is the most important economic partner for the US, directly after Great Britain. It is the sixth largest export market for the United States (3% of US-exports, cf. chart 2) after the UK. However, it is not among the major holders of US outward DI stocks, a position that is held by the Netherlands with more than 850 bn. USD (almost 30%), followed by the UK with almost 600 bn. USD, Canada, Ireland and Australia (2015). With under 2% Germany does not play an important role as a US FDI destination.⁵ The investment balance heavily favours the US with US investment in Germany at a total of 108 bn USD (2015), less than half the size of Germany's 256 bn USD investment in the US.⁶

The product structure of trade between the EU (including Poland and Germany) and the US reflects the trade between two heavily industrialised and specialised regions. Goods traded are to a large extent intermediate goods used as inputs in the global value chain and finished products (cf. chart 3). This is also the reason why the imposition of import tariffs as lively discussed within the Trump administration can easily backfire by leading to increased production costs within the US and thus rather impede competitiveness instead of keeping out unwanted European competition. Machinery and transport equipment make up 45% of EU exports to the US, chemicals and related products another around 25%. The same argument is true for German as well as Polish exports to the United States.

5 Daniel S. Hamilton, Joseph P. Quinland, *The Transatlantic Economy 2017*, Washington 2017, p. 4 and 41.

6 *Ibid.*, p. 83.

Chart 3: EU, German and Polish exports to the US in Euro – Share of product groups in percentages



Data source: EuroStat and US Census Bureau, 2016 data, own calculations.

The real backbone of the transatlantic economy is mutual investment, contributing largely to trade flows. As much as 60% of U.S. imports from the EU consisted of intra-firm trade in 2014.⁷ US foreign assets in the EU were equal to 15 trillion US-\$ (2014) and US and European affiliates form the major source of jobs created by FDI on each side of the Atlantic.⁸ The aggregate number of manufacturing jobs in Europe has increased over the past decades, however, a shift has been taking place towards low-cost locations like the Czech Republic, Poland and Hungary, at the expense of the UK, Germany and France.⁹

A case for a transatlantic free trade area

The project of the Transatlantic Trade and Investment Partnership (negotiations 2013-17) envisaged to further deepen trade and investment ties between EU and US by abolishing tariffs and non-tariff trade barriers. Geopolitically, TTIP was intended as strengthening transatlantic trade and values in an international trading environment where with the beginning of the century other regions were gaining strength and say as demonstrated by “the failure of the US and the EU to get the agreement of countries such as India, China and Brazil to complete the WTO Doha Round in 2008” which has been named as “the end of the US and EU dual hegemony in agricultural trade

7 Ibid., p. vi.

8 Ibid, p. 17.

9 Ibid, p. 16 and 88.

matters".¹⁰ For the US, the project of TTIP together with the Transpacific Partnership Agreement (TPP) was an issue of strengthening its own position as a trade and investment hub, especially since China did not form part of any of the negotiating blocks. The EU was interested in keeping its market position in the US especially against the background of closer US – Pacific ties. The withdrawal of the US from TPP after the election of President Trump significantly changed the geopolitical picture again. Although average tariffs on goods trade between the EU and the US are already quite low, in specific sectors very high tariffs remain, thus making an economic case for tariff negotiations within a bilateral agreement. The agricultural sector is still heavily protected with an average unweighted tariff of 4,7% in the US and 13,2% in the EU. Much higher tariff peaks are even existing for specific products, in the EU with tariffs above 50% and above 30% in dairy products and the sugar confectionary sector, or in the US above 55% on leather and footwear.¹¹

It is therefore not astonishing, that the Sustainability Impact Assessment (SIA) carried through by the European Commission to assess the possible economic outcomes of the Transatlantic Investment Partnership comes up with gains from tariff cuts: Under TTIP the increase in GDP levels would be 0,5%, every year after 2030, wages increase by 0,5% in the EU, in the US by 0,3% for high-skilled and 0,4% for low-skilled workers.¹² The largest production (and associated employment) gains would be realised in the EU in the sectors leather, textiles & clothing, motor vehicles (increase in exports and imports by 40,9 and 42,1%), beverages & tobacco, water transport, and insurance sectors. Losing out, on the other hand, would be the sectors electrical machinery, non-ferrous metals, iron and steel products, other meats, and fabricated metals. Within the European Union, all Member States were expected to gain, with the highest gains resulting for Ireland, Belgium, Lithuania and Austria, while Malta and Poland would gain the least. The explanation for these differences lies in the depth of economic integration, different sectoral strengths and the specific products traded. Predicted US gains and losses were a mirror picture. Whereas non-ferrous metals, other meats, other machinery, rice, and textiles sectors were supposed to be winning sectors, losses can appear in motor vehicles, beverages and tobacco, electrical machinery, iron and steel products, fabricated metals and insurance. However, according to the EC, the largest positive impact (76%) would come from regulatory co-operation, only 24% would stem from tariff reduction.

Public discussions around TTIP

Negotiations on TTIP came to a halt in 2016/17 for several reasons. Unprecedented resistance had been formulated against TTIP from the side of civil society on both sides of the Atlantic but especially heavy in Germany. The opposition to the agreement was founded in general fears and criticism of the globalization process, but crystallized around three main issues. One was the investor – state dispute settlement system, which was seen as giving too much say to large multinational companies. The EU and the US had long lived without investor state dispute settlement,

10 Timothy E Josling, Stefan Tangermann, *Transatlantic Food and Agricultural Trade Policy*, Cheltenham, UK, Northampton, MA, USA, 2015, p. xix.

11 *Ibid.*, p. 215.

12 European Commission, *SIA in support of the negotiations on a Transatlantic Trade and Investment Partnership (TTIP)*, Executive summary, prepared by Ecorys, March 2017.



but the US was interested in that instrument not least with regard to other European member states. The European Union during the CETA negotiations with Canada came up with a new approach to investment dispute settlement, improving the current system but ultimately aiming at a multilateral system.

The general feeling of not having enough control over globalization processes culminated in the reproach against the European Commission to be negotiating behind closed doors an agenda set mainly by private corporative interests. In fact, the European Trade Policy had never been a participatory process, but even less after the entering into force of the Lisbon Treaty, which gave more decision power on trade policy issues to the European Parliament. However, at this time, neither the European Parliament nor the member states government and parliaments were informed comprehensively and timely on actual negotiating texts. In the meantime, the European Commission reacted to the criticism and opened up several fora for participatory dialogue with civil society.

Including regulatory issues into the negotiations turned out to be another really contested area. NGOs and consumer protection groups on both sides of the Atlantic were suspicious that this would eventually lead to declining health and safety standards, with European consumers being as concerned on the health dangers of “chlorine chicken” as US consumers on those of raw milk cheese. Since the gains from diminishing restrictions in the regulatory area would be large, it would, however, absolutely make sense to include these into the negotiations. This does not mean that one, or the other, side gives up its standards. For instance, in the area of pharmaceuticals the industry pointed out that standards are not far from each other, the problem were the different procedures that companies have to run through twice. Harmonization of standards and procedures might be difficult to achieve, but mutual recognition would solve the problem for the private sector as well. The important thing, though, is to make sure that the process leading to such decisions is not undermining democratic procedures, that parliamentary decisions are not replaced by bureaucratic councils from both sides of the Atlantic which are additionally feared to be too open to private industry interests. However, theoretically it would absolutely be possible to keep these basic democratic systems in place and still negotiate on non-tariff measures (NTMs). Already now, that kind of exchange and negotiation between the EU and the US is already taking place.

Current tensions in the economic relationship between the EU and the US

Difficulties with regulatory issues during TTIP negotiations did not only refer to a heated public debate, but there are fundamental problems to come to common positions which are founded in different approaches to health and safety issues on both sides of the Atlantic. For instance, the dispute on the use of hormone in beef production has not really been completely solved. If tensions in the trade relations between the EU and the US are rising, there is still a great danger that this case will be opened up again. However, the main difference in approach does not lie in the often cited “precautionary principle”, which is stated to be applied in the EU, whereas the US would rely more on its legal system, since both the EU and the US use precaution in situations

where they believe that health risks are involved.¹³ Amongst others, there is a reluctance among the food regulators on each side of the Atlantic to change traditional methods of operation.

