

Enhancing Korea-India Trade

- From Korea's Perspective -

October, 2013

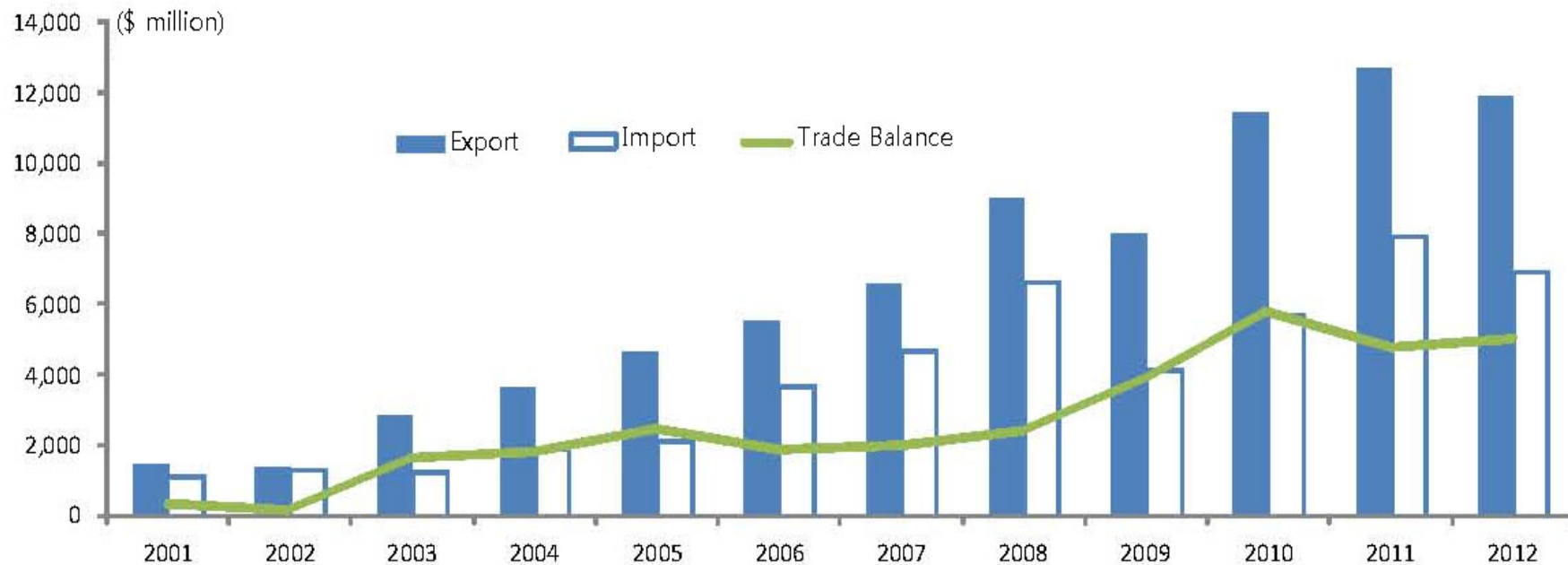
Wook Chae



1. Economic relationship between Korea and India

■ Steady increase in Trade between Korea and India

<Trend of Korea's Trade with India>



Source: KITA.net

■ Complementary industrial structures

<Korea's Top 10 Items of Export and Import vis-a-vis India>

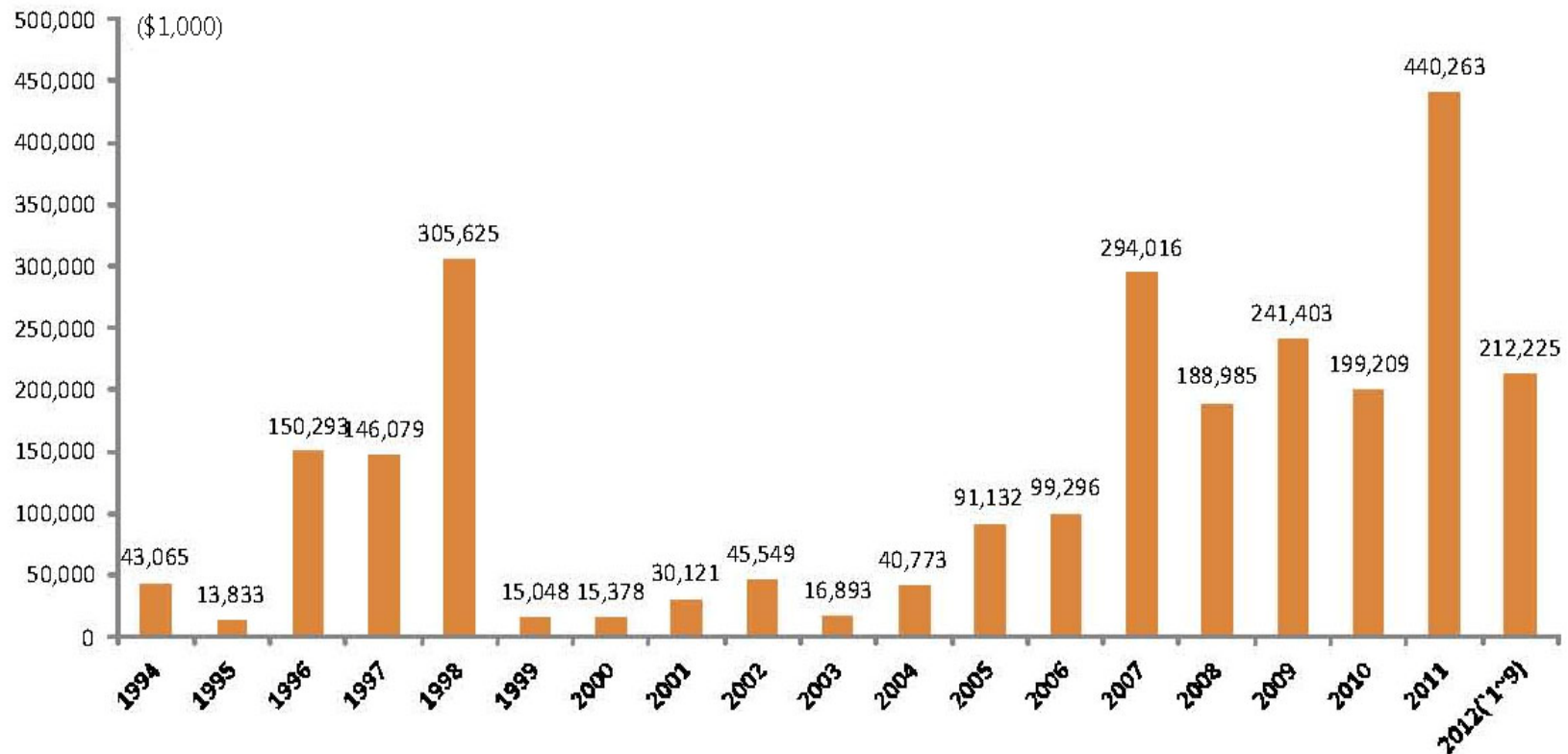
(unit: \$million, %)

