Comparing Germany and Poland

An economic analysis of the period after the Second World War

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Executive Summary

The main objective of this report was to show the economic similarities and differences after the Second World War up until the end of the Cold War between the 'leader of Europe', Germany, and the upcoming country, Poland. The report focused on researching the Polish endeavours which helped the country to get to where it is now: a flourishing European country that is following in the footsteps of the powerful neighbouring Germany. Therefore, the central question was the following: "How does the upcoming economy of Poland compare to Europe's leading, established economy of Germany and what issues do they face in order to maintain their growing economies?"

Most of the research was done by desk research and additionally, questionnaires were sent out to Polish exporting companies.

The political and economic histories of both countries have been explored and explained. Exploring the history and reaching an explanation was necessary to understand the current economic position of Poland and Germany. To research that, the following research questions were used: "What economic models have Poland and West Germany used after the Second World War?" and "How did Poland change after the end of the Warsaw Pact and how did Germany cope with the *Wiedervereinigung* (Reunification)?"

Furthermore, the report has also taken a look at the role of the European Union with regard to influencing policies and striving for an economical course for each country. Additionally, a questionnaire was sent out to Polish exporting companies to better understand the influence of the European Union on these firms. These facets were also included in these final research questions: "What are the consequences of joining the European Union for Poland's and Germany's economies?" and "What are the issues Poland and Germany will have to cope with in the future which could influence their prosperity and growth?" A SWOT analysis was used to help answering the final research question.

To conclude the report, various future scenarios were considered to finalize the comparison between both countries.

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I. INTRODUCTION

In recent years, the European Union (EU) has seen quite an increase in the number of member states. Many eastern European countries previously in the grip of the Soviet Union have joined the EU to be part of the largest economy of the world (EU Position in World Trade, 2014). One of these countries, Poland, has seen an economic boom from joining the EU (Adekoya, 2014) and is considered to be one of the fastest growing EU countries (Krupa, 2015).

Germany, one of the six founders of the precursor of the EU, is often seen as the leader of Europe (The Economist, 2015), due to its wealth and strong economy. It is ranked fourth on the 2014 Gross Domestic Product ranking of the World Bank (World Bank, 2016). Because of its solid economy, Germany has a significant impact on the economy and policy of the EU. This makes Germany an interesting choice for comparing it to other European countries.

Poland, on the other hand, joined the EU in 2004 and was one of the ten Eastern European countries to join during this year. Poland appears to be successfully reaping the benefits of the European Union, as its economy is one of the fastest growing economies in the EU (Cienski, 2012). In the same World Bank ranking list, Poland is ranked 23rd.

Of both countries, Germany has the bigger economy, but Poland seems to be upcoming with a strong workforce. It is perhaps possible that Poland is following in Germany's footsteps. This research will compare Germany with Poland to ascertain if there is any resemblance in both countries' economic models. It is important to identify any similarities between the countries, because if these similarities are present and are beneficial, other European countries could follow the same steps Poland has taken in order to rise to the economic top in Europe. Apart from that, understanding possible difficulties and problems that are going to affect growth and wealth negatively is integral to the future of a country. These two elements combined form the central research question: "How does the upcoming economy of Poland compare to Europe’s leading, established economy of Germany and what issues do they face in order to maintain their growing economies?"

The research begins with a look at history. The economic models of the past will be compared, since both countries have developed differently from each other. Economic effects of historical events such as the *Wiedervereinigung* and the fall of the communist states in Eastern Europe, will also be explained. The sub-questions here are as follows: "What economic models have Poland and West Germany used after the Second World War?" and "How did Poland change after the end of the Warsaw Pact and how did Germany cope with the *Wiedervereinigung*?"

Additionally, the research will investigate what the direct effects of joining the EU were for Poland and what issues could be troubling the continuous growth of Poland, viewed from various companies' perspectives. This will be researched by questionnaires that are sent out to Polish companies. In this section, the sub-questions are: "What are the consequences of joining the European Union for Poland's and Germany's economies?" and "What are the issues Poland and Germany will have to cope with in the future which could influence their prosperity and growth?"

The conclusion will summarize the comparisons of the two countries that were made in answering the research questions and will give a detailed look at multiple future scenarios.

II. METHODOLOGY

Most of the research is based on secondary research. This means that the majority of information has come from sources such as books, online articles, and quotes found on the Internet. These sources largely have an economic nature, but sources that describe historic events, for example the Warsaw Pact and the *Wirtschaftswunder*, were used as well. Additionally, sites such as the Organization for Economic Cooperation and Development (OECD) and Eurostat, among others, have been providing statistics for the research.

In addition, to support researching sub-question three and four, questionnaires were sent out to Polish export companies that are operating abroad. A native speaker was asked to translate the questions to Polish. The Polish questionnaire is found below and further down is the English translation. Polish export companies were chosen to be the point of focus, as Poland is the country that is economically growing strongly, which can then be compared to Germany.

Questionnaires were chosen over interviews, because in general, Polish businesspeople are not easy to approach. They are, for example, not comfortable with sharing information about their company and its activities. Through using questionnaires, a larger amount of companies is more approachable compared to interviews, and they take less time to set up and conduct. The questionnaires were sent by mail to the exporting companies.

The questions were mainly researching the effect of the EU on these Polish companies and whether that influence is positive or negative.

Szanowna Pani/Pan

Jestem studentem Studiow Europejskich z Holandii. Do mojej pracy magisterskiej robie badania polskich firm zajmujacych sie handlem w innych krajach. Moglaby Pani/Pan mi pomoc i odpowiedziec na krotka liste pytan?

Z gory dziekuje za poswiecony czas.

Niels Vereecken

Velsen-Noord, Niderlandy

Pytania;

1. Dlaczego firma exportuje?

2. Czy Unia Europejska miala wplyw na decyzje exportu? Jesli tak,mialo to duzy wplyw?

3. Miala firma trudnosci z handlem w innym kraju? Jesli tak, jakie byly najwieksze problemy?

4. Czy ma firma duza konkurencje ze strony innych polskich firm zagranica?

Here is the English translation of the Polish questionnaire:

This questionnaire is helping me, a European Studies student from the Netherlands, to complete my bachelor thesis. The questionnaire consists of only a few questions and will not take long to fill out.

Thank you very much for your time.

Niels Vereecken
Velsen-Noord, the Netherlands

1. What are the reasons why your company took its business abroad instead of remaining in Poland?

2. Has the European Union had any influence on your company's decision to operate abroad? If so, how much of an influence?

3. Has your company experienced any difficulties while operating abroad? If so, what were the most critical difficulties?

4. Has your company faced increased competition from other Polish companies in your market?

Question 1 in the questionnaire is used to give an indication of the reasons why the Polish company is selling products outside of Poland. This is to ensure the company identifies as an exporting company, otherwise the questionnaire is not relevant to the research.

