



A NEW HORIZON FOR THE KOREA-INDIA STRATEGIC AND SUSTAINABLE PARTNERSHIP UNDER KOREA'S NEW SOUTHERN POLICY

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Abstract

India and South Korea, Asia's third- and fourth-largest economies, respectively, established a Comprehensive Economic Partnership Agreement (CEPA) in 2010 and upgraded their relationship to a special strategic partnership in 2015. South Korean President Moon Jae-in's "New Southern" policy and Indian Prime Minister Narendra Modi's "Act East" policy share important objectives and values through which Korea and India can maximize their potential to pursue high tech-oriented, win-win growth. Both countries face the great challenge of diversifying their economic partners in their respective geo-economic domains amid newly emerging international geo-economic dynamics as well as rapidly changing Fourth Industrial Revolution technologies. Given the two countries' excessive dependence on the Chinese market and potential risks and uncertainties involved in the U.S.-China trade war and related security conflicts, South Korea and India need to deepen bilateral linkages in trade, investment, and cultural contacts. South Korea-India cooperation is crucial in promoting plurilateralism, prosperity, and harmony in East Asia. This paper suggests a specific action agenda to fulfill mutual commitments as entailed in the "Special Strategic Partnership" between these two like-minded countries of South Korea and India.

Key Words: *India, South Korea, New Southern Policy, Act East Policy, trade and investment*

Introduction

In the past decade, South Korea (hereafter Korea or ROK) and India have significantly deepened their bilateral partnership. India and Korea, Asia's third and fourth largest economies, respectively, established a Comprehensive Economic Partnership

Agreement (CEPA) in 2010 after formal diplomatic normalization in 1962, and upgraded their relationship to a special strategic partnership in 2015. Korean President Moon Jae-in, who took office in May 2017, has adopted a "New Southern Policy"² and Prime Minister Narendra Modi of India, inaugurated in May 2014, has pursued a renewed "Act East Policy," both of which are highly complementary.

The Moon government's New Southern policy is designed to strengthen and broaden existing economic relations with India and ASEAN member economies. The Modi government's Act East policy—replacing the two-decades-old lukewarm "Look East" policy—has emphasized improved relations with ASEAN and other East Asian countries.

Both Korea and India have been overly dependent on economic ties with China. Given Korea's excessive dependence on the Chinese market—with exports to China accounting for 25% of Korea's total exports—a great deal of risk and uncertainty stems from the U.S.-China trade war and great power competition, rapidly rising Chinese wages, and increasingly assertive outward-oriented economic policies from Beijing. In recent years, China has also become India's largest trading partner. Both countries face the challenge of diversifying their economic partners as well as adapting to newly emerging international geo-economic and technological landscapes brought on by the Fourth Industrial Revolution.

Given their significant differences in factor endowments and development stages, but their highly significant domestic consumer markets, both Korea and India have great potential to complement each other for their respective sustainable and robust economic growth. Both countries can learn from each

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other's experiences with rapid economic transformation and the expansion of social overhead capital (SOC) necessary for rapid economic development and technological leapfrogging. In high-tech collaborations, Korea is well known as a world-class ICT hard power while India is a leading ICT soft power. India's top-notch brain power and scientific excellence, as exemplified in the recent successful launch of a spacecraft to the moon,³ along with Korea's manufacturing competence in semiconductors and displays, provide great potential for needed bilateral high-tech collaborations between the two countries.

Unlike Korea's uneasy geopolitical relations with its immediate big neighbors, India and Korea are free of historical legacies and territorial disputes. In recent years, the leaders of the two countries have been in frequent and close contact to implement concrete bilateral programs despite the geographical and cultural distance. In dealing with China, both countries face delicate and complex issues due to their heavy dependence on trade and investment, and with China's increasing assertiveness in security and environmental relations. India is also a member of the Shanghai Cooperation Organization, which is known to be a China-backed bloc for military and energy cooperation, G20, BRICs, ASEAN Regional Forum, and East Asia Summit, all together with China. Korea is also a member of the G20, ASEAN Regional Forum, East Asia Summit, and APEC, together with China.

Despite favorable conditions for mutual growth and economic cooperation between Korea and India, the much-heralded bilateral Korea-India CEPA has not fully produced intended results in terms of bilateral trade and foreign direct investment (FDI). Korea and India have not fully tapped their win-win gain potential from the CEPA. The challenge is for Korea and India to promote a stronger bilateral economic partnership through established institutional mechanisms with some new collaboration schemes. In this regard, Korea's New Southern Policy and India's Act East policy need to converge to achieve common objectives and complementarities in order to upgrade bilateral ties into a truly special strategic partnership.

The purpose of this paper is to analyze the dynamics of the Korea-India strategic partnership unfolding in recent years and to suggest how to renew the bilateral economic partnership and introduce new institutions to fully reap the fruits of potential complementarities while addressing key issues. The first section delineates how Moon's "New Southern Policy" and Modi's "Act East Policy" overlap. The second section overviews the existing bilateral economic relationship and impediments to bringing

these ties to their full potential. The paper then suggests an action agenda to enhance the strategic partnership, and some necessary follow-up policy measures for both countries to pursue.

Strategic Convergence of Korea's "New Southern" policy and India's "Act East" Policy

There is great potential to combine some overlapping objectives pursued by Korea's New Southern policy and India's Act East policy for mutual gain. In search of the strategic convergence between the two countries' flagship external policies, it is also necessary to consider the Korea-India bilateral relationship from the regional and multilateral perspectives. Despite its heavy emphasis on equitable domestic-oriented growth, Korea's Moon government has brought in a new dimension in formulating external economic policies. The major foreign policy focus lies at the two pillars of the "New Northern Policy," focused on Northeast and Central Asia, and the "New Southern Policy," intending to upgrade Korea's relationship with ASEAN and India to the level of ties with the United States, China, Japan, and Russia. The New Southern Policy is centered on three "P" principles: "People," constituting people-to-people exchange; "Prosperity," to promote reciprocal and win-win economic cooperation; and "Peace," representing regional security cooperation and gathering support for North Korea's denuclearization and opening.

The "New Southern" region, consisting of ASEAN and India, has a combined GDP of \$5.4 billion and is expected to have 500 million middle class consumers by 2030. Table 1 shows that the GDP of India and ASEAN as a bloc was almost equal in 2017, although the extra regional trade volume and inbound FDI of ASEAN is much higher.

Historically, Korea has been much more economically engaged with ASEAN than India. The ASEAN-ROK Commemorative Summit was held in Busan in November 2019 to signify the 30th Anniversary of ASEAN-ROK Dialogue Relations. The co-chairs' statement of the summit reaffirmed Korea's continued support for ASEAN centrality and commitments to strengthen cooperation through the various ASEAN-led mechanisms such as the ASEAN Plus Three (APT), East Asia Summit (EAS), ASEAN Regional Forum (ARF), and ASEAN Defense Ministers Meeting-Plus (ADMM-Plus). Korea remained ASEAN's fifth largest trading partner and fifth largest source of FDI in 2018. The two-way trade volume between ASEAN and Korea amounted to \$160.5 billion in 2018, accounting for 5.7% of ASEAN total merchandise trade. A



strong surge of FDI from Korea into ASEAN registered \$6.6 billion in 2018.⁴ Recently, Korea's economic linkages with Vietnam and Indonesia, in particular, have led to deepening interdependence between ASEAN and Korea. India, however, lags behind ASEAN in Korea's external economic connectivity. Korea's trade with India was \$21.5 billion in 2018. Korea's cumulative FDI to India between 2000 and September 2018 was \$3.275 billion, consisting of only 0.8% of India's total inbound FDI over the same period.⁵ This disparity in Korea's regional relationships is suggestive of the scope for further developing ties between Seoul and New Delhi.