Export						Import					
Items	2011		2012			Items	2011		2012		
	Amt.	Rates	Amt.	Rates	Ppn		Amt.	Rates	Amt.	Rates	Ppn
Total	12,654	10.7	11,921	-5.8	100.0	Total	7,894	39.1	6,924	-12.3	100.0
Parts of Automobiles	1,552	13.6	1,592	2.6	13.4	Petroleum Products	4,639	51.3	3,778	-18.5	54.6
Steel Plate-rolled products	1,505	11.6	1,454	-3.4	12.2	Vegetable Materials	252	55.3	463	83.7	6.7
Synthetic Resins	742	0.6	873	17.6	7.3	Alloyed Metals and Steels	432	39.1	299	-30.7	4.3
Petroleum Products	748	28.9	727	-2.8	6.1	Aluminum	209	5.8	249	19.1	3.6
Petro-Chem. Synthetics	363	17.4	367	1.1	3.1	Natural Fabrics	292	-12.9	189	-35.2	2.7
Vessel and Parts	591	-20.0	364	-38.4	3.1	Precision Chemistry	149	23.6	169	13.9	2.4
Synthetic Rubber	423	50.6	363	-14.0	3.0	Articles of Petroleum	207	99.8	163	-21.3	2.4
Other Petro-Chemicals	281	6.3	344	22.5	2.9	Agro-chemicals and Drug	111	22.7	139	25.1	2.0
Construction Mining Equipment	258	34.4	278	7.5	2.3	Other Metallores	72	-24.2	137	91.0	2.0
Wireless-Comm. Apparatus	743	-10.4	277	-62.8	2.3	Grains and Fruits	71	7.4	94	32.7	1.4
Sub-Total	7,206	-	6,639	-	55.7	Sub-Total	6,434	-	5,680	-	82.0

