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Economics of Converging Theoretical Paradigms: Evidence from Indo-Korean Bilateral Economic Cooperation*

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This paper examines economic consequences of converging theoretical paradigms affecting regimes of economic cooperation (RECs). In the past, theoretical paradigms such as capitalism vs. socialism or Keynesianism vs. monetarism clearly diverged on structural, organizational and operational levels, however in the recent times there are ample evidences showing greater theoretical convergence. Literature available on the issue primarily focuses on multilateral/bilateral free trade agreements and largely ignores the deeper theoretical realignments causing fundamental shift in the structure and reach of RECs. It argues that converging theoretical paradigms (CTPs) are affecting basic rationale and structure of cooperative arrangements. Theoretically, the second coming of liberal international economic order (LIEO) indicates that the CTPs have evolved around neo-liberal economic ideas. Empirically, a critical turn around in Indo-Korean RECs in the post-Cold War period – from market-seeking (1960s~1980s) to production-seeking (1990s~2000s), and cluster-seeking phase (2000~2007) – demonstrates the positive impact of CTPs.

Keywords: Economic cooperation, Regionalism, Paradigm, India and Korea

1. INTRODUCTION

The liberal international economic order (LIEO) 1820-1913, a first significant example of converging theoretical paradigms (CTPs)[1] though enforced by imperial-colonial interests, marked the beginning of an unprecedented era of bilateral/multilateral economic cooperation.[2] In this phase, international trade and investment took a quantum leap.[3] The

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[1] Converging theoretical paradigms refer to a state of broad theoretical consensus where competing logics and regimes agree to an all-encompassing idea of the time. For instance, unlike Cold War era capitalist-communist dichotomy, post-Cold War period has witnessed unprecedented rise of market-based systems capable of initiating greater convergence of differing perspectives and paradigms across countries.

[2] The concept of a paradigm, whose originator, T.S. Kuhn was inspired by the history of the national sciences, is applied to the context of the social sciences. Here the new paradigm does not necessarily mean to replace the old; several paradigms may function effectively side-by-side. Scholars can be said to use the same paradigm in their research and teaching if they show the following common attributes: 1) They work to solve the same or closely related 'puzzles'. They view social reality from the same, or almost the same angle. They set out to illuminate the same, or almost the same range of phenomena, and are content to abstract away the same phenomena or leave them obscure. Those who work within a common paradigm have the same, or a closely related outlook, viewpoint and approach. 2) They use conceptual frameworks that are the same or closely akin. (Alternatively, it is relatively easy to compile a word list that translates the conceptual apparatus of one author into that of another.) 3) They use the same or a similar methodology for observing, processing experience and drawing

extent of economic change between 1820 and 1913 was both unprecedented and impressive: per capita income in the average OECD country more than tripled; the share of industry rose dramatically; the share of employment in agriculture declined by two thirds; the volume of world exports grew more than thirty fold; a global economy and a global financial system were created; substantial intercontinental capital and population movements took place, connecting the overseas territories to the European economy; and international patterns of specialization in production and trade emerged (Adelman, 1995). Nonetheless, the first LIEO could not sustain its momentum due to its direct linkages with the colonial political economy and thus fell apart under the multiple pressures originating from the imperial rivalry. Finally, the disrupting impact from WW I, Great Depression and WW II put to an effective end to the first experiment of LIEO, which derived its rationale from the free trade doctrine promoted by neo-classical economists such as Adam Smith and David Ricardo. The prevailing political sentiments that emerged out of interwar period gave birth to new economic ideas limiting free trade and capital mobility and generally using the power of government to strongly regulate and guide economic activity. A central lesson drawn from the experience of the decades between the world wars was that the economic and political fate of the world could not be safely entrusted to the unregulated free market forces. History warned that this was a path to economic instability, global depression and political chaos.

The outbreak of the Cold War, based on the capitalist-socialist ideological confrontation, led to the primacy of politics over economics. Soviet Union's resilience to Great Depression attracted many developing economies towards state-led planned development. Many newly independent countries created a plan-rational 'developmental state' to augment economic growth.[4] A 'Keynesian revolution' swept across the globe justifying activist role of state in the market place. Big governments and Keynesian macro-economic management in the North and the rise of 'developmental state' in the South characterized the early Post-WW II period. However, the economic instability that erupted in the 1970s created a powerful movement, led by business and, particularly, financial interests to roll back the economic regulatory power of state, replacing conscious societal control with the 'invisible hand' of unregulated markets.

A new economic dynamics begins with the end of Cold War era capitalist-socialist dichotomy when mainstream economic thinking started to converge around the 'Washington

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conclusions; they support their statements by the same or similar methods. Unlike many other paradigms in the natural or social sciences, here we refer to the system paradigm, which cannot be linked with a single great name, a great innovative figure who fomented a scientific revolution. It developed in a series of works, over a long period. For details, see T.S. Kuhn, *The Structure of Scientific Revolutions*. Chicago: The University of Chicago Press, [1962] 1970.

[3] The period 1820-1913 was one of very free international trade, with no quantitative restrictions and with mostly low or no tariffs on raw material and food imports, varying degrees of industrial protection, extremely free international movements of labor and capital, and a fixed nominal exchange rate under a gold-sterling-standard. For details, see Irma Adelman, "The Long Term Impact of Economic Development in Developed Countries on Developing Countries since 1820" *Journal of Evolutionary Economics*, Vol. 5, No. 3 (1995), pp. 189-208.

[4] For details about the developmental state, see Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford University Press, 1982); and A. Leftwich, "Bringing Politics Back In: Towards a Model of the Developmental State", *Journal of Development Studies*, Vol. 31, No. 3 (1995), pp. 400-27.

Consensus' and its mentor the neo-liberal theoretical paradigm.[5] Keynesian economics gave way to the monetarist thought. This paradigm shift signals the second coming of LIEO, which once again initiated a paradigmatic convergence. The dynamic impact of converging paradigms around neo-liberalism has virtually created a borderless global economy where regimes of economic cooperation (RECs)[6] have witnessed a fundamental transformation. In Europe, Latin America, and Asia, regional economic agreements have become a dominant expression of relations among states, giving regional structures a geopolitical personality. Clearly, national economies are submerging into regional economies spearheaded by NAFTA, EC, ASEAN and MERCOSUR. These regional cooperation regimes are linked with the CTPs pushing to a globally integrated economic regime.

