# India-South Korea Investment and Trade Relations

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**Abstract:** Over the years, the economic relations between India and Republic of Korea have grown rapidly. However, the size of trade and investment relations between the two countries is still comparatively low and gives a lot of space for the improvisation. In the above mentioned context, the following paper examine and explore the investment and trade relations, barriers to economic relations and potential areas of future cooperation. We also find that the improvement in political relations between two countries increase the trade and investment by imposing policies like CEPA, Korea Plus and many more. It also focuses on the scope available for India to increase its export to ROK. Lastly, we also observe how changing few restrictive foreign policies of both the countries will give a major boost to trade and investment relations.

**Key words**: India, Investment and Barriers Korea, Trade.

**JEL Classifications**: F 13, F 15, F 59

## 1.Introduction

In the recent years of the world economy Asia has emerged as a growth centre. After China and Japan, within the region India and Korea are considered to be third and fourth largest economies. South Korea has emerged as a key player of major trading and investment partner for India and China. In 1962 South Korea adopted outward-oriented policies with the beginning of first five-year economic development plan which helped in integration of Korean economy with the rest of the world. The consistent and high economic growth made South Korea one of the high-income economies in Asia. As compared to other developed countries Korea is still growing at a faster rate.

Since independence until the early 1990s India adopted import-substitution policy. India is moving towards a market-driven economy with wide range of economic policy reforms being introduced. India has experienced consistent high economic growth over the last one and half decades, making India $10^{th}$ largest economy in the world. Currently, India is the second fastest growing economy in the world. Both India and Korea have enhanced their role in international economic order and have been getting integrated with the world economy.

In the last three and a half decades, there was a continuous strengthening of bilateral economic relations between the two countries as there were high-level exchanges and signing of several crucial agreements

## 2. LITERATURE REVIEW

There have comprehensive empirical studies on India-Korea trade showing the impact of trade on economic growth.

Economic survey (2007-08) shows a significant feature in India's service sector emerged as a world leader in IT and BPO services. According to UNITED NATIONS COMTRADE database on international trade India's import from South Korea was amounted to USD 16.11 billion in 2019. In most the studies there is focused on the openness on the economic growth but through the comprehensive literature both dynamic and static gains could be collected. In December 2009, Working Paper NO. 242 titled India-Korea Trade and Investment Relations was made by Pravakhar Sahoo, Durgesh Kumar Rai and Rajiv Kumar. Since the economic relations between India and Korea has undergone tremendous modifications since 2009. Therefore, this is a very extensive topic which was chosen to bring into light the huge array of economic, trade and strategic issues between both the countries which have evolved over the years. However, given the size and structural complementarians of the two economies, the size of trade and investment which was considered low in 2009 can now said to be moderate.

## 3. Economic Profiles of India and Korea

### 3.1 INDIA

The Indian economy is characterised as a developing market economy as it is ranked world's fifth-largest economy by nominal GDP and third largest by purchasing power parity in the World GDP Ranking 2020. According to IMF, on per capita income basis, in 2018 India was ranked $139^{th}$ by GDP (nominal) and $118^{th}$ by GDP(PPP).

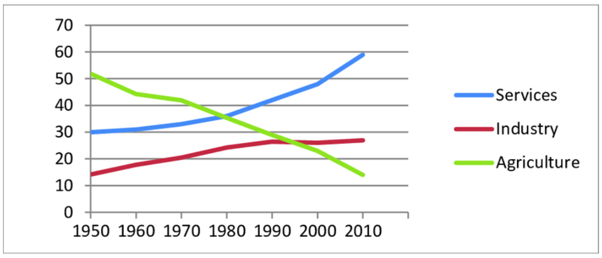
### LPG Policy,1991

The LPG policy focussed on ending the license-permit by reducing the government interference in the business, and hence increasing the economic growth through reforms. This policy discouraged public sector monopoly and helped paving a way for competition in the market. Thus, the policy made India open up a global economy.

The size of the economy can often give the first impression of the might of the country. GDP gives the total worth of goods and services produced within the country in a year. There has been an increase of 2216% of India's GDP as it was Rs.5,86,212 crores in 1991 whereas 25 years later it stands Rs. 1,35,76,088 crores. In dollar terms, India's GDP crossed $2trillion mark in 2015-16. At present, India is ranked quite high in the world in terms of nominal GDP and is expected to be the second largest economy in the world by 2050. In 2015-16, India was considered the fastest growing major economy in the world with a growth rate of 7.6%. the following indicators helped make LPG policy a success: -

- **Foreign Direct Investment:** FDI was negligible before 1991. There was only $74 million of foreign investment in the first year of reform. However, investments have steadily risen. As of 2016, the country has received total FDI of $371 billion.
- **Foreign Exchange Reserves:** India was forced to bring economic reforms due to dismal state of forex reserves are at a high record. In 1991, it was just $5.8 billion whereas at present the country's forex reserves are $360.8 billion.
- **External Debt:** The country's external debt started expanding as companies started borrowing from the overseas market to fund their growth. In 1991, the country's external debt was $83.8 billion while in 2015 it was $480.2 billion.
- **Foreign Institutional Investment:** The FII inflows and outflows often reflects a country's economic and political stability. In 1992-93 FII inflow was just $4.2 million. There was a spike of FII inflow from $8.87 billion in 2013-14 to $45.69 billion in 2014-15.
- **Per Capita Income:** Per capita income refers to the average income of every citizen estimated by dividing GDP to the country's population. Between 1991 to 2016, the per capita income increased from Rs. 6,270 to Rs. 93,293 which is a whopping 1388% jump.
- **Purchasing Power Parity:** It gives an idea about cost of living and standard of living in a particular country. The standard of living is improved for sure, when per capita income of Indians is calculated in terms of PPP. The per capita PPP increased nearly five-fold from $1,173 in 1991 to $5,701 in 2014. Whereas, when compared to other countries India's standard living and cost of living is quite low.
- **Share of agriculture, industry, and services in GDP:** The agriculture sector's contribution to the Indian economy has shown a gradual decrease in the post reform period i.e. it was 29% in 1991 whereas it is now only 15% of GDP. For propelling the economy at global stage, the services sector has taken lead role as it contributes 53% to the national economy. However, there has been only a marginal growth in the industrial sector.

