India's Trade and Investment Strategy and Its Implications for South Korea

Surendar Singh[1]

Introduction

The bilateral relationship between India and South Korea has witnessed considerable transformation in recent years due to increased convergence in economic, security, and strategic interests. The signing of a "Special Strategic Partnership" (SSP) between the Prime Minister Modi (India) and President Park (South Korea) in 2015 heralded a crucial development of the bilateral relationship.[2] (Choong 2020). With the signing of SSP, India recognizes South Korea as an "indispensable partner" in its Act East Policy.[3] Under the SSP framework, both countries agreed to create new avenues to enrich economic, strategic, and security relations (Dhawan 2020; De 2021). India and South Korea accentuated the importance of expanding cooperation in key areas, including infrastructure development, media, start-ups, and combating trans-border and international crime (John 2020). Furthermore, both countries have signed memorandums of understanding to enhance bilateral cooperation in numerous areas including trade, investment, defense, and security.[4] Bilateral economic and trade relations have received significant attention in the past one decade. Against backdrop, this brief paper analyses bilateral trade and investment relations between India and South Korea under the CEPA and investigates the nature of the bilateral trade relationship. It further discusses India's trade and investment strategy under the Self-Reliant India program with a particular focus on understanding the potential implications of trade and investment policy to South Korea.

Merchandise Trade Flows

Bilateral merchandise trade between India and South Korea has been expanding since the implementation of the CEPA (Seshadri, 2015). Figure 1 displays the trend of exports and imports after signing the CEPA. The increase in the merchandise trade between the two countries has been attributed to the changing demand structures and comparative advantages of both economies in various sectors. India's exports to South Korea were US$3.63 billion in 2010 and increased to US$4.65 billion in 2019, reflecting a Compound Annual Growth Rate (CAGR) of 2.79%. Imports from South Korea in the same period have increased from US$9.92 billion to US$16.61 billion, showing a CAGR of 5.54%. The analysis of bilateral trade flows reveals that the bilateral trade equilibrium is unfavorable for India and its trade deficit has increased from US$ (6.29) billion in 2010 to US$ (11.46) billion in 2019. This increase

[1] Associate Professor, (International Business Area), FORE School of Management, New Delhi. Email drsurendarsingh@gmail.com

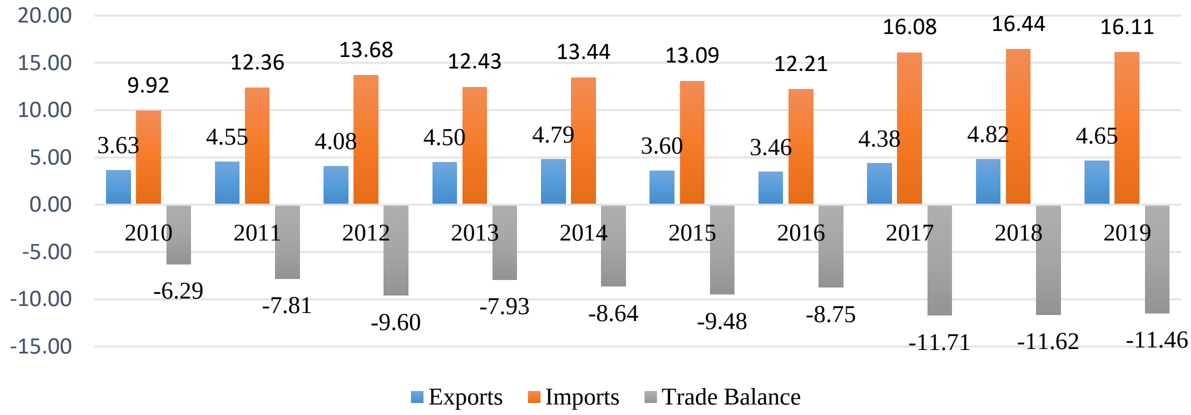
[2] India-ROK Joint Statement for Special Strategic Partnership, 18-19 May 2015, Embassy of India, South Korea

[3] Jojin V. John (2020), P.2

[4] "India, S Korea sign 7 pacts to step-up cooperation" (Feburary 2019), Online article accessed on 20 April, 2021

demonstrates that gains from trade liberalization under the CEPA are in favor of South Korea.

