

Korea-India Economic Cooperation in the Indo-Pacific Era

Jeong Gon Kim Research Fellow, India and South Asia Team, Center for Emerging Economies Studies (jgkim@kiep.go.kr)

Kyunghoon Kim, Associate Research Fellow, India and South Asia Team, Center for Emerging Economies Studies (kimpolecon@kiep.go.kr)

Jonghun Pek Senior Researcher, India and South Asia Team, Center for Emerging Economies Studies (jhpek@kiep.go.kr)

Yoo Jin Nam Researcher, India and South Asia Team, Center for Emerging Economies Studies (yoojin@kiep.go.kr)

Wondeuk Cho Assistant Professor, Department of Indo-Pacific Studies, Institute of Foreign Affairs and National Security (wodcho18@mofa.go.kr)

I. India's Strategic Importance

With the geopolitical and geoeconomic importance of the Indo-Pacific region in the spotlight, India's strategic value has come to the fore, and its eventual positioning in the G3 is more likely than ever. The United States and other like-minded countries are committed to building diplomatic, military, and economic ties with India. In response, India is more actively pursuing strategic autonomy. While increasingly estranged from China and relatively close to the United States, India is clearly seeking to minimize its dependence on any one country and maximize its autonomy to consider its own interests and make alliances on a case-by-case basis. This is true in the economic sphere as well as in foreign and security affairs. Therefore, it is important to understand the nature of the issue and India's unique position and needs on it. For example,

while India has some cooperation with China in the Asian Infrastructure Investment Bank and the Shanghai Cooperation Organization, it opposes the Belt and Road Initiative. Meanwhile, it continues to engage in military and economic exchanges with Russia, despite the cold shoulder from the US and other Western countries.

Major players in the international community, such as the United States and Japan, have significantly strengthened their strategic economic cooperation with India in recent years, especially as they have begun to reshape their global supply chains. While complete decoupling from China is unlikely at least in the short term, it is clear that India is emerging as an alternative partner in the new Asia (Altasia). With a growing network of strategic, economic, and technological partnerships already

centred on India, there is every likelihood that India will become a major player in global supply chains in the medium to long term. South Korea seems to have started to ride this wave. By adopting Korea's Indo-Pacific Strategy to strengthen its role as a 'global pivot', the South Korean government has created an opportunity to share its strategic vision with India. It should develop the bilateral relationship into one of close strategic solidarity and cooperation, and adjust its approach to India.

India, which has recently taken the lead in global cooperation by hosting the Global South Summit and the 2023 G20 Summit, should be recognized as an important anchor partner in the Indian Ocean and South Asia. India's close ties with key countries in the Indian Ocean, the Middle East, Africa and Europe, and its leadership role in several multilateral organisations, can serve as an important bridgehead for expanding Korea's regional cooperation and economic security networks. To this end, it is important to formulate Korea's India policy from a medium- to long-term perspective rather than seeking immediate results.

II. Strategic Areas of Economic Cooperation with India

The growing strategic rivalry between the United States and China has led to a visible geopolitical and technological competition that is clearly changing the face of economic cooperation with India. Trade, value chain resilience, clean energy and climate change, and digital are some of the areas where the

strategic environment is changing and where major countries' bilateral cooperation with India is noticeably changing or strengthening. These are areas where India's internal drivers and needs align with the strategic and economic considerations of major countries, and where the value of cooperation with India is rapidly increasing, making them a priority area to explore.

Traditional forms of trade policy, including free trade agreements (FTAs), have entered a new phase in light of India's rising strategic importance, its market potential to replace China, and the trend towards de-risking of value chains centered on high technology. While India's trade policy towards major economies has moved beyond or expanded beyond traditional areas and modalities, new trade deals are being actively negotiated for market and industry linkages with India. India is responding by leveraging its rising status to strengthen its industries and export competitiveness.

Value chain resilience is an area where India is very active in outreach. There are two main streams of cooperation: the high-tech-oriented cooperation with India by the US and the EU, with a view to decoupling from China, and the broader industrial cooperation promoted by Japan. There is also cooperation through (sub-)multilateral organisations. India has been very receptive to projects that can help foster domestic manufacturing, and has shown a favourable attitude towards foreign investment.

Clean energy and climate change is an area where India is very active in external cooperation. As a net importer of crude oil, India needs to reduce its dependence on external energy sources while maintaining high economic growth. In addition, India, and South Asia as a whole, is facing an urgent energy transition needs due to severe air pollution and vulnerability to climate change, which will require large investments. In this context, India has a high potential for the development of renewable energy such as solar and wind power. From the perspective of partner countries like the U S, bilateral cooperation on clean energy and climate change is a key area where they can derive benefits from India's immediate needs. It is also important in terms of supporting India build a foundation for stable growth while mitigating foreign and security strategic risks by reducing India's external energy dependence.

