

<ARTNeT Conference on Empirical and Policy Issues on Integration in Asia and the Pacific>

# **The Relationship between Trade and Investment: A Case Study of Korea and India**

November 2, 2012

**Misu Kim & Choongjae Cho**

**Korea Institute for International Economic Policy**

# Contents

**Introduction**

**Literature Review**

**Trend of Trade and Investment**

**Estimation and Results**

**Conclusion**

# Introduction

## Economic Relationship between India and Korea: Progress and Challenges

- Economic relationship between India and Korea improved
  - ✓ Trade: USD 1.6 billion in 2001 → USE 20.5 billion in 2011
  - ✓ FDI from Korea to India: USD 1 billion from FY 2001 to FY 2012
  - ✓ Korea-India CEPA (Comprehensive Economic Partnership Agreement) effective in 2010
- Some problems and challenges in Korea-India trade and CEPA
  - ✓ Higher CEPA preferential rates than the MFN rate on a few items
  - ✓ Lower concessional rate compared to other FTAs
  - ✓ Trade imbalances: High trade deficits against Korea
  - ✓ Limited trading items and intra-industry trade

# Introduction

## Economic Relationship between India and Korea: Progress and Challenges

- Efforts to address challenges made, but not significant results yet
  - ✓ Upgrading CEPA preferential rates: Korea-India Joint Committee set up in 2011 - Agreed
  - ✓ Raising trade target: Korea-India Summit in March 2012 – USD 40 billion by 2015
- Harmonization and combination between trade and investment required!
  - ✓ Facilitating investment → Increasing trading items and intra-industry trade → Improving Trade imbalance

# Introduction

## Causality Relationship between trade and investment in the case of India and Korea

- Causality linkages between trade and investment
  - ✓ Understanding the dynamic of economic relationship or economic integration between countries (Lee and Song, 2007)
  - ✓ Identifying the progress and challenges in Korea-India economic cooperation
- Contribution of this study
  - ✓ Desirable policies to improve economic relationship between India and Korea suggested
  - ✓ Few studies on causality relationship between trade and India in the case of India

# Literature Review

## Relationship between trade and FDI

- Trade and FDI: Substitute or Complement  
(depending on assumptions, and types of trade and FDI)
  - ✓ Under the Heckscher-Ohlin assumption - Substitute (Mundell, 1957)
  - ✓ Export and FDI can be alternative ways to enter foreign markets. – Substitute (Caves, 1957)
  - ✓ Market seeking FDI and trade - Substitute, Efficiency seeking FDI and trade - Complementary (Gray, 1998)

# Literature Review

## Causality Relationship between trade and FDI

- FDI → The pattern of production changing to manufacturing sector → Facilitating trade or export
  - ✓ Hsiao and Hsiao (2006): 8 East and Southeast Asian countries from 1986 to 2004
  - ✓ Min (2005): A Case Study of Malaysia
- The growth of Imports → The growth in inward FDI from home countries  
→ The growth of exports from China to the home country → The growth of imports
  - ✓ Liu et al. (2001): A Case Study of China
  - ✓ Internationalization Process of MNCs (Su and Poisson, 2008)
- Bi-directional relationship between export and FDI, and between import and FDI
  - ✓ Pacheco-Lopez (2005): A Case Study of Mexico
- Few studies on the case of India
  - ✓ Jayachandran and Seilan (2010) – Not a significant result between trade and FDI

[https://www.yunbaogao.cn/report/index/report?reportId=5\\_7313](https://www.yunbaogao.cn/report/index/report?reportId=5_7313)

预览已结束，完整报告链接和二维码如下：



## and Investment

ne between India and East Asia

ea: USD 1.5 billion in 2000 to USD 15 billion in 2011

na: USD 1.8 billion in 2000 to USD 75.6 billion in 2011

gapore: USD 1.8 billion in 2000 to USD 25.4 billion in 2011

an: USD 3.6 billion in 2000 to USD 18.4 billion in 2011