Question 2 is used to determine the role of the European Union in the decision of the companies to sell their products abroad. It indicates whether or not that influence was positive or negative, through the means of subsidies and removal of trade barriers, such as the right of free movement of persons and goods.

Question 3 shows the troubles and difficulties the Polish companies are facing while they are on the European market, such as differences in culture, specific requirements for entering a new market, and so on.

Question 4 is important to understand the growth of the Polish economy. Because Poland has been growing strongly for the past fifteen years, Polish companies have been growing as well. Entrepreneurs were more motivated to start a company during this economic boom, so quite suddenly many new Polish companies were starting on the market and have been competing with each other since then.

The responses of this questionnaire were filled out in an Excel spreadsheet and the spreadsheet can be found in Appendix 1.

There were thirteen companies that were willing to answer the questionnaire, out of approximately nine hundred sent questionnaires. This makes the questionnaire less representative, but a general indication for the export environment could be seen in the responses of these companies. The companies that were contacted, were found on a website called http://www.poland-export.com/. From here, it was possible to select categories and then select companies, which simplified obtaining a considerable amount of e-mail addresses. Most of the respondents are producing companies that export their products. There are only a few companies that were focused on exporting products that other companies have produced. To give a few examples, one company is producing batteries for export, one is producing cement for the construction of roads in Europe, another is exporting vegetables in cans, and so on.

For sub-question 4, business reports and SWOT analyses were used to answer the question. Strengths, Weaknesses, Opportunities and Threat (SWOT) Analyses are models used to describe internal and external company or organisation factors, which also include short term and long term objectives and elements. They are mainly used for companies and businesses but can be carried out for organisations as well as persons or countries. When used for countries, one looks at for example the demographics of the country, the state of the economy, as well as geopolitical position, the government, and more.

III. RESULTS

In this chapter, the central question **"How does the upcoming economy of Poland compare to Europe's leading, established economy of Germany and what issues do they face in order to maintain their growing economies?"** will be introduced and will be explained.

Germany and Poland are central in the research in this dissertation. Germany is often seen as the leader of Europe (The Economist, 2015), due to its wealth and strong economy. Germany managed to gain a strong economic position, although it was called 'the sick man of Europe' (Dustman, Fitzenberger, Schönberg, Spitz-Oener, 2014) less than two decades ago. As for Poland, it is an upcoming economic force in the European Union (Kiepuszewski, 2009; Rochtus, 2012), even though it was under control of Soviet-Russia before the 1990s, where communism was the prevalent strategy for political and economic policies. Both of these countries have used different approaches to solving economic problems, where Germany became a strong player in the European economy and Poland following in Germany's footsteps. This research aims to understand why Poland is starting to flourishing in terms of economical prowess and to see if there are any similarities between Germany and Poland's plans for their economies.

Finding the similarities in the economic models and the different backgrounds of Poland and Germany is the purpose of this dissertation. It could help us understand why Germany has become so strong and if Poland is taking the right steps to build a successful economy as well. Moreover, if Poland has become successful, it too could be a role model for many Eastern European countries.

According to Euromonitor in 2016, Poland has a population of 38,503,000 with a labour force of 18,220,000. Its Gross Domestic Product (GDP) per head (PPP) was approximately €18,500 in 2013. The GDP growth is estimated to be 3.5% in 2016 (Poland Country Factfile, 2016), whereas the distribution of labour force was the following: 12.9% of the Polish labour force was working in agriculture, 30.2% in industry and 57% of the Polish were working in the services sector of the Polish economy. It has had an unemployment rate of 9% in 2014, against an average 10.2% unemployment rate of the EU member states (Unemployment statistics, 2016). A distinct observation can be made when one is looking at the exporting and importing partners of Poland:

27.3% of total imported goods to Poland come from Germany and for exports, Poland exports 26% of its total to Germany, which makes Germany the most important trading partner of Poland.

Using the same data for Germany, it was found that Germany had a population of 81,041,000 in 2016, of which 44,200,000 Germans formed the labour force. The PPP was approximately €34,600 in 2013, which is nearly twice as much as Poland's PPP. The growth of GDP is twice as low as Poland's: 1.7% (Germany Country Factfile, 2016). The distribution of labour force is also vastly different from Poland's: only 1.6% of Germans were working in agriculture, 24.6% were working in industries, and the remaining 73.8% were active in services. The unemployment rate is nearly twice as low as Poland's, as it was at 5% in 2014 (Unemployment statistics, 2016). Furthermore, differing from Poland's statistics, Poland is not the most important trading partner to Germany. It does not appear in the top ten of exporting partners, but it is in tenth position of importing partners of Germany with 4% of total goods imported. Germany mainly exports to France (9.21%), the United States (7.85%), the United Kingdom (6.53%), the Netherlands (6.33%) and China (5.91%) and imports most of their goods from the Netherlands (12.88%), France (7.61%), China (6.25%), Belgium (6.13%) and Italy (5.31%) (The World Factbook, 2014).

This research wants to understand the changes in economic models used after the Second World War in both countries. The reason this period is chosen is because globalisation started to slowly expand during this period and governments have had to change their policies on foreign relations, investments, and trading between international companies. These changes can also be seen in the period around 2004, when many Eastern European countries joined the European Union. In addition to discussing and researching the past, giving an indication of the future of both countries is relevant as well.

IV. CHAPTER 1

This chapter aims to find an answer to the research question **"What economic models have Poland and West Germany used after the Second World War?"** In addition, its relevance will be explained.

Every country has its own economic history and has used different models to build its economy. Germany and Poland have had different takes on economic policies and the way the economies were planned. This chapter will describe what Poland's and Germany's economies looked like after the Second World War.

The reason why the period after the Second World War is relevant is because during the 1950's and onwards, many companies in Western Europe started expanding outside of their country of origin (Jones, 2005). After the destruction caused by the Second World War, companies were vital to the reconstruction of the devastated economies. According to Jones, the annual real GDP growth of developed market economies, in particular Western Europe, averaged around five percent between 1950 and 1973. This is especially important for the governments of such countries. They have had to adjust to the new economic growth that was generated by the expansion abroad.

POLAND

On the contrary, Poland has seen a drastic change in the way its economy was governed after the Second World War. Poland became a communist state, together with seven other communist countries, called the Eastern Bloc. An overview of Eastern Bloc member states can be seen in Appendix 2. These countries were indirectly controlled by the Union of Soviet Socialist Republics (USSR).

Communism is vastly different from capitalism, the economic system that still is prevalent in the Western World.

