

Economic Cooperation between India and Selected Asian Countries: Current Status and Policy Implications

ISSN 2233-9140

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1. Background and Purpose

The 2008 financial crisis, which started in the US and led Europe into fiscal turmoil, is now causing emerging countries to experience economic slowdown. A good example would be India's growth rate, which was estimated at about 5% for 2012, the lowest in 9 years. Even so, emerging powerhouses like China and India have maintained a comparatively high level of economic growth, becoming more prominent pillars of the global

economy and gaining importance as partners of economic cooperation.

Against this backdrop, Japan, Singapore and China are mobilizing their strengths and available policies to take a more active stance toward economic cooperation with India. This paper aims to conduct a comparative analysis on how these three countries are engaging in economic cooperation with India, and compare their policies and strategies with those of Korea.

2. Historical, Political, Diplomatic Relations

The historical, political and diplomatic relationship between Korea and India is relatively weaker than India's ties with Japan, China and Singapore. Both Korea and Japan began relations with India around 5th~6th century A.D., through the dissemination of Buddhism and trade. However, Japan officially established diplomatic ties with India in 1952, more than 20 years earlier than Korea, following Prime Minister Nehru's 1949 visit to Japan. Meanwhile, Singapore was a city state formed under the leadership of people dispatched by the English East India Company to create an outpost targeting China, back when the East India Company was exploiting India.

Upon gaining independence in 1965, Singapore immediately established diplomatic ties with the country. China is India's oldest

neighbor, having actively engaged in trade and cultural exchanges through the Silk Road and Buddhism, and established diplomatic ties with the country in 1950, a year after the Chinese government was founded.

During the Korean War, India chaired the Neutral Nations Repatriation Commission, which dispatched medical support troops and dealt with prisoners of war (POWs). Apart from this, there were hardly any exchanges between the two countries until diplomatic ties were established in 1973. Korea was far behind Japan, China and Singapore in commencing bilateral summit meetings with India, and still falls behind in the number of intergovernmental meetings held, or in terms of holding them on a regular basis. Korea also has a weaker intergovernmental cooperative system with India, compared to the three countries mentioned above.

Table1. Relationships with India (Korea, China, Japan, Singapore)

	Japan-India	Singapore-India	China-India	Korea-India
Establishment of Diplomatic Ties	1952	1965	1950 1962 severed ties 1979 re-established ties	1973
Bilateral Relationship (Year of Establishment)	Global Partnership (2000) Global Strategic Partnership (2006)	-	Strategic Partnership (2005)	Long-term Cooperative Partnership for Peace and Prosperity (2004) Strategic Partnership (2010)
Diplomatic Cooperation System (Year of Commencement)	India-Japan Summit (2005) East Asia Summit (2005) Japan-US-India Strategic Dialogue (ministerial level, 2011) India-Japan Foreign Ministers' Meeting (2012)	ASEAN Summit (2002) East Asia Summit (2005) Joint Ministerial Committee (2008) Parliamentary Friendship Group (2012)	Strategic Economic Dialogue (2011) East Asia Summit (2005) BRICs Summit (2009)	East Asia Summit (2005) Finance Ministers' Meeting Foreign Ministers' Meeting Joint Committee

Source: Arranged by author

3. Economic Relations

A Trade, Investment, FTAs

In terms of volume, China is dominating trade with India, and Korea's export competitiveness to India is now at risk of being thwarted by China as well as Japan. China's export volume to India in 2011 stood at around USD 50.5 billion, far ahead of others, followed by Singapore (USD 14 billion), Korea (USD 12.7 billion) and Japan (USD 11.1 billion). Export growth rates for the past 5 years assume a different order, with China (30.1%) and Japan (22.4%) outshining Korea (19.6%) and Singapore (15.3%). Japan's export growth rate in particular climbed after 2007, and this coincides with the leap in Japan's investment in India. The Export Similarity Index between Korea and Japan is growing higher, and four out of Japan's top five export items to India are the same as Korea's. China presents a similar problem, as the nation's Export Similarity Index with Korea is rapidly increasing, and three of its top five export items to India overlap with Korea's.

Korea may have been a prominent investor in India in the 1990s, but since the 2000s, Korea's share of investment has dropped sharply, and the gap with Japan and Singapore continues to widen. In 1999, Korea was the-fifth largest investor in India, accounting for 13% of the total but during the period from April

2000 until August 2012, this figure plummeted to 0.7%, jolting Korea from 5th place to 13th. Investment proportions for Singapore and Japan stand at 10.1% and 7.5% during the same period, rendering the two countries 2nd and 4th largest investors in India, respectively. Japan's investment in India has risen noticeably since the two countries established a Comprehensive Economic Partnership in 2006, and as of the end of 2011, over 1,800 Japanese companies are operating in India, which is 4.6 times the number of Korean companies that have entered the Indian market.

