PREFACE

1. H.E. Mr. Manmohan Singh, Prime Minister of the Republic of India and H.E. Mr. Roh Moo-hyun, President of the Republic of Korea met in New Delhi on 6 October 2004 and agreed to establish a Joint Study Group to take a comprehensive view of bilateral economic linkages between Korea and India, covering, among others, trade in goods and services, investment flows, and other areas of economic cooperation. In particular, the Joint Study Group was mandated with the task of, *inter alia*, examining the feasibility of a comprehensive economic partnership agreement (CEPA) between the two countries.

2. The Joint Study Group, composed of government officials, economists and representatives of business communities of Korea and India, held its first meeting in January 2005 and has met alternately in India and Korea for a total of four times. As a result of its study, the Joint Study Group concurred that there remains huge potential in all areas to be exploited to develop the existing bilateral economic relations into a more comprehensive and future-oriented one. In this regard, the Joint Study Group concluded that a CEPA between Korea and India would serve as a plausible institutional framework to this end and provide significant benefits for both countries.

3. In the light of the above consideration and the principles as set out in the relevant chapters of the Report and also taking into account the long-term economic relationship to be developed between the two countries, the Joint Study Group recommends that the Korea-India CEPA cover, among other things:

(i) Trade in goods;
(ii) Trade in services;
(iii) Measures for trade facilitations;
(iv) Promotion, facilitation and liberalization of investment flows;
(v) Measures for promoting bilateral economic cooperation in identified sectors; and
(vi) Other areas to be explored for furthering bilateral partnership.

4. The Joint Study Group recommends that a Joint Task Force composed of government officials of both countries be appointed to accelerate the process of realizing the benefits that may be derived from the CEPA and start its work of developing a CEPA for completion within a reasonable period of time. The Joint Task Force would bring about specific recommendations on each of the constituent elements of the CEPA for adoption by the two Governments.

5. In order to put into place the above recommendations, the Joint Study Group suggests that the following course of action be considered:

(i) A Joint Task Force comprising Government officials be constituted to proceed with the task of developing a CEPA between the two countries;

(ii) The Joint Study Group Report serve as a framework for such work; and

(iii) The Joint Task Force be activated as soon as possible with an aim of concluding, no longer than 24 months from the submission of this Report, its work for adoption by the two Governments.

6. We, the Co-Chairs of the Joint Study Group, hereby submit our Report to the leadership of India and Korea.

Done on January 6,2006 in Seoul, Korea.

For the Republic of India	**For the Republic of Korea**
Sd/-	**Sd/-**
Mr. S.N. Menon Secretary Ministry of Commerce and Industry	Mr. Joong-keun Kim Deputy Minister Ministry of Foreign Affairs and Trade

CONTENTS

Chapter 1

OVERVIEW

INTRODUCTION

1.1 Indo-Korean trade links can be traced back to almost two thousand years ago. According to Korean archeologists, an Indian princess made a long journey in 48 AD to Korea through sea carrying a stone which calmed the sea waters. Her sons founded the powerful Korean Kingdom of Shilla which eventually subjugated all neighboring kingdoms in the major part of the Korean Peninsula.

1.2 Korea and India have shared a close relationship for a long time. After the liberation of Korea and India in 1945 and 1947, respectively, consular relations between the two countries were set up in 1962, followed by the establishment of formal diplomatic ties in 1973. Since then, political and economic relations have steadily grown in strength. Political convergence and economic complementarities together have provided a strong foundation for the ties between the two countries. The two countries are now set to embark on further strengthening their political, economic and commercial relations.

1.3 Korea and India face the common challenge of globalization. Both need to respond to the changing times. There is potential for greater cooperation in multilateral economic forums like IMF, World Bank and the WTO. Korea's highly successful economic policies and performance have been of immense interest to India. Likewise, India's experience with democracy, development and reforms in a plural society is of interest to Korea.

1.4 Over the past decade, India has made conscious efforts to intensify economic engagement with East Asia as part of its Look East Policy. The economic dynamism of East Asia and its close cultural and social linkages render the region India's natural potential partner for economic integration.

1.5 Indo-Korean economic cooperation should also be seen against the backdrop of growing economic integration of India with other East Asian

economies which are emerging as large trading partners of India. In a larger frame of reference, an economic partnership between India and Korea can contribute significantly to building the Asian Economic Community with other Asian majors like Japan, China and ASEAN, to make the 21st century truly the century of Asia.

ECONOMIC LINKS WITH THE REST OF THE WORLD

Global international trade and foreign investment: Korea

1.6 Korea's foreign trade continued to record double-digit growth from 2001 onwards. Korea's total trade amounted to US $ 373 billion in 2003: Exports were US $ 194 billion and imports were US $ 179 billion. In 2004, Korea's overall trade reached a record US $ 478.3 billion, with exports of US $ 253.8 billion and imports of US $ 224.5 billion. This represents growth in exports by 31% and in imports by 25.5 % over 2003 levels. The increase in exports was largely driven by the recovery in the global economy and a sustained increase in exports to China and ASEAN countries. Korea's major trade partners are China, the United States, EU, ASEAN and Japan.

1.7 Korea's global trade in services amounted to US $ 73.3 billion in 2003; this is 15.3% of Korea's total trade volume. Transport services, business services and tourism services constituted 87% of the total trade in services. The balance of trade in services showed a deficit of US $ 7.4 billion, despite transport and government services recording a surplus. Korea's trade in services is largely dependent on four big markets, the United States, EU, Japan and China; these account for nearly about 70% of the trade in services.

1.8 Cumulative FDI in Korea (1962-2004) is estimated at US $ 100 billion, on a declared basis. Over 80% of the cumulative FDI has come after the 1997 financial crisis. Approximately 16,000 foreign-invested businesses are operating in Korea as of 2004. On the other hand, Korea's overseas direct Investment in 2004 was US $ 7.94 billion, on a declared basis, a 36.8% increase over the previous year, influenced by the favorable investment climate of the world.

Global international trade and foreign investment: India

1.9 India's global trade in 2003-04 was US $ 140 billion: exports were US $ 63 billion and imports were US $ 77 billion. During 2004-05, India's global trade grew by 33% to US $ 186 billion; exports were US $ 79 billion, recording a growth of 25%. Imports also witnessed a robust growth of 39%, having increased to US $ 107billion.

1.10 India's global trade in services was US $ 43.3 billion in 2003-04 of which exports amounted to US $ 25 billion. During 2004-05 (April-December), India's export of services grew to US $ 32 billion. However, the share of India's exports in world trade of services is barely 1.4%. The balance of trade in services showed a surplus of US $ 6.7 billion in 2003-04, most of the surplus being on account of strong performance in " Other Services", which includes software services. India's trade in services is largely dependent on the United States and EU.

1.11 Cumulative FDI approvals from August 1991 to January 2005 stood at US $ 68 billion. Actual FDI inflows during 2004-05 (up to January) were US $ 3.5 billion as against US $ 2.2 billion in the corresponding period of last year. FDI inflows have registered a growth of 55% in 2004-05.

RECENT ECONOMIC DEVELOPMENTS AND ECONOMIC POLICY

The Korean Economy: Recent trends, policies and reforms

1.12 In recent times, Korea has shown itself to be one of the most dynamic economies of the world. The Korean economy began to flourish in the early 1960s, when economic growth was marked by a shift in government policy from import substitution to export orientation. A comprehensive policy of trade reforms and export promotion was pursued through a variety of extensive incentives for exporters bringing the share of exports to 30% of the GDP. On top of that, a series of policy initiatives were undertaken to encourage the inflow of foreign capital, which served as a cornerstone for development of the national economy.

1.13 During the early 1970s, the Korean economy, like many others, was hit by the oil shock and the ensuing world recession led to a slowdown in export

growth. The second oil shock and a disastrous crop failure in 1980 worsened the situation but the Korean economy recovered quickly by the end of 1983 with GDP growing at 12% and the Government introducing a series of tight monetary and fiscal policy measures. Since 1983, the Korean Government has shifted its strategy from direct intervention to that of facilitation, which helped the country to grow at 9.2% per year during 1986-1992. Thereafter, modest but steady economic growth continued until 1997 when Korea got mired in the Asian financial crisis.

1.14 The Asian financial crisis of 1997-1999 exposed certain weaknesses in Korea's economy. At the time, Korea had no option but to turn to the IMF for support and undertook a thorough economic restructuring, focusing on reforms in primarily four sectors - corporate, financial, labor and public. In addition to such structural reforms in these sectors, regulatory reforms and foreign investment liberalization have been pursued consistently as part of the government's efforts to create a more business-friendly environment and thereby promote further economic growth. Accordingly, all existing regulations were overhauled and liberalized to meet international standards. Particularly, Korea's financial market has been fully opened to foreign competition with full liberalization of foreign exchange transactions, which resulted in a remarkable expansion in the inflow of foreign direct and indirect investment.

1.15 With a quick and effective implementation of these reforms, the Korean economy achieved a speedy recovery with an average growth rate of 6.05% per annum during the years 1999-2004. Most recently in 2004, the Korean economy grew by a modest 4.6% over the previous year, supported by the global economic recovery. The current account balance recorded a surplus at US$ 27.6 billion. Foreign reserves had risen to US$ 199 billion by the end of 2004. The periodically adjusted unemployment rate recorded 3.6% and the inflation rate reached 3.1%. Against this background, the Korean economy became the 11th largest in the world in 2004 with a GDP of US$ 680 billion and per capita GNI of US$ 14,162.

1.16 For future sustained economic growth, Korea has set up an industrial vision for 2010 to become one of the world's top industrial super powers. To this end, Korea has resolved for the policies directed at improving the

competitiveness and developing high value added advanced technology product industries with the policy objective to achieve an annual growth of 6.1% in manufacturing by 2010. Ten such innovative and R&D-intensive industries such as electronic medical equipments, bio and environmental industrial products and aviation goods have been identified as growth engines. At the same time, strengthening its global position in its traditional basic industries would be the parallel Korean strategy to fulfill its 2010 vision.

The Indian Economy: Recent trends, policies and reforms

1.17 The early 1990s marked a profound change in India's economic policies. The immediate goals were macro-economic stabilization and structural adjustment ensuing reforms aimed at enhancing efficiency, productivity and competitiveness of the economy; *inter alia,* these included industrial deregulation, liberalization of foreign direct investment, trade liberalization, and reforms in public sector, infrastructure and the financial sector.

1.18 There was a major liberalization of foreign trade policy. Customs tariff rates were slashed from peak levels of 150 % in 1991-92 to 25 % in 2003-04. These have been further reduced to 15% in 2005-06. Import licensing was dismantled and quantitative restrictions on imports were phased out two years ahead of India's WTO schedule. The New Industrial Policy of 1991 dismantled the industrial licensing system. Progressively, new sectors such as mining, banking, insurance, telecommunications, air lines, construction and management of ports, roads and highways, have been opened to private investment, including foreign investment. The foreign exchange regime underwent a major change. Full convertibility of the Rupee on the current account was realized by August 1994. Progressive liberalization in the capital account is being pursued.

1.19 Capital market reforms gathered momentum. The Securities and Exchange Board of India (SEBI) was set up as a watchdog for regulating the functioning of the capital market. The capital market was opened to investments by foreign institutional investors (FIIs). FIIs can freely invest in all types of securities traded on the primary and secondary market with full repatriation benefits. Banking reforms were unveiled. The major banking reforms that were undertaken at different intervals in the past 10 years are re-capitalization of

banks, merger of weak banks with strong banks, opening of the banking sector for private sector banks and foreign banks and enforcing the adherence to Basel Committee norms for the banks.

1.20 The Tenth Five Year Plan (2002-07) has set a target of 8 % annual growth rate. India's vision for 2020 seeks to quadruple the real per capita income. The vision places heavy emphasis on human resources development and job creation to ensure employment for all through small and medium enterprises (SMEs), commercial agriculture, agro-industries, IT and IT-enabled services, among other sectors. Moreover, it is envisaged that by 2020 India would evolve into an information society and knowledge economy*, inter alia*, by doubling the share of expenditure on education in GDP, increasing the national expenditure on R&D activities, and investments in communication infrastructure.

1.21 India has displayed a remarkable ability to withstand external shocks despite growing outward orientation as was evident when India remained unaffected by the East Asian financial crisis of 1997. On the whole, India has the inherent strength and the potential to sustain high economic growth and emerge as a leading economy in the world along with China in the near future. In a recent study, Goldman Sachs has projected that India will emerge among the top three economies in the world by 2041.

INTERNATIONAL TRADE POLICY, MULTILATERALISM AND REGIONAL ECONOMIC COOPERATION.

Korea

1.22 Since its accession to the GATT in 1967, Korea has supported the rules-based multilateral trading system of the GATT/WTO as its underlining external trading environment. As one of the greatest beneficiaries of the open multilateral trading system, the Korean economy has depended heavily on international trade. Foreign trade comprised 70% of Korea's GDP in 2004. Korea attaches great importance to the multilateral trade liberalization process and has been making contributions to ongoing negotiations under the Doha Development Agenda for their early and successful conclusion. At the same time, Korea has sought to conclude FTAs as a complementary avenue for

further liberalization, in response to the global trend of regionalism that began to be more evident in the mid-1990s.

1.23 The Korea-Chile FTA was Korea's first-ever FTA. It entered into force on April 1, 2004. Korea's FTA with Singapore was substantially concluded in November 2004 and is expected to come to effect in late 2005. Korea also concluded its negotiations on an FTA with EFTA in July 2005. Three more FTAs are in the process of negotiations. They are FTAs with Japan, ASEAN and Canada. The completion of negotiations on trade in goods with ASEAN is scheduled for 2005 and negotiations on trade in services and investment will be undertaken in 2006. Review discussions at a working level for an FTA with the United States were concluded in the first half of 2005, while feasibility studies are currently under way with MERCOSUR and Mexico. China and the EU are also potential partners for an FTA with Korea. A trilateral FTA involving Korea, China and Japan is also being studied among research institutions of the three countries under the sponsorship of their respective governments. Korea is also taking into serious consideration the East Asia FTA (EAFTA) that has been tabled by the ASEAN+3 countries.

1.24 Korea is also actively engaged in regional cooperation mechanisms, including the Asia-Pacific Economic Cooperation (APEC), Asia-Europe Meeting (ASEM), and ASEAN+3 processes. Like India, Korea is one of the founding members of the 1975 Bangkok Agreement. Korea will host the APEC 2005 in which member economies will conduct a mid-term review of the progress towards the Bogor Goals to achieve free and open trade and investment in the Asia-Pacific region.

India

1.25 India has demonstrated a strong commitment to multilateralism in its trade policy while taking a keen interest in schemes of regional economic cooperation in Asia. Together with Korea, India is a founding member of the 1975 Bangkok Agreement, one of the first Preferential Trading Arrangements (PTAs) in Asia. Following the accession by China to the Agreement in 2000, India and China have exchanged tariff preferences between themselves.

1.26 India has been a member of the South Asian Association for Regional Cooperation (SAARC) which evolved a SAARC Preferential Trading Arrangement (SAPTA) in 1993. SAPTA is evolving into a free trade arrangement and a Framework Agreement on South Asian Free Trade Area (SAFTA) was signed in January 2004. India is also participating in another regional grouping, namely the Bay of Bengal Initiative of Multi Sectoral Technical and Economic Cooperation (BIMST-EC), combining seven South and Southeast Asian nations that have also adopted a Framework Agreement for a Free Trade Arrangement between its members. India has had free trade and transit treaties with Nepal and Bhutan, India's landlocked neighbors. India signed a bilateral Free Trade Agreement with Sri Lanka in 1998 that is being upgraded into a Comprehensive Economic Partnership Agreement.

1.27 After becoming a dialogue partner of ASEAN at the Second ASEAN-India Summit held in Bali in October 2003, India signed a Framework Agreement on Comprehensive Economic Cooperation with ASEAN. The Agreement contemplates an FTA in goods, services and investments and an early harvest programme. It was proposed that an FTA with 5 ASEAN countries could be put in operation by 2011 and with the CLMV countries (Cambodia, Laos, Myanmar, Vietnam) and the Philippines by 2016.

1.28 In 2004, India signed a framework bilateral Free Trade Agreement with Thailand. In June 2005, India has signed a Comprehensive Economic Cooperation Agreement with Singapore.

INDIA – KOREA ECONOMIC RELATIONS

1.29 Trade between Korea and India is conducted under the Agreement on Trade Promotion and Economic and Technical Cooperation signed between the two countries in 1974, through which the two countries accorded MFN status to each other. Thereafter, both countries signed an Agreement on Cooperation in Science and Technology in 1976 and a Convention on Double Taxation Avoidance in 1985, which further strengthened bilateral economic relations. The two countries are also signatories to the Bangkok Agreement and can work together to promote inter-regional trade through exchange of mutually-agreed concessions. Both India and Korea are members of the WTO and cooperate

and coordinate their efforts under the framework of the WTO to promote their mutual interests.

Trade in Goods

1.30 Indo-Korea trade and economic cooperation has grown steadily particularly during the 1990s. Bilateral trade has grown from US $ 1.5 billion in 1997-98 to US $ 4.2 billion in 2004-05. The average annual growth rate of trade during the period from 1997-98 to 2004-05 is 17%. However, the existing bilateral trade is but a small proportion of the large potential of trade between the two countries. India's share in Korea's global trade accounts for less than 1%. Indian exports to Korea have been erratic and are recovering from the dip during the 1997 East Asian financial crisis. Korea's imports from India are less than 0.5% of its total global imports. India's imports from Korea, however, have grown more than 5 times over the 1990s and constitute 2.8% of India's total global imports. The balance of trade has consistently been in favor of Korea.

1.31 Korea's exports to India are characterized by a reasonably diversified export basket and comprise manufactured items such as electronic goods, machinery, transport equipments, iron and steel, plastics and organic chemicals. These items constitute 67% of the overall exports from Korea to India. On the other hand, the Indian export basket continues to be dependent on primary products and dominated by raw material and ores. The major Indian export items comprise cotton yarn fabrics and made-ups, petroleum products, oil meals, ores and minerals, iron ore and primary and semi-finished iron and steel. Given the current trade structure of India and Korea and the complementarities of the two economies, there is huge potential for significant increase in overall trade in goods between the two economies. In this context, it was noted that there is a tremendous scope for export of agriculture and marine products, fresh fruits, essential oils, spices and oleoresins, consumer durables, auto components and defense related products from India to Korea

Trade in Services

1.32 In India, services account for about 51% of the GDP and in Korea, this figure is 55%. However, trade in services in India is only about 25% of total trade and in Korea, this figure is 16%. Clearly, services trade does not reflect the important position of the services sector in their domestic economy. Further, India's major trading partners for trade in services are the United States and EU. For Korea, the predominant trading partners are the United States, EU, East Asia (Japan, China) and South East Asia. Both India and Korea do not figure very high on each other's trade levels. Therefore, there is a high potential for trade in services between both countries.

1.33 Given that services form a large proportion of both economies, this strength has not manifested itself in trade in services. In particular, Korea's competitive advantage in hardware and India's competitive advantage in software reflects a big scope for cooperation in cutting-edge areas such as embedded systems and highly skilled professionals. The two governments should encourage the deepening of mutual cooperation in the areas of mutual interest of the two countries and take measures to provide more effective market access by removing substantial barriers to the bilateral trade in services. It was also felt that it is important to work toward providing freer movement of professionals in sectors of their respective interest while addressing the sensitivities involved in public policy needs.

Bilateral Investments

1.34 The Government of India has put in place a liberal, transparent investment regime and an investor-friendly FDI policy wherein FDI up to 100% is allowed under automatic route for most of the sectors. The Indian Government has recently undertaken a series of measures to promote further investment. Recently, FDI has been allowed in the construction sector and FDI limit has been increased in the airline sector from 40% to 49%. Setting up of an investment commission and the announcement of broad band policy along with simplification of procedures for transfer of shares from residents to non-residents should go a long way in increasing investment in India.

1.35 India and Korea entered into a Bilateral Investment Promotion and Protection Agreement (BIPPA) in 1996, which is presently in force. An MOU on

Investment Promotion was signed between the Department of Industrial Policy & Promotion of India and the Ministry of Commerce, Industry and Energy of Korea in October 2003. A Joint Investment Promotion Committee composed of officials and businessmen from both sides.

1.36 Many Korean firms were first movers as FDI investors in India. Following the spate of reforms since 1991 and the liberalization of Indian economy, Korean companies started to invest in India and formed joint ventures with Indian companies or established wholly owned subsidiaries in various sectors, predominantly in areas like automobiles and white consumer goods. Since 1995, Korean investment has increased remarkably and Korea's total cumulative investment in India as per FDI approvals rose from a mere US $ 2.5 million in 1991 to US $ 2.65 billion in 2003 making Korea the fifth largest investor in India after the US, Mauritius, UK and Japan. Korea constitutes about 4% of the total FDI approvals into India. Actual cumulative inflows are about US $ 0.7 billion, thus leaving about US $ 2 billion more to come in from Korea out of the FDI proposals already approved. India is continuing with its economic reforms and further liberalization for FDI.

VISION FOR THE FUTURE: THE WAY FORWARD

1.37 The brief account of India-Korea trade and investment linkages in the preceding part of this Chapter shows that the magnitude of trade and investment between the two countries has grown substantially over the past few years. The fact that the bilateral trade is steadily growing and yet the trade shares are rather small suggests that there is a huge potential for expansion of bilateral trade. The challenge is not only to exploit this potential but also to make trade more broad based and diversified in favor of the manufactured goods rather than raw materials. A great deal of attention would need to be paid to trade facilitation and addressing the issues of various tariff and non-tariff barriers. Trade facilitation which could also cover facilitating trade financing and cooperation between EXIM Banks of the two countries would ultimately lead to further strengthening of India-Korea economic linkages. Similarly, a large potential for trade in services exists in the areas such as IT, IT-enabled services, construction, tourism, animation and entertainment, finance and transportation. This potential is yet to be fully exploited. The barriers to trade in services also need to be addressed to exploit the potential of trade in services for mutual

benefit.

1.38 Bilateral investment flows between the two countries can be promoted fruitfully by both business chambers and government agencies through organized institutional promotion campaign. India has a potential to absorb US $ 150 billion of FDI in the next few years in the infrastructure sector alone. Korea has already invested in India in electrical equipments, food processing industries, transportation industry, machine tools, and textile industries. Major Korean construction companies with full overseas experiences could participate in India's projects for building infrastructure.

1.39 The economies of India and Korea are highly complementary in terms of factor endowment, capabilities and specializations. India's cost-effective human resources may complement growing labor scarcity and rising wages in Korea. A number of Korean companies may consider India as an ideal destination for their relocation or global sourcing. Hyundai India, for example, has already become a manufacturing hub for small cars for its parent company. Opportunities for expanding business cooperation also exist in engineering, design engineering and construction services. Joint venture partnership between Korean and Indian companies in these areas may bid for the projects within the country as well as in the third countries.

1.40 Similarly, India's booming knowledge-based service industry complements the hardware and manufacturing-based economic structure of Korea. India's capabilities in pharmaceutical industry, IT software and auto components usefully complement Korean competence in heavy engineering, automobiles, machinery and electronic hardware. There is a potential for bilateral cooperation in India's CDMA service, high speed internet and e-governance.

1.41 The synergies inherent in the complementarities of the two economies can be harnessed for mutual benefit by the business and industry of the two countries. The expansion in trade and investment flows would create demand for related infrastructure and other supporting socio-economic services. That is to say, the expansion in trade and investment alone would not be sufficient to exploit the full development potential in the two countries but the cooperative collaboration between the two countries should go beyond trade and investment

measures and foray into other areas of economic cooperation like banking, agriculture, rural development, electronics and energy resources. Bilateral cooperation between India and Korea in the science and technology sector has been identified by the two sides as exemplary. With regard to development of resources, the synergy between the two countries can be maximized, if India's abundant resources are combined with Korea's know-how in the development of resources. Steel is an obvious example in this regard. POSCO of Korea, the one of the largest steel producer in the world, has signed an MOU with the state government of Orissa in investing up to US $ 12 billion in India. All these efforts will not only encourage the enterprises to take advantage of business opportunities but will also facilitate the strengthening of Korea-India economic ties.

1.42 The subsequent chapters of this report will address, in more detail, the potential to expand the economic relations and cooperation between the two countries in various sectors, and also indicate the constraints and policy measures that can be taken to this end.

Chapter 2

TRADE IN GOODS

GLOBAL TRADE IN GOODS

Review of Recent Trends

2.1 Overall world trade in goods in 2003 was US$14,863 billion with exports valued at US$7,294 billion as per data from World Trade Organization (WTO). The average trade volume in real terms increased by 4.5% over the previous year, which, in itself is a little higher compared to the preceding year. In 2004, the world's total merchandize trade was US$18,424.31 billion recording a growth of 24% over 2003. World exports comprised US$9,010 billion. This is attributable to the global recovery from the economic shock caused by temporary unusual factors like the outbreak of SARS and military action in Iraq, which had a considerable adverse impact on the world economy.

2.2 Of the world's total trade in goods in 2004, Korea and India had shares of 2.6% and 0.9%, respectively, with the former ranking 12th and the latter 23rd in the world. In particular, Korea's exports amounted to US$253.8 billion and imports US$224.5 billion, with respective shares of 2.8% and 2.4% in the world's total exports and imports. India exported US$79 billion and imported US$107 billion, accounting for 0.9% and 1.1 %, respectively, in the share of the world's total exports and imports. Korea ranked 12th for exports and 13th for imports in world trade while India ranked as the 27th largest exporter and the 23rd largest importer in world trade.

2.3 Korea's overall trade in 2004 was US$478.3 billion, accounting for 70.3% of her GDP in 2004, reflecting the fact that the Korean economy depends heavily on international trade. Exports and imports of Korea are expected to continue their upward trends. Owing to the strong growth in exports, the goods account balance was close to US$30.0 billion in 2004 and is likely to remain strongly positive in 2005 as well. Korea's main trade partners are China, the United States, EU, ASEAN and Japan, accounting for more than 50% of Korea's total exports and imports. The trend of Korea's international trade is reflected in the

following table.

Trends in Korea's International Transactions

(Unit: US$ bn, %)

Year	1997	1998	1999	2000	2001	2002	2003	2004
Total	**280 (0.3)**	**225 (-19.7)**	**263 (16.8)**	**332 (26.3)**	**291 (-12.1)**	**314 (7.9)**	**373 (18.5)**	**478 (28.4)**
Exports	136 (5.0)	132 (-2.8)	143 (8.6)	172 (19.9)	150 (-12.7)	162 (8.0)	194 (19.3)	254 (31.0)
Imports	144 (-3.8)	93 (-35.5)	120 (28.4)	160 (34.0)	141 (-12.1)	152 (7.8)	179 (17.6)	224 (25.5)
Balance	**-8**	**39**	**23**	**12**	**9**	**10**	**15**	**30**

* Notes: Based on the customs clearance. The figures in the parentheses indicate the growth rates over the previous year.
* Source: The Korea International Trade Association (KITA).

2.4 India has witnessed a significant increase in trade since 1991 when a major liberalization of foreign trade policy and industrial policy was effected. Rapid growth in export of goods since the early 1990s has helped increase India's share of world trade by nearly 50% to reach the current level of 0.9%. As shown in the table below, India's overall trade in 2003-04 was valued at US$140 billion: exports were US$64 billion and imports were US$78 billion. During 2004-05, India's global trade grew by 31.2% to US$186 billion; exports were US$79 billion, recording a growth of 23.4%. Imports also witnessed a robust growth of 33.6%, having increased to US$107 billion. This strong growth in trade is expected to continue in the years ahead owing to the various policy initiatives of the Indian Government. India's major trading partners are EU, the United States, China, UAE, Switzerland and Korea, which account for about 50% of global Indian exports and about 40% of global Indian imports. Recent trends in India's International transactions are as follows.

Trends in India's International Trade

(Unit: US$ bn, %)

Year	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Total	**75 (-1.1)**	**86 (14.3)**	**96 (9.9)**	**95 (20)**	**114 (8.4)**	**142 (24.4)**	**186 (31.2)**
Exports	**33**	**37**	**45**	**44**	**53**	**64**	**79**

	(-5.1)	**(10.8)**	**(21.8)**	**(-1.6)**	**(20.3)**	**(21.1)**	**(23.4)**
Imports	**42** **(2.2)**	**49** **(17.2)**	**51** **(1.7)**	**51** **(-)**	**61** **(19.4)**	**78** **(27.3)**	**107** **(33.6)**
Balance	**-9**	**-12**	**-6**	**-7**	**-8**	**-14**	**-28**

*** Notes: The figures in the parentheses indicate the growth rates over the previous year.**

*** Source: Directorate General of Commercial Intelligence and Statistics, Ministry of Commerce of India**

Composition, Destination and Origin

2.5 Korea's exports crossed US$250 billion in 2004 and it was ranked 12th in world exports. Growth in exports of major products has seen substantial increase during last year: wireless communication equipment(41.1%), automobiles(39.5%), semiconductors (35.4%), and ships(33.1%). In terms of increase in exports to different countries, Korea's exports to China increased by a remarkable 42.7%. Exports to other major markets also showed remarkable growth, resulting in a greater market share for Korean products: BRICs(41.9%), EU(39.5%), the United States(25.5%) and Japan(25.5%).

2.6. Imports by Korea also increased greatly to over US$200 billion, supported by the price hike in international oil and raw materials and a growth in demand for imports with a focus on raw materials(31.3%), capital goods(21.3%), and consumer goods(10.3%), driven by the favorable trend in exports. With this high growth in imports, Korea took 13th place as a major importer in 2004, one step up from 14th place in the previous year. Major countries from which Korea imports are Japan, China, the United States, EU and ASEAN.