> "*Communism is the political and economic doctrine that aims to replace private property and a profit-based economy with public ownership and communal control of at least the major means of production and the natural resources of a society. Communism is thus a form of socialism—a higher and more advanced form, according to its advocates. [...] The*

distinction between socialism and communism rests largely on the communists' adherence to the revolutionary socialism of Karl Marx." - Richard Dagger in *Communism*

People that lived in communist states did not actually own property. It was owned by the state and given to people as public ownership. The state also controlled production through economic plans. Every five years, for example, farms and factories had to be able to reach a certain quota of produce as instructed by the state. These were called the Five Year Plans and were part of a so-called centrally planned economy. The Eastern Bloc states, including Poland, achieved high rates of economic and technical progress, promoted industrialisation, ensured steady growth rates of labour productivity and rises in the standard of living (Myant & Drahokoupil, 2011). It is important to note that many Eastern Bloc countries were depending on the USSR for vast amounts of materials to support these Five Year Plans and the transition to this type of economy.

Germany

Germany was devastated after the Second World War. Its cities laid in ruins and many Germans had a bleak outlook on the future of the country. Germany was controlled by four countries which were previously enemies: the United Kingdom, France, the United States of America and the USSR. The UK occupied the north-western part of Germany, France occupied the *Länder* that bordered France, the United States occupied the south-western, part and the USSR occupied the north-eastern *Länder*. The map in Appendix 3 shows the exact borders of each zone.

Not only the entire country, but also the previous capital of Germany, Berlin, was divided into four zones. On top of that, due to the tensions between the USA and the USSR, Germany was split in two on the 23rd of May, 1949: West Germany, the capitalist governed country, and East Germany, a communist country controlled by the USSR (which also became part of the Warsaw Pact and the Eastern Bloc). This in turn meant that East Germany was using a centrally planned economy like Poland. West Germany was officially called the Federal Republic of Germany and East Germany was called the German Democratic Republic.

Much later in 1961, a wall was built in Berlin to prevent *Ost-Berliners* from going to the parts of Berlin controlled by the capitalist countries. This was known as the *Berliner Mauer*, or Berlin Wall, and was a representation of the ongoing Cold War between the USA and the USSR.

On the other hand, West Germany was under control by the capitalist allied forces: the United Kingdom, France, and the United States of America. This meant it was using a market economy as most of the Western countries had (and still have). Large parts of Western Europe were devastated and destroyed in the aftermath of the Second World War. This included economies, governments, and civilisations. Therefore, there was no money to rebuild any of Western Europe by itself: an external supporter was essential and urgent.

In 1947, the American Secretary of State, George C. Marshall, developed an initiative to help reconstruct the economies of Western Europe. It was widely known as the Marshall Plan, but was officially called the European Recovery Program. It was launched in 1948. The goals of the United States were to rebuild war-devastated regions, remove trade barriers, modernize industry, make Europe prosperous again, and prevent the spread of communism (Hogan, 1987). That is how Marshall wanted Europe to view and perceive the Marshall Plan. What his actual rationale was, a healthy European market would be far more lucrative for the United States, which would benefit from a thriving Europe. In total and over four years, the US supported Europe with thirteen billion dollars. This is roughly 130 billion dollars in current (March 2016) dollar value. Considering that goal of this Marshall Plan was to prevent the spread of communism, the Soviet Union did not want any of the American support for the countries in the communist Eastern Bloc. This in turn meant that East Germany would not get a single dollar, whereas West Germany was able to profit from the Marshall Plan. The USSR initiated its own support initiative exclusively for Eastern Bloc member states: the Molotov Plan (Bryan, 1991).

Appendix 4 shows a table of the financial aid of the Marshall plan. From this table, it can be concluded that the members of the previous Alliance, France and the UK respectively, had been given the most financial aid from the United States. West Germany though, previously an enemy of the Alliance, had been given the third highest amount of financial aid: nearly 1.5 billion dollars.

The main reason the United States invested in Western Europe was to prevent this area from becoming communist. They feared that if one country became communist, neighbouring countries would too. This is known as the Truman Doctrine. Since a lot of Eastern European countries had a communist government after the Second World War, with the exception of Greece, the US wanted to contain the power of the USSR in Europe. This is why the US had also invested billions of dollars in West Germany, even though it was the enemy a few years earlier.

The economic support through the Marshall Plan helped the reconstruction of Western Europe and has therefore eased the pressure of rebuilding their economies. In West Germany, even though the support was not nearly as much as the support given for the UK and for France, it has assisted in an economic boom known as the economic miracle, or *Wirtschaftswunder* in German. The Germans used this money to rebuild and improve its nearly destroyed infrastructure:

> "*Yes, Germany was broken, but still, this [Marshall Plan] meant the first step for reconstructing the buildings in our city centres and investing in our industry.*" – quote from Wolfgang König, historian. In: *Die siebziger Jahre als konsumgeschichtliche Wende in der Bundesrepublik* (Jarausch, 2008)

The *Wirtschaftswunder*'s key years were during the 1950s (Weber, 2004). The gross national product of Germany grew at a rate of 9,5% per year on average, providing the engine for economic growth of all of Western Europe. Labour unions' support of the new policies, postponed wage increases, minimized strikes, and supported technological modernization: all contributed to such a prolonged economic growth (Fürstenberg, 1977).

Another important cause of the *Wirtschafswunder* was the change in economic model. In 1949, the first Chancellor of West Germany, Konrad Adenauer, and the Minister of Economics, Ludwig Erhard, implemented and integrated a new and progressive market economy system in Germany, which was slightly different from the other market systems in that time: it was a democratic market economy. It combines the free market capitalism with social policies such as fair competition on a market as well as the creation of a welfare state (The Economist, 2016). Because this type of economic system was first implemented in West Germany, it was often called the *Rheinlandmodell* or Rhine capitalism. Not only West Germany, but also other European economies, such as Austria, the Scandinavian countries, the Netherlands and Switzerland have been using a system associated to the Rhineland Model (Peters & Weggeman, 2009). Rhine capitalism can be compared to the Keynesian or neo-Keynesian economic model. It involves a cooperation between the government, employers, and employees. If more demand is generated (possibly through the government), then companies will be able to sell more products and services, make more profit, and hire more employees who in turn can buy more products with their wages.

V. CHAPTER 2

The research question "**How did Poland change after the end of the Warsaw Pact and how did Germany cope with the *Wiedervereinigung*?"** is the focus of this chapter.

Poland, like the other Eastern Bloc countries, was part of the Warsaw Pact, a collective defence treaty among eight communist states of Central and Eastern Europe in existence during the Cold War (Trueman, 2015). Because the Soviet Union was the leader of this Warsaw Pact, it required every member state to have a communist government. This affected the way Poland's economy was governed.

Germany on the other hand, was split up in two. West and East Germany both had different approaches to governing their economies. After the *Wiedervereinigung*, German for reunification, both economies became one again, so this historical event had an impact on new economic policies as well.

This question will shed light on the effects this Warsaw Pact had on the economy of Poland and the effects the *Wiedervereinigung* had on Germany's economy.