The global economy powered by the CTPs provides a great impetus to the RECs. The globalization and regionalization processes emanating from the CTPs are virtually forcing national economies to extend hands of cooperation globally. India and Korea are two such cases where growing convergence in their economic thinking leading to market-based consensus reflects a crucial turn around in their bilateral economic cooperation. The power of CTPs is cutting across many of the rules set by traditional geo-economic or geo-political arrangements and creating a set of incentives for the economies to enter into bilateral/ multilateral cooperation regimes such as free trade agreements (FTAs), Custom Unions, Common Markets and Monetary Unions, etc.

Ideas and arguments in this paper are organized in the following way. Section II revisits a historical legacy by assessing the impact of diverging paradigms – capitalism vs. socialism and Keynesianism vs. monetarism – on the RECs. It argues that differing economic paradigms create distinct regulatory structures affecting global/regional governance in the areas of finance, trade and market. These differing frameworks effectively hinder the process of economic cooperation. It notes how regulatory mismatch of the earlier era was further complicated by the superpower ideological rivalry played out on the politico-military turf. The Cold War period symbolizes the power of paradigm clash, which clearly fragmented global trade, finance, market regimes and associated cooperative economic structures created by the first LIEO.

Section III takes note of growing paradigmatic convergence in the post-Cold War era when capitalist-socialist dichotomy dramatically has given way to the primacy of market

[5] J. Aziz, and R. F. Wescott, "Policy Complementarities and the Washington Consensus," IMF Working Paper 97/118. Washington, D.C., 1997.

[6] Apart from the various structures of bilateral economic interaction, RECs includes; regional trade agreements (RTAs), Free Trade Agreement (FTAs), Custom Union, Common Markets, Economic Unions. RTAs are agreements whereby members accord preferential treatment to one another in respect of trade barriers. RTAs vary in terms of the level of integration. At the base is the FTA where trade barriers (usually tariffs) between partner countries are abolished. However, each member determines its own external trade barrier with non-FTA members independently. A prominent example of an FTA is the North America Free Trade Agreement (NAFTA). The next level of integration is the Custom Union where a common external trade policy (e.g. common external tariff regime) is adopted by member countries. MERCOSUR represents such an arrangement. Common Markets like the European Community adopt further provisions to facilitate the free movement of factors of production like labor and capital, and the harmonization of trading and technical standards across member countries. Finally, Economic Unions such as the European Union, extend the harmonization to fiscal and monetary policies, as well as social and legal policies.

logic and assesses its impact on the RECs. It argues that the end of communism unleashed powerful forces of market capable of creating a truly global space in terms of finance, trade, and production. The market revolution, powered by the 'Washington consensus,' clearly integrated traditionally segmented national economies into an evolving borderless global economy. It notes that this phase can be termed as the second LIEO. Section IV provides the evidence from the bilateral economic interaction between India and Korea where two distinct phases – paradigm divergence and paradigm convergence – are clearly visible. The Indo-Korean bilateral trade data consisting of export and import figures and investment patterns validates the basic assumptions set forth in this paper that paradigmatic divergence prominent during the Cold War period reduces bilateral economic interaction and paradigmatic convergence of post-Cold War increases bilateral economic cooperation.

Section V derives policy lessons from the CTPs deeply affecting RECs. It outlines an institutional cooperation framework that can facilitate/protect qualitative upgradation in the bilateral economic cooperation and create vital linkages to the RECs. It also highlights the point that Indo-Korean bilateral RECs has the potential to become the backbone for future regional economic cooperation framework that can move in steps from bilateral free trade agreement to multilateral Custom Union, Common Market and finally Economic Union of Asian countries.

Section VI concludes that the economics of paradigm convergence positively affect the RECs. It confirms that during the Cold War period, Indo-Korean economic cooperation was marred by the paradigmatic divergence when Korea experimented capitalist accumulation logic based on the export-promotion, private sector-led economic regime and India adopted socialist distributive logic based on import-substitution, public sector-led economic regime. In the post-1990s, both India and Korea have increasingly witnessed a paradigm convergence leading to the liberal economic ideas in both countries. This liberal economic regime has been the prime mover of substantially increased bilateral economic cooperation under market-seeking and production-seeking approaches. In the 2000s, it confirms that the dominance of managerial logic in the corporate decision making, and therefore incased signs clustering of Korean business in India. These emerging Korean business clusters have activated mid-level Korean entrepreneurs who are eager to follow the Chaebol's road to success to India.

The growing calls for protecting jobs and domestic industries are putting multiple pressures on the second LIEO. This situation may yet again lead to paradigmatic divergence, therefore it is reasonable to limit the time frame of this study prior to global financial crisis of 2007.

2. ECONOMICS OF DIVERGING THEORETICAL PARADIGMS

Cold War Era Capitalist-Socialist Dichotomy and the Fragmentation of Old RECs

The end of the first LIEO marks the beginning of a confrontational era when economic paradigms diverged sharply. In this period, the growing dichotomy between capitalism and socialism led to the unprecedented paradigm clash, leading to the fragmentation of earlier era RECs.[7] The paradigmatic divergence, created by conflicting capitalist and socialist doctrines,

[7] Socialist relations refer to the trends toward making political, associational, and contractual activity a balance against, or an adversarial alternative to, or a means of redefining, property ownership, in such

was further complicated by the ensuing ideological rivalry played on the politico-military sphere between the United States and Soviet Union. For the first time in the world, economic ideas created their politico-military domains bitterly contested in the global scale. These competing ideological frameworks divided countries and continents into antagonistic ideological blocs with minimal economic interaction. The power of paradigm clash raised the 'iron curtain' dividing Europe into two distinct paradigms: capitalism in the West and socialism in the East. The 'Berlin Wall' not only symbolized the division of Germany but the power of economic ideas to divide and fragment RECs. By effectively blocking the movements of goods, people, and capital, paradigmatic divergence put East-West European economic cooperation to a stand still.

Furthermore, within the capitalist bloc, Keynesian and monetarist paradigms, which gave differing emphasis to the role of state in the market place, considerably affected the scope and depth of economic cooperation.[8] The Keynesian management of 'market aggregates' led to the friction in bilateral trade and investment affecting RECs. Trade and investment frictions of the 1980s between the economies of East Asia and USA and recent trans-Atlantic trade rifts remind the differences in the economic philosophies guiding their trade, investment and market opening initiatives.

Thus, the paradigmatic divergence between capitalism-socialism and Keynesianism-Monetarism deeply affected economic linkages between regions and countries. Twentieth century's great paradigm-clash destroyed the very foundation of RECs, where ideologically opposed economies chose not to interact. Apart from politico-military considerations, disruption in trade and investment between rival blocs was further aggravated due to the mismatched regulatory structures governing financial, managerial and trade related issues. A closer scrutiny of these regulatory structures confirms that trade and investment flows generally follow well-established channels and networks based on the harmonious regulatory structures.