2.7 India's total exports in 2004-05 by major commodity groups and corresponding growth over the previous year comprised manufactures(76.1%), agricultural products(12.6%), and mining products(10.2%). India showed predominance in export of textiles, pharmaceuticals, non-industrial diamonds, and petroleum products. On the other hand, the shares of India's total imports by main commodity group were 49.7% for manufactures, 32.9% for mining products, and 8.3% for agricultural products. Notably, India has increased imports of petroleum oils, non-industrial diamonds for processing and re-export, information and communication equipment, etc. Main destinations of Indian

exports were the EU(21.8%), the United States(16.7%), UAE(9%), and China and Hong Kong combined (10.4%). India imported mainly from the EU(17%), followed by the United States(6%), China(6.3%), Switzerland(5.4%), and Korea(3%).

BILATERAL TRADE

Trends in Bilateral Trade: Aggregate Size

2.8 In the last decade, bilateral trade between Korea and India has witnessed a transformation along with a constant increase in terms of volume and percentage growth. According to Indian trade figures, bilateral trade experienced a quantum leap in the last two years, recording a growth rate of 34% and 65% in 2002-2003 and 2003-2004, respectively. The total bilateral trade amounted to US$3.5 billion in 2003-2004 as against US$2.2 billion in 2002-2003. In 2004-2005, the total trade increased 16% to US$4.2 billion. In 2003-2004, India had a trade deficit of US$2 billion in favor of Korea. A steady increase in bilateral trade would be sustainable in the years to come as it was in the past decade.

2.9 According to the Korean trade statistics, in 2004, bilateral trade between Korea and India reached US$5.48 billion, growing 34% over the previous year. As of 2004, India ranks as the 11th and 26th largest country for Korean exports and imports, respectively. Overall, India is Korea's 19th largest trading partner. On the other hand, Indian trade figures for 2003-2004 indicated that Korea ranked as the 11th largest trading partner for India, and ranked as the 21st and 7th largest country for India's exports and imports, respectively.

2.10 The bilateral trade data over the last few years as per Indian and Korean trade statistics is summarized in the following tables:

Bilateral Trade between Korea and India

A. Indian Statistics

(Unit: US$ mil, %)

	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05(P)
Exports to Korea	307.53 (-34.22)	475.89 (54.74)	446.45 (-6.18)	471.37 (5.58)	644.85 (36.80)	764.86 (18.61)	962.76 (25.76)
Imports from Korea	1394.43 (39.19)	1273.34 (-8.68)	889.58 (-30.13)	1141.37 (28.30)	1522.01 (33.34)	2829.19 (85.88)	3194.09 (12.90)
Total trade	1701.96 (15.83)	1749.23 (2.77)	1336.03 (-23.62)	1612.74 (20.71)	2166.86 (34.35)	3594.05 (65.86)	4156.85 (15.65)
Balance of Trade	-1086.90	-797.45	-443.13	- 670.00	-877.16	-2064.33	-2231.33

* Source: Directorate General of Commercial Intelligence and Statistics, Ministry of Commerce of India

* Note: The figures in the parentheses indicate the growth rates over the previous year.

B. Korean Statistics

(Unit: US$ mil, %)

Year	1999	2000	2001	2002	2003	2004
Total	**2,130 (-6.3)**	**2,311 (8.5)**	**2,514 (8.8)**	**2,633 (4.7)**	**4,086 (55.2)**	**5,482 (34.0)**
Exports to India	1,362 (-18.3)	1,326 (-2.7)	1,408 (6.2)	1,384 (-1.7)	2,853 (106.1)	3,632 (27.3)
Imports from India	768 (29.9)	985 (28.2)	1,106 (12.3)	1,249 (13.0)	1,233 (-1.3)	1,850 (50.1)
Balance	**594**	**341**	**302**	**135**	**1,620**	**1,782**

*Note: The figures in the parentheses indicate the growth rates over the previous year.
* Source: Korea International Trade Association (KITA)

Trends in Bilateral Trade: Composition

2.11 Exports from India to Korea have grown over the years, slowly but steadily. The bilateral trade data compiled by the concerned agencies of the two countries shows considerable variation as is evident from the two tables depicted above possibly because the Indian agencies compile the trade data on the fiscal year basis while the Korean compilation of statistics on a calendar year basis. According to Indian statistics, the five top exports from India to Korea comprise cotton yarn fabrics, made-ups, petroleum products, oil meals,

iron ores and other minerals which together constitute 54% of India's total exports to Korea. Of this, cotton yarn, fabrics, made-ups, etc. account for 17%, the highest percentage share. The share of these items in India's total exports to Korea has, however, declined during 2004-2005, while the share of items like non-ferrous metals, petroleum products, iron ore, and machinery and instruments has increased. The exports of non-ferrous metals have increased significantly in 2004-2005. (Appendix-Table A.1)

Composition of India-Korea Trade 2004-05

(Unit: US$ Mil.)

Export				Import		
	Items	Value	Share (%)	*Items*	Value	Share (%)
1	Cotton yarn, fabrics, made ups	162	17	*Electronic Goods*	1252	39
2	*Petroleum products*	104	11	*Machinery*	462	14
3	*Oil Meals*	75	8	*Transport equipment*	275	9
4	*Other ores & minerals*	67	7	Iron & Steel	267	8
5	*Iron ore*	59	6	*Artificial Resins, Plastics*	140	4
6	*PSM iron & steel*	47	5	*Organic chemicals*	103	3

∗ Source: Directorate General of Commercial Intelligence and Statistics, * Ministry of Commerce of India

2.12 Korean exports to India in 2004 increased by 27.3% over the previous year to US$3.63 billion, backed by sustained export of cellular phones and a considerable increase in export of auto parts, synthetic resin, and ocean structure. Among others, the surge in the export of auto-related products appears to be assisted by a huge local demand for intermediary goods from Korean investors in India. Indian trade figures indicated that electronic goods and machinery except electric and electronic constitute over 50% of India's imports from Korea. They have consistently ranked as the top imports from Korea in the last two years. All items in India's top ten imports from Korea in

2004-2005 have recorded a growth over the previous year. The top ten imports from Korea accounted for 88% of India's total imports from Korea. (Appendix-Table A.2)

2.13 The agricultural trade between Korea and India is almost negligible. The bilateral agricultural trade reached US$ 401 million in 2004, accounting for 7.3% of the total trade between the two countries. Leaving out the oil meals which accounted for only US$ 76 million worth of exports from India to Korea, all other agricultural exports from India to Korea do not add up to more than US$ 20 million in 2004-05. Korean agro-exports to India were only US$ 5 million in 2004. The bilateral fishery trade amounted to US$ 25 million in 2004, accounting for 0.7% of the total trade between the two countries. Indian exports of marine products to Korea account for US$ 17 million. Even though Korea is the net importer of fishery products from India, the total quantum of marine product exports to Korea is negligible. On the other hand, Korea's fishery exports to India were US$ 0.9 million. Korea applies tariff quotas under its multilateral agricultural market-access commitments on about 60 agricultural items (180 tariff lines), excluding 16 tariff lines for rice that are granted special treatment under the relevant WTO rules. The only change in coverage is beef for which the tariff quota was replaced by tariffs from January 2001 onwards, currently applied at 40%. For India, policy-making for the agricultural sector has been affected by considerations of domestic supply and self-sufficiency. In this line, the agricultural sector has been protected by the restrictive controls on import and export, resulting in a substantial increase in stocks and their maintenance costs to an unsustainable level. The Indian side suggested that a strategy for expanding bilateral trade in agriculture is "Trade cum Investment Strategy", following the pleasant experience of Korean investments in India in other sectors. This strategy foresees investment in India in agricultural and food processing sectors by Korean companies for production outsourcing. This could entail the Korean investment in Agri Export Zone and Special Economic Zone in India for export of agricultural products back to Korea. This could take care of Korea's concern in food safety and quarantine norms which are hitherto cited as constraints for export of agricultural products from India to Korea.

2.14 The composition of Indian exports has remained static for a long time. It is important that a conscious and a well directed strategy aimed at diversification of Indian exports is formulated and implemented. India's exports

to Korea, while showing some signs of diversification including industrial products such as machinery and instruments, are still dominated by traditional, primary and resource based products like iron ore. Korea's exports to India also continue to be dominated by electronic goods even though the share of transport equipment has increased. The JSG agreed that as a result, both India and Korea need to make sustained efforts to diversify their trade baskets. To this end, it will be worthwhile if the two countries identify the areas and products where they have a competitive edge over the other and then focus on them to expand the bilateral trade.

EXPANSION OF TRADE

Potential for Expansion: Studies, Analyses

2.15 The JSG noted that the high average growth of about 41% per annum in bilateral trade between Korea and India in the last two years illustrates the potential for still higher trade. Other factors that are suggestive of this potential include the low share of each country in the total bilateral trade and the high economic growth rates of the two countries.

a. ***Low Percentage Shares in Trade Flows*** - The share of bilateral trade in the total trade of the two countries continues to remain small. Trade between Korea and India accounted for less than 2% of India's total trade in 2004-05. In 2004-05, India's exports to Korea were US$1 billion accounting for only about 1.25% of India's total exports, while imports from Korea were US$3.2 billion and account for about 3% of India's total imports. The JSG is of the view that the fact that bilateral trade between Korea and India is increasing and trade shares are rather small clearly implies that there is a huge potential for enhancing bilateral trade between the two countries. This is also reinforced by the steady increase in India's total external trade in recent years.

b. ***High Economic Growth*** - The JSG believes that the momentum for increased bilateral trade is further reinforced by a high and sustained economic growth that is invariably accompanied by a higher and more

broad-based propensity for consumption. Particularly, India has shown significant economic dynamism in the 1990s. The annual GDP growth rate of India was 6.2% on average between 1994 and 2002. India is considered one of the most promising countries among the BRIC economies and, in the foreseeable future, the Indian economy is expected to maintain its rapid pace of development. Korea is the world's tenth largest economy. The growth of domestic demands will undoubtedly spur the development of bilateral trade. It may be appreciated that the share of trade in India's annual GDP is about 30%. Unlike India, Korean economy is a high trade intensive economy and the trade constitute nearly 70% of the Korean economy. A high economic growth by Korea would obviously mean higher global trade for Korea. Similarly, a higher economic growth for India would mean higher disposable income for the Indian consumers. Hence, there are opportunities for both countries to enhance bilateral trade.

2.16 In order to verify the potential for trade expansion between the two countries, two national research institutes of Korea and India have undertaken studies.

a. ***An analysis using the Gravity Model*** **-** According to the study undertaken based by the ICRIER of India on the gravity model, the potential of trade between Korea and India was estimated to be 1.8 times their actual trade, when GNP is used in terms of PPP (See Annex I). The basic gravity model explains the volume of trade between a pair of countries as being proportional to their economic "mass" (proxied by GDP) and inversely proportional to the distance between them.

b. ***An analysis using the CGE Model*** **-** Likewise, the Korean side presented a study that was undertaken by KIEP on the basis of a static model where zero tariff combined with capital accumulation is assumed (See Annex II). According to the study, the zero tariffs combined with capital accumulation are likely to increase exports in all manufacturing sectors of both countries. In Korea, exports in a few sectors like transportation equipment, textiles and apparel, machinery and chemicals would be quite remarkable. In particular, it shows that increase in export

of transportation equipment would be US$1,141 million. The increase in India's total exports to Korea would be US$543 million, which includes US$223 million for primary goods, and US$120 million for textiles and apparel. The results of this study also indicate that trade liberalization may improve bilateral trade performance both in Korea and India.

Identification of Potential Sectors and Commodity Groups

2.17 The JSG believes that to substantially increase the trade between Korea and India on a consistent and sustained basis, the two countries need to diversify their export baskets. In this regard, certain sectors have been identified that have the potential for achieving the objectives of increasing the bilateral trade volume and diversifying the traded goods.

2.18 ***Potential Sectors for Expansion of Exports from India to Korea*** - Based on the index of revealed comparative advantage (RCA), a set of commodities in which India has a comparative advantage both in the world market and in the Korean market but is not yet exporting to Korea, even though Korea is importing these commodities from other developing countries, has been identified. This, therefore, is a set of commodities in which India's potential for export to Korea is to be exploited and includes agriculture and allied products-vegetable products, live animal and animal products, prepared foodstuffs, beverages, spirits and vinegar, tobacco and manufactured tobacco substitutes; material-based manufactures such as articles of apparel and accessories; cotton; manmade staple fibers; chemicals and plastics, organic/inorganic chemicals, etc. A detailed list of potential exports from India to Korea at the six-digit HS code levels is presented in Appendix-Table A.3.

2.19 The list of potential exports, however, is indicative of static comparative advantage that India maintains vis-a-vis the Korean market. An element of dynamics in comparative advantage is already evident. Indian exports of textiles to Korea have recorded a growth of almost 40% between 2001-2002 and 2002-2003. In this period, the exports have increased from US$145.52 million to US$203.01 million. The main export items are cotton, silk and ready-made garments. The prospect for developing exports of textiles from India to Korea is thus fairly good, especially for items like cotton yarn, gray fabrics, etc.

2.20 ***Potential Sectors for Expansion of Exports from Korea to India*** - Using the RCA index, the commodities where Korea holds a comparative advantage in the world market are identified as commodities that Korea can potentially export to India. These include electrical and electronic equipment, iron and steel, boilers and machinery, organic/inorganic chemicals, plastics and articles thereof, manmade staple fibers and filaments, articles of apparel, knitted/crocheted accessories, etc. as presented in Appendix-Table A.4.

2.21 In addition, the JSG considered the possibility of intra-industry niches for trade and specialization. In other words, the rapid pace of economic globalization and subsequent development of international investment and trade has extended production chains beyond national boundaries. There is a possibility of developing intra-industry trade between the two economies. Korea and India can use their respective comparative advantages and build on different aspects of the value chain in similar products. Based on Grubel-Lloyd index calculations undertaken by ICRIER, sectors like soaps, lubricants, waxes, candles; inorganic/organic chemicals and miscellaneous chemical products, pearls, precious stones, etc. have been identified as sectors that offer enormous scope for intra-industry trade in this respect. In the process, a new relationship of labor division and vertical specialization between the two countries' enterprises can be established.

2.22 Even for the products for which both countries are in a competitive relationship (e.g., articles of apparel and manmade filaments and fibers, chemicals), bilateral trade and exports to third country markets will be conducive to the upgrading of domestic industrial structures both in Korea and India. It will serve as another beneficial and cooperative way to diversify their trade baskets.

TRADE RULES, DISCIPLINES AND PROCEDURES

Prevailing Tariff Levels: Bound and Applied

2.23 For Korea, 92% of all tariff lines are currently bound in the WTO, and this binding coverage is rescheduled to expand up to 94.4% by 2009. The average applied tariff rates are 11.6% for all goods and 7.0% for industrial

goods, which are lower than their respective average bound tariff rates of 16.1% and 10.2%. In the case of agricultural goods, the average applied tariff rate was 42.1% in 2003 while their bound rate was 52.9% on average. Meanwhile, fishery products reserve the highest tariff rates among non-agricultural products. Korea has continued to reduce the number of items subject to adjustment duties from 27 items in 2000 to 20 in 2004, in addition to lowering the rates of adjustment duties. With a view to achieving progressive improvement in market access for products from LDCs, Korea provides duty-free and quota-free access for 88 products at the 6-digit HS code levels. These products are included in the WTO-recommended list of 117 products of export interest to LDCs. Korea is considering an expansion of the preferential treatment to a larger number of products.

2.24 In India, collection of duties at customs includes tariffs that are subject to the WTO discipline and equivalents of domestic indirect taxes such as VAT and central excise called additional duty or CVD. The applied tariff rates in India are significantly lower than the bound rates. The final bound rates are 49.8% for all goods and 34.3% for industrial goods only. But the average MFN tariff rates applied as of 2002 are 29% for all goods and 27.7% for industrial goods. In the case of agricultural goods, the applied rate is almost 68% lower than the bound rate. The average applied tariff rate for agricultural products in India is 36.9% compared to Korea's 42.1% while India's bound rate is 114.5% and Korea's bound rate is 52.9%. From February 2005, India has reduced the peak (applied) tariff rate for all minerals and manufactures to 15%, with the exception of automobiles. Because of livelihood concerns of a large section of the population dependent on agriculture, tariff rates in agriculture are more variable. They range from 0-100% but are clustered around 30%. For social and religious reasons, special rates are applicable to alcohol products. India's tariff bindings in the WTO cover 73.8% of all tariff lines.

2.25 The prevailing bound and applied tariff levels are summarized in the following tables.

Simple Average Tariff Rates

(Unit: %)

	Final bound		Applied	
	India	Korea	India (2002)	Korea (2003)
All goods	49.8	16.1	29.0	11.6
Agricultural goods	114.5	52.9	36.9	42.1
Non-agricultural goods	34.3	10.2	27.7	7.0

* Source: WTO Trade Profiles

* As goods produced in India are often charged higher state excise and sales tax than imported products, the effective protective duty may be lower.

2.26 There is another tariff concession set in the Bangkok Agreement to which both Korea and India have membership. Currently, the two countries apply preferential tariffs on the 387 items at the 6-digit HS code levels. Specifically, India is awarded a preferential tariff averaging 30% from Korea on 199 concessional items, including apparels and garments, green tea, pulp and paper. In return, Korea receives an average 20% preferential tariff from India on 188 general concessional items.

Concessional Items in the Bangkok Agreement

		India	Korea	China	Bangladesh	Sri Lanka	Total
General Concession		188	199	520	87	219	1,213
Special Concession	Bangladesh	33	16	11	-	28	88
	Laos	-	8	-	-	2	10
Total		221	223	531	87	249	1,311

2.27 High tariffs maintained for a long period of time would not only impede trade expansion but also make the domestic industry uncompetitive and inefficient. With regard to trade in industrial goods, there seems to be substantial differences in the current bound tariff rates of Korea and India. Currently, the average tariff rate applied in Korea is 7.9%. Korea imposes 4.72% of tariff rates on the top 20 commodities at the 6-digit HS code levels being imported from India, which constitutes 62% of all imports from India. The average tariff rate for the top 50 commodities that Korea imports from India is 6.09%. India's average tariff rate on imported products dropped from 50.8% in 2003 to 39.2% in 2004. (Appendix-Table A.5)

2.28 The Korean side expressed its concerns over impact on the trade between Korea and India that is brought by the Indo-Thai FTA's Early Harvest Scheme (EHS) has been applied since September 2004 in accordance with the Framework Agreement concluded between the two countries in October 2003. The import tariffs on 82 trade items will be phased out in stages, aiming to be completed by September 2006. As such, Korea is concerned about a possible negative impact it may have on Korean exports to India. The Indian side expressed similar concerns over the impact on the bilateral trade that the FTAs Korea concludes with India's competitors may have. The JSG noted that in order to avoid this kind of negative impact on their bilateral trade both countries should not be left behind each country's FTA schedules.

Customs Procedures

2.29 Among several concerns to be addressed in the effort by the two countries to substantially increase their bilateral trade is the issue of customs procedures and exchange of information. According to the Indian industry, there is little information on the electronic trade clearance systems and information exchange procedures of Korean customs authorities, which makes it hard for them to learn the existing customs procedures relating to origin verification, trans-shipment, and cooperation and dispute settlement. Lack of such information puts pressure on the profit margin of exporters, and they want a definite mechanism for exchanging information of this kind. On the other hand, Korean companies doing business with India claim that India's complicated customs procedures work as a non-tariff barrier that hinders Korea's export to India.

2.30 Korea has made a series of efforts at its Customs Service level to reduce time and cost for customs clearance; the adoption of the Electronic Data Interchange (EDI) system for imports and exports, risk management techniques, knowledge management system, and electronic payment of taxes and duties. At the same time, Korea is developing a web-based clearance system (single window system) and the sea and air trans-shipment system in order to further streamline the customs clearance procedures. Korea strives to achieve bilateral customs cooperation with India for trade facilitation in between.

2.31 India also made efforts over the course of many years to bring its

customs procedures on par with the best international practices backed by the computer-based system. Since 1998, India has set out a Fast Track Scheme under which certain categories of importers have been allowed to pay duty and clear the imported goods on the self-duty-assessment basis. India operates the EDI system under which qualified importers, identified on the basis of past performances, are given a waiver of inspection of the imported cargo through a "green channel" facility. At present, about 75% of India's international trade is covered by the 23 automated customs stations. Other initiatives like the installation of the Interactive Voice Response System (IVRS) and the Touch Screen Kiosks have been taken to facilitate traders to ascertain the status of their documents.

2.32 The JSG also felt that an appropriate enforcement system should be installed to prevent illegal trade in addition to the improvement of the customs procedures as described in the preceding paragraphs.

Export Inspection and Certification, and Standards and Regulations

2.33 India expressed its view that as the Korean authority approved the official export inspection agency of India for a few products, it may also accept certificates issued by the agency for other products. In this regard, Korea emphasized that the acceptability of certificates should be based on scientific principles and relevant international norms.

2.34 It was noted that Korea and India should make available relevant information and documents on laws, rules and regulations affecting trade, in particular, including for registration. It was also noted that standards should be based on the relevant international standards, guidelines and recommendations to improve the compatibility of technical regulations and standards between both countries.

Rules of Origin

2.35 The rules of Origin (ROO) are criteria that determine where a product is produced. They are crucial in any bilateral or regional preferential or free trade arrangement in order to prevent trade circumvention. The rigor of the preferential ROO would depend on the differential between the MFN and

preferential rates of duty and the perceived risk of trade circumvention. As different ROO criteria can be used for granting originating status to goods (e.g., value-added criterion, change in tariff classification, and process definition), ROO is one of the most important subjects in trade negotiations. Korea and India have developed a well-functioning, relatively non-restrictive ROO system on their respective FTAs.

Trade Remedies: Anti-Dumping, Bilateral Safeguard Measures, etc.

2.36 For the anti-dumping cases initiated by India and Korea against each other, India claimed that language is perceived as a major constraint in the settlement of anti-dumping cases. In the absence of documents in English with respect to anti-dumping cases, Indian companies face time constraints and incur huge expenditures for obtaining documents translated in English.

2.37 Korea also expressed its concern that scores of anti-dumping and safeguard measures India has taken posed major import restrictions against products of Korean-origin. As of March 2005, India has imposed a total number of 20 import restrictions on Korean-made products, namely, anti-dumping duties on 19 items and a safeguard measure on one item. India is on par with the United States in the number of such import-restrictive measures against Korean products, following China which ranks first.

2.38 Both sides are of the same view that safeguard measures should be taken only when an imminent damage to the domestic industry is caused by sharp increase in imports. On the other hand, quantitative trade restrictions and export duties should not be permitted without justification and internal taxation and regulations should be applied in accordance with Article III of the GATT 1994. And the provisions allowing both countries to restrict or prohibit imports on grounds similar to those provided in Articles XX (general exceptions) and XXI (security exceptions) of GATT 1994 should be taken into consideration.

THE WAY FORWARD: HOW TO REALIZE FULL POTENTIAL FOR TRADE IN GOODS

2.39 In order to materialize the enormous trade potentials, the JSG

recommends that all trade-related issues as described above should be seriously taken up jointly by both Governments so as to improve the environment of bilateral trade between Korea and India.

2.40 For tariffs, it is considered that tariff-cutting and elimination on a reciprocal basis would lead to an overall increase in bilateral trade and improve the national welfare of both countries. Both countries would also benefit from tariff reduction that would reduce business cost, enhance competitiveness of domestic industries, and set both countries as attractive investment destinations. It was noted that the Bangkok Agreement has already provided an example for liberalization and the JSG is of the view that greater liberalization should be undertaken to cover substantially all the trade between the two countries.

2.41 As it is important to develop ROO that would prevent circumvention by goods from third countries to benefit from the bilateral tariff liberalization, such rules should facilitate rather than impede trade. Accordingly, the JSG is of the view that the rules should be clear, consistent, transparent and predictable and easy to use and administer.

2.42 Korea and India are both against protectionist and arbitrary use of any unilateral remedies in the international trading system. Both believe in the need to contribute towards the WTO's objective of promoting freer trade. In this regard, the JSG notes that both countries affirm the rights and obligations of the two countries under the WTO agreements on Anti-dumping, Subsidies and Safeguards.

2.43 The Korean and Indian economies are highly complementary. Therefore, the liberalization of trade in goods would promote inter-industry trade between the two countries. The JSG, however, agreed that due consideration should be given to a limited number of highly sensitive products/sectors that are vulnerable in the economies and both sides should exercise flexibility. It was noted that Korea considers agricultural and fishery industries to be particularly sensitive and thus fall under such category.

2.44 The JSG concurred that in jointly devising the ways and means to maximize trade potentials between the two countries, the following principles

should be respected: i) the coverage of products under this joint effort should be comprehensive, encompassing substantially all the trade between the two countries, with flexibility given to certain highly sensitive products; ii) mutual benefits should be aimed at, with the two countries keeping abreast of the rapidly changing international trade environment, which may require their on-going structural reform for transparency and efficiency in line with global standards; iii) quantitative export and import restrictions inconsistent with the relevant rules of the WTO Agreement should not be permitted; and iv) all other restrictive regulations of commerce and barriers to trade expansion should be streamlined to the maximum.

Annex I

The Gravity Model

The gravity equation is a simple empirical model for analyzing bilateral trade flows between geographical entities. The gravity model for trade is analogous to the Newtonian physics function that describes the force of gravity. The model explains the flow of trade between a pair of countries as being proportional to their economic "mass" (national income) and inversely proportional to the distance between them and has the following mathematical representation:

$$Trade_{ij} = \alpha . \frac{GDP_i . GDP_j}{Distance_{ij}} \quad (1)$$

where $Trade_{ij}$ is the value of the bilateral trade between country i and j, GDP_i and GDP_j are country i and j's respective national incomes. $Distance_{ij}$ is a measure of the bilateral distance between the two countries and α is a constant of proportionality.

The linear form of the model and the corresponding estimable equation is as follows:

$$\log (Trade_{ij}) = \alpha + \beta_1 \log (GDP_i . GDP_j) + \beta_2 \log(distance_{ij}) + u_{ij} \quad (2)$$

where α, β_1 and β_2 are coefficients to be estimated. The error term captures any other shocks and chance events that may affect the bilateral trade between the two countries. Equation (2) is the core gravity model equation where bilateral trade is predicted to be a positive function of income and negative function of distance.

Our Approach

In addition to the basic gravity model equation we estimate an augmented gravity model equation to first analyze international trade flows and then estimate the trade potential for India with its trading partners. The model is "augmented" in that several conditioning variables that account for other factors that may affect trade have been included over and above the (the natural logarithms of) income and distance. The models - basic and augmented as formulated - for estimation are as follows:

Basic Gravity Model

As stated above, the gravity model in its most basic form explains bilateral trade (Tij) as being proportional to the product of GDPi and GDPj and inversely related to the distance between them.

$$\text{Log (Tij)} = \alpha + \beta_1 \log (GDP_i GDP_j) + \beta_2 \log(GDP/pop_i . GDP/pop_j) + \beta_3 \log(Dist_{ij}) \ldots\ldots (3)$$

To account for other factors that may influence trade levels, dummy variables have been added to the basic model. The augmented gravity equation is thus expressed as follows:

Augmented gravity model:

$$\text{Log (Tij)} = \alpha + \beta_1 \log (Y_i Y_j) + \beta_2 \log(Y_i/pop_i . Y_j/pop_j) + \beta_3 \log(D_{ij}) + \beta_4 (Border_{ij}) + \beta_5 (Lang_{ij}) + \gamma_1 (Regl) + \gamma_2 (Comcol) + \gamma_3 (Col) + \gamma_4 (landlocked) + \gamma_5 (Island) + u_{ij} \ldots\ldots\ldots (4)$$

Where i and j denote countries and Tij denotes the value of bilateral trade between i and j. The explanatory variables in the gravity model are defined as follows:

GNP (Y)/Population (Pop): There are two standard ways of measuring the size of countries in the gravity model: GNP (output) or population. We have also attempted to supplement the size variables with a measure of land area.

As regards GNP, the model is estimated using nominal GNP in US dollars and also GNP in terms of purchasing power parity (PPP).

Per Capita Income: Y/POP: While it is precisely equivalent mathematically, whether we express the explanatory variables as GNP and per capita GNP, or as GNP and population, we choose the former. In particular, the specification with GNP per capita allows us to explore the link between a country's trade and its stage of development.

Distance: D is the distance between country i and country j measured "as the crow flies,"-technically called the great-circle distance measured between the two latitude-longitude combinations.

To capture the impact of geographical factors and historical ties between countries on bilateral trade, we include dummy variables. These are explained as follows:

Border Adjacency: A dummy variable to identify a pair of countries that are adjacent or contiguous or share a border. The dummy variable is unity if countries i and j share a common border and 0 when they do not.

Common language: $Lang_{ij}$: is equal to one when two countries share a common language (official or commercial): Common language is expected to reduce transaction costs since speaking the same language helps facilitate trade negotiations.

Colonial links: Shared history is expected to reduce transaction costs caused by cultural differences.

- *Comcol.:* is equal to one if i and j were colonies after 1945 with the same colonizer
- *Col.:* is equal to one if i colonized j or vice versa

Landlocked: number of landlocked countries in the pair
Island: number of countries in the pair that are islands

Regional trading arrangements: Regl: Countries often enter into regional trading agreements with the intention of facilitating bilateral trade. The dummy variable is equal to one when both countries in a given pair belong to the same regional group and 0 otherwise. The estimated coefficient will then tell us how much of the trade can be attributed to a special regional effect.
Uij is a log - normally distributed error term - and represents the myriad other influences on bilateral trade. E (ln Uij) = 0.

Methodology

In the first stage we have estimated (equation 4) for world trade flows. Gravity model Equation (4) has been estimated using the OLS technique with cross - section data for the year 2000. The dependent variable is total merchandise trade (exports plus imports in thousands of US dollars), in log form, between pairs of countries. All estimates are checked for heteroscedasticity.

In the second stage, the estimated coefficients from the first stage have been used to analyze India's trade pattern with all its trading partners.

