

Opportunities and Challenges in FDI Relationship between Korea and India after CEPA

2013. 10. 25

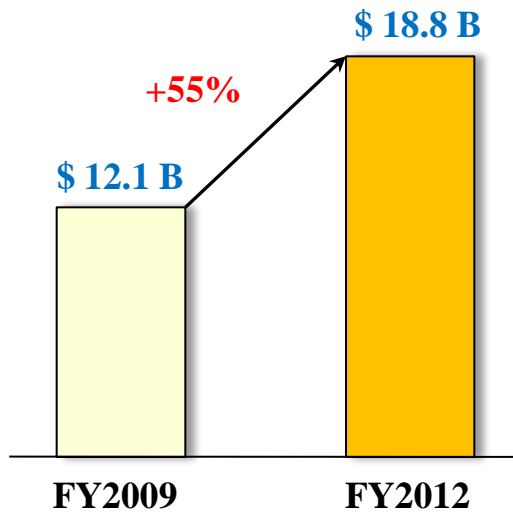
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1. Introduction

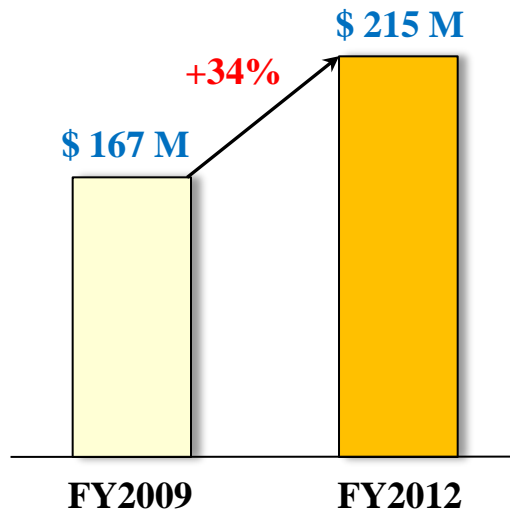
➤ Trends of Trade and FDI b/w India and Korea before/after CEPA

✓ Trade & FDI between both countries has increased significantly

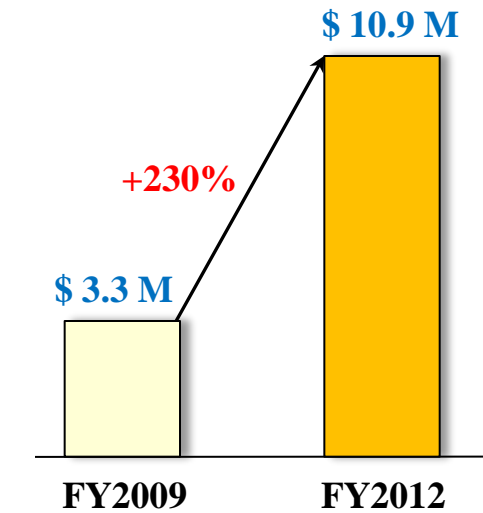
Trades b/w India & Korea



FDI from Korea to India



FDI from India to Korea



Source: Ministry of Commerce, India

Source: Ministry of Trade, Industry & Energy, Korea

Note: the figure of FDI from Korea to India in FY 2012 covers 2011.Apr to 2012.Feb

2. FDI determinants: literature surveys

➤ Four Factors of FDI Determinants

✓ Host country factors and regional integration factors are gaining significance

① Home Country Factors

-FDI amount depends on the economic size of home countries

③ Bilateral Linkage Factors

-Distance and openness decides the amount of FDI
 -The more distant, the less FDI inflow
 -As host countries are more open, the more FDI inflows

Source: Liu(2008)

② Host Country Factors

1) Economic Determinants

a. Market b. Efficiency c. Resources

2) **Policy Framework** : rules, policy, stability etc.

3) **Biz Facilitations**: investment promotion and etc.

④ Regional Integration Factors

-BIT(Bilateral Investment Treaty) & FTA enhance FDI

-3 channels:

- Commitment effect
- Signaling effect
- Substitute to institutional quality

➤ Host Country Determinants

- ✓ Host country economic determinants remain dominant factors (Nunnenkamp & Spatz, 2002)
- ✓ However, for the economic determinants are to be fully effective, they should be in combination with policy framework or business facilitation (UNCTAD, 2007)

➤ The Impact of BIT and FTA on FDI

- ✓ BITs do not change the key economic determinants of FDI, they stimulate FDI through improvement of policy and institutional frameworks
- ✓ FTA can have positive impact on vertical FDI rather than horizontal FDI

	Horizontal FDI	Vertical FDI
Purpose	Market entry (Market Seeking)	Low cost production (Efficiency Seeking)
FTA Impact	Negative impact on FDI (lower tariff enhance export rather than FDI)	Positive impact on FDI (lower tariff on parts can enhance FDI)

(Moon, 2009)

➤ Empirical Studies and Investor Surveys

- **The findings of early empirical studies were ambiguous**
- **Recent studies: BITs have positive effects on FDI inflows into developing countries**

Empirical Studies

US-Vietnam	the annual growth rate of FDI of US on Vietnam was 27% from 2002 to 2004 since both signed BIT while the growth rate from 1996 to 2001 was just 3%
US-Mexico	According to Buckley et al(2004) and Waldkirsch(2010), FDI of US on Mexico increased since 1994 (NAFTA)

Investor Surveys

- **BITs are important to TNCs in terms of investment protection and enhancing stability and predictability of FDI projects**
- **BITs are taken into account when they decide where to invest (UNCTAD survey on 602 TNCs, 2007)**

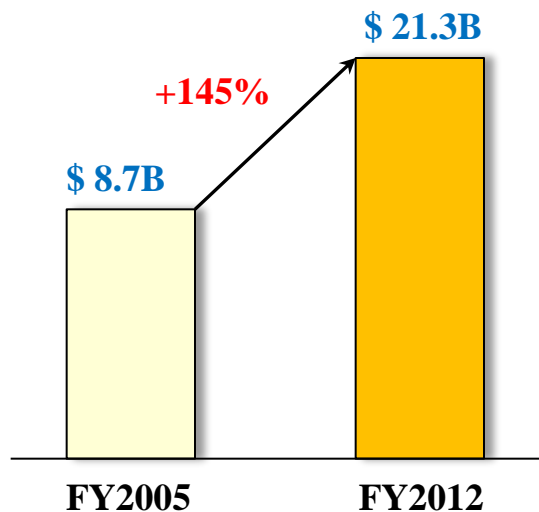
3. Case Studies: (1) CECA between Singapore & India

