

# Time for Cooperation in East-Central Europe

Interview With Konrad Poplawski, Project Coordinator,  
Centre for Eastern Studies, Poland

Tamás Tibor Csontos (Review of Economic Theory and Policy) requested an interview with Konrad Poplawski, Project Coordinator of the Connectivity and Regional Integration Programme at the Centre for Eastern Studies, Poland. He asked him about industrial policy in Poland, the changing role of Germany and the state of regional cooperation in East-Central Europe. Konrad has been the head of the Central European Department from 2020 to 2022, and previously a long-term analyst of the German economy. He is the author of many analyses and several longer studies on the economy of Central Europe and Germany. He has been a coordinator and author in international research projects in the framework of the Visegrad consortium of think tanks, preparing expert opinions for the diplomatic ministries of the V4 countries. Konrad regularly gives guest lectures at Polish universities (including the University of Warsaw and the Warsaw School of Economics). He is a commentator and author of articles for the largest nationwide media. He defended his doctorate with honors at the Warsaw School of Economics with a dissertation entitled “Changes in Germany’s Foreign Trade After Joining the Eurozone”.

**Tamás Tibor Csontos:** In recent years, a transformation has been unfolding in the European (and in the global) division of labour, and this has led to an increased emphasis on industrial policy. How do you assess the attempts at industrial policy in East-Central Europe? Do you see any successful cases?

**Konrad Poplawski:** We are experiencing tectonic shifts in the global manufacturing, which threaten the competitiveness of the EU. On the one hand, Asian economies have dominated the sector of electronics in the recent decades, especially for lithium-ion batteries, and based on this success, they are climbing up the value chain with new competitive products such

as cars. On the other hand, the US has overshadowed the world in the area of IT software development and tries to use it as leverage to reindustrialize the domestic economy. Moreover, these shifts occur in the context of growing geopolitical rivalry between Washington and Beijing, which undermines the current liberal paradigm of globalization. It seems that China has grown to such a scale, using a whole ecosystem of industrial policy tools, that the US cannot restrain itself from using similar instruments to maintain its economic dominance. Last year, the Americans in the framework of the Inflation Reduction Act decided to launch quite massive subsidy schemes to support clean technology sectors.

Taking into account this picture, Central Europe is not well positioned to compete in this new economic order. First, we in Central Europe still function in the paradigm of a dependent economy, having no global companies of local origin, which could drive the innovation. Second, we have to follow the EU Single Market rules, which don't embrace the above-mentioned global shifts. Although the EU has spent a lot of money on ecological sectors, a lot of incentives have been channelled to the factories of European companies located in Asia. On the one hand, the construction of the EU ETS system, which increases the costs for European manufacturers and encourages carbon leakage, i.e. production outside the EU. On the other hand, EU support schemes for the purchase of EVs have been distributed to consumers without recognition of where a car was produced. This, combined with low EU tariffs, encouraged EU carmakers to build production capacity in Asia, which was then directed to the EU market. Then, after a few years, we ask ourselves why Chinese cars are so much cheaper and better, when we ourselves helped China to develop economies of scale in the production of electric cars.

Looking through ideological lenses and not taking care of the needs of the European industry, the EU lost chances to develop local competences in production in the photovoltaic sector or lithium-ion batteries, and is not positioned well to compete in the area of e-vehicles or wind turbines. In this case, we have some successes in the region. In particular, Poland and Hungary were able to attract important investments from Asia in the field of the lithium-ion batteries, whereas we don't see such cases in Czechia or Slovakia. However, we need to keep in mind, that most of such investments let our economies stay afloat, but generally, they won't automatically bring innovation, as most investors keep control over their technology and patents. So the general diagnosis would be that we've quite successfully got to the level of European middle-income average, but we don't see such a drive in building up national innovation systems to advance to the next level.

**Tamás Tibor Csontos: Several observers argue that Poland can become the engine of the East-Central European economy in this decade. What do you think about Poland's industrial policy efforts in the last 10 years?**

**Konrad Poplawski:** Indeed, Poland seems to have made a strong progress in the development of a dynamic, diversified and resilient economy, which makes it an interesting location for foreign investors. Generally, the debate about the middle-income trap and the role of Polish companies as eternal subcontractors for the global multinationals has been very vivid for the last ten years. The government was oriented on the improvement of the infrastructure network, including energy diversification from Russia. We've been finishing with road infrastructure, and the next step is to develop railways and the logistical infrastructure. An interesting project trying to achieve this is the construction of a huge greenfield airport close to Warsaw, which should concentrate passenger and goods flows, building one of the most important logistical hubs in Central Europe. In recent years, the government has tried to build the Polish electric car brand Izero from scratch. It is a rather unique attempt, given that it could be difficult to maintain our position in the supply chains of Western European manufacturers, which have problems with competitiveness. The government organised it as a joint venture of Poland's leading state-owned energy companies. There is cooperation with the Polish automotive supplier sector, as Izero's management analyses which components of the electric vehicles we could develop domestically. For the most sophisticated components, such as a platform, the company has signed a supply contract with China's Geely. However, it's not clear whether the project will be continued by the new government. In the last decade we've seen the first attempts at a bolder industrial policy that could bring some success. The real test will be whether the new government decides to continue in this direction.