Dynamics of Korea-India Economic Interactions

Bilateral Trade Development

The effectuation of the Economic Comprehensive Partnership Agreement (CEPA) in 2010 marked a milestone in strengthened bilateral economic ties between Korea and India. CEPA aims to liberalize and facilitate trade in goods and services, and expand investment between the two countries. Figure 1 shows how the trade deal has helped to increase bilateral trade. The bilateral trade volume almost doubled from \$11.2 billion in 2007 to

Table 1. Key Macroeconomic Indicators of Korea, India, and ASEAN

	Korea	India	ASEAN
Population (million in 2017)	51.6	1,368	640
GDP(\$ trillion in 2017)	1.62	2.6	2.76
Trade (\$ billion in 2018)	1,344.10	830.6	2,859.6
Inbound FDI (\$ billion in 2017)*	13.6	31.6	135.6
Economic Growth Rate (% in 2017)	2.9	7.5	5.3

*Excludes intra-ASEAN FDI / Source: World Bank Economic Indicators, Korea's New Southern Policy Special Commission, Directional Guideline of Korea's New Southern Policy, KIEP-sponsored seminar material, May 2019

\$21.5 billion in 2018. Although, this is equivalent to only 1.8% of Korea's total trade, and Korean exports have been steadily outpacing Indian exports. At the summit meeting between the two countries in July 2018, the two leaders agreed to work towards the goal of raising bilateral trade to \$50 billion by 2030.⁶ Given the economic size and trade volumes of two countries, especially compared with their respective bilateral trade with China, the target is still very low.

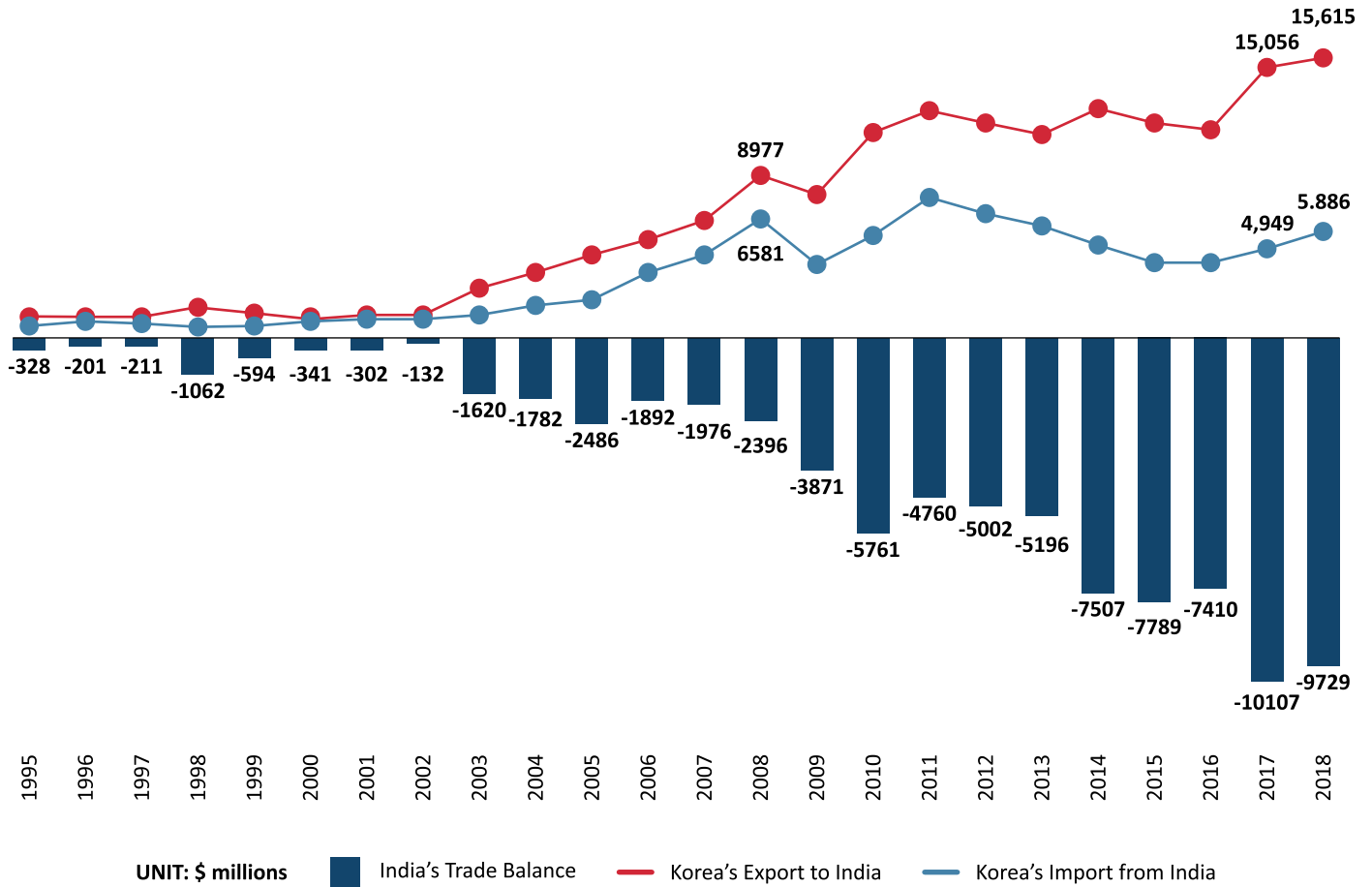
There are, however, caveats about the effectiveness of the CEPA. There are numerous items for which CEPA preferential rates are higher than the most-favored-nation (MFN) rate, which were lowered between when the CEPA talks began in 2006 and when

the agreement went into effect in 2010.⁷ Additionally, the ratio of concessional tradable goods to Korea was lower than the concessional rate India offered to Japan in the Japan-India CEPA, which went into effect in August 2011.

If both Korea and India were to reduce the CEPA preferential rates to at least the MFN rate, it would result in an increase in India's exports to Korea, helping resolve India's trade deficit vis-à-vis Korea. Korea and India set the ambitious target of achieving \$30 billion in total trade by 2014, when the Korea-India CEPA went into effect in 2010.⁸ This objective would be better served if both sides agreed to update the existing agreement.⁹