Note: Based on MTI 3-digit, Source: KITA.net

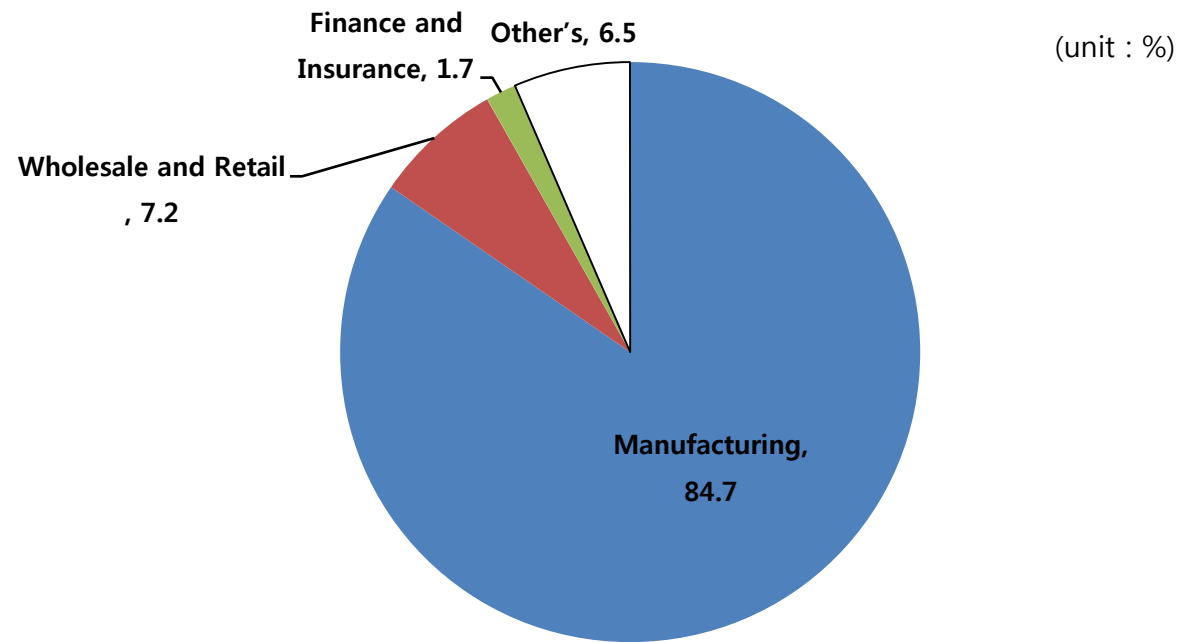
■ Korea's investment into India

<Trend of Korea's Investment in India in Value>



Source: Bank of Korea

<Korea's Sectoral Shares of Investment in India>



Note: On Cumulative basis

Source: Korea EXIM Bank

2. Why is Indian market attractive?

■ Continued high economic growth

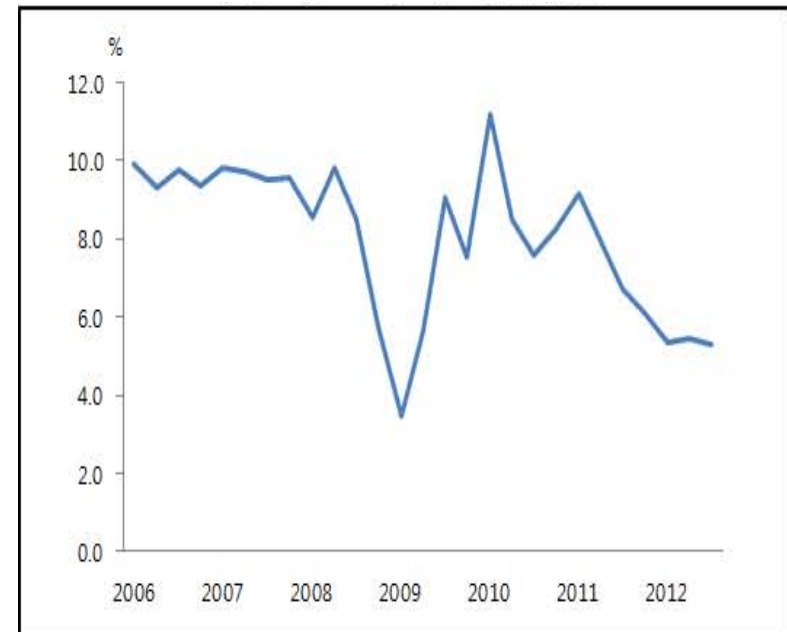
<Trend of Economic Growth Rates for BRICs >

(Unit: %)

	2005	2006	2007	2008	2009	2010	2011	2012
Brazil	3.2	4	6.1	5.2	-0.3	7.5	2.7	1.5
Russia	6.4	8.2	8.5	5.2	-7.8	4.3	4.3	3.7
India	9	9.5	10	6.2	6.6	10.6	7.2	4.9
China	11.3	12.7	14.2	9.6	9.2	10.4	9.2	7.8
World	4.5	5.2	5.4	2.8	-0.6	5.3	3.9	3.3

Source: IMF, World Economic Outlook, October 2012, Global Insight

<India's Recent Economic Growth Rates>



Source: Global Insight, Statistics Office of India

■ Steady rise in the share of the global import market

<Change in India's Share in the World Import market>

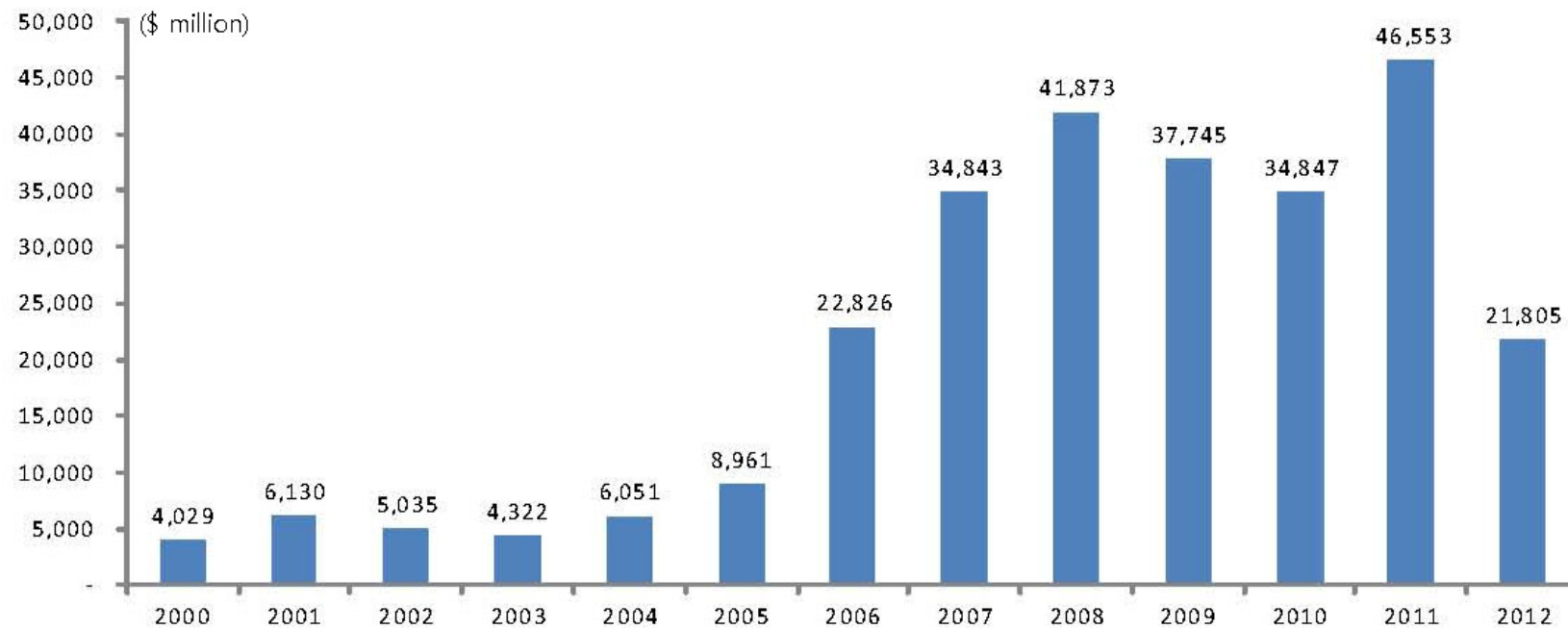
(Unit: %)

	2005	2006	2007	2008	2009	2010	2011
Brazil	0.8	0.8	0.9	1.2	1.1	1.3	1.4
Russia	0.9	1.1	1.4	1.6	1.3	1.4	1.6
India	1.3	1.4	1.6	1.7	2	2.3	2.5
China	6.1	6.4	6.7	6.8	7.9	9.1	9.5
BRICs	9.1	9.7	10.6	11.3	12.3	14.1	15
Korea	2.4	2.5	2.5	2.6	2.5	2.8	2.9