2.1. Financial Regulatory Structures

The RECs largely derive their functional efficiency and long-term sustainability from the market defined regulatory structures of finance. Deregulated financial markets facilitate cross border capital flows. Market-determined exchange rate regimes, well functioning stock markets, private banking sector, and an efficient international capital market – all are

ways especially as to make the market socially accountable and socially responsible. It has involved political, social, and economic reordering in the direction of regulating, modifying, remedying, or displacing, market behavior and market outcomes by social policy. Socialism, therefore, has corresponded with social relations, law, public policy, standards, and values asserting a broadening conception of human rights reshaping and redefining property rights and market behavior. In capitalist relations, principles of liberty and efficiency (often referred to as "bourgeois") tend in some decisive ways to broaden the sphere of individual initiative and authority as well as equalitarian values and behavior, but they tend at the same time, on behalf of concurrent principles of property rights and economic development, to range themselves against emergent, ever broader standards of liberty, equality, social justice, and development. Also, see Niklas Luhmann, *Social Systems* (Writing Science). Stanford, CA: Stanford University Press, 1995.

[8] S.C. Dow and J. Hillard, eds., *Keynes, Uncertainty and the Global Economy*, Vol. 2, Elgar, Cheltenham, 2002.

important component for the long-term viability of trade and investment flows across borders. On the other hand, financial regulations based on the repressed exchange rate regimes, state controlled banking sector, and large public sector enterprises are key deterrent to the capital flows. Keeping regulatory rationalization in mind, European economic union concluded various agreements streamlining financial regulatory structures. The Maastricht Treaty (1992) laid down a detailed criterion to this effect.[9] In other words, matching financial regulations based on the market logic enhance economic cooperation and mismatching financial regulations based on the political logic hinders the process of economic cooperation. Thus, expansion of international production, distribution and marketing requires market-based financial regulatory structures.

2.2. Managerial Regulatory Structures

Regulatory structures of management and ownership of a firm falls under the clearly defined two spheres: management and finance. The rise of professional managerial class has fundamentally changed the functioning of a firm towards greater efficiency and profitability. Market determined decision-making systems became the core of capitalist managerial philosophy. However, the managerial revolution that swept the corporate sector in the capitalist economies left the socialist economies untouched. In the socialist economies, the management of a firm has continued to be an administrative work based on the political and social requirements. In this management system price has always been determined by the political compulsions rather than market signals. These diverging managerial structures during the period of paradigm clash prevents firms to establish cooperative alliances and joint-ventures.

2.3. Trade & Investment Related Regulatory Structures

Various tariff and non-tariff barriers, anti-dumping duties, import quota systems are the potential policy instruments under the governments that can distort free flow of investment, commodities and manufactured goods. In the past when economies agreed to have free trade regimes, economic interaction among and between countries increased substantially. Under the GATT supervision, relatively free flow of goods, commodities and services was ensured. This has led to the substantial 'trade creation' and subsequently enhancing economic cooperation among trading partners. On the contrary, in the socialist economies, internal/external trade came under the monopoly of state and state-run enterprises, hence limiting the potential to trade and investment internationally. Movement of goods and services was restricted by the non-market structures and manned by extensive army of bureaucrats. Thus, sharp variation in the regulatory regimes emerged as the vital constraining factor to promote economic cooperation.

These diverging regulatory structures based on competing economic paradigms created a regime of constraints hindering economic cooperation. Areas under the socialist influence zone traded under the elaborate system of political considerations and largely failed to realize the actual potential, whereas in the market-based system, goods and services moved following the price differentials and realized greater potential. Thus, economic cooperation in the Cold War era strictly followed the matching regulatory spheres and virtually leaving

[9] For the further details about the 1992 treaty, see http://www.essex.ac.uk/info/Maastricht.html

the economies under the mismatching regulatory practices under the sphere of non-cooperation. Cold War ideological confrontation penetrated deep in the RECs and successfully fragmented the regimes of integration realized during the first LIEO.

3. ECONOMICS OF CONVERSING THEORETICAL PARADIGMS

Market Revolution, Washington Consensus, and the Rise of Borderless Global Economy

With the end of the Cold War, the structures created by WW I, Great Depression, and WW II lost their rationale and gave way to the second coming of the LIEO. Following the collapse of Soviet Union and the subsequent weakening of the paradigmatic clash between capitalism and socialism, a powerful market revolution swept across the globe. From East Europe to China and from Vietnam to newly independent Baltic, economies achieved a far-reaching transition to market.[10] These historic events clearly demonstrated that the activist role of state in the economic management were rather damaging. In economic thinking, Keynesianism lost its supporters and hence the political management of the aggregates of demand and supply was increasingly replaced by a resurgent Monetarist philosophy.[11] Though, in a rush to markets, neo-liberal economic reforms in Russia and to some extent in East Asia also brought misery to millions and raised serious questions before the rigid market orthodoxy. A rethinking that followed East Asian and Russian financial crisis pushed the 'Washington consensus' to move towards the 'post-Washington consensus'.[12] Indeed, the events of the last decade of 20th century proved the inevitability of market system. This powerful market wave created a broad-based paradigmatic convergence, which encouraged national economies to upgrade economic cooperation. Globalization of production, distribution, market and investment has created immense possibilities for close economic cooperation culminating in the wave of FTAs. The economic cooperation in this era is clearly visible in the substantially increased intra-regional trade & investment flows, intra-firm trade, and the hectic cross-border merger and acquisition activities.

3.1. Intra-Regional Trade and Investment

The economics of paradigmatic convergence led to the rise of geo-economic considerations. Notion of regional competitiveness started to acquire bigger space in the

Table 1. Intra-regional trade as a percent of a region's world trade

	1980	1990	1999

[10] Michael Ellman, "The Political Economy of Transformation", *Oxford Review of Economic Policy*, Vol. 13, No. 2 (1997), pp. 23-32; and Grzegorz Ekiert, "Democratization Processes in East Central Europe: A Theoretical Reconsideration", British Journal of Political Science Vol. 21 (1991), pp. 285-313.

[11] Robert Skidelsky, ed. End of the Keynesian Era: Essays on the Disintegration of the Keynesian Political Economy, London: Macmillan, 1977.

[12] Moises Naim, "Washington Consensus or Washington Confusion?" *Foreign Policy*, 118 (Spring 2000), pp. 87-101; Dani Rodrik, *Has Globalization Gone Too Far?* Washington: Institute for International Economics, 1997; and Joseph E. Stiglitz. *Globalization and its Discontents*. New York: Norton, 2002.