The dependent variable in our analysis is the natural log of total bilateral trade (exports plus imports) measured in current international prices (dollar value). Our analysis is based on the maximum possible geographical coverage of world trade flows. Our data source is the PC TAS. PC TAS is derived from the trade database of the United Nation's Statistics Division, and covers over 90 per cent of world trade. There are 20531 observations in the sample. Observations for all variables are for the year 2000.

GNP is measured in current international prices (dollars) as well as in PPP terms. Population of all countries is measured in millions. The data source for population and GNP is World Development Indicators (CD-ROM, 2003) published by the World Bank.

Bilateral distance is measured, in kilometers, as the great circle distance between two capital cities of the trading partners. Bilateral distance is from the data set developed by Haveman and the CEPII. For language, contiguity, colonial background and other such information we have used the CIA World Factbook.

As there are missing observations for some of the regressors, the usable sample may be much smaller for most estimation.

Estimation Results

The table below presents the OLS estimates of the basic and augmented gravity models. We analyze the results of the augmented model for both GNP in terms of PPP (Model I) and at current international US $ (Model II).

Dependent Variable: Log (trade between country pairs)

Var/model	I	II
PGDP	0.86	0.87
Dist.	-1.04	-1.11
PGDPPC	0.38	-
Border	0.72	0.56
Language	0.72	0.55
Comcol	0.61	0.51
Col	1.23	1.0
Comctry	1.39	1.53
Landlocked	-0.45	-0.26
Island	0.07	0.09
Regl.	1.12	0.87
Int.	-31.17	-23.18
Adjusted R^2	.70	.71
No. of Obs.	5801	5986

All variables except dummies are in logs.
All results are checked for heteroscedasticity.
PGDP= Log (GDP1*GDP2), PGDPPC = Log (GDPC1*GDPC2)

India's Trade Potential with Korea:

The gravity model, when estimated with GNP in terms of PPP and the consequent coefficients, yields a value of trade potential that is 1.8 times the actual trade between India and Korea. When the estimated coefficients of the model with current GNP values are used, the potential trade between India Korea is estimated as 1.2 the actual trade.

India's Trade Potential with Korea

Country	P/Appp	P/Ac
Korea, Rep.	1.8	1.2

** ICRIER Research Study*

Annex II
The CGE Model

Introduction

To understand the potential economic effects of tariff elimination between India and Korea, we adopt computable general equilibrium model (CGE model) which captures the complicated interplay of trade policy changes.[1] It is provided that a brief description of the model, such as the database, parameters, and the basic structure of the GTAP (Global Trade Analysis Project) which is widely used for CGE analysis. We also discuss the simulation results of the tariff elimination for both parties.

The CGE models have been used extensively to capture the essential features of economic activities. A CGE model is a simplified computer representation of one or more economies. Each model considers economic actions by consumers, producers, and the government. The CGE model provides a framework through which different and diverse policies can be examined. Once the basic model has been specified and applied with actual data, various policies can be studied with minor modifications. The model used here is a static, Walrasian general equilibrium model that endogenously determines quantities and prices by using a descendant of the Johansen-style simulation approach.

The Basic Structure of the GTAP Model

The CGE model used for this research is constructed according to the following assumptions. First, the model is based on the assumption of full employment and constant returns to scale (CRTS) of all industrial sectors in each region. Second, it assumes that each economy maintains the initial state of equilibrium. Accordingly, there is no excess profit in any kind of economic activity (production, imports and exports, etc.). Third, production factors can move freely between production sectors in a country. However, transfers between countries are not possible, except for capital. Fourth, consumers pursue utility maximization while producers pursue profit maximization.

The goods and services can be used for final consumption and as intermediate goods. Primary production factors will be aggregated into an added value, once

[1] The advantage of the CGE model is that it can systemically estimate the effects of policy changes on major economic variables. Trade liberalization will have systematic effects on the economy in general, and the CGE model can analyze changes in macro variables such as GDP, welfare level, prices of goods, as well as the interaction between economic agents such as producers, consumers, and the government. The econometric method based on a partial equilibrium approach, in contrast, has limitations in estimating the trade liberalization effects.

again using a Constant Elasticity of Substitution (CES) function. In addition, the top of the production structure combines the added value and the composite intermediate goods by using a fixed-coefficient (Leontief) technology.

Many difficulties accompany the construction of a CGE model. Especially, it takes much time and efforts to construct a database necessary for the model's simulation. Database construction for a multi-country CGE model requires I-O tables of the relevant regions, along with statistics on production, consumption, trade of each industry and country, etc. In order to save time and resources, researchers can use commercial products developed by academic institutions like the GTAP, which constructs databases for CGE models. The database of this study is primarily drawn from the GTAP Version V, supplemented by data from other sources such as *Trade Statistics in Korea*, KITA, *Commodity Trade Statistics Database*, UN, etc.

However, the base year of the GTAP Version V is too outdated for running simulations to estimate the economic effects of both parties' tariff elimination effects. To ameliorate this problem, we update the database to the year 2000 with external control of GDP growth rates, primary production factors, etc. Secondly, we modify shocks for trade liberalization to suit the year 2000, which are used for simulations. With several simulation exercises, it is found that the second approach is better for estimating the economic effects of trade policy changes. Therefore, we use the second approach, with reference to estimates from the first.

In this research, the world economy is categorized into the 9 aggregated regions/countries and rest of the world. Each economy is aggregated into 10 industry sectors. Parameters are related to the behavior of economic agents, we use GTAP parameters as shown in Table 1.

Table 1. Parameters for Simulation

Commodity	Armington Elasticity	Elasticity among Imports
Primary Goods	2.37	4.59
Processed Foods	2.42	4.77
Textiles and Apparel	3.32	6.78
Chemicals	1.90	3.80
Metal Products	2.80	5.60
Transportation Equipments	5.20	10.40
Electric and Electronic Goods	2.80	5.60
Machinery	2.80	5.60
Other Manufacturing	2.50	5.80
Services	1.94	3.85

Simulation Results

Korea has comparatively low tariffs while India's tariffs are high in general. As a model option regarding capital mobility and free capital movement has been chosen, this option assumes that there may be changes in the amount of international capital flows, filling the gaps in the rates of returns on capital. This simultaneously means that the tariff cuts may cause changes in trade balance. Another assumption is a free trade situation where full trade liberalization is envisaged covering both tariff and non-tariff barriers.

A static model is adopted to simulate efficiency gains without any attention to economic growth. A simulation with an assumption of CRTS is made by feeding the changes of the exogenous variables to the model to create a stock to compare the resulting changes in the endogenous variables. In this study, the model shock is achieved by setting the bilateral tariffs between India and Korea to zero.

It is observed that zero tariffs are likely to increase exports in all manufacturing sectors of both countries as in the following table. It shows that trade liberalization may improve the bilateral trade performance in both Korea and India.[2]

Table 2. Sector-Specific Export Increment by Tariff Elimination

(Unit: US$ mil.)

Commodity	Korea's Exports to India	India's Exports to Korea
Primary goods	1	223
Processed foods	7	51
Textiles and apparel	398	120
Chemicals	300	52
Metal products	264	22
Transportation equipment	1,141	36
Electric and electronic goods	230	5
Machinery	350	13
Other manufacturing	151	20
Total	**2,843**	**543**

* Source: The Feasibility Study of Korea-India CEPA, 2004, KIEP.

As shown in Table 3, the tariffs elimination is anticipated to have different impacts on the production sectors in Korea and India. Specifically, the impacts on sectoral output will range from -0.60% (electric and electronic goods) to 1.07% (transportation equipments) in Korea, and -2.74% (transportation

[2] Since we consider tariffs elimination only on tradable goods, impacts on services trade are not reported in this paper.

equipments) to 0.16 (textiles and apparel) in India. Although 6 sectors in Korea and 5 sectors in India out of 10 industry sectors are affected negatively,[3] both countries are expected to see economic growth as a GDP term with tariffs elimination.

Table 3. Impacts on Sectoral Output

(Unit: %)

Commodity	Korea	India
Primary Goods	-0.15	0.09
Processed Foods	0.00	0.13
Textiles and Apparel	0.08	0.16
Chemicals	0.19	-0.05
Metal Products	-0.03	-0.30
Transportation Equipments	1.07	-2.74
Electric and Electronic Goods	-0.60	-0.22
Machinery	-0.19	-0.07
Other Manufacturing	-0.08	0.07
Services	-0.01	0.05

* Source: The Feasibility Study of Korea-India CEPA, 2004, KIEP.

The Mathematical Structure of the CGE Model

(A. 1) Household utility and demand structure

$$u_r = \sum_i \delta_r^i * c_r^i, \text{ where } \sum_i \delta_r^i = 1$$

$$d_{cr}^i = c_r^i + \sigma_c^i * \left\{ p_r^{ci} - p_{cr}^{di} \right\}$$

$$m_{cr}^i = c_r^i + \sigma_c^i * \left\{ p_r^{ci} - p_{cr}^{mi} \right\}$$

$$p_r^{ci} = \Theta_r^{ci} * p_{cr}^{mi} + \left(1 - \Theta_r^{ci}\right) * p_{cr}^{di}$$

(A. 2) Production technology

$$q_r^i = LEONTIEF\left(\overline{q}_r^j, z_r^{1i}, z_r^{2i}, z_r^{3i}, , ,\right)$$

[3] Although the results are not included here, positive impacts on sectoral outputs are reinforced when capital accumulation is taken into consideration.

$$d_{zr}^{ji} = z_r^{ji} + \sigma_f^j * \left\{ p_r^{ji} - p_{zr}^{dji} \right\}$$

$$m_{zr}^{ji} = z_r^{ji} + \sigma_f^j * \left\{ p_r^{ji} - p_{zr}^{mji} \right\}$$

$$p_r^{ji} = \Theta_r^{ji} * p_{zr}^{mji} + \left(1 - \Theta_r^{ji}\right) * p_{zr}^{dji}$$

$$q_{er}^{ji} = \overline{q}_r^j - \sigma_v^j * \left(p_{er}^{ji} - \overline{p}_r^j \right)$$

$$\overline{p}_r^j = \sum_k \varpi_r^{jk} * p_{er}^{jk}$$

(A. 3) Relationships between price and policy variables

$$p_{rs}^i = p_{rs}^{ci} + t_{rs}^i$$

$$p_{rs}^{fi} = p_r^{mi} - s_{rs}^i$$

$$p_{cr}^{mi} = \overline{p}_r^i + t_{cr}^{mi}$$

$$p_{zr}^{mji} = \overline{p}_r^i + t_{zr}^{mji}$$

(A. 4) Market clearing conditions

$$\overline{l}_r = \sum_j l_r^j$$

$$\overline{k}_r = \sum_j k_r^j$$

$$q_r^i = d_{cr}^i + \sum_j d_{zr}^{ji} + \sum_s m_{sr}^i$$

$$m_r^i = m_{cr}^i + \sum_j m_{zr}^{ji}$$

(A. 5) Demand for imported goods

$$m_{sr}^i = m_r^i - \sigma_m^i * \left(p_{sr}^i - \overline{p}_r^i \right)$$

$$\overline{p}_r^i = \sum_s \xi_{sr}^i * p_{sr}^i$$

Ψ : **scale parameter with a positive value**

Φ : **scale parameter**

Θ_r^{ci} : **import share of consumption good *i* in region *r***

Θ_r^{ji} : **import share of intermediate good *i* by industry *j* in region *r***

ϖ_r^{jk} : **value added share of primary endowment *k* by industry *j* in region *r***

δ_r^i : **the share of total expenditure on the composite commodity *i* of national income in region *r*.**

σ_c^i : **the consumer elasticity of substitution between domestic and imported** good *i*

σ_f^j : **firm *j*'s elasticity of substitution between the domestically-produced intermediate and the imported intermediate**

ξ_{sr}^i : **region *r*'s share of import *i* by source (from region *s*)**

σ_m^i : **Armington demand elasticity of good *i***

u_r : **the percentage change in regional utility in region *r***

c_r^i : **the percentage change in demand for the consumption of composite good *i***

d_{cr}^i : **region *r*'s consumption demand for domestic good *i***

m_{cr}^i : **region *r*'s consumption demand for imported good *i***

VA_r^i : **the demand for value added by production sector *i* in region *r***

z_r^{ji} : **the conditional demand by production sector *i* in region *r* for intermediate good *j***

p_r^{ji} : **firm *j*'s price index for composite intermediate good *i* in region *r***

p_{zr}^{dji} : **the price which firm *j* in region *r* pays for domestically-produced (imported) intermediate good *i***

p_{zr}^{mji} : **the price which firm *j* in region *r* pays for imported intermediate good *i***

p_{sr}^i : **region r's price of good i imported from region s**

p_{sr}^{ci} : **region r's household price for good i from region s**

p_{sr}^{fi} : **price for intermediate good i from region s faced by production sector j in region r**

p_r^{mi} : **domestic market price of good *i* in region r**

p_{er}^{ji} : **price of primary endowment *i* by industry *j* in region *r*, *i* ∈ *labor*, *capital***

$\overline{p}_r^j$: **composite price index for value added used by industry *j* in region *r*,**

t_{rs}^i : **import tariff imposed on good *i* from region *r* in region *s***

s_{rs}^i : **export subsidy on good *i* from region *r* in region *s***

t_{cr}^{mi} : **tax on imported good *i* charged on consumer in region *r***

t_{zr}^{mji} : **tax on imported good *i* charged on producer in region *r***

q_r^i : **total output of production sector *i* in region *r***

$\bar{l}_r$: **total supply of labor in region *r***

$\bar{k}_r$: **total supply of capital in region *r***

l_r^j : **labor employed for production sector *j* in region *r***

k_r^j : **capital employed for production sector *j* in region *r***

q_{er}^{ji} : **demand for primary endowment *i* by industry *j* in region *r*, *i* ∈ *labor*, *capital***

$\overline{q}_r^j$: **value added demanded by industry *j* in region *r***

x_{sr}^i : **region s's import of commodity *i* from region *r***

Appendix Tables

Table A.1: Major Exports from India to Korea: 2004-2005 (April – January)

S.No	Description	Value (US$ mil)	% growth	% share05	% share04
1	CottonYarn, Fabrics, Madeups etc	128.0	-19.1	16.8	27.4
2	Petroleum Products	76.9	146.3	10.1	5.4
3	Oil Meals	51.7	27.0	6.8	7.1
4	Iron Ore	51.4	147.6	6.8	3.6
5	Other Ores and Minerals	42.4	10.8	5.6	6.6
6	Dyes/Indmtes and Coar tar cheml	33.9	43.1	4.5	4.1
7	Non Ferrous Metals	33.0	302.9	4.3	1.4
8	Drugs, Phrmcutes and Fine Chemls	33.0	51.3	4.3	3.8
9	Prmry and Semi-Fnshd Iron and Stl	32.7	-30.6	4.3	8.2
10	Machinery and Instruments	28.3	63.9	3.7	2.8
				67.2	

* Source: Department of Commerce, Govt. of India.

Table A.2: Major Exports from Korea to India: 2004-2005 (April – January)

S.No	Description	Value (US$ mil)	% growth	% share05	% share04
1	Electronic Goods	1015.9	16.9	38.7	43.7
2	Machry Excpt Elec. and Electronic	395.2	80.6	15.0	11.0
3	Transport Equipments	233.9	27.2	8.9	9.2
4	Iron and Steel	209.6	115.3	8.0	4.9
5	Artfcl Resns, Plstc matrls, etc	115.0	19.4	4.4	4.8
6	Organic Chemical	80.0	30.4	3.0	3.1
7	Non- Ferrous Metals	76.9	62.0	2.9	2.4
8	Elec. Machry Excpt Electronic	72.4	7.8	2.8	3.4
9	Other Commodities	60.0	40.0	2.3	2.2
10	Manufactures of Metals	58.4	55.7	2.2	1.9
				88.2	

* Source: Department of Commerce, Govt. of India.

Table A.3: List of Commodities with Unexploited Potential for Exports from India to Korea

S.No	HS Code	Product Description

Agricultural and Allied Products		
Live Animals; Animal Products: (01-05)		
Meat and edible meat offal		
1	020210	Bovine carcasses and half carcasses, frozen
2	020220	Bovine cuts bone in, frozen
Fish, crustaceans, molluscs, aquatic invertebrates nes		
3	030612	Lobsters nes, frozen, in shell or not, including boiled in shell
4	030739	Mussels, shelled or not, frozen, dried, salted or in brine
5	030741	Cuttle fish and squid, shelled or not, live, fresh or chilled
6	030749	Cuttle fish and squid,shelled or not,frozen,dried,salted or in brine
7	030751	Octopus, live, fresh or chilled
Dairy products, eggs, honey, edible animal product nes		
8	040700	Eggs, bird, in shell, fresh, preserved or cooked
9	040891	Eggs, bird, not in shell, dried
Products of animal origin, nes		
10	050690	Bones&horn-cores degelatinisd,unwk,defattd o simply prepr,powder&waste
11	050790	Whalebone,horns,etc unworkd or simply prepard,unshapd,and powder&waste
12	051000	Ambergris,castoreum,etc,bile drid/not&animal gland&prod for pharm prep
13	051191	Fish,shellfish&aqua invert prod nes&dead anim of Ch 3 nt for hum cons
Vegetable Products: (06-14)		
Live trees, plants, bulbs, roots, cut flowers etc		
14	060390	Cut flowers&flower buds for bouquets or ornamental purposes,ex fresh
Edible vegetables and certain roots and tubers		
15	070310	Onions and shallots, fresh or chilled
16	070990	Vegetables, fresh or chilled nes
17	071010	Potatoes, frozen
18	071090	Mixtures of vegetables, frozen
19	071230	Mushrooms and truffles dried but not further prepared
20	071340	Lentils dried, shelled, whether or not skinned or split
21	071390	Leguminous vegetables dried,shelled,whether or not skinnd or split,nes
Edible fruit, nuts, peel of citrus fruit, melons		
22	080232	Walnuts, fresh or dried, shelled or peeled
23	080450	Guavas, mangoes and mangosteens, fresh or dried
24	081340	Fruits, dried nes
Coffee, tea, mate and spices		
25	090140	Coffee substitutes containing coffee in any proportion

26	090411	Pepper of the genus Piper,ex cubeb pepper,neither crushd nor ground
27	090412	Pepper of the genus Piper, except cubeb pepper, crushed or ground
28	090420	Fruits of the genus Capsicum or Pimenta, dried, crushed or ground
29	090700	Cloves (whole fruit, cloves and stems)
30	090810	Nutmeg
31	090830	Cardamoms
32	090920	Coriander seeds
33	090930	Cumin seeds
34	091010	Ginger
35	091050	Curry
Cereals		
36	100820	Millet
Oil seed, oleagic fruits, grain, seed, fruit, etc, nes		
37	120210	Ground-nuts in shell not roasted or otherwise cooked
38	120220	Ground-nuts shelld,whether or not broken,not roastd or otherwise cookd
39	120760	Safflower seeds, whether or not broken
40	120799	Oil seeds and oleaginous fruits, nes, whether or not broken
41	120810	Soya bean flour and meals
42	120999	Seeds, fruit and spores for sowing, nes
Vegetable plaiting materials, vegetable products nes		
43	140420	Cotton linters
44	140490	Vegetable products nes
Animal or Vegetable Fats and Oils and their Cleavage Products; Prepared Edible Fats; Animal		
or Vegetable Waes: 15		
Animal,vegetable fats and oils, cleavage products, etc		
45	150410	Fish-liver oils&their fractions,refined or not,but not chemically mod
46	150600	Animal fats&oils&their fractions nes refind/not,but not chemically mod
47	151319	Coconut (copra) oil&its fractions refined but not chemically modified
Prepared foodstuffs; beverages. Spirits and vinegar; tobacco and manufactured tobacco substitutes: (16-24)		
Sugars and sugar confectionery		
48	170111	Raw sugar, cane
Vegetable, fruit, nut, etc food preparations		
49	200190	Veg,fruit,nut&edible prts of plants nes,prep/presvd by vin/acetic acid
50	200811	Ground-nuts nes o/w prep or presvd,sugared,sweetened,spirited or not
Miscellaneous edible preparations		

51	210110	Coffee extracts, essences & concentrates and preparations thereof
Residues, wastes of food industry, animal fodder		
52	230640	Rape/colza sed oil-cake&oth solid residues,whether/not ground/pellet
Tobacco and manufactured tobacco substitutes		
53	240110	Tobacco, unmanufactured, not stemmed or stripped
54	240120	Tobacco, unmanufactured, partly or wholly stemmed or stripped
Mineral and Mineral Fuels		
Salt, sulphur, earth, stone, plaster, lime and cement		
55	250100	Salt (includg table salt&denaturd salt) pure sodium chloride&sea water
56	250510	Silica sands and quartz sands
57	250621	Quartzite, crude or roughly trimmed
58	250820	Decolourising earths and fuller's earth
59	251110	Natural barium sulphate (barytes)
60	251512	Marble & travertine,merely cut,by sawing or otherwise into blocks etc
61	251710	Pebbles, gravel, broken or crushed stone used for aggregates etc
62	251910	Natural magnesium carbonate (magnesite)
63	252100	Limestone flux;limestone & other calcareous stone,for lime or cement
64	252310	Cement clinkers
65	252321	Portland cement, white, whether or not artificially coloured
66	252329	Portland cement nes
Mineral fuels, oils, distillation products, etc		
67	270119	Coal nes, whether or not pulverised but not agglomerated
68	271210	Petroleum jelly
Chemicals and Plastics		
Inorganic chemicals, precious metal compound, isotopes		
69	280300	Carbon (carbon blacks and other forms of carbon, nes)
70	281511	Sodium hydroxide (caustic soda) solid
71	282619	Fluorides of metals nes
72	282620	Fluorosilicates of sodium or of potassium
73	282710	Ammonium chloride
74	282739	Chlorides of metals nes
75	282760	Iodides and iodide oxides of metals
76	283230	Thiosulphates of metals
77	283321	Magnesium sulphate
78	283410	Nitrites of metals
79	283510	Phosphinates (hypophosphites) & phosphonates (phosphites) of metals
80	283990	Silicates of metals nes; commercial alkali metal silicates
81	284140	Potassium dichromate
82	284150	Chromates and dichromates of metals nes; peroxochromates of metals
83	284160	Manganites, manganates and permanganates of metals
84	285000	Hydrides, nitrides, azides, silicides & borides

Organic chemicals		
85	290314	Carbon tetrachloride
86	290542	Pentaerythritol
87	290712	Cresols and their salts
88	290722	Hydroquinone (quinol) and its salts
89	290729	Polyphenols nes
90	290944	Monoalkylethers of ethylene glycol or of diethylene glycol, nes
91	291100	Acetals and hemiacetals and their derivatives
92	291249	Aldehyde-ethers,aldehyde-phenols&aldehydes w oth oxygen function,nes
93	291300	Derivatives of aldehydes,of cyclic poly of aldehyde&of paraformaldehyd
94	291413	4-methylpentan-2-one(methyl isobutyl ketone)
95	291522	Sodium acetate
96	291539	Acetic acid esters nes
97	291719	Acyclic polycarboxylic acids and their derivatives, nes
98	291720	Cyclanic,cyclenic/cycloterpenic poly carboxylic acids&thr derivatives
99	291815	Salts and esters of citric acid
100	291821	Salicylic acid and its salts
101	291823	Salicylic acid esters, nes, and their salts
102	293221	Coumarin, methylcoumarins and ethylcoumarins
103	293626	Vitamin B12 and its derivatives, unmixed
104	294140	Chloramphenicol and its derivatives, in bulk; salts thereof
Pharmaceutical products		
105	300339	Hormones nes,formulatd,not cntg antibiotics,in bulk,o/t contraceptives
Tanning, dyeing extracts, tannins, derivs,pigments etc		
106	320190	Tanng extracts of veg orig,nes;tannins&thr salts,ethers,esters&derivs
107	320210	Synthetic organic tanning substances
Essential oils, perfumes, cosmetics, toileteries		
108	330125	Essential oils of other mints
109	330741	Agarbatti & other odoriferous preparations which operate by burning
Explosives, pyrotechnics, matches, pyrophorics, etc		
110	360300	Safety/detonatg fuses;percussn/detonatg caps;igniters;elec detonatrs
111	360500	Matches
Photographic or cinematographic goods		
112	370244	Film in roll,w/o sprocket hole,unexp,sens,w >105 but </=610mm nes
113	370610	Cinematograph film, exposed & developed, of a width of 35 mm or more
Miscellaneous chemical products		
114	380510	Gum, wood or sulphate turpentine oils
115	381210	Prepared rubber accelerators

116	381230	Anti-oxidisg prep & other compound stabilizers for rubber or plastics
117	381512	Supportd catalysts,w precious metal/compds thereof as the activ subs
118	381710	Mixed alkylbenzenes, nes
119	382320	Naphthenic acids, their water-insoluble salts and their esters
Plastics and articles thereof		
120	390490	Polymers of vinyl chloride nes, or of other halogenated olefins
121	391220	Cellulose nitrates (incl collodions)
122	391890	Floor, wall and ceiling coverings etc, of plastics nes
123	392069	Film and sheet etc, non-cellular etc, of polyesters nes
124	392329	Sacks and bags (including cones) of plastics nes
Manufactures Chiefly by Material		
Rubber and articles thereof		
125	400280	Mixtures of any product of headg No 40.01 w any product of this headg
126	400819	Rods and profile shapes of cellular rubber (vulcanised)
127	401140	Pneumatic tires new of rubber for motorcycles
128	401150	Pneumatic tires new of rubber for bicycles
129	401290	Solid o cushiond tires,interchangeable tire treads&tire flaps of rbr
130	401320	Inner tubes of rubber for bicycles
131	401390	Inner tubes of rubber nes
132	401691	Floor coverings and mats of rubber exc cellular and hard rubber
Articles of leather, animal gut, harness, travel goods		
133	420100	Saddlery and harness for any animal, of any material
134	420221	Handbags with outer surface of leather
135	420231	Articles carried in pocket or handbag, with outer surface of leather
136	420239	Articles carried in pocket or handbag, nes
137	420321	Gloves,mittens & mitts,for sports,of leather or of composition leather
138	420329	Gloves mittens&mitts,o/t for sport,of leather o of composition leather
139	420330	Belts and bandoliers of leather or of composition leather
140	420340	Clothing accessories nes, of leather or of composition leather
Wood and articles of wood, wood charcoal		
141	441090	Particle board of other ligneous materials
142	441199	Fibreboard nes (0.35 g/cm2 & less)
143	441510	Cases, boxes, crates, drums & similar packings; cable-drums, wooden
Paper & paperboard, articles of pulp, paper and board		
144	480210	Paper, hand-made, uncoated, in rolls or sheets
145	480251	Paper, fine, woodfree, in rolls or sheets, <40 g/m2, uncoated, nes
146	480910	Paper,carbon/similar copying,rolls width >36 cm,sheets one side >36 cm
147	481099	Paper, in rolls or sheets, clay coated, nes
148	481610	Paper, carbon or similar copying, nes
149	481730	Paper stationery, nes