An issue currently hotly debated is the trade deficit in bilateral EU – US trade. Under president Trump, it is seen as hampering US growth and destroying jobs, which is causing tensions amongst others with the EU/Germany. From mid-2016 to mid-2017 the overall US goods and services deficit increased further by 10 % (almost 27 bn USD).¹⁴ In response, the US undertakes unilateral attempts to increase tariffs in reaction to perceived dumping or unfair subsidization, which are also causing tension. The Trump administration's approach against perceived dumping of goods in the US market led to investigations by the Department of Commerce in April 2017, aiming at imposing more than 20% tariffs on German Steel industries. The investigation was stalled after opposition from lawmakers and some industry groups as well as some senior Cabinet and White House officials.¹⁵ The G20 Summit in Hamburg July 2017 tried to avoid unilateral action by calling on the Global Forum on Steel Excess Capacity to develop policy measures to reduce steel overcapacity by November 2017. In any case, additional tariffs are already imposed on the exports of five German steel companies as part of Anti-Dumping action. The dispute is not yet resolved. Even higher tariffs (220%) are threatening to be imposed on the Canadian aircraft producer Bombardier, because of a claim of the American firm Boeing that Bombardier received unrightful subsidies. The Canadian producer is now threatened to be excluded from the US market, with repercussions on its production site in Northern Ireland, putting about 4.000 jobs at risk. It is, however, amazing that Boeing is apparently not producing this type of small passenger jets.¹⁶ The final decision on the imposition of tariffs foreseen for 2018 might be outpaced by the decision of Airbus to invest in Bombardier and additionally use its production site in the US.

The United States, however, perceives some European actions also as unilateral and aggressive. During the recent years the European Commission has sued US firms in a range of cases for unfair tax advantages or uncompetitive behaviour – most of these cases are not yet resolved: Luxemburg shall reclaim tax payments of 250 million euro from Amazon, Ireland shall reclaim 13 bn euro from Apple, Google shall pay a fine of 2,42 bn euro, Intel is asked to pay a fine of 1,06 bn euro, Facebook is fined (accepted by the firm) with 110 million euro because of misleading information with regard to the take-over of WhatsApp. In the US, these cases are largely seen as anti-American. Recently, however, also in the US discussions have intensified on social responsibility and the behaviour of large firms.

13 Timothy E. Josling, Stefan Tangermann, *Transatlantic Food and Agricultural Trade Policy*, Cheltenham, UK, Northampton, MA, USA, 2015, p. 204.

14 U.S. Census Bureau, <https://www.bea.gov/newsreleases/international/trade/2017/trad0617.htm> (08.10.2017).

15 Inside Washington Publishers, Steel Executives call for ‚urgent‘ action on 232 probe, blast G20 forum, 2017.

16 Frankfurter Allgemeine Zeitung, *Amerika erschreckt Kanada mit hohen Strafzöllen auf Flugzeuge; 220 Prozent Importzoll auf Maschinen für Bombardier*, 28.09.2017.



Economic triangle: Germany, Poland and the US after the Brexit

The Brexit will considerably change the scale of cooperation between the US and the EU. The United Kingdom is the fifth largest destination for US exports of goods (4% cf. chart 2) and there are close investment linkages between both countries with US FDI in the UK accounting for 22% of overall global U.S. foreign assets.¹⁷ The US foreign direct investment in the UK reached a record 593 bn. USD in 2015, and the UK's foreign direct investment in the US increased slightly to 484 bn USD.¹⁸ America's investment has – as that of other countries – especially in the financial services sector relied on the UK's "passporting", i.e. the possibility to access other European markets via the UK under the conditions of the European internal market. Since this state of affairs will change after Brexit, also the US firms already show interest in relocating to other financial centres in Europe. Frankfurt, Paris and Dublin are currently competing to attract these investments.

After Brexit, Germany will play a role of the key important economic partner for the US within the European Union. Germany occupies the first place as a European trade partner of the US and is the sixth largest export market for the United States (above 3% of the US exports, cf. chart 2) just behind the UK. However, Germany is not among the major holders of the US outward FDI stocks, a position that is kept by the Netherlands with almost 850 bn. US\$ (above 15%)¹⁹, followed by the UK. Germany does not play an important role with a mere 2%.²⁰ The investment balance heavily favours the US with US investment in Germany equal to almost 110 bn. US\$ (2015), namely slightly above 35 percent the size of Germany's investment in the US (above 255 billion USD in 2015).²¹ Germany is also one of the most important partners of the US in the trade of services. It accounts for more than 5 percent of the US turnover of such trade.

The US plays a decisively more important role in the German economy. While the EU as a whole even after Brexit imports more than half of German exports, the US is the most significant single export market for Germany with a share of 9%²² and a trade turnover above 7%.²³ The US as a single country occupies also the first place on the list of German partners in the trade of services. Its share in the German volume of such trade approaches 15 percent. In this trade, Germany achieves a small surplus with the US. America is also a key partner of Germany in the investment sector. According to the German statistical data, at the end of 2015 the US occupied the fourth place on the list of foreign investors in Germany (almost 10 percent of the entire FDI stocks).

17 *The Transatlantic ...*, p.v.

18 *Ibid.*, p. 93.

19 It should be underlined, that the US companies registered in the Netherlands often invest in other European countries.

20 Hamilton/Quinlan, *The Transatlantic Economy 2017*, Washington 2017, p. 4 and 41.

21 *Ibid.*, p. 83.

22 World Bank, country profile Germany.

23 Statistisches Bundesamt, Außenhandel Zusammenfassende Übersichten für den Außenhandel, September 2017.

https://www.destatis.de/DE/Publikationen/Thematisch/Aussenhandel/Gesamtentwicklung/ZusammenfassendeUebersichtenM2070100171094.pdf?__blob=publicationFile

Meanwhile, German companies investing abroad allocated almost 20 percent of the German direct investment stocks (the first place).

Germany experiences a huge surplus in the trade of goods with the US which is a source of criticism by Trump. The American export to Germany covers less than 45 percent of American imports from Germany. Indeed, there is some agreement between economists that trade deficits/surpluses are of concern if they are persistently very high. However, the US in the absolute numbers witnesses slightly bigger deficits with Japan and Mexico than with Germany. Moreover, the US trade deficit with China is almost six times bigger than with Germany. Anne Krueger, former IMF and World Bank top official, considers that the dollar's status as the world's reserve currency bears more responsibility for the current account deficit than any trade agreement and more relief than from any trade measures would come from incentives to consumers to save or to improve the US fiscal position, by cutting spending.²⁴ The trade surplus does not necessarily damage the importing country. Every bilateral trade surplus goes hand in hand with an inflow of capital which balances what is not earned by exports. This capital inflow to the US can be used for profitable investment and thus contribute to growth and jobs or can be used for keeping up high consumption levels.

Certainly Poland, because of its midsize economic potential, cannot play such a role in the US economy as Germany does. For instance, in 2017 (first half of the year) the German-US trade total turnover surpassed Poland's exchange with the US 16 times.²⁵ However, the importance of the US for Poland's economy is proportionally decisively smaller than it is for Germany. The US occupies the eight position in the Polish trade balance. Its share does not exceed 3 percent.²⁶ In the US trade turnover, Poland occupies the tenth place on the list of the EU trade partners (excluding the UK). In comparison to the size of the Polish economy, Poland's share in EU-US foreign trade is substantially below its percentage share in the EU GDP nominal. The nominal GDP of Belgium equals the Polish one but the Belgian-US trade volume is around four times larger than the trade between the US and Poland, which is to be explained by the different history of both countries. Moreover, the Polish-US trade increased on a substantially less dynamic pace in recent years than between Poland and Germany. The annual turnover of Polish-US trade raised by 30 percent between 2011 and 2017 (the comparison between the first halves).²⁷ Meanwhile, the volume of the Polish-German trade grew by 70 percent in the same period. The trade in services between Poland the US is very limited. The US FDI plays a rather limited role in the Polish economy. Moreover, the US FDI stocks in Poland decreased decisively in recent years. According to the National Bank of Poland, the US FDI stocks approached 9,5 billion euro in 2010 and accounted for almost 6 percent of total FDI stocks. Meanwhile, in 2016, the US FDI stocks decreased below

24 Shawn Donnan, *Donald Trump's war on trade deficit backfires*, Financial Times, 01.10.2017.

25 Footnote no. 23 and Central Statistical Office, Foreign trade turnover of goods in total and by countries in January - September 2017
file:///C:/Users/H/Downloads/foreign-trade-turnover-of-goods-in-total-and-by-countries-in-january-september-2017.pdf

26 According to the Polish statistical data, the US achieves a small surplus in the bilateral trade with Poland. However, a huge difference exists between the US and Polish statistical data regarding the bilateral trade. Such a gap does not occur in case of the German and the US statistical data. According to the US statistics, Poland achieves a substantial surplus in the trade with the US. The US export to Poland covers in 65 percent the Polish import.

