



## An Analysis of India-South Korea Trade Relation

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**Abstract:** This research paper is a comprehensive study of trade relations between India and South Korea especially after their CEPA Agreement in 2009. This paper highlights the strong industries of both countries in terms of mutual trade with the trading pattern in the last decade. The paper also highlights the marginalized sectors which have the capacity to benefit from trading agreements with barriers that are holding the prospective achievements that can be achieved in this Free Trade Agreement. This Paper Also highlights the prospective areas of cooperation between both countries that can multiply the achievements under the agreement.

### AN ANALYSIS of INDIA-SOUTH KOREA TRADE RELATION

In today's capitalist world nations survive through their economic wealth, every nation wants to earn maximum through their exports and minimize their spending on imports. Asian continent houses both the countries of India and South Korea (one being developing and the other being developed). Though India, China, and other West Asian countries remained key players in their EXIM policy, South Korea evidenced an increasing trend. South Korea adopted a liberalized economic policy in the initial phase of its development in 1962, which resulted in high growth and economic integration of its economy. Subsequently, high and consistent growth leads Korea to be one of the most high-income economies in Asia. India on the other hand adopted an Import substitution policy after its independence and closed its economy from the beginning of its first five-year plan in 1951, further in 1991, India faced an acute BOP crisis leading to a huge foreign exchange deficit which resulted in shifting India's economic policy towards an open economy by adopting the LPG model (Bhattacharya, 2007). This initiated the phase of liberalization and 3 decades of economic reforms and growth that made India the 6<sup>th</sup> largest economy in the world and 2<sup>nd</sup> in Asia. Presently, India is the fastest-growing economy in the world.

India and Korea shared a close relationship since the establishment of formal diplomatic ties in 1973. The last 5 decades of their relationship have seen not only the economic relationship but also cultural, political, and social relationship leading to persistent bilateral cooperation between the two. The liberalization of the Indian economy in 1991 marked the greater access of Korean goods into Indian markets, which is evident from the fact that bilateral trade which stood at about US \$485million in 1991 increased to 12002 million \$ in 2009 and is currently valued at about 20k million us \$ in 2019. The increasing scale of globalization has both opportunities and challenges for both countries. There is not only cooperation at various multilateral forums like World Trade Organisation (WTO), IMF, G20, etc. but also has immense scope through its economic integration policies such as Act East policy (INDIA) and New Southern policy (S. KOREA). India has been intensifying its effort to increase its economic relations with East Asia by integrating nations like Korea, Japan, ASEAN, etc.

Realizing the need for greater economic cooperation, both countries constituted a Joint Study Group (JSG) in 2005 to evaluate the feasibility of Free trade agreement between India and Korea. After prolonged negotiations, a Comprehensive Economic Partnership Agreement (CEPA) was signed on August 7, 2009. It was the second such deal of India after one being signed with Singapore in 2005. It was also India's first FTA with the Organisation for Economic Cooperation and Development (OECD) country. The CEPA is more than a free trade agreement as it covers not only trade in goods but also investments, services, and bilateral cooperation in other areas of common interest (P. SAHOO, 2009).

### OBJECTIVES OF STUDY

Keeping in view the relevance of the topic, this study carries the following objectives:

1. To examine the trend and intensity of bilateral merchandise trade between India and South Korea.



2. To explore the different areas of cooperation, their obstacles, and future cooperation in trade flows between these two countries.

#### Jurisdiction of Study

For in-depth analysis, the Republic of Korea has been selected, as both countries have shared democratic values and market systems, and both are major economies of Asia. However, the major issues discussed here will have direct or indirect relevance with major trading partners of India.

#### Period of Study

The study covers 10 years i.e., from 2010 to 2019. The choice of the initial year was made keeping the signing of the Free Trade Agreement (CEPA) between India and South Korea. The cut-off year was decided to keep in view the Covid-19 factor and data availability.

#### METHODOLOGY OF STUDY

The study focuses mainly on secondary data to assess the trade relations between the two countries and for these various sources such as reports (World Bank, UNCTAD, OECD, DGFT India, etc). released has been considered. For trend analysis, the data of a specified period has been collected, tabulated, and processed to draw inferences about the objectives of

the paper. To examine the relationship and intensity of trade over some time, a correlation analysis has been conducted.