POLAND

The Warsaw Pact was a treaty signed by most Eastern European communist countries in May, 1955. It was seen as a response to the North Atlantic Treaty Organization, which was the defence collective of the Western countries during the Cold War. The Warsaw Pact was led by the Union of Soviet Socialist Republics (USSR). In the Pact, countries had to have socialist ideals and a Communist Party to govern the country. Poland was part of the Warsaw Pact. In fact, the headquarters of the Pact Army were in Warsaw, the capital of Poland.

The Poles were unhappy with this newly formed Pact. Even a year after the establishment of the Pact, Poland was willing and able to question the very foundations of the Warsaw Treaty.

> "In the fall of 1956, Jan Drzewiecki was in charge of operational planning for the Polish army when a committee was formed in the Defence Ministry concerned with the reform of military relations between Poland and the Soviet Union. This was a controversial issue

> because the defence minister, Konstanty Rokossowski, was a Soviet citizen. Drzewiecki was asked to prepare a memo analysing the statute. Objecting to the arbitrary powers allotted to the Soviets, he argues that the rights and prerogatives of the Soviet-dominated command are incompatible with the sovereignty of independent states, which were members of the Warsaw Treaty. He also extends his criticism to other, previous agreements imposed by the Soviet Union, which were not subject to ratification by the Polish parliament or even made available for the information of the Foreign Ministry." Vojtech Mastny & Malcolm Byrne: *A Cardboard Castle?: An Inside History of the Warsaw Pact, 1955-1991,* p. 84

However, during the 1980s, anti-Soviet and anti-communist movements throughout Eastern Europe began to create problems in the Warsaw Pact. In 1990, East Germany left the Warsaw Pact in preparation for its reunification, the so-called *Wiedervereinigung*, with West Germany. Poland also indicated a strong desire to withdraw. Faced with these protests, the Soviet Union bowed to the inevitable. In March 1991, Soviet military commanders relinquished their control of Warsaw Pact forces. (Warsaw Pact ends, 2009)

GERMANY

The *Wiedervereinigung* is the historical process known as the reunification of the *Bundesrepublik Deutschland* (BRD, West Germany) and the *Deutsche Demokratische Republik* (DDR, East Germany) in 1990. Plans were made to unify the political, economic and administrative facets of both countries. This was important to halt the unemployment rate in the former East German *Länder*.

The *Wiedervereinigung* was completed in three consecutive measures:

Economically on the 1st of July 1990, politically through the accession of East Germany on the 3rd of October 1990, and finally through the first common elections on the 2nd of December 1990.

In the year 1989, the East German regime started to fall, which led to an opening in the Iron Curtain. This caused a movement in East Germany, in which many Eastern Germans decided to flee to West Germany. To prevent more East Germans from leaving and cause an even bigger exodus, the East German government needed to intervene. In 1990, on the 1st of July, East and West Germany signed a treaty to form The Monetary, Economic, and Social Union. Unification of the economy formed a significant part of this treaty: the East German Mark was replaced by the West German Mark, and the new German Mark was the official currency in all of Germany. The overarching *Deutsche Bundesbank* (German state bank) took full responsibility for the monetary policy in the former East German states.

Despite the best intentions of the German government, the reunification did not happen without setbacks. The conversion rate of East German Mark to the standard German Mark was not beneficial to every East German. In fact, according to a study from the *Konrad Adenauer Stiftung*, retired East Germans had a bigger advantage because of this conversion rate compared to people with a job.

In addition to this, the majority of *DDR-Produkte* were unable to be sold on the Western market, which meant that many East German companies were not able to compete with West German companies. This in turn has led to bankruptcies in East Germany and that was the precursor to higher unemployment rates in the former *DDR* area (Hasse).

Former West German citizens also had to start paying a certain amount of their salary to support the reconstruction of the former East German economy. This is known as the *Solidaritätszuschlag*, or the solidarity tax. Starting in the year 1991, the solidarity tax consisted of 7.5% of the income tax (Heilemann & Rappen, 2014). Even currently, German citizens still have to pay the solidarity tax, but the German citizens are obviously not pleased with this. The tax on the income has been lowered to 5.5% since 1998, which is the percentage Germans are still paying to this day. The solidarity tax yields a yearly €13 billion for the German state treasury (Was ist der Solidaritätszuschlag?, 2014).

There have been discussions in the German government to gradually decrease the tax, starting in 2020 and finally abolishing it in 2030. Economists however, warn for the adverse effects of starting to decrease the tax in 2020. In *Die Zeit,* a German national newspaper, two economists shared their concerns. According to Martin Altemeyer-Bartscher, an economist for the Halle Institute of Economic Research, lowering the tax gradually or at once will have a negative impact on the German economy. “Decreasing the solidarity tax overnight will cause a higher loss of revenue and jeopardise the structural balance of the state budget”, Altemeyer-Bartscher claims. Another expert, Marcel Thum of the Ifo Institute of Economic Research in Dresden, agrees with this view and adds, “a decrease of the tax is only feasible, when tax incomes start to increase over the coming years.” (Pausch & Zdrzalek, 2015)

VI. CHAPTER 3

This chapter will take a look at what the consequences of joining the European Union for both Poland and Germany's economy were. Therefore, it will find an answer to the research question: **"What are the consequences of joining the European Union for Poland's and Germany's economies?"**

Before being able to join the European Union, a country has to meet certain political, but also economic, and social criteria. Most of these criteria are defined by the European Council in Copenhagen and are therefore often referred to as the Copenhagen Criteria (Conditions for membership, 2015).

Basically, the requirements include that a country is a stable democracy, has a functioning market economy, is able to cope with competition in the EU, and has the ability to be a responsible member of a political, economic and monetary union (Conditions for membership, 2015).

This would mean that a country possibly would have to adjust its economic and political policies prior to joining the EU. That could be consequential for an economy, because new laws and regulations will be in effect in the newly joined country.

POLAND

Poland joined in 2004, when nine other Eastern European countries joined the EU at the same time. This is known as the Eastern Enlargement. Since joining, Poland has been seeing the benefits of the EU. The country has received approximately 72 billion euros in development funds between 2004 and 2013, Polish farmers are receiving tens of billions of euros in agricultural subsidies from Brussels, and in the EU's 2014-20 budget, Poland is receiving an additional 77 billion euros (Adekoya, 2014).

According to Remi Adekoya, a reporter for various newspapers, a year before accession, Poland generated a grand domestic product (GDP) of around 168 billion euros, whereas ten years later that figure has grown to nearly 395 billion euros. The GDP per person has also seen an increase, from 44% of the EU average in 2003 (Catching up, growth and convergence of the new member states, 2004) to 67% in 2014 (Allen & Konijn, 2013). In 2020, the GDP per capita is expected to reach 74% of the EU average, which means Poland still has a long way to go to catch up.

Henry Foy, a reporter for the Financial Times, reported that Poland was the only EU country to avoid recession after 2008 and has outpaced Europe's negligible average expansion rate since that time, of which many Polish are proud (Foy, *Poland seeks path beyond low-cost growth model*, 2015).