Figure: 1
Bilateral Trade Flows between India and South Korea (US$ billion)

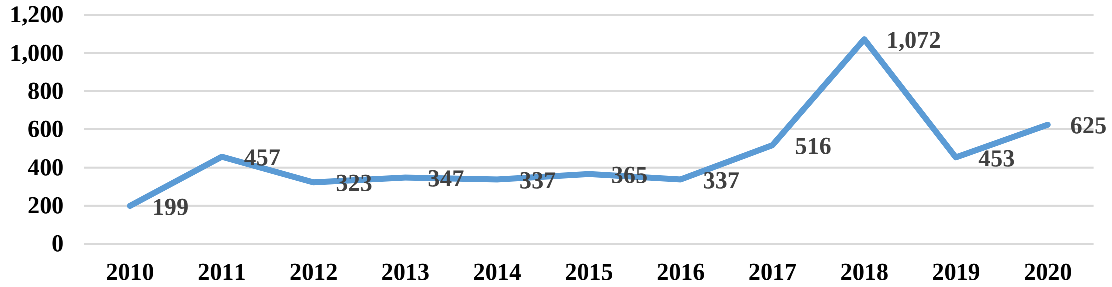


Source: International Trade Centre, 2020

Investment Flows

Bilateral investment between India and South Korea is governed by their respective FDI policies and bilateral investment agreements under the CEPA and other facilitating agreements such as the Double Taxation Avoidance Convention. Investment relations between India and South Korea have improved considerably post CEPA. Bilateral investment flows have increased as both the government and private sector are making consistent efforts to mobilize investments. The CEPA provides extensive sectoral coverage that goes even beyond India–Singapore CEPA 2005. Investment provisions under the CEPA adopt a liberal negative list approach for investment that clearly outlines the specific sectors where South Korean investments are not allowed. This is in contrast to the positive list approach used in the trade pact with Singapore. However, the investment chapter contains a few areas where both countries have reservations or nonconforming measures. South Korea ranks 13th in terms of FDI equity inflows to India with investments of $ 4,478.14 million between April 2000 and April 2020. Figure 2 displays the trends of South Korean investment in India over the past decade. The figure reveals that South Korean investment in India is exhibiting upward trends. The total investment was US$199 million in 2010 and reached US$ 625 million in 2020. The maximum increase in South Korean investment in India was in 2018 when it reached US$ 1072 million. The distribution of investment across sectors reflects that Korean investment in India is highly concentrated in the manufacturing sector (Table 2). The South Korean investment in the manufacturing sector of India was US$ 380 million in 2020, which constitutes 61% of the total investment. This was followed by investment in the real estate sector, in which South Korea’s investment of US$ 165 million was mobilized in 2020. This investment constituted 26.5% of the total investment.

Figure: 2 South Korean Investment in India (US$ million)



Source: South Korea's Exim Bank 2021.

India's investment in South Korea reveals both upward and downward trends, as evident from Table 3. India's total investment in South Korea was US$ 98.7 million in 2013 but it declined drastically between 2014 and 2018. In 2019, India's investment rebounded in South Korea and reached US$ 96.6 million but again dipped in 2020. India's investment in South Korea is focused mainly on three sectors. These include automobiles, information technology, and banking. Key investing companies of India in South Korea are Mahindra & Mahindra, Tata Motors, Tata Consultancy Services, WIPRO, L&T Infotech, Mahindra Satyam, Nucleus Software, Indian Overseas Bank, and State Bank of India.

Table 3:
India's Investment in South Korea (US$ million)

2013	2014	2015	2016	2017	2018	2019	2020
98.7	1.6	2.5	1.4	1.7	2	96.6	1.43

Source: Ministry of Trade, Industry and Energy, Korea via Embassy of Republic of Korea to India.

