Poland – From Centrally Planned To Market Driven Economy. How Soon Will It Be Possible To Achieve Germany’s Level Of Development?

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Purpose of this study

In my paper I would like to have a closer look at Polish economy which has been through a major evolution for the last 27 years. In 1989 it has been officially changed from central planned into market driven economy. I would like to indicate the most important changes from economic perspective in my country to show the improvement that has taken place. Afterwards, I would like to look into the most powerful economy in Europe and also Poland’s neighbour – Germany. This country is one of the most powerful countries in the world, and had the strongest economy in Europe. I would like to compare some of the most important factors to see if Poland would be able to achieve Germany’s level of development in coming years. For my research I used reliable data of the World Bank, International Monetary Fund, Ministry of Economic Development in Poland, official website of the European Union.

Abstract

Republic of Poland is located in Central Europe. The country is surrounded by 7 countries – Germany, Czech Republic, Slovakia, Ukraine, Belarus, Lithuania, Russia. Moreover, Poland has open access to Baltic Sea through can directly trade with Denmark, Sweden, Norway, Finland, Estonia and Latvia. In 1989 as a result of geopolitical changes in Europe, Poland became independent country with market driven economy. Since 2004 Poland is a member of European Union but country still keep Polish Zloty (PLN) as a national currency.\(^1\) The country is populated by 38.5 million of people (2015), with 12,554 USD GDP per capita, which is around 67% of average GDP per capita in European Union (2013)\(^2\). Current Poland GDP is equal to 477 billion USD, which put Poland in 25\(^{th}\) place in the world and 24\(^{th}\) place in terms of purchasing power parity. Between 2000-2015 Polish GDP increased by 140%, Export by 361% and import by 239%.\(^3\)In the last few years, Poland has become the fastest growing economy in the EU. It is a decentralized country, having strong institutions and its economy is diverse and deeply integrated within the EU. In 2009, it was the only EU country to avoid recession. However, Polish GDP per capita is only 63% of the EU average. There are still remaining significant disparities of income between Warsaw (the richest part of the country), the Western provinces (generally well linked to the EU) and Eastern provinces (relatively poorer).

Major export and import commodities of Poland

In 2014 the largest proportion of Polish export was accounted for electromechanical industry - machinery and mechanical appliances, electrical and electro technical equipment (40%). Second largest group of exported products were products of chemical industry – plastics, rubber and other chemical production (14%). 3rd largest share was accounted for agricultural products - live animals, animal products, vegetable products, fats and oils, prepared foodstuffs (12%). 4th largest share was accounted for metallurgical products. The rest 6 types of production were responsible for 24% of total export. In 2014 the largest proportion of Polish import was accounted for products of electromechanical industry - machinery and mechanical appliances, electrical and electro technical equipment (37%). Second largest group of imported products were products of chemical industry – plastics, rubber and other chemical production (14%). 3\(^{rd}\) largest share of import was accounted for mineral products - articles of stone, ceramic products, glass (12%). 4\(^{th}\) largest share was accounted for

\(^1\) Poland is obligated to implement Euro currency in the future. Nevertheless, the accession agreement between Poland and European Union does not precise the date of Euro implementation.
\(^2\) http://data.worldbank.org/
\(^3\) "Polish foreign trade outlook at the end of September2016", Ministry of Economic Development
metallurgical products - base metals and articles thereof and other metallurgical products (10%). The rest of 7 types of products were accounted for around 30% of total import.

Foreign Direct Investment 2004-2014

- Foreign Direct Investment in Poland 2004-2014

Liabilities accounted for FDI in Poland

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4 All presented number are in Euro. Because of differences in reporting standards some of numbers were converted from Polish Zloty (PLN) to Euro (EUR) with exchange 1 EUR = 4.2 PLN.
Above chart presents accumulated liabilities accounted for foreign direct investment in Poland. In the span of 10 years (2004-2014) net foreign capital invested in Poland increased by 176%. Each year more capital was invested in Poland than outflow from country.

- Geographic structure of foreign direct investments in Poland in 2014

When it comes to geographic structure of FDI the highest single exposition in Poland is accounted for Netherlands – 17%. The second biggest investors is Germany - 16%. The third and fourth positions are accounted for Luxemburg and France respectively. Investors from the rest of the world were accounted for 43% of all investments.

- Polish Foreign Direct Investments 2004-2014

Since 2004 Polish foreign direct investments systematically increases the value of foreign accounts receivable. In the span of 10 years (2004-2014) Polish FDI increased by 2761%. The highest increase was noticed between 2004 and 2011. Between 2012 and 2014 value of investments keep similar values. Nevertheless, in 2004 value of foreign investments in Poland (liabilities) were accounted for 63.225 million Euro when Polish foreign investments (accounts receivable) were accounted for 781 million euro. In 2014 liabilities from foreign investments were almost 8 times higher than accounts receivable from foreign investments.
• Geographic structure of Polish foreign direct investments in 2014

In 2014 Polish investors were most likely to invest in Cyprus, Luxemburg and Switzerland, which together were accounted for 67% of Polish FDI. Other most invested countries by Polish investors were Netherlands, Czech Republic, Germany, Norway, UK, Lithuania and Russia. Furthermore, most of Polish FDI were invested in European Union countries.

