

40 years of India Korea Relations:
Roadmap for a more intensive
partnership
12th India-Korea Dialogue

**Recent Macroeconomic Trends in
India**

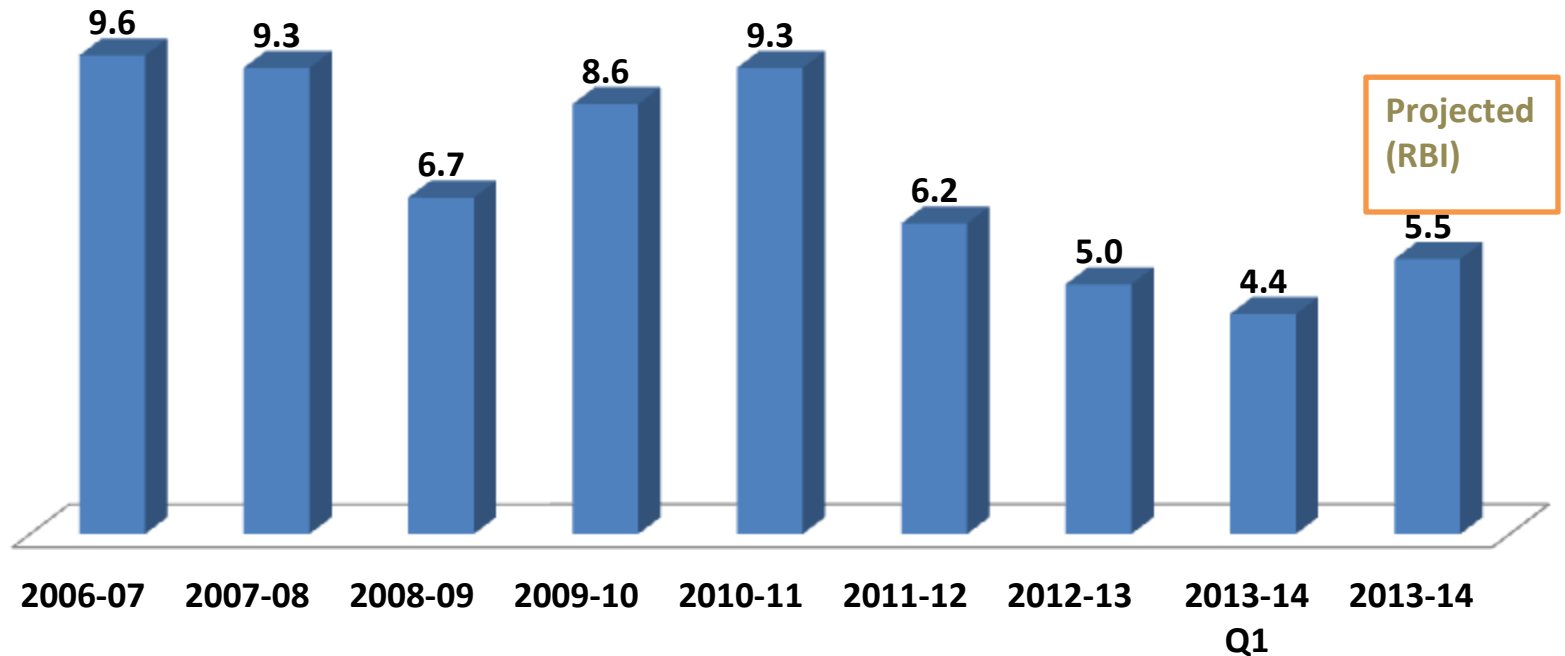
October 24, 2013

Rajat Kathuria

ICRIER

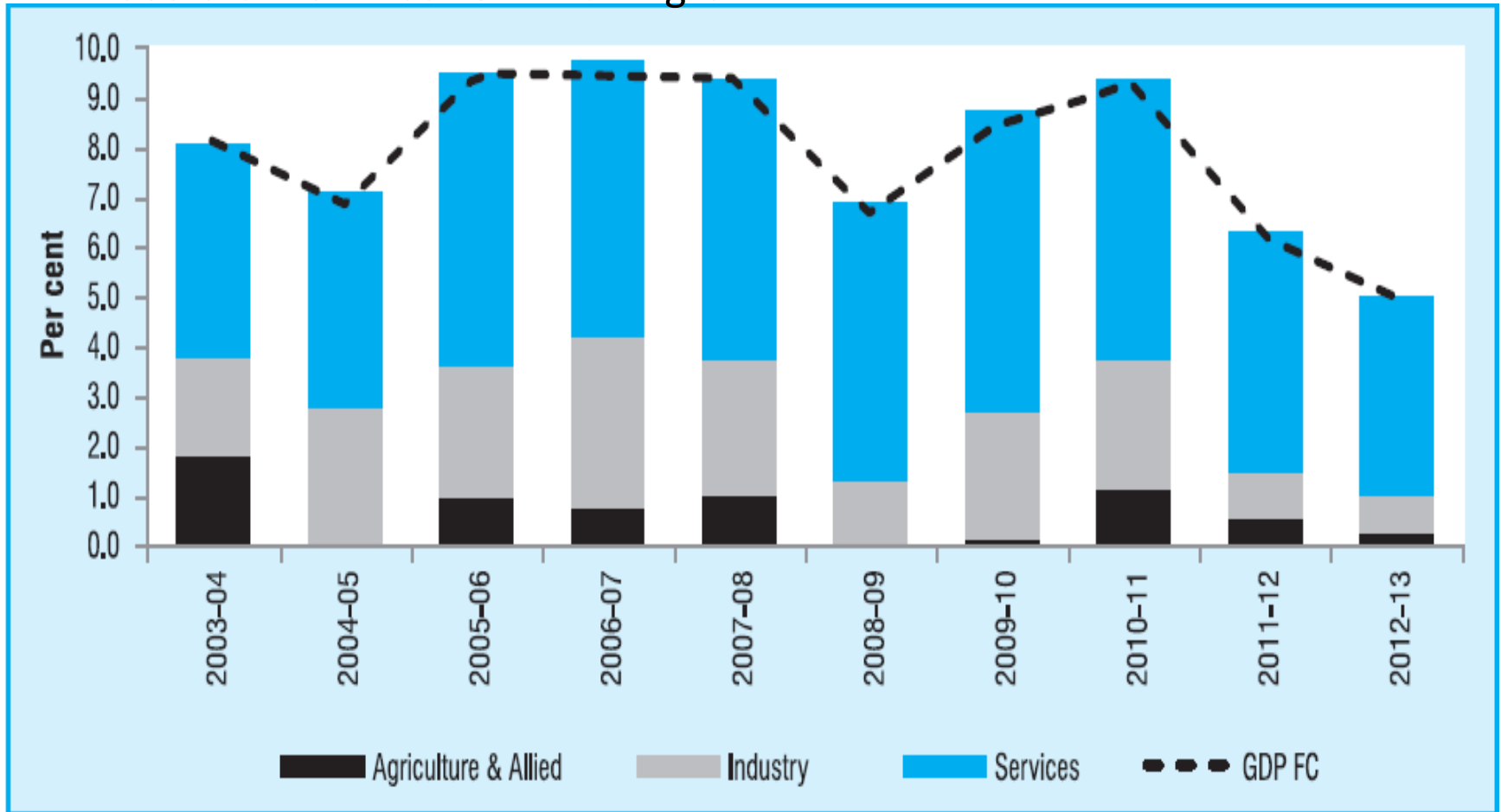
Economic growth rates of India

**Higher growth trajectory post global financial crisis.
Future growth prospects muted**