150	482020	Exercise books of paper
151	482090	Office supplies nes, of paper
Printed books, newspapers, pictures etc		
152	490300	Children's picture, drawing or colouring books
Silk		
153	500390	Silk waste, nes
154	500600	Silk yarn&yarn spun from wilk waste,put up f retail sale;silk-worm gut
Wool, animal hair, horsehair yarn and fabric thereof		
155	510220	Coarse animal hair, not carded or combed
156	510540	Coarse animal hair, carded or combed
Cotton		
157	520299	Cotton waste, nes
158	520419	Cotton sewg thread,<85% by weight of cotton,not put up for retail sale
159	520531	Cotton yarn,>/=85%, multi, uncombed,>/=714.29 dtex, not put up, nes
160	520611	Cotton yarn, <85%, single, uncombed,>/=714.29, not put up
161	520621	Cotton yarn, <85%, single, combed,>/=714.29 dtex,nt put up
162	520644	Cotton yarn,<85%,multiple,combed,192.31 >dtex>/=125,nt put up,nes
163	520819	Woven fabrics of cotton,>/=85%, not more than 200 g/m2,unbleached, nes
164	520829	Woven fabrics of cotton,>/=85%, nt more than 200 g/m2, bleached, nes
165	520841	Plain weave cotton fabric,>/=85%, not more than 100 g/m2, yarn dyed
166	520849	Woven fabrics of cotton,>/=85%,nt more than 200 g/m2, yarn dyed, nes
167	520859	Woven fabrics of cotton,>/=85%, not more than 200 g/m2,printed, nes
168	520922	Twill weave cotton fabrics,>/=85%, more than 200 g/m2, bleached
169	520952	Twill weave cotton fabrics,>/=85%, more than 200 g/m2, printed
170	520959	Woven fabrics of cotton,>/=85%, more than 200 g/m2, printed, nes
171	521011	Plain weave cotton fab,<85% mixd w m-m fib,not more than 200 g/m2,unbl
172	521021	Plain weave cotton fab,<85% mixd w m-m fib,not more than 200 g/m2,bl
173	521042	Twill weave cotton fab,<85% mixd w m-m fib,nt mor thn 200g/m2,yarn dyd
174	521111	Plain weave cotton fab,<85% mixd w m-m fib,more thn 200 g/m2,unbleachd
175	521112	Twill weave cotton fab,<85% mixed with m-m fib,more than 200 g/m2,unbl
176	521119	Woven fabrics of cotton,<85% mixd w m-m fib,more thn 200g/m2,unbl,nes
177	521121	Plain weave cotton fab,<85% mixd w m-m fib,more than 200 g/m2,bleachd
178	521141	Plain weave cotton fab,<85% mixd w m-m fib,more than 200 g/m2,yarn dyd
179	521211	Woven fabrics of cotton,weighing not more than 200

		g/m2,unbleached,nes
180	521212	Woven fabrics of cotton,weighing not more than 200 g/m2,bleached,nes
181	521213	Woven fabrics of cotton, weighing not more than 200 g/m2, dyed, nes
182	521214	Woven fabrics of cotton,</=200g/m2,of yarns of different colours,nes
183	521221	Woven fabrics of cotton, weighing more than 200 g/m2, unbleached, nes
Vegetable textile fibres nes, paper yarn, woven fabric		
184	530290	True hemp fibre otherwise processd but not spun;tow&waste of true hemp
185	530490	Sisal textile fibres processed but not spun;tow&waste of sisal fibres
186	530511	Coconut (coir) fibre, raw
187	530519	Coconut (coir) fibre,processd nt spun;tow,noils&waste of coconut fib
188	530810	Coir yarn
189	531090	Woven fabrics of jute or of other textile bast fibres, o/t unbleached
Manmade filaments		
190	540233	Textured yarn nes,of polyester filaments,not put up for retail sale
191	540242	Yarn of polyester filaments,partially oriented,single,nes,not put up
192	540320	Textured yarn nes,of artificial filaments,not put up for retail sale
193	540332	Yarn of viscose rayon filaments,single,>120 turns per m,nes,nt put up
194	540349	Yarn of artificial filaments, multiple, nes, not put up
195	540610	Yarn of synthetic filament (o/t sewing thread), put up for retail sale
196	540710	Woven fab of high tenacity fi yarns of nylon oth polyamides/polyesters
197	540744	Woven fabrics,>/=85% of nylon/other polyamides filaments, printed, nes
198	540781	Woven fabrics of synthetic filaments,<85% mixd w cotton,unbl o bl,nes
199	540794	Woven fabrics of synthetic filaments, printed, nes
200	540810	Woven fabrics of high tenacity filament yarns of viscose rayon
201	540824	Woven fab,>/=85% of artificial fi or strip of art tex mat,printd,nes
Manmade staple fibres		
202	550620	Staple fibres of polyesters, carded or combed
203	550912	Yarn,>/=85% nylon o oth polyamides staple fibres,multi,not put up,nes
204	550922	Yarn,>/=85% of polyester staple fibres, multiple, not put up, nes
205	550931	Yarn,>/=85% of acrylic or modacrylic staple fibres, single, not put up
206	550959	Yarn of polyester staple fibres, not put up, nes
207	550969	Yarn of acrylic staple fibres, not put up, nes
208	550992	Yarn of other synthetic staple fibres mixed with cotton,not put up,nes
209	550999	Yarn of other synthetic staple fibres, not put up, nes
210	551020	Yarn of artificl staple fib mixd w wool/fine animl hair,not put up,nes
211	551110	Yarn,>/=85% of synthetic staple fibres, o/t sewing thread, put up
212	551219	Woven fabrics,containg>/=85% of polyester staple fibres,o/t unbl or bl
213	551221	Woven fabrics,containg>/=85% of acrylic staple fibres,unbleached or bl
214	551299	Woven fabrics,containg>/=85% of other synthetic staple fib,o/t unbl/bl

215	551313	Woven fab of polyest staple fib,<85% mixd w/cot,</=170g/m2,unbl/bl,nes
216	551319	Woven fabrics of oth syn staple fib,<85%,mixd w/cot,</=170g/m2,unbl/bl
217	551322	Twill weave polyest staple fib fab,<85%,mixd w/cotton,</=170g/m2,dyd
218	551323	Woven fab of polyester staple fib,<85%,mixd w/cot,</=170 g/m2,dyd,nes
219	551329	Woven fabrics of oth syn staple fib,<85% mixd w/cotton,</=170g/m2,dyed
220	551333	Woven fab of polyest staple fib,<85% mixd w/cot,</=170 g/m2,dyd nes
221	551411	Plain weave polyest staple fib fab,<85%,mixd w/cotton,>170g/m2,unbl/bl
222	551419	Woven fabrics of oth syn staple fib,<85%,mixed w/cot,>170 g/m2,unbl/bl
223	551511	Woven fab of polyester staple fib mixd w viscose rayon staple fib,nes
224	551512	Woven fabrics of polyester staple fibres mixd w man-made filaments,nes
225	551529	Woven fabrics of acrylic or modacrylic staple fibres, nes
Wadding, felt, nonwovens, yarns, twine, cordage, etc		
226	560221	Felt o/t needleloom,of wool or fine animal hair,not impreg,ctd,cov etc
227	560729	Twine nes, cordage, ropes and cables, of sisal textile fibres
228	560749	Twine nes, cordage, ropes and cables, of polyethylene or polypropylene
Carpets and other textile floor coverings		
229	570110	Carpets of wool or fine animal hair, knotted
230	570241	Carpets of wool/fine animal hair,of wovn pile construction,made up,nes
Special woven or tufted fabric, lace, tapestry etc		
231	580110	Woven pile fabrics of wool/fine animal hair,o/t terry&narrow fabrics
232	580134	Woven warp pile fab of man-made fib,epingle (uncut),o/t terry&nar fab
233	580211	Terry towellg & similar woven terry fab of cotton,o/t narrow fab,unbl
234	580220	Terry towellg&sim woven terry fab of oth tex mat,o/t narrow fabrics
235	580429	Mechanically made lace of oth tex mat,in the piece,in strips/in motifs
236	580810	Braids in the piece
Impregnated, coated or laminated textile fabric		
237	590800	Textile wicks f lamps,stoves,etc;gas mantles&knittd gas mantle fabric
Articles of apparel, accessories, knit or crochet		
238	610110	Mens/boys overcoats, anoraks etc, of wool or fine animal hair, knitted
239	610120	Mens/boys overcoats, anoraks etc, of cotton, knitted
240	610210	Womens/girls overcoats,anoraks etc,of wool or fine animal hair,knitted
241	610220	Womens/girls overcoats, anoraks etc, of cotton, knitted
242	610230	Womens/girls overcoats, anoraks etc, of man-made fibres, knitted
243	610312	Mens/boys suits, of synthetic fibres, knitted

244	610322	Mens/boys ensembles, of cotton, knitted
245	610331	Mens/boys jackets and blazers, of wool or fine animal hair, knitted
246	610332	Mens/boys jackets and blazers, of cotton, knitted
247	610341	Mens/boys trousers and shorts, of wool or fine animal hair, knitted
248	610342	Mens/boys trousers and shorts, of cotton, knitted
249	610412	Womens/girls suits, of cotton, knitted
250	610419	Womens/girls suits, of other textile materials, knitted
251	610422	Womens/girls ensembles, of cotton, knitted
252	610432	Womens/girls jackets, of cotton, knitted
253	610433	Womens/girls jackets, of synthetic fibres, knitted
254	610441	Womens/girls dresses, of wool or fine animal hair, knitted
255	610442	Womens/girls dresses, of cotton, knitted
256	610443	Womens/girls dresses, of synthetic fibres, knitted
257	610444	Womens/girls dresses, of artificial fibres, knitted
258	610452	Womens/girls skirts, of cotton, knitted
259	610459	Womens/girls skirts, of other textile materials, knitted
260	610462	Womens/girls trousers and shorts, of cotton, knitted
261	610469	Womens/girls trousers and shorts, of other textile materials, knitted
262	610590	Mens/boys shirts, of other textile materials, knitted
263	610610	Womens/girls blouses and shirts, of cotton, knitted
264	610711	Mens/boys underpants and briefs, of cotton, knitted
265	610721	Mens/boys nightshirts and pyjamas, of cotton, knitted
266	610791	Mens/boys bathrobes, dressing gowns etc of cotton, knitted
267	610792	Mens/boys bathrobes, dressing gowns, etc of man-made fibres, knitted
268	610811	Womens/girls slips and petticoats, of man-made fibres, knitted
269	610819	Womens/girls slips and petticoats, of other textile materials, knitted
270	610829	Womens/girls briefs and panties, of other textile materials, knitted
271	610831	Womens/girls nightdresses and pyjamas, of cotton, knitted
272	611010	Pullovers,cardigans&similar article of wool or fine animal hair,knittd
273	611020	Pullovers, cardigans and similar articles of cotton, knitted
274	611110	Babies garments&clothg accessories of wool or fine animal hair,knitted
275	611190	Babies garments&clothg accessories of other textile materials,knitted
276	611211	Track suits, of cotton, knitted
277	611420	Garments nes, of cotton, knitted
278	611520	Women full-l/knee-l hosiery,of textile yarn<67 dtex/single yarn knittd
279	611599	Hosiery nes, of other textile materials, knitted
280	611692	Gloves, mittens and mitts, nes, of cotton, knitted
Articles of apparel, accessories, not knit or crochet		
281	620111	Mens/boys overcoats&similar articles of wool/fine animal hair,not knit
282	620112	Mens/boys overcoats and similar articles of cotton, not knitted
283	620119	Mens/boys overcoats&sim articles of oth textile materials,not knittd
284	620199	Mens/boys anoraks&similar articles,of oth textile materials,not knittd
285	620212	Womens/girls overcoats and similar articles of cotton, not knitted
286	620292	Womens/girls anoraks and similar article of cotton, not knitted
287	620319	Mens/boys suits, of other textile materials, not knitted

288	620322	Mens/boys ensembles, of cotton, not knitted
289	620333	Mens/boys jackets and blazers, of synthetic fibres, not knitted
290	620339	Mens/boys jackets and blazers, of other textile materials, not knitted
291	620341	Mens/boys trousers and shorts,of wool or fine animal hair,not knitted
292	620349	Mens/boys trousers and shorts, of other textile materials, not knitted
293	620411	Womens/girls suits, of wool or fine animal hair, not knitted
294	620412	Womens/girls suits, of cotton, not knitted
295	620413	Womens/girls suits, of synthetic fibres, not knitted
296	620421	Womens/girls ensembles, of wool or fine animal hair, not knitted
297	620422	Womens/girls ensembles, of cotton, not knitted
298	620432	Womens/girls jackets, of cotton, not knitted
299	620433	Womens/girls jackets, of synthetic fibres, not knitted
300	620439	Womens/girls jackets, of other textile materials, not knitted
301	620441	Womens/girls dresses, of wool or fine animal hair, not knitted
302	620449	Womens/girls dresses, of other textile materials, not knitted
303	620451	Womens/girls skirts, of wool or fine animal hair, not knitted
304	620453	Womens/girls skirts, of synthetic fibres, not knitted
305	620459	Womens/girls skirts, of other textile materials, not knitted
306	620461	Womens/girls trousers & shorts,of wool or fine animal hair,not knitted
307	620510	Mens/boys shirts, of wool or fine animal hair, not knitted
308	620590	Mens/boys shirts, of other textile materials, not knitted
309	620610	Womens/girls blouses and shirts, of silk or silk waste, not knitted
310	620620	Womens/girls blouses & shirts,of wool or fine animal hair,not knitted
311	620690	Womens/girls blouses and shirts,of other textile materials,not knitted
312	620711	Mens/boys underpants and briefs, of cotton, not knitted
313	620719	Mens/boys underpants and briefs,of other textile materials,not knitted
314	620721	Mens/boys nightshirts and pyjamas, of cotton, not knitted
315	620791	Mens/boys bathrobes, dressing gowns, etc of cotton, not knitted
316	620799	Mens/boys bathrobes,dressg gowns,etc of oth textile materials,not knit
317	620811	Womens/girls slips and petticoats, of man-made fibres, not knitted
318	620819	Womens/girls slips & petticoats,of other textile materials,not knitted
319	620821	Womens/girls nightdresses and pyjamas, of cotton, not knitted
320	620822	Womens/girls nightdresses and pyjamas, of man-made fibres, not knitted
321	620829	Womens/girls nightdresses&pyjamas,of oth textile materials,not knitted
322	620891	Womens/girls panties, bathrobes, etc, of cotton, not knitted
323	620892	Womens/girls panties, bathrobes, etc, of man-made fibres, not knitted
324	620899	Womens/girls panties,bathrobes,etc,of oth textile materials,not knittd
325	620910	Babies garments&clothg accessories of wool o fine animal hair,not knit
326	620930	Babies garments & clothing accessories of synthetic fibres,not knitted
327	620990	Babies garments&clothg accessories of oth textile materials,not knittd
328	621050	Womens/girls garments nes,of impregnatd,ctd,cov,etc,textile woven fab
329	621142	Womens/girls garments nes, of cotton, not knitted
330	621143	Womens/girls garments nes, of man-made fibres, not knitted
331	621320	Handkerchiefs, of cotton, not knitted
332	621590	Ties, bow ties and cravats, of other textile materials, not knitted

Other made textile articles, sets, worn clothing etc		
333	630120	Blankets (o/t electric) & travelling rugs,of wool or fine animal hair
334	630130	Blankets (o/t electric) and travelling rugs, of cotton
335	630190	Blankets (o/t electric) and travelling rugs,of other textile materials
336	630240	Table linen, of textile knitted or crocheted materials
337	630260	Toilet&kitchen linen,of terry towellg or similar terry fab,of cotton
338	630291	Toilet and kitchen linen, of cotton, nes
339	630399	Curtain/drape/interior blind curtain/bd valance,of oth tex mat,nt knit
340	630411	Bedspreads of textile materials, nes, knitted or crocheted
341	630491	Furnishing articles nes, of textile materials, knitted or crocheted
342	630493	Furnishing articles nes, of synthetic fibres, not knitted or crocheted
343	630499	Furnishg articles nes,of oth textile materials,not knittd o crochetd
344	630520	Sacks and bags, for packing of goods, of cotton
345	630590	Sacks and bags, for packing of goods, of other textile materials
346	630641	Pneumatic mattresses, of cotton
Footwear, gaiters and the like, parts thereof		
347	640230	Footwear,outer soles/uppers of rubber/plastics,with metal toe-cap,nes
348	640351	Footwear, outer soles and uppers of leather, covering the ankle, nes
349	640420	Footwear with outer soles of leather and uppers of textile materials
350	640590	Footwear, nes
Headgear and parts thereof		
351	650100	Hat-forms,hat bodies and hoods of felt; plateaux and manchons,of felt
352	650200	Hat-shapes, plaited or made by assembling strips of any material

Umbrellas, walking-sticks, seat-sticks, whips, etc		
353	660310	Handle&knobs of umbrellas,walkingsticks,whips,ridg crops&the like
Stone, plaster, cement, asbestos, mica, etc articles		
354	680300	Worked slate and articles of slate or of agglomerated slate
355	680423	Millstones, grindstones etc of natural stone
356	681220	Asbestos yarn and thread
357	681240	Asbestos woven or knitted fabric
358	681270	Compressed asbestos fibre jointing, in sheets or rolls
359	681290	Asbestos fabricated products nes
360	681310	Asbestos brake linings and pads
Ceramic products		
361	690100	Bricks,blocks etc&ceramic goods of siliceous fossil meals o sim earths
362	690310	Refractory ceramic goods nes,>50% of graphite/oth forms of carbon etc
363	690810	Tiles, cubes and sim <7 cm rect or not etc, glazed ceramics
Glass and glassware		

364	700410	Drawn glass sheets,coloured etc havg an absorbg or reflectg layer
365	701200	Glass inners for vacuum flasks or for other vacuum vessels
366	701610	Glass cubes&oth glass smallwares backd o not for mosaics o decor purp.
367	701790	Laboratory, hygienic or pharmaceutical glassware etc nes
368	701810	Glass beads,imitation pearls,imitatn precious/semi-precious stones etc
369	701990	Glass fibres (including glass wool) and articles thereof nes
Pearls, precious stones, metals, coins, etc		
370	710310	Prec/semi-prec stones (o/t diamonds) unworkd/simply sawn/rough shapd
371	710391	Rubies,sapphires and emeralds further worked than sawn or rough shaped
372	710510	Diamond dust or powder
373	711319	Articles of jewellry&pt therof of/o prec met w/n platd/clad w prec met
Iron and steel		
374	720610	Ingots, iron or non-alloy steel, of a purity of less than 99.94% iron
375	720821	Flat rolled prod, i/nas, in coil, hr, >/=600mm wide, >10mm thk, nes
376	720890	Flat rolled prod, i/nas, not further worked than hot rolled, nes
377	721540	Bars&rods,i/nas,nfw than cold formd/finishd,cntg by wght</=.6% carbon
378	722840	Bars & rods, as, o/t stainless, not further worked than forged
Articles of iron or steel		
379	730690	Tubes, pipe & hollow profiles, iron or steel, welded, nes
380	730711	Fittings, pipe or tube, of non-malleable cast iron
381	731290	Plaited bands,slings and the like of iron or steel,not elec insulated
382	731512	Chain, articulated link, iron or steel, nes
383	731816	Nuts, iron or steel, nes
384	731910	Needles, sewing, darning or embroidery, iron or steel
385	731990	Articles for use in the hand,i or s,similar to sewing needles or pins
386	732090	Springs, iron or steel, nes
387	732391	Table,kitchen/oth household art&parts thereof,of cast iron nt enam nes
388	732394	Table,kitchen or oth household art&parts thereof,i or s,enamelled,nes
389	732429	Baths, iron or steel, nes
390	732591	Balls, grinding and similar articles of iron or steel, cast for mills
391	732611	Balls,grindg&similar articles of i or s,forged or stamped,not f/worked
Copper and articles thereof		
392	740322	Copper-tin base alloys, unwrought
393	741122	Pipes&tubes,copper-nickel base alloy or copper-nickel-zinc base alloy
394	741532	Screws, bolts and nuts of copper excluding wood screws
395	741810	Table, kitchen or other household articles and parts thereof of copper
Aluminium and articles thereof		
396	760320	Powders, aluminium, of lamellar structure, including flakes

397	760810	Tubes and pipe, aluminium, not alloyed
398	761210	Containers, collapsible tubular, aluminium
399	761610	Nails,tacks,staples,bolts,nuts&sim art,aluminium (ex staples No 83.05)
Zinc and articles thereof		
400	790390	Zinc powders and flakes
Tin and articles thereof		
401	800700	Tin articles nes
Tools, implements, cutlery, etc of base metal		
402	820110	Spades and shovels
403	820130	Mattocks, picks, hoes and rakes
404	820299	Stone cuttg saw blades,friction discs for cuttg metals&oth saw blades
405	820330	Metal cuttg shears,tinmen's snips & other metal or wire cuttg shears
406	820510	Drilling, threading or tapping tools
407	820520	Hammers and sledge hammers
408	820559	Tools for masons, watchmakers, miners and hand tools nes
409	820570	Vices, clamps and the like
410	821220	Safety razor blades, including razor blade blanks in strips
411	821490	Kitchen chopper,cleavers & mincing knives & other articles of cutlery
Miscellaneous articles of base metal		
412	830241	Mountings,fittings & similar articles of base metal for buildings,nes
413	830510	Fitting for loose-leaf binders or files of base metal
Machinery and Equipment		
Nuclear reactors, boilers, machinery, etc		
414	841311	Pumps w o w/o a meas device for disp fuel o lub in fillg stat o garage
415	841320	Hand pumps nes, o/t those of subheading No 8413.11 or 8413.19
416	841440	Air compressors mounted on a wheeled chassis for towing
417	841451	Fans: table,roof etc w a self-cont elec mtr of an output nt excdg 125W
418	842099	Parts of calendering or rolling mach nes,excluding for metals or glass
419	843790	Pts of clean/sort mach etc f seed/grn ...mill/wrkg of cereal ex f-type
420	844400	Machines for extruding, drawing, text or cutting m-m textile materials
421	844520	Textile spinning machines
422	844820	Pts & access of mach of hdg No 84.44 or of their auxiliary machinery
423	846921	Typewriters,electric,weighing not more than 12 kg,excluding case nes
424	848250	Bearings, cylindrical roller, nes
425	848410	Gaskets of metal sheeting combined with other material
Electrical, electronic equipment		
426	850421	Liquid dielectric transformers havg a power handlg capa </= 650 KVA
427	850422	Liq dielect transf havg a power handlg cap >650 KVA but </= 10,000KVA
428	850511	Permanent magnets&art intendd to become permanent magnets,of

		metal
429	850612	Mercuric oxide primary cells&batteries of an external vol </=300 cm3
430	850690	Parts of primary cells and primary batteries
431	851210	Lighting or signalling equipment of a kind used on bicycles
432	854012	Cathode-ray TV picture tube incl video monitor tube,B&W/oth monochrom
433	854620	Electrical insulators of ceramics
434	854690	Electrical insulators, nes
435	854790	Insulating fittings for electrical mach appliances or equipment, nes
Vehicles other than railway, tramway		
436	871120	Motorcycles with reciprocatg piston engine displacg > 50 cc to 250 cc
437	871200	Bicycles and other cycles (including delivery tricycles),not motorised
438	871411	Motorcycle saddles
439	871420	Wheelchair parts nes
440	871491	Bicycle frames and forks, and parts thereof
441	871494	Bicycle brakes, including coaster braking hubs, and parts thereof
442	871495	Bicycle saddles
Miscellaneous Manufactures		
Optical, photo, technical, medical, etc apparatus		
443	900140	Spectacle lenses of glass
444	901820	Ultra-violet or infra-red ray apparatus
445	902511	Thermometers, not combined with other instruments, liquid-filled
446	902830	Electricity supply, production and calibrating meters
Clocks and watches and parts thereof		
447	910112	Wrist-watch w opto-electronic disp batt power&w case of precious met
448	910119	Wrist-watches, battery powered and with case of precious metal, nes
449	910199	Pocket-watches & other watches with case of precious metal, nes
450	910229	Wrist-watches, nes
451	910291	Pocket-watches and other watches battery or accumulator powered, nes
452	910519	Alarm clocks, nes
453	910521	Wall clocks, battery, accumulator or mains powered
454	910529	Wall clocks, nes
455	910599	Clocks, nes
456	911090	Clock movements,unassembled or partly assembled; rough clock movements
Musical instruments, parts and accessories		
457	920300	Harmoniums&sim keyboard inst w free metal reeds&keyboard pipe organs
Toys, games, sports requisites		

458	950640	Articles and equipment for table-tennis
459	950669	Balls nes
Miscellaneous manufactured articles		
460	960200	Workd veg/mineral carvg mat&art,carvd art nes;workd unhardend gelatin
461	960310	Brooms/brushes of twigs/oth veg mat bound together,with/w/o handles
462	960321	Tooth brushes
463	960810	Ball point pens
464	961700	Vacuum flasks/vacuum vessels complete w/cases;parts o/t glass inners

* Source: ICRIER Research Study

Table A.4: List of Commodities with Unexploited Potential for Exports from Korea to India

No.	HS4(2002)	Commodity Description	RCA (Korea. 2003)	RCA (India. 2003)	Korea's Market Share in India (2003)	India's Imports (2003, US dollar)
Fish and crustaceans, molluscs and other aquatic invertebrates.						
1	301	Live fish	2.36	0.26	0.00	166,094
Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder.						
2	1212	Locust beans, seaweed and etc.	5.40	0.20	0.00	875,578
Preparations of cereals, flour, starch or milk; pastrycooks' products.						
3	1902	Pasta, whether or not cooked, or stuffed.	2.29	0.10	0.83	4,530,386
Beverages, spirits and vinegar.						
4	2206	Other fermented beverages (ex: cider, perry)	1.81	0.00	0.00	1,794
Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes.						
5	2807	Sulphuric acid; oleum	3.52	0.39	0.00	342,093
6	2808	Nitric acid; sulphoni	5.45	0.42	0.00	17,262
7	2823	Titanium oxides.	2.17	1.78	0.42	12,718,486
8	2841	Salts of oxometallic	1.41	0.58	0.00	2,077,285
9	2842	Other salts of inorganic acid or peroxoacids.	1.57	0.21	0.00	1,499,894
Organic chemicals.						
10	2901	Acyclic hydrocarbons.	2.10	0.02	4.73	70,416,668
11	2902	Cyclic hydrocarbons.	5.56	2.62	2.29	501,312,639
12	2929	Compounds with other	3.01	0.45	2.12	57,115,378
Photographic or cinematographic goods.						
13	3705	Photographic plates a film,	1.73	0.02	0.42	599,803

		exposed and developed				
Miscellaneous chemical products.						
14	3814	Organic composite solvents and thinners	1.03	0.09	0.70	4,959,285
15	3817	Mixed alkylbenzenes and alkylnaphthalenes	3.95	3.33	4.21	3,161,818
16	3818	Chemical elements doped for use in electronics	1.05	0.00	3.19	26,719,158
Rubber and articles thereof.						
17	4011	New pneumatic tyres, of rubber.	2.00	1.33	2.67	28,543,270
Raw hides and skins (other than furskins) and leather.						
18	4107	Leather further prepared after tanning or crusting	3.07	1.88	2.25	14,694,491
Furskins and artificial fur; manufactures thereof.						
19	4304	Artificial fur and and articles thereof.	1.22	0.20	0.09	715,952
Paper and paperboard; articles of paper pulp, of paper or of paperboard.						
20	4809	self-copy paper and other copying,transfer papers	1.64	0.37	3.96	3,348,350
21	4810	Paper and paperboard	1.63	0.19	0.44	80,732,461
22	4821	Paper or paperboard lables of all kinds.	1.16	0.25	0.55	20,853,102
Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans.						
23	4910	Calendars of any kind	1.93	0.65	0.10	902,130
Cotton.						
24	5202	Cotton waste.	1.38	1.33	0.60	3,495,796
Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn.						
25	5311	Woven fabrics of other textile fibres, paper yarn.	1.93	0.14	0.11	1,429,076
Man-made filaments.						
26	5401	Sewing thread of man-made filaments	2.91	0.37	0.33	2,205,870
Man-made staple fibres.						
27	5508	Sewing thread of man-made staple fibres.	4.61	1.52	4.63	863,370
Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof.						
28	5606	Gimped yarn, and chenille yarn.	1.30	0.12	0.00	1,004,110
29	5607	Twine, cordage, ropes and cables	4.12	3.22	1.35	12,851,505
30	5608	Knotted netting of twine, cordage or rope	2.89	2.69	0.00	1,290,015
Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery.						
31	5804	Tulles and other net fabrics, not including	4.66	0.84	1.40	7,819,426

		woven				
32	5807	Labels, badges and similar textile materials.	9.37	0.47	2.53	18,049,772
Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use.						
33	5902	Tyre cord fabric of polyesters or viscose rayon.	5.79	1.37	1.85	94,010,654
Articles of apparel and clothing accessories, knitted or crocheted.						
34	6115	Panty hose, tights, stockings and other hosiery.	2.32	0.73	1.99	616,181
Articles of apparel and clothing accessories, not knitted or crocheted.						
35	6215	Ties, bow ties and cravats.	2.19	0.17	0.62	336,282
Other made up textile articles; sets; worn clothing and worn textile articles; rags.						
36	6310	Used or new rags, scrap twine, cordage, rope.	2.93	2.87	1.45	28,940,249
Headgear and parts thereof.						
37	6506	Other headgear, whether or not lined or trimmed.	2.93	0.20	1.75	244,319
Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair.						
38	6704	Wigs, false beards and eyebrows and eyelashes.	1.78	0.06	2.90	54,540
Articles of stone, plaster, cement, asbestos, mica or similar materials.						
39	6808	Panels and similar articles of vegetable fibre.	2.19	0.02	0.00	590,974
Glass and glassware.4						
40	7005	Float glass and surface ground	1.13	0.75	1.36	20,846,004
41	7011	Glass envelopes (including bulbs and tubes)	4.06	1.33	0.27	23,744,760
42	7020	Other articles of glass	1.01	0.70	3.43	5,459,722
Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin.						
43	7106	Silver, unwrought, or in powder form	1.16	0.03	0.01	351,445,875
44	7108	Gold, unwrought, or in powder form	2.58	0.00	0.00	6,438,651,195
Iron and steel.						
45	7208	Flat-rolled products of iron or non-alloy steel.	2.04	1.80	1.40	402,873,356
46	7212	Flat-rolled products of iron or non-alloy steel.	1.85	0.54	2.06	38,855,217
47	7219	Flat-rolled products of stainless steel.	3.08	2.14	4.76	112,188,587
Articles of iron or steel.						

