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Polish-German Economic Cooperation: Past, Present, Future

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CONTENTS

1. Polish-West German economic relations, 1948-70

Poland's economic contacts to Germany's western part began even before the Federal Republic was proclaimed.

A first trade agreement signed in Frankfurt/Main already on December 22, 1948 provided for mutual deliveries of goods worth 26.8m U.S. dollars, $14.6m of that from Poland. The same agreement authorized Poland to open its own trade mission in Frankfurt (with no defined status though). Half a year later, on June 5, 1949, the allied Joint Export and Import Agency (JEIA) signed a one-year trade and payments agreement with Poland, a deal the newly created Federal Republic took over. The agreement which raised the trade value for both signatories to $35.4m each also spelled out payment conditions for the deliveries.

Throughout the former half of the 1950s trade was slack, and whatever possibilities there were to expand trade between the two countries were barred by the Cold War.

But the prewar trade volume of DM134.3m was attained already in 1950. The easing of East-West relations from the mid-1950s onwards boosted Polish-West German economic relations. Western economies were booming and reconstruction efforts in postwar Europe were beginning to produce first obvious effects. The new business confidence also showed in West German-Polish economic relations, for West German exports to Poland grew 5.1% and imports from that country by 4.2%.

But in 1959 relations slumped, and nothing much stirred till 1963. Once more, politics cast a dark shadow on economic cooperation. The federal government's support for Poland's sweeping drift towards democracy in internal affairs in 1956, which Bonn propped with various offers of financial and economic assistance was interpreted by the Communist authorities in Warsaw as a perfidious ploy to pick Poland out of the socialist community and change its economic system. Poland's continuing trade surplus with West Germany in 1957-59 (cf. Table 1) surely did not result from insufficient export capabilities on the western side. The Polish authorities alone were to blame, for they stubbornly kept to a policy which supposedly protected the country's political and economic independence. But that policy of keeping foreign trade strictly in balance was actually one Poland followed in relations with all Western countries at that time.

The fact that the Poland had no diplomatic relations with the Federal Republic till as late as 1972 was of course a major political stumbling-block to economic cooperation. In the cold atmosphere between the two countries, the fragile institutional framework which was being provided for the cooperation was doomed to be short-lived obviously reflecting a wait-and-see attitude. Till 1963, for example, all economic cooperation used to be unfolded on the ground of one-year or six-month agreements only.

West German Foreign Affairs Minister Gerhard Schr der's initiatives to invigorate trade with the East bore fruit in Warsaw where a West German trade mission opened in 1963, the first such institution in Comecon countries. The fact itself was indicative of a change beginning in the political relationship, with the two countries gingerly inching towards a more favourable climate for cooperation.

Also in 1963, in March to be precise, a first long-term (three-year) trade agreement was signed by the two countries. An institutional framework for cooperation began to be established with a view to future economic cooperation, including a joint commission which could be called by either partner to get together to sort out differences that might develop in negotiating deals and to make suggestions about the wording of agreements or commodity lists to be drawn up. One of several agreements then signed, on sea transports, warranted equal treatment of ships by each party on a reciprocity basis.

The creation of the trade mission, new treaty and legal regulations soon had a good effect on trade. Trade nearly doubled in value from 1963 to 1969, with West German and Polish exports 2.35 times and 1.66 times greater, respectively, that at the beginning of the period. But the Polish authorities stood firmly to their trade-hampering policy of bilateral export-import balancing, while import quotas or embargoes on some goods were obstacles on the West German side. West German import quotas were still relatively high at that time, but the banned export lists kept being shortened systematically.

Table 1

West Germany's trade with Poland, 1950-79, DM million

Year	Trade value	Import	Export	Balance
1950	134.3	67.9	66.4	- 1.5
1951	140.9	57.4	83.5	+26.1
1952	123.0	58.3	64.7	+ 6.4
1953	138.9	74.4	64.5	- 9.9
1954	136.0	58.0	78.0	+20.0
1955	233.4	117.6	115.8	- 1.8
1956	539.3	240.6	298.7	+58.1
1957	473.4	198.3	275.1	+76.8
1958	629.3	298.2	331.1	+32.9
1959	634.8	340.5	294.3	-46.2
1960	624.5	320.2	304.3	-15.9
1961	621.8	339.0	282.8	-56.2
1962	590.3	327.0	263.3	-63.7
1963	581.9	321.2	260.7	-60.5
1964	676.6	362.7	313.9	-48.8
1965	801.6	435.4	366.2	-69.2
1966*	857.1	481.6	375.5	-106.1
1967	931.4	439.6	491.8	+52.2
1968	1,070.9	478.3	592.6	+114.3
1969	1,143.7	532.1	611.6	+79.5
1970	1,402.3	744.1	658.2	-85.9
1971	1,547.3	770.5	776.8	+ 6.3
1972	2,439.8	987.5	1,452.3	+464.8
1973	3,853.7	1,219.3	2,634.4	+1,415.1
1974	5,041.0	1,425.6	3,615.4	+2,189.8
1975	4,648.8	1,436.2	3,212.6	+1,776.4
1976	5,138.3	1,919.2	219.1	+1,299.9
1977	4,977.5	2,089.3	2,888.2	+798.9
1978	4,731.5	2,085.7	2,645.8	+560.1
1979	4,671.0	2,207.0	2,464.0	+257.0

Source: Statistisches Bundesamt Wiesbaden: Fachserie 7 Aussenhandel, Reihe 3, Spezialhandel nach Laendern und Warengruppen, verschiedene Jahrgaenge.

By and large, then, the twenty years of economic cooperation between Poland and West Germany, from 1949 to 1969, saw trade grow systematically to DM143.7m by the end of 1969. Even so, that was far below the two economies' natural economic cooperation potentials and structure, especially considering the two economies' growing complementarity. In terms of complementarity, the two decades of trade during the 1950s and 1960s were dominated by agricultural products and foods as well as raw materials, with manufactured goods of secondary importance only. Initially, mutual relations were very much like they used to be before the war. Food and raw materials topped the list of Polish deliveries in the first postwar years, which apparently suited the West Germans well if food and raw materials accounted then for some 40% and 32% of total German imports, respectively. But as time went by and the two economies were undergoing structural change, manufactured goods systematically increased their relative share in total trade value.[1]

Another characteristic feature of the first two decades after the war was the strong dependence of economic ties on the political climate in bilateral as well as East-West relations. West Germany's trade policy was almost entirely Western-oriented at the time, and its strong anti-Communist attitude soon spread over Poland too (which brought with it a rigid ban on strategic goods exports). Yet it was also that time that Berthold Beitz, the German industrialist and general manager of the Krupp corporation, launched his first personal initiatives to improve economic and political relations with Poland as early as in 1958.

Poland's trade policy towards the Federal Republic at that time was obviously marked by a determination to avoid even the slightest dependence on West Germany. That had undoubtedly a lot in common with Poland's bad memories of no long time before. The Poles had the World War II experience, in their minds, of course, but not only that. They recalled the "eight-year customs war" German Reich started way back in 1925 after its obligation to buy Polish goods (enforced on Germany on the strength of the Versailles Treaty and the division of Upper Silesia) had expired. By raising import duties on Polish goods Germany hoped to weaken the eastern neighbour economically and to force it to revise borders to Germany's advantage.[2]

[1] Z. Nowak, *Economic relations between the Federal Republic of Germany and Poland, 1949-70* (in Polish), in: *PRL-RFN: Bilans stosunków wzajemnych. Problemy i perspektywy normalizacji*. Alfred Metzner Verlag, Frankfurt am Main, and PISM, Warsaw, 1979.

[2] S. Rohde, *Kleine Geschichte Polens*, Darmstadt, 1965.

But the most spectacular show of resolute independence from West Germany was Poland's strict policy of keeping bilateral trade in balance, indeed even slightly in surplus, which Poland succeeded in doing by and large from 1958 through to 1971.

Also, Poland and West Germany did not move beyond the confines of short-term trade agreements in the twenty-year postwar period, say by taking advantage of industrial cooperation possibilities. So, as no more sophisticated form of cooperation existed between the two countries, the old pattern of trade between the two countries which by then had become completely out of step with the Polish export structure was being reinforced as though automatically. In 1970, for example, food accounted for a huge 32.4% of Polish exports to West Germany, compared with its 13.2% share in the total Polish export value. Another case of a glaring structural inadequacy were manufactured goods, which accounted for only 20.3% of Polish exports to West Germany, at a time their share in Poland's entire export value stood at 54.1%. So, what hampered trade between Poland and West Germany most badly in 1949 to 1969 was the lack of political relations and of an up-to-date institutional framework.

A great deal of the prewar Polish-German cooperation area was taken over, from 1946 onwards, by what came to establish itself as the German Democratic Republic. Poland, acting in its capacity as an independent state, concluded a trade agreement with the German authorities of the Soviet occupation zone as soon as on February 2, 1946. Other short-term agreements followed, each for a short period only, and most of them dealing with mutual goods supplies and payments conditions.

As cooperation spread inside the Council for Mutual Economic Assistance community, Comecon for short, the member countries began increasingly to rely on long-term agreements setting general framework conditions in keeping with each country's respective economic directives and targets as determined in national economic development plans. An economic and scientific cooperation deal signed on April 22, 1960, is a good case in point. Under the terms of that agreement Poland and the German Democratic Republic set up a Standing Economic and Scientific Cooperation Committee which later brought to fruition a number of sectoral cooperation agreements in construction, agriculture, forest management, and water management.[1]

[1] *VRP-DDR: Buendnis und Zusammenarbeit*, Institut fuer Internationale Beziehungen, Berlin, and PISM, Warsaw, 1974.