European Union	57	66	61
NAFTA	33	37	47
MERCOSUR	13	14	22
Andean	4	5	10
ASEAN	14	14	18

Source: International Monetary Fund, *Direction of Trade Statistic*s, various years

policy debates than the traditional concept of national competitiveness. This trend created intra-regional trade and investment boom and greatly enhanced economic cooperation between and among the region's economies. European Union, NAFTA, and ASEAN – all witnessed sharply increased intra-regional trade and investment flows. The European Union transformed into a highly integrated regional trade area. As shown in the Table 1, in 1980, 57 percent of the total merchandise trade (exports plus imports) of the European Union stayed in the region. This share increased to 66 percent in 1990, and then the market revolution swept the former Soviet bloc countries, which finally integrated itself in the expended European space.

Following the trend, in 1988, Canada and the United States formed a free trade area that became the North American Free Trade Agreement (NAFTA) with the inclusion of Mexico in 1994. As Table 1 indicates, trade among the NAFTA countries as a share of their total trade has risen steadily over the last two decades. Similarly, in 1991, Argentina, Brazil, Paraguay, and Uruguay formed a free trade area MERCOSUR, which was later joined by Bolivia and Chile. Around the same time, the Andean group incorporating Bolivia, Columbia, Ecuador, Peru, and Venezuela began a concerted effort to eliminate trade barriers among its member countries. In both areas, the share of regional trade rose sharply in the 1990s after showing little increase during the 1980s. The Association of Southeast Asian Nations (ASEAN) initially consisting of Brunei, Indonesia, Malaysia, Singapore, Thailand, and the Philippines, formed a free trade area in 1992. There was no change in the share of regional trade for the ASEAN countries during the 1980s; however, following the creation of the free trade area, the share of regional trade rose – from 14 percent in 1990 to 18 percent in 1999.

The change in the pattern of Korea's trade also indicates that factors other than free trade agreements are important for increasing regional trade. Korea is not a member of a regional free trade area, yet the share of its trade involving other emerging East Asian countries increased from 10 percent in 1990 to 23 percent in 1999. As with Latin America, this increase in intra-regional trade may have been spurred by an overall reduction in the level of trade barriers, as well as rising income levels in the region.

There has been a proliferation of regional trade agreements (RTAs) covering trade in goods or services worldwide in the 2000s. Compared with the 124 RTA notifications received by GATT (predecessor of WTO) over the 46 years from 1948-1994, in 1990s the WTO received more than 90 RTAs. As a result of this increase in the number of RTAs, preferential trade increased from 40 percent of total world trade in the period 1988-1992 to 42 percent in the period 1993-1997.[13] Western Europe (EU-15) had the highest proportion of preferential trade (70 percent), but the increase between 1988-1992 and 1993-1997 was

[13] Jean-Marie Grether and Marcelo Olarreaga, "Preferential and Non-Preferential Trade Flows in the World", Staff Working Paper ERAD-98-10, September 1998, at http://www.wto.org/english/res_e/reser_e/pera9810.doc

small.[14]

The Western Hemisphere (NAFTA and MERCOSUR), on the other hand, experienced significant growth in the proportion of preferential trade, from 19 percent in 1988-1992 to 27 percent in 1993-1997. In contrast, only a small proportion of the trade in the Asia Pacific region was preferential trade, and the share had in fact declined from 4 percent in 1988-1992 to 3 percent in 1993-1997. This was despite the strong growth of intra- regional trade in Asia Pacific, which rose from 34 percent in 1985 to 48 percent in 1995.[15]

In fact, a 1995 study by the WTO Secretariat concluded that regional and multilateral integration initiatives are complements rather than alternatives in the pursuit of more open trade. Regionalism can help in building domestic confidence by first confining market liberalization to member of RTA countries. Economies may be more amiable to multilateral trade liberalization after observing the trade creation and investments that regionalism induces. Regionalism would also allow group of countries to negotiate rules and commitments that go beyond what is possible multilaterally due to the lower bargaining complexities. Thus, this growth in intra-regional trade and investment is not exclusively inward looking but also linked with the global flows of capital, goods, commodities, and services.

3.2. Intra-Firm Trade and Investment

Intra-regional trade and investment flows have received vigorous support by the growing intra-firm trade. Venables (1999) argues that international fragmentation of production is one aspect of globalization of world economy.[16] This vertical disintegration can be associated to the development of outsourcing through inter-firm relations, leading to an increased share of trade in intermediate goods as described empirically by Feenstra (1998)[17] and explained theoretically by Grossman and Helpman (2002)[18] among others. It can also be associated to a spatial fragmentation with activities remaining within a single firm involving multinationality as described by Venables (1999). The later aspect of fragmentation leads necessarily to the development of intra-firm trade.

Nevertheless, even if it is difficult to measure intra-firm trade due to its nature and the lack of data, some studies assess its importance regarding total international trade. According to the UNCTAD (1996), one third of all international trade occurs within MNCs. In 1993, the share of intra-firm exports by parent firms based in the country and affiliates of foreign firms located in the country in total exports of the country ranges from 38 percent in the case of Sweden to 24 percent in the case of Japan. The corresponding share of intra-firm imports

[14] For further details, see “Rise of Regionalism”, Trade Division, Ministry of Trade and Industry, Singapore, at http://app-stg.mti.gov.sg/data/article/21/doc/NWS_Regionalism.pdf

[15] For details, see http://app-stg.mti.gov.sg/data/article/21/doc/NWS_Regionalism.pdf

[16] A. J. Venables, “Fragmentation and Multinational Production”, *European Economic Review*, Vol. 43, No. 4-6, (1999), pp. 935-945.

[17] R. C. Feenstra, “Integration of Trade and Disintegration of Production in the Global Economy”, *Journal of Economic Perspectives*, Vol. 12, No. 4, pp. 31-50.

[18] G.M. Grossman and E. Helpman, Outsourcing in a Global Economy. Mimeo. Harvard University, 2002.

in total country imports ranges from 14 percent in Japan to 43 percent in the United States.[19] Describing French data, Mathieu and Quelennec (1997) found that trade within multinational firm's networks represents more than 35 percent of overall French trade. More than 23 percent of the intra-firm exports of French firms are for use in production.[20] Hence, a powerful trend among MNCs has been to trade with sister firms or subsidiaries. This way firms do not have to deal with certain unknowns in the business. Consequently, intra-firm trade accounts for the large part of international trade.

3.3. Cross-border Mergers and Acquisitions (M&A)

The multiple pressures originating from the globalization, regionalization and technological changes are pushing corporations to look beyond the traditional sources of comparative advantage. To achieve bigger scale of economies, to penetrate in crucial markets, and to acquire critical technologies, firms are getting frantically involved in the cross-border M&A activities. M&A activities testify growing economic cooperation among and between the involved enterprises, regions, and economies. In the year 2000, Asia alone accounted for US $ 231.9 billion M&A transactions. Table 2: lists the Asian M&A transactions that shows the growing cross-border corporate integration.