27 Central Statistical Office, Prices, Trade, <http://stat.gov.pl/en/topics/prices-trade/>



4,5 billion USD and its share in the total FDI stocks dropped to 2.5 percent.²⁸ However, according to the US Department of Commerce, the US direct investment in Poland exceeds 11,5 bn. USD.²⁹

By comparison, the German FDI stocks in Poland increased in the same period by almost 50 percent and oscillates around 30 billion USD making the Polish economy one of the most attractive destinations in Europe for German investors.³⁰ The Polish companies do not treat the US as a key destination for their investment. At the end of 2016 the stocks of Polish direct investment in the US accounted for 3 percent of the Polish total investments abroad.³¹ On the other hand, the US plays an important role as a location for the Polish exchange foreign reserves. Poland holds 36 billion USD in the US treasury securities (around one third of its total foreign reserves). The Polish share in the US securities surpasses the level of Italy. It is just twofold smaller than the German one.³² Paradoxically, Poland has considerably well-developed economic relations with the US but through Germany within the framework of global value chains. Indeed, German companies investing in Poland and their Polish partners often serve as subcontractors of firms operating in Germany which export to the US. They are responsible for the boom in Polish-German trade. In fact, in recent years Poland's share in the German trade volume increased to 5 percent and may soon overcome Italy's. Unfortunately, the German-Polish economic system of "interconnected vessels" is often perceived by the Polish ruling elite as neocolonial exploitation and a blind alley for Poland. In their view, in order to guarantee Poland's modernisation, relations with Germany should be counterbalanced by an increase of economic cooperation with other economies, especially with the US. However, taking into consideration the scale of Polish-German economic ties, the idea of modernising Polish economy without Germany, or even against it, may undermine a further modernization of Poland.

Prospects for the future: trade war or partnership?

Trade is likely to continue to be a sticking point in the US-EU/German relations. The European Commission, in its report on the European trade strategy from September 2017 with regard to the US, underlines the latter's economic and political importance for the EU as its biggest export market and a key ally.³³ But it also adds that "convergence on a high level of ambition and on key global governance stances concerning trade rules as well as areas such as climate is a necessary

28 National Bank of Poland, Foreign Direct Investment in Poland, <http://www.nbp.pl/homen.aspx?f=en/publikacje/ziben/ziben.html>

29 US Department of Commerce, Bureau of Economic Analysis, International Economic Accounts, <https://www.bea.gov/international/>

30 National Bank of Poland, op. cit.

31 National Bank of Poland, Polish Direct Investment Abroad, <http://www.nbp.pl/homen.aspx?f=en/publikacje/piben/piben.html>

32 Department of the Treasury/Federal Reserve Board, Major Foreign Holders of Treasury Securities, 15 November 2017, <http://ticdata.treasury.gov/Publish/mfh.txt>

33 European Commission, Delivering a Progressive Trade Policy to Harness Globalisation, Report from the commission to the European Parliament, the council, the European Economic and Social Committee and the Committee of the Regions, Report on the Implementation of the Trade Policy Strategy Trade for All, COM(2017)491 final, 13.09.2017.

prerequisite for any agreement.³⁴ The latter expression can be read as demanding the US to stick to the basic principles of multilateralism and avoid unilateral protectionist moves as a basis for successful further negotiations.

The issue of Germany's surplus in the US-German trade will remain the issue to which Trump attaches a big importance. Given the strong German consensus on the key significance of free and open global trade, Germany is in a difficult position. On the one hand, it is expected not to refrain from criticising the United States on any protectionist attempt, on the other hand, the interest in open global trade exactly demands a complicated maneuvering in order to avoid a trade war. For this reason Berlin will continue to engage the Trump administration in pluri- or multilateral frameworks as the G7, G20 and the WTO formats. Negotiations on a transatlantic agreement – which would in any case need a new name – are unlikely to resurface. In fact, as a consequence of Brexit it may be unavoidable for the EU as well as Great Britain to enter into negotiations with the United States on the issue of tariff quotas. In bilateral agreements, import quotas (usually on agricultural and food products) determine how many tons of specific products can be exported at a reduced rate or tariff free. The envisaged Brexit from the European Union demands to divide these quotas between the EU on the one side and the UK on the other side. London and Brussels intended to simply split the existing quotas based on the amounts of food that Britain and the rest of the EU currently import under their joint membership. However, resistance to this idea is coming from trading partners, including Americans who together underlined that changes in the existing trade agreements can only happen with their consent. With regard to its own capacity to act, the European Union is now in a better position than during TTIP negotiations since EU procedures for trade negotiations have been clarified. After the tough experience with the Comprehensive Economic and Trade Agreement with Canada, the European Commission now decided to split up trade negotiations and agreements in two parts: the first one which is in the direct responsibility of the European Commission – which covers the largest part of trade – that would not need the consent of national parliaments. The second part would cover shared responsibilities like in the areas of investment dispute settlement or portfolio investments. The basic idea is to avoid lengthy procedures.

Overall, the United States with its fixation on diminishing its trade deficit as the main objective for its bilateral trade agreements is not an easy partner. The US is currently following an approach to negotiate tariffs on a strictly sectoral, if not product, level, as the statements of US Trade underline that the US has to demand reciprocity and it would be impossible that the US imposes a tariff on automobiles of 2,5%, others (the EU) of 10%.³⁵ Such an approach, however, makes negotiating success less likely. The fact that trade between the EU and the US is mostly based on intermediate goods used as inputs in the global value chain and end product is also the reason why the imposition of import tariffs as lively discussed within the Trump administration can easily backfire by leading to increased production costs within the US and thus rather impede competitiveness instead of keeping out unwanted European competition. It will be seen, how far it will be possible to bring more rationality in the debate between the US and the EU on NTMs and

34 *European Commission, Delivering a Progressive Trade Policy to Harness Globalisation, Report from the commission to the European Parliament, the council, the European Economic and Social Committee and the Committee of the Regions, Report on the Implementation of the Trade Policy Strategy Trade for All, COM(2017)491 final, 13.09.2017.*

35 *Martin Lanz, Trumps Mann tritt hart auf, Neue Zürcher Zeitung, 19.09.2017, S. 24.*



to include them in further agreements, or whether the assessment of the American expert Daniel Hamilton does apply “that the deep integration agenda reached its political limits.”³⁶

However, the fear of war trade between the US and the EU or Germany is real but should not be exaggerated. On both sides of the Atlantic, a range of politicians, experts and government officials are aware that the economic weight of trade and investment links between the EU and the US is very high. Therefore, they are working on political solutions in order to avoid a trade war with long term damage. It is indicative that in the summer of 2017 the Trump administration dropped plans to introduce a “border adjustment tax”.

36 Interview with Daniel Hamilton in Washington, 15.09.2017.

Values and norms

Adam Balcer, Krzysztof Blusz

Despite some irritants (as for example, a tapping scandal of 2015) Germany was an indispensable ally of the US under the Obama administration. It was not incidental that the former US president chose Berlin as the main venue for his farewell trip to Europe. He called Angela Merkel his “closest international partner” and defined this relationship as based on community of values (i.e. liberal democracy, rule of law and civic nationalism). Reciprocally, Obama was met with a warm welcome by the German public and the political elite.

In a similar fashion, since the collapse of communism Poland has established good and close relations with the US. It saw the US as a key-security provider and a source of inspiration for its own political and economic transition. More recently however, the domestic politics of Law and Justice (PiS), a populist-national party that has been governing Poland since autumn 2015, have caused a dent in otherwise well-functioning Polish-US relations. In July 2016, at the NATO Summit in Warsaw, President Obama chided publicly Poland’s leaders over actions that effectively hobbled the country’s Constitutional Court. He urged them to foster and sustain democratic values and institutions. That unprecedented public rebuke of a close ally took place at the press conference, attended by the Presidents of both countries and standing shoulder to shoulder in front of the cameras.