Figure 1. Korea's Trade with India and India's Trade Balance with Korea



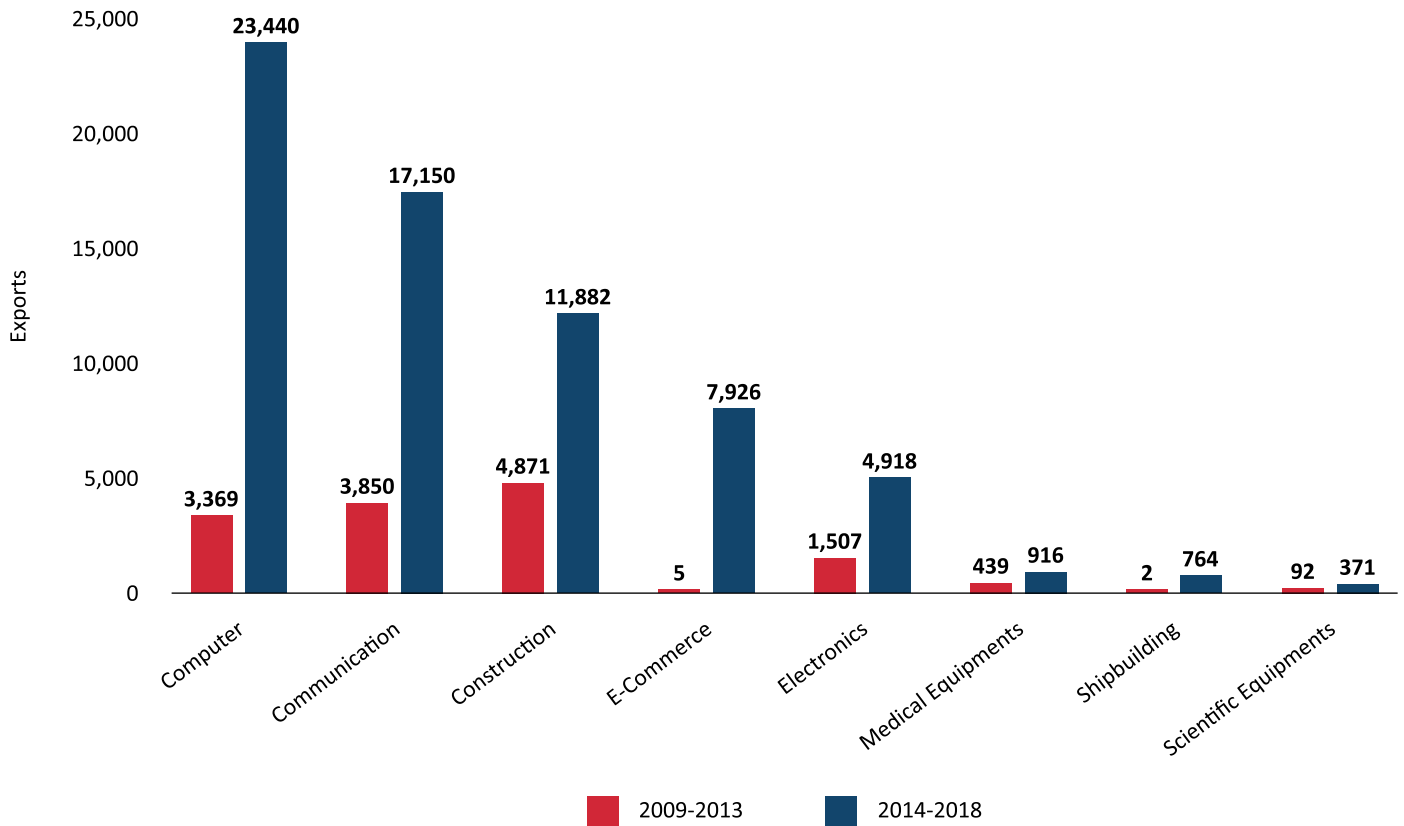
Source: Korea International Trade Association

Bilateral FDI flows¹⁰

The other side of bilateral economic linkages between India and Korea are foreign direct investment (FDI) flows. The success of Korean companies entering India in the mid-1990s spurred other Korean competitors to enter the Indian market. Recently, Indian firms, particularly carmakers, have also invested in the Korean market. The CEPA is likely to lead to more active bilateral FDI between Korea and India, following the patterns of the 2005 India-Singapore Comprehensive Economic Cooperation Agreement (CECA).¹¹

India's concentration of inbound FDI has changed substantially over time, as seen in Figure 2. Over the period of 2009-2013, construction services were the biggest portion, but the computer-related sector made a quantum jump from 2014-2018. This dramatic change occurred because India adapted to digitalization trends in manufacturing, 4G and 5G related equipment, and telecommunication devices, as required in the Fourth Industrial Revolution.¹²

Figure 2. India's Inbound FDI by Industrial Category



Note: Calendar Year, up to September 2018 / Source: CEIC Data Base

Outbound FDI to India from China, Japan, and Korea, are compared in Figure 3. There were no significant differences among the three countries until 2007, and since then Japan has dominated FDI to India. Beginning in 2006, Korean FDI to India has been increasing, followed by China. It should also be noted that China's FDI to India has been very modest, although China has been a dominant trading partner.

Figure 4 compares Korea's FDI and exports to India with that of China and Vietnam. Korea's outbound FDI to India is small compared to its FDI to China and Vietnam. Korea's outbound FDI to India in the 1990s accounted for about 4.6% of total FDI inflows to India. But still, Korea was the fourth-largest investor to India after the U.S., Mauritius, and the UK, mainly due to huge investments in the mid-1990s by LG Electronics, Samsung Electronics, and Hyundai Motors.¹³ However, in the first decade

of the new century, inflows of Korean FDI into India relatively stagnated, though there was a modest increase in Korean FDI during the second half of the decade. There was a second wave of Korean FDI during the last five years, mainly attributable to the capacity expansions of the three Korean conglomerates and partly attributable to new investments made by POSCO, Shinhan Bank, and Mirae Asset Management.

POSCO and the Odisha State signed a Memorandum of Understanding in 2005 for the largest ever amount of FDI of Korean origin, amounting to US\$ 1.2 billion, to build a high quality and "green" iron and steel plant in the state of Odisha with Indian government approval. If the POSCO project had succeeded in the land purchasing process,¹⁴ it could have been a symbol of Korea's FDI into India along with the Hyundai Automotive Plant in Chennai. POSCO could have developed mutually

Figure 3. Japan, Korea, and China's Outbound FDI to India



Source: Korea International Trade Association

beneficial linkages with the world's biggest steel maker, Arcelor Mittal in India, with 10% of the world's output. Nevertheless, POSCO has been actively operating downstream mills and processing centers.¹⁵

Under the Modi administration's proactive FDI policies, India has been recognized as one of the most desirable investment destinations in the world, along with China and the United States. According to AT Kearney's FDI Confidence Index, India has emerged as one of the top 10 preferred FDI destinations since the early years of the 21st century. It has also been included in the top rankings for favorable FDI countries, published by UNCTAD and Ernst & Young.¹⁶