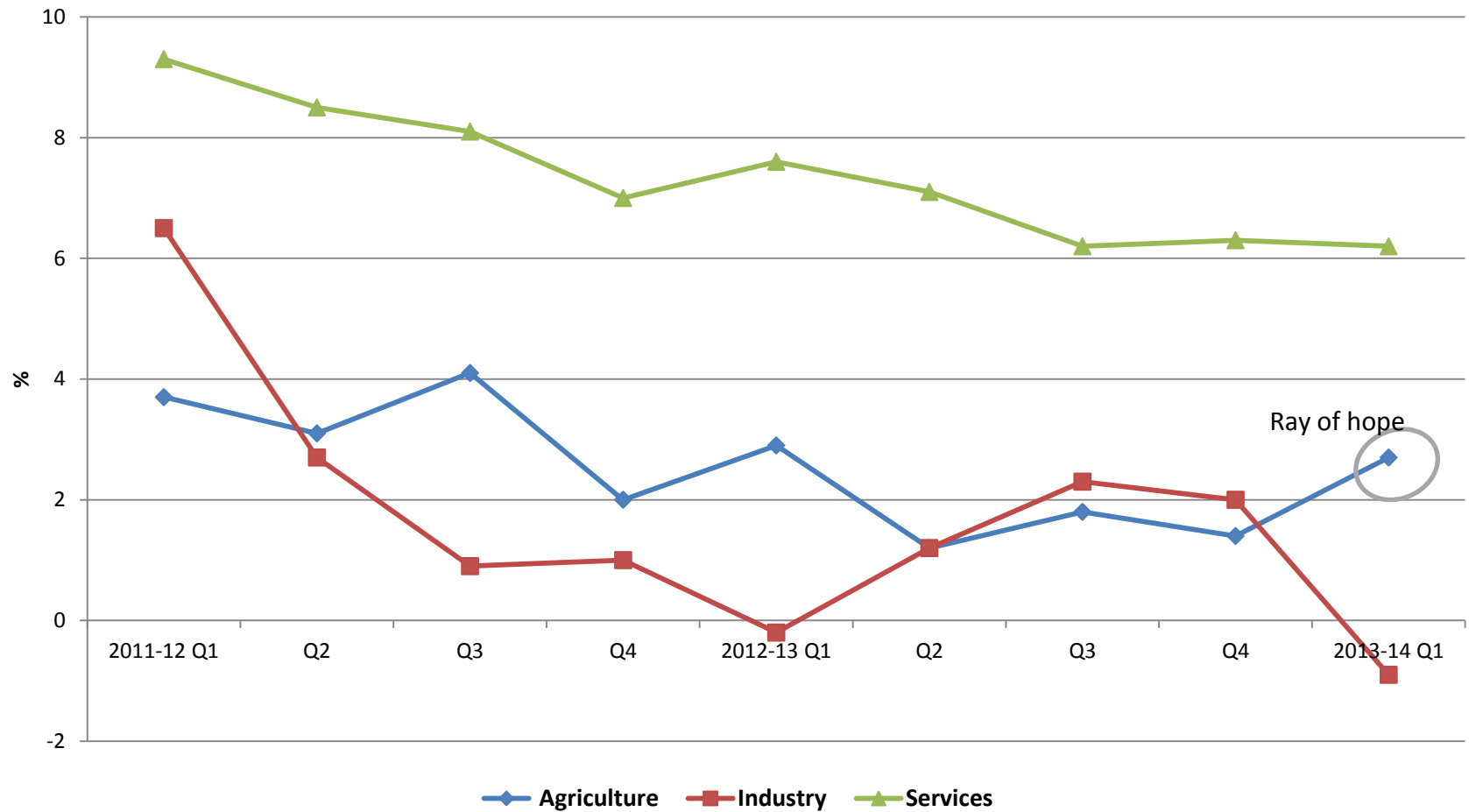
Service-led growth in India

Sectoral Contribution in GDP growth



Source: Economic Survey (2012-13)

Quarterly Sectoral Growth Rates - a close view



External Outlook- Merchandise Trade

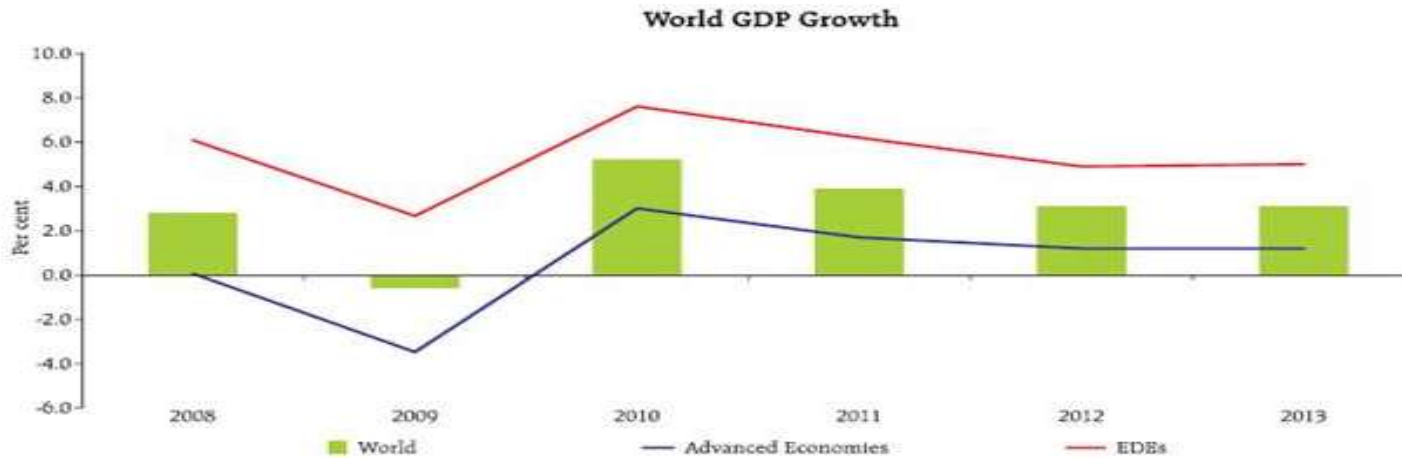
- Contraction in merchandise exports coupled with rise in imports led to widening of trade deficit from US\$ 43.0 billion in Q1 2012-13 to US\$ 50.3 billion in Q1 2013-14.
- POL and gold together accounted for 47.6% of India's merchandise imports and 116.1% of merchandise trade deficit during Q1 2013-14
- Significant growth in gold imports along with POL imports - cause for concern for India's high trade deficit.



