ABSTRACT

Although the Republic of Korea and India established formal diplomatic relations in 1973, bilateral economic relations only started deepening during the years following India’s economic reforms in the early 1990s, and particularly after the Asian financial crisis of 1997-8. Bilateral trade increased greatly during the 1998-2008 period, along with changes in the composition of exports and imports. Although Indian investment to Korea has grown in recent years, it is largely a one-way flow from Korea to India. The absolute size of Korean investment in India increased over the period but its share in total foreign direct investment (FDI) in India has decreased. The composition of Korean investment, moreover, is quite different from that of FDI in India in general. The growing economic ties have been mainly driven by structural changes in the economies of both countries, especially India’s, and by increasing trade complementarity and other measures. They have also been accompanied and facilitated by various bilateral treaties and agreements. The recently concluded comprehensive economic partnership agreement (CEPA) is expected to give a significant boost to the economic exchanges between the two economies.

1 INTRODUCTION

India and Korea are the third and fourth largest economies in Asia\(^1\) and share a strong and growing economic relationship. The economy of the Republic of Korea (ROK—South Korea, henceforth Korea) is highly dependent on trade,\(^2\) and India with its fast growing economy

and large population provides a huge market and investment destination for Korean companies. For India, Korea is not only an export market but an important source of investment and technology transfer. Although Korea and India have shared a close relationship for a long time, bilateral economic ties gained momentum only during the early 1990s when India started its wide-ranging economic reforms. The period since those years has witnessed a manifold rise in trade between the two countries. Merchandise trade has increased more than six times during the decade 1998 to 2008 (UNCOMTRADE database, accessed 9 January 2010). Bilateral investment relations have also improved over that period. Though Indian companies have started investing in Korea in recent years, it has largely been a one-way flow from Korea to India. These developments have resulted in a significant increase in the importance to both countries of each other’s economy.

This paper is an attempt to investigate the trends, patterns and prospects of the bilateral economic ties between Korea and India. The main objective is to examine the nature and evolution of the trade and investment relations between the two countries, especially after the Asian financial crisis of 1997-8. The paper contains four sections, of which this introduction is the first. The second section analyses the nature and evolution of trade relations, the third section examines investment and technological co-operation between the two countries and is based on an analysis of trends in economic flows and co-operation between the two. The fourth section looks at the future prospects for economic ties, with a final concluding remark. The paper is analytical and qualitative in nature. Important data sources include the United Nations Commodity Trade (UNCOMTRADE) database, World Investment Reports by the United Nations Conference on Trade and Development (UNCTAD), and the Department of Industrial Policy and Promotion (DIPP) of the Ministry of Commerce and Industry, Government of India.