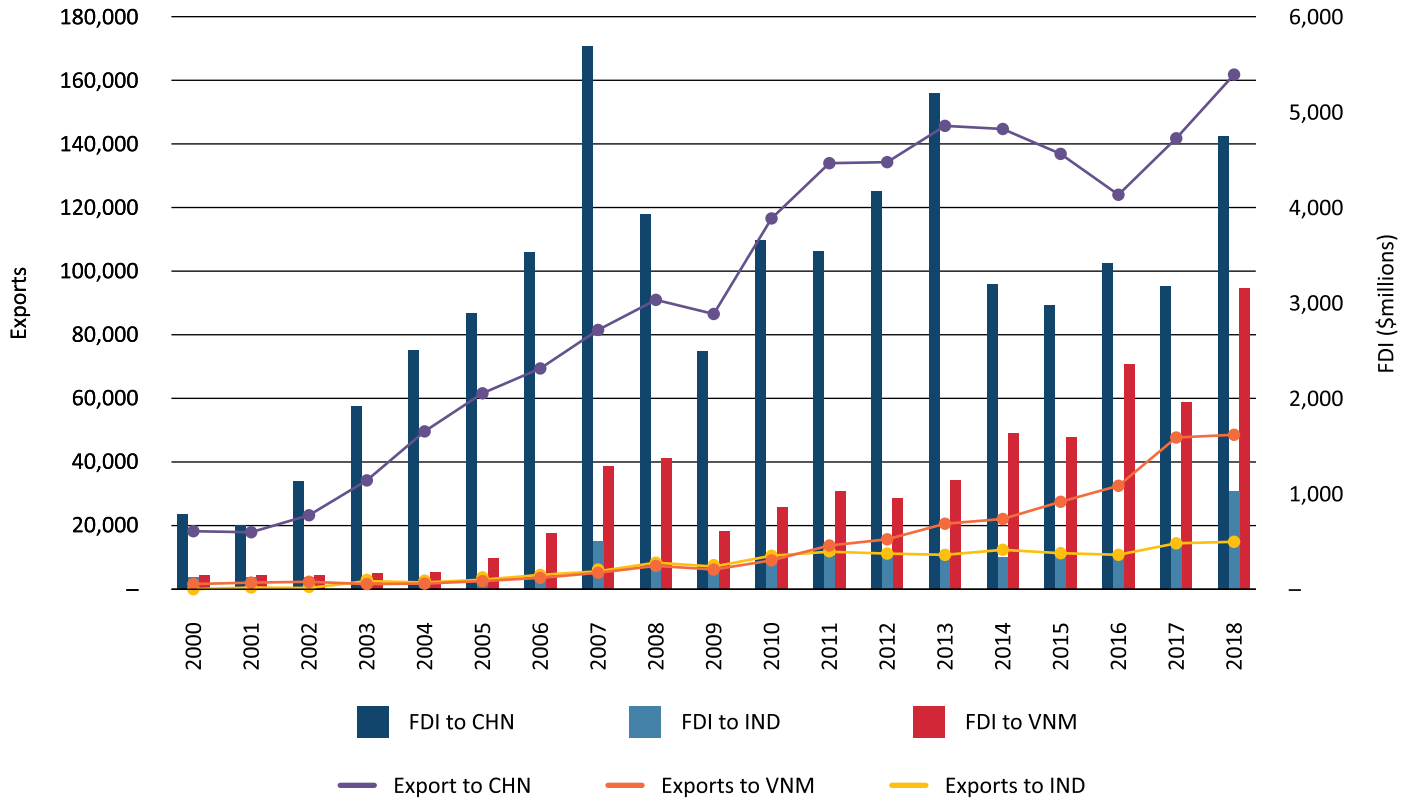
Bilateral FDI figures for both South Korea and India remain low relative to their economic size and active outward-looking orientation, suggesting there is still much room for each to invest in the other. Although Korea has been proactively attracting FDI since the Asian financial crisis, its outbound FDI in the past six years is three times its inbound FDI due to high domestic wages,

land prices, and government regulations. As cross-border supply chains are becoming the modus operandi for businesses, both India and Korea need to create a more robust and friendlier business environment for quality inbound FDI.

Until recently, most Korean FDI into India has been in the manufacturing sector. Korean manufacturers go to India mainly to secure production bases with cheaper wages than Korea, and with marketing platforms. Located at the crossroads of Asia, Europe, and Africa, India also enjoys favorable geographical conditions. Hyundai Motor, Korea's largest automotive manufacturer, decided to go to Chennai because of its geographical conditions and the marketing potential of a huge domestic market. Hyundai Motor India became the largest car exporter in India in 2010, exporting more than 200,000 cars to the EU, Africa, the Middle East, and Latin America.¹⁷ In recent years, Korean firms have expanded their business areas in various service sectors beyond manufacturing, such as a home-shopping TV channel, courier services, a dental hospital for children, online games, finance, and retail.¹⁸



Figure 4. Korea’s Outbound FDI and Exports to India, China, and Vietnam



Source: KIEP Research Report 18-15, Cho Chung Jae, et al (2018) based on WITS UN Comtrade

Looking at Korea’s FDI inflows, major developed countries accounted for 80% of the total foreign investment in Korea, but Korea is now encouraging FDI from emerging economies such as India.¹⁹ In recent years, Indian companies have started investing in Korea as they are gaining confidence in the global market and emulating the models followed by high-performing countries through Modi’s Act East Policy. Indian FDI into Korea has mainly gone into the service and manufacturing sectors. Among these investments, it is noteworthy that Tata Motors acquired a Korean auto plant in 2004 and Mahindra & Mahindra acquired Ssangyong Motors, worth \$371 million, in 2010.²⁰

While each country offers unique advantages to attract investment—though India’s huge population and market potential has made it more successful to this end—neither country has induced FDI to the level matching their GDP or gross capital formation, both far below the global average.²¹ One way to address this larger issue bilaterally would be joint ventures in IT and related sectors, machinery, metallic sectors, chemicals, green energy, and even finance and other business service. At present, many mid-sized Korean companies are in search of international business partners to use emerging supply chains, as well as joint research and development ventures in India’s competitive software industries.



Additionally, India would benefit from further liberalization reforms to facilitate trade and investment. Its capital flow management framework is moving in the general direction of capital account liberalization. Most FDI is now allowed to enter sectors of the Indian economy, but administrative and regulatory burdens have yet to be reduced, and governance has yet to be improved. As a strong advocate of the multilateral rules-based trade system, India is encouraged to play a bigger role in the world trade system.²²

New Horizon of Bilateral Economic Partnership

Rationale for Enhancing Further Strategic Partnership

In order to upgrade the bilateral relationship to a truly strategic partnership, the two countries need to deepen trust-building processes at the government, business-to-business, and people-to-people levels. This can be done rather quickly because the countries share many common values, such as a democratic political system and an open market economy. Additionally, unlike China and Japan, both India and Korea are free of historical and territorial issues with each other.²³

Korea and India should use their respective comparative advantages to increase mutual trade and investment in each other's market. Korea has a strong manufacturing base and overseas SOC development experience. Similarly, India can take advantage of its highly skilled, but still low-wage human resources and abundant natural resources. There are also opportunities for mutual learning and emulation between the two countries through deepening economic ties. Korea's industrial dynamics and competence, accumulated through fierce competition in the domestic as well as overseas markets under an export-oriented development paradigm, might be worth India's careful study. Korea's foreign investment ombudsman system should also be considered to manage and sustain India's FDI growth.²⁴ India's rise as an IT software powerhouse, including big data management and financial sector development, is an area Korea should emulate.

Both India and Korea are energy scarce and depend heavily on imported oil. Both have developed competitive energy subsectors, including nuclear energy plants. Therefore, mutual trade and investment in green energy, including civilian nuclear energy, is promising for more intensified bilateral cooperation.

Need for Improvement on the Indian Side

The World Bank has been releasing a "Doing Business Index (DBI)" each year for the vast majority of countries and ranks them based on measures in 10 regulatory areas. Korea and India ranked 8th and 132nd, respectively, in the 2012 DBI, topped by Singapore. However, the rankings rose substantially for the two countries to 5th and 77th, respectively, in 2019. The index clearly shows that India needs to improve its business environment. The categories in which India ranks low are "starting a business," "registering property," "paying taxes," and "enforcing contracts."²⁵ Korean firms operating in India point out that there are too many complicated procedures to get a license from the Indian government.²⁶ For example, it takes about five years on average to resolve a business conflict through courts. India needs to reform its legal system to be more business-friendly.²⁷

In the DBI, Korea ranked 19th in 2010 but jumped to the top 10 in 2012. Although, Korea has benefitted from a shift in the methodology used to calculate the rankings, which has downplayed major challenges in the labor market. In 2011, Korea's labor market rigidity landed it in the 150th spot for the DBI "hires and fires" category,²⁸ but the following year the World Bank replaced "hires and fires" with "getting electricity." Korea is well known for providing low-priced, good quality electricity for production activities. Still, the rigidity of the labor market remains a serious challenge as Korea works to attract more quality FDI.