**Tamás Tibor Csontos: One of the main problems of the regional development model is low productivity, low added value and lack of innovation. In your opinion, how can the region increase productivity and added value? What can be the main starting points in this upgrading process? What can we learn from Poland's previous industrial policy efforts?**

**Konrad Poplawski:** It seems that all the countries of Central Europe are motivated to develop further, at least to the level of the EU average, which seems still a distant goal. And this is our common interest. We tried to increase productivity with quite harsh competition for investments between each other in the region, for example in the automobile sector. In general, they brought jobs, some organizational improvements and capi-

tal, but they don't generate enough spillovers to increase domestic innovativeness. Very often, a condition for these investments is keeping wages lower than in Western Europe, which is not our goal in the long term. That's why we should not only compete, but also cooperate on developing the ecosystem for the innovations in the region. To achieve this, it is essential to finish building transregional roads and rail infrastructures between us. They should serve not only for transiting goods between East and West, but also for regional integration, stimulating trade and investment flows between North and West. This could create the conditions for further specialisation of our companies, but also for more cooperation on specific innovations. For now, foreign investors set us against each other to lower the growth of wages and to get more state assistance. The automobile industry is a good example. From the macroregional perspective, we in Central Europe have all the capabilities to build modern combustion cars, though Germany integrates our skills and takes most of the margin of the cars produced in the region. Thus, it may have more sense to find niches for specialization and then to assemble together more sophisticated products instead of playing a role of eternal subcontractor, who, with low margins, cannot dream of developing innovations. Moreover, we need to cooperate on coining the EU industrial policy. If the US and China support business with subsidies quite significantly, the EU should grant a level-playing field for the European companies. It's quite striking how poor the access of our companies have to the financing instruments for innovations is. The same applies for researchers from Central Europe who only get 3% of grants for the Horizon Europe programme, although the countries of the region constitute around 25% of the EU's population.

**Tamás Tibor Csontos:** You have mentioned regional cooperation. In recent years, there has been a significant increase in the willingness to engage in cooperation, such as the Visegrad 4 or the Three Sea Initiative. What do you think about these regional cooperations, which of them are the most viable and what are the main benefits?

**Konrad Poplawski:** In my opinion, such fora could play an important role in shaping the discussion on the ways of how to get out of the middle-income trap. The problem is that the EU, without the UK strongly dominated by Germany and France, starts to be business unfriendly and Central Europe isn't trying to be a real stakeholder of the EU project. We are too passive. We are just recipients of the EU law and we don't try to co-shape it. In my opinion, we've already learned a lot about the global economy setup, and we're mature enough to offer our own solutions for the reindustrialization of the EU.

**Tamás Tibor Csontos: East-Central Europe has a key geographical and geostrategic position in Eurasia. How do you think the region can succeed between the revival of Atlantic relations and the rise of Asia?**

**Konrad Poplawski:** Long-term, our geographic location could be very lucrative, but for now, we have to build the resilience of the region. After the last decade, we know very well that Russia uses all kinds of economic levers it has to achieve its political goals. I hope in the long run, the region could serve as an important logistical and manufacturing hub between the EU and Asia. However, we won't achieve this without proper cross-border road and rail connections. If we integrate the region infrastructurally and improve connectivity, the access of our companies to the extra-EU markets would improve we'd build a lot of added value for domestic enterprises and foreign investors. Then Central Europe could really constitute a market of over 100 million people.

**Tamás Tibor Csontos: Germany has played an important role in the region's economic model over the past decades. However, we can now see that the German economy is facing serious economic challenges due to the war and geopolitical realignments. How do you think German technology policy has changed in recent years and how can it respond to these challenges? And how do you think these changes can affect Germany's role in the region?**

**Konrad Poplawski:** That's a huge challenge not only for Germany, but also for the EU and especially Central Europe. The epoch of having quite cosy but not very lucrative position of a German subcontractor is coming to the end. It's quite visible that the German engine of Europe is getting out of steam. Germany, together with Czechia, are the countries that have the worst results in getting back on the track of economic growth after the pandemic. Not without a reason. The phrase "pride comes before a fall" illustrates it well. German politicians and managers were so sure of the economy's strength, that they made a whole series of grave mistakes in the economic policy. The Energiewende, basically withdrawal from nuclear energy, faulty management of renewables development, lack of diversification of gas and oil supplies and ignoring the electromobility revolution put the economy in a difficult situation. It seems that technological superiority in the machine-building or automobile sectors is over, and Germany has to look for new fields of competence, which will take time. Therefore, we could hardly expect that Germany will be such a robust driver of our economies' exports as it's been so far. It is a threat to our current economic model, but also a chance to build a new, more innovative one.

**Tamás Tibor Csontos: Not only the German economy, but also its and Europe's most important sector, the automotive industry, is facing new challenges. We also know that the automotive sector has been a leading industry in East-Central Europe, so this change will clearly affect us. What do you think about the future of the European automotive sector and how it might affect the region?**

**Konrad Poplawski:** This is actually a root of the malaise of the German economy, as the automotive sector was driving the economic growth. It was also one of the first sectors that started penetrating Central Europe and integrating its companies into global supply chains. However, the problems of German car producers are of structural nature, as the e-vehicles use technologies in which Germany is not especially competitive. German producers are neither good at lithium-ion batteries, nor in autonomous software development, and their skills in combustion engine cars lose their significance. We need to look realistically at what's going on. German producers won't be able to regain competitiveness with those who started working on the e-vehicles at least a few years earlier. For the region, it means that we need to be aware and without illusions that the automobile supply chains could help us get out of the middle-income trap. Just the opposite, they could lower our growth at some moment. Skoda plants in Czechia, which belong to Volkswagen and were, so far, jewels in the crown of the German company, are now, according to the plan, the last in the row to produce e-vehicles. More such cases are to come, as German and Central European workers compete for the production of the latest electric car models.

**Thank you for the interview!**