* CECA: Comprehensive Economic Cooperation Agreement, signed in 2005

➤ The Effect of CECA on Trade and FDI

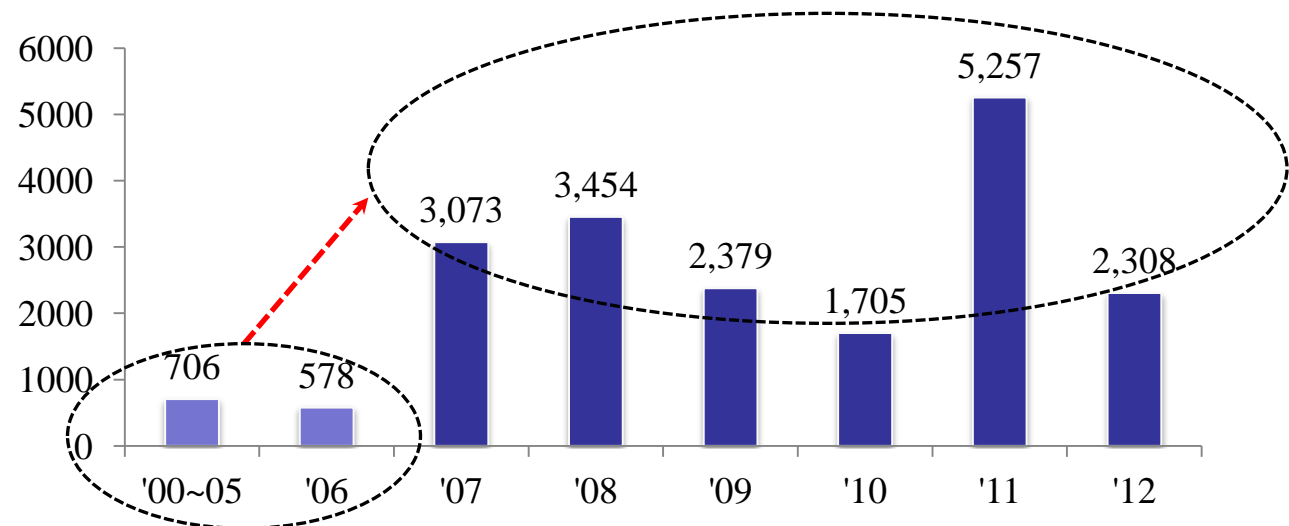
- ✓ Trade volume of two countries increased from \$8.7 billion in 2005 to \$21.3 billion in 2012
- ✓ The FDI of Singapore into India hiked since 2007, which shows the positive impact of CECA on FDI

Change in trade volume



Singaporean FDI flows into India

(million US \$)



Source: DIPP, Ministry of Commerce, GOI

➤ Sector-wise Break-up of Singaporean FDI Inflows into India

✓ Most of them come into Service, Telecommunication and Computer SW&HW sectors

(from January 2000 to December 2010)

Rank	Sector	Amount of FDI equity inflows		%age of FDI equity inflows from Singapore
		Rs. In crore	US\$ in million	
1	Service Sector	14,736	3,268	28.1
2	Telecommunications	6,740	1,451	12.5
3	Petroleum & natural gas	5,034	1,251	10.7
4	Computer software & hardware	4,438	1,012	8.7
5	Construction activities	3,380	738	6.3
Total of Above		34,329	7,721	66.3

Source: DIPP, Ministry of Commerce, GoI

➤ Country-wise FDI Equity Inflows into India

✓ Singapore is the second largest FDI investor into India

(from April 2000 to June 2013)

Rank	Country	Amount of FDI equity inflows		%age with total FDI inflows
		Rs. In crore	US\$ in million	
1	Mauritius	347,247	74,765	37.6
2	Singapore	100,418	21,312	10.7
3	United Kingdom	80,741	17,599	8.9
4	Japan	71,223	14,749	7.4
5	U.S.A	52,679	11,436	5.8
6	Netherlands	44,672	9,373	4.7
7	Cyprus	32,911	6,993	3.5
8	Germany	28,326	5,990	3.0
9	France	17,425	3,672	1.8
10	UAE	11,585	2,472	1.2
Grand Total		926,942	198,800	100.0

Source: DIPP, Ministry of Commerce, GoI

➤ Top Ten Country-wise Overseas Investments by India

✓ Singapore is the most important destination of outgoing Indian FDIs

(amount in billion US\$)

Rank	Country	2008-09	2009-10	2010-11	2011-12*	Total
1	Singapore	4.06	4.20	3.99	1.86	14.11
2	Mauritius	2.08	2.15	5.08	2.27	11.57
3	Netherlands	2.79	1.53	1.52	0.70	6.54
4	USA	1.02	0.87	1.21	0.87	3.97
5	UAE	0.63	0.64	0.86	0.38	2.51
6	British Virgin Islands	0.00	0.75	0.28	0.52	1.55
7	United Kingdom	0.35	0.34	0.40	0.44	1.53
8	Cayman Islands	0.00	0.04	0.44	0.14	0.62
9	Hong Kong	0.00	0.00	0.16	0.31	0.46
10	Switzerland	0.00	0.00	0.25	0.16	0.41
	Other Countries	7.65	3.19	2.65	1.23	14.71
	Grand Total	18.58	13.71	16.84	8.86	

Source: RBI

Note: * April 2011 to February 2012

3. Case Studies: (2) CEPA between Japan & India

CEPA: Comprehensive Economic Partnership Agreement

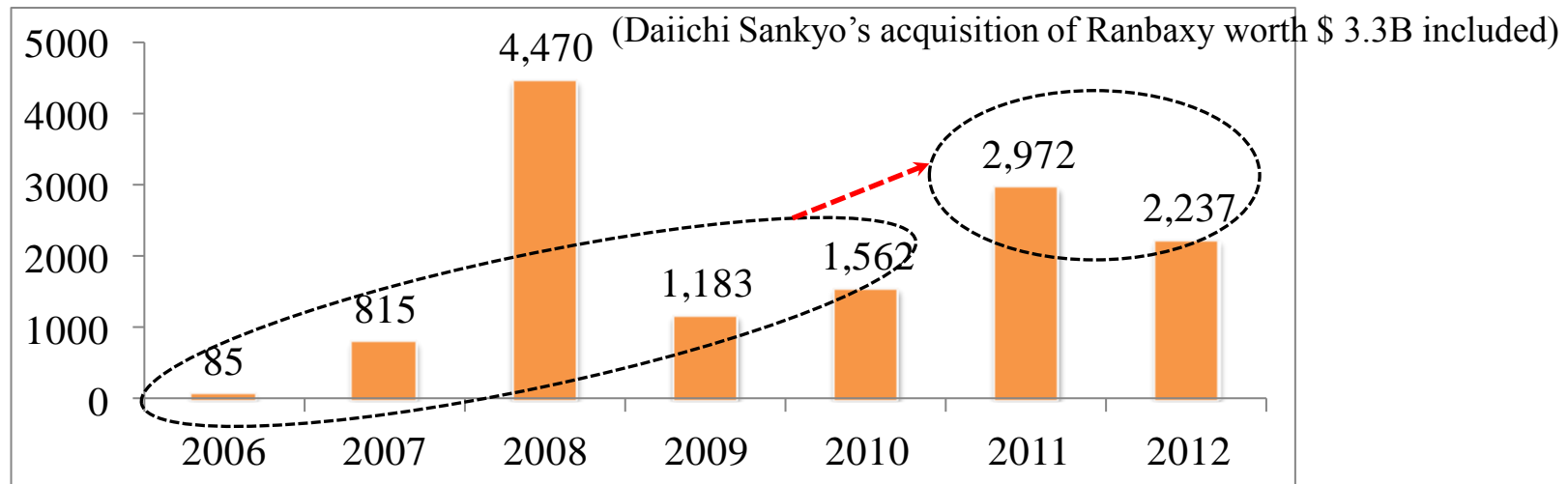
➤ The Effect of CEPA on Japan's FDI into India