#### ECONOMIC RELATIONS BETWEEN OF INDIA AND KOREA

India has been a strong supporter of multilateral trading systems; thus, it has a keen interest in the promotion of regional integration or we can say regionalism. This has one other cause which is the slow processes of negotiations at WTO and the hegemony of developed countries encroaching on developing countries' interests.

Korean interest in India as an investment destination arises out of its large domestic market, young demography with large disposable income. The two nations expect mutual synergies to drive business initiatives as follows: -

- Korea is relatively labor scarce, and capital intensive which compliments India's rich and abundant skilled workforce.
- India's specialization in the IT sector lends synergy to Korea's excellence in the hardware sector.
- India's abundance of raw materials and minerals matches well with Korea's capabilities in technology and capital to produce knowledge-driven manufactured goods.

Table 1 will give a brief overview of INDIA and KOREA's comparison along select demographic and economic indicators.

Serial no.	Demographic and Economic Indicators	INDIA	KOREA
1.	Population in crores in 2019	136.64	5.17
2.	GDP (trillion current US\$, 2019)	2.87	1.65
3.	The last Trade Policy Review held	2015	2018
4.	Tariff binding coverage in % (2018)	74.4	94.4
5.	No. of services sectors committed to GATS compliant	37	_
6.	Share in world Exports	1.71%	2.9%
7.	Share in World Imports	2.1%	2.6%

Source: WTO, UNCTAD, World Bank data

#### TRADE

Bilateral trade between India and Korea has increased from USD 485 million in 1991 to USD 12k million in 2019 (figure 1). The main items of exports are Intermediate goods, Consumer goods, and textiles at the beginning of trade relations in 1991 whereas today the main items of exports are Intermediate goods, metals, Consumer goods such as mineral fuels/ oil distillates(mainly naphtha), cereals and Iron and Steel and the main Items of Imports from South Korea to India were

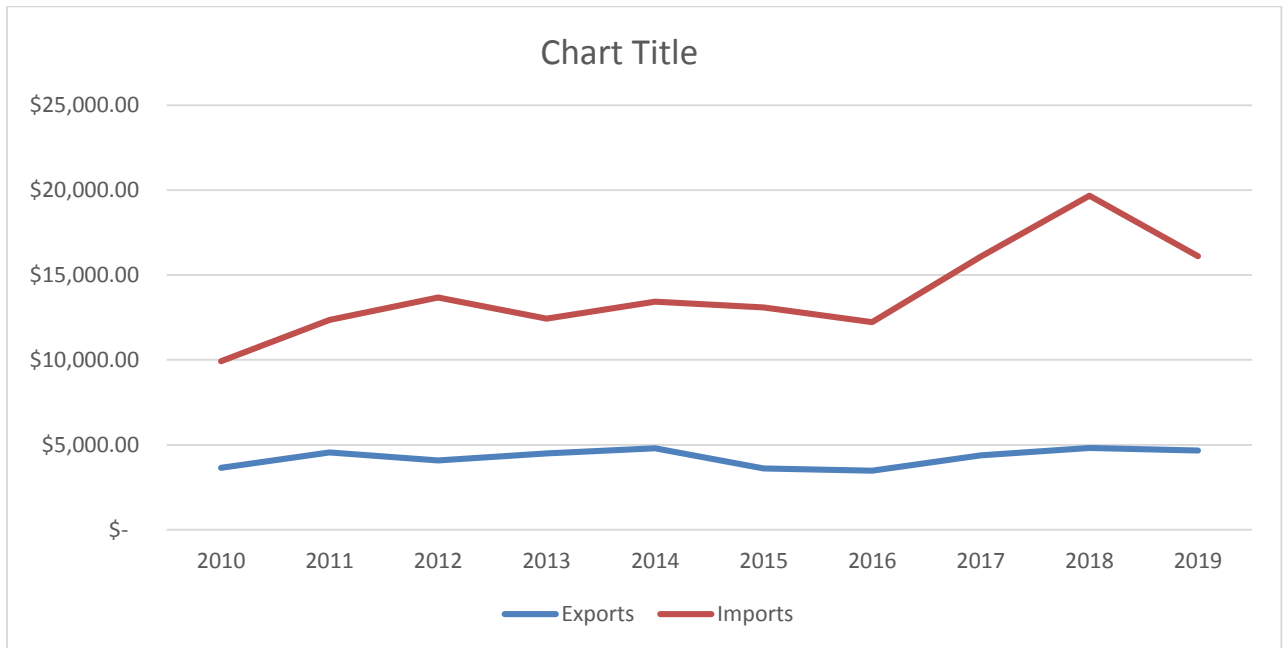
Intermediate goods, Metals, Plastic or rubber in last decade of 20<sup>th</sup> century whereas today India imports Capital Goods, Electronics & Electric equipment, Plastic, etc.