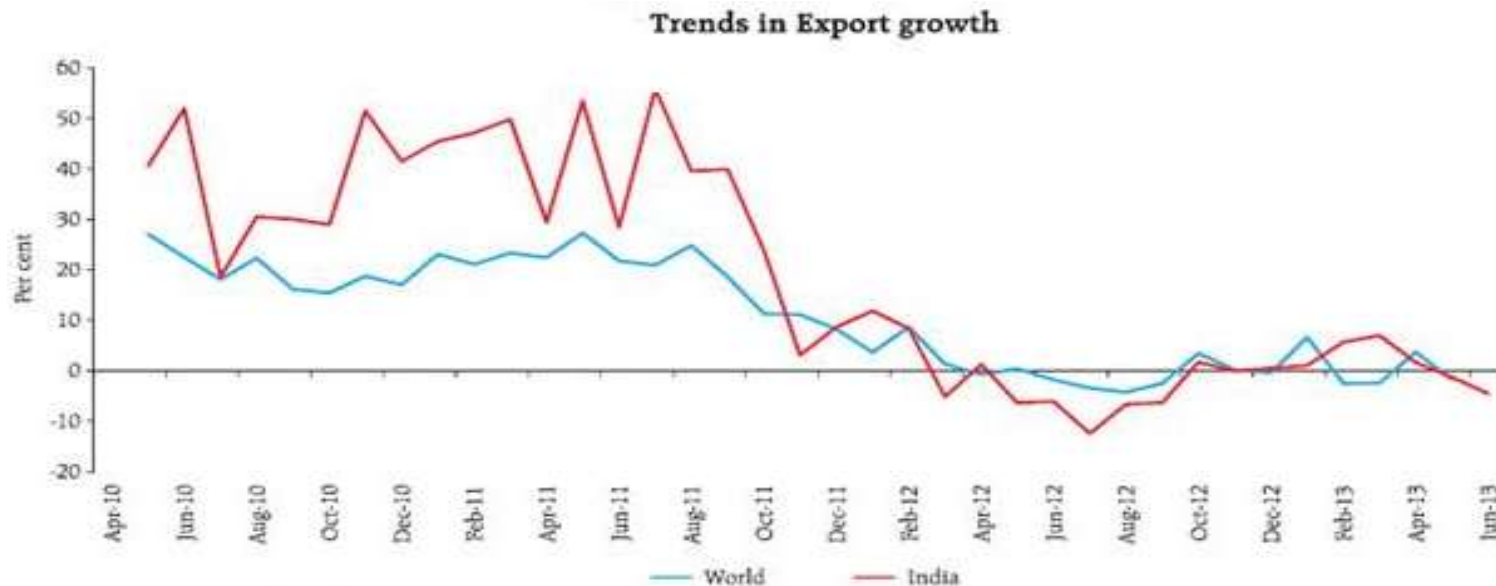
Trends in Global Growth

Global recovery continues to remain fragile in 2013

- India's export's growth coinciding with subdued global export growth



Source: World Economic Outlook, IMF.



Source: International Financial Statistics, IMF.