**GRAPH 3.1.1: Changes in Agriculture, Industry and Services Sector since LPG**




- **Power Generation and Consumption:** As the country grows economically, the power consumption increases too because electricity consumption is proxy for growth. Cumulatively, there's been a 162% growth in power consumption between 1990-91 and 2012-13 from 291.8kWh to 765kWh.
- **Labour Force and Employment:** More or less two-fifth of the population is a part of labour force as it currently stands 49.7 crores compared to 33.7 crores in 1991. There has been a fall in the unemployment rate i.e. from 4.3% in 1991 to 3.6% in 2014. The sectorial contribution of labour has witnessed a notable change, as agriculture sector now employs less than 50% labour force whereas industrial and service sector are far ahead.

**Trillion Dollar Club:**

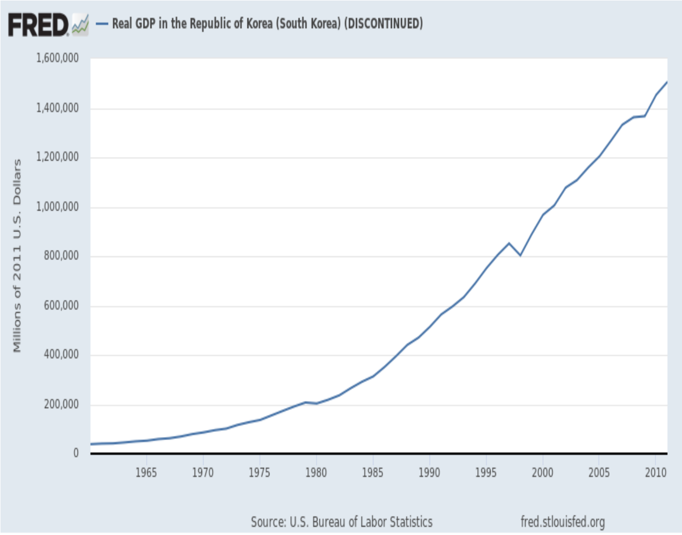
With a nominal GDP of $2.94 trillion India is the fastest growing trillion-dollar economy in the world. In 2019, overtaking United Kingdom and France, India has become the fifth largest economy. India ranks third when GDP is compared in terms of PPP at $11.33 trillion. According to IMF, India's growth rate is expected to rise from 7.3% in 2018 to 7.5% in 2019 as drags from currency exchange initiative and introduction of goods and services tax fade.

**Imports and Exports of India Since 1991:**

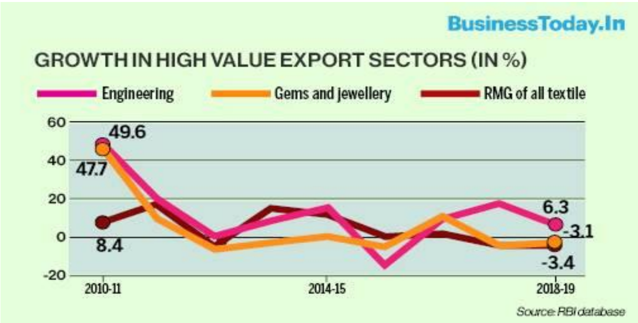
India's trade policy in terms of foreign trade has shown the following changes after the trade policy was executed in 1991:

- The import duties of India were 200% in 1991 which were highest in the world were brought down to 45% in 1997-98.
- There has been a nominal rise in share of manufacturing in India's export from 78% in 1992-93 to 84% to 2015-16.
- There has been a sharp change in composition of India's export basket as demand for chemical products and engineering goods is increased while share of textiles, leather and ready-made garments have fallen.
- After the discovery of oil and gas reserves, the share of petroleum and crude products increased from 2.57% in 1992-93 to 11.58% in 2015-16.

- According to the Economic Survey 2014-15, the domestic value addition to the overall merchandise exports has been falling from 85% in 1998-99 to 71% in 2007-08, implying more import content in India's export basket.




**GRAPH 3.1.2: Growth in High value Export Sectors (%)**




### 3.2 SOUTH KOREA

South Korea has emerged as 20th century's one of the most remarkable economic success stories, becoming a developed, globally connected, high-technology society after emerging from per capita was comparable with the levels in the poorest countries in the world and on the other in 2014, South Korea's GDP surpassed one trillion Dollar.