Source: IMF

■ Continued increase in the FDI

<India's Recent Trend of FDI Inflows>

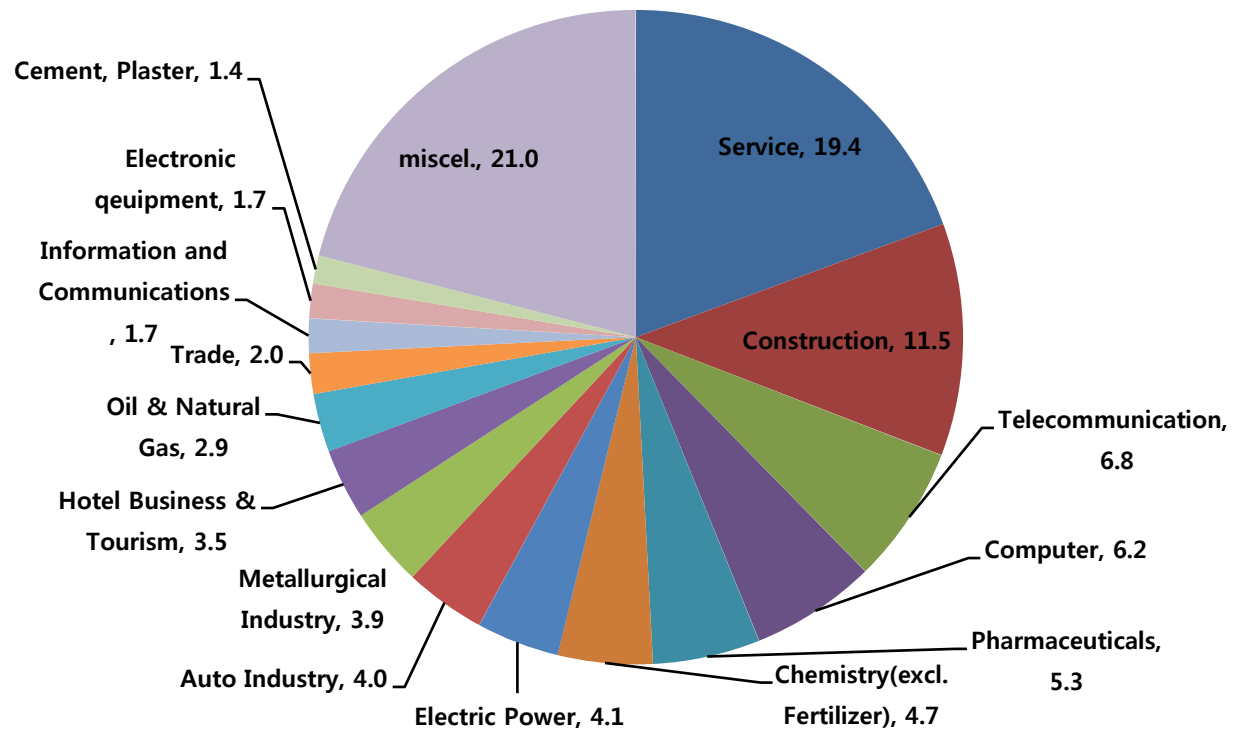


Note: Based on India's Fiscal year(April-March), For 2012, April-October,2012

Source: Department of Industrial Policy & Promotion

<Sectoral Shares of FDI in India>

(Unit: %)



Note: 2000-Oct.2012, On Cumulative Basis

Source: Department of Industrial Policy & Promotion

- Great potential for the future gigantic domestic market

<Major Economic Indices of Korea and India>

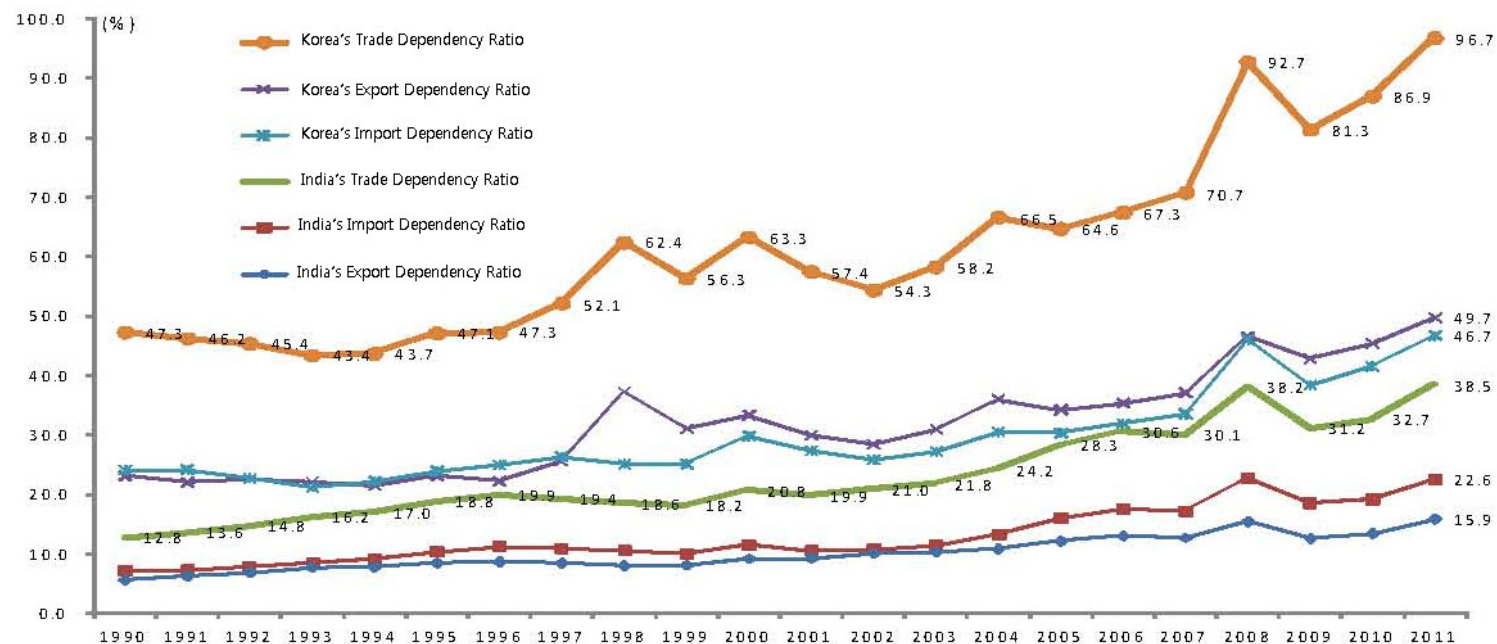
	Korea		India	
	2011	2012	2011	2012
Nominal GDP(\$10 million)	11,164	11,303	18,979	18,845
Per Capita GDP(\$)	23,070	23,262	1,529	1,498
Real Economic Growth Rates(%)	3.6	2.1	4.9	6
Population(million)	49.8		1,241	
Share of Pop. Aged 15-24(%, 2010)	13.5		19.2	