- ✓ Since CEPA 2011, FDI flows have increased, but not so much as expected
- ✓ But with data over such a short term period, it is too early to confirm CEPA effects

Trend of Japan FDI into India

(equity investment only)

(in million \$)



Source: DIPP, GoI

➤ Sector-wise Break-up of Japanese FDI Inflows into India

- ✓ Most of them come into Manufacturing sector
- ✓ Service sector such as insurance and banking ranks at 3rd

(from April 2000 to February 2013)

Rank	Sector	Amount of FDI equity inflows		%age of FDI equity inflows from Japan
		Rs. In crore	US\$ in million	
1	Drugs & Pharmaceuticals	20,620	4,230	29.3
2	Automobile Industry	11,266	2,339	16.2
3	Services Sector*	10,386	2,077	14.4
4	Metallurgical Industries	6,121	1,334	9.2
5	Electrical Equipment	2,906	651	4.5
Total of Above		51,300	10,632	73.7

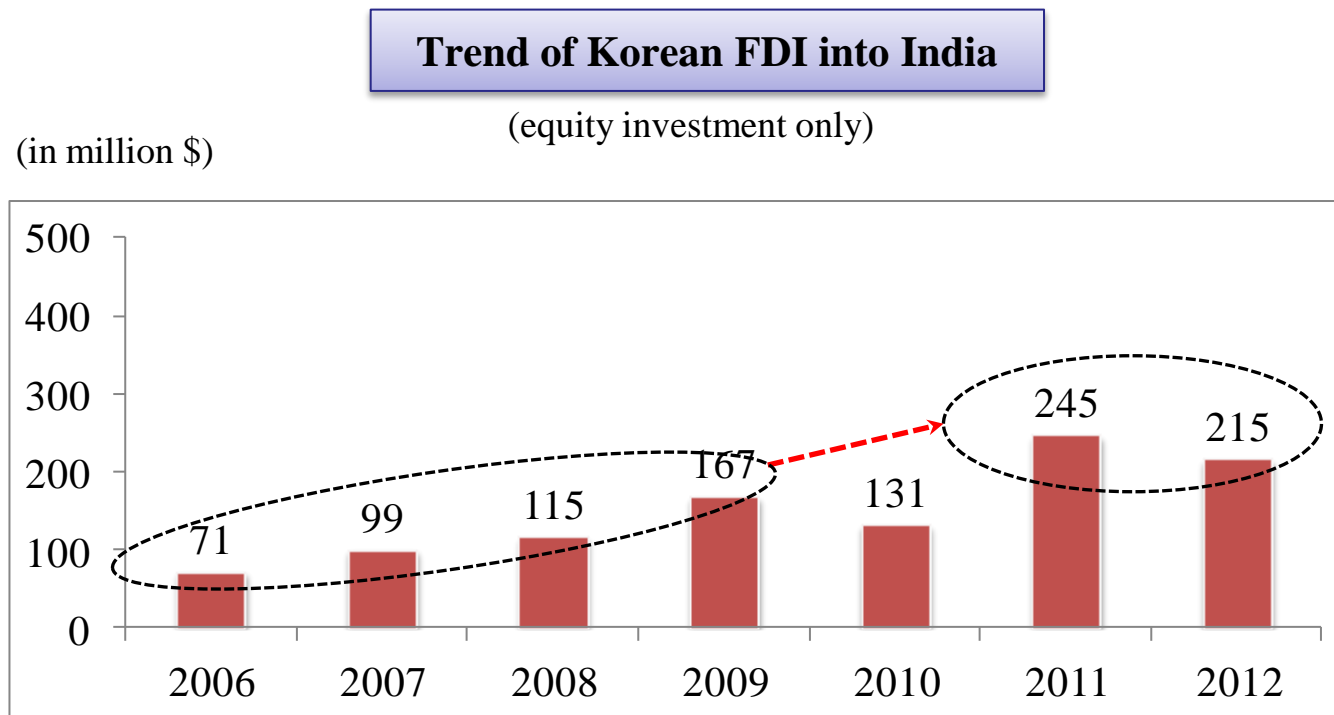
Source: DIPP, Ministry of Commerce, GoI

Note: * Services sector includes Financial, Banking, Insurance, Outsourcing, R&D, and etc.

3. Case Studies: (3) CEPA between Korea & India

➤ Bilateral FDI flows from Korea to India

- ✓ Since 2009 CEPA, FDI seems to have increased, but not quite significantly
- ✓ It seems a little early to confirm CEPA effect on FDI flows



Source: DIPP, GoI

➤ Sector-wise Break-up of Korea FDI Inflow to India

- ✓ Manufacturing sectors are main destinations
 - **84.8% of total FDI** (The EXIM Bank of Korea, 1980~2013.6)
- ✓ FDI inflows into service sector are not substantial

(from April 2000 to February 2013)

Rank	Sector	Amount of FDI equity inflows		%age of FDI equity inflows from Korea
		Rs. In crore	US\$ in million	
1	Metallurgical Industries	1,584	317.0	25.9
2	Prime Mover (other than Electrical Generators)	571	125.2	10.2
3	Machine Tools	482	99.4	8.1
4	Automobile Industry	266	79.7	6.5
5	Electronics	336	72.2	5.9
Total of Above		3,339	693.6	56.7

Source: DIPP, GoI

❖ Details of Top FDI Inflows Received from Korea (Remittance-wise)

(from April 2000 to February 2013)

(in million \$)

No.	Name of Indian Companies	Investor	Location	Item	Amount
1	POSCO Maharashtra Steel Pvt.	POSCO	Mumbai	Re-rolled steel products	80.2
2	POSCO Maharashtra Steel Pvt.	POSCO	Mumbai	Re-rolled steel products	46.3
3	POSCO Maharashtra Steel Pvt.	POSCO	Mumbai	Re-rolled steel products	52.5
4	POSCO India Pvt.	POSCO	Bhubaneswar	Iron & Steel	48.9
5	POSCO India Pvt.	POSCO	Bhubaneswar	Iron & Steel	41.1
6	POSCO India Pvt.	POSCO	Bhubaneswar	Iron & Steel	50.2
7	POSCO Maharashtra Steel Pvt.	POSCO	Mumbai	Re-rolled steel products	36.4
8	MOBIS (I) Ltd.	MOBIS	Chennai	Piston Engine & parts	34.7
9	Mirae Asset Global Investment	Mirae Asset	Mumbai	Real Estate Activities	27.8
10	Samsung India Electronics	Samsung Elec.	N.A	Electronics products	23.9
11	POSCO Electrical Steel India Pvt.	POSCO	Mumbai	Re-rolled steel products	20.9
12	Doosan Chennai Works Pvt.	Doosan Heavy Industries	Chennai	Boilers and steam generating plants	20.0
13	Pioneer Gas Power	Korea Western Power	N.A	Power Plants	20.0
14	Doosan Chennai Works Pvt.	Doosan Heavy	Chennai	Boilers and prime movers	18.6

Source: DIPP, GoI

(Continued)

(from April 2000 to February 2013)