The fast-growing commodity trade between the two countries accounted for the lion's share of economic relations between the two countries in 1950 to 1960, when they increased by a good 100%. Poland and the German Democratic Republic began to venture into adopting somewhat more advanced forms of cooperation in the latter 1950s. Under one agreement, for example, in return for plant it needed to set its lignite mines to work Poland made its power supply system available to East Germany. The two countries also signed deals on mutual services supplies, while Polish construction services exports to the German Democratic Republic boomed.

2. Economic cooperation after 1970: the aftermath of normalization

The December 1970 normalization treaty was a landmark in Poland's economic cooperation and trade with West Germany. The December 1970 treaty was a product of East-West d tente and of the Social Democratic-Liberal coalition government's new *Ostpolitik* concept. In fact, a sizeable portion of the treaty was devoted to economic cooperation, industrial undertakings and cooperation in third countries. Declaring their commitment to expanding industrial cooperation both signatory parties obligated themselves at the same time to introduce customs facilities for each other and to lift quantitative restrictions on cooperation.

The creation, in March 1971, of a West German section at the Polish Chamber of Foreign Trade (PIHZ), at a time the West German business confederation set up its own Eastern Trade Commission (Ostausschuss der Deutschen Wirtschaft), streamlined mutual information and helped set the stage for cooperation deals.[1] The boom Western countries were going through then and West Germany's need to find new markets for its goods tallied excellently with the spate of orders from the import-hungry Polish economy, which was embarking on a new ambitious socio-economic growth programme. From 1972 onwards, the trade balancing principle was increasingly being ignored, which quickly produced a huge adverse balance, and so a growing foreign debt, for Poland.

Agreements concluded in the 1970s laid the foundation for Polish-West German economic relations. Three of them deserve special mention:

- A ten-year trade, economic and scientific cooperation agreement dated November 1, 1974, in which the Polish and West German

[1] M. Tomala, *West German economy in the past, now and in future* (in Polish), PWE, Warsaw, 1979, p. 265.

declared, in article 8, their special commitment to industrial and agricultural cooperation based on long-term agreements. They also undertook to give cooperation projects free way by streamlining customs procedures and reducing quotas as far as possible. The agreement expired on January 15, 1985, but already on March 22 the same year it was renewed for another ten years.

- A long-term economic, industrial and technological cooperation agreement signed September 19, 1975, in which the two countries defined possibilites of economic and industrial cooperation in different areas and industries.
- A government agreement on further economic cooperation signed June 11, 1976, which was renewed automatically for another five years on expiry.

Other agreements were signed for specific purposes, the following ones.

- A memorandum signed, for an indefinite period of time, on November 25, 1977, stipulated expansion of cooperation between medium and small businesses. The agreement was designed to help step up the scale of cooperation deals involving medium and small enterprises of the two countries.
- An agreement on easing requirements to Polish specialists on employment in West Germany (signed in 1979 for three years and automatically renewed for the following years).
- An agreement on preventing repeated tax payments (1972, for an indefinite period).
- An agreement on international public road transport taxes (1976, for an indefinite period of time).

Yet despite those broad and varied regulations, the actual volume of trade and cooperation between the two countries had never actually reached levels the two countries would have found satisfactory. Confidence-building proved a painstaking and arduous process. The December 1970 treaty did not - nor could it really - resolve all problems, including economic ones, between Poland and West Germany. The strong pickup in trade from 1970 onwards flagged in 1974, to break down completely in 1975. That was largely caused by the slump in advanced countries then, but the two countries' own trade policies were not without blame. That politics never really ceased to affect economic cooperation can be seen from the circumstance that the results of Helmut Schmidt's meeting with Edward Gierek in at the Helsinki CSCE conference had a positive effect on trade right away, which showed in official statistics already in September 1975.[1]

Polish-West German trade in the 1980s was unfolding in a somewhat erratic fashion, generally lacking stability. Following the record year 1980, trade kept falling on the export as well as the import sides. By the end of 1983, trade had dropped even DM300m below the 1975 figure. But in 1985 trade suddenly surged DM1.5bn hitting an all-time high at DM5.9bn, only to drop below the DM5bn mark once more in the following two years. West German imports were particularly unstable. Even so, West Germany remained Poland's next biggest trade partner, next only to the USSR. The West Germans increased their share of Polish imports from 7.0% in 1982 to 9.8% in 1986, that of exports from 8.1% to 9.4% over the same period of time.

The mutual trade balance changed in the 1980s. From 1983 Poland has reported surpluses with West Germany, but only small ones in the range of DM200m or so. The one exception was 1984, when the surplus came close to DM500m. Poland has obviously been trying hard to keep a good import-export balance, yet because of its inability to invigorate exports Poland has been able to do little more than relatively cut West German imports.

Of the many different things that stood in the way of normalizing political relations and mutual contributions to eonomic cooperation, martial law in Poland was a critical fact. The West German government's immediate reaction was to suspend loans and to withdraw its Hermes guarantees, apart from other such sanctions. Those moves hurt badly Polish importers, who saw themselves forced to buy everything for cash through to the end of the 1980s.

A slight easing of financial relations began only in 1990 when normal trade financing rules began to be restored. The West German government did not go as far as the United States, for example, in imposing sanctions. The West Germans thought the nature of the Polish-German relationship prevented any very harsh reaction, and they acknowledgd the moral dimension of those relations.[2] With that position of the West German

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[1] E. Schulz, *Handel zwischen Politik und Gewinn, in: VRP-BRD, eine Zwischenbilanz*, Alfred Metzner Verlag, Frankfurt, and Polski Instytut Spraw Międzynarodowych, Warsaw, 1979.

[2] M. Tomala, *Warszawa-Bonn 1970-1990*, Polski Instytut Spraw Międzynarodowych, Warsaw, 1990.

government, the political turmoils in Poland early on in the 1980s did not reduce Polish-West German trade drastically. In fact, Poland managed to redouble its exports during those years.

Table 2

Poland's trade with West Germany, 1985-89, DM billion

mld. DM

	1985	1986	1987	1988	1989
Total	5.89	4.82	4.54	5.89	6.36
Export	2.93	2.45	2.34	3.03	3.21
Import	2.96	2.37	2.20	2.86	3.15
Balance	-0.03	+0.08	+0.14	+0.17	+0.06

The humanitarian aid West Germans gave Polish people at that time deserves to be acknowledged separately.

To sum up, then, the 1980s economic cooperation between the two countries was marked by a standstill in financial relations, flagging industrial cooperation, and trade continuing roughly at the same rate despite these adverse developments.

3. Economic cooperation now

Trade

Trade figures reported for 1990 are somewhat misleading as far as Poland's turnover with Germany's eastern and western parts is concerned. As a major step towards unification the West German D-Mark was introduced in the former German Democratic Republic as the only legal tender in mutual settlements. Yet despite that some agreements concluded still with the meanwhile defunct German Democratic Republic continued to be settled in transfer rubles through to the end of 1990.

First figures available in March 1991 seem to point to a substantial 20% increase of Polish exports to Germany's western part (i.e. without former West Berlin and the German Democratic Republic), which may eventually drive the Polish exports figure above the DM4bn mark for a first time ever. But Polish imports from West Germany in the first three quarters of 1990 were one-third down from the 1989 figure.

The industrial export structure (in the former half of 1990) was roughly this: metallurgical goods 58%, engineering goods 17.7%, agricultural products and foods 17%, chemicals some 11.5%

As in previous years, fuels, raw materials, unprocessed goods and agricultural and food exports accounted for two-thirds of the entire value of Polish deliveries. In German exports, the share of engineering goods increased to 58%, whereas agricultural goods and food dropped to 5% from 16% the previous year. Chemicals made up 18%, metallurgical goods 11%, of West German imports from Poland.

One characteristic figure of trade in 1990 was the improved access of Polish goods to the West German market by removing existing quantitative restrictions and putting Poland on the system of preferences the EC grants developing countries and tariff reductions or other charges paid at borders applied instead of or along with import duties. Polish exports to West Germany of GSP-embraced goods topped DM800m in 1990 (these and above figures were supplied by the Polish Commercial Counsellor in Cologne).

Although Poland quickly exhausted the GSP ceilings on many goods categories, the fact itself of extending the GSP over Poland was a boon for this country for prices of its export goods went up.

Current account management. The Polish debt problem

Financial relations are of pivotal importance for Polish-German economic cooperation. Germany is now Poland's number one creditor, holding some 28% of Poland's entire debt to the West. The debt goes dates back to the 1970s when Poland was granted a series of medium and long-term loans which were converted in several rescheduling rounds during the 1980s.

Poland's obligations to West Germany had surged over the DM20bn mark early in 1991, DM15bn of that in guaranteed and DM5.5bn in nonguaranteed loans.

Financial relations improved dramatically in 1990 when Polish economic organizations were readmitted to West German lending markets. The financial crisis had lasted from 1982 when the West German authorities froze medium and long-term lending[1] and credit guarantees for Poland. In recent years that used to be the biggest stumbling-block to commercial cooperation and trade between the two countries.

Here are the most important steps towards better financial relations between Poland and Germany.

1. West Germany's contribution to the stabilization fund for Poland, a low-interest (3%) five-year loan of DM421m with three-year grace.

   In December 1990, Poland asked Western countries to keep (renew) the stabilization fund also for 1991. A bilateral agreement with the Germans was signed on October 27, 1990.

[1] Because Poland lagged behind payoff schedules and failed to meet obligations in full.