The Trump’s factor

Donald Trump’s victory in 2016 presidential elections prompted a substantial change in relationships between Poland and Germany on the one hand, and the US on the other. The Polish ruling elite reacted enthusiastically to Trump’s victory. They positioned themselves as his close ideological adherents, if not ideological “twin-brothers”. Beata Szydło, the Prime Minister of Poland, announced that “the results of American elections are part of a wider phenomenon on the global political stage. Some people call it a “good change”. The latter expression is a slogan coined by the Polish ruling elite to describe their domestic political agenda. In Szydło’s opinion “Trump’s campaign was just a replica of our own presidential campaign in 2015”. She concluded: “A certain era in world politics ends, namely an era when politics focused on the elite and dealt with issues of the elite” and proclaimed that “Democracy has won despite liberal propaganda.”³⁷ At that time, the Polish ruling elite shied away from controversies such as pro-Russian statements of Donald Trump or alleged ties between his inner circle and Russia and the likely Kremlin’s meddling in the electoral campaign. The Polish government’s amicable attitude towards the new US President and his administration was reconfirmed in July 2017

37 Szydło po wygranej Trumpa: „Niektórzy nazywają to dobrą zmianą”. I porównuje z kampanią Andrzeja Dudy, gazeta.pl, 14.11.2016.
<http://wiadomosci.gazeta.pl/wiadomosci/7,114881,20972116,szydlo-po-wygranej-trumpa-niektorzy-nazywaja-to-dobra-zmiana.html>



during Trump's visit to Poland. Warsaw was his first destination in Europe. Poland's Defense Minister, Antoni Macierewicz called Trump's visit "historic" and "a special and wonderful day for Poland and Europe". He applauded him as "a man whose visit will put an end to the experience of occupation (Nazi) and Soviet yoke" in Poland.³⁸ In Macierewicz's words, Trump saw Poland to be "a bulwark of European civilization" and "a heart and soul of Europe". Thus, his opinion that "Poland and the US together will defend the Western Christian civilization." The Polish government, Macierewicz added, was absolutely on the same page as Trump and both became the target of fierce attacks by "liberals, post-communists, lefties and genderists."³⁹ Indeed, in his speech in Warsaw Trump portrayed the West and international relations in general, in terms resembling the world view of Law and Justice (PiS). Trump, with his slogan "America First," sees the world mostly as an arena of rivalry where nations, like companies, compete with no mercy for their adversaries. Trump views the world affairs as a zero-sum game. It is a worldview that is based on a strong skepticism about the value of America's alliances, substantial doubts about the benefits of free trade, international agreements and organizations as well as a distinctive fascination with strong authoritarian rulers. His preferences to act at the international arena are rather anti-interventionist (at least, as long as it concerns internal affairs of other countries) but militaristic. In fact, a global military presence of the US is to be expanded. Trump's policy perspective seems to be closer to what in the US is called "Jacksonian" (after Andrew Jackson) and that combines preference for a strong military with a rejection of liberal and multilateral internationalism so characteristic for the "Wilsonian" tradition.

Both leaders, Trump and Kaczyński are convinced that the Western civilization is at risk of a decline, under a threat from "radical Islamic terrorism" and a "steady creep of government bureaucracy" as the US president asserted in Warsaw. Most importantly, they both think that at the core of the West are "the bonds of culture, faith, and tradition that make us who we are." PiS, like Trump, claims that it fights in the name of the sovereign will of the conservative nation (i.e. ordinary people) against cosmopolitan, liberal and "alienated" elites. These elites aim at transforming their societies into "a mixture of cultures and races, a world of cyclists and vegetarians, who only use renewable energy sources and combat all forms of religion"⁴⁰ as the Polish Foreign Minister Witold Waszczykowski remarked in an interview with the German tabloid *Bild* in January 2016. The meaning of "Making America Great Again" is not that different from Law and Justice's (PiS) premise of "Poland that's rising from her knees." However, in case of Law and Justice, there is a contradiction between its insistence on primacy of international law on the global stage and the party's admiration for Trump combined with rejection of "rule law" internally. Also, some of Trump's comments on abortion, gay rights and welfare state are difficult to be aligned with PiS's own ideology and they rarely get mentioned by the Law & Justice politicians. It is true that Trump and Kaczyński share national populist beliefs. Trump's actions however, are seriously constrained by a strong US judiciary, his miniscule control over the Republican Party and a vibrant civil society and the media. A dramatic drop of public support for his presidency does not help either.

38 *Trump wyzwoli Polskę spod sowieckiej okupacji. Szokujące słowa Macierewicza, Wirtualna Polska*, 26.06.2017, <https://wiadomosci.wp.pl/trump-wyzwoli-polske-spod-sowieckiej-okupacji-szokujace-slowa-macierewicza-6137370292938369a>

39 Michał Broniatowski, *Trump's Polish welcome party*, Politico, 04.07.2017 <https://www.politico.eu/article/donald-trump-poland-trip-kaczynski-eastern-dispatch/>

40 *Haben die Polen einen Vogel?*, Bild, 03.01.2016. <http://www.bild.de/politik/ausland/polen/hat-die-regierung-einen-vogel-44003034.bild.html>

At the same time, due to considerably weaker institutional set-up and a fragmented civil society Kaczyński operates in Poland under conditions that are far more favorable for national populism. He has used his electoral victories to introduce revolutionary changes in the political system of the country. According to Zselyke Csaky of the Freedom House *“The leadership in Warsaw has gone well beyond the antidemocratic playbook pioneered by Viktor Orbán’s Hungary, brazenly fracturing the rule of law.”*⁴¹

Merkel’s West

Trump’s visit to Europe in July 2017 clearly demonstrated that the German chancellor did not share the US President’s opinions on many of international issues of the day. She disagreed with Trump on what “the West” was as much as she would disagree with Kaczyński. Merkel believes in international cooperation that is mutually beneficial for all actors. She perceives international institutions as a linchpin to global governance. Her vision of foreign policy is based on willingness to participate in multilateral decision-making processes in a consensual way which, in turn, requires some restraint in unilateral pursuit of national interests. She supports provision of common goods and, finally, shares a conviction that the use of force should always be the last resort. Merkel believes that “Germany and America are bound by values – democracy, freedom, as well as respect for the rule of law and the dignity of the individual, regardless of their origin, skin color, creed, gender, sexual orientation, or political views”.⁴² She does not conceptualize the West – as Donald Trump does – in cultural, religious, historical or ethnic terms (i.e. nativism, common ethnic origins) but through a concept of a civic political community.

It should be underlined that the definition of national community is central for the rule of law and liberal democracy. It is not accidental that ethnic nationalism is particularly popular among national populists like Kaczyński or Trump. In the name of the sovereign’s will of (allegedly) monolithic nation the national populists undermine individual human rights and the rule of law, namely the EU fundamental values. By default, the domestic politics of Law and Justice had to provoke exceptional tensions between Poland and the EU institutions.⁴³ Since the beginning of the spat Germany has supported the European institutions, albeit for some time it opted for a silent restraint and avoided an open criticism of Warsaw. Lately, Berlin has become more assertive in expressing critical opinions towards its neighbor as the Polish government undertook an uncompromising course in its “dialogue” with the European Commission. It refused concessions, opted for a confrontational rhetoric and questioned legitimacy of the legal grounds the European Commission

41 Zselyke Csaky, *Poland’s Radical Break from Democratic Norms Leaves Hungary in the Dust*, Freedom House, 25.09.2017, <https://freedomhouse.org/blog/poland-s-radical-break-democratic-norms-leaves-hungary-dust>

42 Press statement by Federal Chancellor Angela Merkel on 9 November 2016 on the outcome of the US presidential election, The Federal Government, https://www.bundesregierung.de/Content/EN/Pressemitteilungen/BPA/2016/2016-11-09-statement-merkel-us-wahlen_en.html

43 The European Commission undertook the unprecedented decision to initiate the procedure to monitor the rule of law in Poland. This was based on the judgment of the prestigious Venice Commission consisting of a group of recognised legal authorities. It evaluated negatively the Polish government’s policy towards the Constitutional Court almost unanimously (132 for, with one Hungarian lawyer against).



had pursued its “rule of law” case against Poland. Such a course of events has resulted in the most serious deterioration of Polish-German relations since Poland’s accession to the EU.

