Poland in the Single Market:

Benefits, Barriers, and Reforms

EPICENTER European Policy Information Center

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Summary

- Poland's per capita GDP increased dramatically after joining the European Union, reaching nearly 80% of the EU average by 2022, driven by enhanced trade, investment, and labor market opportunities.

- Despite economic gains, Poland faces regulatory barriers, enforcement deficits, and incomplete service market integration that hinder further growth. Recommendations include deregulation, mutual recognition of standards, enhanced transparency, and reducing external market barriers.

- The EU Single Market has significantly benefitted Poland, with a notable increase in trade, investment, and agricultural exports. Over 75% of Poland's exports and nearly 50% of imports involve other EU nations, illustrating the importance of intra-EU economic integration.

- EU membership has boosted Poland's attractiveness to investors, with almost 90% of foreign direct investment coming from EU countries by the end of 2022. Increased access to labor markets has also lowered unemployment and enhanced human resource utilization.

- To further bolster the EU's competitiveness, the report suggests greater deregulation, improved enforcement of existing regulations, reduction of barriers in the digital economy, and a more open and flexible regulatory environment. These measures aim to enhance economic growth and the overall standard of living in the EU.

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About Economic Freedom Foundation

Economic Freedom Foundation is a Polish organization dedicated to promoting economic freedom and liberal market principles. They focus on advocating for policies that support entrepreneurship, reduce state intervention in the economy, and enhance individual liberties. Their initiatives aim to foster a more dynamic and open economic environment in Poland.

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Introduction

Poland's per capita GDP rose significantly after joining the European Union, reaching almost 80 per cent of the EU average by 2022, fuelled by increased trade, investment, and labour market opportunities.

However, regulatory barriers, enforcement deficits, and incomplete service market integration continue to pose challenges.

Recommendations include deregulating, prioritising mutual recognition of standards, enhancing transparency and enforcement, reducing barriers to external markets, and streamlining digital regulations. These reforms aim to boost the EU's economic growth, competitiveness, and attractiveness as a global trading partner.

The 20th anniversary of the entry of Poland and nine other countries into the EU is an excellent time to remind ourselves of the benefits associated with this. And so, the Economic Freedom Foundation's report focuses on what is most important for the Polish and EU economies – the Single Market (FWG: 2024).

More than 30 years since its creation, the Single Market can be considered an outstanding achievement and the foundation of European economic development. The abolition of customs duties and many non-tariff barriers, the setting of common rules, and the mutual acceptance of rules in select sectors have allowed for greater value addition, the development of intra-EU trade, new investments, and better use of human resources.

The Single Market enables the free movement of goods, services, people, and capital within the EU. These flows should ideally become as free as they are within the member states. However, the full achievement of this goal will probably never be possible due to significant linguistic, cultural, and geographic differences, among other reasons. Yet, there are many ways in which the functioning of the Single Market can be strengthened and improved to further enhance its positive impact on the economies of EU member states and their citizens' standard of living.

Benefits of the EU Single Market

Poland is a beneficiary of the EU Single Market. In 2000, a few years before joining the EU, Poland's per capita GDP was 48 per cent of the EU average. Thanks to rapid growth, significantly driven by its presence in the EU, Poland considerably improved its economic situation. In 2022, the per capita GDP was already almost 80 per cent of the EU average. Poland has since overtaken Hungary, Slovakia, and the 'old Union' countries – Greece and Portugal – and now sits close to Spain. Indeed, the economic benefits of the EU Single Market are at least five times higher than the inflow of EU subsidies.

Even when Poland becomes a net contributor and pays more into the EU budget than it receives, staying in the EU will benefit it because of the Single Market.

In addition, more than 75 per cent of Poland's exports and almost 50 per cent of its imports are accounted for by other EU nations. Polish companies are also important service providers in the EU market – in the transport sector, accounting and tax services, and the information and communication technology (ICT) industry, among others.

The Polish economy is growing faster thanks to the increased flow of goods and services due to the openness of EU borders. Polish agriculture is a significant beneficiary of the Single Market – the value of agri-food exports increased almost nine times after Poland joined the EU.

EU membership has also increased Poland’s attractiveness to investors. Almost 90 per cent of foreign direct investment in Poland at the end of 2022 came from countries participating in the EU Single Market. At the same time, investments by Polish companies in other EU nations have increased many times since 2004. Polish products and brands are increasingly common in the EU market.

Finally, increased access to labour markets in EU countries has made it possible for Poland to make better use of human resources, lower the unemployment rate, and generate additional revenues through financial transfers from Polish workers. Although, currently, the vast majority of immigrants in the Polish labour market are non-EU citizens, it can be expected that as our country’s economy grows, Poland will attract more immigrants from EU countries as well.

Barriers in the EU Single Market

Barriers in the EU Single Market limit consumer choice, hinder businesses, and slow down economic growth.

National regulatory barriers affect the services market and regulated professions most severely. In 2022, the most restrictive regulations in the services sector were observed in Poland, Greece, and Italy. The Netherlands, the Czech Republic, and Spain had the most liberal approach to the services market.

Another issue is the inadequate enforcement of EU law, exceeding the targets set by the European Commission. In December 2023, Poland was one of the countries with the largest deficits in the transposition of EU law and in non-compliance with transposed directives with the requirements of European law on the Single Market.

Barriers to efficient public procurement cost the EU about 14 per cent of its GDP. There is still only weak competition in this area, as member countries arbitrarily limit access to tenders as well as exhibit favouritism towards domestic companies.