2. The signing in March 1990 of a fifth bilateral restructuring agreement deferring the deadline for West German payments provided for in yet unconsolidated guaranteed trade transactions and financial loans granted Poland before January 1, 1984, with maturities till March 31, 1991 (altogether DM445m), and payments resulting from the Polish debt consolidated in agreements I-IV, i.e. some DM2,323m.
3. Deferment of DM1,742m in restructured debts into twelve equal six-month installments to be paid off beginning June 30, 1999.[1] The remaining part is to be paid off also in twelve equal installments beginning December 31, 1997.[2]
4. Final settlement of the 1975 "Jumbo loan" provides for a cancellation of DM759.6m and paying off DM568.8m in zloty. At the same time, a Foundation for Polish-German Cooperation was set up to manage the zloty funds for the purpose of backing youth group exchange programmes, environmental protection undertakings, infrastructure development (roads and telecommunications), training managerial staff, cultural institutes, conservancy of historic monuments, teaching German and preserving the German cultural heritage.
5. Poland was granted a DM2.5bn credit package under the so-called Hermes guarantees (including DM300m in short-term and DM2.2bn in medium-term loans). That move is potentially a big boost for economic cooperation at enterprise level. Of the DM800m Hermes guarantees granted in 1990, some DM300m accounted for steel contracts, DM185m for telecommunications, and DM150m for railway projects.

But while financial relations improved substantially in 1990, the Germans, unlike the Americans, were unenthusiastic about the idea to cut Polish debts.[3] Germans reacted much in the same fashion to queries about access to commercial loans bearing market interest rates, tax and credit preferences to investors considering investments in Poland, and making good losses Poland suffered as a result of Germany's unification.

[1] The last installment due December 31, 2004.
[2] The last installment due June 30, 2003.
[3] The Germans stood somewhere between the Americans (who wanted 60% of the debt struck off) and the Japanese (some 20%). The 50% reduction the Paris Club recommended March 15, 1991, was by and large close to what the Germans suggested.

4. Forms of economic cooperation

Trade

Trade is the most important factor in economic relations between Poland and the Federal Republic. However much the two countries' respective economic potentials, tradition and geographic proximity may speak against it, concentration on trade, a relatively simple form of economic cooperation, is a fact.

During the 1960s and 1970s Polish-West German trade became largely complementary on both sides. West Germany became the biggest buyer of Polish raw materials, taking at the same time a great deal of Polish agricultural and food exports. The German demand was driven by the long-booming economy and the policy of diversifying its sources of supply. On the other hnad, Poland, a country rich in raw materials, was keen to increase sales to keep going what it called its accelerated growth strategy.

Poland, the economically weaker of the two partners, was much at the losing end in that union, for that particular trade pattern was actually petrifying the Polish economic structure in its old shape. That trend was reinforced even more with the signing, in the latter 1970s, of a series of long-term agreements on Polish raw material deliveries coming along with substantial loans to back the development of Polish mining capabilities.[1]

That the trend became stabilized can be seen from the share of raw materials and fuels in Polish exports to West Germany, which was nearly 50% in 1980, compared with only 13.2% of engineering goods in the same year.

[1] Two major contracts of that kind were a loan agreement in return for copper deliveries (a first contract for a total of 480,000 tons between 1977 and 1988, a second one, for deliveries in the same quantity, between 1979 and 1990), and an agreement on 4 million tons of coal (over and above the amounts delivered regularly) between 1986 and 1990. Cf. A. Martowski, A. Wieczorkiewicz: Polish-West German economic cooperation: state and prospects (in Polish). *Sprawy Międzynarodowe* No. 1, 1986.

Copper, coal, sulphur and silver were all along at the top of Poland's raw materials exports to West Germany. The manufactured end products and semi-finished goods lists were dominated by the following Polish goods:

- metallurgical goods, rolled steel, and forged iron;
- chemicals such as fertilizer, caprolactam, synthetic rubber, and medicinal drugs;
- foods such as poultry, venison, rabbit meat, canned meat, fish, mixed fruits, casein, and vodka; and
- agricultural exports including slaughter sheep, goats and horses, draft horses, apples, strawberries and frozen vegetables.

Poland was for many years West Germany's third trade partner among Comecon member countries, next only to the USSR and the German Democratic Republic. But Poland features only very modestly on West Germany's trade bill. Towards the end of the 1970s Poland accounted for 0.7-0.9% of West German foreign trade, but by 1988 that share had fallen to 0.56% which landed Poland somewhere between the twentieth and thirtieth rank on the list of West Germany's trade partners. Especially remarkable is Poland's very small share of West German end product imports - just 0.51% in 1981.[1]

That decline had of course to do with the fact that West German foreign trade volume was growing more strongly and faster than Poland's.

West German exports to Poland have long included mainly the following items:

- machinery and equipment and other engineering goods, above all tools, machine tools, mining structures, mining plant, construction plant, equipment for the chemical and food industries, shipping equipment, miscellaneous appliances, bearings, pumps, and medical equipment;
- spare parts and components for the many German-made machines working in Poland;
- raw materials, semi-finished goods and chemicals including phosphorite, pesticide, artificial fibres, polyurethane, dyes and paints, chemical reagents, glues, tyres, plastics, and medicinal drugs;

[1] P. Pissula, A. Iversen, E. Boehm: *Die Wettbewerbsposition Polens auf dem Markt der Bundesrepublik Deutschland.* HWWA, Hamburg 1981.

- iron and steel sheet and pipes, aluminium;
- agricultural products and foods such as grain, seeds, feeding stuff, butter, cheese, or powdered milk; and
- light industry goods.

Despite the recent growth of trade between the two countries Polish exports are seen to be further deteriorating as raw materials and unprocessed goods continue to gain ground.

Unlike the situation early in the 1980s, Polish imports are no longer subject to any particular restrictions in the West German market now. Non-tariff barriers such as quantitative restrictions are now less important than they used to be, while Polish goods are being supplied in keeping with a liberalized imports list. Raw materials, some agricultural products and engineering goods are subject to no restrictions any more. As for sensitive goods (called so at Commission level), including metallurgical products, textiles, sheep and fatstock, for example, the quota set on them ensure exports which surpass even Poland's all capabilities in that respect.

As for autonomous quotas, Poland has never used up most of them anyway, so they cannot be said to stand in the way of Polish exports.

But services exports are subject to considerable curbs. The lasting slump of the construction industry is a factor, of course, but a much more biting factor is the growing employment of former German Democratic Republic citizens who no longer need work permits. Poland's chances to get generous quota for its specialists signing up for jobs with West German companies are now definitely slimmer because of that.

Much faster than other Western people, West German business and trade representatives seem to have found their bearings amidst the complicated ins and outs of the centrally planned economy that existed in Poland till 1989. The high prestige of German workmanship among Poles, combined with German partners' ability to adapt quickly to rules governing Polish markets, account for the eagerness of many Poles to cooperate with German companies. The Germans' presence in Polish markets is backed up by the best-organized and largest of all Western chains of representations and information offices of different companies and institutions.

From the opposite angle, again, West Germany (now without the adjective too) is seen to be a partner of absolutely first importance, if Poland earned with its exports to that country in 1989 roughly as much as it earned through exports to the next four Western countries on the list - the UK, Austria, Switzerland and Italy taken together.

Furthermore, Poland is running more trade and services broker's firms in Germany than in any other Western country, namely 21 trade companies, one bank, two transport and forwarding companies, agents representing its national airline LOT, the PEKAES international road passenger services, the national rail company PKP, the Polish Ocean Lines PLO, the inland waterways company, representations of the Polish Chamber of Foreign Trade PIHZ, the Federation of Engineering Organizations NOT, the Agencja Morska shipping agency, in addition to several tens of technical information offices and branches offering construction and assembly services.

Trade companies are the main channel through which Polish goods are being marketed in Germany. They accounted for a good three-fourths of Polish exports in the past several years (77% in 1989 and some 75% the following year), which amounted to an estimated DM3.0bn in 1990.

As mentioned before, construction services are an important line of economic cooperation. In 1979 to 1981, for example, construction services export revenue accounted for an impressive one-fourth of Poland's entire earnings from sales to West German buyers. Polish enterprises did various kinds of construction work (some 80%) as well as repair, mining, geological services, maintenance work etc. The number of work permits for Poles taking up jobs with local firms in West Germany grew from some 2,000 in 1978 to 8,500 in 1989.

But the other German state, the German Democratic Republic, was no negligible trade partner of Poland's either. It accounted for 4% of the total Polish foreign trade and for 11% of Poland's trade with what used to be called payments zone I countries (meaning settlements based on nonconvertible currency). In 1989, Poland had a positive trade balance, at Rb88.4m in current prices resulting from Rb1,415.7m exports and Rb1,327.3m imports.

Some 75.8% of Polish exports to the German Democratic Republic was machinery and equipment (31.6% construction services), compared with 16.2% and 6.2% shares of raw materials and consumer goods, respectively. On the imports side, machinery and equipment was again the biggest item, followed by raw materials (22.5%) and consumer goods (12.3%).

The Polish-East German trade of the time can be briefly characterized by the following features:

- Tie-in mutual deliveries of agreed amounts of goods, so-called packages (a coal package, for example, consisted of Polish exports of coal and coke and Polish imports of K-type coal, polyurethane, synthetic rubber, potassium salts, fluorite, tractor tyres

- Tie-in transactions concerning purchases of some goods (for example, aluminium imports tied up with copper exports from Poland).
- Equal-value deliveries, partly within the framework of international special agreements (swaps of metallurgical products of the same value).

Construction services exports stood out on the map of economic cooperation between Poland and the German Democratic Republic, earning 15-16% of Poland's entire export revenue from East Germany in 1986-89.

The May 18 1990 currency, economic and social union agreement between the Federal Republic and the German Democratic Republic which sped the unification processes enormously was causing difficulties for Polish-East German trade. The future of both general regulations and particular contracts seem increasingly uncertain.[1]

Cooperation of industries

The pattern of Polish-West German trade does seem to be dominated by relatively unsophisticated kinds of commodity trade. No manufacturing ties used to exist which would have paved the way towards specialization across an industry or product line, a development that would have a stabilizing effect. In 1980, for example, the share of cooperation in mutual transactions stood at just 2.2%.