- **The Beginning:** In 1960s the government encouraged saving and investment over consumption, promoted import of raw materials and technology, kept wages low and directed resources to export oriented industries that remain important to the economy till this day. Under these policies, growth surged and frequently reached double digits in 1960s and 1970s. Gradually growth moderated in 1990s as economy matured but remained strong enough to propel the political changes of 1980s and 1990s.
- **1997-98 Financial Crisis:** The South Korean companies were hit hard by the Asian financial crisis of 1997-98 because of their excessive reliance on short term borrowing and ultimately the GDP fell by 7% in 1998.To tackle the difficulty various economic reforms were introduced such as restructuring some chaebols, opening more foreign investment and imports, increasing labour market flexibility. These steps lead to a relatively rapid economic recovery. It tried to expand its network of free trade agreements to help boost exports and since then had implemented 16 free trade agreements covering 58 countries, including China and United State that collectively covered more than three-quarters of global GDP.
- **Current Scenario:** At present, South Korea is known as an economic success story, as it rose from one of the poorest countries before 1960s to a developed country, with high level of income. The total South Korea's GDP was estimated to be approximately 1.7 trillion US dollars in 2019. South Korea is expected to be one of the core economies driving the next generation of economic growth, alongside the BRIC countries.

**GRAPH 3.2.1: Real GDP in South Korea**

- **Sectorial Distribution:** The service sector contributes 56% of South Korea's GDP, while 33% comes from the South Korea's industrial sector. The agriculture sector generates less than 2% of GDP. South Korea's service sector employed over 70% of South Korean workforce in 2018.
- **Workforce:** More than 51 million inhabitants of South Korea are employed and the unemployment rate is expected to remain under 4% through 2024.South Korea is experiencing the effects of aging labour force, with a decrease in population share of people entering the work force and simultaneous increase in number of those aged 65 years and above. Despite that country's economy has remained a powerhouse, growing around 2.5% from 2018 to 2019.
- **Pandemic Effects:** The GDP of South Korea fell by 3% YOY in June 2020 following a real growth rate of 1.4% in the previous quarter. Nominal GDP reached 399.4 USD billion in March 2020. Where the GDP deflator fell by 0.6% and gross saving rate was measured 32.9% in March 2020.

  Thus, South Korea fell into recession in the second quarter due to the coronavirus pandemic, which ranked its worst performance since 1998 when it faced Asian financial crisis.

## 4. TRADE POLICIES OF INDIA AND SOUTH KOREA

### 4.1 India

The department of business has the mandate to make India the most important player in the global trade and stand a role of leadership in international trade organization with India's growing economy. India's foreign trade policy (FTP) provides all the necessary framework for the policies and different strategies for promoting trade and exports. It is responsible for multilateral and bilateral commercial relations, export promotion, special economic zones and also for the development and regulation of some export oriented industries. The current trade policy focuses on enhancing its reach for greater share in the market and also to expand its product ranges.

There are lot of challenges faced by India in the trade policies, the economic slowdown, domestic preoccupations, increasing protectionism. In order to achieve policy objectives, the manufacturing sector should be prepared for opportunities in an evolving multilateral trade arena. The country's exports are likely to witness 10-12 percent yearly decline due to contraction in global markets on the ongoing fiscal resulted through COVID 19 pandemic. Federation of Indian export organization mentioned that although there is lot of information from exporters, demand in employment intensive sectors such as footwear, handicrafts and carpets is still a challenge for the trade.

**India and WTO:**

There are large number of agreements between India and WTO like GATS, SPS, TRIPS, TRIMS agreement on agriculture, agreement on subsidies and countervailing measures and agreement on textiles. India is also involved in different trade disputes with WTO. India's import duties for sectors like steel, electronic and iron as well as its subsidies for sectors like sugar, fisheries and solar panels have been challenged by different countries at the forum.

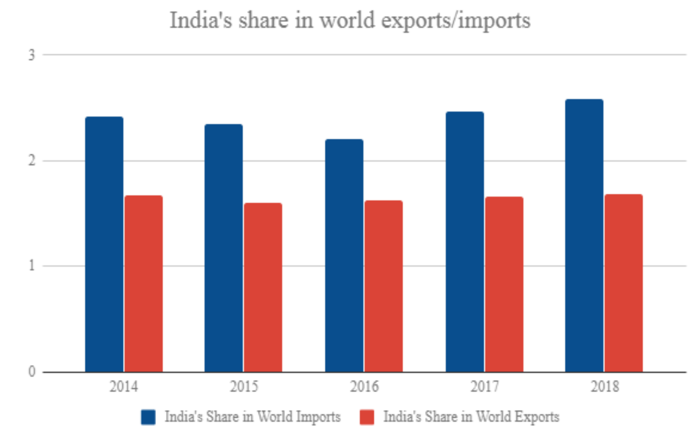
**WTO NEGOTIATION:**

- The Doha round of trade negotiation in WTO provides an opportunity to correct the contortion in the global trade and to enhance the rules to enable a greater participation of developing counties in the world trade.
- India plays a major part in the agriculture negotiation as large part of population is dependent on agriculture for its livelihood. Thus negotiation deals with safeguarding the interest of low income and resource poor agriculture producer, effective reduction in trade-distorting domestic support, elimination of all forms of exports subsidies and improvement in transparency.
- In this round it's important for India and other developing countries to protect the interest of vulnerable industries. The development interest of the industries cannot be ignored due to mercantilist considerations.