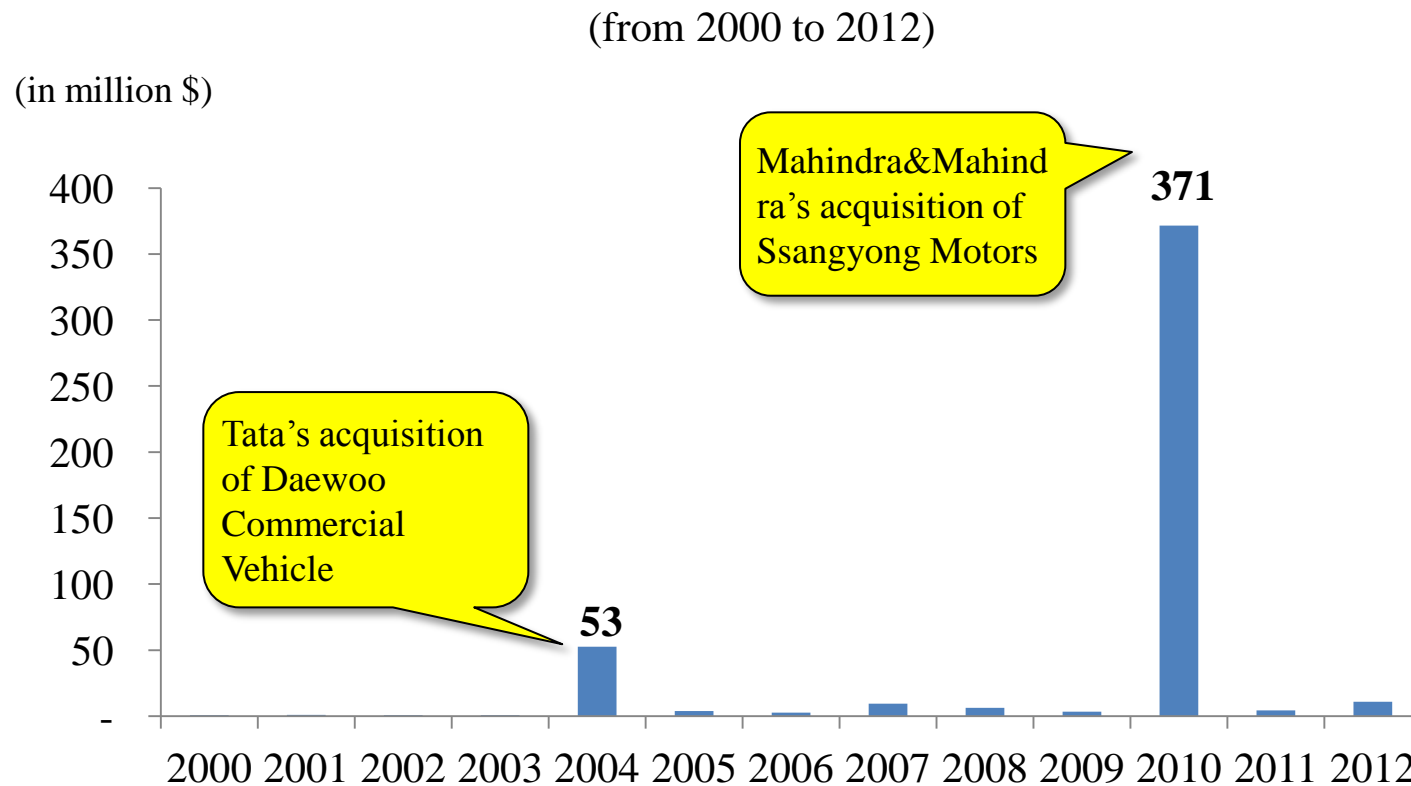
(in million \$)

No.	Name of Indian Companies	Investor	Location	Item	Amount
15	POSCO India Pvt.	POSCO	Bhubaneswar	Mining of Iron Ore	20.3
16	Hyundai Construction Equipment India Pvt.	Hyundai Heavy Ind.	Mumbai	Construction machinery	21.3
17	Mirae Asset Global Investment	Mirae Asset	Mumbai	Real Estate Activities	17.5
18	POSCO Maharashtra Steel Pvt.	POSCO	Mumbai	Re-rolled steel products	14.8
19	Parry Confectionery Ltd.	Lotte	N.A	Confectionery sales	14.0
20	POSCO India Chennai Steel Processing Center	POSCO	Chennai	Fabricated structural metal products	11.8
21	Samsung India Electronics	Samsung Elec.	New Delhi	Electronics products	12.5
22	POSCO Maharashtra Steel Pvt.	POSCO	Mumbai	Re-rolled steel products	10.3
23	Hyundai Construction Equipment India Pvt.	Hyundai Heavy Ind.	Mumbai	Construction machinery	9.1
24	Samsung India Electronics	Samsung Elec.	New Delhi		10.2
25	Lanco	Lanco Infratech Ltd.	N.A	Generator of Power	9.8
Total					673.3

Source: DIPP, GoI

➤ Bilateral FDI flows from India into Korea

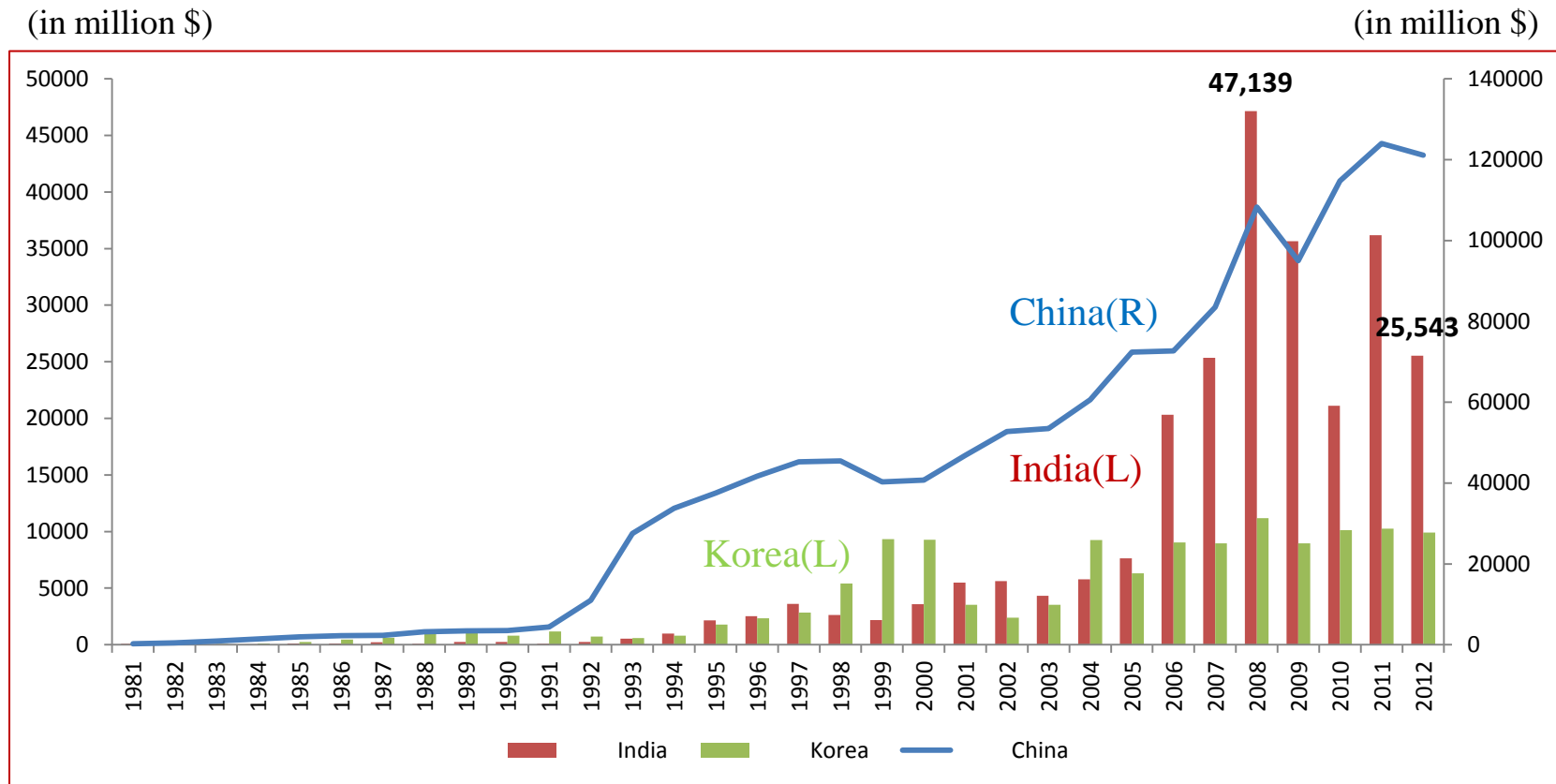
✓ Total FDI inflows from 2000 through 2012 are US\$ 467 million