Trade facilitation increased on account of the Free trade agreement the name of Comprehensive Economic Partnership Agreement (CEPA) in 2009. The post-CEPA Indian economy has facilitated trade and investment flows significantly between the two nations. The FTA provided an alternative destination to both countries by providing tariff



neutral market. In 2019 Exports from India totaling around USD 5.07B were classified into Refined petroleum (19.57%), Raw Aluminium (15.7%), and Ferroalloys (4.52%) constituting major items. On

the other hand, South Korea Exports to India in 2019 totaled USD 15.3B classified into Integrated circuits (9.33%), vehicle parts (6.04%), Hot rolled Iron (5.6%) constituting major items.



Source: Table 2 Comprehensive Merchandise Trade Data

Bilateral trade India's share in Korea's global trade was **1.72%** in 2019 and India's contribution in Korea's global imports increased from **0.78%** in 2010 to **1.05%** in 2019. India is Korea's **21<sup>st</sup>** biggest source of Imports and **7<sup>th</sup>** biggest export market as of 2019.

Bilateral merchandise trade between Korea and India has increased by around 53% overall attributed to changes in market-led demand and comparative advantages gained through Economies

of scale by both countries in different sectors. For example, before 2010 and in the post-liberalization era Indian Export Basket consisted of low-value-added products such as agriculture, intermediate goods, etc. However, after CEPA and the 2<sup>nd</sup> decade of the 21<sup>st</sup> century, the India Basket diversified into a range of Industrial and Finished products including mineral oils, Fuels, Products of Distillation Industries, chemicals, and other finished products.



Table 2: Highlight of Exports and Imports of Merchandise Trade between India and South Korea (USD Million)

Year	Exports	Imports
2010	\$ 3,634.46	\$ 9,922.32
2011	\$ 4,549.87	\$ 12,362.47
2012	\$ 4,076.36	\$ 13,675.09
2013	\$ 4,495.54	\$ 12,426.66
2014	\$ 4,794.86	\$ 13,437.25
2015	\$ 3,609.63	\$ 13,087.66
2016	\$ 3,465.42	\$ 12,214.05
2017	\$ 4,376.96	\$ 16,091.81
2018	\$ 4,804.49	\$ 19,672.48
2019	\$ 4,653.98	\$ 16,111.28

The case summary of the Export and Import of Merchandise between India and South Korea reveals the following:

1. During the last 10 years (2010-2019) the total amount of merchandise export trade from India stood at USD 42461 million against Imports to India by Korea valued at USD 139001 million. Thereby, India has negative Balance of Trade (When Imports are greater than Exports) since 2010 to the tune of USD 96539 million.

2. The average merchandise Export from India is USD 4246.157 million against the average merchandise Import of USD 13900.106 million.

3. The Coefficient of Variance (COV) in respect of exports (12.081) when compared to Imports (19.649) states that in comparison to Exports, Imports indicate a sudden growth or deviation, which is unfavorable for India.

Table 3: Case summaries of Exports and Imports of merchandise trade between India and Korea

Column1	Export from India to korea	Import From Korea to India
<b>N</b>	10	10
<b>Mean</b>	4246.157	13900.106
<b>Standard Deviation</b>	512.986	2731.280
<b>Coefficient of variance</b>	12.081	19.649
<b>Sum</b>	42461.573	139001.060
<b>Maximum</b>	4804.495	19672.475
<b>Minimum</b>	3465.417	9922.318

#### TRADE BARRIERS BETWEEN INDIA AND SOUTH KOREA

As has been highlighted in the trade analysis part of the paper, the trade between the countries has risen but not in a significant way and

the balance of trade is more favorable to Korea than India. Exports from India have been more or less stagnated in this last decade so we can say remain much below potential. Apart from geographical distance, and differences in culture, demography,



and economic structure, the non-realization of trade potential is mainly due to various factors/causes that exist in both countries.