Source: Global Insight, IMF, World Bank, UN Population Database

3. Challenges to Indian Economy

- Trade dependency ratio(38.5%) and export-dependency ratio(15.9%) are substantially low compared to those of Korea(96.7%,49.7%) as of 2011

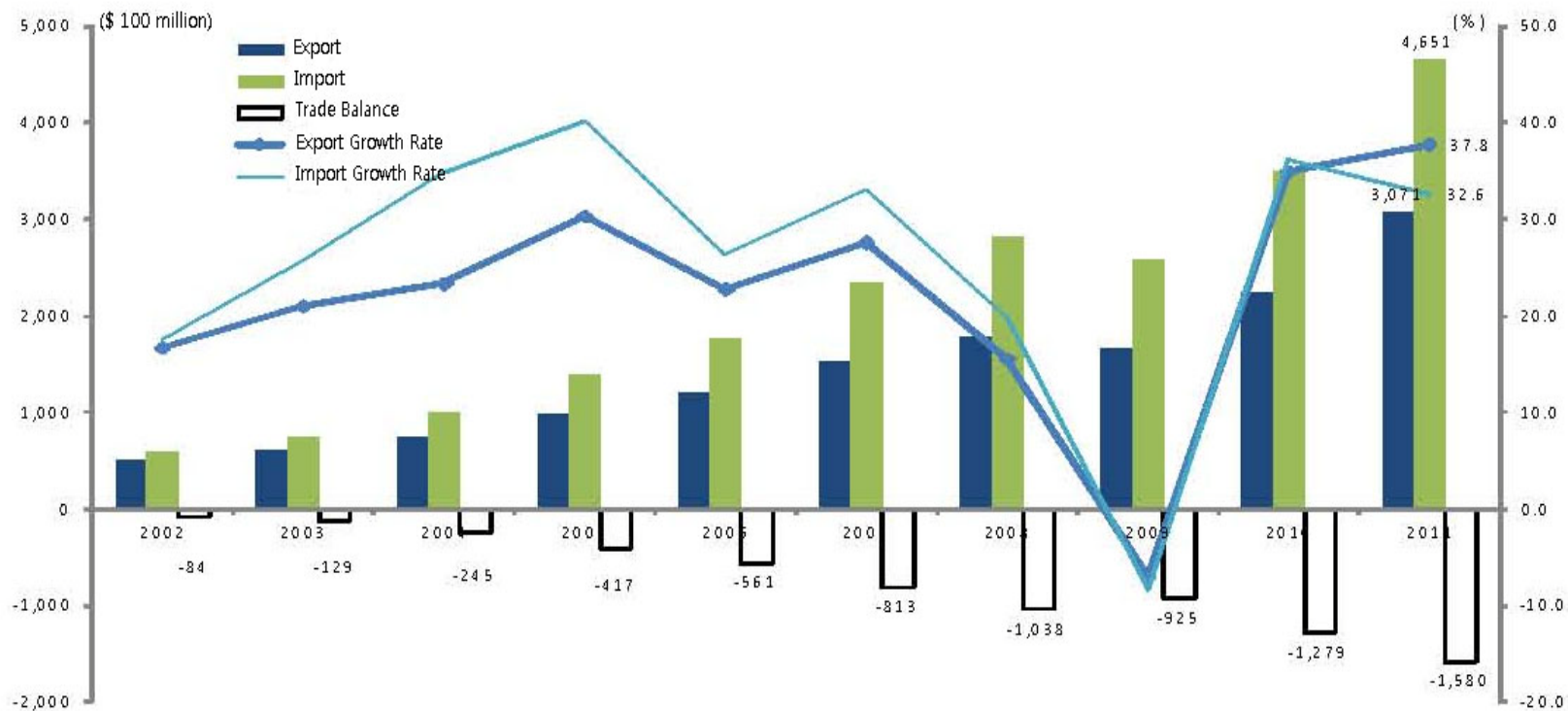
<Trade Dependency Ratio of India and Korea>



Source: IMF

- Despite the high growth rates of imports and exports over 30%, trade deficit continues to rise