Source: The Ministry of Trade, Industry and Energy, Government of Korea

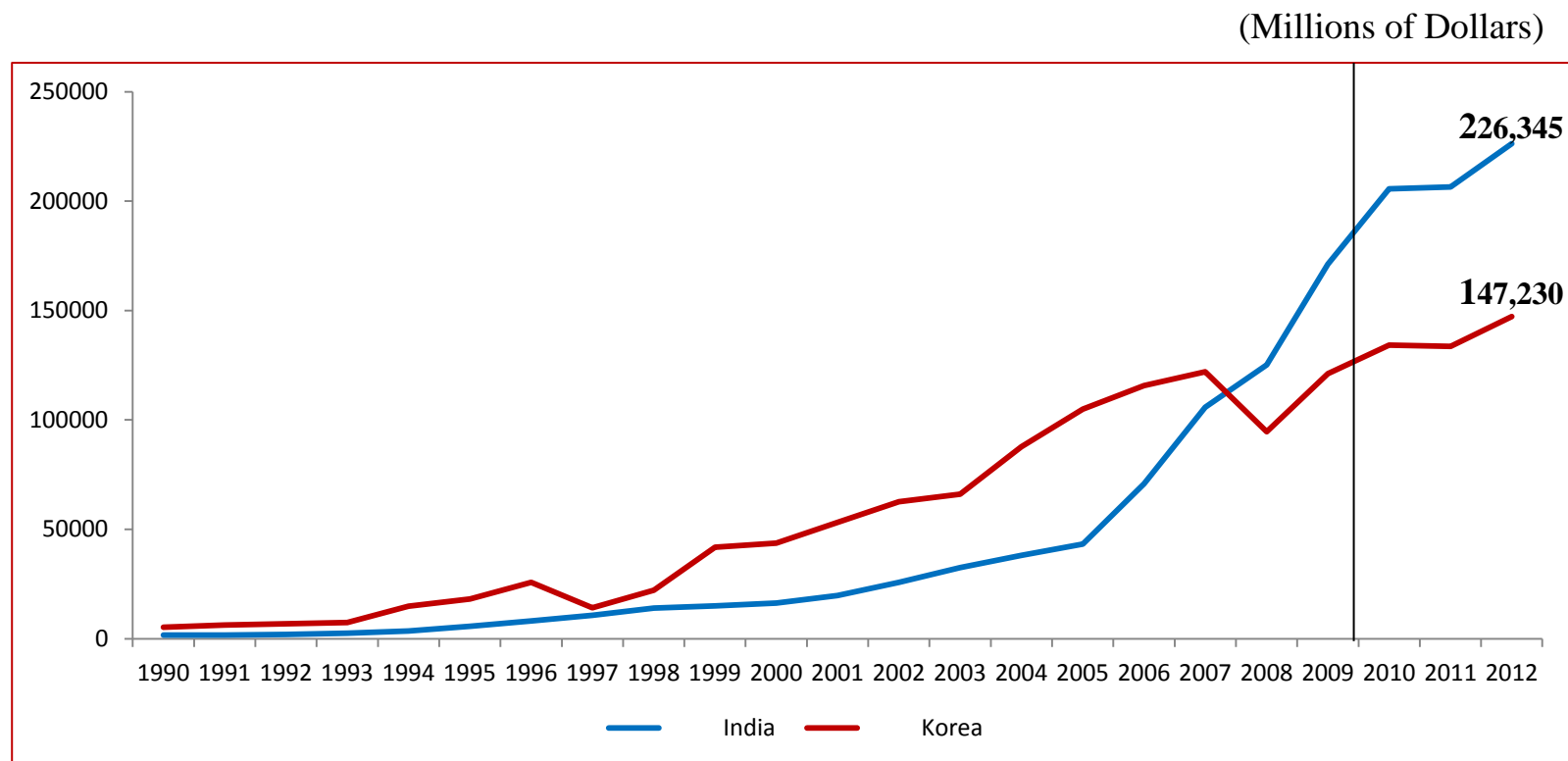
4. Performances of Korea & India in attracting FDI

➤ Trend of FDI Inflows into Korea, India and China



Source: UNCTAD, UNCTAD stat, Foreign Direct Investment

➤ FDI Stocks in India and Korea, 1991-2012



Source: UNCTAD, UNCTAD stat, Foreign Direct Investment

➤ Country-wise FDI Inflows into India

(from April 2000 to June 2013)

Rank	Country	Amount of FDI equity inflows		%age with total FDI inflows
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9	France	17,425	3,672	1.8
10	UAE	11,585	2,472	1.2
13	South Korea	5,974	1,259	0.6
Grand Total		926,942	198,800	

Note: in case of Korea, 563 mil US\$ worth of Korean FDI which flowed into India during 1990s are excluded
 Source: DIPP, Ministry of Commerce, GoI