Trade barriers in Korea despite the rationalization of its tariff structure and competitive open economy. South Korea's average MFN applied rate was 5.23% (in 2018) whereas that of India is 9.03% (in 2018).



Source: [HTTps://data.worldbank.org](https://data.worldbank.org)

South Korea maintains very high tariffs on certain agriculture and fisheries products that are of interest to India. South Korea maintains a comparatively very high rate of tariff on agricultural products (It imposes a 30 percent or higher average tariff rate on most Fruits, nuts, Fresh vegetables, oils, dairy products, etc. South Korea also uses adjustments and compound tariff taxes on agricultural products and Fisheries, which makes Indian products uncompetitive in the country. Another sector of Interest for India is textile and apparel products which have a high bound rate of 30 percent and losses a competitive edge over other countries like Bangladesh.

South Korea maintains some standards, technical regulations, and conformity assessment procedures that are burdensome as these barriers mainly restrict the export of food items that are of interest to India. South Korean Food and Drug Administration (KFDA) defines product categories narrowly for specific food additives making it difficult to obtain approval. According to South Korean rules and regulations, safety and

certification have to be conducted by a designated certification body that must be a “domestic, non-profit making organization with suitable testing equipment and qualified testing personnel”. (Smit Chowdhury and Babu George,2011)

In the Service sector, the barriers are regulatory as these barriers include the telecommunication sector where the restriction on foreign service providers, Lack of transparency in Investment related regulatory decisions, etc. Other regulations or restrictions include non-tariff measures where Korea maintains conformity assessment procedures that are burdensome.

#### AREAS OF FUTURE COOPERATION

Defense and Maritime cooperation are one of the anchors of both countries in their INDO-PACIFIC policy. India signed a strategic Defense partnership with Korea among them the agreement on Naval logistics sharing is particularly significant, as it is an arrangement that India presently shares with only France and USA. Korea is also one of the



major suppliers of weapons and military hardware to India.

Cultural relations between both countries are one of the major drivers as Korean society is mainly Buddhist society and India the birthplace of Buddhism share the common thread of culture and recent cultural exchanges such as the Indian Cultural Centre established in Seoul in 2011 and another in Busan in 2013, to boost people-to-people connectivity visa on arrival is in effect since 2014, An annual FESTIVAL OF INDIA in Korea titled SARANG was initiated in 2015, In 2012 Seoul national university established a New Department of Asian Languages and 4 Civilization where they are offering major on Indian Languages. Therefore, tourism is one of the sectors for future cooperation.

CEPA has allowed the opening of the service market, sectors covered are construction, distribution (excluding retail), transportation, accounting, real estate, medical treatment, and energy distribution. It includes mutually expand job opportunities for computer specialists, engineers, consultants, and assistant English Teachers. It allowed the temporary movement of 163 Indian professionals to access the Korean service market.

### Conclusion

Bilateral economic relations between India-South Korea have strengthened over the years which started significantly in 1991 and rocketed after 2009. However, the current size of the trade is not at par compared to the size and structural complementarities of the two economies. In this context, the present paper analyzes trade and Investment relations and future areas of cooperation between India and South Korea. The merchandise trade increase between the two nations has been mainly because of comparative advantages and both economies in complementary sectors. While India has a comparatively less developed export market towards Korea and consists of low-value-added and intermediate industrial products whereas India's Imports from South Korea largely consist of High value-added and Finished Industrial products. The analysis of revealed comparative advantage at both the aggregated and disaggregated levels shows that South Korea has been specializing in high-value finished products, which are highly competitive as India's exports have been more diversified toward primary and intermediate products. Moreover, India shows a declining comparative advantage in textiles and other primary products as South Korea has a regressive closed primary market whereas India has the advantage of Economies of Scale. The study at the micro level shows that there are some industries

where both countries have a comparative advantage in various products, pointing to opportunities for intra-industry trade. The intra-industry trade (IIT) analysis shows that IT is low in the top traded product groups and high in some products where trading is low which has huge opportunities for both countries. This gives immense opportunity for intra-industry trade if sector-specific barriers are removed along with general barriers.

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