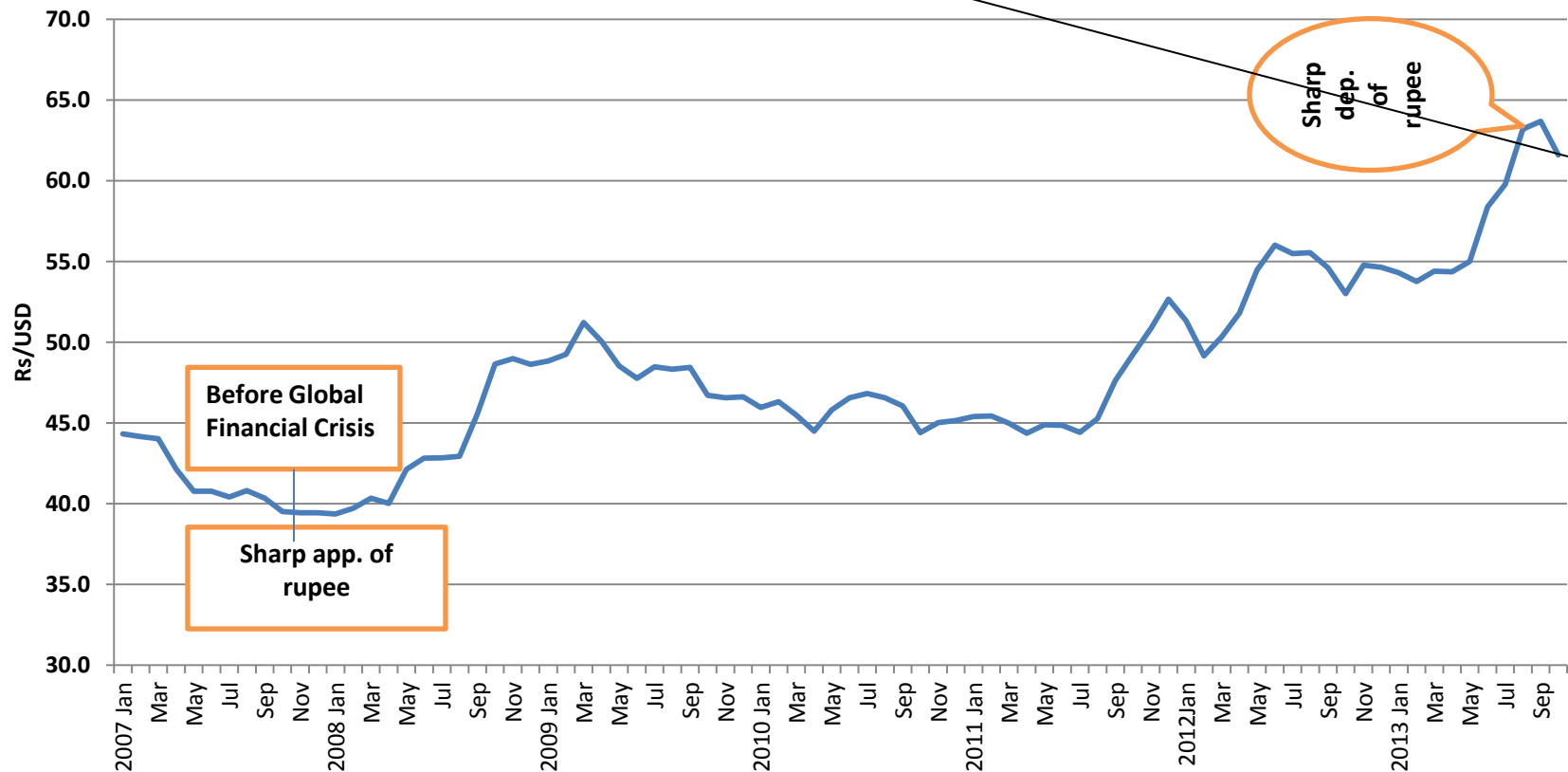
Sharp depreciation of rupee against USD

Indian Rupee (INR) depreciated against USD around 15 % during May 2013 to September 2013:

- Announcement of tapering of bond-buying program of Fed
- Weak global growth (seen in previous slide)