**India's share in world exports and imports**

At pre 1991 India was a closed economy with export value as US$ 13.87billion and import value of 19.35 billion in 1998, but in 1991 due to Liberalization, privatization and globalization there were various trade reforms adopted such as abolition of import licensing system, devaluation of domestic currency, reduction in import duties, removal of quantitative restriction on imports and reduction in tariff rates. This all lead to the enhancement of India's trade policies in global world.

**GRAPH 4.1.1: India's share in world Exports or Imports**




**4.2 South Korea**

Korea is a native member of WTO; it receives a special treatment provided for in the WTO agreement. The structure of trade policies formulation, implementation and evaluation in Korea has remain unchanged since its previous trade policy in 2008. Korea has intensively pursued free-trade agreements with major trading partners that is (ASEAN, INDIA, PERU, THE EU, THE UNITED STATES). Measures have been strengthened to compensate domestic producers and companies which are injured due to FTA-induced import competition. Korea which is major donor to WTO trade related technical assistance has continued to provide duty free treatment to imports to least developed countries. Korea has taken steps for meeting its transparency obligation at the top level. Since decades Korea has used outward development strategies but these strategies have helped Korea to transform from a subsistence agrarian economy in 1960's into the $12^{th}$ largest trading nation.

**South Korea's share in world's imports and exports**

South Korea is the eleventh largest importer in the world but the imports to South Korea has been declined by 11.9 percent yearly to USD 38.6 Billion in July 2020 due to coronavirus pandemic. According to Korean trade investment promotion agency (KOTRA) about 88% of Korean subsidiaries established in India are owned and 11.3% are the Joint ventures. These joint ventures are mainly with the Korean companies as with Indian companies its very rare. Korean enterprises including LG, Samsung and Hyundai motors have owned the subsidiaries with large scale investments which helps them to create brand image, gain negotiating power with the government and operate on economies of scale. South Korea is currently ranked as the seventh largest export economy in the world and has a trade balance of $93.7 billion. Its major exports are in silver, copper, zinc, refined petroleum and gold.

**GRAPH 4.2.1: Korea's share in worlds imports**


**South Korean trade policy and FTA'S**

In earlier decade during 1960's the Korean trade policy focused on export promotion, particularly in the areas of Labour and light industrial products such as textiles and footwear. In 1990 onwards Korean trade policy concerned about multilateral trade initiatives such as Uruguay Round and began to consider regional trade agreements (RTA'S) as a major trade policy instrument. Its interest would not be promoted by the membership in the RTA. Korea has also participated in the regional economic cooperation agreement such as APEC and also in preferential tariff arrangements in the developing countries such as Global system of trade preference. The Korean government now understands that free trade agreements (FTA'S), if properly managed with proper rules can supplement the multilateral trading system and contribute to market through bilateral and trade liberalisation.

- **Korea and Chile FTA**: Korean government decided to negotiate an FTA with Chile in November 1998. Chile had an extensive FTA network. The Korea-Chile FTA (KCFTA) covers the range of relations between the two countries in trade in goods, investments, services, and competition policies. In the KCFTA which was the first FTA concluded by Korea, liberalization in the agriculture sector became more difficult than the originally anticipated as there was limited trade in that sector. Similar difficulties are expected in Korea's future FTA'S with the agriculture sectors.

**5. India-Korea Trade**

**5.1 Comprehensive economic partnership agreement (CEPA)**

CEPA was signed between Korea and India in Seoul on 7 august 2009 and it came into operation by 1st January 2010. CEPA is the first free trade agreement by Korea with the member of the BRICS nations. The trade deal that was finalized deals with the two countries in lowering the import tariffs on the wide range of the goods over several years and helps to increase the opportunity for trade in goods and services and for the investments. There was the negotiation that stated that India would cut tariffs on 85 percent on Korean exports and Korea was to reduce tariff on 90percent on Indian exports. For the purpose of reduction and elimination of tariffs CEPA has classified 11,200 tariff lines of Korea and 5,200 tariff lines of India into 6 categories. The categories include:

- Those which will eliminate the tariff completely on implementation of the agreement.
- Those which will have the annual tariff reduction of 20% or 12.5%.
- Those categories which deals with reduction in the final tariff to 1%-5% after 8 years.
- There is an exclusive category which will not enjoy any tariff reduction.

CEPA has allowed service market to be opened such as telecommunication, construction, distribution, accounting, building, real state, energy distribution, medical services etc. CEPA has helped in expansion of the job opportunity such as engineers, managing consultant and computer specialist. India agreed for 10 Korean banks to establish their branches in India. At present Woori bank has one branch and Shinhan bank has four branches, Hana bank, and KB bank has set up their respective branch offices. CEPA allows 163 Indian professionals such as engineers and computer programmers to have access to the Korean service market. The bilateral trade between India and Korea has increased in 2010 by 40% to over US$17.57 billion. Korean export increased by 42.7% whereas the Indian export rose by 37% in 2010. There was joint committee that was set up by ministry of commerce and industry between India and Korea for the annual review of the implementation of the CEPA. The first meeting was held in New Delhi on 20th January 2011. It was further decided to merge the erstwhile joint trade committee established in 1987 into the joint committee under CEPA. The second meeting of joint committee at the director general level was held on 29 September 2011 in Seoul. When President of Korea visited India it was agreed to establish India-ROK joint trade and investment promotion committee to replace joint committee.