Under the Modi administration, India's initiatives to improve ease of doing business have started to bear fruit, as can be seen in the 2019 and 2018 DBI (Table 2). India's ranking jumped to 77th in 2019 out of 190 countries from 100th in 2018, leaping 23 spots within a year. Still, India ranks low in areas including "business startups," "real estate transactions," "contracts," "taxation," and "solving default."

Table 2. India World Bank Doing Business Index

Areas	Rank 2019	Index Points 2019	Index Points 2018	Change in Points
Overall	77	67.23	60.6	6.63↑
Start-up	137	80.96	73.9	7.06↑
Construction permits	52	73.81	39.69	34.12↑
Electricity	24	89.15	88.64	0.51↑
Real Estate	166	43.55	43.09	0.46↑
Loans	22	80	75	5↑
Protection for small Investment	7	80	80	-
Taxation	121	65.36	65.23	0.13↑
Trade	80	77.46	58.56	18.9↑
Contract	163	41.19	41.19	-
Solving Default	108	40.84	40.75	0.09↑

Source: World Bank, Ease of Doing Business Rankings, 2018 and 2019, www.doingbusiness.org/en/rankings

On the trade side, there have been substantial non-tariff barriers (NTBs) in India as market opening continues. Table 3 shows that India has raised SPS and ADP drastically in the past five years to protect vulnerable domestic sectors, such as retail and agriculture. The World Economic Forum has also pointed out that India still has to improve in many areas to create a friendly business environment. These include corruption, access to financing, tax rates, labor work ethic, inadequate supply of infrastructure, and inefficient government bureaucracy.²⁹

Need for Improvement on the Korean Side

Converging points for a meaningful economic partnership between Korea and India used to be lacking. But, since India adopted an active open-door strategy in the mid-1980s, the two countries have increasingly shown greater interest in each other. They now share democratic values and an outward-looking economic development orientation, which are rare among Asian countries. India has a large population and huge landmass. In that sense, Korea is at the opposite extreme, with far less land and a much smaller population.

Table 3. Trends of India's NTBs

	SPS	TBT	ADP	CV	SG	QR
1999-2003	4	13	21	0	0	0
2004-2008	43	35	58	0	0	0
2009-2013	22	12	66	0	0	59
2014-2018	145	40	174	12	2	0

Note: SPS (Sanitary and Phytosanitary), TBT (Technical Barriers to Trade), ADP (Anti-Dumping), CV (Countervailing duties), SG(Safeguards), QR (Quantitative Restrictions) / Source: WTO I-TPS



Korea's government, businesses, and general public need to expand their vision beyond ASEAN to more actively embrace India. Above all, they need to fully understand India's history, culture, and work ethic. To the general public, India is still a slow-moving bureaucracy.³⁰ Korea should formulate multi-track bilateral contacts ranging from business, culture, and student exchanges.

Mutual Action Agenda

Some immediate action agenda items are suggested below to accommodate the converging elements of Korea's New Southern Policy and India's Act East Policy on a bilateral and multilateral basis.

1) Regular Summit and High-Level Meetings to Upgrade the CEPA

Above all, India and Korea need to upgrade the existing Korea-India CEPA on a regular basis to ensure faster and wider tariff reductions and further eliminate non-tariff barriers between the countries to reach the \$50 billion benchmark for trade by 2030. For this purpose, regular summits and ministerial-level meetings are necessary to ensure a broader set of directional guidelines on not just trade, but on investment and people-to-people exchanges as well. High-level meetings should also aim for the elimination of tariff and non-tariff barriers in the short- to medium-term. In this sense, it is encouraging that the countries' leaders have established regular summit contacts. Prime Minister Modi had his first state visit to Korea in 2015 during the Park Geun-hye administration. Following Korea's New Southern Policy, President Moon Jae-in also made his first state visit to India in 2018.

2) Systematic Promotion of FDI and Aftercare Services for SMEs

Unlike other FTAs, the Korea-India CEPA allows for greater movement of workers between the two countries in high value-added service areas. Both sides need to further open their service sectors to explore new areas for expanded collaboration. Given Korea's IT hardware competitiveness, Korea needs English-speaking talent in IT software development, R&D, and financial big data management which collaboration with India can provide.³¹ However, there are challenges to enhancing the bilateral Korea-India partnership amid the Fourth Industrial Revolution and New Delhi's "Make in India" and "Digital India" policies. The two countries need to activate their respective chambers of commerce to conduct a "Caravan Commercial

our" to hold both commodity expositions and promote investor relations. In particular, the countries need to encourage their small and medium-sized enterprises (SMEs) to gain exposure to each other's markets.

On the FDI side, India and Korea need to strengthen and diversify areas for investment, for the digitalization of both economies, which need to learn from the suspension of the POSCO project in India's Odisha state. Important SOC projects need to be pursued to open a new chapter for bilateral FDI. Korea's globally competitive IT, shipbuilding, steel-making, and chemical industries could offer great business opportunities for India's FDI into Korea. There is a lot of room for Indian manufacturing companies to invest in Korea and develop industrial technologies, which Korea has developed as a latecomer to industrial development compared to other advanced economies. Indian companies invested in Korea can bring necessary parts and components back to India via cross-border value chains and then export them.

3) Collaboration in Defense Industries

As middle-powers on the global geopolitical stage, like-minded India and Korea, under a special strategic partnership, can work together on defense issues. Korea can play an important role in the development of defense industries in India given Korea's strong defense industry manufacturing base and its combat-ready elite armed forces.³² India and Korea also have the potential to grow through military acquisitions, as Korea is looking to expand its defense export industry and capabilities, and India is embarking on an ambitious military modernization program.³³

Defense cooperation between the two countries has already reached a certain level of maturity and is expected to bear fruit in the near future. Modern weaponry systems are based on the combination of the world-class hardware and software of micro-electronics. The line between military and commercial technology is increasingly blurring. Korea is already a leader in 5G technology, launching the world's first 5G commercial infrastructure.