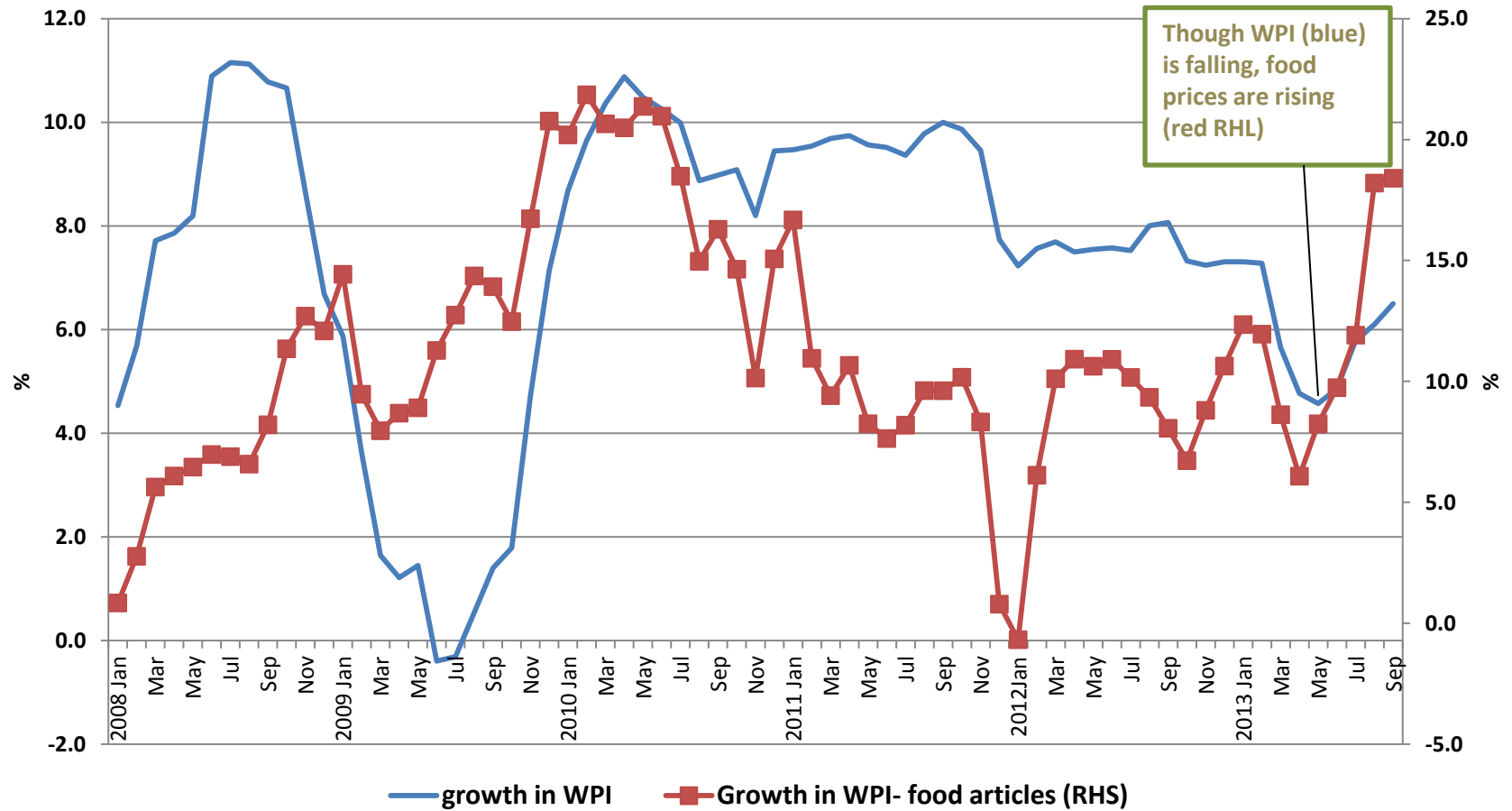
Not only INR, emerging market currencies - Brazilian real, Indonesia rupiah, South African Rand, Turkish lira – depreciated against USD

However, rupee started improving after Federal Open Market Committee (FOMC) meeting delays taper (Sep)