**5.2 TRADE IN SERVICES**

India has performed better than Korea in trade in services. But if we compare with the merchandise trade Korea is better than India. India's export of commercial services has been increased more than five times from $16 billion in 2000 to $89.7 billion in 2007. The export services of India in the commercial services has increased by more than 20 percent annually in the last consecutive five years. Though Korea has grown in its exports steadily after 2002 but on the other hand it still faces the fluctuations in the export of its services. The annual growth of Korea's exports was higher in 2007 than in India. The overall value for the Korea's export of commercial services in 2000 was $29.7 billion, which saw a consecutively decline in 2002 to$27.3 billion but from that period the exports in the services have been rising and has reached to $61.5 billion in 2007.

There has been lot of changes that India went through during these decades in its structure of service exports. These exports were largely dominated by travel and transport services before 1995 but the share of the travel and the transport services tend to decline. But the share of the other services has grown over that period. Those services which have grown during the past years are computer and information services, business services and insurance services. According to the economic survey conducted in 2007-08, a significant feature in the India's service sector emerged as world leader in IT and BPO services. India was accounted 46 percent of global market in BPO and 65 percent of global market in IT in 2004-05. There has been changes in the export structure of Korea since last 15 years which is different from the changes that took place around the world and in India. In Korea the transport services have increased at a faster rate than the other services.

If considered the bilateral trade in services between Korea and India there is lack of data but the trade in the services has been rapidly increasing between these two countries, especially in the IT, software and travel services. According to the Electronic and Computer software export council (ESC), the software exports from India to South Korea were $27.53 million in 2001-02 compared to $8.67 million in 2000-01. Korea can also be utilized to get a stronger presence in the APEC region.

### 5.3 Merchandise Trade between India & South Korea

After the liberalization of Indian economy in 1990s, India-Korea trade and economic relations grew continuously. The economic reforms in India were received positively by different institutions and companies in ROK which led to growth of bilateral trade between two countries from US $ 1.5 Billion (1997-98) to US $ 4.2 Billion (2004-05). The average annual growth rate of trade between the years 1997-98 to 2004-05 is 17%. The bilateral trade between the two countries have increased over the time but still remains small compared to the large potential of trade they have. Recently, India was ranked 11th among export destinations and 16th among sources of imports for the Korean Economy.

India's imports from Korea are identified by appropriately diversified goods compromising of manufactured goods such as electronic goods, machinery transport equipment, iron & steel and some organic chemicals. On the contrary, India's export basket solely revolves around primary products, raw materials and ores. These items are petroleum products, oil meals, oils and minerals, iron ores etc.

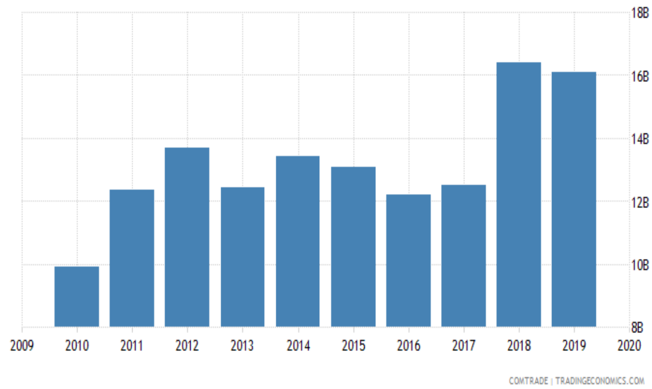
However, even after this there is a great scope of trade in agriculture and marine products, essential oils, auto components, defense related products, cosmetics industry between the two nations. This we will discuss in great detail under the section of future cooperation.

Till now we have observed the pattern of trade of different merchandise and services between the two countries. We will now look towards the Import and export of goods and services between India and Korea through a statistical approach.

#### 5.3.1 India's Imports from South-Korea

The Imports from ROK to India have been continuously increasing over the years. According to the United Nations COMTRADE database on International Trade, India's import from South Korea amounted to USD 16.11 Billion in the year 2019. The following graph shows the change and pattern of import from ROK for the past 10 years.

**GRAPH 5.3.1.1: India imports from Republic of Korea**




**NOTE:** The X-axis shows the years. Whereas the Y-axis represents the value of Import to India from Korea in US Dollars.

Next we are going to analyze the Imports of goods from different sectors in India. The succeeding table displays the monetary value of the different goods imported in the year 2019.

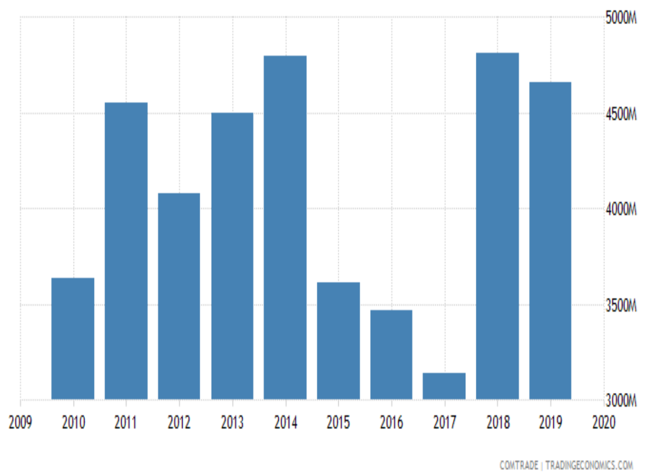
**TABLE 5.3.1.1: Import of different Goods in 2019**

| India imports from South Korea | Value |
|---|---|
| Electronic equipment | $2.93B |
| Iron and steel | $2.51B |
| Machinery, nuclear reactors, boilers | $2.30B |
| Plastics | $1.67B |
| Organic chemicals | $1.20B |
| Vehicles other than railway, tramway | $893.59M |
| Mineral fuels, oils, distillation products | $824.63M |
| Optical, photo, technical, medical apparatus | $452.81M |
| Articles of iron or steel | $355.22M |
| Zinc | $288.27M |

#### 5.3.2. India's Exports to South-Korea

South Korea is one of the best economies in the Asian region and thus, the imports from other Asian countries remains comparatively low. But still according to UN COMTRADE database India's export to South Korea amounted to USD 4.65 Billion in 2019. The next graph observes India's export to Korea over the years.