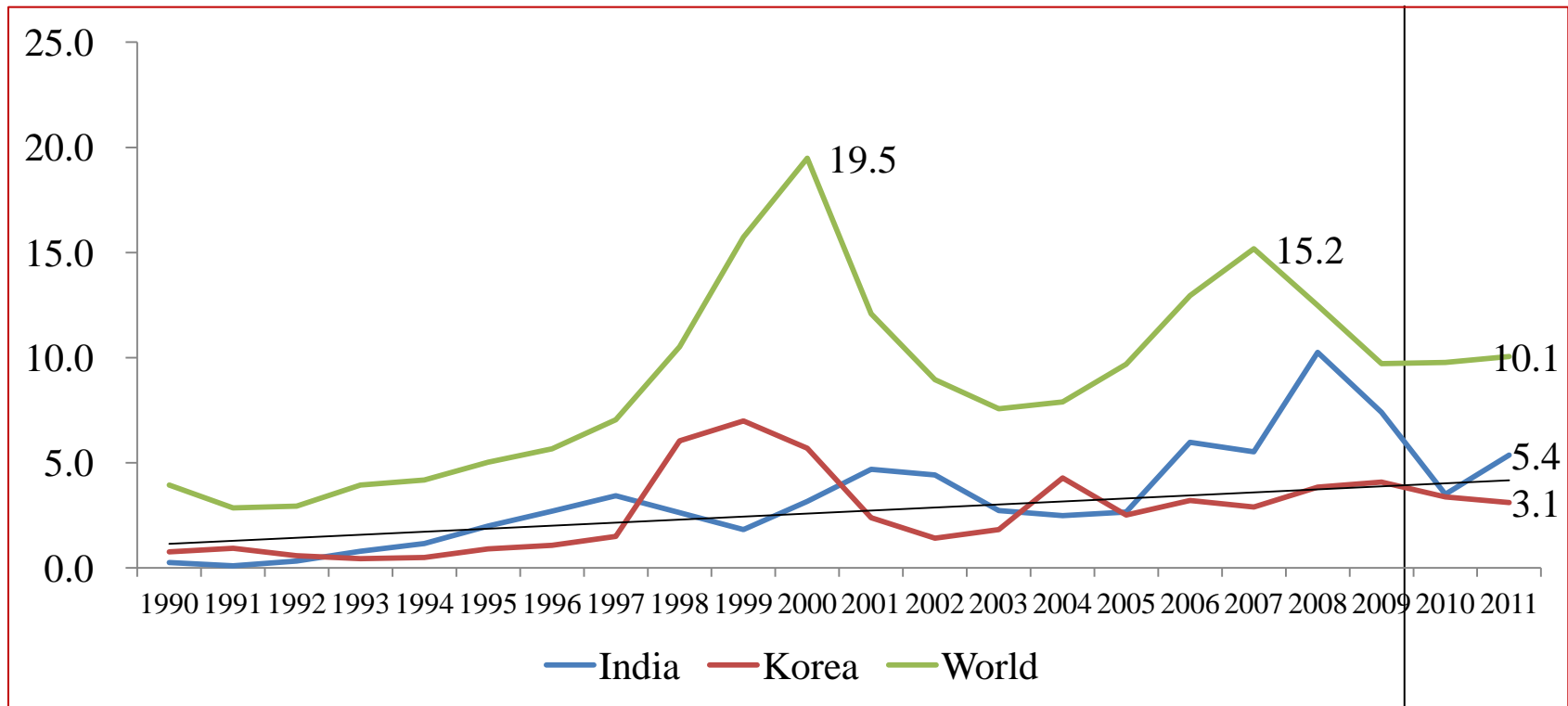
➤ Country-wise FDI Inflows into Korea

(from 2000 to 2012)

Rank	Country	Amount (US\$ in million)	%age with total FDI inflows
1	USA	34,814	22.5
2	Japan	24,691	16.0
3	Netherland	14,783	9.6
4	United Kingdom	10,654	6.9
5	Germany	8,257	5.3
6	Singapore	6,851	4.4
7	Hong Kong	5,137	3.3
8	Canada	4,916	3.2
9	France	4,446	2.9
10	China	4,388	2.8
27	India	467	0.3
Grand Total		154,468	

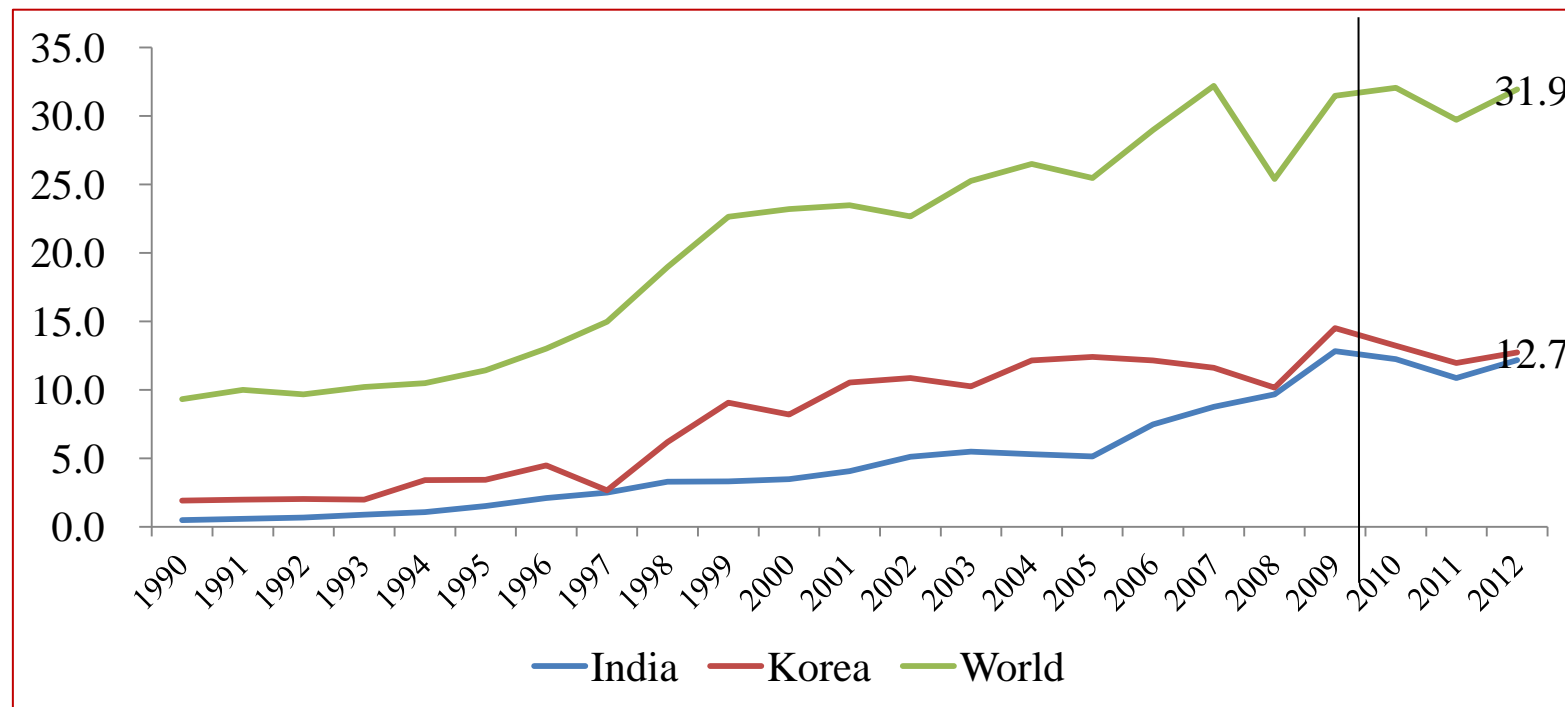
Source: The Ministry of Trade, Industry and Energy, Government of Korea

➤ Comparison: FDI Inflows as a Percentage of Gross Capital Formation



Source: UNCTAD, UNCTAD stat

➤ Comparison: Inward FDI Stock as a Percentage of Gross Domestic Product



Source: UNCTAD, UNCTADstat

➤ Bilateral FDI Intensity

✓ The definitions of FDI intensity

☞ Intensity: a ratio that compares the actual value of the FDI stock of country i in country j with what might be expected given the world position of each of them as home and host economies respectively

☞ Definition of FDI Intensity ratio (R):

$$\text{FDI intensity ratio(R)} = \text{FDI}_{ij} / \text{ExpFDI}_{ij}$$

FDI_{ij} = Actual amount of FDI stock from country i to j .