Europe contested

The conflict between Poland and the European institutions clearly shows that PiS, despite the party’s declared support for the Polish membership in the EU, is not at ease with the functioning of the EU. It supports a reversal of the integration process including repatriations of powers from Brussels. As Zselyke Csaky rightly pointed out “PiS is essentially saying that it does not care about the rules of the game. This is a tremendous challenge to the EU and, in fact, to all democracies. If a member state can openly flout the legal and democratic norms on which the union is built, the EU cannot survive.”⁴⁴ At the same time, Donald Trump is the first American leader since World War II who does not firmly support European integration and some of his statements have been clearly anti-European. During the last electoral campaign and immediately after his victory, he embraced and courted anti-EU politicians (Nigel Farage, Marine Le Pen). He also described the British decision to leave the EU as “fantastic”. In one of the interviews he remarked that the European Union was bound for a break-up due to challenges of national identities and he nodded that the US was indifferent to its fate.⁴⁵ It is also indicative that during his visit to Poland, Trump praised the Polish administration and did not allude critically to its doubtful record of upholding the rule of law in the country. As a result, the visit was interpreted by the Polish government as an indirect endorsement of their reforms of the judiciary. The reforms gained a spectacular pace as soon as the Air Force One left the Polish air space. Yet, few weeks after the visit, the Secretary of State expressed twice his concerns regarding the “reforms” of judiciary in Poland.

Trump offered no special credit to European nations for having been long-standing US allies when he said in one of the interviews that he would trust Merkel and the Russian President Vladimir Putin alike. He was specifically critical of Germany: “you look at the European Union, and it’s Germany. Basically, a vehicle for Germany”. He added that Merkel had made a “very catastrophic mistake” by opening Europe’s doors to the asylum seekers.⁴⁶ Trump also long voiced his frustrations with Germany’s trade surplus with the US and insisted that German imports had damaged the US manufacturing industry. It cannot get unnoticed that Trump’s knowledge and understanding of the way the EU functions has been rather limited. In March 2017 he attempted to negotiate a bilateral trade deal with Germany when he met Chancellor Angela Merkel. The German leader had no choice but to explain the US President that all deals with EU member countries were multilateral. Trump also frequently condemns NATO allies for not paying their fair share. He claimed that NATO’s current configuration was “obsolete,” even when he professed commitment to Europe’s defense. On the other hand, one needs to admit that both, a majority of the Republicans and the Democrats are critical about the scale of imbalances between America

44 Zselyke Csaky, op.cit.

45 *Trump declared that “people want their own identity, so if you ask me, others, I believe others will leave,” He said also that he did not care about the EU’s future. “I don’t think it matters much for the United States.” Donald Trump says Merkel made ‘catastrophic mistake’ on migrants, BBC, 16.01.2017, <http://www.bbc.com/news/world-us-canada-38632485>*

46 Ibid.

and its allies regarding military burden-sharing. Germany is very much in the spotlight and can hardly avoid their criticism. However, both political establishments voice their opinions in a more subtle way than President Trump himself.

German Chancellor Angela Merkel reacted to Trump's statements in her speech in at a Bavarian beer-hall in May 2017. She said that "times in which we can fully count on others are to a certain extent over" and called for Europe to "take our fate into our own hands." The CDU's hesitancy with Trump was clearly illustrated by the party's decision to downgrade America in their political "Manifesto" from a "friend and partner" to an ordinary status of a "partner." These developments were big news given the fact the CDU traditionally holds the most US-friendly attitudes among all German parties. The Left was much more outspoken in its criticism of Trump. During the electoral campaign in Germany it became fashionable within the Social Democratic Party (SPD) – traditionally considerably less pro-American than the Christian Democrats – to contest the US, the transatlantic initiatives and intentions. President Frank-Walter Steinmeier has called Trump a "hate preacher". Sigmar Gabriel, the then minister of foreign affairs, referred to the US President as "a pioneer of the new international authoritarian and chauvinistic movement."⁴⁷

The decisions of the US President on many of key international issues, which he has taken since the elections, have confirmed considerable divergence between Washington and Berlin. Trump's decision to withdraw from the Paris Climate Agreement sent shockwaves through Berlin. In response, Germany, altogether with France and Italy, rejected Trump's proposal to negotiate a less ambitious version of the deal. Instead, Berlin has engaged directly with the American states and the local authorities, the US private sector and non-governmental organizations. Germany, across all party lines regards the Iran Nuclear Agreement to be one of the biggest achievements of diplomacy in recent years. For Berlin the agreement not only proves the benefits of diplomatic approach, but re-opens the doors for economic expansion and for building ties between Berlin and Tehran. Conversely, President Trump described the agreement as one of the "the worst deals ever" and threatened to withdraw from it. The policy *vis a vis* North Korea represents another example of a divergence in a system of values between Germany and the US. At the end of September 2017, during his speech at the United Nations General Assembly, Trump claimed that the US was ready to destroy North Korea to resolve the ongoing standoff over the country's ballistic missile and nuclear weapons program. **Chancellor Angela Merkel responded** : "I am against such threats [...] We consider any form of military solution as totally inappropriate and we insist on a diplomatic solution. From my point of view sanctions and their implementation are the right answer, [...] And that is why we clearly disagree with the US president."⁴⁸

Unpredictability of President Trump's actions constitutes a serious challenge for Germany. German leaders admit that they are confused by contradictory messages that come from Donald Trump himself, including his Twitter account, as well as those from within his administration's inner circle. Lately, this unpredictability has receded as some senior, pragmatic and seasoned figures

47 Anna Kwiatkowska-Drożdż, *Merkel in Washington: a cool reception*, 22.03.2017, OSW, <https://www.osw.waw.pl/en/publikacje/analyses/2017-03-22/merkel-washington-a-cool-reception>

48 *Trump's threat to 'destroy' North Korea is wrong*: Merkel, Reuters, 20.09.2017, <https://www.reuters.com/article/us-northkorea-missiles-trump-merkel/trumps-threat-to-destroy-north-korea-is-wrong-merkel-idUSKCN1BV25D>



(i.e. Secretary of Defense James Mattis, Secretary of State Rex Tillerson and National Security Advisor H.R. McMaster) have come to the fore of the US foreign policy.

Poland has not voiced any objections to Trump's foreign policy. In fact, criticism of Merkel's speech at her beer-hall electoral event was expressed by many of Polish politicians. It has been a good illustration of a growing divergence between the Polish and the German perception of the US foreign policy. Minister Waszczykowski commented that what the chancellor said about the US was "artificial, unnecessary and exaggerated". He criticized Merkel since she represented "the liberal part of the world which is not able to respect democratic elections, and thus initiates such discussions and undermines Trump's legitimacy. He also added: "There is no basis for this, because he won in a democratic election and with a big advantage. She should respect him and allow him to pursue his program." ⁴⁹

Frame 1. The Polish and German societies and the US

The difference between the German and the Polish ruling political elites regarding their attitude towards the US is deeply rooted in both societies. Americans belong to a group of nations that enjoy the highest sympathy in Poland. At the beginning of 2017 in the opinion poll conducted regularly for many years by CBOS, a Polish research center, almost 55 percent of Poles expressed their sympathy towards the Americans, and only less than 15 percent showed antipathy. Trump's victory did not have a negative impact on this very positive approach to the US. In fact, after Trump's visit to Poland, which took place at the beginning of July 2017, almost half of Poles believed that the visit would strengthen the position of Poland in Europe and less than 10 percent interpreted it as having negative influence on the Polish position. Conversely, in Germany Trump's victory resulted in a radical drop of trust and deterioration of image of the US in the German society. According to the opinion poll (Deutschlandtrend) published every month by Infratest dimap, the Germans' trust in the US decreased from almost 60 percent in November 2016 to 20 percent in June 2017. The level of Germans' distrust towards the US was as high as Germans' no confidence in Russia. The distrust increased from above 35 percent to almost 75 percent. Previously, the level of distrust of Germans in the US was considerably higher than in the case of France (less than 10 percent). It should be explained by the impact of a spying affair (tapping of German politicians by the US secret service). In summer of 2017 a Forsa survey revealed that almost 65 percent of Germans would like German-Russian relations to be improved while only 40 percent would like to see similar efforts on behalf of the transatlantic relationship. In surveys powered by Pew Research Centre, the favorable opinion of Germans towards the US decreased from more than 55 percent to 35 percent between spring 2016 and spring 2017. Meanwhile, the support for unfavorable opinion about the US increased from less than 40 percent to more than 60 percent. In the opinion poll, such a substantial fall of favorable opinion regarding the US was a predominant trend in Western Europe. In majority of countries more than half of the respondents shared an unfavorable opinion on the US. Poland was, besides Hungary, the only surveyed EU country which did not witness change of attitude towards the US. Moreover, Poles distinguished themselves for their most favorable approach to America.