**GRAPH 5.3.2.1: India Export to Republic of Korea**




**NOTE:** The X-axis shows the years. Whereas the Y-axis represents the value of Import to India from Korea in US Dollars.

Subsequently we examine the value of different goods and services exported to Korea. During this observation it is noted that most of the goods that are exported are the natural resources that is greatly used in the industrialized countries.

**TABLE 5.3.2.1: Export of different Goods in 2019**

| India exports from South Korea | Value |
|---|---|
| Aluminium | $834.04M |
| Mineral fuels, oils, distillation products | $793.13M |
| Organic chemicals | $447.22M |
| Iron and steel | $313.80M |
| Machinery, nuclear reactors, boilers | $198.22M |
| Cotton | $188.23M |
| Electrical, electronic equipment | $175.14M |
| Residues, wastes of food industry, animal fodder | $156.37M |
| Ores slag and ash | $128.90M |
| Lead | $123.01M |

### 6.INDIA-KOREA INVESTMENT RELATIONS

#### 6.1 Korean Investment in India

In the early 1990s, India adopted new economic reforms like LPG policy, which offered a conducive investment environment for potential investors from foreign land. Under this many Korean Companies also invested in Indian markets and within a short period of time established themselves greatly. Among the different companies that invested in India Hyundai Motor Group, Samsung Electronics and LG group have been leaders and became household names in the country. The investment from these companies come as:

1.**Hyundai Motors** has set up an automotive plant in Tamil Nadu with a capacity to produce more than 650,000 cars annually.

2. **Samsung Electronics** has two factories – one each in Noida and Sriperumbudur (TN) and five R&D Centres. Samsung announced $780 million investment to expand their Noida facility for manufacturing smartphones and consumer electronics. This Noida facility is the world's largest mobile manufacturing unit, doubling its current capacity of 68 million to 120 million mobile phone units by 2020.

3**. LG Electronics** operates two factories in India, one each in Noida and Pune, with an R&D Centre in Bangalore. **LG Group**, in a partnership with the Vedanta Group, is set to build India's first LCD manufacturing unit in Maharashtra.

The year 2018 marked 45 years of successful diplomatic ties between the two countries. In 2018, Korea's investment to India also crossed the $1 billion mark for the first time, recording $1.053 billion. Korean FDI to India (up to Sep 2019) stood at $ 6.29 billion, as per the Export-Import bank of Korea, of which $198 million was received in 2010, $452 million in 2011, $311 million in 2012, $342 million in 2013, $325 million in 2014, $314 million in 2015, $330 million in 2016 and $514 million in 2017, $1,053 million in 2018 and $340 million in Jan-Sep 2019. The following table shows the Year Wise FDI Flow from South Korea to India over the years:

**Table 6.1.1: Year-Wise FDI from South Korea (in US $ Million)**

| YEAR | FDI from S. Korea (in US $ Million) |
|---|---|
| 2008-09 | 114.62 |
| 2009-10 | 166.9 |
| 2010-11 | 131.35 |
| 2011-12 | 244.78 |
| 2012-13 | 223.97 |
| 2013-14 | 173.82 |
| 2014-15 | 128.23 |

Source: DIPP

Recently, The Republic of Korea became the 13th largest FDI investor in India, investing $ 4.5 Billion during April 2000 – March 2020.The major sectors that attract this FDI Inflows from South Korea to India are Metallurgical Industries, Food

Processing Industries, Transportation Industries, Industrial Machinery and Companies involving Electrical Equipment.

In recent years after India adopted outgoing foreign policies, interactions between South Korea and India have increased, which also turned out to be a boon for investment and commercial relations between the two countries. As a result, India-Korea collaborated and jointly launched an initiative **'KOREA PLUS'** as proposed by Indian Prime Minister Narendra Modi in 2016.

**Korea Plus:** It mainly aim to promote Korean investment in India. It is established under Invest India Initiative, covers the entire spectrum for Korean enterprises looking to invest. It provides regular investment reports and information relating to various sectors. The regulatory framework for investment is also available on the platform for Korean investors to understand the market before investing. The Korea Trade-Investment Promotion Agency and Invest India work together to assist investors from Korea by providing services such as meeting facilities, public relations, research and evaluation.

**The Indian Chamber of Commerce** in Korea comprising Indian and Korean companies play a constructive role in promoting trade and investments linkages between the two countries and assist Embassy in organising seminars and events on business promotions. These efforts have proved to be great for investment relations between the two countries.

| Foreign Direct Investment | 2017 | 2018 | 2019 |
|---|---|---|---|
| **FDI Inward Flow** *(million USD)* | 17,913 | 12,183 | 10,566 |
| **FDI Stock** *(million USD)* | 229,399 | 237,238 | 238,553 |
| **Number of Greenfield Investments***** | 120 | 136 | 117 |
| **Value of Greenfield Investments (million USD)** | 5,234 | 8,539 | 3,608 |

### 6.2 Indian Investment in Korea

In the early years of globalization, Republic of Korea was not very welcoming to attract foreign investments in the country. Between 1960s to 1990s the share of FDI inflows in its gross fixed capital formation and in its GDP have been very less compared to the rest of world and emerging economies.