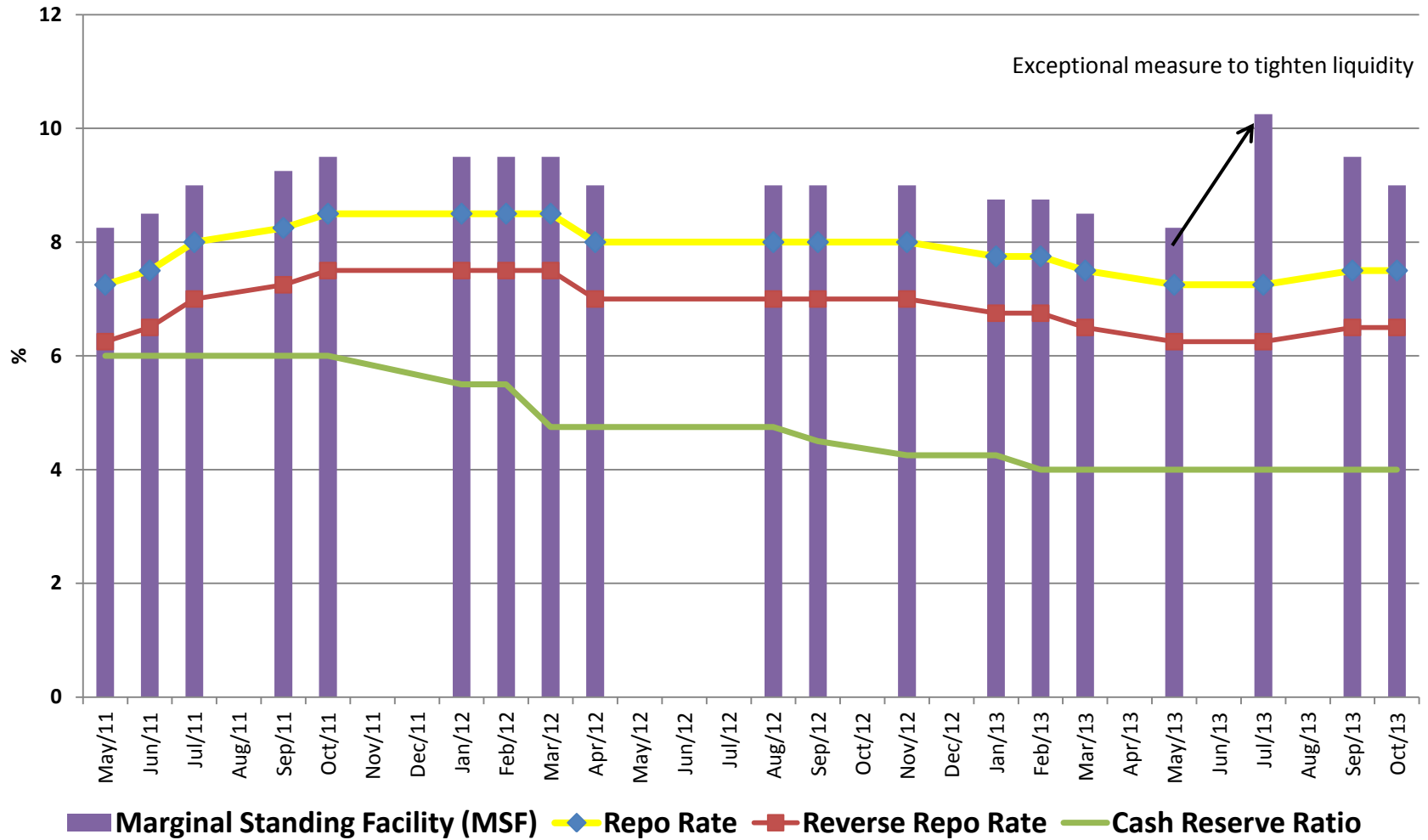


Inflation Rate (measured by Wholesale Price Index in India) - A concern

- Pass-through of fuel price increases has been compounded by sharp depreciation of rupee which fuelled inflation in recent months.
- Supply side bottlenecks has been a continuous cause for inflation.



Policy Options- Monetary



Fiscal Consolidation

- Despite slowdown in Economic growth, government managed to contain the fiscal deficit in previous fiscal to 5.2% of GDP from revised budget estimate of 5.3% by reducing the expenditure.
- In the absence of any major shocks, India should achieve the fiscal consolidation targets.
- Steps needed -rationalizing government expenditure, speeding up disinvestment, progressive deregulation of administered fuel prices, Direct Benefit Transfers

As a % of GDP			Budget Estimates	Targets for	
	2011-12	2012-13	2013-14	2014-15	2015-16
Fiscal Deficit	5.9	5.2	4.8	4.2	3.6
Revenue Deficit	4.4	3.9	3.3	2.7	2
Gross Tax Revenue	10.1	10.4	10.9	11.2	11.5

Challenges ahead:

Table 1











GROWTH PROJECTIONS	
For 2013-14	(%)
World Bank	5.7 
CRISIL	4.8 
Fitch Ratings	4.8 
ADB	4.7 
IMF	4.2 
Nomura	4.2 
CLSA	4.2 
JPMorgan	4.1 
HSBC	4 
BNP Paribas	3.7 
Government view:	
Prime Minister's Economic Advisory Council	5.4
Finance ministry	More than 5
Source: Organisations and government	

Table 2

Annually	CAD/ GDP	Current account balance (\$ billion)	Capital inflows, net (\$ billion)
2007-08	-1.3	-16	107
2008-09	-2.3	-28	7
2009-10	-2.8	-38	52
2010-11	-2.7	-48	64
2011-12	-4.2	-78	68
2012-13	-4.8	-88	89

- ❖ Lowered growth projections of India is a major concern (Table 1).
 - May impact fiscal consolidation targets through revenue channel
 - Slowdown in global economic growth has resulted in fall in export demand
- ❖ Widening of current account deficit (CAD) & its financing is a concern (Table 2).
- ❖ Pace of infrastructure is sluggish and new project starts remain subdued.