49 Piotr Pacewicz, *Retrospektywa Waszczykowskiego*, oko.press, 01.11.2017, <https://oko.press/retrospektywa-waszczykowskiego-50-gaf-klamstw-glupstw-obraza-partnerow-wychwala-demokracje-bezprzymiotnikowa-ktorej-wladzy-wolno/>

Frame 1. The Polish and German societies and the US

The sympathy of Poles towards the US is inversely proportional to the limited people-to-people contacts between the Poles and the Americans. The situation is opposite in the case of Germans. According to the US statistical data, Germans represent the EU nation (excluding the UK) who visits the US the most often. In 2017 (January-May) they accounted for almost 15 percent of all Europeans (including non-EU countries) who arrived in the US. Their number surpassed the number of Poles coming to the US by around 15 times. It is worth recalling that Poland belongs to a small group of the EU member states whose citizens need visas in order to visit the US. Besides Poland, this group is composed of Bulgaria, Croatia, Cyprus and Romania. Germany is also the third most popular destination in the EU (excluding the UK) for American tourists. Again Poland does not enjoy in any way comparable interest of the Americans. In 2016 Americans undertook around nine more overnight stays in Germany than in Poland. Moreover, Poland is much less often visited by the US citizens than Hungary or the Czech Republic. In fact, Polish students, proportionally to the number of the country's inhabitants, are the least often prone to study in the US among all EU member states. In the academic year 2015/2016 students from Poland, who enrolled on the US universities, did not exceed 1,5 thousand. By comparison, there were 750 students from the Czech Republic, almost 800 students from Hungary who studied in the US in the same year, even though their combined population is almost twice smaller than that of Poland. Conversely, German students make the largest (in absolute numbers) group of students from EU member states. In the academic year 2015/2016 the number of German students enrolled in the American universities was almost seven times larger than the Polish student community in the US. Germany also makes the fourth most important destinations for American students studying in the EU (excluding the UK). Their number is slightly larger than the number of Germans enrolled in American universities. Poland is one of the least popular destinations in the EU for American students studying abroad. Certain Central European countries succeeded in attracting decisively more American students than Poland. For instance, according the most recent US data, the number of students from the US enrolled in Czech universities exceeded their number in Poland more than fivefold.

Sources: Statistical offices, Pew Research Centre, Infratest dimap, Forsa, CBOS

Prospects for the future: between an imagined ideology and a hard reality

Both, Poland and Germany for years have been dependent on the global liberal order. Both countries are export driven economies, they rely heavily upon open trade and a global governance, with its system of multilateral institutions of which the US has been a guardian since WWII. Even if not ideal, the international system centered around the transatlantic community has been the best available for both countries. Its destruction would certainly increase unpredictability of the world order and hinder economic development of Poland and Germany alike. A risk exists, that the bigger the impact President Trump has on the US foreign policy, the less liberal and less certain the international order will become. In Europe, it is the EU that serves Berlin as primary vehicle for exerting leadership at the global stage. As an insurance policy against the growing uncertainty of the US foreign policy under Trump Merkel, if she is still in power after the inconclusive



elections of November 2017, will likely devote significant attention to shore up the European integration project. Germany may intensify its efforts to strengthen and to reform fiscal, monetary, defense and foreign policies in the EU. The course of the EU's integration in the years to come will be ultimately decided based on a consensus reached between Berlin and Paris.

The German government, accounting for preferences of its own public opinion, will likely remain vocal when disagreements with the United States emerge. At the same time it will stay committed to the transatlantic cooperation in principle. When necessary, Berlin will probably continue to work around the White House in areas where transatlantic partners disagree by engaging other players in the United States such as the US Congress, state and local governments, and the private sector. It will likely "agree to disagree" with the Trump's administration on issues that would not stand a chance to be settled and agreed upon now.

The tensions between the EU or Germany and the US will most likely emerge at the crossroads of foreign policy and economy. A question of hard balancing between the US and the EU could arise if Trump or the US Congress were to derail the 2015 Iran Nuclear Deal, for example, by threatening to impose sanctions against European banks and companies. In such a case Berlin could be expected to openly and strongly disagree with Washington. If a US-China trade war erupts and Beijing turns towards European suppliers (for instance, by picking up Airbus instead of Boeing), the EU would have to reckon with extraterritorial application of the US sanction laws that would implicitly aim at making it impossible for European companies to fill the gap left by the US firms.

The future of German-Polish relations will be strongly influenced by the state of the German-US relations. The likely German-US economic frictions may push Poland into a very difficult and uncomfortable position between a rock (a key economic partner) and a hard place (a key security-provider). In case of a German-US trade war Poland, as a country strongly integrated economically with Germany, would pay especially heavy price. Moreover, if a weakening of the economic ties between Germany and Poland were to happen due to further integration within the Eurozone, it could lead to some noticeable geo-economic consequences. If German-Polish economic relations weaken and German-US relationship deteriorates substantially, Germany might be more prone to strike economic deals (i.e. in energy sector) with Russia without taking into consideration Poland's national interests.

It is likely, that the government of Law & Justice will continue its policy of *de facto* dismantling the rule of law in Poland and, by default, will further escalate tensions with the EU and Germany. Their likely reactions that may follow will strengthen the Polish government's determination to seek out alternative political backings to leverage itself against Brussels and Berlin. The most important option will be an attempt to strengthen bonds with the United States. Poland will likely aspire to replace the United Kingdom as the main ally of the US in the EU. A closer cooperation between the US and Poland, based on energy cooperation (LNG imports) and strategic partnership on security issues, is not inevitably and *by definition* in conflict with the EU policies. However, in case of permanent economic and geopolitical tensions between the EU and the US Washington may like to instrumentalize its relation with Poland and to use the "divide and rule" tactics, effectively pitting Poland against Berlin. Such a US policy would bring further divisions in Europe. It would also cause the German-Polish relations to deteriorate even further. Poland could become alienated within the EU. Poland's foreign policy would almost completely aligned with the Trump



administration in at the global stage while creating additional risks for Poland. The fact that Trump has no clearly defined foreign policy goals (contractual approach to international issues) makes him a rather unpredictable partner. His declarations and commitments could change according to short-term political needs and pressures. Also, Poland does not possess enough potential to gain the status and weight of the UK in the US foreign policy. In fact, it has been underperforming in its bilateral relations with the US. Additionally, President Trump may be more preoccupied with his domestic problems (i.e. investigations against his inner circle and decreasing approval rates) than external issues.⁵⁰ Even, the scenario of his impeachment should be taken into consideration. In other words, a non-alternative “bet on Trump” option may turn out to be a risky calculation for the Polish government. In case of rapprochement between Germany and the US Poland’s importance for Washington will decrease substantially. Most probably the Trump administration will act in a more lenient manner than the EU even if domestic politics in Poland make the White House concerned with a state of democracy in the country. However, a possible rapprochement between President Trump and Berlin, would likely made the White House to endorse German leadership in Europe implicitly approving Berlin’s policy vis a vis Warsaw. In medium-term perspective, a victory of a Democratic candidate in the next presidential elections would have a chilling effect on the Polish-US relations if it happened.

⁵⁰ Presidential approval ratings show that Trump is the least popular US president in the history of modern opinion polling as of the first year of the term.