As for FTAs with India, Korea was later than Singapore, and earlier than Japan, in putting the FTA into effect. Singapore maintains the highest level of concessions in products. Korea secured a speedier concession timeline for tariff reduction, but in terms of items under tariff concession, Japan has a higher concession level than Korea. In services, Singapore and Japan have both secured concessions in more sectors than Korea, and in particular, Japan was able to negotiate the removal of the cargo preference for Indian freighters, a matter that Japanese shipping firms have long sought to resolve. While Singapore has been continuing to enhance its scope of concessions by improving on the FTA with India, no follow-up joint committees for the Korea-India FTA have been held since both sides agreed in January, 2011 to make improvements.

Table2. Exports, Investment to and FTAs with India (Korea, China, Japan, Singapore)

	Japan	Singapore	China	Korea
Export Volume (USD 100 million, 2011)	110.8	140.4	505.3	126.5
Export Growth Rate (2007~2011, %)	22.4	15.3	30.1	19.6
Exports, Shares and Rankings				
-2006 (% ranking)	0.7 (24 th)	2.8 (10 th)	1.5 (12 th)	1.7 (10 th)
-2011(% ranking)	1.3 (15 th)	3.4 (9 th)	2.7 (7 th)	2.2 (9 th)
Exports,	Top 5 Items 75.3	Top 5 Items 77.1	Top 5 Items 66.2	Top 5 Items 63

Items and Shares (2011, %)	Machinery 36.5 Electric Equipment 13.1 Steel 12.3 Automobile Parts 7.8 Optical Instruments 5.6	Machinery 22.2 Mineral Fuels 21.7 Electric Equipment 19.8 Organic Chemicals 8.2 Plastics 5.2	Machinery 25.2 Electric Equipment 20.5 Organic Chemicals 9.2 Fertilizer 7.0 Steel Products 4.3	Machinery 15.4 Electric Equipment 14.6 Steel 13.7 Automobile Parts 12.0 Plastics 7.3
Shares in India's Import Market				
-2002 (% , ranking)	3.2 (7 th)	2.6 (10 th)	5.0 (4 th)	3.3 (13 th)
-2007 (% , ranking)	2.7 (12 th)	3.2 (10 th)	11.2 (1 st)	2.4 (15 th)
-2011 (% , ranking)	2.4 (16 th)	1.7 (20 th)	11.8 (1 st)	2.6 (12 th)
Investment Volume (2011, USD 100 million)	31.1	42.6	0.5	1.3
Accumulative Investment -2000.4~2012.8 (USD 100 million)	134.8	181.1	1.35	11.6
-Shares (%)	7.5	10.1	0.08	0.65
-Ranking	4 th	2 nd	34 th	13 th
Investment Growth Rate (2007~2011, %)	160	118.6	665	40
Commencement of FTA Negotiations	2007	2003	-	2006
Negotiations Settled	Feb. 2011	June 2005	-	Sept. 2009
Effectuation	Aug. 2011	Aug. 2005	-	Jan. 2010
Concession Levels in Products *				
-Concession Levels (% , Year)	89.7 (2012)	93 (2015)	-	85.5 (2019)
-Immediate Elimination (")	7.6			38.4
-Tariff Elimination and Reduction	82.1 (11 years)			47.1 (10 years)
-Concession Exemptions	10.3			14.5
FTA Improvements (Upgrades)	-	-2007, 1st round of negotiations completed -2010, 2nd round of negotiations com- menced	-	Agreed upon in 2011

* Concessions on Indian side, based on sum
Data composed by author

B. Economic Cooperation Policies, Strategies and Case Examples

At the 2006 Japan-India summit meeting, Japan elevated the bilateral relationship with India to a Global Strategic Partnership. By

doing so, not only was Japan able to secure a Comprehensive Economic Partnership (CEP) that stipulated Δ increasing ODA to India, Δ initiating an FTA, Δ strengthening mutual investment, Δ improving channels for dialogs, and Δ enhancing cooperation on finance and

urban development, but also agreed on cooperation in foreign affairs and security, science technology, and regional issues, thus operating a top-level cooperative mechanism. On top of this, Japan is focusing its priorities on expanding support toward Japanese companies investing in India, for example by improving conditions for outbound investment. With the purpose of achieving the CEP's core challenge, which is strengthening mutual investment, Japan has chosen Δ the Delhi-Mumbai Industrial Corridor (DMC), Δ the Japan-India FTA, Δ enhancing ODA cooperation, Δ more JETRO support toward Japanese companies, and Δ supporting human resource development in India as key policies, and is actively pushing ahead with these plans. A notable fact is that Japan is making full use of ODA in India's infrastructure development. The Delhi, Kolkata, Bangalore, and Chennai Metro Rail projects, as well as the 1,500 km Delhi-Mumbai Industrial Corridor project consisting of express railroads and industrial complexes, are all being funded by ODA from Japan. Moreover, Japan is cooperating with local governments to develop industrial complexes for the exclusive use of Japanese companies, as another way to ease their entrance into the Indian market.