There are diverse explanations pinpointing determinants of M&A transactions.[21] One clear potential determinant is inefficient management in the acquired firm, which is not maximizing shareholders' returns and is thus open to a hostile takeover designed to replace the managers. This move is called the market for "corporate control". Another management story explaining M&As is the notion that it is the managers of the acquiring firm (rather than of the acquired firm) who are inefficient, using their power to acquire assets. These acquisition-bound managers feel satisfied from driving their firms larger even when such acquisitions are not to the benefit of the owner shareholders. Many observers suggest that the conglomerate merger wave of the 1970s, a wave that eventually saw most such mergers re-divided, was driven by ambitions of acquiring firms' managers.

Other explanations for M&As exist. One plausible explanation is that acquirers take advantage of under priced assets in the acquired firm. This analysis could explain merger waves, since assets could become undervalued across a broad spectrum of companies. A more recent hypothesis is that some M&As occurs in order for management to break explicit or implicit contracts with labor, this ability being unavailable to incumbent managers. Apart from these explanations, M&A transactions suggest the cross-border firm level integration, which is one of the indicators of growing economic cooperation.

The above-mentioned areas of intense economic interaction suggest that paradigmatic convergence can provide sufficient stimulus to broaden the scope, depth and nature of economic cooperation, however with one clear difference: the opportunities of economic cooperation created during the era of first LIEO were enforced by the colonial interests but

Table 2. Cross-border Merger and Acquisition Purchases: Asia Pacific, 1990-1996

[19] For details, see UNCTAD, World Investment Report: Investment, Trade and International Policy Arrangements, United Nations: New York, 1996.

[20] E. Mathieu and M. Quelennec, Industrial Establishment Abroad and Exports, DSTI/EAS/IND/SWP (97) 18, OECD: Paris, 1997.

[21] For details, see L. Waverman, ed., Corporate Globalization Through Mergers and Acquisitions, Canada: University of Calgary Press, 1991.

(Number of deals and value of deals in US $ millions)

	Total 1990-1996	
	Deals	Value
Japan	3,178	93,813.371
Hong Kong	650	30,907.742
Australia	584	23,683.622
Malaysia	356	15,439.766
Republic of Korea	337	15,200.842
Singapore	518	11,912.602
China	187	11,810.122
Thailand	128	7,290.200
Taiwan	163	6,976.457
New Zealand	117	4,145.969
Indonesia	76	2,307.838
India	52	1,512.147
Philippines	21	515.190
Brunei	8	470.663
Pakistan	2	107.206
Vietnam	9	27.060
Bangladesh	1	11.867
Macau	2	10.000
Cambodia	2	7.650
Nepal	1	3.400
Myanmar	2	1.020
Mongolia	1	0.76
Papua New Guinea	2	0
Total	6,392	226,153.71

Source: International Labor Organization, various years

the economic cooperation during the second LIEO is by choice, signaled by the market forces. This difference in the nature of forces that are pushing regimes of economic cooperation can explain the sustainability of present RECs, even under the growing intense pressure to preserve jobs and maximize exports in the current global downward spiral.

4. ECONOMICS OF DIVERGING-CONVERGING PARADIGMS
Evidence from Indo-Korean Bilateral Economic Cooperation

The major trends in the Indo-Korean bilateral economic cooperation are clearly linked with the economics of diverging-converging paradigms. The trade & investment data reveals the fact that economic relations between India and Korea have been primarily shaped by the changes in the contemporary economic thinking, which has witnessed a distinct phase of paradigm divergence as well as of convergence. In the history of India-Korea bilateral economic relations, which formally began with the establishment of diplomatic relations in

1973, economic thinking has witnessed a sea change.[22] In the past, theoretical paradigms such as capitalism vs. socialism or more recent Keynesianism vs. monetarism clearly diverged on structural, organizational and operational levels. However in the recent times there are ample evidence showing greater theoretical convergence leading towards the "Post-Washington Consensus" (Stiglitz, 1998, 2002). This changed economic thinking has actively restructured the overall framework of Korea-India bilateral economic relations, which moved from the lows of 1960~70s to the highs of 1990~2000s.

It is important to note that the fundamental transformation in the economic thinking came with the three major disjunctions: one, the collapse of centrally-planned economies of communist block; two, end of antagonistic politics of Cold War; and three, the crisis of Fordist model. These developments have raised doubts before the arguments supporting the activist role of state in the market place. Moreover, the stunning advances in the technological front, particularly in the area of information & communication technologies, have accelerated the pace of change. The cumulative impact of forces unleashed by the wider convergence on freer markets paved the way for an unprecedented level of economic integration in the world economy. A new era of globalization and liberalization started to fundamentally alter the established frameworks of production, market and finance. With the rest of other economies, both Indian and Korean economies started to adjust with the changed rules of the global political economy and initiated their own liberalization & deregulation programs.[23]

Furthermore, the removal of dividing wall in Europe, erected by the Cold War superpower rivalry, led to a major realignment in the geo-economic sphere. Regional trade alliances came into fore with Europe leading the charge.[24] Following this general geo-economic trend, Asia too witnessed a substantial rise in the intra-Asian trade and investment flows. This explicit rise in the geo-economic considerations affected broader parameters, arguments and policies under which bilateral relations between Korea-India were operating in the past.[25]

Accompanying these broader trends, on the micro level, the loss of India's traditional trade partners following the collapse of Soviet Union made it imperative for India to reorient its external trade. Meanwhile, Korea too witnessed growing trade friction with the important trading partners such as the US and the EC and felt the compelling need to diversify its export market. Hence, with the easing of Cold War super power rivalry, Korea initiated a well-thought policy, popularly known as "nordpolitik", to improve relations with the former

[22] After 11 years of consular relations, India and Korea formally established diplomatic relations in December 1973.

[23] India initiated structural adjustment program in 1991 which effectively integrated Indian economy to the global economy. Similarly, Korea's half-heartedly initiated economic reforms got powerful boost after the 1997 financial crisis.

[24] Euro came into existence in the year 1999 when it was launched as an accounting currency. In the year 2002, banknotes and coins of the currency were introduced in the European Union countries with certain conditions to be complied with if any country wants to use the currency parallel to the domestic currency. By launching Euro, countries of the European Union created the firm basis to regional integration.