48	7301	Sheet piling of iron or steel	1.31	0.90	0.45	1,421,466
49	7309	Reservoirs, tanks, vats and similar containers.	1.80	0.19	0.31	5,361,147
Copper and articles thereof.						
50	7401	Copper mattes; cement copper.	1.33	0.73	0.00	220,916
51	7405	Master alloys of copper.	1.05	0.21	0.00	412,200
52	7407	Copper bars, rods and profiles.	1.41	1.36	0.23	23,050,045
53	7409	Copper plates, sheets and strip.	1.42	0.90	0.14	29,838,044
54	7411	Copper tubes and pipes.	1.29	0.47	3.51	27,745,469
Aluminium and articles thereof.						
55	7615	Table, kitchen or other household articles and etc	2.26	1.94	0.20	1,037,985
Lead and articles thereof.						
56	7803	Lead bars, rods, profiles and wire.	1.97	0.73	0.00	638,918
57	7804	Lead plates, sheets, strip and foil	2.95	0.35	0.00	372,683
58	7806	Other articles of lead.	1.27	1.04	0.00	987,990
Zinc and articles thereof.						
59	7903	Zinc dust, powders and flakes.	2.00	1.15	1.49	1,402,610
Other base metals; cermets; articles thereof.						
60	8107	Cadmium and articles thereof, including waste	3.45	0.38	0.00	298,033
Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal.						
61	8202	Hand saws; blades for saws of all kinds	1.21	0.63	1.80	19,922,671
62	8210	Hand-operated mechanic appliances.	1.59	0.04	0.00	60,127
63	8213	Scissors, tailors and similar shears.	1.09	0.04	4.39	510,241
64	8215	Spoons, and similar kitchen or tableware.	1.57	0.48	0.52	723,831
Miscellaneous articles of base metal.						
65	8308	Clasp, buckle, eye, etc for clothing, footwear.	2.11	0.26	3.47	12,513,070
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof.						
66	8402	Steam/ vapour generating boilers.	3.79	2.01	0.46	1,883,142
67	8404	Auxiliary plant for boilers	1.20	0.74	0.00	2,334,348
68	8445	Machines for processing textile fibres	1.18	0.96	3.67	118,238,942
69	8446	Weaving machines (looms)	1.08	0.19	4.44	129,794,401
70	8451	Machinery to clean,	1.63	0.29	4.27	45,469,680

		impregnating textile yarns				
71	8452	Sewing machines (not book sewing)	1.21	0.54	3.69	100,927,215
72	8471	Automatic data processing machines	1.57	0.09	4.42	1,091,979,084
73	8473	Parts, accessories, except covers	2.18	0.19	3.01	841,957,985
74	8475	Machines for hot working of glass	2.07	0.12	3.55	18,845,533
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles.						
75	8509	Domestic appliances, self-contained electric motor	1.78	0.21	2.45	5,888,343
76	8518	Audio-electronic equipment, except recorder.	1.73	0.25	3.60	50,283,653
77	8519	Electronic sound reproducing equipment,	1.24	0.05	2.97	7,776,840
78	8520	Electronic sound recording equipment	2.80	0.02	0.95	6,045,052
79	8521	Video recording and reproducing apparatus	2.18	0.02	2.31	37,221,711
80	8522	Parts, accessories of audio, video recorder	2.60	0.03	0.80	54,844,621
81	8531	Electric sound or visual signal equipment	1.01	0.02	2.84	25,681,590
82	8534	Electronic printed circuits	1.73	0.31	2.24	28,878,147
83	8542	Electronic integrated circuits, microassemblies.	2.44	0.01	1.41	439,600,193
84	8548	Electrical parts of machinery and apparatus.	6.33	0.14	1.12	34,753,659
Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds.						
85	8609	Cargo containers designed for carriage	1.03	0.54	0.00	5,746,177
Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof.						
86	8713	Invalid carriages, wheelchairs.	1.17	0.00	0.00	265,004
Aircraft, spacecraft, and parts thereof.						
87	8804	Parachutes, parts and accessories thereto	1.81	0.09	0.00	217,034
Ships, boats and floating structures.						
88	8902	Fishing vessels and factory ships	3.19	0.13	0.00	606,099
89	8905	Special purpose ships, vessels.	10.17	0.00	0.00	721,284,411

90	8906	Warships, lifeboats, hospital ships, vessels.	1.25	0.02	0.00	44,532,990
Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof.						
91	9001	Optical fibres, lenses, mirrors, prisms.	1.08	0.39	4.49	29,411,352
92	9003	Frames and mountings for spectacles and goggle	1.60	0.06	4.42	6,299,331
93	9008	Image projectors, photographic enlarger, reducer	1.18	0.25	1.62	4,594,941
94	9013	Liquid crystal devices, lasers, optical appliances.	2.09	0.01	0.63	14,947,288
Clocks and watches and parts thereof.						
95	9104	Instrument panel clocks etc for vehicle	1.05	0.51	0.00	152,209
96	9112	Clock cases, cases of a similar type	2.30	0.09	0.00	109,166
Musical instruments; parts and accessories of such articles.						
97	9201	Pianos, harpsichords, keyboard string instrument	1.60	0.02	0.00	859,927
98	9207	Musical instruments produced electrically.	2.23	0.05	0.56	1,655,755
Arms and ammunition; parts and accessories thereof.						
99	9305	Parts and accessories of weapons	2.93	0.06	0.00	239,826
Miscellaneous manufactured articles.						
100	9606	Buttons, press and snap fasteners, etc	2.09	0.90	1.91	23,475,669
101	9609	Pencils (ordinary), pencil leads, chalk	1.13	0.78	2.77	2,471,298
102	9616	Scent, toilet sprays, puffs and pads for toilet preparations	1.42	0.01	2.31	870,902

* Source: KIEP Research Study

Table A.5: India's Tariff Rates on Korean Products (2004)

(Unit : US$ mil., %)

	HS code[1]	commodity	Export value	% Change	India's tariff rate (%)		
					Basic	Additional	Total
1	852520	transmission apparatus incorporating reception apparatus	808,912	8.7	15	16	33.4
2	870899	other parts and accessories of the motor vehicles	342,055	35.3	20	16	39.2
3	890120	tankers	161,135	-23.6	20	0	20
4	890520	floating or submersible drilling or production platforms	121,999	-	20	0	20
5	271019	other	114,975	49.7	20	Note[2]	
6	720917	flat-rolled products in coils, cold-rolled, thickness o.5-1mm	66,820	63.7	40	16	62.4
7	852990	other parts of transmission apparatus, radar apparatus or tv receivers	63,905	21.4	20	16	39.2
8	841430	compressors of a kind used in refrigerating equipment	58,268	20.9	20	Note[3]	
9	790111	unwrought zinc, not alloyed, containing by weight 99.99% or more of zinc	46,104	79.8	20	16	39.2
10	847170	storage units	46,097	17.4	Free	16	16
11	854011	cathode-ray television picture tubes	44,474	64.0	20	16	39.2
12	847989	other	37,444	60.5	20	16	39.2
13	720836	other flat-rolled products in coils, hot-rolled, thickness exceeding 10mm	31,882	-	40	16	62.4
14	847990	parts mechanical appliances	31,443	134.6	20	16	39.2
15	854060	other cathode-ray tubes	30,136	34.3	20	16	39.2
16	480100	newsprint, in rolls or sheets	29,836	73.0	15	0	15
17	847330	parts and accessories of the machines of heading no.8471	26,576	5.1	10	16	27.6
18	740811	wire of refined copper, maximum cross-sectional	26,446	137.0	20	16	39.2

		dimension exceeds 6mm					
19	730890	other structures and parts of structures, of iron or steel	25,235	1,321.9	20	16	39.2
20	842952	machinery with a 360degrees revolving superstructure	25,091	195.0	20	16	39.2

** Source: KITA, KIEP, Easy Reference Customs Tariff 2004*

* Notes:

1. Commodities are at the 6-digit HS code level.
2. Additional duty on Petroleum Products differs from item to item. Additional duties of Petroleum Products in subheading 271019 are following:

	Basic	Special	Special Additional	Additional Excise
Petrol in subheading 271019	16%	14%	Re. 6 per litre	Re. 1.50 per litre
High Speed diesel	14%	-	-	Re. 1.50 per litre
Special boiling point spirits	16%	16%	-	-
Naptha	16%	Na	-	-
Natural gasoline liquids	16%	Na	-	-
Light diesel oil	16%+Rs. 1.50 per litre	Na	-	-
Other petroleum products	16%	Na	-	-
Aviation turbine fuel	8%	-	-	-

3. Valuation for the purpose of additional duty under 841430 changes according to M.R.P (Maximum Retail Price) declaration of Indian Government.

CHAPTER 3

TRADE IN SERVICES

IMPORTANCE OF TRADE IN SERVICES

3.1 **Services in the world economy:** In the knowledge-based economy, services are critical to the competitiveness of countries. In 2003, the rate of growth of global trade in services (8.10 %) was higher than the rate of growth in merchandise (6.80 %). In developing countries, the rate of growth of service trade (9.40 %) was higher than that of merchandise trade (7.60 %) and was also higher than that recorded by developed countries (6.90 %). Services currently account for 60 % of world output, 30 % of global employment, and nearly 20 % of international trade. In a number of economies including India and Korea, the services sector is the largest single contributor to economic growth (and employment). The leading role of the service sector in the domestic economy, coupled with rising world trade wherein growth of service trade has exceeded merchandise trade point towards the emerging potential of trade in services.

3.2 **FDI and services trade:** Foreign Direct Investment (FDI) is found to be a key source of financing for service sector projects such as telecommunications, energy and financial services in the era of globalization. New information and communication technologies make it possible to trade in services, making their production increasingly subject to the international division of labor.

3.3 **New areas of growth**: During the recent past, there has been major structural change in India and Korea through which the services sector has emerged as the leading sector accounting for more than 50 % of the GDP. While the service sector accounted for 53.7 % in 2003 in India, it accounted for 69.70 % of GDP in Korea. On the other hand, services exports accounted for 31 % of total exports in India in 2003. In Korea, the counterpart figure is 16 %. The unprecedented growth of services sector has been made possible by major technological developments and economic reforms in sectors like telecommunications, information technology (IT) and financial services and the

emergence of transnational corporations.

BILATERAL TRADE IN SERVICES: TRENDS AND STRUCTURE

3.4 During the last decade, the service sector in both India and Korea has seen substantial liberalization on account of removal of trade and investment barriers. The underlying economic rationale for these policy reforms is that the removal of barriers to trade in services is likely to result in lower prices, improved quality, and higher competitiveness. As with trade in goods, restrictions on trade in services reduce welfare because they create a wedge between domestic and foreign prices, leading to a loss to consumer surplus.

Trends in trade in services: evidence of complementarities

3.5 The overall trends in merchandise and service trade of India and Korea show that while India recorded a deficit in merchandise and a surplus in services in 2002, Korea had a surplus in merchandise and a deficit in services. This preliminary evidence tends to suggest that opportunities for two-way service exports between India and Korea are substantial. Further evidence of complementarities comes from Revealed Comparative Advantage (RCA) of different service sectors. An RCA greater than 1 indicates that the country has a comparative advantage in supplying the product/service and an RCA smaller than one indicates the opposite. A detailed analysis of RCA and the RCA scores of India and Korea in various sectors is at Appendix 3.2. In the services sector, Korea in transportation services and India in IT and software services have gained consistent comparative advantage during 1991 to 2002.

3.6 India–Korea bilateral trade in services touched US$ 260 million in 2003 and US$ 568 million in 2004, an increase of 118 % from the previous year.[4] India has registered a trade surplus in tourism, insurance, telecommunications, etc. trading with Korea, in the last few years, whereas transport, patent rights, and construction services, are the areas where Korea has recorded a trade surplus.[5]

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[4] Source - Bank of Korea

[5] Source - Bank of Korea

Structure of service trade

3.7 India and Korea have been successful in increasing their shares in world services export. With US$ 27.62 billion of services export in 2003, India's share in world services export has increased from a mere half a percent in 1990 to 1.48 % in 2003. With US$ 32.70 billion of services export in 2003, Korea's share in world services export was 1.76 % in 2003, with an all time record of 2 % in 2000. (Appendix 3.1)

3.8 India has recorded a trade surplus in services. In general, this has been largely contributed by miscellaneous services (mainly IT and software services). Apparently, due to the decline of transport services import in 2002, India saw a positive trade balance in the services account. In travel services, there was almost an eight-fold increase in imports in 2002, compared to 1991, whereas exports have grown two-fold in 2002 (See Appendix 3.3 for India and Appendix 3.4 for Korea). In the case of Korea, transportation alone accounted for over 50 % of Korea's service exports in 2002. Shares of other service exports such as financial services (2.13 %), and royalties and license fees (4.05 %) have also increased in 2002. Except transport and financial services, Korea has recorded a deficit in the trade of most service items in 2002.

WTO COMMITMENTS AND SERVICES SECTOR REFORM

3.9 Both India and Korea are WTO members with effect from 1 January 1995. The number of GATS service sector commitments of the two countries till 2004 is 96 by Korea, and 37 for India (Table 3.1).[6] In the Revised Offers India and Korea propose to make substantive improvements in terms of coverage of sectors and level of commitments in the already covered sectors.

WTO Commitments in Service Trade till 2004

Particulars	India	Korea
Number of GATS services sectors with commitments	37	96
Number of Dispute rulings (complainant - defendant)	8 - 5	5 – 6
Number of Notifications outstanding (CRN)	17	17

[6] See WTO, at http://stat.wto.org

* Source: WTO (http://stat.wto.org/CountryProfile)

India

3.10 The Indian economy has grown rapidly over the past decade, with real GDP growth averaging 6 % annually, in part due to the continued structural reform, including trade liberalization. Recognizing the important linkages between trade and economic growth, the Government of India has simplified and reduced tariffs, eliminated quantitative restrictions on imports, and reduced export restrictions. It plans to further reduce the tariff. India actively participated in the Uruguay Round Services Negotiations (GATS) and made commitments in 33 sub-sectors as compared to an average of 23 for developing countries. India also participated in the extended negotiations on telecommunication and financial services, and improved its offer and took enhanced commitments.

3.11 Significant reforms have been pursued in the last few years in India, especially in telecommunications, financial services and, to some extent, in infrastructure services, such as power and transport. Liberalization of telecommunication services has resulted in an increase in availability and a reduction in tariffs. The reduction in telecommunication tariffs is also likely to benefit the software sector, one of the major success stories in recent years. Efforts have also been made to address transportation and power shortages. Maritime and shipping sector has also been restructured keeping in mind country's commitments to improved trading infrastructure. Private port operators have been allowed to run ports/terminals, which were earlier under the full control of the Government. As a result of the continuing reforms, there have been considerable improvements at major ports in terms of average berthing waiting time, average turn around time etc. International airports are proposed to be upgraded to the standards of world class airports by inducting private sector management and investment through long-term concession arrangements.

3.12 In the proposed revised offer of India to be submitted to the WTO shortly, a number of improvements have been proposed to the existing commitments. Further, fresh offers in Professional Services, Other Business

Services and infrastructure related services have been proposed in the Revised Offer.

3.13 While developed countries have surplus capital to invest, many developing countries have surplus of skilled, semi-skilled and unskilled workers. India has a large pool of well-qualified professionals capable of providing services abroad. While GATS recognizes "movement of natural persons" as one of the modes of supply of services, the commitments undertaken by the developed countries have very little to offer to the developing countries in terms of opening their markets. The present commitments are largely restricted to business visitors and intra-corporate transferees. There are very limited commitments for qualified professionals and even where commitments are made, they are linked to commercial presence. The developed countries should undertake a higher level of commitment on Mode 4 (movement of natural persons) and in sectors of export interest to the developing countries.

Korea

3.14 The growth of service sector in the Korean economy over the last decade is remarkable. The share of services sector in GDP has increased significantly from 46.7 % in 1995 to 65.3 % in 2000 and further up to 69.7 % in 2003. The largest sectors in 2003 were real estate, renting and business activities (12.8 %), wholesale and retail trade, restaurants and hotels (9.8 %), and construction (9.6 %). The share of service industry in the total employment is even higher, recording 72.1 % in 2003.

3.15 However, labor productivity of the service sector in Korea remains 60 % of that in the manufacturing sector, which is much lower than that of the advanced economies and the difference is widening. Due to this relatively underdeveloped state of domestic service industries, liberalization of Korea’s service industry has been difficult. Nevertheless, the Korean Government has taken numerous unilateral actions toward eventual full opening of the service sectors. For example, the life insurance industry is now completely open to foreign underwriters. Foreign banks receive treatment commensurate to that of national banks. Investment by foreigners in retailing and wholesaling activities is open. The advertising market, once open only to joint ventures with minority foreign participation, is now completely accessible to foreigners. In financial

services, the Banking Act was revised in April 2002 to raise the ceiling of individual ownership of a commercial bank from 4 % to 10 %, and even to 100 % under special permit from the relevant authorities. In telecommunications, the ceiling on foreign ownership in the facilities-based telecommunications services was raised from 33 % to 49 % in April 2001. In addition, resale-based telecommunications services and value-added telecommunications services are fully open to the foreign ownership. Along with its unilateral actions, the Korean Government made specific commitments of market access and national treatment in 78 sectors out of 155 in total as a result of the Uruguay Round (UR) in 1995, and submitted additional services offers regarding further specific commitments in March 2003 and May 2005 under the ongoing WTO services negotiations. Korea also participates actively in the extended GATS negotiations on financial services and basic telecommunications, and rule making under GATS Articles VIII:4, X, XIII and XV. Korea is a member and observer, respectively, of the plurilateral Agreements on Government Procurement and Trade in Civil Aircraft. It resolves trade disputes by resorting in particular to the WTO dispute settlement system.

OPPORTUNITIES IN TRADE IN SERVICES

IT and software services

3.16 During the last decade, India has emerged as a major IT and software services provider to the rest of the world. From a relatively low share of only 10.2 % in 1995-96, export of software services from India came to occupy 48.9 % of India’s total service exports in 2003-04, highlighting the country’s growing comparative advantage in production and export of such services. The growth in IT and IT-enabled services (ITES) and business process outsourcing (BPO) from India is also satisfactory, with such exports experiencing a more than six-fold increase between 1999-00 (US$ 565 million) and 2003-04 (US$ 3.6 billion). In 2004, Korean software industry's domestic production recorded US$18.2 billion out of which the software exports were over US$ 466million and Korea's software services exports have increased almost three times from $166 million in 2000. Meanwhile, software imports have decreased from $551 million in 2002 to US$481million in 2004. To support its domestic economy, Korea has opened very fast in sourcing software services from abroad. By deepening cooperation with India, Korea’s software industry will gain from India’s comparative

advantages in software services.

3.17 The Indian IT industry is projected to grow to 7 % of GDP (2.64 in 2003-04) and account for 35 % of total exports (21.3 % in 2003-04) by 2008. An export potential of US$ 57-65 billion for the software and services sector can be realized, with ITES-BPO sector contributing US$ 21-24 billion by 2008.[7] The Korean IT industry is projected to grow to 19% of GDP, accounting for 33% of total exports by 2007. The software industry is expected to produce 3.5% of GDP, and an export potential of US$839million will be achieved by 2007 with an annual growth rate of 21.7%. Therefore, there are several complementarities between India and Korea in IT related areas. Key strengths of Korea are its world class broadband IT infrastructure, ideal test-bed technology innovation, and leading mobile technology, whereas key strengths of India are high skilled human resources, and world class software and IT services industry. These complementarities can be combined to enhance cooperation in the area of information technology. Possibilities also exist for joint development and outsourcing of projects for third countries. Microelectronics and software development outsourcing with specific focus on applications like telecom software, broadband networking solutions, banking and insurance, multimedia and system integration is possible.

Construction and engineering services

3.18 The Indian Government is making steadfast efforts to upgrade its core infrastructure. As many Korean construction companies have abundant experience and technologies in infrastructure development and industrial plant construction, cooperation in this field will be mutually beneficial, greatly contributing to the economic prosperity of both countries.

Audio visual and entertainment services

3.19 Currently India's FDI policy allows for 100 % investment on the automatic route with no entry-level conditions for film production, television software production, exhibition and distribution, including in related services and products. In the case of satellite broadcasting, all television channels,

[7] Economic Survey 2004-05, Ministry of Finance, Government of India, pp. 111-112

irrespective of national or foreign ownership, are permitted to uplink from India provided they undertake to comply with the broadcast code. However, no private or foreign operator is allowed in terrestrial transmission. Foreign investment of up to 49 % of the paid up share capital is allowed in cable networks. Companies with a minimum 51 % of paid up share capital held by Indian citizens are allowed to provide cable television services. In the case of Direct to Home (DTH) television the foreign direct investment allowed is 20 % while the overall share inclusive of portfolio investment by foreign institutional investors and non resident Indians is 49 %.

3.20 India is the third largest television market after China and the United States. The number of TV channels has gone up from one public sector broadcaster a decade back to around 320 at the end of 2004. The total revenue earned by the television industry in India is estimated to be around US$ 2.87 billion. These revenues are expected to grow at a compound annual growth rate of 17 %, and likely to touch US$ 6.41 billion by 2008. Total revenue earned by the Indian music industry was estimated to be US$ 230 million in 2003. Though a large part of the revenues are lost because of problems relating to piracy it is expected to record a marked increase in the near future. In 2003, the revenue of the organized sectors of the live entertainment segment was estimated to be US$ 129 million. This is expected to go up to US$ 321 million in 2008. According to current projections, the Indian entertainment industry is expected to more than double in size in the next five years from the current level of US$ 4.30 billion to US$ 9.40 billion in 2008. One of the key factors propelling growth of the Indian entertainment industry is the changing distribution network, which is moving up the technology ladder. These include the introduction of DTH services for television distribution, use of digital technology for film distribution in semi urban and rural markets and the development of FM radio as a new medium. This is a potential area for promotion of India-Korea bilateral trade in services in the short run.

3.21 India's animation industry offers great potential as a creative hot spot and ideal outsourcing destination for Korea. According to estimates made by industry, the total size of the animation segment in India was closer to half a billion dollars and this is expected to go up to US$ 1.50 billion by 2005. India's strength in the animation industry is based on multiple factors. One is the availability of infrastructure facilities like the high tech animation studios, with a

dozen or so boasting world-class facilities. Their efficacy is boosted by the presence of quality software, communication infrastructure and skill sets. Content developers are also numerous. Another major factor that contributes to the success of the Indian animation industry is the low costs. Cost of production in the segment is far lower than that in the United States, Canada or even Korea and the Philippines.

Telecommunication services

3.22 India has taken positive steps towards liberalizing telecommunications market and has introduced private investment and competition in basic telecommunications services. The national telecommunications policy of India allows private participation in the provision of basic, including cellular and value-added telecommunications services. Foreign equity is limited to 51 percent in value-added services and 49% in facilities-based telecommunications services.

Transportation services

3.23 The receipts from transportation services in India have increased by nearly US$ 700 million in 2003-04, primarily on account of higher earnings by the Indian shipping industry. India has posted net positive transportation earnings (almost US$ 1 billion) after almost two decades. India has a long coastline and a vibrant maritime sector. Korea has comparative advantage in transportation services. In both countries, the main mode of domestic transport remains road, while international transport is mainly by water (cargo) and air (passengers). Ensuring efficient and modern transport modes is a key government priority, particularly given Korea's prime location as a transit hub in Northeast Asia, and India’s in South Asia. Both the countries are keen to protect maritime safety and development, and enhance maritime competitiveness. Korean investments in Indian ship building industry will enhance trade in services between the two countries. Indian air traffic has been growing more than 25 % per annum, and there are proposals for upgradation of existing metro airports and development of new private terminals. Korea’s comparative advantage in maritime and air transportation sectors could play a pivotal role in increasing services trade between the two countries.

Tourism services

3.24 Tourism plays an important role in fostering bilateral relations between India and Korea. Besides contributing to the national income, promotion of bilateral tourism has immense beneficial spillovers for trade and people-to-people contacts. The shared history and culture of India and Korea dating back to several centuries provides a base for tourism exchanges. Korean tourists to India, including Buddhist pilgrims, are increasing every year and India has emerged as a potential tourism market for Korea. There has been a remarkable mutual increase of interests between the people of India and Korea in recent years. Consequently, two-way tourist traffic between India and Korea is increasing consistently. Even though there were some steps by the two Governments, including the Agreement on Tourism Cooperation between India and Korea, which was signed in 1993, cross-country travels between the two countries still remain lower than they should be.

IMPEDIMENTS TO TRADE IN SERVICES

3.25 Even though substantial liberalization on account of removal of trade and investment barriers has taken place in both countries, barriers to service trade still exist in the form of laws and regulations, impediments to producers and consumers to interact across borders, movement of skilled personnel, etc. These barriers need to be addressed for facilitating bilateral trade in services. Some such barriers in both countries are: burdensome registration and bonding procedures for companies in both countries, counter-guarantees required by Banks, restrictions on establishment of branches of local companies, in the entertainment industry, restrictions in the Movement of Natural persons in the form of licensing and certification requirements for professionals, stringent visa and immigration requirements etc., certification requirements for intra-company transfers, restrictions on banks and foreign exchange transactions and restriction on foreign vessels.

Ways forward to deepening trade in services

Principles for expanding services trade

3.26 In view of enormous potential in service trade sector between India and Korea, both Governments should engage in deepening mutual cooperation and

take substantial measures to remove barriers to trade in services. Keeping this in view, the JSG recommends that negotiations be based on the following broad four principles:

(i) All services sectors and all modes of supply in GATS shall be covered;
(ii) Commitments by both countries shall cover a wide range of service sectors (both horizontal and sectoral);
(iii) Special emphasis shall be given to the areas, such as software and IT-related services, financial services, telecommunication services, construction services and transportation services; and
(iv) Liberalization of services to maximize welfare of the economies.

Sectors of Interest and Recommendations

3.27 The JSG concurred that the following sectors should be explored as potential areas where India-Korea bilateral trade in services could be particularly strengthened through enhanced cooperation in the service sectors of mutual interest and improved market access. Freer movement and the recognition of qualifications and experience of professionals as well as exchanges of experts and provision of training and educational opportunities would supplement both Governments' efforts to improve access to the other country's market. In this regard, special care should be taken of the sensitivity involved in the public policy needs in immigration, employment, and public health and safety.

(IT and software services)

3.28 Given the existing significant complementarities between the two countries in the IT sector, expertise and skills of Korean hardware with those of Indian software should be synchronised and leveraged to create a win-win situation for both partners.

3.29 India and Korea should aim to strengthen and facilitate service sector cooperation, strategic alliance and investment in areas like IT equipments, computer hardware, and telecommunication networks. Electronics exports from India to Korea have shown a sustained increase over the last few years resulting in the emergence of IT as a crucial sector in India-Korea bilateral

economic relations. Indian companies felt a need of forming certain consultative mechanisms to promote greater opportunities in trade between the two countries in the IT sector.

(Construction and Engineering services)

3.30 To translate the enormous potential existing between the two countries, both countries should strengthen cooperation in the development of infrastructure such as roads and railroads and other social infrastructure. To this end, Korean companies can participate in India's energy development and plant construction plank, including power plant construction, on and offshore gas and oil development. Efforts would be made to address all the concerns posed in market access to, and remove impediments to, trade in construction services, such as requirement for additional financial guarantee, restrictive transfer of earnings and limitations on the establishment of branch offices.

3.31 Korean service providers can tap the huge potential in the Indian market for construction-related activities and infrastructure development. With the recent relaxation of FDI norms in the sector in India, Korean expertise will find more opportunities.

(Audio visual and entertainment services)

3.32 Even though the size of the Indian diaspora in Korea is not very large, this sector holds a lot of potential in the future. India should look for better access in this sector especially for post-production activities. Given the significant opportunities for India in the animation services sector lie in modes 2 & 3, the latter especially for animation films sector and voice-over services for the region’s productions.

(Transportation services)

3.33 In order to encourage cooperation between the two countries in the maritime transport services sector, both governments should further pursue deregulation in maritime transport services, including the guarantee of a voluntary shipment system, make efforts to eliminate all the impediments to trade in maritime transport services such as cargo preference system, and

strengthen efforts to conclude the on-going negotiation of the Agreement on Maritime Transport. Besides, India should look at leveraging Korean expertise and experience in this sector to rapidly beef up infrastructure in the interests of reducing port congestion and bottlenecks and also reducing transaction costs for Indian exporters.

3.34 The JSG noted that air traffic services have been traditionally treated as an exception to GATS or FTA services negotiations. However, taking into account the increasing importance of air transport in expanding trade, tourism and mobility of persons, the JSG shared the view that bilateral cooperation and consultation in this sector would be desirable. In this regard, it is recommended that civil aviation authorities of the two countries meet for mutual consultations regarding the issues of unconditional increase in frequencies of flights between the two countries and easing the regulations on air transport operations. With domestic private airlines being allowed to operate internationally, civil aviation in India is set for rapid growth in the coming years. India and Korea should explore a bilateral agreement to increase international routes.

(Tourism services)

3.35 Facilitating further trade in this sector will require initiatives to train tourist guides in local language. To further sustain this development, there is the need for cooperation in facilitation of tourism traffic and joint promotional activities in tourism industries. For encouraging incoming tourists, India should market smaller and non-conventional destinations, and offer infrastructure for different categories of tourists in diverse budget classes. In addition to leisure, MICE and religious tourism, India should encourage more of educational and health tourists from Korea, leveraging the socio-cultural similarity between the two countries, by use of institutional twinning and special sector focus in Indian institutes.

(Financial services)

3.36 Since efficiency and competitiveness in financial services will improve the India-Korea bilateral trade in services, both countries should work together to strengthen domestic financial systems. In particular, both parties could collaborate in the field of financial services with a view to promoting regulatory

co-operation and share related experiences to facilitate the development of the financial market and improve the financial market infrastructure. Recognizing that improving the efficiency and competitiveness of the financial markets of the two countries is of great significance in creating environment for mutual cooperation and economic development, it is also recommended that both countries give favorable consideration to the financial guarantee of the state run banks such as EXIM banks for business activities between the two countries, endeavor not to apply any restrictions on transfer of earnings; and work towards appropriate improvements of their commitments for commercial presence in financial services. It is recommended that the Financial Services authorities of both sides enter into mutual consultations with a view to increasing cooperation in this area.

(Role of Embassies)

3.37 Given the average to low level of awareness of the Korean market among the Indian companies, Indian companies have suggested that the Indian Embassy in Seoul and Korean Embassy in New Delhi act as facilitators ensuring free flow of information to potential Indian and Korean companies having business interest in India and Korea respectively. The Indian Embassy in Seoul and the Korean Embassy in New Delhi should come out with sectoral information brochures on 'Doing Business With Korea' and 'Doing Business in India' to assist their respective investors with information on registration process, mode of entry, foreign equity limits and other relevant procedural and market information. It is also suggested that the Consulates should also assist the joint venture formation by providing information on the background and antecedents of the potential partners.

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Appendix 3.1: India's and Korea's Share in World Trade in Services:

The following table shows the change in the shares of India and Korea in world services exports from 1980 to 2003. It is clear that the share of both India and Korea in world services exports has risen from 1980 to 2003.

Further, Korea's share in world services exports has risen much faster than that of India's during 1990s. In 2003, India's services export represents 6.79 % of developing economies, 9.13 % of developing Asia and 7.08 % of whole Asia, whereas the same for Korea is 8.04, 10.82 and 8.38 %s respectively, as shown in the table below. Except 1990 (for India) and 2003 (for Korea), both the countries have witnessed continuously higher shares in world service exports.