The digital sector is a promising area for collaboration with India, given the U.S.-China conflict and India's growing market. From telecommunications equipment to artificial intelligence, quantum computing, and legal systems such as digital trade norms, the U.S.-China conflict is at its peak, and the Indian government has recently put the brakes on Chinese investment in India. In addition, India has a growing digital economy and excellent innovation capabilities, including in artificial intelligence. Moreover, India faces problems in terms of the quality and security of its overall digital infrastructure, so there is a high potential for external cooperation, including

development cooperation. However, there is still a major constraint in India, which seems to be that the institutional foundation is not yet been fully formed. Currently, the legal system that regulates platform markets such as e-commerce and personal information protection laws is being established in India.

India participates in major (sub)multilateral organisations such as Quad, IPEF (Indo-Pacific Economic Framework), SCRI (Supply Chain Resilience Initiative), MSP (Minerals Security Partnership), ISA (International Solar Alliance), CDRI (Coalition for Disaster Resilient Infrastructure), etc. In addition, India also participates in the SCO (Shanghai Cooperation Organization), the BRICS, and other partnerships involving China and Russia, and plays a leading role in South Asian regional partnerships such as BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation). India seems to be a selective and partial contributor, focusing on getting the best out of cooperation in its own interests. However, in its own leading initiatives, such as on clean energy and climate change, it is seeking to strengthen its position as a developing country leader and thus pave the way for a move to the G3.

III. The Future of Korea-India Economic Cooperation

South Korea should strategically strengthen its cooperation with India to avoid being left behind in the reshaping of the international economic order. Cooperation with India in

high tech, supply chain, and digital fields is increasingly necessary; with the reorganisation of global supply chains, India will play a significant role in enhancing Korea's economic security. Strengthening economic cooperation with India will help reduce Korea's economic dependence on China and increase its strategic autonomy from China.

It is also important to expand contacts with India based on various economic cooperation platforms. South Korea and India have opportunities for cooperation in the Indo-Pacific Economic Framework (IPEF), among others. Both countries should further strengthen and expand bilateral cooperation in areas such as supply chain and clean energy in the IPEF. Above all, Korea should actively seek opportunities to participate in the various high-tech cooperation and global connectivity infrastructure cooperation centering on India, and should not hesitate to promote an economic and security cooperation network involving India and other partner countries if necessary.

Reciprocal diversification of Korea's economic partnership with India, with a focus on manufacturing, is an important task. India is rapidly becoming a partner for supply chain de-risking, which is very different from the past trend and should be considered by Korea. The biggest challenge for the Indian economy right now is to develop its manufacturing sector, and Korea is a key partner. The industries in which Korea has a competitive edge, such as shipbuilding, automobiles, electronics, semiconductors, and next-generation telecom-

munications, are almost identical to the sectors that India is strategically promoting. In addition, exploring various areas of cooperation beyond manufacturing is crucial to advancing bilateral economic cooperation. India has a variety of challenges other than fostering manufacturing, and has many demands for external cooperation. Moreover, from Korea's perspective, India has strong competitiveness in areas such as ICT, aerospace, and artificial intelligence, and can help Korea advance its economy in the face of US-China competition.

The authors suggest the following key agenda for Korea-India bilateral cooperation. First, concluding negotiations to improve the Korea-India CEPA is important for revitalising the two countries' flagship economic cooperation platform. The Korea-India CEPA has played a key role in strengthening bilateral economic ties and even diplomatic relations. However, the effectiveness of the Korea-India CEPA in increasing bilateral trade and investment is not satisfactory. Bilateral merchandise trade has grown at an average annual rate of 4.1 percent since 2010, when the Korea-India CEPA took effect, with Korea's exports to India growing at an average annual rate of 4.3 percent and India's exports to Korea at 3.8 per cent. Compared to trade, India's investment in South Korea has been even slower, with India being South Korea's 20th largest investment destination, with cumulative investment totaling \$5.74 billion over the period 2010-22. This is particularly true when compared to Korea's two largest emerging markets and production bases, China and Vietnam (see table 1 below).

Table 1. Korea's Trade and Investment in Major Asian Developing Countries

Item	India	Vietnam	China	World
GDP (billion USD)	3,386.40	406.452	18,100.044	-
- GDP per capita in USD	2,379	4,087	12,814	-
World Bank Doing Business 2020 rankings	63	70	31	-
Trade in goods (2022, 1 million USD)	27,767(11)	87,689(3)	310,365(1)	1,414,955
- Export	18,870(8)	60,964(3)	155,789(1)	683,585
- Import	8,897(17)	26,725(7)	154,576(1)	731,370
Balance of trade in goods (2022, 1 million USD)	9,973	34,239	1,213	-47,785
Annual average growth rate of trade in goods (2010-2022, %)	4.1	17.2	4.2	3.9
- Export	4.3	16.6	2.4	3.2
- Import	3.8	18.9	6.6	4.6
Share in Korea's total trade in goods (2022, %)	2.0	6.2	22.0	100.0
- Export	2.8	8.9	23.0	100.0
- Import	1.2	3.7	21.0	100.0
Korea's FDI outflow (2010-22 cumulative investment, 1 million USD)	5,744(20)	28,112(4)	60,809(3)	594,822
Share in Korea's total FDI outflow (2010-22 cumulative investment, %)	1.0	4.7	10.2	100.0
- Share of manufacture investment (%)	78.0	61.8	84.6	27.2

Note: In parentheses is the ranking of the partner country in South Korea's trade and FDI outflow.

