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Poland and the ASEAN Countries: Exploring New Markets in Asia

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As Polish companies are becoming more active in expanding outside Europe, more attention must be paid to the ASEAN countries. Their fast economic growth, relative stability, expanding consumer markets, and progressing regional integration make them attractive economic partners. As Poland suffers a significant trade deficit with the region, it must continue its diplomatic offensive and expand support for companies willing to export to Southeast Asian countries, especially in sectors such as defence, mining, transport and agriculture.

The Resurgence of the ASEAN Countries. After being hit hard by the Asian financial crisis of 1997, the 10 economies of the Association of South-East Asian Nations (ASEAN) are back on the track of fast economic growth, attracting more attention from foreign exporters and investors. Its large domestic market of 600 million people, progressing regional integration, and rising inflow of foreign direct investment (FDI) has helped it to develop at around 6% annually in the last decade. Six of its most advanced economies have moved up in the global value-added chains and have today become important exporters of electronic devices and high-tech products, while four of its less developed countries (Cambodia, Myanmar, Laos, and Vietnam) provide a cheap labour force that adds to the overall competitiveness of the region and has made many investors shift production southward from China. Even during the global economic crisis, ongoing since 2008, most of the countries have performed exceptionally well—for instance, in 2012, the GDP of Laos grew by 8.2%, Cambodia by 7.3%, and the Philippines by 6.8%. According to the OECD, the ASEAN countries as a whole will continue to grow on average at 5.5% between 2013–2018, driven by an expanding middle class, domestic consumption and public investments.

The good economic prospects increasingly attract foreign investment. Since 2004, FDI inflow almost tripled to reach $111 billion in 2012, which was 7.2% of total FDI in the world and 16% of FDI to developing countries. A traditionally major destination for FDI is Singapore, which receives around 50–60% of all FDI to the ASEAN countries. The growing interest in these markets is spurred also by the favourable environment for entrepreneurs. Singapore often tops the World Bank's *Doing Business* report, while Malaysia was ranked sixth and Thailand 18th in the latest edition (2013, which had Poland at 45th). Moreover, it is expected that ongoing integration processes will give another boost to the region's growth. By 2015, the organisation plans to introduce the ASEAN Economic Community, opening the way for the free movement of goods, people and capital and creating a common market bigger than that of the EU's.

ASEAN is also increasingly integrated into the world economy, having signed already several free-trade agreements (FTAs) with China, India, Japan, Australia, and Korea, and is working on similar deals with the West. Today, the EU is the third-largest trade partner for ASEAN (after China and Japan), accounting for 13.1% of its total trade, and is the largest source of FDI to the region. In 2012, trade turnover with the EU amounted to €181 billion, with €100 billion in European imports and €81 billion of exports to ASEAN states. The EU is in negotiations on FTAs with Malaysia, Vietnam and Thailand. Singapore was the first country from the region to conclude such a deal, in December 2012. This will come into force, however, only in 2015 after the ratification process is completed, and it may be expanded shortly afterward to include investment protection.

Poland and the ASEAN Countries. After years of less intensive contact, Poland has begun to work to activate its Asia policy and to rebuild its position in the region. In 2013, Poland has received Singapore's Prime Minister Lee Hsien

Loong, Indonesia's President Susilo Bambang Yudhoyono, Thailand's Prime Minister Yingluck Shinawatra, and Malaysia's Minister of Foreign Affairs Anifah Haji Aman. Polish leaders have recently travelled to the region: Prime Minister Donald Tusk participated in the 2012 ASEM summit in Laos, then visited Thailand and Singapore in November of that year; Foreign Minister Radosław Sikorski went to Myanmar and Thailand in May 2012 then held discussions with his counterparts from Indonesia and Philippines during the ASEM meeting in New Delhi in November 2013.

These recent high-level encounters have resulted in upgraded relations with Vietnam and Thailand to the "strategic dialogue" level and in the signing of documents on avoidance of double taxation and cooperation on agriculture and science. Poland has also strengthened defence cooperation with Malaysia, Vietnam, Indonesia, Thailand and Brunei. Shared democratic values has opened another area for cooperation with some of the ASEAN members. For instance, Poland has offered assistance in democratic transition to Myanmar, and cooperates closely with Indonesia within the framework of the Community of Democracies. Moreover, the ongoing processes of regional integration constitute further areas for the exchange of experiences.

