Indo-Polish Synergies Amidst Global Turbulence

BIMTECH Business Perspectives
48–50

Daitri Tiwary

On the 100th day of the Russia–Ukraine crisis, we engaged in a dialogue with eminent academics from areas in the vicinity of the conflict. Professor (Dr) Jacek Tomkiewicz, *Dean of the College of Finance and Economics*, and Professor (Dr.) Blazej Podgorski, *Vice Dean of the College of Finance and Economics* from Kozminski University, Poland, conversed with Daitri Tiwary, Doctoral Scholar, BIMTECH, regarding opportunities of collaboration with Poland and the downside risks for the world economy amidst the shock of COVID followed by Russia–Ukraine conflict.

Daitri: ***A prelude to the pandemic, macroeconomic policy in advanced economies saw a surge of reverse globalization. Do you think trade protectionism is here to stay?***

Professor Tomkiewicz: Though there are many opinions around this, globalization is irreversible. The COVID-19 pandemic is an event that has further punctuated trade flows. If we go back in time, until and unless there are strict political actions, like in North Korea for example, the market forces will continue to prevail as these are very strong. Even if countries choose to remain closed because of political decisions, like in the case of China, shutting off trade may lead to the interruption in the entire export dynamics of a nation. So sometimes the economic puzzle has to overcome the political dilemma for the right results.

As you said, we saw that globalisation slowed down. But we need to understand some fundamental drivers of the process of globalisation. One such driver is the difference between the labour cost in Asia and Europe which led to a significant shift in production from the West to Asia. It is not going to be as dynamic as it was in the past because Asia is not cheap anymore. So when the middle class in Asia, especially in China and to some extent in India, is rising, more and more economies of developing Asia will increase their domestic focus. The cost differential of producing in China used to be 8%–9% 10 years ago but now it is just 1%. Demand for Asian production is changing, so the test for the West is not just being as cheap as you could be, but it is to address long-term market forces like rising labour costs and rising middle-class consumption. Disconnections in economies are further related to political decisions and the focus has shifted from offshoring to reshoring.

Daitri: ***With a rise in inflation, The European Central Bank has raised the interest rate. Is it counterintuitive to EU's market volatility? What will be the magnitude of the impact of a higher EURIBOR on emerging markets, especially developing Asia?***

Professor Tomkiewicz: The European Central Bank has a massive problem because we've got very big differences between the countries within the Eurozone. We have got 4% inflation in France but at the same time almost 19% in Estonia. There's a lot of heterogeneity in terms of the performance in the

Corresponding author:
Daitri Tiwary, Research Scholar, Birla Institute of Management Technology, Greater Noida 201306, Uttar Pradesh, India.
E-mail: daitri.tiwary_fpm19@bimtech.ac.in

euro nations. ECB, therefore, chose not to slow down the recovery and raised the EURIBOR. What happens is there's a tendency that emerging markets are the receivers of global fluctuations and a rise in the US federal rates, and the EURIBOR leads to a rise in interest rates in developing nations. In India, the federal rates were increased and the government bonds are expected to yield more after two consecutive years of negative returns. Also, from the perspective of developing Asia, there will be an impact on the foreign exchange rates due to higher interest rates.

Daitri: ***There are global reports about the inflationary shock experienced in America, but the surge in inflation has spread to the rest of the rich world. Consumer prices across the OECD countries are rising by 7.7% YoY, the fastest pace of increase in at least three decades. What went wrong?***

Professor Tomkiewicz: Remember that we have exceptions like Japan and the other exception is Switzerland with inflation as low as 3%. For the rest of the globe, I think that the source of inflation is common, i.e., the supply side shock. And secondly, this inflation is the cost we are paying for the COVID-19 pandemic. Because of the pandemic, there was recession, production was put on hold, and we spent a lot of public money on health and welfare. Amidst low income and lower production, we provided money to the household which accumulated due to a lack of avenues to spend during the pandemic. At the same time, interest rates are very low. So this money could not be transformed into a long-term deposit. This translated into involuntary savings which added to inflation. Next thing, there was a huge inflow of money in the emerging markets. If you remember, in 2017 the government of Argentina sold 100-year bonds and these bonds had a lot of investors from across the world, resulting in so much money in the market. The involuntary savings, compounded by an inflow of funds in emerging economies and rising commodities led to a situation where the demand is rising and the supply is constricted due to a disrupted supply chain.