Security

Adam Balcer, Krzysztof Blusz

Russia's aggression against Ukraine has dramatically changed the security situation in Europe. It has substantially influenced the debate on the role of NATO on the continent. It has also revealed a number of divergences between Poland and Germany that, fortunately, did not hinder cooperation between the countries. The key positive factor facilitating finding *modus vivendi* between Warsaw and Berlin was Germany's principal position on the EU sanctions against Russia. In fact, Germany became the most important proponent of sustaining sanctions until the Kremlin changes its aggressive policy towards Ukraine. This consistent German policy is based on a solid public sentiment. The Russian aggression against Kyiv resulted in a decisive change of public attitudes in Germany. The Germans distrust Russia and, especially, President Putin as they never did before. In consequence, sanctions still enjoy a solid support of majority of the Germans.

Eastern Flank and Nord Stream 2

During the NATO Summit in Wales in 2014 – the first organized after Russia's aggression – the member states could only approve a modest increase in their presence on the Eastern flank in a form of small forward-based planning teams. Moreover, it took NATO some time to implement those defensive measures because of logistical, military and political preparations required. They needed two years and another summit – in Warsaw in 2016 – to adopt some more robust measures. During the Warsaw Summit NATO finally agreed to establish an Enhanced Forward Presence (EFP) in Estonia, Latvia, Lithuania, and Poland. According to the final statement, the EFP was supposed to “unambiguously demonstrate, as part of our overall posture, allies' solidarity, determination, and ability to act by triggering an immediate Allied response to any aggression.”⁵¹ It consists of multinational forces, led by framework nations on a voluntary and sustainable basis. By the summer of 2017, NATO had a total of 4,5 thousand troops on the borders with Russia, grouped under four battlegroups. They are led by Canada (operating in Latvia), Germany (Lithuania), the United Kingdom (Estonia) and the United States (Poland). However, none is based permanently in these countries. Instead, they are “rotated”. In fact, the number of soldiers deployed is rather symbolic. These arrangements fall short of treating allies equally since they differentiate between countries hosting permanent military deployments and rotating forces. The *modus operandi* prescribed by the EFP arrangements is based on a strict interpretation of the old agreement that NATO concluded with Russia in 1997, which stipulates that the troops have to be constantly on the move. Certainly, the costs of constant rotation of military personnel and equipment are high. Moreover, it slows down considerably interoperability of troops from different countries with different weapons and command systems. Despite these all the deficits, the EFP sends a clear signal: if the Russia intrudes, it would have to run over forces from the most allied countries, including

51 Warsaw Summit Communiqué, NATO, https://www.nato.int/cps/en/natohq/official_texts_133169.htm, 09.07.2016.

the main powers (Germany, the UK, the US). It would make very likely that NATO would respond immediately and as a whole. The size and character of the EFP became the issue of debate between member states. Germany, France, Italy and other like-minded countries prevailed with the argument that new troops should not be stationed on the Eastern flank permanently, and that forces there should be limited in size and capability. Germany in particular wants to stick strictly to the original spirit of the 1997 NATO-Russia Founding Act. Berlin's restrained position should be explained by its traditional post-Second World War pacifism and convictions that a larger NATO military deployment may provoke Russia's over-reaction.

Poland and the majority of countries from the Eastern flank (the Baltic states and Romania in particular) underline that Russia permanently violates the Founding Act, which obliges Moscow to "refrain from the threat or use of force against each other as well as against any other state, its sovereignty, territorial integrity or political independence in any manner inconsistent with the United Nations Charter and with the Declaration of Principles Guiding Relations Between Participating States contained in the Helsinki Final Act" and "respect for sovereignty, independence and territorial integrity of all states". Moreover, the Founding Act foresees "reinforcement may take place, when necessary, in the event of defense against a threat of aggression".⁵² The Eastern flank countries also recall that the Founding Act is not an international agreement, which is mutually legally binding for both sides. It is worth recalling that even though NATO sticks to the letter of the Founding Act, Russia claims that the EFP violates the terms of the act, and Russia had a right to retaliate. Indeed, no matter how much NATO underlines that the EFP on its Eastern flank is only for the defense of its own allies, Russia will always present it as allegedly provocative, offensive, and threatening its own security. The countries of the Eastern flank could count on the understanding of their position by the UK, Canada and the US. However, the US does not define a permanent and considerable military deployment on the Eastern flank as a strategic issue which should be pushed through by NATO. Poland and Germany also differ in their positions regarding the scale of military equipment that should be transferred to Ukraine by NATO countries. Poland would endorse a bigger supply of NATO equipment to Ukraine, including lethal weapons. Meanwhile, Germany has a very reluctant attitude towards such an idea.

There is also a divergence of interests between Poland and Germany that concerns security in the energy sector. Poland has a definitely negative position on the *Nord Stream 2* project which foresees constructing the second gas pipeline between Germany and Russia running under the Baltic Sea. As seen from Warsaw, *Nord Stream 2* would deprive Central-Eastern Europe of its status as a transfer region between Germany and Russia. By default, it would increase Russia's ability to exercise economic pressure on Central-Eastern European countries. Unfortunately, Berlin does not share Polish concerns and sees *Nord Stream 2* mostly as an opportunity to make Russia more economically dependent on Germany (through becoming the main hub of Russian gas in Europe) and thus to gain a greater impact on Moscow's foreign policy. Germany and those EU member states whose companies are pushing for *Nord Stream 2* demand that the so-called third energy package is not applied to the pipeline. At the same time, it should be admitted that the *Nord Stream 2* project meets with substantially stronger internal opposition in Germany than the first pipeline did. At the beginning of August 2017 the US Congress imposed new extraterritorial sanctions against Russia. Germany has strongly criticized the bipartisan congressional bill that Trump

52 Founding Act, NATO, https://www.nato.int/cps/en/natohq/official_texts_25468.htm, 12.10.2009.



signed into law.⁵³ Berlin is concerned the law seeks to target European energy companies working on projects that involve Russia, including *Nord Stream 2*.

In response to *Nord Stream 2* Poland promotes the idea of development of LNG ports in Central Eastern Europe and gas pipelines on the North-South axis. The Polish plans are overlapping with the US economic interests because America is eager to export its LNG to Europe. In fact, at the end of November 2017, Poland's state-owned oil and natural gas company signed the first-ever deal to import LNG from the United States. It did not disclose the gas volumes or prices.

Germany: Between the CSDP and the NATO

Germany, after the Russian aggression against Ukraine embraced the need to slowly return to the national defense model of the armed forces. In NATO, Germany started to adjust the Bundeswehr to the NATO defense planning process. Over the past several years, Merkel has continuously acknowledged the need for Germany to meet the 2 percent spending target, albeit gradually. In fact, Germany's defense expenditure in relation to the GDP did not increase between 2014 and 2016 and has remained on a low level (1,2 percent). Moreover, Brexit and Trump's victory contributed also to an unprecedented increase of cooperation in the sphere of security between Germany and France. Indeed, there are differences between Paris and Berlin concerning perceptions of threats and solutions which should be undertaken. Nevertheless, despite all divergences, in 2016 France and Germany put forward proposals that stimulated development of new initiatives within the framework of Common Security and Defense Policy (CSDP). In June 2017 the European Council endorsed the Permanent Structured Cooperation (PESCO) which made enhanced defense cooperation within a smaller group of member states possible. It also launched European Defense Fund (EDF) initiative which is supposed to co-finance multilateral armaments. R&D programs and the introduction of a Coordinated Annual Review On Defense (CARD) in order to harmonize the development of national military capabilities of the EU member states have been also parts of this new proposal. France and Germany strongly support the creation of a European Defense Technological And Industrial Base (EDTIB). Both countries want to create a European market for arms and military equipment, to introduce transparency in national defense budgets and modernization plans of armed forces, to allocate EU funds for multilateral arms programs, and to consolidate the European arms industry. New CSDP instruments, like PESCO, CARD and the EDF, are geared towards this purpose. Paris and Berlin started to put words into action. In July 2017 France and Germany signed an agreement aimed to jointly lead development of a new aircraft. Paris and Berlin also agreed to set up a cooperation framework for the next model of attack helicopter and for tactical air-to-ground missiles. In addition, they will work together on procuring ground systems, including heavy tanks and artillery and the military drones. In a key speech at Sorbonne University at the end of September 2017, the French President Emmanuel Macron proposed that in the coming years the EU should establish its own common defense budget, an intervention force, a joint civil protection force, and a joint doctrine for action. His speech met with a positive reaction of main German politicians. Both countries perceive each other as an avant-garde