Even so, West Germany was one of the most important cooperation partners Poland had in the West. In 1972-74, it was the first cooperation partner as it alone accounted for 40% of the total value of cooperation deals with Western countries. In the latter 1970s, however, West Germany

[1] Legal consequences of bilateral and multilateral treaties and agreements concluded within the Council for Mutual Economic Council framework; rules concerning exchange of current earnings and assets in East German Mark received or held by Polish citizens; employment quotas for Polish specialists and employees in the territory of the former German Democratic Republic and in future of the united Germany; the future of joint undertaking such as the Zawiercie textile plant; losses resulting from disruption or termination of long-standing cooperation and speiclaization ties - these are some issues that have to be clarified.

slipped to rank two, below Italy. At present Germany is still an important cooperation partner, but it trails the United States, Britain, Austria and Switzerland in that respect.

Previous government agreements on economic and scientific cooperation set the framework for industrial cooperation with West Germany. In a ten-year deal of 1974, for example, the two countries promised each other to apply the most favourable treatment of their cooperation undertakings as far as import and export procedures were concerned. No quantitative restrictions exist for cooperation deliveries.

But the number of registered cooperation deals was shrinking systematically in the 1970s (from 62 in 1972, according to the Central Statistical Office, to 34 in 1980), while the value of cooperation deals kept growing, redoubling from 1974 to 1979. By 1986, the number of cooperation agreements had dropped to 14.

Exactly how many cooperation deals were in force is difficult to say because of wide differences in figures quoted by the Polish and West German statistical office. A German study quoted different figures, putting the number of working cooperation deals at 140 for 1972, 130 for 1976, 100 for 1980, and 90 for 1981, respectively.[1] Despite the differences, these statistics demonstrate the systematic decline of the overall number of agreements. But as that number was falling, the value of contracts realized within their framework kept growing, redoubling from 1972 to 1979. The highest value was reported for 1980, because exports to West Germany of Fiat126p minis were classed with the category of cooperation deliveries.[2]

The strong growth of value of cooperation deals with West Germany in 1972 to 1980 did not however increase cooperation's share in the total value of Polish-West German trade (2.2% in 1980). In the former half of 1986, cooperation export accounted for only 1.2% of Poland's trade with West Germany in the former half of 1986, whereas cooperation imports was all but nonexistent then.

Engineering was the one sector which did slightly better there. Cooperation deliveries accounted for 5.1% of Polish manufacturing exports to West Germany in 1972, and to 6.7% in 1980, compared with 19.6% for engineering goods alone in 1980.

[1] K. Bolz, P. Pissulla: *Die Erfahrungen deutscher Unternehmen aus der Kooperation mit polnischen Wirtschaftsorganisationen.* HHWA, Hamburg 1981.

[2] I. Ostrogorska: *Polish enterprises' industrial cooperation with West Germany* (in Polish), IKCHZ, Warsaw 1982.

Cooperation agreements generally positive for Poland throughout the 1970s. The considerable surplus of export over import value shows how much Poland could benefit from cooperation contracts.

Short-term deals dominated in 1972-74, but as time went by longer agreements were being concluded during the 1970s. The short-term deals of the first period, most of them two-to-three-year agreements, provided for relatively crude cooperation forms such as processing supplied raw materials, while the subsequent years saw a growing number of agreements of more than six years.

Roughly one in two cooperation agreements provided for production licences together with joint manufacturing. Those agreements made it easier for Polish enterprises to ensure continuous deliveries of raw materials and intermediates. Moreover, the German partners usually took care of sales of the goods manufactured under licence.

As we look back at it from the 1990s angle, we now know that the large proportion of licence-cum-cooperation agreements was not quite the best way of using industrial cooperation as a channel of technology transfer between the two countries. Much the same was true of Poland's cooperation with other Western countries. The result was that the anticipated growth of exports, including cooperation exports to Western countries, never actually came. In 1972-80, the share of cooperation products in the total value of Polish exports to capitalist countries stood only at 2.4%. To be true, most of the licences Poland acquired from West Germans in those years were for goods which, although unavailable in Poland at the time, were usually obsolete by Western standards. For that reason they were not competitive enough and so the expected exports volume was never attained. Although most of the goods manufactured under cooperation agreements with West German partners were 5-7 years old,[1] as much as 60% of them encountered no competition from products in CMEA countries. Those goods not only were new to the Polish market but indeed quite modern by Comecon standards.

The Federal Republic, like other Western countries transferring to Poland what they classed as obsolete technology, set free some of their capacities for the production of new goods based on latest techniques and technology. That of course barred the possibility of large-scale repayment of licences with goods manufactured under cooperation agreements. But

[1] K.E.Schenk, A. Wass von Czege: *Technologietransfer durch Ost-West-Kooperation.* Gustav-Fischer-Verlag, Stuttgart-New York 1978 p. 131.

circumstances favouring the transfer of older technology by Western companies, including WWest German ones, cannot justify mistakes committed by the Polish authorities then.

As remarked before, roughly one in three cooperation agreements of those years were for crude processing, some 90% of them in the light industry. The remaining cooperation deals were subcontracts and specialization agreements.[1]

As mentioned before, a vast majority (some 90%) of industrial cooperation with West Germany was for engineering goods. Cooperation agreements can be generally said to fall into the following three major production lines:[2]

- production and assembly of plant and machinery (electrical equipment, mining machines, automatic safety devices, electrofilters, car body presses, grinders, injection moulding machines, construction machinery such as concrete mixers and pumps, miscellaneous wood-working tools etc.),
- electronics and kitchen appliances,
- light industry products such as clothes and other slightly modified products.

The most important goods made under cooperation deals in the late 1970s were concrete mixers (with Stetter), pesticides (BASF and Schering AG), machine-tools (Waldrich-Siegen), radio equipment (AEG-Telefunken), cassette recorders (Grundig), electrical household equipment (Bauknecht), multiple-spindle automatic lathes (Gildemeister), casting plant (Kuenkel Wagner), and plane grinders (Schaudt).

West German companies turned their eyes again on Poland in 1986, especially those companies which had found previous cooperation deals with Polish partners satisfactory.

The Germans have their own views of difficulties hampering industrial cooperation with Poland. In a survey of West German companies cooperating with Poland,[3] the Hamburg economic institute HWWA found that most of them wanted direct contacts with Polish enterprises, complaining that negotiations lasted just too long before deals could be signed. The high cost of protracted negotiations practically

[1] I. Ostrogorska, op.cit.
[2] P. Pissula, A. Iwersen, E. Boehm: op.cit.
[3] K. Bolz, P. Pissulla: *Die Erfahrungen...*, op.cit.

eliminated the smaller German firms as potential partners. Asked for reasons for the slow pace of negotiations, most managers mentioned the limited powers of Polish enterprises' representatives who as a rule had to ask government officials to approve before they could accept anything.

At the other end of cooperation agreements, there was a lot of grumbling about the quality of products and frequent failures to keep to agreed schedules. Most of the German managers, however, did not put the blame on Polish workers' qualifications but on inadequate plant and equipment or materials. Many also complained about Poland's antiquated communications and unreliable postal services.

How all that affected German views of cooperation with Poland can be seen from a survey done in 1985 by the Bonn Institut fr Mittelstandsforschung among 244 small and medium West German enterprises.[1]

Asked which countries they regarded as potentially the most important partners for cooperation agreements, 49.2% mentioned the USSR, 17.2% Hungary, 14.3% Czechoslovakia, 8.2% Poland, 4.5% Bulgaria, 2.9% Romania. Polish enterprises thus were though to be relatively worse as would-be partners than Soviet, Hungarian and Czechoslovakian ones.

Apart from East-West industrial cooperation agreements which look back on a history of almost two decades, trilateral industrial cooperation involving firms and enterprises from the three main economic regions - the East, the West and the South, is beginning to emerge. What has the part of Polish enterprises for the East and West German ones' for the West in such agreements?

Trilateral cooperation may take the form of manufacturing deals, much in the way of broad cooperation between Poland and West Germany, but also, or alternatively, as capital cooperation for a joint venture in a developing country. In such an undertaking, each of the partners equally take the long-term risk, draw balances and assume tasks each of them can best carry out at the moment.

Polish-West German cooperation in third countries is not to be confused with trilateral cooperation. In the former case, the third country is a passive recipient of goods or services produced as a result of Polish-West German cooperation and so it alone carries the risk of possible future

[1] T. Weimer, U. Schwarting: *Die Bedeutung des Osthandels fuer mittelständische Unternehmen.* IfM C.E. Poeschel Verlag, Stuttgart 1985.

production obtained from the plant (be it an assembly line, a licence, or machinery) supplied as a result of Polish-West German cooperation.[1]

West Germany used to be Poland's main cooperation partner in developing countries, as it alone accounted for 50-68% of the total number of cooperation agreements with the West in 1978-80. A phosphatic fertilizer plant built in Morocco in 1974 to 1976 is a good case in point. Polimex-Cekop represented Poland, Friedrich Uhde GmbH (a subsidiary of Hoechst AG) and Siemens AG were on the contract for the German side. The Turkish power plant Tonobilek is an example of cooperation in another area. The Polish company Elektrim was on the contract together with the West German Kraft Werke Union and the Turkish Enka.

Polish enterprises also acted as subcontractors for West German companies carrying out construction work in projects localized in developing countries (for example, as subcontractors for Lohman and Schmidt-Ankum building poultry farms in Iraq and the United Arab Emirates, for Zimmer building a nylon yarn plant in Iran).