India amongst BRICS

Selected Economic Indicators , 2012

<i>Economic Indicators</i>	Brazil	China	India	Russia	South Africa
Growth Rate	0.9	7.8	4.0	3.4	2.5
GDP per capita, current prices	12078.8	6075.9	1491.9	14246.8	7506.6
Total investment (% of GDP)	17.6	46.9	34.9	24.5	19.4
Gross national savings	15.4	49.5	29.8	28.5	13.2
Inflation, consumer prices	5.4	2.7	9.3	5.1	5.7
General Govt. deficit (% of GDP)	-2.8	-2.2	-8.3	0.4	-4.8
General Govt. debt (% of GDP)	68.5	22.8	66.8	10.9	42.3
Current A/c Bal (% of GDP)	-2.3	2.6	-5.1	4.0	-6.3
Value of oil imports (USD Billions)	36.9	263.0	169.2	0.0	16.4

Source: WEO, IMF

Bilateral trade relations between India & Korea

Korea among the Top 15 Trade Partners

Top 20 Trading Partners of India (as per total trade) in 2012-13

Rank	Country	Export		Import	
		USD Billion	% Share	USD Billion	% Share
1	U ARAB EMTS	36.3	12.1	39.1	8.0
2	CHINA P RP	13.5	4.5	52.2	10.6
3	U S A	36.2	12.0	25.2	5.1
4	SAUDI ARAB	9.8	3.3	34.0	6.9
5	SWITZERLAND	1.1	0.4	32.2	6.6
6	GERMANY	7.2	2.4	14.3	2.9
7	SINGAPORE	13.6	4.5	7.5	1.5
8	IRAQ	1.3	0.4	19.2	3.9
9	INDONESIA	5.3	1.8	14.9	3.0
10	HONG KONG	12.3	4.1	7.9	1.6
11	JAPAN	6.1	2.0	12.4	2.5
12	KUWAIT	1.1	0.4	16.6	3.4
13	KOREA RP	4.2	1.4	13.1	2.7
14	QATAR	0.7	0.2	15.7	3.2
15	BELGIUM	5.5	1.8	10.0	2.0
16	AUSTRALIA	2.3	0.8	13.1	2.7
17	IRAN	3.4	1.1	11.6	2.4
18	U K	8.6	2.9	6.3	1.3
19	NIGERIA	2.7	0.9	12.1	2.5
20	MALAYSIA	4.4	1.5	10.0	2.0
	India's Total	300.4		490.7	

Source: Commerce Ministry of India

India among the Top 15 Trade Partners of Korea

Top 20 Trading Partners of South Korea (as per total trade) in 2012

Rank		Billion euro	% Share
1	China	167.0	17.7
2	Japan	80.0	8.5
3	USA	80.0	8.4
4	EU27	78.0	8.2
5	Saudi Arabia	38.0	4.0
6	Hong Kong	27.0	2.9
7	Singapore	25.0	2.7
8	Australia	25.0	2.7
9	Indonesia	23.0	2.4
10	Qatar	20.0	2.2
11	Russia	17.0	1.8
12	UAE	17.0	1.8
13	Vietnam	17.0	1.8
14	Kuwait	15.0	1.6
15	India	15.0	1.6
16	Malaysia	14.0	1.4
17	Brazil	13.0	1.3
18	Iran	11.0	1.2
19	Thailand	10.0	1.1
20	Iraq	9.0	1.0

Trends in Indo-Korea Trade

India's export and imports to and from Korea in USD Billion

Year	2009-2010	2010-2011	2011-2012	2012-2013
EXPORT	3.42	3.73	4.35	4.2
%Growth	-13.44	8.95	16.77	-3.45
%Share	1.91	1.48	1.42	1.4
IMPORT	8.57	10.48	12.81	13.1
%Growth	-1.16	22.15	22.31	2.29
%Share	2.97	2.83	2.62	2.67
TRADE BALANCE	-5.16	-6.75	-8.46	-8.9

Korea's investment in India

Share of South Korea in FDI Equity inflows from April 2000 to February 2013:

- Total FDI Inflows from South Korea: are US\$ 1.22 billion
- South Korea ranks 13th
- Percentage share of total FDI inflows is 0.64%

Top sectors that attracted maximum FDI Equity inflows (from April 2000 to Feb 2013) from South Korea:

- Metallurgical Industries (26%)
- Prime Mover (other than Electrical Generators) (10%)
- Machine Tools (8%)
- Automobile Industry (7%)
- Electronics (6%)

TOP FDI EQUITY INFLOWS RECEIVED:

(from April 2000 to February 2013, from foreign companies, into Indian companies from South Korea)

- POSCO
- TAE HYUN JEONGL & POSCO
- HYUNDAI MOBIS CO. LTD.
- MIRAE ASSET INVESTMENT MANAGEMENT CO LTD
- SAMSUNG ELECTRONICS CO. LTD.

Way Forward

- **Manufacturing:** 84% of Korean investment is focused on manufacturing. However, there is a greater scope for small and medium sized Korean enterprises to invest in this sector in India.
- **Retail Trade:** Korea invests about 7% in wholesale and retail trade. The opening of FDI in the Indian retail industry further increases the scope for investment
- **Infrastructure** is another key area that requires greater attention.

Thank You