Major trade partners of Poland - 2015

The largest single trade partner of Poland in 2015 was Germany - 27.1% of total export and 22.9% import is accounted for this market. The other important group of partners consist from UK, France, Italy and Czech Republic. Trade exchange of this countries with Poland is around 5% of export and 5% of import for each country. Very important import trade partners are Russia and China. Polish import from these countries is accounted for 10.2% and 12.6% respectively.
Most of Polish trade is done with European Union countries – 79.4% of sum of export and 60% of sum of import. Moreover, 61.6% of sum of export and 50.5% of sum of import is accounted for “old 15 of EU” countries (western European countries). Non-EU countries trade is accounted for 6.3% and 6.8% of export and import respectively. CIS (ex-soviet union countries) trade is accounted for 5.6% and 9.1% of export and import respectively. China is accounted for 11.6% of import and is only one country outside of Europe which Poland has strong trade relation.

Germany - overview

Germany is the largest economy in Europe, the fourth-largest by nominal GDP in the world. The economic model of Germany is based on the concept of the social market economy. In 2016, Germany recorded the highest trade surplus in the world worth $310 billion, making it the biggest capital exporter globally Poland’s western neighbour is the 3rd largest exporter in the world with $1.27 trillion in goods and services in 2016. The service sector contributes around 70% of the total GDP, industry 29.1%, and agriculture 0.9%. This kind of proportion between services, agriculture and manufacturing is a characteristic of highly developed economies, and this is a rule which should also be followed by Poland. Exports in Germany account for 41% of national output. The top 10 exports of Germany are vehicles, machineries, chemical goods, electronic products, electrical equipments, pharmaceuticals, transport equipments, basic metals, food products, and rubber and plastics. Energy in Germany is sourced predominantly by fossil fuels (50%), however alternative energy is also being used, as this country is the first major industrialized nation to commit to the renewable energy transition, and renewables now produce over 27% of electricity consumed in Germany. The country is also the leading producer of wind turbines in the world.

As Germany imports many products, which are plentiful in Poland, our cooperation blossoms. Agricultural, forestry and food are among Poland’s most important and most valuable goods, which are among others exported to Germany. As it can be seen in the graph below, Poland is 6th and

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5 15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.
7th import and export partner for Germany, respectively. Increasing the level of trade with Europe’s greatest economies would definitely help Poland to accelerate its development and be able to catch up sooner to the Western world.

**Germany's major trading partners, 2015**
in EUR bn

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Furthermore, Germany ranks fifth in the world as a recipient of foreign direct investment. Around 60% (278 bln euro) of all FDI stocks in Germany originate from the EU, with a further 7% stemming from the remaining European non-EU countries. Investments from outside the EU are on the rise. North America accounts for 20% of FDI stock, while Asia, which increased its investment there in recent years, holds 11% share. Germany is the world’s largest recipient of new Chinese FDI projects.

Poland and Germany are both mostly relying on European countries when it comes to FDI. However, in recent years, both are countries have made the same switch – towards Asian (mostly Chinese) markets. This is an opportunity for both countries to enlarge their economies, and also to find new solutions for trade which originally has always been focused on European partners.

**Trade pattern of Poland – explanation and changes in trade barriers in last 15 years**

Polish biggest trade partners are concentrated in European Union – almost 80% of export and 60% of import. There are two main factors which determine trade pattern of Poland. The first one is geographic location of Poland and it’s distance to other members of European Union.
neighbours of Poland are members of EU. Moreover, within European Union Poland can send and receive trade goods from every EU’s member by each means of transport without any political barriers. Moreover, in recent 10 years Poland developed network of motorways, cargo flight connection and maritime transport with EU partners. That is the first reason why Poland trade much more with EU countries then with eastern European countries and rest of the world. Nevertheless, second argument is also important and has huge impact on Polish trade pattern. Since accession to European Union Poland obtained access to EU’s single market which allow Poland to trade goods and services, transfer money and move of people without any barriers – “as easy as within a single European country” with 28 EU’s members, Norway and Switzerland. This is the most important single event in current Polish economic history (after getting independence from Soviet Union) which boost Polish international trade. Thanks to this agreement Polish business entity can trade, exchange knowledge and make FDIs freely. Moreover, in case of any law violation each country can defend its business in European Commission which is responsible for law making and law obey the law by all members of EU. It makes European Union well-regulated and safe for business place to trade. Undoubtedly, EU single market regulations positively influence growth of trade between EU’s members. Poland as an independent country as well member of EU singed trade deals with eastern countries Ukraine, Georgia, Moldavia. Nevertheless, lack of solid infrastructure and internal political problems (lack of common standards and law) don’t allow to boost trade between Poland and these countries.