Statistical reports and the above-quoted examples show that trilateral cooperation involving West Germany as Poland's first trade partner has been small, mostly boiling down to cooperation with partners in a developing country. But trilateral cooperation holds considerable possibilities for would-be participants as a source of potential profits. West German companies would get one more opportunity to broaden access to new markets and, at the same time, to stabilize, expand and strengthen ties with Poland. Long-term positive effects of bilateral cooperation often tend to stir production specialization, also within the framework of trilateral cooperation. Polish enterprises have acquired many licences and a lot of technology from West German suppliers and they are in a position to start projects and services for plant and equipment manufactured in cooperation with West German producers in countries of the South. Polish partners to trilateral deals could benefit from access to new technology and the chance to use their capital more efficiently. They could also get hold of extra sources of raw materials as well as markets for their output. Individual Polish enterprises, as well as German ones, are hardly ever in a position to meet orders for plant or services for big investment projects. The very scale of some undertakings would make it imponderable at all for an individual enterprise to get out into the market at all, so that

[1] But UN statistical reports and some Polish studies present that kind of cooperation as trilateral cooperation.

a Polish one can hope to win an order only when it goes hand in hand with a West German partner who has the requisite technology and the capital.

But along with the worsening financial squeeze and growing political tension in many developing countries in the 1980s fewer and fewer West German companies contracted projects in Third World countries with Polish enterprises acting as subcontractors or suppliers.

Many Polish enterprises offering construction services were superseded by more expansive local companies. Because the technology they could offer (sulphuric acid factories, sugar plants of 1970s technology) was no longer very attractive enough to would-be buyers, Polish enterprises' offer to West German companies in third countries was naturally shrinking.

To round up the picture of cooperation with the Germans, let us briefly look at specialization and cooperation agreements Polish enterprises had with East German counterparts. The long-standing pattern of cooperation ties between enterprises and industries on both sides of the border were typical of centralized command economies and indigenous weaknesses of Comecon countries.

The main weaknesses[1] included the replacement of enterprises by the respective economic ministries in concluding specialization and cooperation agreements; the mandatory approval of bilateral or multilateral agreements between enterprises in yearly or five-year trade agreements concluded at government level; both partners' desire to minimize exports and maximize imports due to the transfer ruble's ill-designed standing against the national currencies; a lack of incentives to improve technology and quality standards of goods; and shortages of materials regardless of the mandatory status of mutual deliveries.

Before 1989 specialization and cooperation agreements were a major item on the Polish-East German trade map. Their share in total trade value between them grew from 20% in 1985 to 24% in 1988. East Germany had long been Poland's third cooperation partner, next only to the USSR and Czechoslovakia. Thanks to their technology links to West Germany, East German enterprises were particularly favoured by Polish enterprises among Comecon partners.

The most important cooperation agreements were in the following industries:

[1] R. Flasza: *Specialization and cooperation in Polish-East German economic relations. The present state and prospects* (in Polish). Commercial Councillor's Office Berlin 1990.

- chemicals;
- electronics (a precision engineering deal involving Carl Zeiss Jena and Poland's ZSG Inco, Merazet and Labimex running till 1992); electronics hip equipment - eight agreements between East Germany's Schiffselektronik and Schiffskomerz and Poland's Radmor-Gdynia, Telmor-Gdańsk, Telos-Kraków, Unimor-Gdańsk, Teletra-Pozna, and the foreign trade enterprise Centromor;
- mechanical engineering and metal products;
- electrical engineering (for example, engines for sewing machines made on a contract between Aspa of Wrocław and the foreign trade enterprise Universal on the Polish side and N hmaschinenwerk Wittenberg and foreign trade enterprise Elektrotechnik running till 1991);
- farming machinery and transportation equipment (e.g., manufacture of axles for trailers and semitrailers involving the Polish Zremb, Autosan Sanok and foreign trade enterprise Pol-Mot and the East German IFA Ludwigsfelde and Transportmaschinen.

A majority of the specialization and cooperation agreements running then between Poland and East Germany expired, or were terminated, in 1990. Some decisions were obviously made without due consideration, clearly to the detriment of both partners in the long run. But as most specialization and cooperation ties were essentially trade deals, their termination is unlikely to bring production to a halt in either country, because possible gaps can be filled with imports from other countries.

In the entirely different situation now, we think cooperation agreements do have a chance in the following lines: mutual deliveries of automotive parts, Polish deliveries of engines for sewing machines, and German deliveries of precision-engineering and optical equipment.

Another good reason for cooperation between enterprises from the former German Democratic Republic and Poland to continue is their geographic proximity, which no doubt has advantages from the standpoint of production efficiency, to mention the possibility of lengthening batches while at the same time keeping shipment cost at low levels.

Companies with German participation

When Poland enacted legislation which opened slightly the door to foreign enterprises operating in Poland in 1976, those opportunities, expanded in subsequent years, were seized above all by investors from the Federal Republic and West Berlin. They were as a rule the senior partners to what were called foreign-held small businesses and joint companies which were legalized by the Sejm in a 1986 regulation. By the close of 1990, altogether 2,799 joint ventures had been founded.[1] The foreign partners were usually German companies and German citizens involved with 981 companies (some 35% of all).

The significance of the German involvement is evident compared with the respective shares of other countries: Sweden 9%, the United States 7.6%, Austria 7.1%, the United Kingdom 5.2%, Italy 4.7%, France 4.6%. The preponderance in purely quantitative terms is confirmed by the geographic pattern of companies ordered by the amount of foreign capital they operate. The aggregate value of German capital invested in Poland is 3.5 times bigger than that of the next country on the list, Sweden. But in terms of capital invested per venture alone, German investors stand only at $113,800 on average, which is below the average figure for all companies.[2] Only twelve companies with German participation held capital exceeding $0.5m.

Most joint ventures with German interest thus turn out to be medium-sized or small firms. The foreign partners are often German citizens born in Poland, many still carrying Polish consular passports.

However significant the German involvement may appear from the Polish point of view, it makes up just a tiny proportion of Germany's foreign investment value. German investors committed themselves to joint ventures in Poland for several reasons, most importantly in order to get direct access to the Polish market and those elsewhere in Eastern Europe and the Soviet Union; the relatively cheap labour and raw materials; the circumstance that free or unserviced capacities, building sites etc. are still available; low transport cost levels; the long innovation rent, and last but not least, the very rigorous environmental regulations in Germany.

[1] Strictly speaking, this is the number of licences issued by the Foreign Investment Agency for the foundation of companies with foreign participation.

[2] It should be realized, of course, that many companies have brought in a great deal of their plant and equipment under leasing agreements (say, to minimize investment risk), or their actual original capital was bigger than the amount they declared in the founding acts.

Poland does have a good interest in that kind of cooperation, which gives this country access to new technology and organization methods as well as to capital and possible deliveries of some raw materials and intermediates. Many of the German companies operating in Poland engage in commercial brokerage, internal exports or retail trade, none of which suits the Polish authorities which are hoping for technology transfer, modern management and organization, increased manufacturing and services potentials.

This may have to do with the circumstance that small and medium German firms are usually much more active than big corporations in Polish markets and so they attract more interest from their would-be partners, which are small-scale private Polish investors.

But several joint ventures have been founded with considerable initial capital and involving renowned German firms such as Siemens and Adidas, Mauren Moebel International with participation of the furniture holding Schieder and the Olsztyn furniture works OFM, the Intersport-Club-Hotel Myśliwski involving SAB Sport Club and the Świebodzin Farming Complex, the companies Rampol and Raffpol with participation of Raiffeisen and Johannes Rau for the production of farming machinery and feed.

Companies such as F. Holzmann (building materials and housing construction), JNA (needle bearings) or Hoelter (recovery of coal from slag) may soon become involved in Polish undertakings.

One thing that deterred big companies from putting money into Polish undertakings prior to 1990 was the lack of a deal on backing and protecting capital investments from the Federal Republic. Financial and credit relations were not normalized until the 1990 agreement, and the West German business community was critical of the stability of investment regulations and conditions in Poland. Now that the deal on protecting West German investments in Poland is safe in the drawer, financial relations have been normalized, and German financial institutions are settling in Poland (to mention but the Dresdner Bank), should all contribute to a change the heart among German investors on whether or not to get involved in Poland.

But it does seem likely that small and medium companies will dominate among those getting involved in Poland also in 1991, and that big corporations may be reluctant to get in. Big corporations will be looking eagerly to the former German Democratic Republic, which has a relatively better infrastructure than Poland as well as a clearer legal situation.

In the long run, as cost of living (and of labour) will be increasingly equal in both parts of Germany, Germany's eastern regions will be less and less attractive-looking to investors. Given the lower standard of living and production cost level in Poland, would-be investors may once more turn their eyes to this country.

There has been a great deal of complaint among some Poles that German capital is allegedly flooding Poland. But what has been said so far clearly shows such fears are greatly exaggerated. Besides, joint ventures are seen to be owned by a growing diversity of participants, which is a welcome development because that prevents any one party gaining a predominant position in the Polish economy.

A survey Warsaw's school of economics SGPiS and foreign trade's research institute IKCHZ carried out among companies with Polish-German interest have shown that Polish partners to such companies had no fears about their future cooperation with their German partners following the unification. Nearly one in two respondents said they viewed that as no obstacle to cooperation, indeed some said the unification could boost cooperation (because of the enterprise's established ties with counterparts in the former German Democratic Republic, or good prospects in the medium term). A mere 10.4% of the queried enterprise managers thought Germany's unification was bad or damaging for future economic cooperation.

Asked about the performance of joint ventures, the surveyed managers were generally very positive in their replies.[1] On a scale ranging between 1 and 10, average mark stood at 6.8 (with standard deviation 2.5%). That is not surprising at all because taking advantage of differences in production assets equipment and their efficiency has long been a very essential point of Polish-West German capital cooperation (e.g., imports of capital assets and know-how to Poland, while partners from the Federal Republic and West Berlin took advantage of the relatively cheap Polish skilled labour).

As respondents on the Polish side and among partners from West Germany and West Berlin largely shared interest in cooperation, it is not surprising that many replied positively to questions whether or not they would found new joint ventures. As many as 12 companies answering the

[1] *Joint ventures with West German participation in Poland, 1989-1990* (in Polish), ed. by J. Misala, IKCHZ, Warsaw 1991.

survey (31.6%) said they would not hesitate to found new joint ventures, while 21 companies on the programme (55.3%) said they might found such ventures after studying their feasibility. The remaining ventures did not reply.