<India's Recent Trend of Trade>

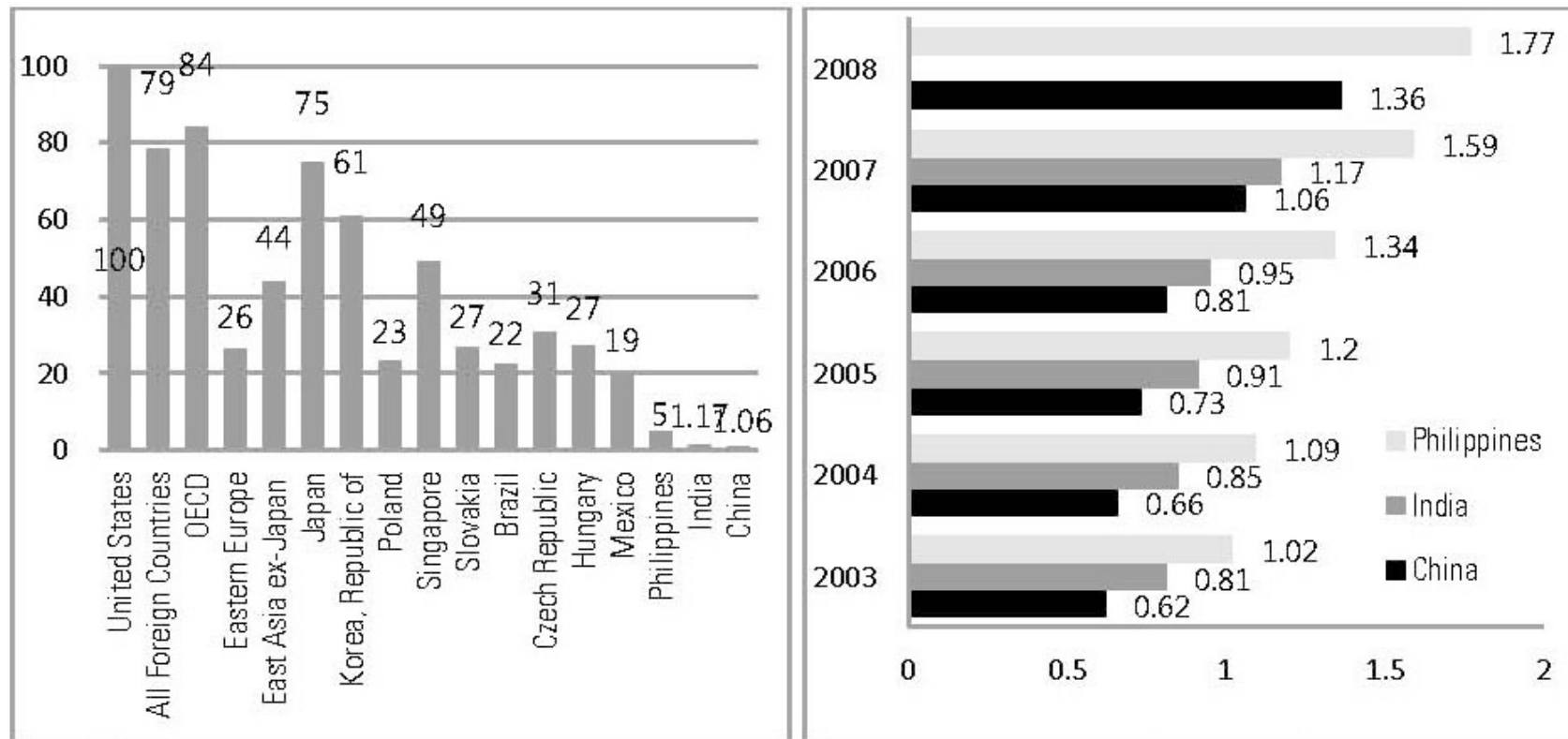


Source: IMF

- The Indian economy was left out of the global division of labor in the 1980s
 - India has not become a manufacturing powerhouse in labor intensive industries
 - FDI in India mostly serve the local market rather than export production

- Low wage is not India's strength in East Asian production networks compared with China and other competitors

<Index of Hourly Compensation Costs in Manufacturing Employees>



Note: Compensation costs include direct pay, social insurance expenditures, and labor-related taxes.

Index, U\$ 32.07 = 100 in 2007 (left).

Source: U.S. Bureau of Labor Statistics, December 2011.

- India shows the lowest enrollment rate in the tertiary education among selected Asian countries

< Educational Attainments >

Country	year	India	China	Indonesia	Malaysia	Philippines	Thailand	Vietnam
School enrollment, tertiary (% gross)	2010	17.87	25.95	23.12	40.24*		46.17	22.29
	2005	10.82	19.41	16.52	29.31	27.47	43.9	15.69
	2000	9.37	7.95	14.72	25.74		34.88	9.73

Note: * 2009 for Malaysia.

Source: World Bank WDI.

- India may have fewer opportunities to earnestly move into parts and components production in the international production network due to its lack of skilled labor

- India still puts tariff rates on intermediate goods as high as around 30% in 2009 while changes in import tariffs on these intermediate goods are much slower compared to other products

<Tariff Rates on Intermediate Goods in India>

BEC	Product	Product type	partner	Weighted Average					
				2001	2005	2009	Change, %		
21	Primary	intermediate	China	14.38	11.37	7.11	-50.6		
22	Processed			33.46	15.92	8.24	-75.4		
31	Primary			25	15	5	-80.0		
42	Parts and accessories			21.57	8.03	7.1	-67.1		
53	Parts and accessories			34.56	14.99	9.82	-71.6		
111	Mainly for industry				30.14	30			
121	Mainly for industry			36.94	30.97	19.86	-46.2		
322	Other			15.01	15	9.96	-33.6		
				avg	25.85	17.68	12.14	-53.0	
				St.dev	9.35	8.36	8.5		
21	Primary	intermediate	Japan	30.34	15.95	5.75	-81.0		
22	Processed			31.23	16.21	7.41	-76.3		