In recent years, India has emerged as the largest importer of arms globally. Russia has been the main supplier of defense equipment and technologies. But India has recently started exploring new options for weapons procurements on top of Europe and the United States. Under the special strategic partnership, Korea's defense industry could explore opportunities for defense-related business in India.³⁴ There are many possible areas where Korean companies have a competitive edge. For instance, Korea's

Hyundai Heavy Industries in particular, which jointly developed the KDX-III Aegis destroyer with the U.S.-based Lockheed Martin, can help to meet India's demand for high-tech Aegis ships designed to trace and shoot down missiles. Korea's aerospace industry could be the other possible contender for the Indian defense market. Earlier, Indian forces showed interest in Korean supersonic trainer jets, unmanned aerial vehicles produced by Korea's aerospace industries.³⁵

Though Korea's defense industry is facing tough competition from its rivals in Europe and the U.S., it should do its utmost to find niche markets due to their low cost and not-so-tight technology transfer regimes. In 2015, The Indian government planned to spend \$100 billion on a new weapons acquisition program only in the next ten years. Korea can bid for a small chunk of this big business opportunity. Apart from military hardware transactions, there is also huge potential to carry out Defense Research and Development (R&D) cooperation. Korea and India have already signed a number of MOUs covering the transfer of defense technology, joint production of weapons, and joint research and development.³⁶

Furthermore, it is significant that Korea and India instituted the "Defence Policy Dialogue" at the Vice Defense Minister's level of both countries in December 2013. The two countries also hold regular high-level meetings and exchanges on the defense industry and logistics, R&D, etc. They also have regular military-to-military interaction, especially between the navies and the coast guards, the latter having an MOU to prevent piracy, armed robbery, trafficking in arms, smuggling and illegal migration at sea, and to combat marine pollution.³⁷ The Modi government has increased FDI in the defense sector up to 49%, but this is a guideline and FDI can be increased up to 100% with state-of-the-art or niche technology.³⁸

Defense procurement procedures are being simplified and made more business-friendly, including the offsets. The government had planned to upgrade and modernize the armed forces in all aspects including logistics, with a procurement of more than \$130 billion over the next seven years, plus an additional budget of \$110 billion on homeland security during this period.³⁹ The emphasis is on acquisitions through either "Buy & Make in India" (50% indigenous content on cost basis) or "Make in India." Korea, with its strong IT-related manufacturing base and active military combat readiness, can be a valuable partner to help India boost its manufacturing sector and for the indigenization of its defense industry.

4) Knowledge Sharing on Rural Modernization

Improved agricultural productivity is imperative for overall economic efficiency and social inclusion in India's rural communities. Korea's experience with rural transformation is rich and successful, with its globally known *Saemaul Undong* (New Community Movement), administered by President Park Chung-hee. It is a comprehensive socio-economic movement based on principles of self-help, diligence, and cooperation among rural people, combined with highly effective incentive schemes from the government. The movement helped modernize rural programs for scientific farming, the efficient marketing of agricultural products, and well-designed rural infrastructure networks. Korea has been providing the Saemaul Undong experience with many developing countries in Latin America and Africa in order to develop rural drinking water, sanitation, and the cultivation of high-quality cash crops and vegetables. Global knowledge sharing of the Saemaul movement has been underway through Korea's ODA packages. Korea's rural modernization programs could readily be connected with India's rural development needs.

5) Promotion of Tourism and Closing Cultural Distance

Most people in both countries still feel the other is quite geographically distant and culturally different. Despite convergence phenomena with the proliferation of information technology, cultural differences are still significant today. For successful international business, people should be aware of cultural differences across nations. In this regard, cross-cultural communication is a primary concern. India and Korea need to understand cultural differences for effective branding, advertising strategy, and consumer behavior.

Actively promoting tourism between the two countries can not only enhance cultural understanding, but also increase bilateral trade. Given the population size and income level of the two countries, the number of tourists between them is low. In 2018, 200,000 Indian tourists visited Korea while 150,000 Korean tourists visited India.⁴⁰ The combination of Korea's globally popular K-pop music and films and India's Bollywood films has great potential for commercial success as well as for enhancing cultural understanding, and, as such, the countries should regularly exchange art performances.

6) Speedy Utilization of Korea's financial package for India's development projects



In 2015, the two leaders of India and Korea agreed that Korea would provide a financial package amounting to \$10 billion for mutual cooperation in infrastructure. The funding would come from the Economic Development Cooperation Fund (\$1 billion) and the Export-Import (EXIM) Bank of Korea's export credits (\$9 billion)⁴¹ and would go towards India's priority sectors, including smart cities, railways, power generation and transmission, and other sectors. It is highly recommended that the two governments and the EXIM Banks of the two countries chalk out a roadmap to utilize the development fund for priority sectors for early returns through project identifications, feasibility studies, and timely implementation. Having effective public projects as a model case could also allow for follow-up public-private partnership ventures between the countries on projects such as transportation connectivity, smart city development, and similar efforts.

In this regard, Korea needs to benchmark Japan's initiative to construct a 508 km long bullet train railway between Mumbai and Ahmedabad by utilizing Japan's ODA financing scheme amounting to \$16.3 billion. The first high speed railway project will be completed by 2023 and likely to bring in a much-needed transportation revolution in India.⁴² Undoubtedly, the project will symbolize a highly committed public-private partnership and become an icon of Indo-Japanese friendship.

7) Follow-up Actions Against Pending RCEP

Korea has pursued the conclusion of the Regional Comprehensive Economic Partnership (RCEP) negotiations to facilitate cross-border trade and investment in East Asia. Though RCEP's quality in terms of liberalization and concessions is much lower than the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), it is still very helpful for RCEP members—a diverse array of East Asian economies—to abide by a set of agreed-upon rules including labor, environmental and intellectual standards for intra-regional trade facilitation and investment liberalization. Korea's existing FTAs have mostly been bilateral. An effectuation of a mega deal like RCEP will be a boon to Korea—which has been suffering setbacks in the face of the global downturn caused by the U.S.-China trade war—by diversifying its export markets and strengthening ongoing regional supply chains. It will also likely provide momentum for the Moon government's New Southern Policy. In November 2019, 15 prospective signatories of RCEP member states signed the text-based agreement, but India opted out of the agreement.⁴³

At present, India pulled out of RCEP for fear of a potential influx of cheap Chinese products devastating its domestic industries. Indeed, a looming trade deficit for India with China has been a point of contention for over a decade in every India-China dialogue.⁴⁴ Without India, RCEP is not likely to serve its original objective. If India stays out of the deal, RCEP will include just 2.3 billion people, with its share of global trade also declining. Some claim that RCEP should be effectuated without India while opening the door for New Delhi whenever it is ready to join. Whether India remains in RCEP or not through additional negotiations, India must upgrade its manufacturing competitiveness and enact necessary reforms as dictated by "Make India." In this context, India and Korea should upgrade CEPA to spur more bilateral FDI and innovative industrial technology along planned corridors.

8) Strategic Engagement in the "Indo-Pacific vision"

Although detailed strategic and operational plans have not yet been fully realized, the "Indo-Pacific" concept has increasingly come to the fore by the quadrilateral nations of the U.S., Japan, Australia, and India.⁴⁵ The concept deserves strategic consideration for Korea to effectively implement its own New Southern Policy. Several of Korea's major trading partners are among those involved in firming up the concept, which addresses multilateral issues of maritime trade, energy, cyber-attacks, and security. At the Korea-U.S. summit in June, 2019, President Moon Jae-in and President Donald Trump made it public that, "We have reached a consensus to put forth further harmonious cooperation between South Korea's New Southern Policy and the United States' Indo-Pacific Strategy."⁴⁶ Given this stance, Korea first should not lose potential business opportunities in connecting infrastructure across participating countries and sea lanes stretching through the Indo-Pacific. In this regard, at the recent ASEAN-Korea Commemorative Summit Korea supported ASEAN priorities of maritime cooperation, connectivity, and inclusiveness.