ExpFDI_{ij} = Expected value of FDI stock from country i to country j .

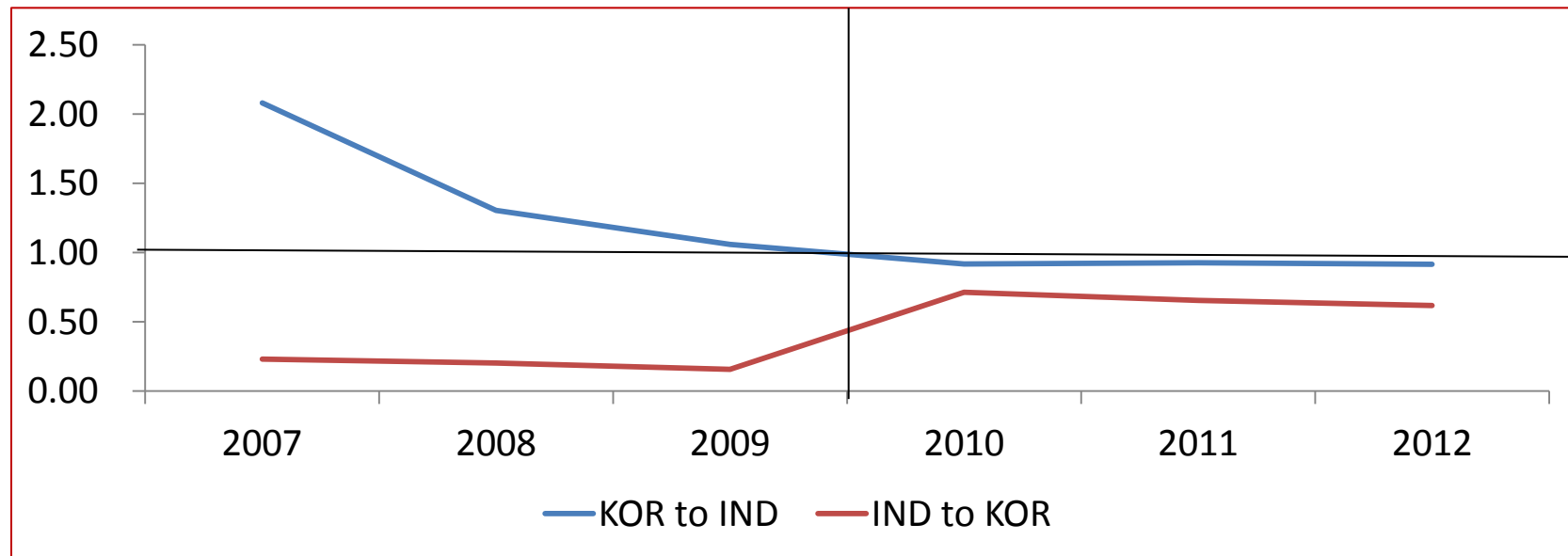
$$= \frac{\text{FDI}_{iw}}{\text{FDI}_{ww}} * \frac{\text{FDI}_{wj}}{\text{FDI}_{ww}} * \text{FDI}_{ww}$$

$$= \text{share of outward FDI of country } i * \text{share of inward FDI into country } j * \text{FDI}_{ww}$$

➤ Bilateral FDI Intensity between India and Korea

	2007	2009	2010	2012
Intensity of FDI from Korea to India	2.08	1.06	0.92	0.92
Intensity of FDI from India to Korea	0.23	0.16	0.71	0.62

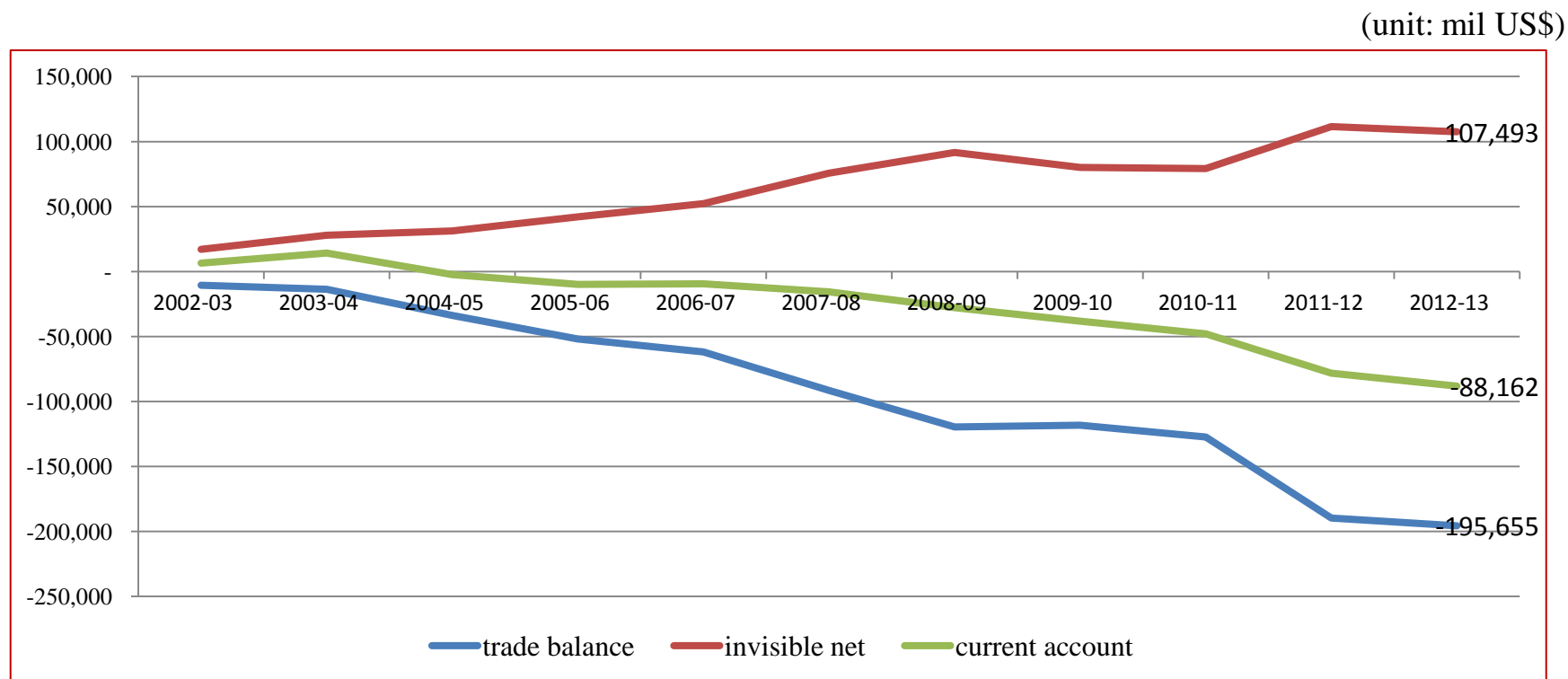
- FDI_{ij} : cumulative sum of FDI inflow is used as a proxy for FDI stock variable
(Korean FDI into India: Aug. 1991-Feb 2013, Indian FDI into Korea: 1986-2012)
- The bilateral FDI data sourced from DIPP, Ministry of Knowledge and Economy