[25] Roh Tae-woo administration launched 'nordpolitik' to reach out to former communist countries, similarly Indian Prime Minister, P.V. Narasimha Rao initiated "Look East Policy" to engage economically rising economies of East and Southeast Asia.

communist countries and India articulated "Look East" policy to strike a new balance in its dealing with the regions of East and West.

In the beginning of 1990s changed political economic thinking started to affect economic policies and corporate sector's long-term investment decisions. Reflecting the new thinking, Indo-Korean economic relations moved away from the short-term 'market-seeking approach' followed during the 1960s and 1970s to the long-term 'production-seeking approach' initiated during the 1990s, and then cluster-seeking approach in the 2000s.[26] Korea started to view India not only as long-term market destination but an important base for overseas production that can infuse new blood in the declining combativeness of its fledgling export industries. Korea's big business, namely *Chaebol*, started building large production facilities in India to produce automobiles, refrigerators, washing machines, air conditioners, TVs, computers, and mobile phones, etc.

To fully understand the economics of converging paradigms, it is also important to briefly review the phase of diverging paradigms, which created structures of constraints under which economic interaction between Korea and India was almost stagnated. Thus, the first part of this section discusses the period – 1960s to 1980s – largely dominated by the Cold War era political logic based on diverging paradigms. During this period, both Korea and India were ideologically aligned with the competing superpower blocs where political calculations dominated over the hard economic realities. This left only a narrow space for the bilateral economic cooperation between two countries. As a close ally of a rival superpower, Korea half-heartedly sought market access in India with symbolic investment. This low-key economic interaction can be termed as "constrained cooperation".

The second part of this section analyzes post-Cold War period after 1990s when state "roll back" was already engineered with market forces actively shaping the economic outcomes around the world. This was the time when economies of former communist countries, termed as transition economies, initiated experimenting with either 'shock therapy' or 'gradualist approach' to adopt market-based systems. By acknowledging this general trend towards market-based systems, India too initiated a far-reaching economic liberalization program aimed at integrating Indian economy with the global economy. Keeping track of Indian developments, Korea in this phase targeted India as one of the destinations to establish production bases to carter domestic as well as overseas market demand. This new approach resulted in the sudden jump of Korea's FDI to India. The economic cooperation under this phase has been termed as "unconstrained cooperation".

The third part of this section examines the period after 2000s when market-based system engulfed most of the economies in the world. During this phase, global economy recorded remarkable growth and positively stimulated various regimes of economic cooperation. Managerial concerns to efficiently manage overseas investment, production, and market took the center stage. India-Korea economic cooperation is not exception of this general trend. This new concern expressed in form of industrial clusters where Korean corporations initiated to consolidate their position in the Indian market space. Bilateral economic cooperation under this phase has been termed as a "take off phase".

[26] For details, see Jitendra Uttam, "Economic Relations between India and Korea" in edited volume "Thirty Years of Korea-India Relations" (Seoul: Shingu Publishing Co. 2003), pp. 106-136.

4.1. Dominance of Political Logic: Constrained Cooperation under the Market-seeking Approach, 1960s~1980s

In this phase, Indo-Korean bilateral economic interaction was effectively constrained by the primacy of political logic emanating from the Cold War ideological rivalry. The two newly independent Asian countries, India and Korea were sucked into the vortex of Cold War era global politico-military antagonism. To a certain degree, both countries were aligned to rival super power camps with distinctly different economic focus: re-distribution under the socialist, public sector dominated economy in case of India and accumulation under the capitalist, private sector dominated economy in case of Korea. These two distinct approaches to development altered state capacity to create or recreate state, society and market relations which created new type of economic actors that aspired for the differing goals. India's dominant public sector units, operating under the strict import-substitution industrial strategy, were concerned only with the protected domestic market but Korea's diversified business conglomerates, often known as *Chaebol,* had to perform in the framework of export promotion industrial strategy, thus open to face the competitive pressures from the global market place. Moreover, the political economy of Cold War and the subsequent rise of US-led 'alliance system' created a distinct dynamics that provided Korea a clear advantage in penetrating the Western markets, and access to cutting-edge manufacturing technologies. On the other hand, India's close proximity with Soviet Union and its import-substitution strategy led to disconnect with the capitalist market space which resulted in a painfully slow growth rate during 1960s-1970s. This paradigmatic divide led to insignificant economic interaction between Korea and India.

It is well known that from the mid-1960s, Korean economy started to feel the dynamic impact of export-led industrialization strategy, whereas Indian economy came under the burden of import substitution industrial policies. This divergence in the policy dynamics of both economies resulted in the symbolism than substance in the bilateral economic interaction. In 1964, India and Korea signed their first trade agreement, though it did help in initiating the two-way trade but could not lead to any substantial increase in the bilateral trade. Thus, even seven years after the agreement in 1971, the two-way trade was merely US $12.4 million. Table 3 confirms nominal economic interaction between the two countries in the most part of the 1970s.

The establishment of diplomatic relations between India and Korea in 1973 marks the watershed in the history of bilateral economic cooperation; however it could not break the lingering impasse generated by diverging paradigms. In order to facilitate bilateral trade, just a year after the formal diplomatic relations, both governments agreed to accord each other the Most Favored Nations (MFN) status, which became the guiding framework for bilateral economic relations. With the established set of rules defined by the 1974 Agreement,[27] bilateral trade between India and Korea witnessed a relative increase. It increased to US $170

Table 3. Korea's Export-Import to India, 1973~1980

[27] In this agreement items available for export and imports were identified and it was sought to maximize trade between the two countries in these items. It was also specified that the goods and commodities exchanged between the two countries should be given the Most Favored Nation (MFN) treatment with respect to taxes and duties to be levied. Similarly, the agreement also sought to encourage technical cooperation between the two countries on the basis of exchange of technical know-how, skilled personnel etc.

Year	Export	Inc. Rate	Import	Inc. Rate
1973	3	-72.3	12	173.1
1974	5	79.1	22	88.2
1975	7	43.7	39	76.6
1976	11	73.1	34	-13.0
1977	21	79.3	23	-31.8
1978	78	227.8	39	69.9
1979	87	11.9	83	111.4
1980	173	99.0	54	-35.5

Source: Korea International Trade Association (KITA), 2003

million in 1979. One of the reasons cited for this increase was probably the renewed agreement of 1974 that replaced the 1964 Agreement (Bhaumik, 1989: 64). [28] This was the time when Korea's record of success in the export-oriented industrial sector started to gain momentum. Rapidly expanding exports pushed nation's corporate sector to look for newer markets, and India having second largest population in the world was certainly a probable market. Between 1971-80 while India's exports to Korea increased at the annual rate of 20.8 percent but Korea's exports to India increased at the rate of 60.1 percent. Further, in 1980s India's exports to Korea declined by 35.6 percent to US $53.7 million, but Korea's exports to India increased by 99 percent to US $172.9 million (KITA 2003). Thus, by the end of 1970s, the basic bilateral trade framework between Korea and India was established but the paradigm divergence remained a stumbling bloc.