Shares of India and Korea in World Services Exports

Particulars	1980	1990	2000	2003
	(%)			
India's share in world	0.76	0.56	1.25	1.48
Korea's share in world	0.66	1.16	2.00	1.76
India's share in developing economies	3.99	3.01	5.36	6.79
Korea' share in developing economies	3.45	6.26	8.53	8.04
India's share in developing Asia[1]	7.05	4.60	7.31	9.13
Korea's share in developing Asia[1]	6.10	9.58	11.64	10.82
India's share in Asia[2]	4.56	3.16	5.61	7.08
Korea's share in Asia[2]	3.95	6.58	8.93	8.38

* Notes: 1. Excluding Israel and Japan. 2. Including Israel and Japan

* Source: Calculated based on Handbook of Statistics, 2004, UNCTAD

Appendix 3. 2: Revealed Comparative Advantage of India and Korea in various Service Sectors:

Revealed Comparative Advantage (RCA) is basically the ratio of a country's share of a service export in its total exports and the world's share of the service export in total world exports of the service. This is represented through a mathematical equation as under:

$RCA = (X_{iw}^{k} / X_{iw}^{\Sigma k}) / (X_{w}^{k} / X_{w}^{\Sigma k})$,

where X_{iw}^{k} is country i's world exports of service k,

$X_{iw}^{\Sigma k}$ is country i's exports of goods and services,

X_{w}^{k} is world exports of service k, and

$X_{w}^{\Sigma k}$ is world exports of goods and services.

If the estimated RCA index of a sector is found to be greater than one, then it is considered as globally competitive (Balassa, 1965). See, Balassa, B. (1965) "Trade Liberalisation and 'Revealed' Comparative Advantage", *The Manchester School of Economic and Social Studies*, Vol. 33, pp. 99-123.

The RCA of India and Korea in various service sectors is displayed below:

RCA in Service Trade

Country	Sector	1991	1995	2002
India	Services	1.08	0.91	1.57
	Transport	0.82	1.08	0.72
	Travel	1.30	1.09	0.66
	Other services	1.15	0.76	2.73
Korea	Services	0.62	0.79	0.73
	Transport	0.93	1.36	1.52
	Travel	0.58	0.56	0.53
	Other services	0.51	0.71	0.53

* Source: Calculated based on various issues of Balance of Payments Statistics Yearbook, IMF

Appendix 3.3. Components of Trade in Services: India

Particulars	1991		1995		2002	
	Volume	Share	Volume	Share	Volume	Share
	US$ Mln.	%	US$ Mln.	%	US$ Mln.	%
Total services export, *of which*	4925.00		6775.00		24859.00	
Transport	975.00	19.80	1890.00	27.90	2530.00	10.18
Travel	1842.00	37.40	2582.00	38.11	3013.00	12.12
Other services, *of which*	2109.00	42.82	2303.00	33.99	19316.00	77.70
Insurance	107.00	2.17	170.00	2.51	368.00	1.48
Other business services, *of which*	1981.00	40.22	2120.00	31.29	18630.00	74.94
Software					737.00	4.00
Government services n.i.e.	20.00	0.41	11.00	0.16	306.00	1.23
Total services import, *of which*	5945.00		10268.00		18691.00	
Transport	3242.00	54.53	5703.00	55.54	2537.00	13.57
Travel	434.00	7.30	996.00	9.70	3449.00	18.45
Other services, *of which*	2269.00	38.17	3569.00	34.76	12706.00	67.98
Insurance	350.00	5.89	559.00	5.44	311.00	1.66
Other business services	1722.00	28.97	2714.00	26.43	11817.00	63.22
Government services n.i.e.	148.00	2.49	206.00	2.01	228.00	1.22

* Source: RIS Database based on Handbook of Statistics, 2004, UNCTAD

Appendix 3.4. Components of Trade in Services: Korea

Particulars	1991		1995		2003	
	Volume	Share	Volume	Share	Volume	Share
	US$ Mln.	%	US$ Mln.	%	US$ Mln.	%
Total services export, *of which*	10014.00		22827.00		32702.00	
Transport	3873.00	38.68	9272.00	40.62	16996.00	51.97
Travel	2856.00	28.52	5150.00	22.56	5256.00	16.07
Other services, *of which*	3285.00		8405.00		10451.00	
Communications	353.00	3.53	561.00	2.46	343.00	1.05
Computer and information services	5.00	0.05	5.00	0.02	30.00	0.09
Insurance	17.00	0.17	20.00	0.09	71.00	0.22
Financial services	2.00	0.02	105.00	0.46	696.00	2.13
Royalties and license fees	61.00	0.61	299.00	1.31	1325.00	4.05
Other business services	2558.00	25.54	6761.00	29.62	6672.00	20.40
Government services n.i.e.	324.00	3.24	694.00	3.04	1200.00	3.67
Total services import, *of which*	12167.00		25806.00		40313.00	
Transport	4897.00	40.25	9645.00	37.38	13475.00	33.43
Travel	3214.00	26.42	6341.00	24.57	9988.00	24.78
Other services, *of which*	4056.00		9820.00		16851.00	
Communications	204.00	1.68	642.00	2.49	650.00	1.61
Computer and information services	59.00	0.48	93.00	0.36	134.00	0.33
Insurance	13.00	0.11	255.00	0.99	410.00	1.02
Financial services	41.00	0.34	130.00	0.50	110.00	0.27
Royalties and license fees	1581.00	12.99	2385.00	9.24	3597.00	8.92
Other business services	1885.00	15.49	5807.00	22.50	11221.00	27.83
Government services n.i.e.	264.00	2.17	412.00	1.60	452.00	1.12

* Source: RIS Database based on Handbook of Statistics, 2004, UNCTAD

Chapter 4

INVESTMENT

INTRODUCTION

4.1 Investment, particularly gross fixed capital formation, is critical for improving productivity, increasing growth and creating employment in any economy, particularly a developing one. Traditionally, domestic savings fall short of the enormous need for capital formation in a developing economy. In this context, foreign direct investment (FDI) is essential in expanding capital formation and sustaining economic growth of a country. It also plays an important role in the transfer of technology, enhanced access to new export markets and improved corporate governance and management practices.

POLICY ON FOREIGN DIRECT INVESTMENT(FDI)

4.2 The JSG noted that both India and Korea has made substantial efforts to encourage FDI by establishing their foreign investment regimes, which are becoming further liberalized and more transparent.

4.3 India pursues a liberal, transparent and investor-friendly FDI Policy. In most sectors/activities, FDI is allowed on the automatic route, which does not require prior approval and only requires post notification to the Reserve Bank of India (RBI) within thirty days of the receipt of inward remittance.

However, in the following cases requiring prior government approval, proposals for FDI are considered by the Foreign Investment Promotion Board(FIPB) and decisions are made on most cases within 6-8 weeks of receipt of complete application; i) activities that attract industrial licensing[8]; ii) where the foreign collaborator had an existing tie-up for technology/financial/trademark collaboration as on 12 January 2005 (Press Note 1 of 2005); iii) where proposals involve transfer of shares from resident to non-resident either in the financial sector or where the Securities & Exchange Board of India (Substantial

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8 Activities attracting industrial licensing – Annex 4.1

Acquisition and Takeover Code) Regulations are attracted; and iv) where the sectoral policy governing the activities does not permit access to the automatic route.[9]

4.4 Korea has taken FDI promotion policies in line with the development strategies for domestic industries with a focus on future growth potential and balanced provincial development. The Foreign Investment Promotion Act (FIPA) of 1998 substantially liberalized Korea's investment regime and opened most sectors to FDI.

Under FIPA, foreign investment may be carried out after a mere notification procedure without additional government evaluation or approval. However, investment in the defense industry requires government approval. Of all the business sectors described in the Korean Standard Industrial Classification, there are now 1,056 sectors that are open to FDI.[10] Among them, 1,030 sectors are fully open and 26 sectors are partially open.

4.5 The policy on India's overseas investment has been progressively liberalized since its initiation in 1992. The basic rationale for opening up the regime of Indian investments overseas has been the need to provide the Indian industry with access to new markets and technologies with a view to increasing India's global competitiveness and helping its export efforts.

Indian corporations/registered partnership firms are allowed to invest in entities abroad up to 100% of their net worth in a year under the automatic route which requires only post facto intimation to RBI. Proposals not covered under the automatic route are considered by the Special Committee on Overseas Investments in the RBI and applications are required to be made in form ODI/ODB to the Exchange Control Department of RBI.

4.6 Korea's overseas direct investment policy is based on the Foreign Exchange Transaction Act and its implementing regulations. Overseas direct

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9 Activities not permitted under automatic route- Annex 4.2

10 FDI-restricted businesses in Korea(partially open and closed sector)- Annex 4.3

investment may be executed after a mere notification to foreign exchange banks.[11] On July 1, 2005, the Korean Government eased its regulations on overseas direct investment by raising the ceiling of maximum investment from US$ 1 million to US$ 3 million when the investor is an individual. Certain obligations relating to the post-management system for minority investors (with investment of less than US$ 100 thousand) have been partially exempted. Further, financial resources and insurance coverage for overseas investment have been expanded.

Recognizing the importance of overseas investment using the available resources, the Korean Government has set up various institutional devices to help Korean nationals make investments in order to gain further access to the global market. Among them is a digital Information Network on overseas direct investment (www.mofe.go.kr/odi) which enables the interested parties to obtain relevant information and FAQ on domestic procedures.

4.7 India's Foreign technology transfer policy is also included in the FDI policy. The foreign technology transfer policy is equally liberal and freely permits technology collaborations. Payment is allowed under the automatic route for technology transfers up to specified limits. Lump-sum payments not exceeding US$2 million and royalty at the rate of 5 percent on domestic sales and 8 percent on exports are allowed under the automatic route. There are no limits on the duration of royalty payments. Payment of royalty up to 2% on exports and 1% on domestic sales is also allowed under the automatic route for use of trademark and brand name of the foreign collaborator without technology transfer.

To promote technology transfer, the Korean Government does not require a separate registration process (such as official approval or notification) for advanced technologies. Notifications, however, are required in the following exceptional cases: i) a contract needed for the introduction into nation of the kind of high technology which is absolutely necessary for the strengthening of

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11 In cases when the Korean (or domestic) company which holds impaired capital invests not less than US$ 10 million, it has to be notified to the Ministry of Finance and Economy.

international competitiveness of domestic industries and which is eligible for the application for the exemption from taxes to the Minister of Finance and Economy; ii) a contract needed for the introduction of technology which concerns aircraft, spacecraft (including ground support facilities) and their parts; and iii) a contract needed for the introduction of technology which concerns defence products.

FDI FLOWS: GLOBAL AND BILATERAL

4.8 According to the World Investment Report 2004 released by the United Nations Conference on Trade and Development(UNCTAD), Global FDI inflows peaked in 2000 at US$ 1388 billion and declined to US$ 560 billion 2003 - the lowest level since 1998. The main factor behind the decline was slow economic growth in most parts of the world. FDI inflows in India, however, have remained stable and largely unaffected by the global decline with which Korea has been synchronized in general.

4.9 Korea's FDI[12] has changed significantly since the 1997 Asian financial crisis. From 1962 to 2005(up to June), Korea's cumulative FDI is estimated at US$ 109 billion, on a declared basis. The cumulative FDI, from 1998 to 2005(up to June), is estimated at US$ 84 billion, representing more than 77% of the nation's total FDI. Korea's FDI peaked at US$ 15.5 billion in 1999 and then declined until 2003. Thanks to a global economic recovery and the nation's continuous efforts to promote foreign investment, Korea's FDI ended the four-year decline, bouncing back to US$ 12.8 billion in 2004.

FDI contributed greatly to Korea's overcoming the 1997financial crisis and overhauling its economic structure. Foreign invested businesses have exceeded 16,000 in number and contributed to job creation and technology transfer. However, Korea's ratio of FDI, on the arrived basis, to GDP still remains at 8%, lower than that of China.

4.10 As of 2004, India was the 18th largest foreign investor in Korea. India's investment in Korea was only US$ 0.7 million in 2000 and remained stagnant until 2003. India's investment in Korea had a turning point in March 2003 when

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5 Source: Ministry of Commerce, Industry and Energy of Korea

TATA Group took over Daewoo Commercial Vehicle. This acquisition indicates that major Indian companies are actively advancing into the Korean market, a significant departure from India's heavy reliance on Korean investment.

4.11 Cumulative FDI inflows into India13 during 1991(from August)-2005(up to March) is US$ 33.35 billion, reflecting only the equity component. Cumulative FDI approvals during this period stand at US$ 67.65 billion. Major countries investing in India are Mauritius, the United States, the Netherlands, Japan and Korea. Many foreign investors route their investments into India through Mauritius in view of the Double Taxation Avoidance Treaty between Indian and Mauritius.

4.12 Korea ranks 8th among major countries investing in India and cumulative FDI inflows from Korea during the period from August 1991 to March 2005 is US$ 0.68 billion, 2.58% of India's total FDI inflows of the same period. In terms of FDI approvals, Korea ranks 5th and accounts for about 3.93% with FDI approvals of US$ 2.65 billion of India's total investment approvals. Top sectors attracting FDI inflows from Korea(from January 2000 to February 2005) are Electrical Equipments (including computer software and electronics) (58.48%), Food Processing Industries(16.72%), the Transportation Industry(8.68%), Machine Tools(1.89%) and Textiles(including dyed & printed)(1.10%).

4.13 Along with investment, Korea has been granted 225 technical collaborations amounting to 2.93% of the total (7,674 technical collaborations) since 1991. The top five sectors attracting technology transfer from Korea are the Transportation Industry(53), Electrical Equipments (including computer software & electronics)(47), Chemicals (other than fertilizer)(19), Miscellaneous Mechanical Engineering Industries(14) and Metallurgical industries(13).

4.14 On the other hand, Korea's overseas direct investment[14] in 2004 reached US$ 7.94 billion in 3.904 cases on a declared basis, increasing by 36.8% for the value and by 26.6% for the number of cases, over the previous year in which

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6 Source: FDI data maintained by Department of Industrial Policy & Promotion of India

14 Source: Ministry of Finance and Economy of Korea

the actual overseas direct investment outflow was US$ 5.71 billion. Such performance was supported by a continuous increase in Korean investment in China and the growing demand for overseas investment due to the overall economic recovery in the developed countries, including the United States. By sector, manufacturing occupied 62.9% of Korea's total overseas direct investment, followed by retail and wholesale(14.9%), services(9.2%) and realty(3.5%). By country, China remained the largest recipient of Korea's overseas direct investment, followed by the United States, the EU, Vietnam and Japan.

4.15 India's overseas investment[15] approvals increased from UD$ 557 million in 1996-97 to US$ 1379 million in 2004-05(up to February 2005). Overseas investment outflows rose from US$ 205 million in 1996-97 to US$ 1217.95 million in 2004-05. In 2004-05(up to February 2005), a total of 1124 approvals for overseas investments for US$ 1378.89 million were granted to Indian companies compared to 1229 approvals involving US$ 1450.56 million in the corresponding period of the previous year. Overseas investment outflows in 2004-05(up to Feburuary 2005) were US$ 1217.95 million compared to US$ 1488 million in the corresponding period of the previous year. The major recipient countries of Indian investments abroad during 2004-05 are the United States, Bermuda and Mauritius.

INVESTMENT COOPERATION

4.16 While India-Korea bilateral economic relations have been getting stronger since the mid 1960s, activities related to trade and investment have gained momentum since 1991-92 with the opening up of the Indian economy under its 'New Economic Policy' in 1991.

4.17 Korea and India entered into a Bilateral Investment Promotion and Protection Agreement (BIPPA) in 1996, which is currently in effect. More recently, Korea's Ministry of Commerce, Industry and Energy (MOCIE) and India's Commerce Department launched a Korea- India Investment Promotion Committee which held its first meeting in October 2003. A second meeting will

[15] Source: Reserve Bank of India

follow within this year to hold in-depth discussions on bilateral cooperation in investment, exchange views on investment difficulties and share key information on investment opportunities and each other's investment regime. Korea and India will strengthen the committee's role as a vehicle to increase bilateral investment.

4.18 The Korean Government has made various efforts to improve its business environment and living conditions for foreign investors. Since 2004, the Korean Government has worked out a five-year plan to improve the FDI environment. For the improvement of business climate for foreign investment, progress has been made in labor relations, taxation, banking, foreign exchange and administrative sectors. For the improvement of living conditions, operational plans are underway in the area of education, housing, medical service, transportation, immigration and health.

4.19 Korea provides tax incentives to foreign businesses involved in high-technology and R&D activities, or to those wishing to establish operations in Foreign Investment Zones. These businesses are entitled to a maximum of seven years in reduction of corporate and income taxes and a partial waiver of customs duties for their imports. In the case of large-scale investments, not only tax reduction but also factory sites are provided at government cost. Foreign investors in the high-tech industries are entitled to cash grants of up to 5%-20% of the investment, depending on the size of the employment and the level of technology.

4.20 The Korean Government established "Invest Korea," a specialized agency in charge of attracting foreign investment. Invest Korea offers one-stop services for foreign investors from the initial to the final stage of an investment project. Moreover, within "Invest Korea", the Korean Government set up a task force dedicated to improving relations between foreign management and labor. At present, the task force provides 50 selected business sites with one-on-one services and holds regular local meetings to firmly stabilize labor relations.

4.21 The Indian Government has taken major initiatives such as industrial de-control, simplification of investment procedures, liberalization of trade policy, full commitment to safeguarding intellectual property rights, financial sector reforms, liberalization of exchange regulations etc., in order to provide a liberal,

attractive and investor-friendly investment climate. The Indian Government has recently undertaken a series of liberalisation measures to promote investments, such as the measures of increasing the FDI cap in the domestic airline sector from 40% to 49%, allowing FDI up to 100% in construction development projects/housing and township projects under the automatic route, simplifying the procedure for transferring shares from residents to non-residents, setting up the National Manufacturing Competitive Council & the Investment Commission and announcing the Broadband Policy.

4.22 India provides tax incentives to all investors, including foreign investors, for setting up units in backward areas, special economic zones, export processing units and for projects relating to infrastructure development. The incentives are primarily in the form of exemption from income tax or reduced rates of income tax and customs duty concessions.

4.23 The Government of India extends investment guidance through the Secretariat for Industrial Assistance in the Department of Industrial Policy & Promotion. To facilitate easy availability of information to the investors and provide information about the investment climate in the country, the Department hosts an investor-friendly web site http://dipp.nic.in. The web site has the facility of on-line chat where investors can ask any question relating to FDI policy and related issues. The web site also has provision of bulleting board service. For investment promotion, the Government of India holds Destination India events and road-shows every year in pre-selected countries. The Government of India has also established the Foreign Investment Implementation Authority (FIIA) to facilitate the implementation of FDI projects by assisting investors in obtaining requisite approvals and in resolving other operational difficulties at the central, state and local government levels. The FIIA has been interacting at regular intervals with investors and has emerged as an effective problem-solving platform.

INVESTMENT PROSPECTS

4.24 Korea is quickly winning global recognition as a prime investment location and numerous multinational corporations have chosen Korea as their business base to advance into the fast-growing Northeast Asian region. Korea's

most notable strength is in human capital. Regarding education, Korea ranks the 5th in the world in the education level of its population, with 40% of its population completing tertiary-level education. In productivity growth, according to IMD and OECD statistics, Korea tops the list with a growth rate of 3.5%. Korea's second strength is in its world-class infrastructure in the IT, logistics, electricity, and communications sectors. Its well established infrastructure, talented human resources, advanced information communication technology environment and favorable government policies have fueled Korea's competitiveness and helped achieve high growth rates to many multinationals operating in Korea.

4.25 Korea shows outstanding performance in major industries such as semi-conductor, shipbuilding, automobiles, iron and steel, TFT-LCD, in the global market, in terms of market share and dominance. Automotive and automotive parts, displays, semiconductors, information communication technology, social overhead capital and logistics, R&D center, biotechnology, petrochemicals are some of the promising sectors for investment in Korea.

4.26 India has been rated as the third most attractive investment destination (it was rated sixth in 2003) as per the AT Kearney Business Confidence Index, 2004. It is also among the top 3 investment 'hot spots' for the next 4 years as per the UNCTAD and Corporate Location Survey. India is accepted as the best off-shoring destination by AT Kearney. The Indian industry is well developed and supported by established financial institutions and banking systems. Indian entrepreneurship skills are widely recognised around the world. The vast English speaking skilled manpower is an added advantage for India as an attractive investment destination. Therefore, Joint technical collaborations and joint ventures with the Indian industry is a promising area for cooperation.

4.27 Tremendous investment opportunities exist in India in almost all fields – infrastructure, the services sector or the manufacturing sector. The infrastructure sectors, such as power, telecommunications, roads, ports, shipping, and civil aviation, are fast-growing capital-intensive sectors providing investment opportunities to foreign investors. The Indian Government has a large-scale investment plan including public and private participation. FDI is allowed in the infrastructure sector under the automatic route up to 100%. In the manufacturing sector, automobiles, textiles, pharmaceuticals, gems & jewellery

and leather are some of the promising sectors for investment. India is a leading country in the IT Services sector and BPO, and is rated as the most attractive BPO destination in the world.

THE WAY FORWARD

4.28 Recognizing that FDI is emerging as an essential factor in building a formidable economic partnership between Korea and India, the JSG notes that both Korea and India provide excellent opportunities for investments and suggests that both countries continue to make efforts to improve their investment environments by removing investment barriers, relaxing regulations, and addressing the general concerns of investors. In this regard, the JSG recommends that both Governments consider taking a comprehensive approach to addressing these issues, with a focus placed on committing investment access to each other's market and the promotion and protection of investments in both countries.

4.29 The JSG is of the view that, in light of the new trade and investment opportunities to be afforded by this approach, the Bilateral Investment Promotion and Protection Agreement (BIPPA) concluded in 1996 should also be revisited and updated in the broader context of this comprehensive approach.

4.30 The JSG recommends that the afore-mentioned comprehensive approach should be based on the following principles: i) coverage of both access for foreign investors to the respective markets and the protection of investments made; ii) investment protection measures similar to those usually found in other bilateral investment protection measures; iii) flexibility in the investment; and iv) regulations to set up an investment consultation mechanism between Korea and India through which all investment-related matters may be discussed.

4.31 The JSG also agrees that both countries should consider maximizing the investment opportunities in sectors with a competitive edge. Sector-specific cooperative measures, such as Korea's investment and technical collaboration in India's infrastructure sector, could be taken as one of the most important

options. The Indian Government's "National Common Minimum Program" put the highest priority on the development and expansion of infrastructure. In this regard, major Korean construction companies with expansive overseas experiences could participate in India's projects for building infrastructure.

4.32 The JSG noted that the bilateral Double Taxation Avoidance Agreement (DTAA), signed in 1985, is already under review. The JSG recommends that the on-going review should focus on further facilitating the flows of trade, investment, technology and expertise between the two countries.

4.33 The JSG also recommends that, given the difficulties in adjusting its taxation policy, India set up a country-specific Fast Track Committee under the FIIA mechanism regarding investments originating from Korea.

4.34 The JGS suggests that a business-to-business mechanism for Korea–India investment facilitation and promotion be created to support inter-governmental collaboration and communications. Such institutional arrangement should, *inter alia*, work for investment promotion, promotion of greater flow of investments, dissemination of information on investment opportunities, identification of new areas of collaboration and facilitation of investment implementation.

Annex 4.1: Industrial Licensing in India

Industrial licences are regulated under the Industries (Development and Regulation) Act, 1951. The requirement of industrial licences has been progressively reduced. At present, an industrial licence for manufacturing is required only for:

A. Industries retained under compulsory licensing:
    1. Distillation and brewing of alcoholic drinks
    2. Cigars and cigarettes of tobacco and manufactured tobacco substitutes
    3. Electronic aerospace and defence equipment: all types
    4. Industrial explosives including detonating fuses, safety fuses, gun powder, nitrocellulose and matches
    5. Hazardous chemicals viz., hydrocyanic acid and its derivatives, phosgene and its derivatives, isocyanates and di-isocyanates of hydrocarbon; and
    6. Drugs and pharmaceuticals using re-combatant DNA technology or special cell/tissue-targeted technology.

B. Items reserved for the small-scale sector; and

C. The occasion that the proposed location attracts locational restriction.

Annex 4.2: Sectoral Restrictions under the FDI Policy in India

A. List of Activities for which an automatic route is not available and government approval is required:

1. Airports (beyond 74 %)
2. Petroleum Sector-LNG transportation and private sector oil refining
3. Investing companies in Infrastructure & Services Sector (49% equity cap)
4. Defence & Strategic industries (26% equity cap)
5. Atomic Minerals (74% equity cap) subject to joint venture with Central/ State PSUs.
6. Print Media (26% equity cap in News & Current Affairs; no equity cap for technical, scientific magazines, etc.)
7. Broadcasting (equity caps also apply)
8. Trading (other than up to 51% FDI in export trading)
9. Courier Services
10. Establishment & Operation of satellite (74% equity cap)
11. Tea sector.

B. List of activities where automatic route is available but equity cap applies:

1. Private Sector Banking (74%)
2. Insurance (26% equity cap)
3. Basic & cellular telecommunications services (74%)
4. Domestic Airlines (49% equity cap subject to no direct or indirect equity participation by foreign airline)
5. ISPs with gateways, radio-paging & end-to-end bandwidth (up to 49%)
6. Coal & lignite mining (74%)
7. Export Trading (up to 51%)
8. Mining of diamonds and precious stones (74%)

C. Other sector-specific restrictions imposed under the FDI Policy:

1. Lock-in period for original investments in (a) basic value-added telecommunications services; (b) townships; housing; built-up infrastructures; and construction development projects; (c) defence sector.

2. 26% divestment condition in (a) e-commerce; (b) email, voice mail, etc.; (c) trading in petroleum / petroleum products; (d) tea sector.
3. Minimum capitalisation requirement condition in (a) NBFC Sector; (b) townships; housing; built-up infrastructures; and construction development projects.
4. Conditions specified in licensing requirements or sector-specific policy of the concerned Administrative Ministry/ Department.

D. List of activities where FDI is prohibited.

1. Retail Trading;
2. Atomic Energy;
3. Lottery Business;
4. Gambling and Betting;
5. Real Estate business, excluding townships; housing; built-up infrastructures; and construction development projects;
6. Agriculture (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisiculture and Cultivation of vegetables, mushrooms, etc., under controlled conditions and services related to agro and allied sectors) and Plantations (Other than Tea plantations).

Annex 4.3: FDI-Restricted Businesses in Korea
(Partially open and closed sectors)

Business (IK* Code)	Criteria for Permission [1]
Growing of Cereal Crops and Other Crops for Food	Allowed except for the growing of rice and barley
Farming of beef cattle	FDI ratio shall be less than 50%
Inshore Fishing	FDI ratio shall be less than 50%
Coastal Fishing	FDI ratio shall be less than 50%
Publishing of Newspapers	FDI ratio shall be less than 30%
Publishing of Magazines and Periodicals	FDI ratio shall be less than 50%
Processing of Nuclear Fuel	Allowed except or the manufacturing and supplying of nuclear fuel for nuclear power plants
Electric Power Generation	FDI in electric power generation related to the operation of nuclear power plants is not allowed. Foreigners cannot purchase power generation facilities from Korea Electric Power Corporation (KEPCO) that exceed 30% of the total power generation facilities of the country.
Electric Power Transmission	Allowed if the following two conditions are met: 1. FDI ratio is less than 50% 2. The number of voting shares owned by foreign investors is lower than that of the largest Korean shareholder.
Other transmission & distribution of electric power	Same as above
Wholesale of Meat	FDI ratio shall be less than 50%
Coastal Water Passenger Transport Coastal Water Freight Transport	Allowed if the following three conditions are met: 1. Permitted scope of transportation is between North and South Korea. 2. Is in the form of joint ventures with domestic shipping companies. 3. FDI ratio is less than 50%.
Scheduled Air Transport	FDI ratio shall be less than 50%
Non-Scheduled Air Transport	FDI ratio shall be less than 50%
Leased Line Service	FDI in core telecommunication businesses is subject to domestic law: Foreign governments, foreign nationals and Korean corporations* may own 49% or less of the total number of stocks or equity with voting rights. However, a foreign investor in Korea Telecom can be a majority owner only when the FDI ratio is 5% or less.
Wired Telephone	Same as above

and Other Telecommunications	
Wireless telephone	Same as above
Wireless paging and other telecommunications	Same as above
Other electric communications	Same as above
Domestic Commercial Banking	Allowed only for commercial banks
Radioactive Waste Disposal	Allowed excluding those nuclear waste management businesses pursuant to Article 82 of the Electrical Construction Business Act.
Cable networks	- FDI ratio shall be 49% or less. - FDI in news program supplying business is not allowed.
Cable and other program distribution	- FDJ ration in comprehensive cable broadcasting business shall be 49% or less. - FDI in relay cable broadcasting businesses is not allowed.
Satellite Broadcasting	FDI ratio shall be 33% or less.
News Agency Activities	FDI ratio shall be less than 25%.
Radio broadcasting	Not Permitted
Television broadcasting	Not Permitted

* Korea Standard Industrial Classification (KSIC)

[1] FDI in the businesses listed in this table shall be permitted if the criteria for permission are satisfied.

Chapter 5

BILATERAL ECONOMIC AND BUSINESS COOPERATION

INTRODUCTION

5.1 The ongoing transformation of India-Korea economic relationship is not a mere coincidence but has roots in common values and interest such as democracy, market economic complementarities, common membership of a host of international and regional organizations such as the United Nations, WTO and–UN ESCAP. However, there is still immense scope for further expansion and augmentation of the economic relations between the two countries.

5.2 India, as one of the fastest growing economies, is well on its way to become a major economic power of the world in the next few decades. Korea, since its successful recovery from the Asian economic crisis of the late 1990s, has once again emerged as an engine for economic growth. As India adds greater substance and depth to its "Look East Policy," the economic cooperation between the two countries will be strengthened and both countries, working as partners, can transform the 21st Century into a truly "Asian Century."