Germany

Germany, then called West Germany, was one of the founding countries of the EU. Together with Belgium, France, Italy, Luxemburg, and the Netherlands, West Germany signed the Treaty of Paris, creating the European Coal and Steel Community in 1951. Germany joined the EU when it was formally established in 1992 through the Treaty of Maastricht.

The year 2004 saw the expansion of ten new member states, which was worrisome for some Germans. They feared the cheap labour from the Eastern European countries would come and take jobs from the Germans. *Die Zeit*, a German newspaper, reported that 10 years after the Eastern Enlargement this was not the case. They report that through analysis of *das Institut zur Zukunft der Arbeit* (Institute for the Study of Labour, or IZA). The analysis concludes that there are no indications of lost jobs to migrants. Klaus Zimmermann, CEO of the IZA, adds to this that the wage levels in the EU have not decreased either. “Employees from new member states are really not cheap anymore, because of the 10% increase in wages.” (Die Zeit, 2014)

By researching the questionnaires, it is clear that companies have seen an effect after joining the EU. In several responses, it is shown that the EU is making it easier for some companies to export, through "less hassle" at the borders, and access to more potential customers. In general, as one company has said, "there's more advantages than disadvantages of joining the EU". Another company mentioned that entry into the EU made moving goods to other countries much easier. These are some of the desired effects of the European Union. On the other hand, when asked about difficulties while operating abroad, only a few companies said they experience problems, for example cultural and linguistic issues or differences in tax laws. Furthermore, because of the expansion of Polish exporting companies in the European market most of the companies face increased levels of competition from other Polish businesses. The competition is “fierce” according to some interviewed companies. Though one company mentioned that they see benefits in competing with other companies: “Competition means we need to improve and up our game every time. We care about the quality and want to be the best in Europe.” In conclusion, it can be said that the EU has made exporting easier for a number of Polish companies through for example the removal of trade barriers and free of movement of goods, one of the four fundamental freedoms of the internal EU market (Maciejewski, 2016).

VII. CHAPTER 4

The penultimate chapter will find an answer to the research question **"What are the issues Poland and Germany will have to cope with in the future which could influence their prosperity and growth?"**, by researching several forecast reports and analyses.

The future is as relevant for a country as the past and the present. The present decides the path for the future. Firstly, Poland's future will be examined by using a forecast report. Secondly, Germany's future will also be surveyed and lastly, a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis will be presented for both countries.

POLAND

As for economic growth and wealth, Poland's future appears to be bright. A research report from HSBC Global Connections shows that the economic future of Poland is driven by continued growth in capital and total factor productivity. According to the research, short and medium-term growth will continue to be solid, supported by falling unemployment and increasing domestic demand. Europe will remain the main source of export growth for the country due to its geographic advantages in the Eurozone. Its top three exporting countries will remain Germany, France and the UK (Trade Forecast Report: Poland, 2015).

Poland has the potential to continue growing and keeping its economy on the move. To do that, it needs to focus on investing in productivity in certain sectors which are in strong demand for Europe, including mining, energy, agriculture and manufacturing. Focusing on this aspect of productivity will make Poland an even more attractive country to do business with according to Michal Broniatowski of Forbes. Broniatowski also states that Poland should create additional investment projects and enable further growth of businesses (Broniatowski, 2015).

In the present day, democracy is the absolute most important right in the constitution of all European countries. The European Union was built to pursue democracy and therefore one of its objectives is to maintain democracy in each of its member states.

However, the new government of Poland, the nationalist-populist Law and Justice Party, has launched assaults on the country's judiciary and public media, putting Polish democracy and the rule of law at risk (Keleman & Orenstein, 2016). Moreover, the Law and Justice Party "will appear to be more hawkish to Brussels (i.e. the EU), and is keen on an early and spectacular victory, such as a strong No to a common EU climate policy, for example," said Michał Szułdrzyński, political editor of Rzeczpospolita, in an article in the Financial Times (Foy, *Poland returns most rightwing parliament in Europe*, 2015).

Germany

For Germany, it is a double-edged sword. In the short term, companies in Germany will focus on sustaining their progress by improving their position in the European market in comparison with other European companies abroad. However, German firms seem to be starting to worry about financial risk. Their outlook is generally positive over the long term. Germany will focus on expanding its import and export to more South and East Asian countries, which will mean countries from that area will have an increased share of the German market. (Trade Forecast Report: Germany, 2015)

SWOT Analyses

A useful tool to analyze the current and future position of a business, organisation, or even a country, is a SWOT analysis. SWOT stands for Strengths, Weaknesses, Opportunities and Threats. Strengths are internal elements of the business or organisation that give it an advantage over other businesses or organisations. Weaknesses are the opposite, they show the characteristics of the company or organisation that gives them a disadvantage. Opportunities are external factors that might affect the organisation in a positive way, whereas threats might affect the organisation negatively.

SWOT Analysis Poland	
Strengths	**Weaknesses**
Economic stability	Anti-EU government
Attractive country for foreign direct investments	Inefficient court system
Implementation of pro-business reforms	Poor infrastructure quality
Foreign businesses are permitted unrestricted ownership of Polish assets	Foreign direct investments per capita still low compared to countries like Czech Republic and Hungary
Opportunities	**Threats**
Polish manufacturing vital for Germany's supply chain	Brain drain
Warsaw regional financial hub	Transporting networks are falling behind rest of EU members
Polish connection between Eastern and Western Europe	Governmental party PiS is a risk to EU membership

Poland Business Forecast Report: The Recovery Has Arrived, 2013

STRENGTHS AND OPPORTUNITIES

Poland's economy is relatively stable and growing continuously (Adekoya, 2014). The previous Polish government, the Civic Platform–Polish People's Party government, implemented various pro-business reforms, which also made investing in the country a lot more attractive for foreign investors. In addition to this, foreign companies have been given many more rights and are now treated almost equally to Polish businesses. One of these rights is the right for foreign businesses to have unrestricted ownership of Polish assets.

Poland's geographical position in Europe is advantageous for the country. It connects Western Europe with Eastern Europe, and as such, Warsaw, the capital of Poland, has become the financial hub of that area.

WEAKNESSES AND THREATS

There are some aspects, however, that have a negative impact on the business environment. An example is Poland's inability to retain skilled and qualified workers. This is caused by the number of Polish workers that are migrating to wealthier European Union countries instigated by the prospect of better pay. This outflow is called brain drain, implying a threat to Poland. Compared to Western European countries, Polish transport networks are poor and lacking, which cause limited mobility, integration and industrial efficiency (Poland Business Forecast Report: The Recovery Has Arrived, 2013).