Source: IMF Economic Outlook (April 2023), World Bank Doing Business Index, Korea International Trade Association K-stat, and Export-Import Bank of Korea Foreign Direct Investment Statistics.

The key to reaching a deal to improve the Korea-India CEPA will be to reduce non-tariff barriers such as TBT and SPS, improve customs procedures, and further reduce tariffs. In addition, it will be important to identify cooperative initiatives that can decrease bilateral trade imbalances. For example, the Korea-India Joint Initiative should be launched to support trade and investment activities of companies from both countries, and a Korea-India Cooperation Fund should be introduced to

provide financial support for identifying bilateral cooperation projects, research, and business matchmaking projects.

Second, cooperation on value chain resilience is an area where India's external cooperation is flourishing in the face of US-China competition and will be at the core of Korea-India economic cooperation. Semiconductors, electronics, automobiles (including electric vehicles), batteries, aerospace, and defense are all areas

with high potential for bilateral cooperation. To this end, the two governments should consider establishing a high-level (ministerial) India-South Korea trade policy dialogue channel, or a high-tech partnership. It would be effective to support the entry of Korean manufacturing companies into India through the creation of industrial parks. The key to success of them is to ensure the possibility of collaboration between leading companies and their partners, while ensuring sufficient government-to-government dialogue with the Indian union and state governments.

Third, Given India's strong commitment to and needs for climate change mitigation and energy transition, the high growth potential of Indian market, and the need for carbon reduction and energy security in Korea's energy transition, cooperation with India on climate change mitigation and energy is of great importance. Currently, there is a lack of regular dialogue between the two countries in the energy sector. As a priority, launching the Korea-India Energy Dialogue and the Korea-India Climate Change Cooperation Agreement is required. The Korean government is promoting EDCF (Economic Development Cooperation Fund) Framework Agreement with India, and it is necessary to set climate change and energy as the focus areas.

Fourth, India's role and potential in the digital sector has come under the spotlight in the context of the US-China competition. Priority for cooperation in the digital sector would be artificial intelligence, cybersecurity, and the digitalization of public services. A separate

channel for cooperation in the digital sector (possibly called the Korea-India Digital Partnership) should be established to identify bilateral cooperation needs and discuss institutional trends such as trade norms, or it should be reflected in the above-mentioned channel for high-level trade policy dialogue between Korea and India.

Fifth, South Korea has designated India as a priority ODA partner in 2022 and is in the process of signing the EDCF Framework Agreement. Cooperation in infrastructure development is one of the most underdeveloped areas of Korea-India cooperation. As mentioned before, energy and climate change, along with infrastructure, are areas where India's immediate needs are concentrated. Moreover, Korea's experience in developing from the poorest to the advanced countries is highly regarded and constitutes a major part of the Korea's image in India. In this sense, Korea's KSP (Knowledge Sharing Program) projects will be effective in delivering Korea's development experience to India in various fields.

Sixth, improving mutual understanding between Korea and India is a critical task. The average Indian's knowledge and understanding of Korea is not high, and this affects bilateral relations. Korea's Indo-Pacific Strategy's mission to "promote mutual understanding and exchange" should be a key focus in deepening ties with India. The Korean Cultural Centre in Delhi should be expanded to other major cities such as Chennai, and given the popularity of K-pop and K-drama in India, support for local exhibition and marketing

projects involving Korean products should be strengthened. In the case of K-beauty, which is gaining popularity in India, synergies can be achieved by linking it with other Hallyu products. In addition, people-to-people exchanges, including students, between the two countries should be expanded. As interest in Korea is growing in India due to the popularity of the Hallyu and the official adoption of Korean as a second language, people-to-people exchanges at this moment will be crucial for strengthening the future relationship between the two countries.

Seventh, South Korea should seek to cooperate with India in (sub)multilateral organisations. India is likely to be more willing to cooperate internationally on issues such as supply chains, climate change and energy, etc. and there are many areas where South Korea can align itself with India's position. South Korea should also consider participating in the India-led ISA and CDRI. Working with India on agendas to assist developing countries would be an effective way to improve bilateral relations. **KIEP**

References

Kim, Jeong Gon, Kyunghoon Kim, Jonghun Pek, Yoo Jin Nam, and Wondeuk Cho. 2023. "Korea-India Economic Cooperation in the Indo-Pacific Era." Policy Analysis, no. 23-02. Korea Institute for International Economic Policy (in Korean)