Technology transfer

The Federal Republic is among Poland's most important suppliers of technology, in some areas the number one supplier. This holds both for machinery, plant and other advanced goods and for technology embraced by licence agreements or as documentation outside such agreements. Personal contacts between specialists, engineers and technicians, research staff, college students are an important channel of technology transfer. These different kinds of technology transfer from the Federal Republic to Poland often exist side by side, especially in agreements for deliveries of new industrial capabilities on a turnkey basis or licencing and cooperation agreements (so-called technology packages).

Technology transfer from West Germany to Poland flourished especially in the 1970s. That can be seen, apart from the large imports of plant, machinery and other advanced goods (mainly chemicals), also from the large number of licence agreements coming from Germany (113 out of a total of 422, a 27% share), which represented 10% of the entire value of licence fees. It should be pointed out, however, that the value of licences (in terms of fees) bought from the West Germans was smaller on average than those bought from France, the United States or Italy, for example. In 1976-80, West Germany became the number-one supplier of nonlicenced documentation to Poland (its share rose to 44% of the total number of sold licences and 20% of their entire value).

The Federal Republic's high standing as supplier of technology to Poland is a result of several factors. First, Polish industries have long been linked to German technology, which enjoys much prestige among Polish engineers as by and large the best for Polish users. German technology transfer institutions for their part have managed to strengthen the Poles' positive attitude towards German technology by offering their capital goods on generous technical and financial terms, supplying complete technical information, good training and further training for Polish staff among other things.

Poland's economic crisis in the 1980s had a deleterious effect on all of Poland's technological links with the world, and so also with the Federal Republic. From 1981 to 1988, just 17 licences were bought in all, four of them (23.5%) from West Germany. Nonlicenced know-how purchases also slumped, cooperation contracts with German firms dwindled to a trickle at that time. The licences slump is illustrated in Table 3.

Table 3

Licences acquired by Poland

Country	1976-80	Share %	1981-88	Share %
Total	136	100.0	17	100.0
of which:				
West Germany	39	28.6	4	23.5
East Germany	4	3.0	2	11.8
Austria	3	2.0	1	6.0
France	23	17.0	1	6.0
Italy	13	10.0	1	6.0
United States	13	10.0	4	23.5
Switzerland	4	3.0	1	6.0
Sweden	7	5.1	1	6.0

Engineering imports, in particular, ceased to be a major channel of new technology. By 1985, engineering imports had slid to $3.6bn from $6.6bn in 1980, of which goods falling into the category of advanced goods amounted to a mere $651m, down from $1,1052m in 1980.

But remarkably enough, despite the serious economic crisis ravaging Poland West German companies managed not only to hold their positions in the Polish capital goods market but even to increase their respective shares of advanced goods deliveries. By 1985, West German supplies of advanced goods had grown to $100m, up from $84m in 1980. Even more, the share of those goods in Poland's imports from West Germany actually increased from 6.5% in 1980 to nearly 12% in 1989, as did West Germany's share of the entire value of advanced goods imports by Poland (from 8% in 1980 to 15% in 1985 and 20.5% in 1989). Figures shown in Table 4 illustrate the significance of advanced goods in Poland's imports from West Germany (and, for comparison, also from East Germany).

Table 4

Advanced goods imports from West and East Germany, 1980-89

Year	Total imports		of which: engineering goods		of which: advanced goods	
	(W)D	(E)D	(W)D	(E)D	(W)D	(E)D
			$m			
1980	1288	1260	440	904	84	216
1985	979	658	339	420	99	91
1989	1616	458	723	284	192	102
			shares,%			
1980	100.0	100.0	34.2	71.7	6.5	17.1
1985	100.0	100.0	34.6	63.8	10.1	13.8
1989	100.0	100.0	44.7	62.0	11.9	22.3

Technology imports via purchases of advanced goods from West Germany to Poland include several groups of articles from a variety of industries, but metal machining centres, chemical machinery and equipment, appliances for chemical industries, television equipment, measuring devices, laboratory equipment and machinery for engineering and electronic industries are perhaps the most important ones for Poland. It was these categories of West German goods that grew fastest on the Polish imports list between 1980 and 1989. Also fast-growing were supplies of professional electronic equipment, measuring devices, laboratory, photographic and computer equipment.

This shows that German companies did find ways to secure relatively healthy growth rates for their pivotal high-technology sales even when the Polish economy stagnated or flagged. Their skilful trade promotion techniques gave German workmanship a clear edge over other OECD member countries as suppliers of high-tech products, for example machine-tools (47% of total Polish imports from OECD countries in 1989), measuring devices (a 30% share) medical and veterinary appliances and equipment (32%), video recorders (35%) etc. (Table 5).

Table 5

High technology imports to Poland (million U.S. dollars)

Goods	1980			1985			1989		
	Total	FRG	GDR	Total	FRG	GDR	Total	FRG	GDR
Scraping machine-tools	200.0	27.8	20.0	98.1	16.3	13.9	154.0	33.2	11.7
Measuring devices, lab equipment	121.8	10.1	35.7	75.3	9.0	16.2	113.0	22.2	11.9
Computer systems, equipment	84.2	2.3	10.5	56.4	1.7	7.5	111.3	9.1	6.1
TV sets	86.8	1.6	-	37.7	0.7	-	92.5	24.1	-
Chemical appliances& equipment	85.5	11.5	13.4	88.5	38.8	5.3	87.1	31.6	3.6
Medical&veterinary tools&equipment	56.6	6.6	10.5	67.2	15.5	5.1	75.0	17.0	3.5
Semiconductors	77.3	2.2	9.2	46.2	1.5	6.0	54.6	2.1	12.4
Machinery&equipment for electrical& electronic industries	34.1	3.3	3.6	21.8	5.0	1.0	52.4	18.5	27.0
Parts&subassemblies for eletronic& telecommunications equipment	84.8	9.5	8.5	45.2	2.5	3.2	49.7	8.3	4.8
Professional electronics	20.6	2.6	3.6	11.7	1.7	1.2	33.7	11.8	0.4
Office&computing equipment (less computing machines)	68.4	-	44.5	29.0	1.1	7.3	27.7	2.7	5.9
Automatic control equipment	47.5	4.3	21.6	21.3	1.4	8.6	25.9	2.3	6.1
Measuring devices, lab equipment, optical devices	27.8	0.7	20.0	15.4	1.2	9.6	20.8	2.4	5.9
Photo equipment	12.8	0.5	3.9	13.5	0.3	1.3	12.4	1.8	0.8
Telecommunications, wired	20.0	-	7.9	7.1	1.4	2.4	10.6	1.6	1.9
Electronic tubes	20.3	0.7	2.6	13.4	0.6	1.9	10.6	1.5	0.3
Radio sets	3.3	-	0.2	3.2	-	0.3	4.4	1.8	-2
Total	1,051.8	84.0	215.5	651.0	98.7	90.0	935.6	192.0	101.5

At the turn of the 1990s Polish-German technology links are entering a new stage. The absorption of the technological potential of the defunct German Democratic Republic creates a number of problems also for Poland, which was to some extent, sometimes strongly, dependent on East German high-tech goods (cf. the tables). There is no evidence at this stage to say for sure that West German industry will be able, let alone willing, to maintain the deceased German Democratic Republic's technological ties to Polish industries.

But several years from now the German economy will have become reshuffled and beefed up with whatever East German technology it has absorbed. The Polish economy will then find itself on the track of German technology's drive to the east. Poland may to some extent be a destination, partly a transit link, of the anticipated east-bound drift of German technology. Should that happen, Polish areas along the border to Germany may be the first to benefit as potential sites of new technologically important investments (e.g., assembly lines of electronic products).

Privatization along with the step-by-step easing of regulations concerning foreign investments which should help attract German corporations, which have up to now been unenthusiastic about investing in Poland, to get involved more strongly perhaps in this country.[1] More attractive terms for German technology exports will result when Poland streamlines and speeds up the taking of loans already granted or else to be granted under the Hermes guarantees programme (that involves loans perhaps for steel, refineries, cement works, bulk chemicals, ship equipment, railway equipment, telecommunications, airports and seaports).[2]

German exporters of new technology may be encouraged to increase sales to Poland as COCOM will be phasing out restrictions. Also, Poland and Germany have signed an agreement on mutually protecting each other's investments, and a deal on scientific and technological cooperation providing for the creation of a joint fund to support such cooperation has become effective. Implementation of the large group of research topics provided for in the agreement is to be evaluated in keeping with EC standards. The broad-ranged action by German institutions and companies of training Polish staff will be of importance for possible Polish-German technology ties in future; that kind of cooperation, incidentally,

[1] Siemens and Telefunken have taken first steps in that direction.

[2] The April 1991 agreement with the Paris Club of creditors on reducing Polish debts opens the door for fresh Western loans to Poland.

also involves individual German regions (the regional governments of North Rhine-Westphalia and Lower Saxony are particularly active in that kind of cooperation).

Politicians and high-placed managers in Poland are closely aware of both the opportunities and threats the anticipated inflow of high technology, in whatever form, may hold for this country. Some of them have voiced fears that the Polish economy could become "colonized" technologically by the Germans eventually. Those fears do perhaps have some grounds (the above-quoted figures indicating German firms' predominant position in technology transfer to Poland are telling enough).[1]

As private businessmen are expanding contacts to West German partners, so is the private sector's interest in German technology. As Poland is coping with mounting economic difficulties and enacting increasingly rigorous financial restrictions within the farmework of its reform policies, technology transfer is likely to be dominated by Germany, the geographically closest country with the healthiest economy which is moreover in a position to offer Polish users more enticing conditions than other foreign partners.

