

An Analysis on the Competitiveness and Difficulties in Korea's Export to India¹

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In July 2018, President Moon Jae-in announced the new target of achieving \$50 billion in trade between India and Korea by 2030 following a summit meeting with Narendra Modi, the Prime Minister of India. Despite the Korean government naming India as a key partner in line with its New Southern Policy, trade between the two countries had remained stagnant since reaching the \$20 billion mark in 2011.

Fortunately, we are seeing new momentum in export expansion as exports have surpassed the record high of \$15 billion in the past two consecutive years. This could indicate we have entered a crucial point where we must find ways to sustain this driving force if Korea is to continue expanding exports.² As such, this

study mainly focuses on Korea's export to India, identifying the factors contributing to export stagnation, and going on to present policy suggestions to enhance Korea's export competitiveness in the Indian market.

I. Decline in Korea's Export Competitiveness to India

Korea's Stagnating Export to India

Despite India's high dependence on imports of mineral fuels and gold, Korea is one of the top trading partners of India. India's main trading partners are major oil producers and precious metal exporters, and aside from these countries, Korea is the largest import source of India after China and the United States.

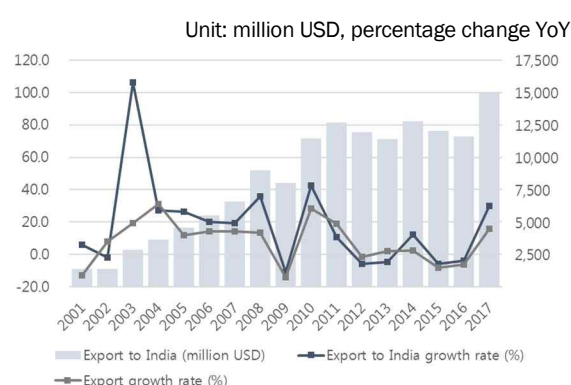
However, Korea's exports to India have remained stagnant between \$11–12 billion since 2010, when the Korea-India Comprehensive Economic Partnership Agreement (CEPA) took effect. Although export amounts climbed over \$15 billion in 2017 for the first time, increasing by nearly 30 percent year on year, this was mainly attributable to temporary gold exports (see Figure 1). In terms of items, Ko-

1 This paper is based on a KIEP Policy Analysis of the same title published in Korean in December 2018. This paper includes statistics and questionnaire survey results collected in 2018, which do not reflect statistics for the year 2018. The questionnaire survey was conducted jointly with the Korea International Trade Association (KITA).

2 Korea's export to India has increased to \$15.6 billion in 2018 due to exports of machinery, steel and petrochemical products driven by growth of the manufacturing industry in India and the expansion of investment by Samsung Electronics and Kia Motors.

rea's export to India is largely consistent with India's import demand (see Table 1). Electronic appliances, steel, and plastics are some of the largest export items, showing high annual growth rates. However, export growth rates are slowing across a large number of items (see Figure 2). Exports of machinery and automotive parts have already slowed considerably or even decreased.

Figure 1. Changes in Korea's Export to India



Source: UN Comtrade, K-stats (accessed on September 13, 2018).

Table 1. Comparison of Top 10 Items between India's Total Import and Korea's Export to India

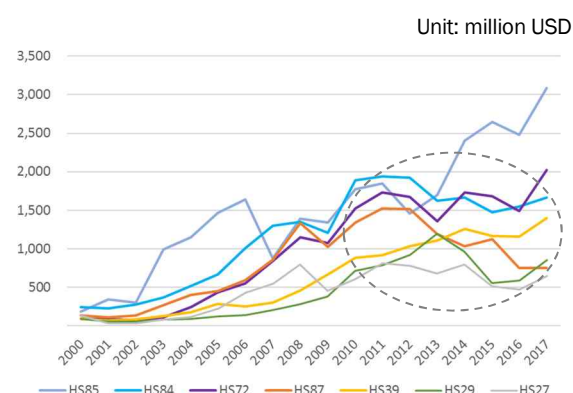
Unit: percentage, () HS code

	India's Total Import		Korea's Export to India	
	Item	%	Item	%
1	Mineral fuels (27)	12.1	Electronic appliances (85)	17.6
2	Electronic appliances (85)	11.9	Machinery (84)	13.9
3	Machinery (84)	11.6	Steel (72)	13.4
4	Precious metals (71)	11.4	Automotive parts (87)	9.3
5	Organic chemicals (29)	5.5	Plastics (39)	9.1
6	Steel (72)	3.9	Organic chemicals (29)	6.9
7	Plastics (39)	3.6	Mineral fuels (27)	5.4
8	Animal/vegetable fats & oils (15)	3.5	Rubber (40)	2.9
9	Precision machinery (90)	2.4	Precious metals (71)	2.8
10	Fertilizer (31)	2.2	Precision machinery (90)	2.0

Note. HS code 2007. Calculation excluding gold (HS 710812) and crude oil (HS270900). 2010~2017 accumulated.