Nevertheless, the most important single trade partner of Poland is Germany – accounted for around quarter of Polish export and import. As a first Germany are biggest (in terms of population, size of economy and territory) neighbour of Poland. It makes Germany natural trade partner of Poland. Secondly, average wages in Poland are still relatively lower to wages in Germany – according to European Commission data Polish hour cost of labour is 9 euro when in Germany same average hour cost of labour is 32 euro. It makes Poland attractive outsourcing partner as well potential country to conduct green field and brown field FDI’s – Germany is accounted for 16% of FDIs invested in Poland. According to Polish National Bank data in 2013 most exported goods from Poland to Germany were machinery equipment, other equipment, transport products, intermediate production and raw materials and manufacturing production was accounted for more than 50% of total export. The data proves that Poland is an important partner in German’s supply chain, which serve as a supplier of manufacturing goods and take an important role in assembling German’s production.

When it comes to FDI foreign entities invested much more in Poland then Poland invested in rest of the world. In 2014 foreign investments in Poland were 8 times higher than Polish investments abroad (174,220/22,344). Moreover, 4 biggest investors by country coming from European Union and Polish foreign investments are also focus mostly on European Union countries. There are two main factors which run that number. The first one is Polish economic history. Poland is has market driven economy for last 27 years and in that spin of time economy demanded a lot of capital to invest and wasn’t able to aggregate enough capital to conduct foreign investments on a big scale. Secondly, Poland after 1989 became relatively economically open country and accession to European Union only strength this trend. That is why, since 2004 foreign (coming form EU) and domestic investors has to be treat equally by Polish government and market regulators. This two mentioned factors caused that difference in level of liabilities and accounts receivables accounted for FDI and direction of capital invested in Poland and invested by Polish investors.

Benefits and cost of free trade for Poland

Between 2000 and 2015 Polish GDP increased by 140%, export by 361% and import by 239%. Moreover, since 2012 export excess import (denominated in Polish Zloty – PLN).

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6 Deep and Comprehensive Free Trade Areas (DCFTA), entered into force in July 2016
7 Excluding Russia
8 http://ec.europa.eu/eurostat/statistics-explained/index.php/Wages_and_labour_costs

www.theinternationaljournal.org> RJEBS : Volume: 08, Number: 08, June 2019
Based on presented numbers and background knowledge Poland benefits from free trade and accession to European Union allowed Polish producers to plan strategic partnerships with western partners as well be treat equally by each country government. Nevertheless, open up on free trade and capital flow caused also problems for Polish economy. The biggest current problem raised by economist and included in government strategy is capital structure of Polish financial sector. In 2014 almost 70% of Polish insurance sector belonged to foreign investors. In worst 2009 more than 82% of same sector belongs to foreign investors. When it comes to banking system in worst 2006 year around 70% of total banking assets belonged to foreign investors. In 2015 around 60% of total banking assets belonged to foreign investors. At the first glance the geographic structure of capital shouldn’t have influence of economy prosperity as capital is always located in most effective industries of economy. On the other hand lack too much foreign capital creates number of problems: domestic branch of banks are depended on situation in capital origin countries, remote decision taken from headquarters located abroad are not always most accurate and in the end finally affect domestic economy. Thirdly, foreign capital can be influenced by foreign governments which may interfere with country strategic development plans.

Summary
Summing up, Poland since gaining independence 27 years ago transformed economy from central planning to market driven. The changes allow Poland to develop economic relations with most of European countries, as well internationally. As the above number present increase of country GDP was closely linked with growth of export and import. However, Polish economic growth is becoming slower. In 1994-2003, GDP grew at an average real rate of 4.64% per annum. At the time of accession to the European Union, initially we accelerated (to 5.2% in the first "Five-Year Plan"), but after 2008 Polish economy was idling, with an average GDP growth of 3% in each year (2004-13 GDP grew by an average of 4.06%.

The goal of achieving economic level of Western Europe, remains unfulfilled: GDP per capita in Poland is only 38.5% of the EU average, and the average net wage is 3-4 times lower than the "old EU". Poles still compare themselves to the best, that is, Germany and UK - the two largest economies in Europe. This is the distance separating us from the standard of living for our western border. What you need to do to achieve it? The answer is simple: we have to grow much faster than Germany and other rich countries of Europe. Here comes pure mathematics: the time needed to catch up with the West depends on the difference in the pace of economic development.

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9 Own study based on data provided by Polish financial market regulator (KNF)
Poland’s and Germany’s GDP (in USD)

Assuming that Germany will maintain an average GDP growth of the last 30 years (1.7%), and Poland will grow at the same pace as the in 1990 (3.1%), the standard of living of our western neighbors we will be able to achieve in 93 years. However, if we significantly accelerate the pace of economic growth by doubling the GDP growth rate to 6.2% per year, the level of current Germany’s development could be achieved in less than 30 years, so within one generation.

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