The populist far-right Law and Justice party - *Prawo i Sprawiedliwość* (PiS) in Polish - won the Polish parliamentary election in October 2015 and the cabinet of Beata Szydło has been governing Poland since 16 November 2015. A lot of criticism has come over the PiS, which has made a law which passed the *Sejm* - the Polish parliament - that reorganised the Polish Constitutional Court, causing it to "paralyze" the decision-making capacity of the Polish court and endangering European democracy (Chee, Szary, & Baczynska, 2016). Former presidents of Poland, including Lech Wałęsa, Aleksander Kwasniewski and Bronislaw Komorowski as well as seven opposition politicians, warned in an open letter of the actions of the PiS government, saying these actions of the government threaten the country's democracy. “Law and Justice plans to continue their actions, which destroy the constitutional order, paralyze the proceedings of the Constitutional Tribunal and the entire judicial system,” said the former presidents in their open letter (Bramson, 2016). Internationally, specifically in the EU, the party faced a considerable amount of criticism as well. Most notably Martin Schulz, president of the European Parliament, has described the political events in Poland to have "characteristics of a coup" and called the political situation "dramatic" (Day, 2015).

SWOT Analysis Germany	
Strengths	**Weaknesses**
Important player in the global and European economy	Weaker domestic business cycle
Skilled and qualified employees	Stringent bureaucracy
Proper infrastructure	Complex tax system
Stable political and judicial environment	Problematic demographic development
Important European country for foreign direct investments	
Opportunities	**Threats**
Close to Eastern Europe, a growing market	Pressure from competition because of cheap suppliers in Eastern Europe and Asia
Improvements in the domestic market	Investments in infrastructure continually lessen
Increased corporate profits	Education falling short when compared internationally
Refugees as potential labour force	Failing reform in healthcare
	Refugee crisis

DTC Business Network*: Stärken / Schwächen Analyse Deutschland*

Strengths and Opportunities

As mentioned earlier, Germany has the strongest economy of the European Union members and has emerged successfully from the financial crisis of 2008. Therefore, Germany is seen as an important player in the world economy. It has a skilled and qualified workforce with a low unemployment rate, as seen in the chart from the Organisation for Economic Cooperation and Development (OECD) in Appendix 5. The geographic position of Germany in Europe also has its benefits. It is close to Eastern Europe, which is seen as the growing market of the European Union, and Germany itself is situated in Western Europe, overall the richest area of the European Union. Having a steady economic growth is beneficial for the domestic market, which allows for the creation of more jobs and an increase in corporate profits.

Weaknesses and Threats

One of Germany's biggest weaknesses is its demographic development. Germany is dealing with an ageing population: the UN predicts that in 2050, Germany will have a total of roughly 71 million citizens, of which 38.1% is older than 60 years. That is about 27 million Germans. To put that in perspective, the UN estimates approximately 79 million people are living in Germany in 2025, where 33.2% of the population is older than 60, which results in 26.2 million people over 60. In 2000, this number was vastly lower: 82 million citizens with 19 million over 60 years, which is about 23.2% (United Nations, 2002). In the chart below, it can be seen that "labour supply is set to shrink faster than the population as a consequence of ageing", according to the OECD (OECD, 2016).

However, with the current migration of many young Syrians, Germany could use the refugee crisis as an opportunity to combat and delay the ageing of Germany's population. The refugees that do settle in Germany can form a workforce to help lessen the burden that German taxpayers now endure.

VII. Conclusion

This research attempted to find an answer to the central question "How does the upcoming economy of Poland compare to Europe's leading, established economy of Germany and what issues do they face in order to maintain their growing economies?". Through answering multiple research questions, it was observed that both Poland and Germany have had remarkably differing pasts.

Whereas Poland became a communist state under control by the Union of Soviet Socialist Republics, Germany was split in two: West and East Germany. West Germany developed differently than Poland, as West Germany had a market economy. East Germany and Poland each had a planned economy, which was common for communist states in the Warsaw Pact. In addition, West Germany signed the Treaty of Rome, which resulted in the formation of the precursor of what is now known as the European Union (EU): the European Coal and Steel Community of 1952.

However, in the late 1980s, communism came to an end in Poland and East Germany. Poland transitioned to a market economy as well and East Germany was reunified with West Germany in the *Wiedervereinigung*, which meant West Germany had to help rebuild the East German economy. An example of this help was the *Solidaritätszuschlag*, which is a tax that Germans still have to pay to this day, causing a lot of commotion in Germany.

Poland joined the EU in 2004 where it was, and still is, able to reap the benefits of the Union. For example, a year before accession, Poland generated a GDP of around 168 billion euros, whereas ten years later in 2013, that figure has grown to nearly 395 billion euro's. Germany joined the EU when it was formally established in 1992.

Polish companies are seeing the benefits of the European Union. The EU is making it easier for some companies to export, through "less hassle" at the borders and that the EU provides a larger market, due to access to more potential customers.

The future of both countries, although difficult to predict, is generally looking positive. Economically speaking, both countries are stable and will continue to grow, but current political circumstances, such as right-wing extremism and the refugee crisis could be troubling for the continuation of the European Union as we know it today. Therefore, predicting the future is especially precarious. What can be threatening for Poland's economy, is the current Law and Justice government, who might obstruct economic growth. For Germany, it is the ageing problem that needs to be solved in order to stay at the top of the strongest world economies, as well as to maintain its position as European powerhouse.

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X. Appendices

Appendix 1: Responses to the questionnaire

Company	Answers
Battechnik	
Q1	To increase revenues, gaining a stable position by diversifying revenues on different markets and to earn more money
Q2	Yes, a big impact
Q3	Yes, human resources, workers find a native speaker , etc
Q4	Yes, there is competition.
Precon	
Q1	We are owned by a Swedish company, so exporting is part of the business
Q2	No, but it is certainly easier than if there were no EU
Q3	No
Q4	I think so, yes
Urbanek	
Q1	For profit
Q2	No, the company was already exporting earlier
Q3	No
Q4	Yes
Agrosik	
Q1	Expansion possibilities of selling manufactured goods
Q2	No, it did not affect export because we started before the accession of the EU, but the EU has facilitated sales to markets within the EU
Q3	Yes, foodstuff registrations in the EU, certificates for commercial networks
Q4	Yes, competition is fierce
Sobowidz	
Q1	To enlarge and widen the market, to exchange experiences about the products on other markets, time to enter a new product already known in another market, sometimes to get a better price than the market already mastered
Q2	No, we export already since the 80's, we started to export in the times of socialism, among others, to the Netherlands. So the EU had no or little influence on the decisions of exports, while the EU's single market promotes trade. (No borders, no customs, fast transportation without customs clearance, more and better commercial information particularly on the Internet)
Q3	Yes, sometimes payments, sometimes cultural, linguistic, and sometimes also fraud - but it's like everywhere, essentially more advantages than disadvantages
Q4	Yes, In the markets popular, highly developed countries (eg Germany) undoubtedly so, though they are large markets, so you can always find your niche export and are also smaller national markets and competition there is a rule less
Foodtrade PL	
Q1	For profits

