



Research Office
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Fact Sheet

Latest development of Germany after reunification

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1. Introduction

1.1 The dismantling of the socialist regime in East Germany (i.e. the former German Democratic Republic) and the fall of the Berlin Wall in late 1989 paved the way for the reunification of East and West Germany on 3 October 1990. Upon reunification, the two Germanys were reunified as the Federal Republic of Germany ("Germany") with Berlin as the capital of the reunited country.

1.2 At the time of reunification, economic disparity between the eastern and western parts of Germany was high after years of inefficient operations of the business establishments, low labour productivity and poor infrastructure in eastern Germany. Reflecting this, the gross domestic product ("GDP") per capita in eastern Germany in 1991 was only about one-third of that of western Germany. As such, Germany was tasked shortly after its reunification with stimulating economic growth and raising the living standards of citizens in eastern Germany. This fact sheet provides an overview of the measures implemented by the Federal government to reconstruct eastern Germany and the progress of these measures in narrowing the gap between the eastern and western Germany.

2. Measures to reconstruct eastern Germany

2.1 Since reunification, the Federal government has implemented a number of support measures to stimulate economic growth in eastern Germany. Of particular importance is the joint federal/state programme to promote private investment and enhance the competitiveness of small and medium-sized enterprises ("SMEs") in poorer regions of eastern Germany, thereby creating job opportunities for people there.

2.2 The Federal government has also promoted co-operation among SMEs and research institutions and provided funding to support their research and development ("R&D") activities. SMEs feature predominantly in the economy of eastern Germany, but they are characterized by a lack of R&D resources and capabilities. Support has also been provided for SMEs to implement training programmes for their staff. In addition, the Federal government has made substantial investment in rebuilding the infrastructure of eastern Germany by undertaking infrastructure projects, such as the German Unity Transport Project to rebuild railways, traffic connections and waterways.

2.3 The hefty expenditure incurred on reconstructing eastern Germany has been financed by taxation and other financing measures such as a solidarity surcharge on the income tax¹ and supplementary federal grants for special infrastructure projects. It was reported that the German reunification had cost €2 trillion (HK\$21.7 trillion) in total, or an average of €100 billion (HK\$1.1 trillion) a year, in the 20 years since reunification.²

3. Latest developments

3.1 According to the Federal government³, significant progress has been achieved in stimulating economic growth and raising the living standards of citizens in eastern Germany since reunification. The latest report of the Federal government on the status of German reunification reflected that:

- (a) GDP per capita in eastern Germany more than doubled from €7,277 (HK\$74,950) in 1991 to €23,585 (HK\$242,925) in 2013;
- (b) the annual GDP growth rate in eastern Germany reached a peak of 13.4% in 1993 and levelled off since 1997. In recent years, the annual GDP growth rate in eastern Germany was comparable with that of western Germany at around 1% to 5%;

¹ The current surcharge rate is 5.5% of the income tax.

² Spiegel Online International (2011).

³ Federal Government Commissioner for the New Federal States (2014).

- (c) R&D expenditure as a percentage of GDP was 2.56% in 2012, compared with 3.02% in western Germany, and 2.03% in the European Union member countries; and
- (d) the annual unemployment rate had continued to decline, reaching the lowest level of 10.3% in 2013.

3.2 Nonetheless, the Federal government has indicated that gaps in economic performance and labour market conditions between eastern and western Germany still persist. The latest report of the Federal government on the status of German reunification revealed that in 2013:

- (a) GDP per capita in eastern Germany was only about two-thirds of that of western Germany (€35,391 (HK\$364,527));
- (b) labour productivity in terms of GDP per hour of work in eastern Germany was lower than that of western Germany by around 30%; and
- (c) the annual unemployment rate in eastern Germany was still higher than that in western Germany (6%) notwithstanding gradual improvement in the labour market in recent years.

3.3 Against the above, the Federal government has considered necessary to accelerate economic growth of eastern Germany through measures such as attracting more investment, promoting innovation and technology, and fostering internationalization of the private sector by helping SMEs to penetrate foreign markets.

References

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