In the 1980s, India's half-hearted, poorly conceptualize economic liberalization program under the Rajiv Gandhi administration led to a severe balance of payment crisis in 1989. This was further aggravated by the ensuing troubles in the communist bloc. In the mean time, Korea witnessed rapid economic expansion and was famously termed as the "Miracle on the Han River."[29] Korean economy grew at the phenomenal pace and started to diversify from the labor-intensive industries to heavy and chemical industries. Korea's rapid industrialization gave birth to a capitalist firm 'Chaebol' which became the center of diversified, family-owned business conglomeration strategy. During this period, bilateral trade saw many fluctuations. It began to weaken even before it could take any significant shape. The two way trade reached to its peak in 1984, when it reached US $1.4 billion or 2.3 percent of Korea's two way trade, but then it began to decline and in 1987 it was only US $606 million or about 0.7 percent of Korea's total trade. In the mean time, between 1982 and

Table 4. Bilateral Trade between India and Korea

[28] T.K Bhaumik, "Indo-Korean Economic Linkages: A Critical Overview," in R.C Sharma, ed., *Korea, India and the Third World*, Rajesh Publications: New Delhi, 1989, pp. 62.

[29] Korea expanded by an average of more than 8 percent per year, from US$3.3 billion in 1962 to US$204 billion in 1989, breaking the trillion dollar mark in 2007. Per capita annual income grew from US$87 in 1962 to US$4,830 in 1989, reaching the $20,000 milestone in 2007. The manufacturing sector grew from 14.3 percent of the GNP in 1962 to 30.3 percent in 1987. Commodity trade volume rose from US$480 million in 1962 to a projected US$127.9 billion in 1990. The ratio of domestic savings to GNP grew from 3.3 percent in 1962 to 35.8 percent in 1989. For details, see Juergen Kleiner, *Korea: A Century of Change* (World Scientific Publisher, 2001).

(in million US $)

Year	Total Trade	Export	Imports
1981	310	225	85
1982	499	350	149
1983	858	577	301
1984	1,429	1,049	380
1985	683	467	216
1986	639	512	127
1987	606	404	202
1988	635	465	170
1989	932	675	258
1990	718	435	283

Source: Office of Customs Administration, Republic of Korea.

1985 Korea succeeded in entering into a few joint-ventures in India. Between 1982 and 1987 a total of 39 Indo-Korean collaborations were approved, of which 30 were technical collaborations, 5 were financial and 4 were for drawing and designs (Bhaumik, 1989: 77).[30] Table 4 shows the trend in the bilateral trade between Korea and India during the 1980s.

To support, sustain and expand trade, investment and joint-ventures both countries agreed to enhance institutional mechanism. Apart from the Joint Trade Committee (JTC)[31] at the official level, there were two separate forums for brining greater coordination and interaction between the business communities of the two countries, namely the Korea-India Economic Cooperation Committee with the Confederation of Indian Engineering Industries (CEI) as the nodal agency and the Indo-Korean Joint Business Council (JBC) with the Federation of Indian Chambers of Commerce and Industry (FICCI) as the nodal agency. Discussions at business level are held annually in both these forums.

The collapse of centrally-planned economies of the communist bloc and the subsequent end of Cold War effectively tilted the balance of economic debate in favor of market-based systems with neo-liberal economic paradigm at the forefront. India initiated a comprehensive structural reform program in 1991 and Korean government launched massive globalization campaign '*segaewha*' and initiated ambitious financial liberalization program. Both economies moved towards market-led system based on converging theoretical paradigms. This new convergence in economic thinking has thrown open numerous possibilities for investment, trade, and production.

With the end of the Cold War era paradigmatic divergence, an important impediment to improve India-Korea relations was removed. In the changed context, India and Korea discovered that they had a shared perspective on wide ranging international economic and strategic issues. It became evident that in the economic sphere, India and Korea could work more closely in organizations such as the IMF, the World Bank and, more importantly, the

[30] Ibid, p. 77.

[31] The third meeting of the JTC was held in New Delhi, India on 9 May 2000. The Indian delegation was led by Murasoli Maran, Minister of Commerce & Industry and the Korean delegation by Dr. Han Duk Soo, Minister of Trade. The Ministers reviewed bilateral economic relations, agreed to expand trade, accelerate Korean investment and strengthen relations in information technology and other areas.

WTO. Also, sub-continental size of the Indian economy had added incentives in terms of vast market and cheaper production-base to the large Korean business conglomerates. At the strategic level, India and Korea ought to have a shared view on the emerging balance of power in Asia.[32] Both countries would like to see a larger role for themselves in the assurance of Asian security, co-operating with the United States, China, Russia, Japan and the ASEAN member countries. India and Korea would jointly propose reforms in the global financial architecture to enable the IMF to deal more effectively with global financial crises. Equally, they had a common stake in ensuring a more transparent functioning of the WTO. A unified Korea would be a major power in Asia with which India could cooperate to ensure peace, security and economic development in Asia.

These mutually beneficial perceptions were highlighted by high-level exchanges between the two countries.[33] In less than two years after being elected to the office of the Prime Minister and in the immediate wake of announcement of major economic reforms, P.V. Narasimha Rao paid an official visit to Korea in September 1993; in fact, the first-ever visit by any Indian prime minister to Korea. Hailed by scholars and media in both countries as a significant milestone in the evolution of Korea's deepening of relations with India, the logic and timing of Prime Minister Rao's visit to Seoul underscored the recognition by the both sides of the imperativeness and inevitability of fostering purposive economic relations. The loss of its trade partner following the collapse of Soviet Union made it urgent for India to reorient its external trade, whereas at the same time Korea's dependence on the US market and subsequent trade frictions created the need to diversify export market. These positive developments were reinforced by the elimination of nagging paradigmatic discord. Now, the stage was set for a great leap forward in the bilateral economic interaction. Second part of this section delves into the period (1990s ~2000s) when economics of paradigm convergence becomes operative and starts to shape economic relations. This leads to a new era of 'unconstrained cooperation' between Korea and India.

4.2. Dominance of Economic Logic: Unconstrained Cooperation under the Production-seeking Phase, 1990s~early-2000s

With the arrival of 1990s, the pendulum of economic thinking swings away from the primacy of 'political logic' to 'economic logic'. The failure of communism as a viable economic ideology provided momentum to the market-based economic regimes around the world. A term 'transition economy' was coined to broadly explain the general rush to adopt market system in the former communist economies. Keeping pace with the trend, the

[32] Though the rise of China has initiated fundamental changes in the balance power in East Asia, however by following 'Chindia Strategy', Korea is trying to walk a fine line between the two Asian giants.

