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# Poland and South Asia: Looking beyond India

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*With the democratisation process proceeding across the region and fast economic growth, South Asia stands on the verge of a new era. This, one of the poorest regions in the world, may soon offer more economic opportunities, provided that ongoing changes bring more political stability in the area. Poland, which has in recent years reinvigorated relations with India, should now start exploring untapped potential in the rest of the region and facilitate cooperation, especially with Pakistan, Bangladesh and Sri Lanka. This should include intensification of political dialogue, signing new economic agreements, and promotion and support of Polish companies looking to expand in these markets.*

**South Asia in Transition**. South Asia consists of eight countries: India, Pakistan, Bangladesh, Afghanistan, Nepal, Sri Lanka, Bhutan, and the Maldives. It is a home to nearly one quarter of the world's population (1.6 billion people), including the second, sixth and eighth most populous states (India, Pakistan and Bangladesh). This used to be one of the poorest regions of the world, with more people living in extreme poverty (for less than $1.25 per day) than in the whole of Sub-Saharan Africa. Economic development has long been marred by limited regional cooperation and internal conflicts, authoritarian rules, weak governance, and mounting energy crises. However, even if terrorist and sectarian violence remains high in Pakistan and Afghanistan, and political and ideological tensions continue to destabilise Bangladesh and Nepal, there are signs of new, more positive trends.

The end of the civil wars in Nepal in 2006 and in Sri Lanka in 2009, together with unprecedented foreign assistance and investments in Afghan institutions, education and infrastructure, have brought more hope for peace and stability in the region. For the first time, all states are democracies, and by mid-2014 crucial elections will take place in the Maldives, Nepal, Bangladesh and India. After the historic transfer of power from one elected government to the other in Pakistan in May this year, Prime Minister Nawaz Sharif promised more economic reforms and reconciliation with neighbours. If the withdrawal of NATO forces from Afghanistan by the end 2014 does not reignite Pakistani-Indian tensions, there will be better prospects for a revival of regional cooperation and trade. Overall, more stable governments may soon create a more favourable environment for conducting business.

Moreover, the region has already seen average growth of 6% of GDP annually in the last few years, and it is estimated that many countries will continue this high level of growth in years to come. Sri Lanka is the most prosperous country in the region, with 8.4% GDP growth in 2011. Pakistan, with its 190 million people, vast mineral resources and growth at over 3% GDP in 2011, has great unrealised potential. Bangladesh developed at 6.4% in 2011 and emerges as new, cheap manufacturing base, especially for ready-made garments for many companies who have shifted their production from China or Southeast Asia. Many states have already reformed their regulations to attract more foreign investments and perform better on the World Bank Doing Business ranking than India. In the World Bank 2013 Report, Sri Lanka is classified in the 81st position, the Maldives in 95th, Pakistan as 107th, Nepal as 108th and Bangladesh in 128th place, while India is 132nd. The poorest states benefit from EU preferential trade agreements that also allow for duty free export to European markets. The expanding middle class and large investment needs will further stimulate economic development.

**Polish Interests in the Region.** Poland's presence in South Asia was traditionally limited to and focused almost exclusively on India. In addition, during the last decade, Polish military involvement in the international mission in

Afghanistan has naturally attracted a lot of attention and resources. Now, with NATO withdrawal from Afghanistan and ongoing regional transition, Poland can direct more attention to other states in the region. However, in the absence of strategic or political interests Poland tends to concentrate on economic cooperation. Recent efforts aimed at strengthening ties with India increased bilateral trade fourfold since 2004 to reach $1.9 billion in 2012, including a remarkable rise in Polish exports (by 57% in 2011 and 27% in 2012). It is important to improve trade with the rest of the region.