Each quad member has a different view on the Indo-Pacific concept. However, there exist commonalities for rules-based cooperation, effective connectivity, maritime security, and transparency without coercion in the region. Indian Prime Minister Narendra Modi expressed India's vision of the Indo-Pacific region in which he sees a "natural region" where all member states are committed to a rules-based, free, open, democratic and inclusive region.⁴⁷ Japan uses the terminology of the Asia-Pacific vision rather than Asia-Pacific strategy. In order to

promote bilateral economic cooperation with India, Korea needs to share core economic elements contained in the Indo-Pacific concept, which is likely to enhance confidence building on rules-based connectedness. Korea joined the AIB as the fifth largest contributor, which plays a significant role in financing China's the Belt and Road Initiative. Likewise, Korea should explore further cooperative economic opportunities for connectivity projects in the Indo-Pacific.

Conclusion

Amid a rapidly changing balance of power among East Asian countries, India's and Korea's strategic concerns and interests have seen great convergence. As a consequence, Korea-India bilateral engagement needs to be qualitatively upgraded and quantitatively expanded. While India-Korea relations are at their best ever, there is great potential to enhance ties, especially with the Modi government's "Act East," "Make in India" and "Digital India" focus and the Moon government's New Southern Policy initiative. The two sides share a vision and a definite roadmap to expand the entire range of bilateral cooperation, which can in turn bolster greater regional cooperation.

Currently, the two countries together have a fresh dynamism for bilateral relations like never before. Strategic paradigms in the region are constantly changing. Today, a golden opportunity

exists to take this relationship to the next level. However, despite the growing web of interactions between India and Korea, the relationship has not reached its full potential, currently limited to smaller-scale engagement. Most of the MOUs and agreements signed are at a very formal level and lack serious substance. A strong and sustainable partnership cannot be built merely on lofty-sounding agreements or high-profile visits.⁴⁸

Concrete actions must follow, as recommended above. India's strong software capabilities and Korea's hardware manufacturing powers are complementary strengths in an age of disruptive and rapidly changing technology dynamics. Visions of India as a major growing market for Korean products and technology extend to virtually all areas of high-tech development, including 5G and the defense industry. Korea's long quest for high-tech and SME development for international competition might also provide India with highly relevant and applicable lessons.

Korea-India economic and security cooperation can greatly benefit not only the two countries, but also the world at large, which can also strengthen security interests in Asia and globally. India and Korea, as like-minded countries, can work together to strengthen the rules-based liberal economic order in the Asia-Pacific region by building on their special strategic partnership to broaden the relationship in the years to come.

Endnotes

- ¹ The author would like to thank Dr. Choongjae Cho of Korea Institute for International Economic Policy and Dr. Lakhvinder Singh of the Asia Institute, Seoul, for their valuable comments on the action agenda for collaboration between Korea and India.
- ² For the concept and implementation strategies of "New Southern Policy," see "Korea's New Southern Policy and its Implementation Strategy" (in Korean) by Presidential Special Committee on New Southern Policy, Mimeo Material for the New Southern Policy Seminar, organized by KIEP, May 2019.
- ³ "Chandrayaan-2: Was India's Moon mission actually a success?" BBC, September 30, 2019, <https://www.bbc.com/news/world-asia-india-49875897>.
- ⁴ "[ASEAN-Korea summit] Co-chair's statement of the 2019 ASEAN-Republic of Korea Commemorative Summit," *Korea Herald*, November 26, 2019, <http://www.koreaherald.com/view.php?ud=20191126000550>.
- ⁵ World Economy Today KIEP, Vol. 19, No. 3, based on CEIC, February, 2019, 4.
- ⁶ India and Republic of Korea: A Vision for People, Prosperity, Peace and our Future, July 10, 2018, Ministry of External Affairs: Government of India, <https://mea.gov.in/bilateral-documents.htm?dtl/30041/>
- ⁷ Cho Choong-Jae, "Trade Promotion after the Korea-India CEPA," in *India-Korea: Dialogue for A 21st Century Partnership*, eds. Ahn Choong-Yong and Pravakar Sahoo (New Delhi: Academic Foundation, 2012), 240-260.
- ⁸ Ahn Choong-Yong, "India-Korea Strategic Cooperation: An Economic Perspective," in *South Korea-India: Strategic Partnership*, ed., Lakhvinder Singh (Seoul, Korea: Institute for Far Eastern Studies, Kyungnam University, 2014), 185-225.
- ⁹ Due to a long negotiation period, the CEPA tariff rates turned out to be higher than the MFN rates by the time of CEPA's effectuation, preventing a full positive impact of the CEPA. See Choongjae Cho, "Two Years In: Achievements and Challenges in the Trade Sector of the Korea-India CEPA," eds., Parthasarathi Shome and Choong Yong Ahn, *Korea-India: Deepening Partnership for the 21st Century*, (Seoul, Korea Institute for International Economic Policy, 2012), 161-184.
- ¹⁰ For details of Korea-India bilateral FDI until 2010, see Kwag Chang-Ho, "Trends of FDI Flows into India and Korea," in *Korea-India: Deepening Partnership for the 21st Century*, eds. Parthasarathi Shome and Choong Yong Ahn, (Seoul: Korea Institute for International Economic Policy, 2012), 185-213.

