

India's Recent Economic Policy and the Potentials of Korea-India Cooperation



Jeong Gon Kim

Ph.D., Research Fellow, India and South Asia Team
Korea Institute for International Economic Policy

India has been pursuing various economic policies since Narendra Modi took office in 2014. It is no exaggeration to say that one of the most important tasks of India, which has the youngest population in the world, is to improve its industrial structure, create jobs, and expand exports through development of the manufacturing sector. In this sense, the Make in India initiative is the most important among India's current economic policies.

Prime Minister Modi unveiled Make in India during his first Independence Day speech on 15 August 2014. The policy proposed the goal of raising the share of manufacturing to 25% of GDP from 16% by 2025. To promote growth in 25 major sectors, the Indian government is making great efforts to improve the corporate environment and liberalize investment. As a result, India's ranking in the World Bank Doing Business index rose significantly from 130th in 2017 (as of the year the report was published) to 63rd in 2020. In addition, India has opened up foreign investment across most

industries, except for a few sensitive areas. Since 2014, India's FDI inflow has continued to increase, and in 2020, when COVID-19 spread worldwide, India was one of two countries that recorded an increase in FDI inflows compared to the previous year along with China.

The Atmanirbhar Bharat policy, a revised version of Make in India, also aims to revitalize investment centered on manufacturing. Translated as "Self-Reliant India," the policy was announced in May 2020, when COVID-19 was spreading, and serves as a barometer to evaluate the Indian government's economic and manufacturing policies under the changing external economic environment, such as the U.S.-China conflict and the spread of COVID-19. The Self-Reliant India policy is primarily an economic stimulus measure under COVID-19. In particular, by prioritizing small and medium-sized enterprises and rural areas, supports for the socially vulnerable have been strengthened, and a large part of the policy has been devoted to responding to COVID-19. Meanwhile, an important part of Self-Reliant India is to strengthen manufacturing sectors and infrastructure through investment promotion.

Self-Reliant India aims at strengthening of the manufacturing industries at a time when India's trade deficit has climbed to over \$180 billion every year. In particular, concerns about economic dependence on China have become more pronounced. In addition, India appears intent on absorbing a part of the supply chain that China occupied as de-coupling of the U.S.-China supply chain becomes more visible. At the core of Self-Reliance India lies the Production Linked Incentive (PLI) scheme, which provides incentives on investment in strategic sectors. The target sectors are continuously expanding to 14 fields, including batteries, electronics, special steel, solar power, pharmaceutical materials, and agricultural processing.

India is also active in external cooperation to ease economic dependence on China and expand participation in global value chain (GVC). At the QUAD summit held in the United States in September 2021, India took part in supply chain and technology cooperation. In addition, India has launched the trilateral Supply Chain Resilience Initiative (SCRI) with Japan and Australia to discuss supply chain cooperation. These are likely to lead to more active investment attraction and GVC participation by India in connection with Make in India.

Korea and India are ideal economic partners with matching needs. Korea needs to foster cooperation with India in terms of diversifying trade and investment in the wake of COVID-19 and the U.S.-China conflict. Meanwhile, fostering manufacturing is a priority of India, and through this, continuous efforts will be made to improve participation in GVC. In particular, India needs to recognize Korea as a partner that can ease its economic dependence on China. Considering the strengths of both countries, the potential for cooperation is high. Korea is competitive in

key manufacturing industries such as electronics and automobiles that India wants to foster, and has upgraded economic relations with India since the signing of the Korea-India CEPA. In addition, Korea has strong trade and investment links with ASEAN and could serve as a cooperative partner for India in ASEAN. Meanwhile, India is actively improving its investment environment and has excellent service industries in areas such as IT, R&D, and business services. Moreover, India is building a diversified economic network with the United States, the EU, ASEAN, South Asia, the Middle East, and Africa, showing its high potential for cooperation with Korea in those countries.

The Make in India and PLI scheme will promote Korea-India cooperation. Technology-intensive manufacturing sectors such as automobiles, electronics, machinery, chemicals, information and communication, and pharmaceuticals, which India wants to strategically foster, have high potential for cooperation between the two countries. In addition, areas such as infrastructure and renewable energy are among the fastest growing sectors in India where Korea-India cooperation is promising. In addition to technology-intensive industries, Korea should also pay attention to the possibility of investment in the agricultural, textile and clothing sectors of India.

The Korea-India Joint Initiative should be launched as a bilateral comprehensive cooperation channel involving Korean and Indian companies, governments and institutions. Through this, both countries can understand the demands of each other in detail, while communicating difficulties in business activities. The Korea-India Cooperation Fund should also be created as a part of the Korea-India Joint Initiative. Currently, there is a lack of funds to pursue cooperation projects between the two countries even if they are identified. The Korea-India Cooperation Fund should be used to support projects and researches regarding bilateral trade and investment cooperation. For example, the fund will be able to support business matching projects, help companies which want to utilize the Korea-India CEPA, and conduct joint research to promote bilateral trade and investment.

Additionally, it is also necessary to strengthen Korea-India cooperation in future industries, which has been accelerating since COVID-19. India has excellent capabilities in science and technology, including ICT. It has strong startup ecosystems in Bangalore, Delhi, Mumbai, Hyderabad, etc. In particular, e-commerce, fintech, cloud services, healthtech, edutech, agritech, etc. are growing rapidly in India. Cooperation agendas such as joint technology development, investment and cooperation, establishment of digital technology standards, etc. should be specified through bilateral cooperation platforms, such as the Korea-India Future Strategy Group, India-Korea Centre for Research and Innovation, India-Korea Technology Exchange Center, Korea Startup Center in New Delhi, etc. **KIEP**