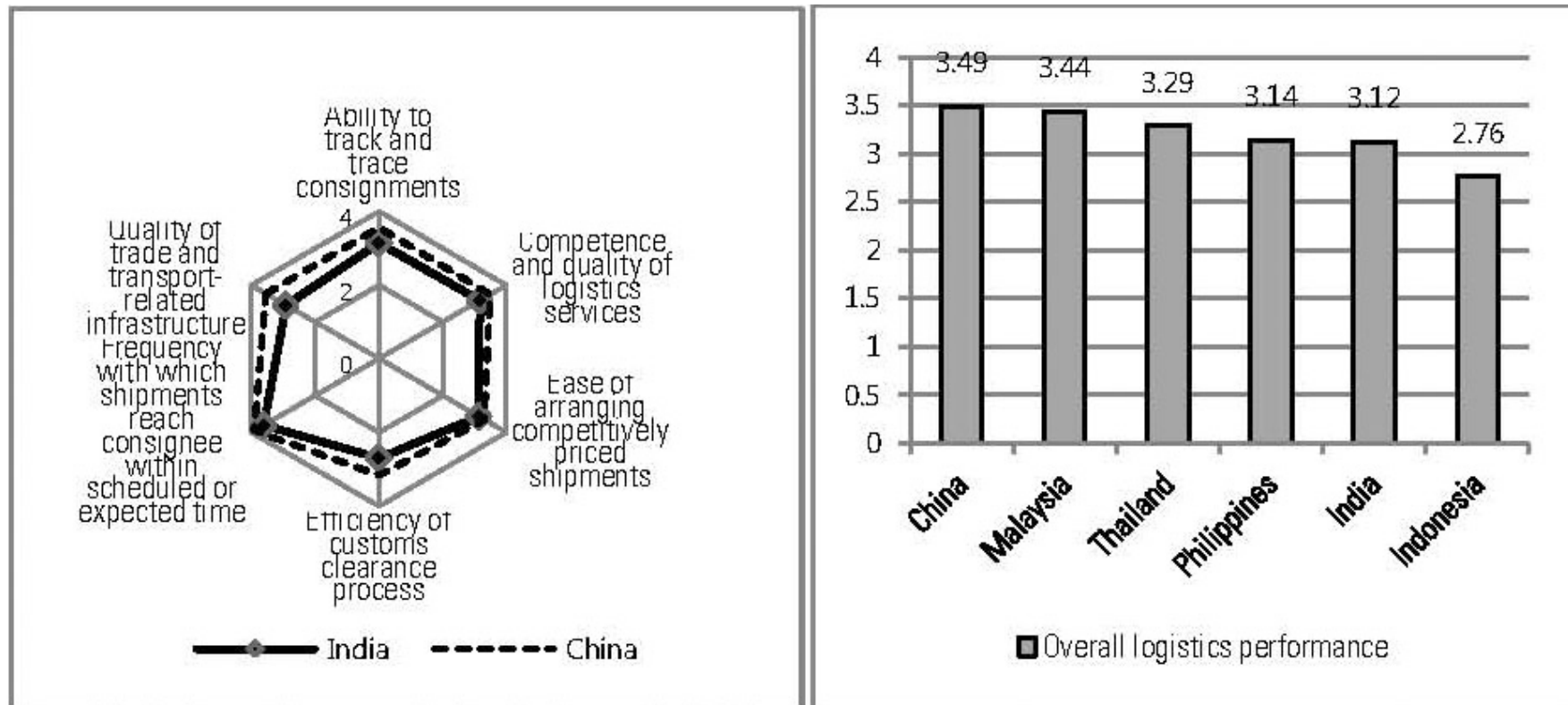
31	Primary	intermediate	Japan	15			
42	Parts and accessories			25.04	12.09	7.5	-70.0
53	Parts and accessories			34.16	14.48	9.29	-72.8
111	Mainly for industry			35	30	30	-14.3
121	Mainly for industry			50.55	33.3	31.16	-38.4
322	Other			19.73	15	8.35	-57.7
				avg	32.29	19	14.21
		St.dev	9.66	7.95	11.24		
21	Primary	intermediate	Korea	23.11	12.6	4.68	-79.7
22	Processed			31.73	16.36	7.13	-77.5
31	Primary						
42	Parts and accessories			22.21	11.8	8.04	-63.8
53	Parts and accessories			35	15	9.89	-71.7
111	Mainly for industry				92.05	30	
121	Mainly for industry			44.02	30.2	27.05	-38.6
322	Other		35	14.92	7.85	-77.6	
		avg	31.85	27.56	13.52	-57.6	
		St.dev	8.21	29.1	10.4		

Note: Classification follows BEC.

Source: WITS.

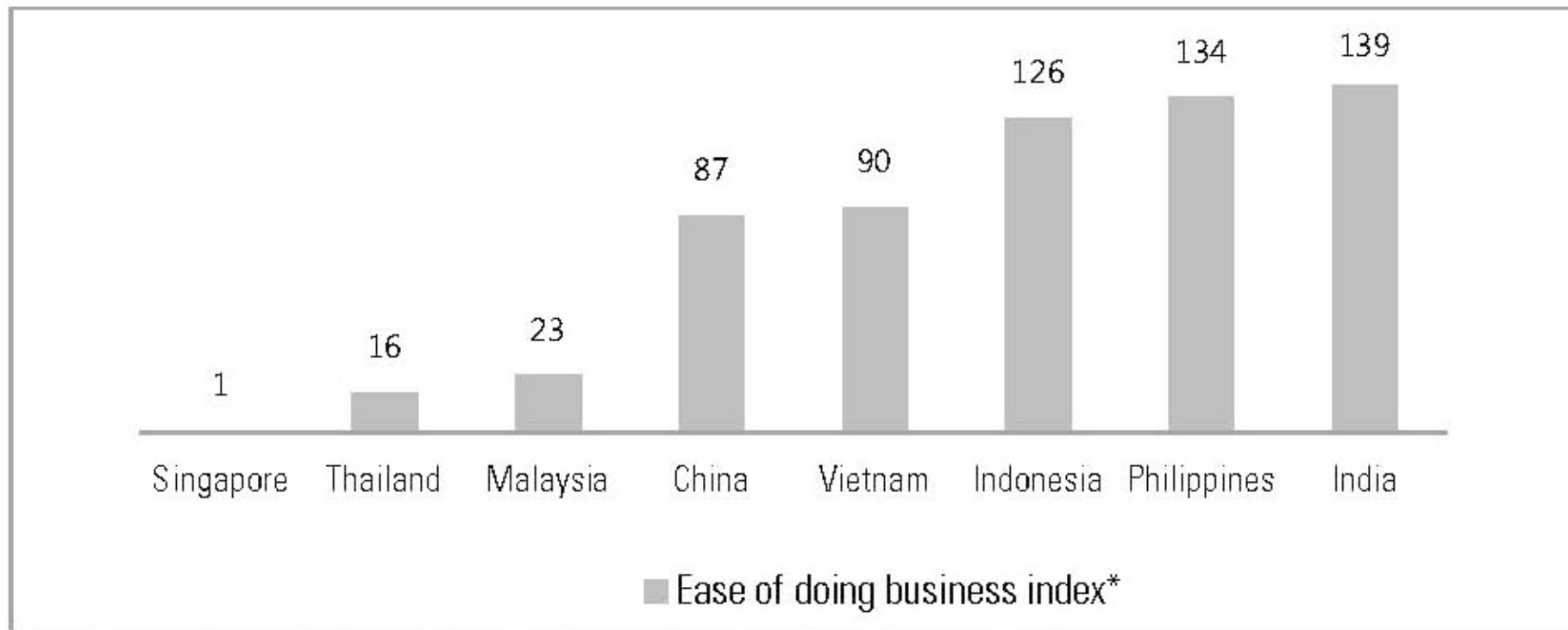
- The overall logistics performance as well as business environments turn out to be poor, compared with the selected ASEAN members and China

<Logistics Performance Index, 2010>



Note: Logistics performance index: 1=low to 5=high.
Source: World Development Indicators, World Bank 2010.

