



BULLETIN

No. 91 (686), 26 June 2014 © PISM

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Poland and Singapore: Gateways to Regional Hubs

Patryk Kugiel

Singapore, the smallest member of the Association of South East Asian Nations (ASEAN), is already Poland's largest trade partner in the region, with good prospects for further growth in export. Due to its geographic location, ease of doing business, political stability and deep connectivity with other Asian markets, it is also well-positioned to serve as a regional hub for expansion in South East Asia. While Poland should support the establishment of a regional centre of Polish business (Polish House) to offer comprehensive support for firms willing to start operations in the region, it must step up its promotion in Singapore as a gateway to Central and Eastern Europe.

Poland and Singapore. Having shown a rising interest in ASEAN in recent years,¹ Poland should now strengthen its position on the most promising markets in the region. Singapore seems especially well-equipped to draw more attention. Despite its small size and population (5.4 million) it is already Poland's largest trade partner among ASEAN members, and the sixth largest in Asia, with trade turnover at \$1.3 billion in 2012. The trade balance is favourable for Singapore, which sells mostly twice as much (\$810 million) as it buys from Poland (\$488 million), and the Polish export offer is dominated by one category of products: ships, boats and floating structures. However, during the first four months of 2014, Polish exports to Singapore increased by 45%, suggesting big potential for growth. Singapore is also the CEE's largest trade partner among the ASEAN group, and Poland is its eighth biggest trade partner in the EU.

Singapore is also the largest foreign investor in Poland among ASEAN countries, and fifth largest from the whole of Asia. Its investments are concentrated mainly on the financial market, but also include the modern combustion waste power plant in Białystok and renovation of the Hotel Europejski in Warsaw. By the end of 2012, Singapore's FDI stock in Poland was valued at \$216 million. However, this constitutes only 0.09% of all FDI stocks in Poland, and accounts for 0.2% of Singapore's investments stocks to the EU, which, given Poland's strategic location in Central Europe and fact that Singapore is the sixth largest investor in the EU, is far too little. Also, Polish investments in Singapore are miniscule. Not surprisingly, ways of increasing economic cooperation was a major topic discussed between prime ministers Donald Tusk and Lee Hsien Loong during their official meetings in Singapore in 2012 and Warsaw in 2013.

A Gateway to Asia. After four decades of rapid transformation, Singapore is today one of the most developed and wealthiest countries in the world with GDP per capita at \$47,000. The success of this small city-state is based on its strategic location, political stability and good governance, as well as a regulatory framework that is conducive to business and attracts massive foreign investments. Singapore's location on the southernmost edge of the Malay Peninsula puts it right in the heart of South-East Asia, and on the major shipping route through the Strait of Malacca. It has the third-biggest sea port in the world and is well-connected to other markets in South-East and East Asia, not only logistically, but also institutionally. It is part of the ASEAN free trade area and has FTAs with major economies in Asia, including China, India and Japan, which fuel its export-driven economy. It has emerged as a regional financial and trade centre, hosting a number of prestigious trade fairs and exhibitions, and meetings for the world's business and political leaders.

¹ P. Kugiel, "Poland and the ASEAN Countries: Exploring New Markets in Asia," *PISM Bulletin*, no. 2 (597), 8 January 2014.

Singapore is one of the most business-friendly states in the world. It is ranked first in the World Bank Doing Business report 2013 (by comparison, Poland is 45th), second in the World Economic Forum's Global Competitiveness report 2013 (Poland is 42nd), and eighth in the Global Innovation Index 2013, prepared by the UN World Intellectual Property Organisation (Poland is 49th). For instance, opening a company in Singapore takes three procedures (available online), lasts a maximum of 2.5 days, and costs less than SGD 400 (around \$350). Unlike in many other Asian countries, corruption is practically nonexistent in Singapore. The state offers strong protection for investors, low taxes, a strong financial sector, and easy access to credit. Common use of the English language, a high level of education, and operating in a more familiar, post-British legal system, further reduce the cultural distance for Europeans. Therefore, many international companies chose to open their regional offices there as the most convenient place to oversee rapid changes in a rising Asia, and to run their operation in the area from this hub.