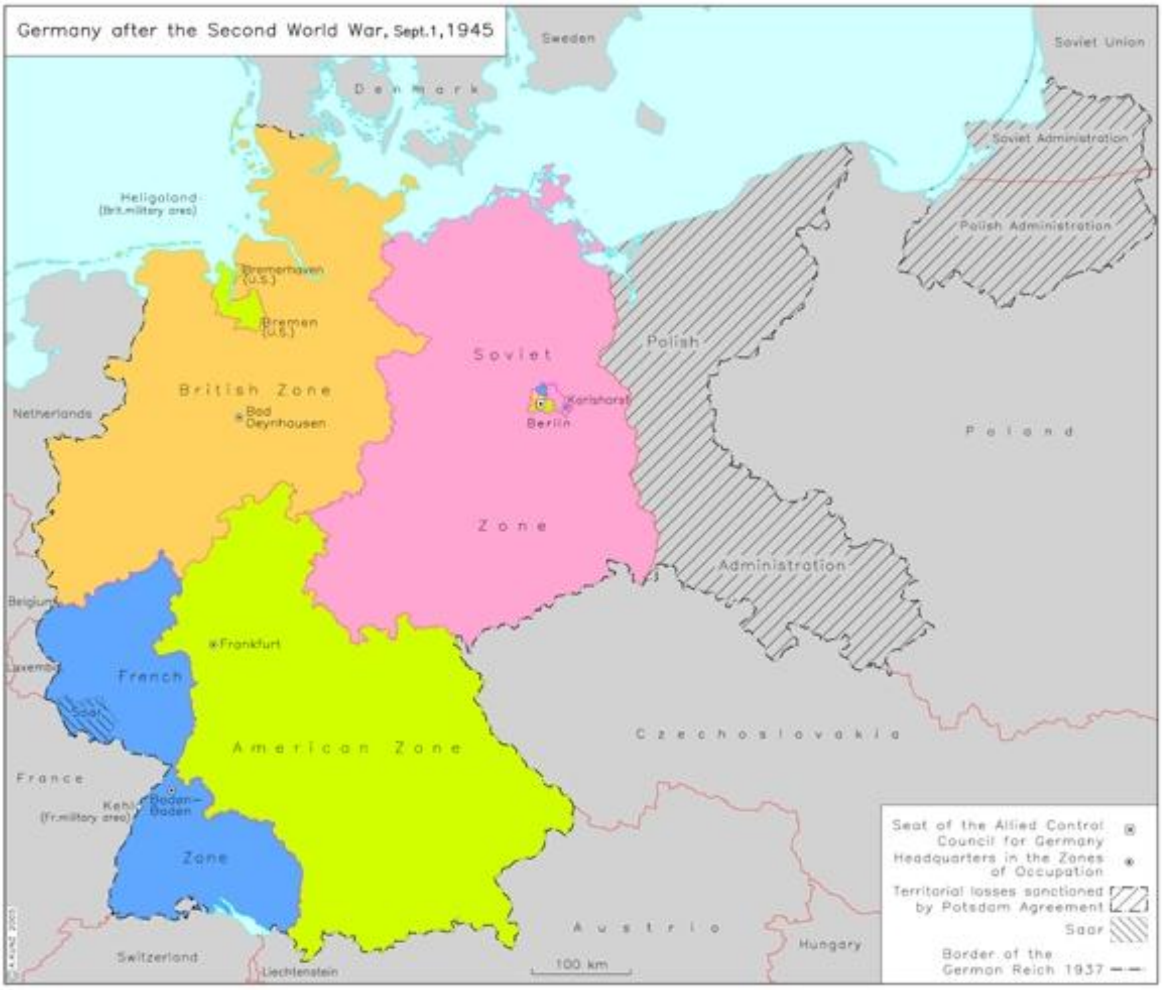
Q2	Yes, she had the effect, quite large - the simplification of formalities
Q3	Yes, mainly with non-EU countries - eg. A different way of completion of the transaction, other action arising from cultural differences
Q4	Yes, competition is present and fierce
PH Lemex	
Q1	We are an exporting company
Q2	Yes, the place of business is the European Union, and has an indirect impact on matters related to exports, the impact is large.
Q3	No, we mainly export meat to the countries of the former Soviet Union and are facing problems mainly due to a different (not very favorable) approach the customs authorities in the target countries.
Q4	Yes
PPH Legart	
Q1	export of our products is the result of cooperation with European customers, who we found ourselves (via the Internet, personal contacts ... etc.), Or to which we arrived (Internet, personal contacts, etc ...), and they commissioned us to make their projects. Our products are in some way unique (individual projects, hand-made workmanship, individual art catalog) - Category: artistic products of brass and bronze. These are called. gilded bronzes by the French school, monuments, sculptures, decorative arts rzedmioty - candelabra, candlesticks, vases, tables, etc. We make products according to classic patterns of historical and modern products according to designs of today. The tradition of making and use of such items in the interiors is a popular example. France, Russia, the United States - more than in Poland. In addition, the products are expensive, and thus addressed to a wealthy client. We export to external markets, because the domestic market is relatively shallow.
Q2	No, we do not use EU funds. EU - the abolition of internal borders between countries, the lack of customs clearance, etc. Formalities - we facilitated direct contact with customers.
Q3	No. We do not have problems - you just have to adjust to the formal requirements. Also we export outside the EU, according to received orders and then fill up the formal requirements - documents, customs clearance. This extends slightly the time of delivery, but we take into account in our work schedule.
Q4	competition is inherent in the business :) Due to the nature of our production of our competitors are rather of French, Italian and Chinese than Polish companies, but worked out a "niche" audiences with whom we work. As a result, it all comes down to production from the technical quality of the final product at balanced price and loyal maintaining the exclusivity of copyright products. We are present on the market for over 30 years ...
Pytania	
Q1	Poland is too small a market for the company
Q2	No, it had no effect
Q3	No, no problems
Q4	No
Mikmaki	
Q1	To make more money
Q2	No, because we were exporting already into Europe

Q3	No, there were no problems, everything about trading is much easier and faster
Q4	Yes, there is much competition from other Polish companies. But competitions means we need to improve and up our game every time. We care about the quality and want to be the best in Europe
Praliny	
Q1	In order to increase profits and gain new markets
Q2	No, it did not have much impact, but the creation of the EU made it much easier with movement of goods within the Union
Q3	No, there we did not face difficulties
Q4	Yes
Anonymus	
Q1	We have the production capacity, our products (frozen fruits and vegetables) meet quality requirements, prices and margins are adequate
Q2	Yes, the lack of customs duties, additional documentation, and more customers in a very simple way can be imported into the EU
Q3	Yes, we were not sure if the product was fit to country, difficulties in calculating the right prices
Q4	Yes, virtually all manufacturers trying to sell for export
Push Pilot	
Q1	We start sending branded goods outside polish market because we are working with value PLN = and exchange of EURO and USD helping us to find places where our goods are cheaper than domestic.
Q2	Yes, the EU opens more possibilities for us and whole operation of sending goods start to be easier.
Q3	Yes, the main problem when we are selling goods in EU - is that tax law is different in each country.
Q4	No, we do not have too much competitors, so trading is easy.