<Ease of Doing Business Index, 2010>



Note: Ease of doing business index (* : 1=most business-friendly regulations).

Source: World Development Indicators, World Bank 2010.

- India needs to enhance productivity of the service sector on which its economy is largely dependent, particularly in areas like infrastructure and financial services as it will stand to gain substantially from opening up services trade
- The service sector is the largest and fastest growing sector in India, but employment has not kept pace with the share of the sector in GDP and has not produced the number or quality of jobs needed

<Average by Decade of the Share of Sectors in India's Gross Domestic Product>

(unit %)

Sector	1950s	1960s	1970s	1980s	1990s	2000s
Agriculture	55.3	47.6	42.8	37.3	30.9	21.8
Industry	14.8	19.6	21.3	22.3	23.3	24.5
Services	29.8	32.8	35.9	40.3	45.7	53.7

Source: Author's calculations from National Income Accounts

< Average by Decade of the Share of Service Types
in the Sector Overall and in Gross Domestic Product >

(unit %)

Items	1950s		1970s		1990s		2000s	
	Share in Services	Share in GDP	Share in Services	Share in GDP	Share in Services	Share in GDP	Share in Services	Share in GDP
Community, social, and personal services	35.0	10.4	35.1	12.6	30.3	13.9	26.1	14.0
Financing, insurance, real estate, and business services	25.2	7.5	20.3	7.3	26.2	12.0	27.3	14.7
Trade, hotels, and restaurants	28.5	8.5	30.2	10.8	28.5	13.0	29.4	15.8
Transport, storage, and communication	11.3	3.4	14.5	5.2	15.0	6.9	17.3	9.3

Source: Author's calculations from National Income Accounts

<Employment in Different Sectors and Service Industries
as a Percentage of Total Employment by Fiscal Years>

Category	2009-2010	2004-2005	1999-2000	1993-1994
Agriculture	53.2	58.5	61.7	62.8
Industry	21.5	18.1	15.9	15.2
Services	25.3	23.4	22.4	22
Wholesale and retail trade; repair of motor vehicles, motorcycles, and personal and household goods	9.5	9	8.7	7.7*
Hotels and restaurants	1.3	1.3	1.1	
Transport, storage, and communications	4.3	3.8	1.1	3.4
Financial intermediation	0.8	0.6	0.5	1.0*
Real estate, renting, and business activities	1.3	0.9	0.6	
Public administration and defense; compulsory social security	2.1	1.8	2.5	9.5*
Education	2.6	2.4	2	
Healthcare and social work	0.8	0.8	0.6	
Other community, social, and personal service activities	1.9	1.8	2.4	0.3*

*Note that in FY1993, the National Industrial Classification 1987 was used.

Source: Author's calculations from the National Sample Survey Office reports on employment and unemployment in India, various issues.

- Exports are competitive in only a few services and are concentrated in a few markets

<India's Revealed Comparative Advantage in Service Exports>

Sectors	1980	1990	2000	2005	2008	2009	2010
Communications	0.0	0.0	1.7	1.3	1.0	0.6	0.5
Computer and information	0.0	0.0	10.1	9.9	8.6	8.8	7.9
Construction	0.0	0.0	1.6	0.3	0.3	0.3	0.2
Financial	0.0	0.0	0.3	0.3	0.5	0.6	0.7
Government services n.i.e.	0.5	0.1	1.5	0.3	0.2	0.2	0.2
Insurance	0.7	1.4	0.9	1.0	0.7	0.7	0.7
Other business services	1.2	2.0	1.1	1.0	0.9	0.7	1.0
Personal, cultural, and recreational services	0.0	0.0	0.0	0.2	0.6	0.5	0.3
Royalties and licence fees	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Transport	0.5	0.8	0.5	0.5	0.5	0.6	0.5
Travel	2.0	1.1	0.7	0.5	0.5	0.5	0.5

Note: n.i.e.=not included elsewhere.

Source: Author's calculation from United Nations Conference on Trade and Development (UNCTAD) Database on International Trade—Services (accessed 2 March 2012).

- Many regulations are outdated, and there are restrictions and barriers on foreign direct investment

4. Policy recommendations for India

- Need to foster IPN-favorable conditions
 - The firm's objective of building a production network is to minimize the overall production costs
 - Rationales of Joining the existing East Asian production networks;
 - Gains from expanded trade through production networks
 - The volume of trade in the world has increased significantly through vertical specialization
 - Existence of dense industrial clusters and IPNs helps the East Asian economy remain relatively stable in the face of external shocks (Ando 2010)

- Need to strengthen FTAs with major trading partners or facilitate customs procedures
 - Despite FTAs with ASEAN and Korea, India's trade volume with East Asian countries is still very small
 - Exports from East Asia account for only 1.6 % of India's import content
 - Important to conclude comprehensive and deeper FTAs with countries within the IPN rather than just having FTAs
 - Extend and deepen trade liberalization by upgrading bilateral FTAs with Korea and/or ASEAN
 - It is worth to note that industrial structures of Korea and India are complementary to each other, while India has somewhat similar industrial structures and competitiveness with ASEAN
- Accumulation of human capital urgent in India for economic development
 - The government can work with industries and with educational institutions in

- public–private partnerships to identify skill requirements and design appropriate courses and training programs to facilitate their development
- The government needs to facilitate private investment in education by allowing for-profit education while putting in place a regulatory framework to ensure that participants meet a required standard
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- Need to ensure stronger services competitiveness by taking active reform measures and by participating in the International Service Agreement (ISA)
 - Important developing Asian countries such as Indonesia, Malaysia, and Thailand, and larger Asian economies like the China and India are not yet involved in ISA
 - Urgent to focus on the service sector and to identify the key barriers faced by different types of services and then to undertake specific reforms.