- ¹¹ Han Hyung-min, Kim Jeong-gon, Song Young-chul, and Yoon Ji-hyun, "Implications for India's Increase in Foreign Direct Investment and New Southern Policy," (in Korean) *World Economy Today* 19, no. 3 (Sejong City, Korea: Korea Institute for International Economic Policy, 2019): 4-5. In 2005, The India and Singapore CECA eliminated tariff barriers, double taxation, duplicate processes, and regulations, and provided unhindered access and collaboration between the financial institutions of Singapore and India. This provided new momentum for Singapore to invest in India's ports, airports and developing information technology parks and a Special Economic Zone (SEZ). The resulting FDI inflow made Singapore the second largest investor in India in the past two decades.
- ¹² Due to emphasis on digitalization in manufacturing in "Make India" and India's abundant manpower for computer software development, FDI in electronics and telecommunications took the lion's share of inbound FDI, see *ibid.*, 6-7.
- ¹³ For bilateral FDI trends, see Kwag Chang-Ho, "Trends of FDI Flows into India and Korea," 185-213.
- ¹⁴ For several reasons including environmental clearance and land acquisition, POSCO has not yet made significant progress in the project. It appears that local government authorities, the central government ministry, other NGOs, and landowners have expressed different voices when it comes to business permits and land acquisitions.
- ¹⁵ For the diversification efforts of POSCO in India, see Kim Young-sik, "Five Years Modinomics, Half Success," (in Korean) *Asian Regional Review* 2, no. 1 (2019): 1-6.
- ¹⁶ *The Role of International Agreement in Attracting Foreign Direct Investment to Developing Countries* (New York, Geneva: UNCTAD Series on International Investment Policies for Development, 2009), 11-12; Chang-Ho Kwag, "Trends of FDI Flows into India and Korea," 185-213.
- ¹⁷ *Ibid.*, Chang-Ho Kwag, "Trends of FDI Flows into India and Korea," 200-201.
- ¹⁸ *Ibid.*, 202.
- ¹⁹ *Ibid.*, 203-204.
- ²⁰ The major Indian firms that have established their presence in Korea are Tata Motors, L&T Infotech, Mahindra Satyam, Indian Overseas Bank, Tata Consultancy Services, Jindal Stainless Steel, Nucleus Software Solution, and Wipro Technologies. For details, see *Ibid.*, 203.
- ²¹ Korea used to rely on heavily foreign borrowing until the 1997-1998 Asian financial crisis. India had also long been under an import substitution regime, shunning FDI. As a result, the ratio of accumulated inward FDI stock to GDP was very low compared to major open economies. For example, Korea's ratio in 2010 was 12.6% whereas the world average was 30.8%. India was also very marginal at the bottom level. See *The Role of International Agreement in Attracting Foreign Direct Investment to Developing Countries*, various years and also UNCTAD FDI/TNC database (www.unctad.org).
- ²² International Monetary Fund, Asia and Pacific Department, "India: 2018 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for India," August 6, 2018, <https://www.imf.org/en/Publications/CR/Issues/2018/08/06/India-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-46155>.
- ²³ For example, Kumar indicated that India and Korea have high moral credentials in terms of no history of aggression against any other third country. Both countries can play a crucial role to exert multilateralism in East Asia. See Kumar Rajiv, "Multilateral cooperation in East Asia and the Importance of the Leadership Roles of India and Korea" in *South Korea-India: Strategic Partnership*, ed., Lakhvinder Singh (Seoul: Institute for Far Eastern Studies, Kyungnam University, 2014), 108.
- ²⁴ The author served three terms as the foreign investment ombudsman to help resolve the grievances raised by foreign investors doing business in Korea. While in tenure, several countries including Russia, Kazakhstan, and Brazil benchmarked Korea's Foreign Investment Ombudsman system.
- ²⁵ For details, see World Bank, *Ease of Doing Business Rankings*, May 2019, www.doingbusiness.org/en/rankings.
- ²⁶ Korea Trade Promotion Agency's report, *India: Business Destination 2019* (in Korean) indicates delay in business permission and lack of administrative transparency as one of the most problematic grievances faced by Korean firms. <http://news.kotra.or.kr/user/nationInfo/kotranews/14/userNationBasicView.do?nationIdx=41>.
- ²⁷ A Korean CEO of a Korean company investing in India who participated in the 17th Korea-India Strategic Dialogue reported the long court ruling process.
- ²⁸ The 2010 survey shows that when a company wants to lay off a worker in Korea, it has to pay 91 weeks of salary on average.
- ²⁹ For details on problematic factors doing business in India, see Klaus Schwab ed., *The Global Competitiveness Report 2019*, (Geneva: World Economic Forum, 2019): 278-281.
- ³⁰ See The World Bank ranking of 136th in the starting business category in the Ease of Doing Business Index in May 2019, lowest compared to other categories. Korea Trade Promotion Agency's report, *India: Business Destination 2019* (in Korean) indicates delay in business permission and lack of administrative transparency as one of the most problematic grievances faced by Korean firms.
- ³¹ For example, Samsung Electronics and SK Hynics occupied 41.3% and 28.6% respectively, of global DRAM market at the 3rd quarter of 2019. Samsung Electronics has formally opened a new factory in Noida, India in 2018, the world's biggest mobile phone manufacturing plant, worth 50 billion-rupee investment. Prime Minister Modi said in a speech in Hindi at the inauguration of the plant "it will also play a key role in India-Korea relations." See Sankalp Phartiyal, "Samsung opens world's largest phone factory in India," Reuters, July 9, 2018.
- ³² See Lakhvinder Singh's Interview on "India-Korea Defense Ties Special," *Monthly Power Korea*, 2015 February, 119-121.
- ³³ Nicholas Hamisevicz, "Military and Strategic Aspect of India-Korea Relations," *Asia-Pacific Business and Technology, Report*, 2012, www.biztechreport.com.
- ³⁴ See Ajay Chanduria, Military Attaché at the Embassy of India in Seoul, interview on "India-Korea Defense Ties Special," *Monthly Power Korea* (in Korean and English), 2015 February, 125.
- ³⁵ *Ibid.*, 125.
- ³⁶ *Ibid.*, 125. In 2010, Korea and India signed two landmark MOUs to boost defense cooperation on military equipment and research and development on future defense technology. See Nicholas Hamisevicz, "Expanding Defense and Strategic Cooperation Between South Korea and India," in *South Korea-India: Strategic Partnership*, ed., Lakhvinder Singh (Seoul: Institute for Far Eastern Studies, Kyungnam University, 2014), 294.
- ³⁷ For details, see Nicholas Hamisevicz, "Expanding Defense and Strategic Cooperation Between South Korea and India," 294-295. India's visiting Defense Minister to Korea, Rajnath Singh reiterated the expanded and diverse defense cooperation between two countries, see special interview in the *Chosun Ilbo*, September 7, 2019, A25.



- ³⁸ See Ajay Chanduria, Military Attache at the Embassy of India in Seoul, interview on “India-Korea Defense Ties Special,” *Monthly Power Korea* (in Korean and English), 2015 February, 127.
- ³⁹ Ibid.
- ⁴⁰ “Korea, Monthly Statistics of Tourism,” Korea Tourism Organization, <https://kto.visitkorea.or.kr/eng/tourismStatics/keyFacts/KoreaMonthlyStatistics.kto>.
- ⁴¹ Ministry of External Affairs, Government of India, “India-Republic of Korea Joint Statement for Special Strategic Partnership,” May 18, 2015, <https://mea.gov.in/incoming-visit-detail.him?30041/India+and+Republic+of+Korea+A+Vision+for+People+Prosperity+Peace+and+our+Future>.
- ⁴² The project financing involves a very liberal loan of INR 790 billion (JPY 1490 billion) by Japan at 0.1% interest for 50 years. The loan covers 80% of total project costs. For details, see Arunendra Kumar, “High speed Railway Project in India from Mumbai to Ahmedabad,” [https://ihra-hsr.org/pdf/high special rail project.pdf](https://ihra-hsr.org/pdf/high%20special%20rail%20project.pdf).
- ⁴³ “India decides to opt out of RCEP, says key concerns and not stressed,” *Economic Times*, November 4, 2019, <https://economictimes.indiatimes.com/news/economy/foreign-trade/india-decides-to-opt-out-of-rcep-says-key-concerns-not-addressed/articleshow/71896848.cms?from=mdr>.
- ⁴⁴ India-China bilateral trade recorded in FY 2019 \$87.1 billion, accounting for a trade deficit of \$53.6 billion for India. For details, see Divay Pranav, “Five Facts about India-China Trade and Investment Relations: An Indian Perspective,” *Invest India: Team Blogs*, October 11, 2019, <https://www.investindia.gov.in/team-india-blogs/five-facts-about-india-china-trade-and-investment-relations-indian-perspective>.
- ⁴⁵ For example, see *Indo-Pacific Strategy Report: Preparedness, Partnership, and Promoting A Networked Region*, (Washington, DC: U.S. Department of Defense, June 1, 2019); John Hemmings ed., *Infrastructure, Ideas, and Strategy in Indo-Pacific* (London: The Henry Jackson Society, 2019).
- ⁴⁶ For the joint press statement, see Jung Da-min, “South Korea responds to US calls for support on Indo-Pacific Strategy,” *Korea Times*, July 10, 2019, www.koreatimes.co.kr.
- ⁴⁷ For a commentary for the logic of Indo-Pacific see Vishnu Prakash, “The logic of Indo-Pacific (Part 1),” *Korea Times*, November 20, 2019, www.koreatimes.co.kr.
- ⁴⁸ Lakhvinder Singh, “South Korea and India: Imperatives for Deeper Strategic Engagement,” in *South Korea-India Strategic Cooperation*, ed., Lakhvinder Singh (Seoul: Institute for Far Eastern Studies, Kyungnam University 2014), 179.

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