APPENDIX 2: MAP OF THE EASTERN BLOC

Graphic Detail: the Eastern Bloc, The Economist, 2014

APPENDIX 3: GERMANY AFTER THE SECOND WORLD WAR



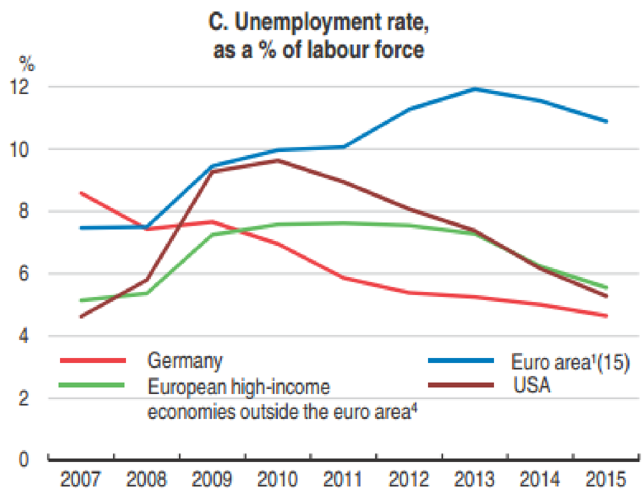
Germany after the Second World War, Sept.1, 1945, Institute of European History, Mainz, 2005

Appendix 4: Overview of financial aid of the Marshall Plan

Country	1948/49 ($ millions)	1949/50 ($ millions)	1950/51 ($ millions)	Cumulative ($ millions)
Austria	232	166	70	468
Belgium and Luxembourg	195	222	360	777
Denmark	103	87	195	385
France	1085	691	520	2296
West Germany	510	438	500	1448
Greece	175	156	45	376
Iceland	6	22	15	43
Ireland	88	45	0	133
Italy and Trieste	594	405	205	1204
Netherlands	471	302	355	1128
Norway	82	90	200	372
Portugal	0	0	70	70
Sweden	39	48	260	347
Switzerland	0	0	250	250
Turkey	28	59	50	137
United Kingdom	1316	921	1060	3297
Totals	**4,924**	**3,652**	**4,155**	**12,731**

Schain, M. A. (2001): *The Marshall Plan Fifty Years Later*

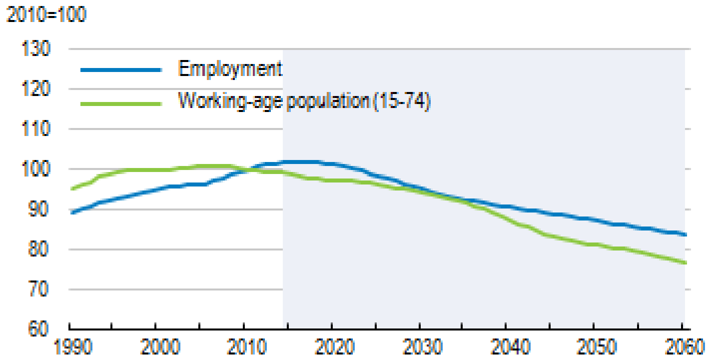
Appendix 5: Chart of the German unemployment rate



OECD Economic Surveys Germany April 2016, p. 8

APPENDIX 6: PROJECTED EMPLOYMENT AND POPULATION TRENDS OF GERMANY

Projected employment and population trends (in % of population)



OECD Economic Surveys Germany April 2016, p.4

APPENDIX 7: ETHICS FORM

ES4 Guide for Final Project and Dissertation | 2015-2016

Appendix 6.3 – Student Ethics Form

European Studies
Student Ethics Form

Your name: Niels Vereecken

Supervisor: Dhr. M. Lak

Instructions/checklist
Before completing this form you should read the APA Ethics Code (http://www.apa.org/ethics/code/index.aspx). If you are planning research with human subjects you should also look at the sample consent form available in the Final Project and Dissertation Guide.

a. [ ] Read section 3 that your supervisor will have to sign. Make sure that you cover all these issues in section 1.
b. [ ] Complete sections 1 and, if you are using human subjects, section 2, of this form, and sign it.
c. [ ] Ask your project supervisor to read these sections (and the draft consent form if you have one) and sign the form.
d. [ ] Append this signed form as an appendix to your dissertation.

Section 1. Project Outline (to be completed by student)

(i) Title of Project: Comparing Germany and Poland: an Economic analysis of the Period after the Second World War

(ii) Aims of project: To gain more insight of the economic development of Germany and Poland.

(iii) Will you involve other people in your project – e.g. via formal or informal interviews, group discussions, questionnaires, internet surveys etc. (Note: if you are using data that has already been collected by another researcher – e.g. recordings or transcripts of conversations given to you by your supervisor, you should answer 'NO' to this question.)

YES / ~~NO~~

If no: you should now sign the statement below and return the form to your supervisor. You have completed this form.

This project is not designed to include research with human subjects . I understand that I do not have ethical clearance to interview people (formally or informally) about the topic of my research, to carry out internet research (e.g. on chat rooms or discussion boards) or in any other way to use people as subjects in my research.

Student's signature ______________________ - date ______________

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If yes: you should complete the rest of this form.

Section 2 Complete this section only if you answered YES to question (iii) above.

(i) What will the participants have to do? (v. brief outline of procedure):

They will have to complete a questionnaire.

(ii) What sort of people will the participants be and how will they be recruited?

They are working for Polish exporting companies and are selected via a website.

(iii) What sort stimuli or materials will your participants be exposed to, tick the appropriate boxes and then state what they are in the space below?

Questionnaires[X]; Pictures[ ]; Sounds [ ]; Words[ ]; Other[ ].

It is a short list of questions with open answers.

(iv) Consent: <u>Informed</u> consent must be obtained for all participants before they take part in your project. Either verbally or by means of an informed consent form you should state what participants will be doing, drawing attention to anything they could conceivably object to subsequently. You should also state how they can withdraw from the study at any time and the measures you are taking to ensure the confidentiality of data. A standard informed consent form is available in the Dissertation Manual.

(vi) What procedures will you follow in order to guarantee the confidentiality of participants' data? Personal data (name, addresses etc.) should not be stored in such a way that they can be associated with the participant's data.

They will stay anonimous.

Student's signature: [illegible] **date:** 25-5-'16

Supervisor's signature (if satisfied with the proposed procedures): .... **date:** 25/5/2016

[illegible]

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