Barriers and Opportunities. Nevertheless, Polish companies are hardly present in Singapore. Among over 9,300 firms from the EU, fewer than 40 are from Poland (for example, Ciech, Bioton S.A., H. Cegielski Services, and Polspin). Major barriers are geographical distance and limited knowledge and contacts. Importantly, Singapore is a highly competitive market, on which Polish firms would need to compete with top firms from the West and Asia. The high cost of starting a business (renting offices, hiring staff, etc.) further complicates operations for most Polish small and medium enterprises. They still cannot count on the same comprehensive support from the government in gaining a foothold in the state that is available for their counterparts from Germany, France or the United States. The low visibility of Poland in a highly crowded Singapore makes the marketing of Polish products even more challenging. Poland, which is a rather late arrival in Asia, is only now learning about the potential of this market and the ASEAN group.

On the bilateral level, Singapore offers many opportunities, especially in sectors such as agriculture, defence, technology and innovation, and consumer goods. Being 100% dependent on imported food, it may be an attractive partner for Poland a major exporter of agriculture products in Europe. As the fifth largest importer of arms, with a 4% share of the world's imports and a large defence budget (around \$10 billion), Singapore is a potential market for Polish arms in the region, along with Malaysia and the Philippines. The priority area should be cooperation in science and innovation, as Singapore is the leader in biotechnology, IT, and telecommunications. The agreement on cooperation between the Agency for Science and Technology and Research (A*STAR) and the Polish Ministry of Science and Higher Education already provides the foundations for closer cooperation in R&D. Four Polish universities have a cooperation framework with the National University of Singapore, and up to 40 Polish students participate in exchanges to Singapore every year. Two out of three universities are ranked high in the TOP 500 Shanghai Ranking of Universities. Finally, Singapore's society can be an attractive market for companies offering consumer and luxury products (boats, clothes, furniture, cosmetics, etc.).

More opportunities for cooperation between Poland and Singapore may arise in 2015, when the EU-Singapore FTA, signed in 2013, comes into force and eliminates remaining tariff and non-tariff barriers. This can benefit Polish exporters of meat, alcohol, automobile parts, machinery and parts especially. The deal will further boost the special position of Singapore as a major EU trade and investments partner among the ASEAN group, and Poland should use the FTA to improve its minimal share in the EU trade and investment flow with Singapore. It is the right moment to position Poland as an attractive investment market in Central and Eastern Europe, offering access to EU 500 million consumers and lower labour costs.

Conclusions. Singapore is an increasingly important and attractive economic partner for Poland. However, its value lies not only in its domestic market, but in the fact that it can be a gateway to Asia for Polish exporters and investors. To maximise the effects of limited resources for supporting companies abroad, the government should recognise Singapore as a perspective regional hub for businesses operating in the ASEAN group. By concentrating more funding and introducing new mechanisms in one place it would be easier for Poland to improve its visibility and provide more comprehensive support to entrepreneurs. A similar regional approach has already been introduced by the Polish Ministry of Economy, which recently established a Trade and Investment Section at the Polish Embassy in Abu Dhabi, as a regional office for the whole Gulf region.

To put this idea into practice, it is advisable to establish the Polish House, a kind of public-private partnership, where, under one roof, companies willing to start operations in Singapore could get practical support from consultancy and legal services, and assistance in renting commercial space for the first months of operations. It could also act as a Centre of Polish culture, responsible for comprehensive promotional campaigns of the "Polska" brand, a cultural programme, and management of Polish representation at trade fairs, exhibitions, and more. This institution, in collaboration with other Polish missions in the region, and with a network of regional partners, should provide up-to-date information and support to companies interested in any ASEAN countries.

At the bilateral level, Singapore can be recognised as a prospective market in the next edition of the Ministry of Economy's programme of promotion of Polish business abroad. Furthermore, Poland can take a number of measures that would narrow the geographical and cultural distance between the two nations. Implementation of a long-standing idea for a direct flight connection with Warsaw would cut the trip by a few hours. A special programme for cooperation between chambers of commerce, universities, think tanks, and cultural and research institutions, would further boost people-to-people contacts and help to increase Poland's visibility. Moreover, the Polish government should continue the promotion of Poland as a regional hub for Singaporean investments in Central Europe and the EU.