However, soon after the importance of foreign investment was realised in Korea and the policy makers enacted a new investment promotion act in 1998. It was aimed to provide foreign investors easy incentives from tax incentives to cash grants for R&D projects. Other than this Korea also created new investments such as Invest KOREA and the Office of the foreign Investment Ombudsman to facilitate Foreign Investment in the country.

Owning to such projects the Investments from India to Korea have increased substantially over the years. Investments from India to Korea are to the tune of approx. $3 billion led by Tata Daewoo, SsangYong and Novelis. Major investments from India come from the following institutions:

**1.Novelis Korea Limited by Aditya Birla Group (2005)**

Novelis Inc. holds 68% of share that total amounts to about US $600 million in Novelis Korea Ltd. Its total investment in Korea accounts to more than $700 Million.

**2. TATA-Daewoo Motors by TATA Group (2004)**

It took over Daewoo Commercial Vehicle (Gunsan, Korea) for approximately $102 million in 2004. Today, collective investment from Tata Group in Korea sums up to $ 400 Million.

**3. Mahindra SsangYong Motors (2010)**

In 2010 Mahindra & Mahindra group acquired a majority stake in SsangYong Motors with investment worth of $360 Million. Now the total investment from this company in Korea accounts to $1.5 billion.

**4. Nakhoda Ltd.**

It is one of the largest yarn producers in India and later obtained the Korean Kyunghan Industry with investment of approximately $ 40 million.

After realising the importance of foreign investment ROK worked on its image and appealed to foreign investors on the basis of rapid economic development and country's specialization in modern communication and information technologies. Thus, World Bank promoted ROK to 5th position on Ease of doing Business list 2020.

**Table 6.2.1: FDI in Republic of Korea (in US $ Million)**

Source: UNCTAD, Latest available data.

Note: *** Green Field Investments Are a Form of Foreign Direct Investment Where a Parent Company Starts a New Venture in a Foreign Country by Constructing New Operational Facilities from the Ground Up.

### 6.3 Technical Collaboration

Technological collaboration between two countries in world has been a major source of technology acquisition for companies in developing countries. In case of ROK and India the technological collaboration achieved a major spike in recent years.

The Department of Defence Production, Ministry of Defence of India and Ministry of Defence Acquisition Program Administration of ROK signed an Inter-Governmental MOU on April,2017 that aims at partnership in naval ship buildings between the two countries.

Under the 'Make in India' Program, State-owned Hindustan shipyard Ltd. (HSL) will be collaborating with Hyundai Heavy Industries Co. Ltd. Of South Korea for the production of Defence gadgets. Furthermore, an alliance between M/s Hanwha Techwin of ROK and L&T of India will lead to production of 100 tracked self-propelled 155mm/52 calibre artillery guns "K-9 Vajra" for Indian armed forces.

The continuous efforts made by both the countries will lead to better path of investment and trade relations.

## 7.TRADE AND INVESTMENT BARRIERS

We have analyzed till now that both the countries are working on improving its trade and investment relations. Although both trade and investment between India and Korea have increased over the years but still remains low compared to its potential. Apart from natural barriers like distance, there are some created barriers in both countries limiting the goods and services trade as well as investment.

### 7.1 Barriers in India

India has always considered the importance of trade relations and try to pursue outgoing policies in order to create long lasting relations with countries all across the world. However, India's trade arrangement and regulatory environment remains limiting.

Tariff Barriers remains one of the biggest trade barriers in India as it charges high prices on imports of foreign goods. However, there are many non-tariff barriers as well that need to be discussed and resolved. Following are the non-tariff barriers restricting countries to trade with India:

- **Import Licensing**
  Through the import licensing requirements, the Government of India restricts or prohibits the import of many goods. Most of the consumer goods are exempted from import licensing i.e. institutions need import license from GOI to import goods other than consumer goods.
- **Entry Requirements**
  Considering the entry requirements, India divides the goods as new, secondhand, remanufactured or refurbished. The country allows the import of secondhand capital goods by the end user without the license. However, few of the problems that the other stakeholder's go through are the unnecessary details needed in license application, quantity limitation and lastly the long delays between the application and grant of license.
- **Service Barriers**
  India impose restrictions on the following services: Insurance, Banking, Securities, Architecture, Telecommunication, Construction, Engineering and many more. The Indian Government owns a major part in the service sectors like banking and insurance. Foreign participation in professional services has also been restricted, and in the case of legal services, it is prohibited entirely.
- **Other Barriers**
  The imposition of trade-related investment measures and equity restrictions by the government result in unfair advantage to domestic institutions. The Indian Government also restricts the Foreign Direct Investment in sectors like retail etc.