Source: WITS (accessed on October 23, 2018)

Figure 2. Flows of Korea's Export to India by Individual Items



Source: WITS, K-stats (accessed on November 19, 2018).

Main Factors of Declining Export Competitiveness based on Trade Index Analysis

According to an analysis of the market comparative advantage (MCA) and export similarity index (ESI) for each item (2 digit HS code) during the 2010-2017 period, this study found some salient reasons for the decline in Korea's export competitiveness to India (see Table 2).

One of the factors is the intensification of competition with China. Some items in electronics (HS 85), machinery (HS 84) and precision machinery (HS 90) are lagging behind China's price competitiveness. Another factor is the relatively low CEPA concession rate compared to that of other free trade agreements. In the case of plastics (HS 39), the India-Japan CEPA grants more concessions than those under the Korea-India CEPA, thus making the Indian market more favorable to Japanese plastic products.

The other reason for the decline in export competitiveness is India's non-tariff measures, particularly found in items such as organic chemicals (HS 29), rubber (HS 40) and steel (HS 72). The final factor is the increase in demand for local procurement and production, an essential reason for the decline of exports

of automotive parts (HS 87), as well as some organic chemicals (HS 29), rubber (HS 40) and steel (HS 72) products.

Table 2. Main Factors of Decline in Korea's Export Competitiveness to India

Factors	Major Items (HS code)
Competition with China	[Machinery] 8414 / 8480 / 8479 [Electronics] 851770 / 8529 / 8544 [Precision machinery] 9001 / 9013
CEPA concession rates	[Plastics] 3901~4 / 3906
Non-tariff measures	[Organic chemical] 2917 [Rubber] 4011 [Steel] 7209
Local procurement & production	[Organic chemical] 2917 [Rubber] 4011 [Steel] 7209 [Automotive parts] 8708

Note. HS code 2007.

Source: based on analysis of MCA and ESI.

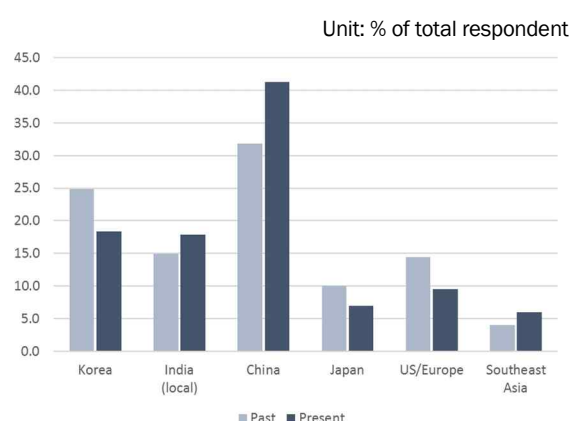
Difficulties in Increasing Exports to India based on Questionnaire and Field Surveys³

According to the study's survey, 67.6% out of the total 300 respondents answered that their exports to India have declined or stagnated recently, especially noticeable in Korea's major export items to India. Taking together the results of the questionnaire survey and field study, this study classifies determinants of Korea's stagnating export to India into internal and external factors for each item.

The most influential external factors were shown to be excessive competition in the Indian market and the decline of Korean companies' competitive advantages (45.8%). This is seen in

most major export items, including machinery, electronics, organic chemicals, plastics, steel, automotive parts and precision machinery. It was also found that Korean companies recognize China as their biggest competitor in the Indian market, and in some items, concerns about competition with Indian local enterprises are high as well (see Figure 3).

Figure 3. Changes in Competitiveness within the Indian Market



Note. based on 200 respondents.

Source: joint survey results.

On the other hand, the internal factors are somewhat different for each item, but they are mainly due to the lack of competence in locating the local market and securing distribution and sales networks (27.1%), the decline in productivity and competitiveness of individual enterprises (24.1%), and increasing demands for localization (20.2%). In addition, the low awareness and utilization of the Korea-India CEPA is also likely to have contributed to Korea's sluggish export to India.

II. Policy Suggestions for Improving Export Competitiveness

By summing up the above analysis, this study summarizes the main factors of export stagna-

³ In addition to the index analysis, this study analyzes the factors that led to export stagnation based on the results of a questionnaire survey of 300 exporting companies and three business roundtables conducted in Delhi, Chennai and Seoul. The participants of the business roundtables include 18 enterprises, 3 industry associations, and officials from KOTRA, KITA and the Korea Customs Service.

tion for Korea's major export items to India as shown in Table 3. The study also goes on to confirm that the stagnation of Korea's export to India is not temporary or limited to specific items, but may be prolonged or become permanent. In this regard, Korean companies and the government need to find new breakthroughs to enhance export competitiveness in the Indian market.