Daitri: ***European Union continues with its sanctions against Russia. How will it affect Poland and also the global macroeconomic stability at large?***

Professor Tomkiewicz: Russian exports constitute up to 0.6% of the global economy, whereas 20% of the Russian GDP depends on exports. Especially for Poland, less than 1% of Polish production goes to Russia but we expect about 40% of our imports and about 40% of our energy from Russia. Hence, it is possible to replace Russian gas without global repercussions.

Professor Podgorski: To understand the root of this conflict, we need to understand that over the years Ukraine has evolved as a country. Ukrainians have evolved as citizens of a modern nation and developed their perspective. This is being perceived as a threat by Russia. Following the Russian invasion, Poland has become a refuge for Ukrainian women and children. We need to provide education, healthcare, and nutrition for the refugees. Poland also needs to explore employment opportunities for Ukrainian women. This is going to be a struggle but we are supporting and will continue to support the country in crisis.

Daitri: ***Like India, Poland is a coal-dependent economy. With Russian gas cut out, how will it rebalance energy security? What policy shift is expected in the energy policy of the country?***

Professor Podjorski: The transition of the energy supply of Poland from Russian gas is complicated. We have been exploring the alternate source of supply, including pipelines from Norway which we will finish constructing in 2023. But though we have located the gas, we cannot exploit it. We could have relied on other countries such as the USA and the Arab nation. But from the perspective of petrol, the situation is much more complicated. Even if we find other resources with a higher price, our refineries are not equipped to process this new type of crude. We need to revamp our facilities to use a different type of crude in the long run. Post the conflict in Ukraine, everybody has understood that we must not depend on Russia. Europe will suffer due to the changes, and some of us will suffer more. For example, Hungary has an acute problem. But we are hundred percent sure that if nothing changes in Russia, we're going to do everything possible to find alternative sources of crude and gas. This may include nuclear energy sources.

Daitri: ***As an emerging economy, can we find national synergies in research and development in the generation and distribution of renewable energy?***

Professor Podgorski: Unfortunately, the geography of Poland is not conducive to harnessing renewable energy, wherein India has a location advantage. Solar and wind energy projects are perfect on paper. But when we think practically, in Poland, a wind turbine may work for just three hours a day, with a maximum of 6–7 hours on the best of the days. The rest of the days it doesn't work because there is not enough wind speed! Similarly, solar energy is perfect for a country like India but we do not have the potential. Even for hydropower, we don't have any rivers at heights. This leaves us with only one alternative source of energy, i.e., nuclear.

Daitri: ***The Polish Investment and Trade Agency has actively pushed FinTech adoption in Central and Eastern Europe. With India leading in the FinTech space, how best can we complement each other? What are the sectors where India and Poland can increase collaboration?***

Professor Podgorski: With India having a pool of talented software developers and Poland being Europe's anti-money laundering (AML) hub, we have immense potential to collaborate in FinTech. But we need to be careful about the categorization of FinTech. While India has a lead in the FinTech space, synergies can always be found in payment services, such as wallets, transfers, and cryptocurrencies. But we need to be very careful regarding the credit products in FinTech. Because, unlike traditional banks, FinTech companies at times do not have requisite information while lending, and this can be disastrous for the market.

Building on the collaboration in FinTech, there is scope for India to partner with Poland to become the second largest AML hub in Asia, following the path of Malaysia. We can establish service centres, catering separately to federal initiatives and retail consumers regarding the regularization of the AML framework.

Also, contrary to the popular view, the pandemic has shifted the focus of the world from China and this is an opportunity for India to find synergies in a European production line. Poland, for example, is an established producer of auto parts. Though it doesn't have its brand of car, any car manufactured in Europe, including the likes of Porsche and Volkswagen, has one or more of its parts manufactured in Poland. This is a sector where India can collaborate. Indian companies, such as Tata, which have proven their excellence in manufacturing across the sector, can explore foreign markets. The opportunities for India can be multi-fold due to the cost advantages of the country's labour market.