However, the main dimension of Poland's relations with the ASEAN countries is economic cooperation. In 2012, total trade with all 10 of the countries stood at $5.4 billion, or only 1.4% of all Polish trade. Poland was the 59th largest trade partner for ASEAN, with 0.1% share of the region's total trade. Moreover, Poland has a trade deficit with all of the countries of the region, amounting in total to $2.8 billion. Poland's largest trade partners in the region in 2012 were Singapore ($1.3 billion), Thailand ($1.1 billion), and Vietnam ($977 million). The most significant export market for Poland in the region, and the third largest in Asia (after China and India), is Singapore ($480 million), which serves as a regional hub and entry point to other countries, followed by Malaysia ($195 million) and Thailand ($167 million). Important items on the list of traded goods include machinery and mechanical appliances, electrical and electro-technical equipment, transport equipment, and agricultural products.

Promising Areas. The economic transition in the region from an export orientation to domestic consumption should contribute to an increase in demand for imported goods and services. Moreover, a few of the expected EU FTAs (with Singapore, Thailand, and Malaysia) will decrease the main existing barriers to exports (e.g., duties on agricultural products in Thailand amount to 60%) and non-tariff barriers (e.g., Halal certificates to Muslim countries), easing the path to these markets for Polish exporters. Although specific opportunities differ from country to country, Poland should still find interesting niches in several sectors.

One important area seems to be defence cooperation. In 2011, Poland fulfilled a contract signed in 2003 for the delivery of 48 Polish PT-91M tanks to Malaysia and in 2013 Brunei received the first four of 12 S-70i Black Hawk helicopters, which are being produced in Mielec. Even though they have been increasing by 15% on average in the last five years, the still small defence budgets of the ASEAN members (ranging from $3 billion in the Philippines to $9 billion in Singapore in 2012) has forced their militaries to forgo the cutting-edge hardware offered by U.S. or European companies and seek out other equipment. This may be an opportunity for Polish defence firms to make sales as they can offer quality equipment at competitive prices.

Other Polish companies already see rising opportunities in mineral exploration and mining (e.g., Kulczyk Investments is participating in offshore oil exploration in Brunei), exports of transport equipment, and agricultural products. Apart from these traditional sectors, more attention should also be paid to new areas such as education and tourism. For instance, more than 200 Malaysian students on scholarships from their government study in Poland, mostly in medicine, and this suggests it can be an attractive education destination for other students from ASEAN countries. While Poles have already started discovering the beauty of Thailand and Indonesia, more should be done to attract tourists from Southeast Asia, where outbound tourism is on the rise.

Conclusions. The resurgence of Southeast Asia offers huge and increasingly attractive markets for companies seeking new export and investment opportunities beyond Europe. Existing internal challenges (such as the political crisis in Thailand, the democratic transition in Myanmar, and the ethnic tensions across many states) should not destabilise the region or reverse the positive development trends. The region's relative stability, rising affluence of its societies, and ongoing integration processes will rather increase demand for both investment and consumer goods. Despite the distance, limited knowledge and lack of experience with these markets, Poland must do more to tap into economic opportunities arising in the ASEAN countries. Therefore, Poland should regard the region as a higher priority economic partner in Asia, second only to China and India.

In order to facilitate expansion of Polish companies and reduce the current trade deficit, the government should continue high-level regular political dialogue and strengthen the promotional campaign in the region. It is advisable to expand the Polish presence and visibility in the region by opening new diplomatic missions or trade and investment sections in new countries (including the Philippines and Myanmar). Polish companies must also be prepared to take advantage of the coming EU FTA's with Singapore and Thailand, as well as the implementation of the ASEAN Economic Community. Therefore, the Ministry of Economy should consider including an ASEAN member as a priority country in the 2014 edition of its programme promoting the Polish economy in prospective markets. Comprehensive cultural and educational cooperation and the facilitation of people-to-people contacts can further contribute to the enhancement of economic cooperation.