⁵³ In fact, the bill allows Congress to become part of a decision on the future of sanctions imposed on Russia in order to prevent the President Trump from unilateral lifting of them.

which will be joined by other states. It is worth saying that Germany has, at its disposal, one of the largest defense industries in the world. According to Stockholm International Peace Research Institute (SIPRI) Germany occupies the fifth place in the world among the arms exporters. Despite that fact, German export of weapons from the US is quite considerable. Between 1991 and 2016 Germany procured from the US arms whose value approached 5 billion USD and sold to the US military equipment, which was worth more than 1,5 billion USD.⁵⁴

Poland: A renaissance of transatlanticism

Russia's aggression against Ukraine in 2014 dramatically increased importance of the alliance with the US as a guarantee of Poland's security. Poland is the only European country bordering with Russia (the Kaliningrad Oblast is the most militarized region in Europe), Belarus (a key military ally of Russia in Europe, a member of the Collective Security Treaty Organization – CSTO) and Ukraine, invaded by Russia. In consequence, permanent and robust military deployment of NATO, and especially US, forces in Poland became the key, strategic goal of the Polish government. It has been non-partisan and shared across the entire spectrum of the Polish political elite. It has been is a rare phenomenon in otherwise deeply divided domestic Polish politics.

Poland is one of the few NATO members that allocates 2 percent of its GDP on defense. Under the new law which entered into force in October 2017, Poland will raise military spending to 2.1 percent in 2020 and to at least 2.5 percent in 2030. Not surprisingly, President Trump praised Poland as a 'role-model' for other NATO member states. However, the efficiency of Polish military spending is a complex issue. The share of Polish military procurement in the entire defense budget remains on a relatively low level. For instance, between 1991 and 2016 Poland bought from abroad military equipment which is worth more than 5 billion USD. By comparison, in the same period Norway purchased, from foreign producers, weapons of a higher value, though, Poland's military spending exceeds that allocated by Norway by 50 percent. Norway, moreover, possesses a decisively more modern national defense industry than Poland does. Although Poland perceives the US as a key guarantor of its security, one that is even more important than NATO, Polish-US cooperation in defense industry remains below Poland's potential and its needs. For instance Polish arms transfers from the US are rather limited. Between 1991 and 2016 Poland purchased arms from the US at a value which slightly exceeded 2 billion USD. This procurement accounted for less than one percent of the US arms export. Poland occupies a distant place on the list of export destinations of the US defense industrial sector (24th position in the world). The case of Greece shows the scale of Polish underperformance in the modernization of its armed forces in cooperation with the US. Between 1991 and 2016 Greece purchased from the US weapons worth 9,5 billion USD.⁵⁵ Meanwhile in the middle of last decade the maximum annual military expenditure of Greece was just slightly bigger than the current Polish defense budget. In consequence, the total military potential of Poland in NATO may be defined as weaker than 10 member states, including Greece, the Netherlands and, to a large degree, Norway, namely countries with a considerably smaller defense budget than Poland. Even more importantly, chances to change

54 SIPRI, Importer/Exporter TIV Tables, <http://armstrade.sipri.org/armstrade/page/values.php>

55 Ibid.



this situation in medium term perspective look bleak. According to the most recent report published by Stratpoints, a Centre established by Polish ex-generals, a comprehensive modernization program of Polish armed forces launched in 2013 has been experiencing very serious delays.⁵⁶ These shortcomings of the modernization of Polish armed forces may be explained by the above mentioned limited potential of Poland's defense industry. It should be also underlined that the Polish armed forces were affected by an unprecedented scale of resignations and dismissals of generals. The chance for the development of Polish defense industry would be to internationalize it as widely as possible, including also the cooperation with European partners. However, currently Poland approaches the German-French initiatives regarding the defense sector with caution and even reluctance. The Polish government focuses its security policy on NATO, and especially the US, including also its defense industry, more than any government in the past. Such a conviction is strengthened by the deterioration of political relations between Poland, on the one side, and Germany and France, on the other.

Different attitudes towards security issues between Poles and Americans, on the one side, and Germans, on the other, may be observed also on a social level. According to the opinion poll conducted by the Pew Research Centre in spring 2017 in several NATO member states, more than 60 percent of Poles responded positively that Poland should use military force to defend the country if Russia got into a serious military conflict with one of its neighboring countries that is our NATO ally.⁵⁷ Slightly less than 25 percent of the respondents were against such a military engagement. Germans distinguished themselves in this poll with the smallest support for such a military assistance. Only 40 percent responded positively to the question, while almost 55 percent reacted negatively. The position of Americans on this issue was very similar to that of the Polish respondents.⁵⁸

Prospects for the future: The US security interests and the European allies

The US will remain indispensable to Germany's security in times when Moscow behaves aggressively and threatens with nuclear intimidation. Sustained cooperation with America is vital for Berlin if it wants to realize its goals in regions that are strategically important for Germany: be it Eastern Europe, the Middle East or the Asia-Pacific region. Nevertheless, the US will continue to push the Europeans to considerably increase their military spending. Yet, until 2020 a substantial rise in Germany's defense expenditure should not be expected. Most likely Germany will strengthen its cooperation in defense industry with France that may increase its competitiveness on the global stage and, by default, may be perceived by the US as a challenge to its position on the global arms market.

56 Adam Duda, *Ocena stanu realizacji planu modernizacji technicznej SZ RP na lata 2013-2022. Sukces czy porażka?*, Stratpoints, August 2017, http://www.stratpoints.eu/wp-content/uploads/2017/12/AD_OS RPMT_2017_PL_ENG.pdf

57 However, in Spring 2015 less than half of Polish respondents supported their country's military engagement in defense of NATO allies against the Russian aggression, almost 35 percent was against.

58 Topline Questionnaire, Pew Research Centre, 23.05.2017, file:///C:/Users/H/Downloads/Pew-Research-Center-NATO-Report-TOPLINE-FOR-RELEASE-May-23-2017%20(9).pdf

The implementation of the *Nord Stream 2* project remains an open question. The change of coalition in Germany may seriously impact its future prospects. Chancellor Merkel seems to be rather indifferent to the project, and the Greens alongside some of the members of the CDU oppose it strongly. In the coming years the project may encounter even more assertive opposition from the EC and other EU member states.

At the same time, Poland's aspirations to establish a close alliance with the US in the security field remain undetermined. Poland sees Russia as a key threat to its security. Polish fears from times of the American presidential campaign concerned with the Russian-US rapprochement did not materialize. Yet, many declarations of President Trump related to Russia show that the American leader has not given up on his hopes to cooperate closely with President Putin. Furthermore, Trump administration perceives the Far East or Middle East as considerably more important than Central-Eastern Europe. Most likely this perception of threats will not change in the coming years. Washington expects from its European allies not only bigger military spending but also more of their engagement on a significant scale in interventions such as Afghanistan, Iraq, Syria etc. That is something that neither Warsaw nor Berlin, because of their domestic politics are not willing to deliver. The Polish society has a clearly negative attitude towards military engagements in operations outside of Europe. It is not by accident that the US hardly cooperates more closely on military issues, including intelligence, with any other country than France. Paris allocates 2,3 percent of its GDP to its defense sector. It has the largest defense expenditure in NATO after the US and the biggest military potential, including defense industry. A fight against Islamist terrorist groups remains the main field of cooperation between France and the US. It will certainly remain on top of the agenda for Paris and Washington for the years to come. Their bilateral cooperation includes sharing aircraft carriers in the Persian Gulf. It also involves a use of the French bases in Africa and Asia by the US forces. What is particularly important for the Trump administration is the fact that France and the US share similar concerns over China's assertive policy in the Far East i.e. constraints to the freedom of maritime navigation. With the French bases on the Indian Ocean and the Pacific silently integrated into the wider US military planning, France has become the only European country that Americans can rely upon in case of tensions in the Far East. In this context it is unfortunate, that Poland's relations with France are at the historical low as of the end of 2017.



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