5.3 The complementarities in the economic structures of both India and Korea and the potential that exists for promoting trade in goods, trade in services and mutual investments have been discussed in the previous chapters. The synergies inherent in the complementarities can be exploited for mutual benefit by businesses and industries of the two countries. It is important to recognize that economic cooperation between India and Korea is not and should not be limited to conventional trade relations. The bilateral cooperation in the areas of industrial, technological, financial, social and cultural sectors is of critical significance to the future of the two countries' economic partnership.

ECONOMIC INFRASTRUCTURE SUPPORT IN TRADE AND INVESTMENT PROMOTION (INCLUDING TRADE FACILITATION)

Banking, Insurance, and Financial Services

5.4 The growth in the financial sector has to keep pace with the growing needs of business and industry. The recent government policies aimed at increasing investment in the banking sector and the recently announced Reserve Bank of India (RBI) roadmap for the presence of foreign banks and wholly owned banking subsidiaries in India have generated immense interest amongst foreign banking majors. The RBI has also committed to proposing appropriate amending legislation to the Banking Regulation Act, 1949, for voting rights commensurate with shareholding. In March, 2004, the Government of India has allowed aggregate foreign investment from all sources up to a maximum of 74% of the paid-up capital of a bank.

5.5 A recent survey on the "Status of the Indian Banking Industry" reveals growth expectations between 10-20% for the banking industry for the next few years up to 2009-2010. The survey places Korea in the list of countries which have been accorded high priority by Indian banks in terms of overseas expansion related to burgeoning business requirements. Today, the level of presence of Indian financial service providers in Korea and Korean financial service providers in India is limited. Only one branch of Indian bank is operating in Korea while Korean banks maintain one branch and one representative/liaison office in India.

5.6 Korea can make use of the opportunities presented by India to substantially increase its banking presence in India. Further, it would be worthwhile for India to share its experiences in banking which are of a diversified nature and for Korea to share its experiences of the reforms in its banking systems after 1997. A combination of the best practices in banking in the two countries could add considerable value to the performance of the banking sector in the two countries.

5.7 The potential insurance market in India is large since only one fifth of the population is currently insured. According to the extant policy of the Government of India, there is a statutory limit of 26% on the foreign direct investment that can be made by a foreign insurance company under a joint venture in India. In Korea, foreign insurance companies can run business by establishing local incorporations, branches and offices under the domestic laws, regulations and WTO commitment of schedule. The Korean insurance market is the 8th largest

one in the world, and it generated the annual premium income of US$68.6 billion in 2004. Its significance in the nominal GNP measured at 9.52% is the 9th greatest in the world. The market enjoys the world's 22nd highest insurance premium per capita of US$1,419. As of August 2005, 23 out of 50 insurance companies in Korea are foreign. The foreign life insurance companies controlled 16.5% of the market in FY04; the figure is marking a steady growth.

5.8 Although trade between India and Korea has grown significantly in the recent past, the same experience has not been replicated in the insurance sector. Currently no Indian insurance company has an office in Korea, whereas just one Korean insurance company has a representative/liaison office in India. According to the Indian statistics, there are 145 Korean companies spread all over the country and Korea has invested US$ 2.6 billion in India which provides a ready source of premium and an impetus for insurance companies in Korea to come to India. The fact remains that there is considerable potential for the entry of insurance majors in 'life' as well as in 'non-life' areas.

5.9 Among the areas in which both India and Korea could work together include the exchange of financial and capital market information in their respective markets/region. The JSG recommends that Korea and India cooperate in the field of financial services with a view to encouraging financial institutions from each country to make entry into the other, fostering sound financial markets and responding properly to issues relating to globalization in financial services.

Shipping

5.10 Trade by sea has expanded rapidly all over the world. A key responsibility for any government seeking to expand trade is providing efficient and modern transport by all modes. Maritime transport is an important infrastructural link for trade between any two countries and the lack of port and shipping infrastructure can become a major constraint for enhancing international trade. Both India and Korea should endeavor to provide a safe, business-friendly, and efficient maritime transport to their businessmen. Increased frequency of direct shipping routes and reduced cost of transportation are two focus areas for the consideration of both countries. At the same time, the rules and regulations relating to lifting of cargo at the ports of both countries

should be transparent and mutually beneficial. It was noted that, to achieve its goal of developing Korea as a logistical hub of North East Asia, the Korean Government has taken significant steps to further deregulate and liberalize the shipping industry. Licensing of foreign shipping branches was relaxed and foreign ownership of Korean vessels was allowed.

5.11 The JSG recommends that India and Korea should ensure that their ports provide easy movement for goods. With increased movement of goods and passengers between India and Korea, increased number of shipping lines, increased frequency of direct shipping routes and increased intensity of marine transportation become necessities. The JSG also recommends that the two countries should work closely to improve logistic services and reduce congestion and delay at ports, which would greatly increase the competitiveness of the maritime sector in the two countries.

Civil Aviation

5.12 International air services are governed by bilateral air services agreements. As per existing bilateral arrangements, the designated airlines of both sides are entitled to operate six flights per week to either country for operation between the cities of the two countries. At present, two designated airlines of Korea, namely, Korean Air and Asiana Airlines, are operating three services per week each to Mumbai and Delhi from Korea and Air India is operating 4 services per week to Seoul. The two countries have recognized the need to improve air connectivity in order to facilitate a higher volume of trade, tourism, and people-to-people exchange between the two countries. The two sides will discuss the issue of extension of air connectivity between the different cities of the two countries including cargo flights.

Customs Cooperation

5.13 Improvement in customs clearance efficiency facilitates trade and investment and reduces cost for business enterprises. In this direction, attempts should be made to put in place a customs clearance system based on international standards so that the element of discretion and randomness in customs and clearance procedures is reduced to the extent possible. Customs clearance procedures at the ports should be simplified so as to improve

handling efficiency. Automation and computerization would help speed up customs clearance. A uniform system of customs valuation, duties, and documentation, may be evolved across all ports of entry in both countries.

5.14 The efficiency of business enterprises is impaired by the lack of information about the laws and regulations regarding customs procedures. The two sides should endeavor to ensure transparency in related laws and regulations in their countries and regularly exchange information between the customs authorities of both countries. The two sides should also cooperate in the on-going negotiations on trade facilitation in WTO.

Inspection and Technical Regulations

5.15 India and Korea have initiated cooperation in the field of product quality, inspection and supervision. The Export Inspection Agencies (EIAs), which are the field formations of the Indian export inspection body, EIC, were assessed and approved in 2004 by the Korean Food and Drug Administration (KFDA) under the "Food Sanitation Act" for certification of several food items. The JSG noted that upon request by India, the KFDA is willing to consider expanding the scope of the certificates by EIAs which it will accept, on the basis of its review of the documents the Indian side is required to submit and the necessary field inspections. Taking into account the distinct characteristics of different animal and agriculture products which may involve various risk factors, the JSG is of the view that the inspection and certification system for those products should be based on scientific evidence and in line with relevant international standards to ensure protection of human, animal or plant health and life.

5.16 For the purpose of strengthening cooperation in food safety, inspection, and quarantine of plants and animals, it is suggested that the possibility of establishing a communication mechanism between the competent authorities of both countries be explored. The two sides may also agree to facilitate exchange of information and maintenance of transparency on their respective technical trade measures and regulations, technical standards and assessment procedures related to health and safety.

5.17 Both India and Korea agree on the need to enhance international harmonization of the related measures in accordance with the relevant provisions of the WTO Agreement, and also agree to explore possible areas of cooperation between the competent authorities of both countries.

LEGAL AND INSTITUTIONAL FRAMEWORKS TO ENHANCE ECONOMIC COOPERATION

5.18 Since 1974, Korea and India have signed a total of 9 agreements in an effort to strengthen economic relations between the two countries. In 1974, the Korean and Indian Governments signed the "Agreement on Trade Promotion and Economic and Technical Cooperation," which served as the first and basic framework for the cooperation in economic relations between the two countries. Thereafter, the two Governments have signed the following agreements and arrangements in various fields:

(i) Cultural Agreement (signed on 12 August 1974 in Seoul, Korea, and came into force on the same day);

(ii) Agreement on Cooperation in the Fields of Science and Technology (signed on 5 March 1976 in Seoul, Korea, and became effective on 30 August 1976);

(iii) Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes (signed on 19 July 1985 in New Delhi, India, and became effective on 31 August 1986);

(iv) Air Services Agreement (signed on 16 March 1992 in Seoul, Korea, and came into force on the same day);

(v) Memorandum of Understanding on Science and Technology Cooperation between the Ministry of Science and Technology of Korea and the Department of Science and Technology of India (signed on 10 September 1993 and came into force on the same day);

(vi) Agreement on Tourism Cooperation (signed on 10 September 1993 in Seoul, Korea, and came into force on 10 October 1993);

(vii) Agreement on the Establishment of a Joint Commission between Korea and India (signed on 26 February 1996 in New Delhi, India, and became effective on the same day); and

(viii) Agreement on the Promotion and Protection of Investments (signed on 26 February 1996 in New Delhi, India, and came into force on 7

May 1996).

5.19 Trade and economic cooperation has been considerably consolidated through these agreements and arrangements and, indeed, they have helped pave the way for deepening economic ties between Korea and India today.

Agreement on Customs Cooperation

5.20 Close cooperation between the two countries is required to facilitate improvement of custom techniques and procedures considering the consistently growing trade and to fully develop latent trade potential. Moreover, both countries are fully aware of the issues concerning modernization of customs that need to be addressed, including inadequate infrastructure, capacity constraints, transparency, and security-related concerns, all of which are vital for fair and equitable growth of trade. The two sides have reached agreement on the text of a bilateral Agreement Concerning Cooperation and Mutual Assistance in Customs Matters. At the 4th meeting of the India-ROK Joint Commission held in New Delhi, August 2005, it was decided that the Agreement would be signed at the earliest.

Double Taxation Avoidance Convention (DTAC)

5.21 The Double Taxation Avoidance Convention (DTAC) between India and Korea was signed in 1985 and entered into force in 1986. It was amended in 1990 to extend the tax sparing provisions for another 5 years. The two sides should review the existing DTAC with an intent to appropriately reflect the taxation environment that has substantially changed since the signing of the last DTAC and to address the concerns of the two countries. India and Korea have already initiated negotiations for the review of the existing DTAC. The JSG also recommends early completion of the exercise for the revision of the DTAC.

Bilateral Investment Promotion and Protection Agreement (BIPPA)

5.22 India-Korea investment relations gathered great momentum since 1991-92 with the opening up of the Indian economy under its “New Economic Policy.” Korea and India entered into a Bilateral Investment Promotion and Protection Agreement (BIPPA) in 1996, which is currently in effect.

5.23 BIPPA covers promotion and protection of investments and compensation for losses as per the 'national treatment' (NT) and 'most favoured nation' (MFN) treatment. The agreement provides protection to investors from expropriation or nationalization of investments except for a public purpose, in accordance with law, on a non-discriminatory basis and against compensation. Under the agreement, both Governments are obliged to ensure that investors from the other country are allowed free transfer of payments related to investment and returns subject to mutually agreed conditions.

5.24 More recently, Korea's Ministry of Commerce, Industry and Energy (MOCIE) and India's Ministry of Commerce and Industry launched a Korea-India Investment Promotion Committee, which held its first meeting in October 2003. A second meeting will follow within this year to hold in-depth discussions on bilateral cooperation in investment, exchange views on investment difficulties and share key information. Korea and India should strengthen the Committee's role as a vehicle to increase bilateral investment.

5.25 The Korean Government has established "Invest Korea," a specialized agency in charge of attracting foreign investment to offer one-stop services for foreign investors. Similarly, the Foreign Investment Implementation Authority (FIIA) in India was set up to facilitate the implementation of FDI projects by assisting investors in obtaining required approvals and resolving other operational difficulties at the central, state and local government level. Both countries should encourage their investors to take advantage of the services of the specialized agencies set up for promotion of investment in the two countries.

Temporary Movement of Business People and Professionals

5.26 The JSG recognized that transparent and simplified visa issuing process for temporary movement of professionals and members of businesses and industries is essential. The JSG recommends that both sides, in accordance with their respective legislations and without having regard to citizenship, residence or employment on a permanent basis, work together to develop further simplification of their respective visa procedures so as to facilitate travel

of professionals and representatives of businesses and industries to each other's country.

MOU on Cooperation on IT and Services

5.27 A Memorandum of Understanding (MOU) on Cooperation in Information Technology and Services between the Ministry of Information and Communication of Korea and the Ministry of Communication and Information Technology of India was signed on 27 April 2001 in New Delhi, India. The MOU covers cooperation in IT software, IT services, e-government, IT R&D and development of the third market and will serve as an institutional framework for further IT cooperation between the two countries. Korea with advanced IT infrastructure and a strong hardware industry can be an ideal partner to India, a country with world-class software human resources. Both countries need to continue discussions on bilateral IT cooperation and take action for its implementation. In this regard, the said MOU, which expires in April 2006, should be extended. In addition, a mechanism to implement the MOU should be put in place and the Korea-India Ministerial Meeting in this area could provide a forum to serve this purpose.

~~*SMEs*~~

5.28 An MOU between the Korea Federation of Small and Medium Business and the Confederation of Indian Industry (CII) was concluded in August 2004. The JSG encourages the institutes concerned of both countries to activate the MOU to contribute to strengthening commercial relations by expanding and deepening economic, trade, and investment cooperation between SMEs of Korea and India.

EXPANDING BUSINESS TO BUSINESS COOPERATION

Cooperation between apex business chambers

5.29 One of the major barriers in bilateral economic cooperation is lack of awareness among the businessmen of the two countries about the economic climate and business procedures in the other country. It is important to achieve greater understanding of each other’s industrial and technological

competitiveness among the respective business communities. It is, therefore, important that the two countries engage in easy and transparent exchange of information about business procedures and economic climate to achieve closer collaboration of relative strengths of each other's country.

5.30 To facilitate greater business cooperation between Korea and India, there should be more activity for business exchanges such as exchange of delegations, organizing business missions, holding investment seminars, one to one business meetings, and arranging trade fairs on a regular basis.

5.31 The Korea-India Joint Business Council was established in 1977 between the Korea Chamber of Commerce and Industry (KCCI), and the Federation of Indian Chamber of Commerce and Industry (FICCI). The Joint Business Council dispatches economic missions, and holds exhibitions and conferences regularly. The last meeting of the India-Korea Joint Business Council was held in October 2001, and the next meeting is scheduled for December 2005 in New Delhi.

5.32 The Korea-India Business Council was established by the Federation of Korean Industries (FKI) and the Confederation of Indian Industry (CII). It held its last meeting in October 2004. The Business Council designs business activities in which both FKI and CII participate to strengthen economic cooperation. In addition, the Korea International Trade Association (KITA) has concluded MOUs with the Federation of Indian Export Organization in September 2000, the Federation of Indian Chambers of Commerce and Industry in September 2001, the Federation of Karnataka Chambers of Commerce and Industry in September 2001, and Indian Merchants' Commerce in June 2005 and annually organizes business missions to India. In 2005, a Korean business mission was sent to India in June and an investment seminar on India was held by KITA in August 2005, Seoul.

5.33 The JSG recommends that the Business Council as well as the Joint Business Council between India and Korea establish industry-specific steering committees under their organizations to serve as a forum for both Korean and Indian businessmen to seek more specific and broader ways to take full advantage of the strengths of each other's economy.

Development of SMEs

5.34 Strengthening cooperation and exchange in the area of development experiences vis-à-vis SMEs could be of great significance to the two countries. Governments should play an active role in pushing forward Korea-India cooperation and exchange in this area. First, the successful experiences in the development of SMEs should be shared, including government policies, management system, laws and regulations. Second, the governments should create favorable conditions for the SMEs of the two countries to cooperate with each other; for example, by holding some exhibitions and information briefing for the products of SMEs so as to encourage the enterprises to communicate and cooperate with each other. Third, there is immense scope for Indian companies to improve productivity by forming alliances with their Korean counterparts for establishing energy-efficient and environment-friendly projects. Fourth, the two countries could consider co-operation in knowledge-based industries.

Area-specific cooperation
(IT and Electronics)

5.35 Korea has immense strengths in electronics and computer hardware sectors. There is tremendous potential for bilateral cooperation between the two countries which can be harnessed for mutual interest through trade and investment.

5.36 Contract manufacturing of electronics and hardware goods in India has an estimated market size of US$ 110 billion. Evidently, this is an area of great promise for both Indian and Korean electronics and hardware sector. The competitive edge of India's software capabilities has earned global recognition. Korea, on the other hand, has achieved global competitiveness in the hardware sector. Together, both countries can achieve global leadership in product designing, involving integration of both hardware and software, commonly known as Embedded Technology. While India's present level of cooperation with Korea in the software sector is increasing, the total solution in the emerging areas of Embedded Technology would be a viable proposition through investment in the hardware sector by the Korean companies in India, viz. the fabrication of chips for computer hardware.

5.37 India has already established her credibility in the international IT market and has built close relations with the global IT companies to propel the export of IT software and services. India has sufficient infrastructure and intellectual resources to provide world-class services in the upcoming IT enabled services (ITES) market. India, as a major service provider across the globe, can deploy huge IT manpower for providing a wide range of software services and solutions as well as ITES to Korean end users.

5.38 The worldwide trend among large corporations to outsource their requirements to small and medium enterprises (SMEs) suggests vast scope for cooperation in the outsourcing business. Indian SMEs can find synergy with their Korean counterparts by entering into subcontracting arrangements with large and highly successful electronic companies of Korea. The possibilities can also be explored for vertical integration between Indian SMEs and their Korean counterparts.

5.39 The two countries can also cooperate in the fields of IT education and training. Indian IT education companies have developed a wide network of training institutions that impart world-class IT training. These companies have been successful not only within India but have a strong presence in other parts of the world. Furthermore, the two countries could seek to launch a joint workforce development program by providing a “SW workforce program” and forming a consortium workforce training.

5.40 Transitional expansion of production in order to economize on domestic cost of production has become imperative for Korea in view of limitations of land, shortage of manpower and consequent increase in wage cost. India appears to be the logical choice, given the vast reservoir of technical personnel, huge demand of electronic goods, and relocation friendly policy of the Government of India.

5.41 Korea has strengths in manufacturing, product development, and marketing. The two countries would yield remarkable achievements in design, manufacture, and distribution of products with embedded software, e-governance and e-commerce.

(Telecom)

5.42 Cooperation between India and Korea in telecom sector already exists for several years now. Foreign collaborations and investment from Korea have grown substantially in the last few years. Some of the major Korean companies in the sector already have their units in India i.e. Samsung Electronics Co. Ltd., LG Electronics Inc. and Korea Mobile Telecom, etc. Korean telecom equipment is being used in the Indian telecom network for the last 10 years. The Indian mobile telecom sector is one of the fastest growing sectors in the world. There exists an ideal opportunity for the Korean companies to set up manufacturing facilities in India in the fields of telecom equipment and telephone handsets.

5.43 Major national level telecom research in Korea is carried out at Electronics & Telecommunication Research Institute (ETRI). ETRI is working aggressively on 4th Generation Mobile telecommunication system for providing multimedia via high-speed network with focus on 3G-graphics and high quality audio services. The major work includes developing architecture, transmission methodology, 4G Wireless Modern technology, and mobile services. Cooperation in this field will open a window for Indian research organizations like C-DOT, C-DAC and other IT institutions to derive benefits in the areas in which these organizations are also currently involved.

5.44 Apart from the Mobile Wireless Program, focus areas for cooperation can be Digital home & office broadband technology, Next Generation PCs, Digital Content and Digital broadcasting.

(Energy)

5.45 Korean oil companies like Korean National Oil Company (KNOC), Daewoo and Hyundai are actively engaged in the development of petroleum and natural gas energy resources throughout the world. Similarly, Indian companies like Oil and Natural Gas Corporation (ONGC) and ONGC Videsh Ltd (OVL) have rich experience in exploration and production of petroleum in India as well as abroad. The two countries should encourage their enterprises to work together to exploit the petroleum and natural gas resources in third countries. The recent exchange of ideas between the Petroleum Ministers of the two countries has initiated cooperation between the two countries in petroleum

sector.

5.46 The JSG noted that collaboration in the field of exploration of hydrocarbon resources between India and Korea would lead to a win-win situation for both sides. The existing collaboration for joint energy development and setting up of joint commercial enterprises in the third countries should be taken to its logical conclusion. The relevant Ministries of the two countries could consider establishing an institutional mechanism aimed at promoting joint efforts in sourcing energy supplies including petroleum and natural gas from third countries as also commercial exploitation of other energy resources in third countries. The two countries could enter into a comprehensive Hydrocarbon Agreement for closer cooperation in the Hydrocarbon sector. The Korean side could assist the Indian side to set up strategic oil resources in India based on the Korean experience and take part in exploration and production sector through bidding in the New Exploration Licensing Policy (NELP) rounds.

5.47 The two countries can also cooperate in developing technologies for renewal of sources of energy and exchange experience in energy management. It is recommended that the relevant Government departments should conduct research, formulate policy and take measures to encourage Indian and Korean business enterprises to strengthen their investments and cooperation in mining of energy rich mineral resources like coal.

(Textiles and Leather)

5.48 Korea is a leading manufacturer and exporter of textiles. The Korean textile industry has now switched over to the manufacture of value added products and therefore imports considerable quantities of cotton yarn and gray fabrics for further processing in Korea and re-export to West European countries. In the process, Korea has come to acquire a large number of experienced and skilled consultants in textile engineering and human resources, who can be used to train Indian textile skilled manpower in Apparel Training and Design Centers in India. This would improve competitiveness of Indian textile products in the export markets.

5.49 Participation of both countries in each other's textile fairs and exhibitions would help increase awareness about each other's strengths and capabilities in

the sector that would help in identifying new areas of cooperation in the textile sector.

5.50 Both India and Korea are major exporters of leather products to different countries. As mentioned in the hardware and electronic section, it is believed that the Korean companies are shifting their production base to other countries in view of limited land availability, shortage of manpower and increasing labor cost. India, in view of its strong raw material base and substantial production capacities with abundant labor in the leather sector can provide an ideal ground for relocation of Korean leather industries either in the form of joint ventures or in the form of technical collaboration for producing leather and leather products in India. All these positive factors can facilitate business collaboration between Indian and Korean companies which would be mutually beneficial to both countries.

(Science and Technology)

5.51 The First meeting of India-ROK Joint Science and Technology Committee was held in Seoul on 31 August 2005. Both sides identified three specific areas for cooperation. These include, i) Nano Science & Technology, ii) Biotechnology, iii) Information Technology. Mechanisms/modalities were also discussed and it was agreed that the cooperative activities would include, among others, i) Mutual visits of technical missions; ii) Holding academia meetings (seminars/workshops/forums etc.), iii) Joint Research and sharing of costs, and iv) R&D initiatives. Both sides also agreed to encourage cooperation between academia, governnment research institutions and industries. In this direction, it was agreed to encourage cooperation between Indian Institute of Science (IISc) and Korean Institute of Science and Technology (KIST). Another important facet covers utilization of major scientific facilities by scientists of each other's country. One significant outcome of the discussions related to setting aside US$300,000 per year to promote such activities.

(**Biotechnology)**

5.52 A number of Indian institutions are engaged in promotion of biotechnology research such as Department of Science and Technology (DST),

Council of Scientific and Industrial Research (CSIR), Department of Biotechnology (DBT), etc. Indian scientists are involved in cutting edge research in areas such as biofertilizers and biopesticides, bioprospecting and molecular taxonomy, plant tissue culture, etc. Given that the Korean Government has also earmarked biotechnology as the next engine of growth, there is a great scope for bilateral cooperation in this area.

5.53 India has been actively engaged in biotech research and has also kept the biosafety concerns at the forefront, especially in the wake of WTO agreements on TRIPS and the biosafety protocol. The concerns have taken into account the interests of the farming community and the protection of the environment. There is potential for cooperation in the areas, including biosafety research and development, medical biotechnology, and agricultural biotechnology.

(Pharmaceuticals)

5.54 The Indian pharmaceutical industry has transformed itself from a mere processing industry into a highly sophisticated one with advanced manufacturing technology, modern equipment and stringent quality control. The Indian pharma companies have now switched from "reverse engineering" drugs to making drugs with greater value addition. India has become a growing pharma and R&D hub and provides tough competition for world class pharma companies abroad. A recent Ernst and Young study has identified the country as an emerging centre for collaborative and outsourced R&D in drug development, biotechnology and chemicals. The recent amendment to the Patents Act has supported this trend and has switched from process to product patents. The Indian pharmaceutical industry clocked US$4 billion in domestic sales and over US$3 billion in exports in 2004-05. From being a major importer of bulk drugs and formulations, the Indian pharmaceutical industry has today become a net exporter of pharmaceutical products. While 95% of the domestic demand for pharmaceuticals is being met through indigenous production, Indian pharmaceutical drugs are being exported to a large number of countries including USA, Canada, European and Latin American countries. India’s imports are limited to a few life saving drugs.

5.55 In generic drug manufacturing, which is the future growth area, India is

set to capture a large portion of this market by leveraging its inherent strengths in technology, R&D facilities and trained human capital. India has the highest number of units approved by the US Food and Drug Administration (FDA) outside the US. It also has the largest number of Drug Master Files (DMFs) filed which gives it access to the high growth generic bulk drugs market.

5.56 Given India's inherent strengths in this area and the focus of Korea on R&D in related areas, the pharmaceutical industry offers rich opportunities for bilateral cooperation. To this end, the JSG recommends that exchange of information be undertaken on regulatory requirements for clinical trials and regulatory control for pharmaceuticals, vaccines, blood products and biotechnology products, the development of traditional medicinal products based on the vast availability of medicinal herbs in India and Korea, and traditional/complementary medicines.

(**Tourism)**

5.57 The JSG recognized that enhanced people-to-people exchanges are crucial to improving bilateral trade and investment. Korea attracted 26 million tourists from all round the world over the past five years. While Korea has potential for an important tourist market for India in East Asia, tourists from India were only 258,000 for the same period that was only 1 % out of total inbound tourists. On average, about 30,000 tourists from Korea visit India every year. Buddhist sites in different parts of India are their major interest. In the Buddhist conclave held in New Delhi recently, leading spiritual leaders and tour operators from Korea had participated. India has attracted investments in the form of loans for development of Buddhist tourist sites from other countries. Korea could also consider extending loans on similar lines for development of other Buddhist sites spread across India. To further increase cooperation in tourism for the benefit of both countries, familiarization trips can be organized for leading tour operators, travel agents, travel writers, and media, to provide an exposure to the various tourism products of both countries.

(Broadcasting)

5.58 The broadcasting industry is one of the fastest growing fields in both

Korea and India. India is a well-known leader of content in Asia with unique genres. Korea is also a leader in broadcasting content especially in dramas as well as digital and mobile broadcasting technologies. Despite the respective status of the two countries, cooperation in the field of broadcasting has been limited

5.59 Cooperation in broadcasting is expected to boost more trade in broadcasting services and related areas by helping promote the exports of cultural products to each other. The two countries can examine various measures to boost bilateral ties in the sector of Broadcasting. Exchanging information and strengthening bilateral cooperation will likely help both countries develop their broadcasting industries.

(Healthcare)

5.60 In recent years, India has come to achieve the distinction of a country with a capability of providing world-class high-quality healthcare services. The growth of this sector has been attributed to not only the cost-effectiveness and high quality of service but also to the brand equity of Indian professionals across the world, high success rate, and the growing credibility of delivered services. With these attributes, India has come to a position of tapping a share of an estimated US $ 3 trillion global healthcare industry. With an annual growth rate of 30 percent, India is already inching closer to Singapore in becoming an established medicare hub.

5.61 A joint study by the Confederation of Indian Industry and McKinsey shows that, at the current pace of growth, healthcare tourism will contribute US $ 2 billion as additional revenue by 2012. Further, expenditure on private healthcare will more than double, rising from US $14.8 billion to US $33.6 billion by 2012.

5.62 The 2002 data by OECD and WHO show that the Korean health expenditure per capita compared to GDP is around US $1,000, which is less than the half of OECD average. Health expenditure as a percentage of GDP is about 5.9% which is much lower than the OECD average of 8.3%. Such a relatively small amount of health expenditure is largely attributed to the

universal coverage of the National Health Insurance system. Indeed, the health of Koreans has been greatly improved in recent years thanks to the remarkable progress in medical sciences and high quality of medical professionals as well as timely and appropriate public health policies. For example, the life expectancy of Koreans is 67.8 according to the data published by WHO in 2002 and has since increased rapidly.

5.63 According to the 2005 UN data, the number of physicians in practice per 100,000 people in Korea is 181 which is less than Japan's 201 and yet more than Singapore's 140. Accordingly, there is a concern over a glut of medical professionals.

5.64 Given this background, there is a potential for cooperation in this area. The mode of cooperation may include the promotion of health tourism and exchange programmes between the medical educational institutions of both the countries. Sharing of information and experiences in respect of best practices in healthcare systems between the authorities concerned in the two countries could also be considered.

(**Education and Human Resource Development (HRD))**

5.65 With the global economy increasingly driven by knowledge, dynamic linkages of business and industry with scientific and technical institutions and academia are vital. The JSG noted that close cooperation and exchanges with premier educational institutions between the two countries should be facilitated. One way of facilitating exchanges of human resources is to recognize the degrees awarded by accredited and registered educational institutions in India and Korea. In this regard, the joint effort to share information on each country's institutions and their educational programs can be taken up by the authorities concerned in the two countries.

5.66 In the case of professional services, all efforts should be made to secure the gains from improved trade and investment between the two countries. The possibility of mutual recognition in this area may be explored to the maximum extent practicable. The JSG took note of issues such as language and

periodicity of examination and other barriers which India desired that both sides should properly address. In cases where professional associations are responsible for the regulation and licensing of respective professions, they will be encouraged to meet with their counterparts in the other country to discuss various modalities of recognizing the requirement thereof, including MRAs.