5. Why Korea & India need to intensify bilateral cooperation ?

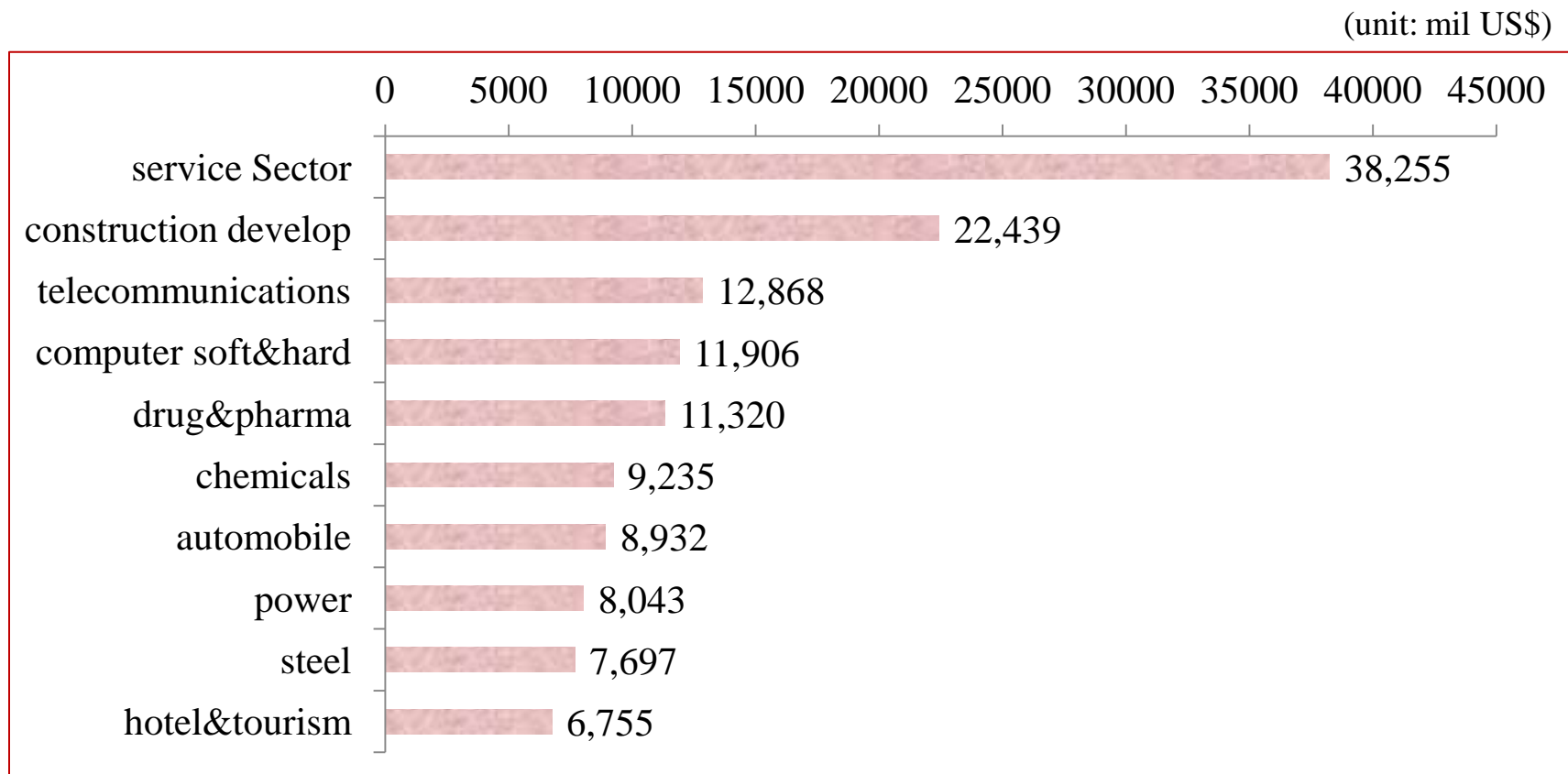
➤ Main Challenge for India: fast increasing trade balance, current account deficits

- ✓ fundamental cause : manufacturing sector lack of competitiveness
- ✓ Needs huge amount of FDI inflows, particularly in manufacturing sector



Source: The Reserve Bank of India, Database on Indian Economy

➤ Sector-wise break-up of FDI inflows into India (2000.4~2013.7)



Source : Govt. of India, Depart of Commerce, Fact Sheet on FDI

➤ Key Opportunities for win-win cooperation b/w Korea & India

India

- Weak Manufacture: Jobless growth, uneven distribution of growth fruits
- Young demographic structure: need to create more job opportunities
- Trade deficits: need to develop manufacturing base for world market

Korea

- Saturated market, loosing momentum → needs a new catalyst
- needs new markets with huge potential purchasing power
- needs manufacturing bases for EU, Middle East, African markets

✓ *Korea is one of the few manufacturing powerhouses*

6. What to do ?

➤ Comparison of “Doing Business Environments”

Economy	Rank	Start biz	Deal license	Electricity	Property	Get Credit	Protect Invest	Paying Taxes	Export Import	Contracts	Close biz
Singapore	1	4	2	5	36	12	2	5	1	12	2
Korea	8	24	26	3	75	12	49	30	3	2	14
Malaysia	12	54	96	28	33	1	4	15	11	33	49
Thailand	18	85	16	10	26	70	13	96	20	23	58
Japan	24	114	72	27	64	23	19	127	19	35	1
China	91	151	181	114	44	70	100	122	68	19	82
Vietnam	99	108	28	155	48	40	169	138	74	44	149
Indonesia	128	166	75	147	98	129	49	131	37	144	148
Bangladesh	129	95	83	185	175	83	25	97	119	182	119
India	132	173	182	105	94	23	49	152	127	184	116

Note: Indicators on business regulations and the protection of property rights across 183 economies

Source: “Doing Business 2013”, World Bank, data: www.doingbusiness.org/rankings

➤ Areas to Reform: India/Korea

	Indicators	India	Korea	OECD
Starting a Biz (173/24)	Procedures (number)	12	5	5
	Time (days)	27	7	11.8
	Cost (% of income/capita)	49.8	14	4
	Min capital (% income/capita)	140.1	0.0	13.3
Dealing with licenses (182/26)	Procedures (number)	34	11	14
	Time (days)	196	29	143.5
	Cost (% of income/capita)	1,528	127.2	78.7
Enforcing Contracts (to resolve a dispute) (184/2)	Procedures (number)	46	33	31.4
	Time (days)	1420	230	510.5
	Cost (% of claim)	39.6	10.3	20.1

Source: “Doing Business 2013, World Bank

➤ What should be done to intensify bilateral FDI relationship ?

Korea	- More flexible labor market
India	- Develop industrial parks, SEZs (state govt.) - Develop incentive systems as China does (State governments in China are paying 0.6~1.0% of investment amount as an incentive to the govt. officials)
India & Korea	- Exchange govt. persons to facilitate bilateral FDI flows

Thank You !

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