### 7.2 Barriers in South Korea

We will first look in to the barriers pertaining in South Korea due to its regional, cultural or geographical appearances. Following are the weak points of the ROK due to which countries around the world resist investing in Korea:

- Regulatory Frameworks are quite restrictive and opaque which make it tough for foreign institutions to operate there.
- Dominance of big industrial groups i.e. Chaebols which gives very less space for anyone else to flourish independently.
- The manpower cost is quite expensive compared to other countries.
- The population proportion of old people is much more that makes the work a little less productive.
- Property is extremely expensive and this cost companies quite a lot to set up their permanent offices in Korea.
- The country is extremely dependent on imports of raw materials which makes it tougher for companies to work efficiently without outward dependence.
- High Unemployment rate among the youth.
- Lastly, the continuing regional tensions with North Korea leads to turbulences in social-economic forum.

Also, foreign investors sometimes complain about the opacity of decision making and the existence of "informal desks", although progress is being made in this domain. Thus, beginning 2016, a reform of the financial system was imposed by lawmakers to formulate all the directives in a written form. They cannot pass regulations by acclimation anymore. The government also authorised foreign investors to create co-enterprises on South Korean territory through the promulgation of the Foreign Legal Consultant Act (FLCA). Finally, in 2016, an amendment was passed that should remove the barriers to FDI in air transport.

Republic of Korea tries to maintain some basic standards of technical regulations and conformity assessment procedures that are too tiresome. Few barriers also restrict the export of food items that are of real interest ton India.

The Korean Pharmaceutical Trade Association (KPTA) critically review all the imported cosmetics in the Korean market. It delays the entry of product in domestic market.

Foreign companies go through a number of trade barriers while exporting services to ROK. A relatively high threshold level is imposed for acquirement of construction services by government enterprises. It maintains huge number of restrictions on Film and Broadcasting industries as well.

Talking about the telecommunication sector where India would be extremely interested to collaborate. Korea imposes restrictions on foreign services providers that makes it tougher for institutions. It also prohibits from foreign satellite service providers to sell their services in Korea to end users.

Few other barriers that make foreign institutions take a back step from setting investment and trading relations with South Korea market include government assistance to few domestic industries, weak legal regime to protect intellectual property, lack of data protection etc.

## 8.Areas of Future Co-operation

There are complementarities in economic structures and future outlook between India and South Korea. The future agreements between the two countries should not only emphasize on increasing investment flows and trade by removing the existing barriers on both sides but should also focus on technical collaboration and co-operation in various sectors with high trade complementarity and both government and private initiatives should be promoted. The following areas can be considered for future co-operation between the two countries:

- **Co-operation in IT Sector:** The electronic and hardware industry of Korea is well recognised worldwide. The Indian software industry is considered to be most competitive in the world market and has proved to be mettle. So, in both the countries there is complementarity and scope for future co-operation. There is a scope to achieve joint leadership in this sector if both the countries combined their efforts and come together. There is a great possibility of success in embedded technology as it involves hardware and software. There is a great scope of outsourcing IT products and services since the cost of production and competition of Korean companies has been increasing and for outsourcing services, India is an attractive destination. IT education and training are another area of cooperation. Manufacturing, product development marketing is Korea's strength while world class training institutions are India's strength. If these are combined, then it would prove to be beneficial for both countries.
- **Co-operation in Science and Technology:** Science and technology is an area which both countries are already co-operating as India has financial resources and India is rich in science and technology personnel. It is imperative intensify co-operation between various institutions based in two countries for which India-Korea joint committee on S&T in 2005.
- **Co-operation in Pharmaceutical Industry:** Indian pharmaceutical industry from being a major importer of pharmaceutical products, has today become a net exporter of these products. Export destinations of India not only include Asia and Africa but also has developed countries such as US, Canada and European countries. This proves the competitiveness and overall strength of the pharma industry. Both R&D facilities and human capital to leverage are there in India. Now as South Korea is emphasising on R&D in pharmaceutical-related areas, so there are high chances of co-operation between the two countries in areas such as vaccines, biotech goods, traditional medical products, clinical trials etc.
- **Co-operation in Broadcasting:** There are high chances of co-operation between the two countries in broadcasting as it is a growing industry in both the countries and since there are complementarities in the industry. India is well recognised for its content amongst the Asian countries. On the other hand, Korea specialises in dramas, mobile and digital broadcasting technologies. Hence, to initiate co-operation in the broadcasting industry would be in the interest of both countries.

## 9. Conclusion

The current size of trade and investment between India and Korea is very low according to the structure of these two economies. In this context the paper shows the analysis of the trade and investment relations between these two countries and their areas for future cooperation. India's exports constitute of low value-added and industrial products whereas Korea constitute of large value-added products. The analysis at the aggregated and disaggregated level shows that there are various products in which Korea is specializing which are competitive as India's exports are getting expanded. However, India shows decline in the comparative advantage in textile, cotton, rice and other primary products. There is increase in the merchandise trade mainly due to the demand structure in the complementary sectors.

Bilateral economic relations between India and Korea has been strengthen since 1991. Though the foreign investments have increased, Korea's share to FDI inflow to India has declined. Korea's investments are only to some sectors like electrical equipment and metallurgical industries. Since India basically focuses on the development of infrastructure which requires both huge investment and advanced technology thus it provides major scope for Korean companies to collaborate in the infrastructure sectors. Therefore, there is wider scope for these two countries to increase the trade in services.

Further, the trade complementarity index (TCI) shows that Indian and Korean trade has become more compatible, thus CEPA provides provision to reduce tariffs and non-tariff barriers on large number of products which would enhance the competition of exports in each other's markets. The agreement which proposes bilateral economic co-operation will strengthen the economies of both the countries.

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