Table 3. Main Factors of Stagnation or Decline in Korea's Export to India

Item	Main Factors
Machinery	
External	Excessive competition, industry/demand structural change, non-tariff measures, local procurement & production
Internal	Lack of competence, low CEPA utilization,
Electronics	
External	Excessive competition, industry/demand structural change, tariff barriers, local procurement & production
Internal	Lack of competence, low CEPA utilization, localization
Organic chemical / Plastic	
External	Excessive competition, industry/demand structural change, tariff barriers
Internal	Lack of competence, low CEPA utilization, new market search
Steel	
External	Excessive competition, industry/demand structural change, tariff & non-tariff barriers, local procurement & production
Internal	Low CEPA utilization, localization, new market search
Automotive parts / Precision machinery	
External	Excessive competition, industry/demand structural change, tariff barriers
Internal	Localization, new market search

Source: based on analysis..

In order to resolve the internal and external factors of export stagnation described above, it is necessary to strengthen intra-company export capabilities while intensifying intergovernmental cooperation to establish a long-term and stable trade network between India and Korea.

Enhancing Competitiveness against Internal Factors: Intra-company Capabilities

To strengthen companies' export capabilities, it will be necessary to constantly monitor and actively respond to structural changes in India's major industries and related policies, such as the "Make in India" and "Digital India" initiatives. In particular, the demand for capital and intermediate goods is expected to increase during the process of industrialization, not to mention the sharp increase of demand for high value added products related to telecommunication devices, the Internet of Things (IoT), 5G technologies and so forth, in line with digital economization.

It will also be important to establish active partnerships with local or multinational companies, to prepare for sudden changes in the local business environment and secure stable and independent trading lines. Given India's high entry barriers, it is practical to diversify markets and items after accumulating export experiences and know-how through such partnerships.

Meanwhile, companies need to show further interest in and utilize the CEPA between the two countries. While 10 years have passed since it came into force, Korean companies' utilization rate of the CEPA remains lower than average compared to other FTAs established by Korea, mainly due to their failure to recognize whether their export items are subject to the CEPA concessions. It will be necessary to utilize government supported programs, such as the Korea-India CEPA Support Center and the "Korea Plus" initiative, and foster manpower exclusively responsible for CEPA-related tasks, if possible.

Enhancing Competitiveness against External Factors: Inter-governmental Cooperation

Intergovernmental cooperation should first begin with reducing non-tariff barriers, such as the complex process required to prepare documents and to comply with procedures, rigorous customs screening and anti-dumping regulations. It will be necessary to continue efforts to mitigate institutional and technological barriers in hand with the central government, while seeking cooperation with the state governments as well, on other substantive issues.

Next, negotiations for further liberalization of the Korea-India CEPA should continue over items which are currently excluded from the concessionary list, especially sub-items of petrochemicals (HS 29), automotive parts (HS 87) and plastics (HS 39). Furthermore, the CEPA can have practical effects only when active negotiations deal with specific issues such as redundant demands for certificate of origin, strict screening procedures, etc.

Practical Measures for Establishing an Export-Investment Virtuous Cycle

It is imperative to build an export-investment virtuous cycle that can enhance the scope and quality of trade, through increasing investment or localization and constructing bilateral cooperation projects. To this end, this study suggests the following policy ideas in order to promote concrete cooperation between India and Korea.

Firstly, the government should promote systemized and sustainable joint research on Korea-India trade to respond more quickly and effectively to changes in demands for trade. It should be ensured that these measures operate on a constant basis and encourage active participation by the Ministry of Industry and

Commerce, think tanks including KIEP, public and private associations or organizations, academia and so forth from both sides.

Secondly, we should develop a business-matching program that links Korean companies with Indian local or multinational companies, thus supporting them to expand their markets. This could lead to more procurement of goods from Korea by inducing more local production, and in a longer term, the companies could seek to enter the global outsourcing market by utilizing India as a global value chain (GVC) base.

Thirdly, we can develop a Korean-style manufacturing Smart City to promote localization and GVC activation, based on Korea's experiences with building various new cities in short periods of time and the promised \$10 billion financial package. It would be more appropriate to participate in the form of Team Korea, under which companies, public institutions and the government could work together. An advisable approach would be to brand Team Korea's capabilities and images by early success in a medium-sized project, thus ensuring additional opportunities in the future.

Lastly, we must establish a Korea-India Cooperation Fund that can support the formulation of cooperation projects. Considering the various economic issues between the two countries and growing need for specific projects to address them, the governments should take the initiative in establishing and operating such a fund. The fund could be used as a means to support joint research projects and business matching programs, thus improving CEPA utilization and bilateral trade imbalance, promoting joint development projects and so forth, as presented in this study. We may also consider specifying the establishment and the use of the fund in the upgraded Korea-India CEPA. **KIEP**