The above outline of technology transfer in cooperation with the Germans leaves a few questions unanswered. In particular the degree of technical dependence of different Polish industries on Germany (the united country, including ties to the former German Democratic Republic) has to be explored. So must the technology gap in quantitative and qualitative terms which separates Poland from the West, especially Germany. Nor is it quite clear exactly why German firms have a competitive edge over other potential suppliers of high technology to Poland now, and if that is likely to hold also in future. Germany's role in putting Poland on EC and European research programmes (such as Eureka) calls for exploration. Polish technology's potential uses for German partners and Polish innovation and technology export and import policies taking advantage of Germany' geographic proximity are two more questions to answer.

[1] In addition to that it should be pointed out that between 17 and 20% of all foreign inventions registered each year in Poland come from West Germany, which makes that country the runner-up on the list, next only to the U.S.A.

5. Consequences of German unification for the Polish economy

The currency union and the economic and social merger of the Federal Republic with the German Democratic Republic in mid-1990 along with the ensuing acceleration of unification processes compounded Poland's economic relations with East Germany. A question mark has hovered since then both over prospects for future cooperation and chances to put through individual contracts. In particular, Poland wanted to know what agreements would succeed the bilateral and multilateral treaties (within the CMEA framework) it had concluded with the defunct German Democratic Republic; regulations concerning exchange of current earnings and accrued sums in East German currency obtained or held by Polish citizens; employment quota for Polish employees and specialists in the German Democratic Republic and in the united Germany following the unification; barriers to Polish goods after East German territory had been embraced by EC tariffs; fthe future of joint undertakings, such as the Zawiercie textile works; and possible losses Poland would suffer as a result of disrupting or terminating long-standing cooperation and specialization links.

The immensity of economic problems involving Poland and the German Democratic Republic on its own as well as Poland in a triangular relationship with the German Democratic Republic and West Germany was acknowledged by the Polish government in its June 15 1990 Memorandum in which Poland spelled out its official position on the German unity issue and set out ways to secure Polish economic interests as a foundation of future peaceful and neighbourly relations between the two countries.

Knowing in advance the possible direct or indirect consequences of Germany's unification for Poland's political and economic interests is of course a vitally important for the Polish authorities. For brevity, Let us look in this study only at ways in which the German may affect Polish industries.

Direct consequences

As soon as it became united Germany jumped to the top of the list of Poland's trade partners in 1990. At the same time, Gemrany became the most important cooperation partner for Poland. The cooperation figure, however, is not simply a sum total of previous cooperation figures with East and West Germany. Trade is likely to stagnate, indeed to fall slightly, over the next few years, as domestic trade between the old and new states of Germany is surging. Even worse, the already unfavourable pattern of trade is likely to worsen even more for Poland.

Moreoer, now that all trade is based on convertible currency and competition is certain to grow fast Polish manufacturers must be prepared to meet tougher technical and quality requirements, especially on their engineering goods and chemicals.

The liquidation of the border between East and West Germany is unlikely to improve dramatically East German goods' competitive edge over Polish supplies (East German deliveries to West Germany amounted to some DM8bn a year, compared with Poland's DM3bn exports), because even under previous German-German trade regulations East German-made goods were imported duty-free, subject to no quantitative restrictions, and propped by interest-free technology loans. What is potentially a major hazard to Polish exports against East German competition is the integration of West Berlin with its surroundings. On the other hand, now that many suppliers from West Germany and Western European countries who previously took advantage of subsidized exterritorial transit (which Poland was denied) are likely to pull out of that business Poland may get an extra opportunity to increase exports.

As West German companies will be increasingly committing themselves to undertakings in the former German Democratic Republic, their propensity to invest in Poland will probably fall in the short and medium terms.

What is to be feared is that Germany may (sooner perhaps that one might expect) supersede Poland as the main transit country in both north-south and east-west traffic. Ports in the "new federal states" stand a good chance of snatching services to customers from south European countries. Berlin with its airports will become the main node of transit in air traffic, while the redirection of German-Soviet traffic through Czechoslovakia and the Baltic Sea (a ferryboat line to the Lithuanian port Klaipeda has

already opened) may leave Poland on the sidetrack to some extent and so dock it of possible earnings from transit services.

But apart from hazards Germany's unification also holds some opportunities for Poland. But can Poland's industries live up to the challenge of the German giant emerging across the border?

The loss of buyers in the German Democratic Republic, a big market for Polish exporters for a long time, may have a positive effect eventually. If nothing else, the Deutsche Mark itself should be a strong inducement for Polish companies now to look for buyers in eastern German lands. In a more long-term perspective, the hard West German currency msut also be seen as a powerful means helping Poles to restructure their industries.

West German industries' fast structural change in recent years has boosted demand for import goods (that process is now also beginning in eastern Germany). Energy-conserving manufacturing techniques now being introduced reduce oil consumption while saving the environment from many bad effects of conventional energy sources. Materials salvage techniques applied to waste products are being used more and more broadly. Polish industries can take advantage of that trend to offer turnkey filtering installations, ventilation equipment, dust collecting equipment, and biological and chemical sewage treatment plant for sale to Germans. Polish manufacturers can also sell parts or subassemblies of such plant, say ventilators or runner or discharge channels. Polish enterprises, if they are flexible enough and watchful of their customers' changing expectations, may hold their previous positions as suppliers of electric household products, conventional automatic control devices, copper cable, insulators, fibre optics, industrial and sanitary equipment, machine-tools, implements, containers with fittings, high-sea and inland yachts, motor-boats and high-sea ships.

The unification will of course trigger an investment boom in an effort to modernize, rebuild and expand industries in the new federal states. Cooperation in projects involving rail and motor road transports, communications, power plants, environmental protection and other infrastructure developments may be particularly useful for Polish firms which are in a position to deliver investment capital and services to such projects.

The economic unification process will take several years to complete. While that is certain going to weaken temporarily cooperation ties to enterprises in the former German Democratic Republic, Polish partners who will be able to keep their previous links may soon be seeing first coöperative deal offers coming in from West German corporations. Tripartite offers are not to be ruled out either, with the building of housing estates for Soviet troops going home from the German Democratic Republic being one opportunity which comes to mind. Trade based on tripartite agreements in other markets, especially developing countries, is another possibility.

Good prospects are opening for regions along the Polish-German border. The large numbers of East Germans arriving for buying sprees in cheaper Poland in the latter half of September 1990 were perhaps a first sign of brisk cross-border cooperation in future. It is not to be ruled out, either, that Polish employees may find jobs on a piece work basis across the Oder.

Once again, it should be pointed out that more Polish trade and services broker's firms are working in the Federal Republic than anywhere else. If at least some of the representations existing in the defunct German Democratic Republic can keep afloat, Poland's trade and services brokerage chain in Germany will be larger than anywhere else in Europe. The importance of that chain is reinforced by the circumstance of operating in a country observing regulations which hold throughout the EC. In future, the German-based missions may provide Poland with a foothold in the West from where Poles can expand into other EC countries. In the integrated EC market, buyers from Germany will be able to get bargain deals on behalf of customers from all over the Community. oreover, adoption of uniform environmental health and veterinary standards by all EC member countries will certainly make it easier spread them in Poland.

This brief survey of opportunities and hazards the German unification holds for Poland shows that this country at large and Polish industries in particular have a vital interest in continuing efforts to stabilize the economy, to restructure individual industries, to adopt new technology, and to develop cooperation ties to both each other and to foreign partners.

Indirect consequences

It is very likely that countries bordering on the united Germany will seek to strengthen political and economic cooperation between themselves. Poland perhaps should look to France as a very important cooperation partner, however unenthusiastic France may have been to date about that idea.

Over the past several months the united Germany has clearly been seeking political and economic cooperation with the USSR, while at the same time trying to strengthen its position inside the EC and in relations with the United States.[1]

The USSR for its part is interested in cooperating with the Germans pressed as it is by its acute shortages of venture capital and new technology. Should the two countries inch closer towards each other, Poland's economic relations with the two countries could suffer.

Germany's unification is however going to have a positive impact on Polish relations with OECD and EFTA member countries, and eventually with EC countries too. Poland counts on German support for its endeavours to get association status with the EC and eventually to be picked up into the Community as a member country in its full rights.

[1] Cf. the collection of studies ed. by E. Tabaczyński, *Some issues resulting from Germany's unification* (in Polish). IKCHZ, Warsaw 1990.

6. Prospects of economic development

Polish-German economic cooperation amidst efforts to create a single European market

As a result of the official German union act on October 3, 1990, Poland found itself bordering directly on a huge integrated market of 340 million consumers in which uniform standards and procedures hold. It is of course taken for granted that the development of an integrated EC market will not stumble over difficulties in picking up the former German Democratic Republic into the community.

As trade plays a more important part in Poland's contacts to the Federal Republic, let us first look at potential effects the development of an internal market may have on trade between the two countries.[1]

West Germany as an EC member country firmly follows the community's common trade policy rules.

Reacting to fears voiced by third countries about the Community's trade policy in future the EC Commission officially assured them in October 1988 that "the Europe of 1992 will not be a fortress Europe but a Europe of partners" opposed to protectionist tendencies.[2]

The single European market, accordingly, will thus be of advantage not only to Western European companies but also to third countries, because the present twelve borders to goods and services will be replaced by just one of uniform standards and procedures. Prospects of starting large-scale production will give the single European market a boost, which will also benefit the EC's partners.

[1] Cf. the study by E. Synowiec and R. Pacin: *West Germany in the European Community: implications for economic relations with Poland in the light of Germany's unification and the creation of an internal market in the Community* (in Polish). IKCHZ, Warsaw 1990.
[2] *Biuletyn Specjalny PAP* No. 12697, October 20, 1988.