Economic cooperation with sates other than India is underdeveloped. Major partners include Bangladesh ($618 million trade turnover in 2011), Pakistan ($258 million), Sri Lanka ($96 million) and Afghanistan ($18 million). Trade with these nations is largely dominated by Polish imports, which widen the trade deficit. For example, Poland's imports from Bangladesh were 22 times more than it sold to the country in 2011. Polish exports to the region, excluding India, are very small ($128 million in 2011) and composed of mostly non-manufactured goods, such as agriculture products, coke and semi-coke, rubber and rubber products, paper, and cardboard. Major items imported from the region are textiles and clothes, tea and spices. While investments have become promising area of cooperation with India, there are no FDI flows between Poland and other South Asian countries.

**Barriers and Opportunities.** Economic cooperation with South Asian states suffers from challenges on both sides. Limited knowledge about the markets, underdevelopment, political instability and the deteriorating security situation are among major factors. For instance, the killing of Polish engineer Piotr Stańczak in Pakistan in 2009 restricted further expansion of the oil-exploration company Geofizyka Kraków and scared off other firms. Similarly, negative media coverage of textile companies operating in Bangladesh (including Polish LPP) may discourage new entities from investing there. South Asian states, with their weak infrastructure, and frequent power shortages, are still difficult partners with whom to do business. Exports to their markets are restricted by relatively high trade tariffs, especially for agricultural products (i.e. 17% in Pakistan) and non-tariff barriers

Moreover, the irregular and low level of political dialogue, and the weak legal framework for cooperation, further constrain Polish business in the area. Diplomatic missions which could provide information about promising sectors and facilitate contacts with local partners operate in three out of eight South Asian states (India, Pakistan, and Afghanistan). Economic cooperation ranks low in discussions with leaders from Pakistan or Bangladesh. At the same time, business cooperation in some cases is not based on any intergovernmental agreement (Pakistan), and existing documents are outdated and irrelevant (Poland's agreement with Sri Lanka is from 1963). There are no regular contacts between Polish business organisations, regional authorities or chambers of commerce with their counterparts from the region, which could help broaden understanding of local markets and form partnerships.

Nevertheless, there are several arguments why Polish companies interested in expansion in Asia should explore the potential of this region. Seven regional states (excluding India) form a large market of over 400 million people, with growing demand for imported consumer goods. Massive need for investment in crucial sectors will create more opportunities for contracts in the most promising sectors, such as energy and power generation, oil and gas exploration and extraction, transport and construction, and pharmaceuticals. It seems that Polish companies would face less international competition than on other emerging markets, and could often win with the lower price of their products and services. Furthermore, local governments are opening to foreign investment, and offer better conditions for doing business than India. For instance, in terms of ease of starting a business, Sri Lanka is ranked as 33$^{rd}$ in the world (India is at 173$^{rd}$), and at 49$^{th}$ in terms of protecting investors (the same as India). Moreover, thanks to the India–Sri Lanka Free Trade Area, investors in Sri Lanka may find an alternative way to enter the large Indian market.

**Conclusions.** South Asia seems to be at a turning point. If the series of elections in many countries bring more stable governments (as it did in Pakistan), this could consolidate their flawed democracies, boost economic development, and revive regional cooperation. Although the situation today seems quite unstable, especially with the unknown results of transition in Afghanistan post-2014, this is nevertheless the time to re-evaluate policies towards the region. Poland, while supporting the European Union's technical and economic assistance for fair electoral processes, economic reforms and regional integration, may at the same time explore emerging bilateral opportunities.

Having revived Polish–Indian relations, it is time to look beyond India in terms of cooperation with South Asian states. In order to prepare the ground for better economic cooperation, the government could intensify high level dialogue with the most promising economies, such as Pakistan, Bangladesh and Sri Lanka. It is important that new economic cooperation agreements are signed, in order to broaden and stipulate new initiatives. Polish companies should be encouraged to more eagerly use export promotion instruments (e.g., export credit insurance) and employ commercial consulting companies for professional assessment of new partners, to lower the risk of operating in these difficult markets. To further facilitate their expansion it would be helpful to open trade offices in major economic hubs of the region (Dhaka, Karachi, and Colombo) and encourage regular contacts with local business organisations and chambers of commerce. Furthermore, support for cultural and academic cooperation, sharing experiences of democratisation and regional integration, or promotion of Polish aid projects in the region, would improve the prospects of cooperation.