India's Trade and Investment Strategy under Atmanirbhar Bharat: Implications for South Korea

The Government of India announced a comprehensive stimulus package of US$ 265 billion (INR 20 lakh crore) that highlights the critical areas of reforms to eliminate the inefficiencies in the economic system (land, labor, and liquidity) and abandon legal, regulatory, and operational hurdles. The Self-Reliant India program focuses on five factors: a) economy, b) infrastructure, c) system, d) vibrant demography, and e) demand. Each factor is interconnected and complements each other to make the overall economy more dynamic and vibrant. The Government of India has introduced substantial changes in its trade and investment policy and production strategies to augment the domestic manufacturing sector. India's increase in MFN applied import tariffs both for industrial and agriculture products will undermine effective market access of its trading partners. This increase will have potential implications for South Korea's exports to India because of the rise in import tariffs and the extensive use of traditional trade policy instruments. India has introduced import license requirements, regulatory compliance, and quality standards for many products to regulate imports and it will have an impact on imports from South Korea. The introduction of CAROTAR rules to regulate the imports of third-country through FTA partners will have significant implications for South Korea's exports to India under the CEPA (Singh, 2020). The CAROTAR rules lay down strict provisions for the qualification of preferential benefits and place significant regulatory and compliance-related costs on importers to prove the authenticity of CoO to avail benefits of preferential market access. Key provisions relating to the information of nonoriginating material used in imported goods, maintaining the documentary record for 5 years, treatment of identical products will create challenges for Indian importers. These provisions will discourage Indian importers to seek preferential benefits under the CEPA to avoid any regulatory and operational hurdles. Thus, South Korea’s exports to India under the CEPA may be subject to MFN applied tariffs in the Indian market, which will eventually cause erosion of preferential benefits.

India’s efforts to foster a liberal investment policy on one hand and increasing import tariffs, on the other hand, demonstrates an incoherence between India’s trade and investment strategy under the Self-Reliant India plan. This significantly affects the ability of India to foster strong trade and investment linkages under the CEPA that are critical for attracting South Korea’s export-oriented investment. This significantly affects trade and investment opportunities for South Korean firms, which consider India as a destination for its assembling activities and exporting. Firms participating in chain-led trade demand a liberal trade and investment regime so that they can source their inputs from the most efficient location at a highly competitive price (World Bank, 2020). At the aggregate level, investment policy seems liberal as it allows FDI in a majority of sectors through automatic route, and prior approval from the Government is only required in few sectors. Despite significant liberalization, the FDI policy still places sectoral limits, management control, and ownership restrictions, and strict provisions for investment in the e-commerce sector. Furthermore, the new model BIT brings numerous ambiguities in the “investment” definition, which eliminates the protection that investors seek in the host country. Strict provisions relating to investment coupled with a lack of clarity of FDI rules will affect India’s ability to attract FDI and may have some impact on South Korean investments in India, creating hurdles in the realization of the potential of bilateral economic and strategic ties.

Conclusion

This article summarises that India’s trade and investment strategy under the Self-Reliant India and its implications for the economic and trade ties between India and South Korea. It argues that bilateral trade flows between India and South Korea are consistently expanding after signing of the CEPA, but the overall trade balance is unfavorable for India. Bilateral investment relations between India and South Korea are robust and expanding. India’s trade and investment strategy under the Self-Reliant India to implications to South Korea. The analysis demonstrates that India’s trade policy is becoming restrictive as its average import tariffs on industrial and agricultural products have increased significantly in the past few years. It has placed a ban on the import of a wide array of products and introduced policy and regulatory approvals for imports. In contrast to the trade policy, India’s FDI policy is relatively liberal and allows foreign investment through automatic and prior approval routes. However, some specific conditions in the form of sectoral restrictions, conditions of SOEC, restrictions on e-commerce among others. Issues related to a restrictive tariff policy and strict provisions for imports under CAROTAR rules should be addressed so that South Korean firms engaged in manufacturing can operate in a liberal, transparent, and conducive environment.

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