The 1992 market integration implies a uniform list of goods subject to quantitative restrictions in EC imports from third countries especially in trade with Central and Eastern European countries and Japan. The guiding principle will be not to lengthen the list of restrictions. On sensitive goods, above all textiles and steel, previous quotas are to be replaced by community-wide ones. There is also the idea to eliminate the restrictions one by one as the restructuring unfolds. In 1988, 27% of export goods and 32% of the value of Polish exports to West Germany encountered trade barriers in the form of quantitative restrictions and quotas some of them discriminatory against a small group of countries only. Restrictions in Polish-German trade resulting from what are called sectoral agreements the EC concluded in the past several years with Poland are shown in Table 6.

Table 6

Restrictions on West German imports from Poland

Agreements	Item	Imports value (,000 DM)
Agreements with EC:		
- agricultural	5	36.691
- textile	157	373.426
- steel	19	75.214
Total	181	485.331
West German imports from Poland total	953	2.477.000

Source: E. Nieroda, J. Olszyński: Prospects for Polish exports to West Germany, *Handel Zagraniczny* 1989 No. 3 p. 14.

Another kind of quantitative restrictions affecting Polish exports to West Germany is the so-called organized trade, or selfrestraint on exports, the latest Western idea of nontariff trade controls.[1]

But most of the quotas have never been used up fully.[2]

[1] E. Nieroda, J. Olszyński: op.cit.
[2] Quotas set in the textile agreement, for instance, are used up to a higher degree in West Germany (80-100%) than anywhere else in the European Community; for the steel agreement, in turn, contingents utilization averaged 70% for the period from 1978 to 1987 (authors' own estimates based on figures obtained from the Ministry for International Economic Cooperation).

The same is true of autonomous, i.e. unilateral quotas. They embrace fertilizer, plywood and chipboard, building materials, footwear, canisters, or Christmas tree decoration, among other things. The restrictions have hurt really hard only the four last-named goods.

But protectionism will not be the main factor of change in future EC trade policy. The growing competition inside the grouping along with hardening qualitative, ecological and technical standards will combine to produce a number of internal and external implications. The West German market, which already has an extensive and efficient Polish sales chain, may thus be a jumping-board for Polish exporters trying to market their goods elsewhere in the EC. National standards will probably be adapted "upwards," that is, they will be matched up to the toughest, such as are binding in West Germany, among others. As exporters from third countries will access the EC as a single trade area, they will benefit from economies of scale resulting from cost reductions that are possible under such an arrangement. The existence of Polish distribution channels in West Germany makes that an even more obvious opportunity.

The soon-to-be single internal market in the EC will boost competition and threaten third countries' agricultural and food and manufacturing exports there. Polish food exports are more threatened by supplies from Greece, Spain and Portugal (all of them long-time agricultural exporting countries which stand to reap the greatest benefits from the imminent final lifting of all trade barriers between EC member countries), but also by agricultural suppliers from East Germany, than by others.

As for manufacturing exports, Polish sellers will have to hold out not only against European firms which are already in operation but also those which are being created now in order to start working even before 1992. This holds mainly for Japan, the United States and the newly industrialized South-East Asian nations.

Liberalized capital flows inside the EC and new technology will be enormous boosts for production and work organization. The progressing concentration of capital in modern industries will affect the economic situation of the older industries as well as of medium and small firms which make up the bulk of West German industrial sector. More and more factors will encourage investors to found manufacturing and trading companies in all EC countries, and so also in the new federal states of Germany. Companies that fail to prepare themselves for the new situation early enough may see their positions shaken, which holds both for local firms

and for companies from other countries such as Poland. In the Federal Republic, which perhaps stands to benefit more than any of the other member countries, business enterprises are preparing themselves very intensively to keep up in the new increasingly competitive market. That process is gaining impetus as West German firms are expanding rapidly into the new federal states.

The still quite healthy-looking Polish distribution chain now operating in the Federal Republic does stand a good chance of adapting to those changes in distribution and manufacturing. It can fill some niches in manufacturing, consumer goods production or in the services sector, especially in the new federal states.[1] That is all the more a challenge now that EFTA countries which are collaborating with EC member states in setting up a European Economic Area are already at a very advanced stage in "copying" the Community's ideas.[2]

But the establishment of a single European market may affect other areas, too, not just trade or industrial cooperation. Free travel, which will probably produce a free labour market inside the EC, may attract more labour from less advanced member countries to the better-off ones which have smaller unemployment figures. That of course also holds for East Germany as long as the standard of living there remains at a comparatively low level. That automatically deprives Poles to some extent of opportunities to find seasonal jobs in the EC, in Germany above all, which is bound to affect the positive transfer balance in Poland's current account, which has even been more important for Poland than the trade balance since 1987.[3]

The monetary and economic union in the Community, which is to be the next step of integration following the single market and which implies uniform financial and banking policies, will be of great importance for the Polish debt service and Poland's access to fresh loans. Poles must always remember that Germany, Poland's biggest creditor in the West, will concentrate above all on supporting restructuring processes in the former German Democratic Republic.

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[1] The Polish company Budimex's successful bid to put in place a 330-square-meter office for Lufthansa in a matter of barely two months is an encouraging sign of Polish firms' ability to face that challenge.

[2] The EEA declaration was signed by the EC and EFTA in Luxembourg in 1984. *EFTA Bulletin* 1988 No. 1 p. 1.

[3] J. Piotrowski: *The EC after 1992. Risks to Poland's foreign trade* (in Polish). IKCHZ, Warsaw 1989 p. 72.

Against the backdrop of processes now under way in the Community, the agreement on trade and economic cooperation Poland has signed with the EC appears to be of prime importance. While the agreement sets a framework for economic cooperation between the two countries, it is mainly up to Poland to take advantage of all opportunities.

In the trade part of the agreement, both signatories grant each other most favoured nation status in keeping with GATT procedures and with the minutes on Poland's accession to GATT. The EC's decision to lift discriminatory quantitative restrictions on Polish exports, along with supplementary regulations concerning trade and a protective clause, are of first-rate significance.

The fast-paced political changes and the Polish economic reform designed to usher in free market in Poland have induced the EC to lift discriminatory quantitative restrictions already as of January 1, 1990, even before they were planned to take effect under the original agreement, and to suspend so-called nondiscriminatory restrictions for 1990 and 1991 (which are also applied against other trade partners).[1] Those moves eased the way to Germany for Polish exports too, of course.

Further in the deal there is talk about mutual tariff concessions on agricultural trade. Tariff reductions and increased quotas are provided for ten goods items worth some Ecu200m (including young cattle, forest mushrooms, prepared meat and poultry, among other items). Poland for its part undertakes also to enact tariff concessions for some ten goods items imported from the Community.

As for economic cooperation, the deal includes a first-ever acknowledgement of cooperation in favour of structural changes in the Polish economy to step up trade between Poland and the Community to be a major goal. That provision authorizes Poland to ask the European Investment Bank for loans. Industry, power generation, agriculture, services, environmental protection, research and academic contacts, standardization as well as telecommunications are named as the chief lines for that cooperation.

The legal framework the agreement has set holds everything which is needed to stir commercial and economic cooperation with each EC member country, especially with Germany. The Generalized System of Preferences the Community granted Poland for the next five years beginning January 1, 1990, should make this easier to achieve.[2]

[1] *OJEC* No. L 326/89, 362/89 and 362/90.
[2] *OJEC* No. L 383/89.

All those moves give Poland a relatively good position in the face of changes conducive to a single internal market in the Community. But the ultimately all-decisive factor will be Poland's ability to offer goods tagging competitive prices and adequate quality standards. If previous experience, also that West Germany itself has gathered, is anything to go by, much is left to be desired. So it looks that the quality of Poland's economic cooperation with the Community, and so with Germany itself, will be determined by the dramatic political changes along with the economic reforms to marshal the Polish economy to free market mechanisms and to adapt it to Western European standards.

Bilateral cooperation

The record Polish-German trade figures reported for 1990 along with the breakthrough in financial cooperation achieved in that year have set the stage for increasing economic cooperation in 1991.

West Germany's business community is apparently pleased with the radical Polish reform programme, which is expected to help stabilize the Polish economy, to get the inflation under control, and to make the Polish offer by and large more attractive (for prospective joint ventures, for example).

The political normalization which has been going on since 1989 may bear fruit already in 1991 with the two countries concluding a treaty on neighbourly relations and cooperation. Together with the support Poland is getting from international economic and financial organizations, the treaty should help overcome German administration and economic communities' distrust of the "unpredictable and disorderly" situation in Poland.

Polish companies must realize that German investors' involvement in the eastern part of their country and their unabating interest in cooperation with other countries of the region, mainly Czechoslovakia and Hungary, is an extra challenge Poland must live up to if it really wants to get German business involved in Poland.

Also in 1991, regional and cross-border cooperation programmes started last year should begin to produce first results, especially for economic cooperation, including the coordination of organizational and financial mechanisms supporting such cooperation.

Some other matters resulting from Poland's unification, primarily the question of compensation for Poles claiming wartime damages, the adverse ruble trade balance, and the succession to economic agreements, will have to be be settled finally and as urgently as possible. None of those unresolved matters should be permitted to mar the climate of mutual cooperation especially now that possibilities to rebuild some cooperation ties with industries in the former German Democratic Republic are emerging and as it is becoming increasingly apparent that Polish firms can have a part in reconstruction and modernization projects there.

German companies, which have a great deal of experience and are generally familiar with markets in Poland, have a first-rate chance to join efforts to modernize and restructure the Polish economy. In fact, some German firms have already done so. For example, last year a German company began to build a new air terminal in Warsaw.

As mentioned before, Poles for their part expect Germany to back and encourage Polish endeavours to get associated status with the EC at the earliest possible date, preferably in 1991/92.

To sum up, the two countries are now in a better position than before to take advantage of their respective economic potentials and benefits of direct neighbourhood in order to make German-Polish relations as good in future as the German-French relationship is now.[1]

[1] That would complete Konrad Adenauer's behest to Germans - to seek reconciliation with Israel and to make friendly relations with France and Poland priority goals.