Singapore is strengthening economic cooperation with India by making active use of the Double Taxation Avoidance Agreement (DTAA) and FTA. As the Singapore-India FTA took effect in 2005, the DTAA was also operationalized, and the wider scope of tax exemption and reduction pertaining to that agreement helped boost mutual investment between Singaporean and Indian companies. Since then, Singapore has continued to improve the DTAA along with the FTA, securing higher levels of concession, tax reduction and transparency to induce more mutual investment and trade. The country also strategically uses state-run enterprises to partake in diverse

forms of investment. By having state-run firms take the lead in direct investment, equity investment, mutual funds investment and so on in service sectors such as harbors, airports, industrial complex development and operation, banks, insurance, hospitals, and communication, as well as the manufacturing sector, Singapore allows its private companies to venture into India under more favorable conditions, and also helps reduce business risks. In addition, the establishment of diverse private sector cooperation channels and two-way support for entering each other's markets help maximize the overall synergy effect.

Meanwhile, China has also established a top-level cooperative system through the China-India summit and Strategic Economic Dialogue. By holding the summit on a regular basis since 2006, China has been able to reinforce existing cooperative systems such as the Joint Economic Group, Joint Business Council, Joint Study Group and Strategic Partnership. The high-level Strategic Economic Dialogue, established in 2011, is also being held regularly, and key cooperation challenges are being developed and initiated on a yearly basis. Recently, China has been focusing on making way into India's infrastructure development sector by mobilizing the abundant resources of China's state bank.

4. Policy Implications

First of all, as in the case of Japan, China and Singapore, Korea must hold high-level meetings with India on a regular basis. In order to elevate the Korea-India cooperative system to the topmost level of summits, the two countries should deepen and develop on the bilateral strategic partnership formed in 2010. The current ministerial consultative groups should be integrated and grouped into the categories of economy and industry, foreign affairs and

security, education and technology, society and culture, and be held regularly. Meanwhile, Korea should reinforce ties with public-private or private sector economic cooperative bodies so the connections can develop in a sustainable manner, and also boost cooperation with local governments in India.

Second, the Korea-India CEPA (Comprehensive Economic Partnership Agreement) must be put to full use, and its effects maximized. Korea should work on improving the concession level for goods, which is currently lower than Japan and Singapore, and continue to upgrade conditions in the service sector, for instance by negotiating the removal of the cargo preference for Indian freighters. To achieve these goals, it is most important to hold the currently delayed second joint committee session as soon as possible. Also, with regard to the movement of IT professionals the CEPA includes, it would be advisable to strengthen institutional support so Korea's IT small and medium enterprises (SMEs) can effectively utilize this benefit. As for India's commitment to give favorable consideration to up to ten Korean banks, within four years from the date of the CEPA's entry into effect, the concession timeline is in want of an extension. There is also a pressing need for a separate agreement on mutual recognition of jointly produced video and audio materials as domestic productions.

Third, Korea must enhance support toward companies seeking to invest in India, so as to gain a dominant position in the Indian market in advance. With India rapidly growing into a massive consumer market, it is especially worrying that Korea's investment volume, ranking, and number of companies in operation fall far behind Japan's. This problem should be fixed immediately, which can be done by strengthening support toward more aggressive forms of investment, for instance greenfield invest-

ment and M&As. In a similar vein, Korea should reinforce local support systems, and step forward in helping SMEs solve obstacles often faced when venturing overseas. Another advisable measure would be to create a chamber of commerce in India, centered on Korean companies operating locally, establishing a database on these companies and using the headquarters as a support center and intergovernmental communication channel. Of course, Korea should also ramp up support for entry into India's infrastructure development, an already massive sector with further potential.

Lastly, Korea should push for the establishment of an industrial complex for the exclusive use of Korean companies. While India's Tata Motors and Reliance Group, as well as Korea's POSCO, are struggling to secure sites for their companies, Japan and Singapore have found a direct solution in the development of industrial complexes. These measures can be held in high regard as the most direct form of support for companies to enter the Indian market. A feasible plan worth reviewing would be to develop an industrial complex by partnering with a Singaporean state-run firm, which would have the necessary experience and be relatively more likely to join hands as a development partner. Another option would be for Korea to directly collaborate with an Indian local government or an affiliated development corporation. In this case, to reduce the risk associated with development and lot sales, it would be advisable to form a consortium joined by as many participants as possible, for instance public enterprises, large conglomerates, financial institutions, SMEs scheduled to come in, India's local governments and affiliated public firms, and so on. **KIEP**