5.67 Other potential areas of cooperation include English language teaching at the secondary and higher secondary levels, IT training, biotechnology and Research and Development in natural science. A success story is that of NIIT, which operates in 44 countries, providing IT training, software and knowledge solutions in Asia Pacific, East Europe, Japan and the USA.

(**Infrastructure and Transportation)**

5.68 India accords very high priority to the development of infrastructure as the prime mover to achieve high levels of growth. Infrastructure projects have long gestation periods and high financing costs. India has recently introduced a new funding scheme, popularly known as viability-gap funding, to leverage public money through public-private partnership in infrastructure development. Korean participation in strengthening Indian infrastructure through such schemes is worth exploring particularly in light of the fact that India has the potential to absorb an estimated US $ 150 billion FDI in the next few years in the infrastructure sectors alone.

5.69 A number of initiatives have been taken by India to upgrade its infrastructure. In particular, highway construction, development of ports, power plant construction, airports and real estate (both residential and commercial). Korean construction companies have abundant experience in infrastructure development, industrial plant construction, and energy development. This offers an opportunity to strengthen cooperation in development of infrastructure of roads, railroads, power plant construction, onshore and offshore gas and oil development, port development, and other social infrastructure.

5.70 There is a tremendous scope of collaboration in all transport sectors, including shipping, civil aviation and railways. Korean expertise in shipbuilding industry can be accessed for the Indian maritime industry. Indian air traffic is

growing at more than 25 percent per annum, and there are proposals for up-gradation of existing metro airports and development of new private terminals, which can be opened up for Korean investment. Indian ports are also likely to see a huge investment in the near future. Korea's comparative advantage in maritime and air transportation sectors offers opportunities for bilateral cooperation. The supply of rolling stocks from Korea for Delhi Metro is a clear pointer to the commercial benefits that can accrue to Korea through further strengthening of bilateral Cooperation.

THE WAY FORWARD

5.71 The Governments of Korea and India could play a crucial role in encouraging and helping public and private sectors to seize untapped opportunities in business and economic cooperation between the two countries. Economic cooperation between India and Korea revolves around the strengths of the two economies. Areas of cooperation would thus be interlinked to the sectors offering mutual benefits. The important areas for cooperation could be the manufacturing, infrastructure, pharmaceuticals, biotechnology and information technology. Investment promotion and facilitation requires a bilateral arrangement for extending certain additional liberalization measures in the form of taxation treaties/investment protection measures, etc. for the mutually identified areas of cooperation. Last but not the least, is the significant role of governance in encouraging cooperation among the business of the two countries.

5.72 To increase bilateral trade and investment substantially and further facilitate bilateral economic relations, both Governments should endeavour to streamline their economic and financial structures and create favorable business environment. In this regard, the JSG recommends that the following measures be undertaken to set up institutional frameworks:

(i) To revisit and negotiate, if necessary, the revision of the Double Taxation Avoidance Agreement to meet changing and growing needs of business communities in both countries and international institutes;

(ii) To further simplify their respective visa procedures to facilitate travel of the representatives of business and industry;

(iii) To strengthen cooperation and share the successful experiences in the development of SMEs and create favorable conditions for the SMEs of the two countries to cooperate and form alliances with their Korean/Indian counterparts;

(iv) To facilitate active Business-to-Business Cooperation between India and Korea through exchange of each other's business level delegations, participation in trade fairs, regular meetings of the Business Chambers of the two countries and establishing industry-specific steering committees;

(v) To explore and strengthen cooperation between the software companies of India and hardware companies of Korea through joint ventures in India, Korea and in third countries, move towards achieving global leadership in design and manufacture of embedded software, cooperate in the fields of IT education and training and to encourage the Indian SMEs to enter into subcontracting arrangements with large electronic Korean companies;

(vi) To encourage the relocation of Korean textile and leather units in India in view of availability of a skilled labor force and a strong raw material base in India coupled with Korean expertise in these sectors;

(vii) To strengthen bilateral technical cooperation between the two countries in the pharmaceuticals sector keeping in consideration India's inherent strengths and Korea's focus in research and development, in this field;

(viii) Keeping in view Korea's strengths in infrastructure development, to encourage Korean investment in India in the infrastructure sector, which has been identified by the Government of India as a priority sector, having abundant potential for foreign investment; and

(ix) To explore and strengthen cooperation/collaboration in the field of shipping, civil aviation and railways.

Chapter 6

COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT (CEPA)

INTRODUCTION: RATIONALE FOR A CEPA

6.1 The preceding chapters of this Report have presented an overview of India-Korea trade and economic relations with a detailed examination of the potential for expanding not only trade in goods and services but also investment flows and bilateral economic cooperation between the two countries. These chapters have also identified other sectors of fruitful economic cooperation and have outlined policy measures to remove barriers to harnessing this potential. This chapter examines the importance both countries attach to a Comprehensive Economic Partnership Agreement (CEPA) and the possible coverage thereof to further cement and strengthen their economic integration.

6.2 Both India and Korea are members of the World Trade Organization (WTO) and have actively participated in all rounds of WTO negotiations. Both countries have also embarked on regional and bilateral FTA negotiations. The JSG noted that in the past, regional trading arrangements (RTAs) were initially regarded as precursors to inward-oriented economic blocs and hence, stumbling blocs to multilateralism. These attitudes have, however, been changing. Such arrangements are no longer treated as “inward looking” because globalization has made markets much more inter-linked and inter-dependant. Regional cooperation and integration now has numerous supporters. Reflecting the positive effects that regional trading arrangement have on global trade liberalization, there has been a rapid surge in the number of such arrangements in the world since the early 1990s. As of January 2005, 312 FTAs were notified to GATT/WTO, of which 170 FTAs are currently in force and another 65 are operational though not yet notified. It is estimated that over 50% of world trade is now conducted on a preferential reciprocal basis excluding the MFN rules.

6.3 Under these circumstances, both countries recognize that such regional trading arrangements -- when they are WTO-consistent by covering substantially all trade in goods and have substantial sectoral coverage of services -- will complement the multilateral trading scheme. In this context, Korea has already signed an FTA with Chile, concluded FTA negotiations with Singapore and the EFTA countries and is negotiating FTAs with several other countries. India is also negotiating CECA/PTAs with some countries and groups. India and Thailand have signed a framework agreement to establish an FTA between the two countries. India has signed a framework agreement to establish a Comprehensive Economic Cooperation Arrangement with ASEAN and has also a CECA with Singapore.

6.4 During the process of the JSG, it was noted that Korea and India have great potential for economic expansion between the two countries in the overall sectors, deriving from their complementary trade and industrial structures, analogous economic reform policies, cultural and historical links, and many more. Furthermore, measures aimed at trade and investment liberalization that are being implemented by the Korean and Indian Governments are opening up new opportunities. These will significantly expand the scope, range and magnitude of investment. It was felt that a comprehensive bilateral arrangement could help harness to the maximum extent the potential lying between the two countries, realize the benefits of on-going liberalization and also reinforce the forward-looking trade policies of the two countries. An idea of a comprehensive economic partnership agreement (CEPA), therefore, has been presented as a natural extension of such line of thinking.

6.5 Over the past few decades, India and Korea have exchanged trade preferences under the framework of the Bangkok Agreement. However, being based on a positive list approach, narrow margins of preferences, and the inability to address non-tariff barriers, the Bangkok Agreement may not be able to realize the full potential of the Korea-India partnership. The JSG was,

therefore, of the view that a CEPA would be a pioneering endeavor through which the two countries can deepen their economic engagement and further solidify regional economic integration.

6.6 A comprehensive economic partnership envisaged under the India-Korea CEPA would be of great assistance in fostering the two countries' economic partnership at all levels. Liberalization of goods under the CEPA would bring about an overall increase in trade flow between the two economies and promote further inter-industry trade. Efficiency in the service sector is crucial for the further economic growth of both Korea and India, which can be achieved through liberalization of trade in services. For the further expansion of bilateral investment flows, the two countries are required to improve their investment environments by removing constraints to foreign investment on an institutional basis. Indian and Korean enterprises, which are quickly emerging as significant sources of outward investment, could be made even more attractive to third country FDI by enlarging the market through a bilateral agreement such as the CEPA. The CEPA will also help form a bridge between South Asia and North East Asia and possibly lay the foundation for even larger regional economic integration across Asia. The JSG hoped that the CEPA would ensure even greater economic expansion and everlasting economic links between the two countries in the 21st century.

CEPA FRAMEWORK AND SCOPE ENVISAGED

6.7 The CEPA should be defined as a framework of arrangements that delves much deeper than a simple FTA, encompassing all aspects of bilateral economic relations by including the liberalization of trade in goods and services, investment, economic cooperation and other institutional arrangements. The CEPA can become the basis for expanding trade and investment, strengthening economic ties, speeding up growth and employment, and raising bilateral cooperation in a diverse range of fields to new and higher levels.

6.8 The case for a Korea-India CEPA essentially rests on whether the partner

economies have complementary structures and advantages. The differences in economic strengths, resources, and capabilities offer substantial scope for two economies to complement each other. The preceding chapters of this report have identified the patterns of complementarities between the two economies in different sectors. These complementarities suggest that there is substantial untapped potential for expanding trade in goods and services and increasing the two-way flow of investment.

6.9 In the light of the above considerations and the relevant principles as set out in the preceding chapters and also taking into account the long-term economic relationship to be developed between the two countries, the JSG recommends that a Korea-India Comprehensive Economic Partnership Agreement (CEPA) cover, among other things:

(a) Trade in goods;
(b) Trade in services;
(c) Measures for trade facilitation;
(d) Promotion, facilitation and liberalization of investment flows;
(e) Measures for promoting bilateral economic cooperation in identified sectors; and
(f) Other areas to be explored for furthering bilateral partnership.

THE WAY TOWARDS CEPA

6.10 The JSG recommends that the two Governments appoint a Joint Task Force composed of government officials to work on realizing benefits that may be derived from the Korea-India Comprehensive Economic Partnership Agreement (CEPA) referred to in paragraph 6.9 above and accordingly start its work of developing a CEPA for completion within a reasonable period of time. The Joint Task Force would bring about specific recommendations on each of the constituent elements of the CEPA for adoption by the two Governments.

Chapter 7

CONCLUSION AND RECOMMENDATIONS

(Summary of Recommendations)

7.1 The preceding chapters so far have presented a comprehensive view of bilateral economic linkages between Korea and India, covering, among others, trade in goods and services, investment flows, and other areas of economic cooperation. This chapter summarizes the findings and recommendations made in the earlier chapters. This chapter also identifies specific action points from the preceding chapters so as to facilitate the two sides in acting upon what has been agreed to in the previous chapters.

Chapter 2 - TRADE IN GOODS

7.2 The JSG agreed that both India and Korea need to make sustained efforts to diversify their trade baskets. Accordingly, the two countries should identify and focus on the areas and products where they have a competitive edge over the other. (Paras 2.14 and 2.17) The strategy includes identifying sectors and commodities in which Korea has a comparative advantage both in the world market as well as India's market but is not yet exporting to India, while India is importing these items from other countries and the commodities where India has a similar comparative advantage in the world market and can potentially export to Korea. (Para 2.18 and 2.20)

7.3 The JSG also considered the possibility of developing intra-industry niches for trade and specialization between the two economies. Both countries can use their respective comparative advantages and build on different aspects of the value chain in similar products. In the process, a new relationship of

labor division and vertical specialization between enterprises of the two countries can be established. (Para 2.21)

7.4 For the products for which both countries are in a competitive relationship, bilateral trade and exports to third country markets will be conducive to the upgrading of domestic industrial structures in both countries. (Para 2.22)

7.5 The JSG recommends installation of an appropriate enforcement system for prevention of illegal trade and improvement of the customs procedures. (Para 2.32)

7.6 The JSG recommends that the two countries should make available to each other relevant information and documents on laws, rules and regulations affecting trade, including registration. It is further recommended that standards should be based on the relevant international standards, guidelines and recommendations to improve the compatibility of technical regulations and standards between both countries. (Para 2.34)

7.7 The JSG was of the view that safeguard measures should be taken only when an imminent damage to the domestic industry is caused by sharp increase in imports. On the other hand, quantitative trade restrictions and export duties should not be permitted without justification that internal taxation and regulations be applied in accordance with Article III of GATT 1994. (Para 2.38)

7.8 The JSG recommends that both Governments should jointly take up all the identified trade-related issues towards improving the bilateral trade environment. (Para 2.39)

7.9 The JSG was of the view that tariff-cutting and elimination on a reciprocal basis would lead to an overall increase in bilateral trade and improve the national welfare of both countries. (Paras 2.23-28 and 2.40)

7.10 The JSG agreed that the Rules of Origin (ROO) should facilitate rather than impede trade. Both sides should endeavour to make the Rules clear, consistent, transparent, predictable and easy to use and administer. (Para 2.41)

7.11 While noting that the Korean and Indian economies are highly complementary and therefore the liberalization of trade in goods would promote inter-industry trade between the two countries, the JSG agreed that due consideration should be given to a limited number of highly sensitive products/sectors that are vulnerable in the economies and both sides should exercise flexibility. (Para 2.43)

7.12 The JSG recommends observing the following principles in jointly devising the ways and means to maximize trade potentials between the two countries: (i) the coverage of products under this joint effort should be comprehensive, encompassing substantially all the trade between the two countries, with flexibility given to certain highly sensitive products; (ii) mutual benefits should be aimed at, with the two countries keeping abreast of the rapidly changing international trade environment, which may require their on-going structural reform for transparency and efficiency in line with global standards; (iii) quantitative export and import restrictions inconsistent with the relevant WTO Agreement should not be permitted; and (iv) all other regulations and barriers to trade expansion should be streamlined to the maximum. (Para 2.44)

Chapter 3 - TRADE IN SERVICES

7.13 Noting that barriers to service trade still exist in the forms of laws and regulations, impediments to producers and consumers to interact across borders, movement of skilled personnel, and the like, the JSG recommends that these barriers, duly identified in the report, be addressed for facilitating bilateral trade in services. (Para 3.25)

7.14 The JSG recommends that in view of enormous potential in services trade sector between India and Korea, both Governments should engage in deepening mutual cooperation and take substantial measures to remove barriers to trade in services, keeping into consideration the following agreed broad principles: (i) all services sectors and all modes of supply in GATS shall be covered; (ii) commitments by both countries shall cover a wide range of service sectors (both horizontal and sectoral); (iii) special emphasis shall be given to the areas, such as software and IT-related services, financial services, telecommunication services, construction services and transportation services; and (iv) liberalization of services to maximize welfare of the economies.(Para 3.26)

IT and Software Services

7.15 The JSG agreed that there exist significant complementarities between the two countries in the IT sector, and expertise and skills of Korean hardware with those of Indian software should be synchronized and leveraged to create a win-win situation for both partners. The JSG recommends that the two countries aim to strengthen and facilitate service sector cooperation, strategic alliance and investment in areas like IT equipments, computer hardware, and telecommunication networks. (Paras 3.28 and 3.29)

Construction and Engineering Services

7.16 The JSG recommends that Korea and India strengthen cooperation in construction and engineering services, including the development of infrastructure such as roads and railroads and other social infrastructure. To this end, the JSG agreed that more efforts should be made to address concerns posed in market access to, and remove impediments to, trade in construction services, such as requirement for additional financial guarantee, restrictive transfer of earnings and limitations on the establishment of branch offices. The JSG noted that Korean service providers can tap the huge potential in the Indian market for construction-related activities and infrastructure development,

assisted by the recent relaxation of FDI norms in this sector in India. (Paras 3.30 and 3.31)

Audio Visual and Entertainment Services

7.17 The JSG recommends that India look for better access to Korean market in audio visual and entertainment services, especially for post-production activities, given the future potential in such areas. The JSG noted that the significant opportunities for India in the animation services sector lie in modes 2 & 3, especially for animation films sector and voice-over services for the region's productions. (Para 3.32)

Transportation Services

7.18 The JSG recommends that both Governments pursue closer cooperation in transportation services, including further deregulation in maritime transport services and greater facilitation in civil aviation given the increasing importance of air transport in expanding trade, tourism and mobility of persons. In maritime services, India should look at leveraging Korean expertise and experience to rapidly beef up infrastructure in the interests of reducing port congestion and bottlenecks and also reducing transaction costs for Indian exporters. It is recommended that civil aviation authorities of the two countries meet for mutual consultations regarding the issues of increasing international routes and flight frequencies and of easing the regulations on air transport operations. (Paras 3.33 and 3.34)

Tourism Services

7.19 The JSG noted that facilitating further trade in tourism services would require the initiatives to train tourist guides in local language. The JSG recommends that Korea and India cooperate in facilitation of tourism traffic and conduct joint promotional activities in tourism industries. In order to encourage visiting tourists, both countries should market smaller and non-conventional

destinations, and offer infrastructure for different categories of tourists in diverse budget classes. It is suggested that both sides encourage more of educational and health tourists, leveraging the socio-cultural similarity between the two countries by use of institutional twinning and special sector focus in Indian institutes. (Para 3.35)

Financial Services

7.20 Recognizing that efficiency and competitiveness in financial services will improve the India-Korea bilateral trade in services, the JSG recommends that both countries work together to strengthen domestic financial systems, promote regulatory cooperation, share related experiences, and improve the financial market infrastructure. It also recommends that both countries give favorable consideration to the financial guarantee of the state run banks for business activities between the two countries, endeavor not to apply any restrictions on transfer of earnings, and work towards appropriate improvements of their commitments for commercial presence in financial services. The financial services authorities of both sides could enter into mutual consultation with a view to increasing cooperation in these areas. (Para 3.36)

Role of Embassies

7.21 The JSG recommends that the Embassies of the two countries act as very supportive facilitators, ensuring free flow of information to potential Indian and Korean companies that have business interest in India and Korea respectively. The two Embassies should come out with sectoral information brochures to assist their respective potential investors with information on registration process, mode of entry, foreign equity limits and other relevant procedural and market information. It also suggests that the Consulates assist the joint venture formation by providing information on the background and antecedents of the potential partners. (Para 3.37)

Chapter 4 - INVESTMENT

7.22 The JSG recommends that both Governments consider taking a comprehensive approach to further improve their investment environment by removing investment barriers, relaxing regulations, and addressing the general concerns of investors, with a focus placed on the improved investment access to each other's market and the promotion and protection of investments in both countries. (Para 4.28)

7.23 The JSG was of the view that the Bilateral Investment Promotion and Protection Agreement (BIPPA) concluded in 1996 should be revisited and updated in the boarder context of a comprehensive approach towards bilateral investment flows. (Para 4.29)

7.24 The JSG recommends that the comprehensive approach should be based on the following principles: (i) coverage of both access for foreign investors to the respective markets and the protection of investments made; (ii) investment protection measures similar to those usually found in other bilateral investment protection measures; (iii) flexibility in the investment; and (iv) regulations to set up an investment consultation mechanism between Korea and India through which all investment-related matters may be discussed. (Para 4.30)

7.25 The JSG also agreed that both countries should consider maximizing the investment opportunities in sectors with a competitive edge. To this end, specific cooperative measures should be taken by the two countries. (Para 4.31)

7.26 The JSG recommends that both Governments consider improving the bilateral Double Taxation Avoidance Agreement (DTAA), signed in 1985, with a view to further facilitating the flows of trade, investment, technology and expertise between the two countries. (Para 4.32).

7.27 The JSG recommends that, given the difficulties in adjusting its taxation policy, India set up a country-specific Fast Track Committee under the Foreign Investment Implementation Authority (FIIA) mechanism regarding investments originating from Korea. (Para 4.33)

7.28 The JSG suggests that a business-to-business mechanism for Korea–India investment facilitation and promotion be created to support inter-governmental collaboration and communications. Such institutional

arrangement should, inter alia, work for investment promotion, promotion of greater flow of investments, dissemination of information on investment opportunities, identification of new areas of collaboration and facilitation of investment implementation. (Para 4.34)

Chapter 5 - BILATERAL ECONOMIC AND BUSINESS COOPEATION

Banking, Insurance, and Financial Services

7.29 The JSG was of the view that it would be worthwhile for both India and Korea to share their experiences in banking sector. The JSG recommends that the two countries cooperate in the field of financial services with a view to encouraging financial institutions from each country to make entry into the other, fostering sound financial markets and responding properly to issues relating to globalization in financial services***. (Paras 5.6 and 5.9)***

Shipping

7.30 The JSG recommends that India and Korea ensure their ports to provide easy movement for goods, and work closely to improve logistic services and reduce congestion and delay at ports, which would greatly increase the competitiveness of the maritime sector in the two countries. (Para 5.11)

Civil Aviation

7.31 Having recognizing the need to improve air connectivity in order to facilitate a higher volume of trade, tourism, and people-to-people exchange between the two countries, the JSG agreed to discuss the issue of extension of air connectivity between the different cities of the two countries including cargo flights. (Para 5.12)

Customs Cooperation

7.32 The JSG agreed that attempts should be made to put in place a customs clearance system based on international standards so as to reduce the element of discretion and randomness in customs and clearance procedures. Customs clearance procedures at the ports should be simplified so as to

improve handling efficiency. The JSG recommends that the two sides endeavor to ensure transparency in related laws and regulations in their countries and regularly exchange information between the customs authorities of both countries. It also recommends that the two countries cooperate in the on-going negotiations on trade facilitation in WTO. (Paras 5.13 and 5.14)

Inspection and Technical Regulations

7.33 The JSG was of the view that the inspection and certification system for different animal and agriculture products should be based on scientific evidence and be in line with relevant international standards to ensure protection of human, animal or plant health and life. (Para 5.15).

7.34 The JSG suggests that the possibility of establishing a communication mechanism between competent authorities of both countries be explored to strengthen cooperation in food safety, inspection, and quarantine of plants and animals. Both sides agreed on the need to enhance international harmonization of the related measures in accordance with the relevant provisions of the WTO Agreement, and also agreed to explore possible areas of cooperation between the competent authorities of both countries. (Paras 5.16 and 5.17)

Double Taxation Avoidance Convention (DTAC)

7.35 The JSG recommends an early completion of the exercise for the revision of the Double Taxation Avoidance Convention (DTAC). (Para 5.21)

Bilateral Investment Promotion and Protection Agreement (BIPPA)

7.36 The JSG recommends that both countries encourage their investors to take advantage of the services of the specialized agencies set up for promotion of investment in the two countries***. (Para 5.25)***

Temporary Movement of Business People and Professionals

7.37 The JSG recommends that both sides, in accordance with their respective legislations and without having regard to citizenship, residence or employment on a permanent basis, work together to develop further simplification of their respective visa procedures so as to facilitate travel of

professionals and representatives of businesses and industries to each other's country. (Para 5.26).

IT and Services

7.38 Noting that both countries need to continue discussions on bilateral IT cooperation and take action for its implementation, the JSG recommends that the MOU on Cooperation in IT and Services, which expires in April 2006, be extended and its implementation mechanism be put in place. The JSG noted that the Korea-India Ministerial Meeting in this area could provide a forum to serve this purpose. (Para 5.27).

SMEs

7.39 The JSG encouraged the MOU between the Korea Federation of Small and Medium Business and the Confederation of Indian Industry (CII) to activate the MOU concluded between them in August 2004 to contribute to strengthening commercial relations by expanding and deepening economic, trade, and investment cooperation between SMEs of Korea and India. (Para 5.28).

7.40 The JSG agreed that the two Governments should play an active role in pushing forward Korea-India cooperation and exchange in the development of SMEs. The successful experiences in the development of SMEs should be shared. The governments should create favorable conditions for the SMEs of the two countries to cooperate with each other and two countries could consider co-operation in knowledge-based industries and in improving productivity by forming mutually beneficial alliances between the SMEs of the two countries. (Para 5.34)

Cooperation between Apex Business Chambers

7.41 The JSG recommends that the two countries engage in easy and transparent exchange of information about business procedures and economic climate to achieve closer collaboration of comparative strengths of each other. To facilitate greater business cooperation between Korea and India, there should be more activities for business exchanges such as exchange of delegations, business missions,

investment seminars, one to one business meetings, and arranging trade fairs on a regular basis. (Paras 5.29 and 5.31)

7.42 The JSG recommends that the Business Council as well as the Joint Business Council between India and Korea establish industry-specific steering committees under their organizations to serve as a forum for both Korean and Indian businessmen. (Para 5.33)

IT and Electronics

7.43 The JSG recognized that emerging areas of Embedded Technology would be a viable for through investment in the hardware sector by the Korean companies in India, viz. the fabrication of chips for computer hardware. India, as a major service provider across the globe, can deploy huge IT manpower for providing a wide range of software services and solutions as well as ITES to Korean end users. The possibilities can also be explored for vertical integration between Indian SMEs and their Korean counterparts. (Paras 5.36-38)

7.44 The two countries can also cooperate in the fields of IT education and training and they can launch a joint workforce development program by providing a "SW workforce program" and forming a consortium workforce training. (Para 5.39)

Telecom

7.45 The JSG agreed that there exists an ideal opportunity for the Korean companies to set up manufacturing facilities in India in the fields of telecom equipment and telephone handsets. (Para 5.42)

Energy

7.46 The JSG agreed that the two countries should encourage their enterprises to work together to exploit the petroleum and natural gas resources in third countries. (Para 5.45)

7.47 Noting that the collaboration in the field of exploration of hydrocarbon resources between India and Korea would lead to a win-win situation for both sides, the JSG agreed that the two countries could

consider establishing an institutional mechanism aimed at promoting joint efforts in sourcing energy supplies including petroleum and natural gas from the third countries as also commercial exploitation of other energy resources in the third countries. The two countries could enter into a comprehensive Hydrocarbon Agreement for closer cooperation in the Hydrocarbon sector. (Paras 5.45 and 5.46)

7.48 The JSG recommends that the relevant Government departments of the two countries conduct research, formulate policy, and take measures to encourage Indian and Korean business enterprises to strengthen their investments and cooperation in mining of energy rich mineral resources like coal. (Para 5.47)

Textiles and Leather

7.49 The JSG recommends that the two countries participate in the textile fairs and exhibitions to be held in their respective territories that would help increase awareness about each other's strengths and capabilities and identify new areas of cooperation in the textile sector. Noting that both India and Korea are major exporters of leather products to different countries, the JSG agreed that India, in view of its strong raw material base and substantial production capacities with abundant labor in the leather sector, can provide an ideal ground for relocation of Korean leather industries either in the form of joint ventures or in the form of technical collaboration for producing leather and leather products in India. All these positive factors can facilitate business collaboration between Indian and Korean companies which would be mutually beneficial to both countries. (Paras 5.49 and 5.50)

Science and Technology

7.50 Both sides agreed to encourage cooperation between academia, Government research institutions and industries in the identified specific areas of Nano Science Technology, Biotechnology and Information Technology. ***(Para 5.51)***

Biotechnology

7.51 The JSG agreed that there is potential for cooperation in the areas, including biosafety research and development, medical biotechnology, and agricultural biotechnology. (Para 5.53)

Pharmaceuticals

7.52 The JSG recommends that exchange of information be undertaken on regulatory requirements for clinical trials and regulatory control for pharmaceuticals, vaccines, blood products and biotechnology products, the development of traditional medicinal products based on the vast availability of medicinal herbs in India and Korea, and traditional/complementary medicines. (Para 5.56)

Tourism

7.53 The JSG agreed that enhanced people-to-people exchanges would be crucial to improving bilateral trade and investment. It recommends that, to further increase cooperation in tourism for the benefit of both countries, familiarization trips be organized for leading tour operators, travel agents, travel writers, and media, to provide an exposure to the various tourism products of both countries. (Para 5.57)

Broadcasting

7.54 The JSG recommends that the two countries cooperate in broadcasting sector to boost more trade in broadcasting services and related areas and promote the exports of cultural products to each other. The JSG agreed that exchanging information and strengthening bilateral cooperation will likely help both countries develop their broadcasting industries. (Para 5.59)

Healthcare

7.55 Noting a potential for cooperation in this area, the JSG recommends that the mode of cooperation include the promotion of health tourism and exchange programs between the medical educational institutions of both the countries. Sharing of information and experiences in respect of best practices in healthcare systems between the authorities concerned in the two countries could be considered. (Para 5.64)

Education and HRD

7.56 In the case of professional services, all efforts should be made to secure the gains from improved trade and investment between the two countries. The possibility of mutual recognition in this area may be explored to the maximum extent practicable. The JSG took note of issues such as language and periodicity of examination and other barriers which India desired that both sides should properly address. In cases where professional associations are responsible for the regulation and licensing of respective professions, they will be encouraged to meet with their counterparts in the other country to discuss various modalities of recognizing the requirement thereof, including MRAs. (Para 5.66)

Infrastructure and Transportation

7.57 The JSG recommends that institutional frameworks be set up to encourage Korean investment in India in the infrastructure sector, which has been identified by the Government of India as a priority sector, having abundant potential for foreign investment; and to explore and strengthen cooperation/ collaboration in the field of shipping, civil aviation and railways. (Paras 5.68~70 and 5.72)

Chapter 6 - COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT

7.58 In the light of the considerations and relevant principles as set out in the preceding chapters and also taking into account the long-term economic relationship to be developed between the two countries, the JSG recommends that a Korea-India Comprehensive Economic Partnership Agreement (CEPA) cover, among other things: (i) trade in goods, (ii) trade in services, (iii) measures for trade facilitation; (iv) promotion, facilitation and liberalization of investment flows; (v) measures for promoting bilateral economic cooperation in identified sectors; and (vi) other areas to be explored for furthering bilateral partnership.

7.59 The JSG recommends that the two Governments appoint a Joint Task Force composed of government officials to work on realizing benefits that may be derived from the Korea-India CEPA and accordingly start its work of developing a CEPA for completion within a reasonable

period of time. The Joint Task Force would bring about specific recommendations on each of the constituent elements of the CEPA for adoption by the two Governments.

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