The task of establishing a Single Market for services also remains unfinished, hampering the growth of the Polish and European economies. Insufficient deregulatory pressure by EU institutions on its member states and new EU regulations that weaken competition in the services market negatively impact Polish companies that use ‘posted workers’ or that operate in the transport sector, for instance.

New barriers also undermine the growth of the EU’s digital economy and innovation, including the development of artificial intelligence, which weakens the EU’s international competitiveness. Overly restrictive regulation of digital companies and excessive digital protectionism limit the benefits of digitisation for consumers and European businesses.

Recommendations for the EU Single Market

We aim to strengthen the EU’s Single Market, which in turn will accelerate the pace of development in the EU and improve its competitiveness vis-à-vis the rest of the world.

This requires greater deregulation in member countries and the reduction of national barriers that block movement within the Single Market, especially in the service sector. This will benefit both the economies of individual member states and of the EU as a whole. To this end, Poland should strive to reduce its regulatory burden to match that of the three EU countries with the least stringent regulations in a given sector.

The EU in general needs more deregulation to speed up its pace of development and to increase competitiveness. Mutual recognition of standards should be established as the overriding principle of the internal market rather than regulatory harmonisation. The EU needs to review its existing regulations and adhere to the one-in-one-out principle, i.e., introducing new regulatory burdens alongside easing existing regulations that generate excessive costs for companies and consumers.

One of the preconditions for the Single Market to function well is a predictable and transparent regulatory environment. The EU's priority should be ensuring flexibility and avoiding over-regulation of the EU economy. New regulations should be applied throughout the EU and enforced more effectively. Also, state aid – which distorts competition in the EU – should be strongly curbed. The Single Market should not be closed and overprotected. Barriers that hinder trade with countries outside the Single Market should be reduced, including both tariff and non-tariff barriers. The digital economy should be made more open – which means, among other things, greater freedom and removing barriers to cross-border data flows. The EU should also promote mutual recognition of regulations in selected sectors with trustworthy trading partners.

Meanwhile, the regulations already in place in the digital market require continuous monitoring and analysis to eliminate gaps and inconsistencies and simplify and rationalise them. The EU should be wary of further overregulation that would limit its attractiveness as a place for innovation in general and digital businesses in particular. Instead, we should build a better regulatory environment for a digital economy that benefits both businesses and consumers.

The Single Market is the EU's most valuable resource. Not only Poland, but the entirety of the EU, could benefit from recommendations aimed at strengthening the Single Market. According to a study by the European Parliament's Bureau of Analysis, removing barriers to the flow of goods and services in the Single Market could generate at least an additional EUR 644 billion for the EU economy by the end of 2032 (Panella: 2023). Economic cooperation within the framework of free movement of goods, services, people, and capital is much more critical for the development of the EU than European funds. However, well-used funds can help individuals and organisations better use the Single Market. Examples include the development of transportation infrastructure that can be used, among other things, to move goods, and improving access to high-speed Internet, in turn needed for digital services.

Also, the development of the Trans-European Transport Network (TEN-T) can improve the operation of the Single Market by increasing the EU's territorial cohesion, easing the transport of people and goods. It is also worth remembering that the impact of the EU Single Market on a member state's economy is permanent and will continue to accumulate. In the case of Poland and other countries in the region, the role of EU funds will become less and less important as their GDP grows.

The EU Single Market can also inspire other regions of the world and serve as a tool of geopolitical influence. The economic benefits to EU members show that the creation of free trade zones – that are not limited to removing tariffs, but which strive for a high level of freedom of movement of goods, services, capital, and people – is profitable and can be an impactful tool for improving people's living conditions. As the European Commission reports, 'the benefits of the Single Market are one of the main elements of the EU's overall attractiveness as a pole of security, stability and free market values' (European Commission: 2023).

It is no coincidence that more European countries would like to join the EU and the Single Market. The EU is already the leading trading partner for 53 countries, accounting for 48 per cent of the global GDP (European Commission: 2023). At the same time, more regions should strive to strengthen their mutual economic cooperation. One ambitious goal for the future could be a transatlantic Single Market that would include the EU, the European Free Trade Association (EFTA), the US, and Canada.

The upcoming elections to the European Parliament and related political changes in the EU should also spur a decisive shift in politicians' and officials' approach to the European economy. The EU Single Market is an important achievement and a pillar of European development, but past successes are no guarantee of the future. On the contrary, in the absence of serious reforms, the EU's economic strength will gradually weaken in relation to other parts of the world, and Europe will become less and less competitive. It is time to change this.

Instead of racing for regulatory precedence, as it did recently in the case of digitisation, the EU should assess where it has gone too far in terms of regulation, generating unnecessary costs. Instead of complaining about unfinished areas in the construction of the Single Market, such as in services, new legislative efforts should break with specific interest groups and increase pressure on member countries to deregulate internally. Instead of increasing state aid and subsidising industrial policies, it is better to strengthen competition and create more favourable conditions for innovation and experimentation with new business models and technologies. Instead of turning a blind eye to intra-EU protectionism and its promotion, it is worth facilitating greater openness within the EU and promoting the EU itself to the world. The EU can become richer and a far better place to live, and the key to this is the future of the Single Market.

The Economic Freedom Foundation's report (FWG: 2024), which is part of the Epicenter's Market Force project (Radovan & Bárta: 2024) discusses in more detail the key benefits and barriers of the Single Market and makes a number of recommendations for the free movement of goods, services, capital, and people in Europe and for making the EU more open to the world. We are committed to a competitive EU that continues to grow and, as a result, improves the living conditions of people across member nations.

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