[33] As far back as 1983, P.V. Narasimha Rao visited Seoul as India's Minister of External Affairs. In the same year, Korea's president Chun Doo Hwan was scheduled to visit New Delhi, which subsequently was shelved due to terrorist attack in Myanmar. In March 1986, Korean Prime Minister Lho Shinyong visited India. In the beginning of 1990s, high-level interaction intensified. Korea's Foreign Minister Choi Ho Joong visited in 1990 followed by the speaker of national assembly Park Hyun-Kyu in 1991. In 1992, India's Foreign Minister Madhav Singh Solanki paid an official visit to Seoul. In the same year both countries set up a policy coordinating committee to hold periodic consultations on bilateral and regional issues.

Government of India (GOI) in 1991, initiated a comprehensive structural economic reform program aimed at installing a liberal economic regime.[34] The GOI has placed before the Parliament on July 24, 1991 a Statement on Industrial Policy with the major objectives of removing the bottlenecks in obtaining various approvals by entrepreneurs in making, foreign investment policy more attractive and in doing away with the detailed examination by various agencies. A major component of these changes consist of a much greater degree of openness to foreign investment and foreign technology agreements, compared to the past. By acknowledging the fundamental realignment in economic thinking, the Government of Korea (GOK) also framed a new economic agenda centered on financial system's deregulation and liberalization. In the early 1990s, GOK embarked on a program of financial liberalization.

What is more, the evolving political climate in Korea also augured well. It was exactly two years before Rao's official visit to Seoul, Korea became a member of the United Nations.[35] And in the following year, Korea held free and fair elections and returned for the first time in the three decades a civilian president to head the state. Against these new realities in the Korean peninsula, together with far-reaching reforms taking place in the entire Asia-Pacific region, Rao's journey to Korea was as much politically significant as it was an investment in the future with India's avowed interest in seeking a foothold in the APEC. While media report suggested that Prime Minister Rao's visit made a significant impression on the Korean government and the business community, admittedly, it signaled the ushering in an era of developing a wide ranging cooperative relationship between the two countries. In unequivocal terms, Prime Minister Rao underlined the main objective of his visit: "The Common elements in our positions and approaches to the changing international situation, particularly in Asia, provide many opportunities …to work together for our mutual benefit. A strong and diversified bilateral relationship between us is also an important and positive factor in the Asia-Pacific region".[36]

Prime Minister Rao's appeal to the Korean government and the business community produced the desired results. It appeared as though they were waiting for such an open invitation. For, the very following year, two high-powered technical delegations visited India - one, sponsored by official Korea and the other, a chaebol sponsored delegation represented by the Samsung group. The other, led by Tae Hyuk Hahm, a high-placed economist of the Korean Institute of Foreign Affairs and National Security (IFANS) under the ministry of foreign affairs, an eleven-member delegation comprising of senior officials of the government visited New Delhi in May 1995 and exchanged views with several members of the Union Council of Ministers, officials of the different ministries and the Prime Minister. The range of this discussion was at the same wide and in-depth, including aspects of cooperation in science and technology, utilization of Economic Development Cooperation

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[34] For the latest details about Indian economic reforms, see Anne O. Krueger. ed., *Economic Policy Reforms and the Indian Economy*, New Delhi: Oxford University Press, 2002.

[35] In 1981, India pioneered its support for the admission of both Koreas - North and South - to the United Nations thereby creating a favorable climate both in G-77 and NAM for other members to join. And, at the UN General Assembly in 1991, India initiated the proposal seeking admission of both Koreas. Recently, India supported South Korea's candidacy for the post of deputy director general of the World Trade Organization (WTO). Also, India voted in favor of South Korea in its bid to become a non-permanent member of the UN Security Council.

[36] Yasmin Javeri Krishan, "Korea-India Economic Relations", *Asia Prashant* (Varanasi), Vol. 2, No. 2 (1995), p. 87.

Fund (EDCF), and trilateral cooperation among Korea, India and other countries of the South and South East Asian region. Echoing the suggestion made by Prime Minister Rao in Seoul the previous year, Hahm pointed out that low labor costs together with the large reservoir of technically qualified people in India could be combined with the sophisticated and labor-intensive technologies from Korea. In respect of the tie-ups between the two countries, he identified particularly such complementary sectors as software development and textile to carter the needs of the global market place.[37]

In less than three months, the Samsung sponsored delegation visited India to survey and assess the Indian market for investment opportunities. In its report Samsung delegation pointed out the built-in advantages for Korean direct investments such as; 1) large reserve of skilled and easily trainable human resource; 2) low labor cost and cost-effective production process; 3) an increasing large market for industrial products with an estimated consumer base of 250 million people; 4) rapid pace of development requiring capital investment for facilities and equipment; 5) the geographic location of India proximate other South Asian markets; and 6) Korean investments in India could distribute investors' risk by diversifying the sourcing between Indonesia, China, Philippines, Malaysia and India.

The finding of theses delegations were revealing for the prospective Korean investors, and in process triggered further discussions between the two countries. No wonder therefore when the President of Korea Kim Young Sam paid an official visit to India in February 1996, among others, he gave priority to two vital agreements with India. One was the Investment Promotion and Protection Agreement between the two countries and the other was the setting up of a joint commission led by the respective foreign ministers of Korea and India to meet once a year.[38] While no protocol was signed, the meeting between two ministers of India and Korea in charge of trade and commerce − Park Jae-yoon and P. Chidambaram discussed issues relating to the lowering of the tariffs and customs on the import of made in Korea consumer items. In an effort to bridge the ever-widening trade balance between the two countries the ministers also explored the potential of enhancing India's export basket to include locally produced farm products particularly tropical fruits.[39]

Admittedly, President Kim Young Sam's visit to India not only heralded a new phase in the evolving relations between Korea and India but, more than that, underscored the vital significance of the vast Indian market for the critical needs of the Korean economy. In fact over the last two decades, especially since Korea adopted the export promotion strategy for its economic development, there has been a discernable shift in Korea's overseas investment which has been concentrating more on Southeast Asia following its earlier focus on US, European Community and Japan. Of late, given the rising labor costs in the ASEAN countries together with region's economic resurgence, Korean overseas investments has bee seeking fresh and fertile new pastures. The obvious and immediate choice was the proximate China. Korea invested quite heavily in China but there remains a political concern to concentrate too much on the Chinese market. It is against this background Korea started to take seriously a much more diversified approach – balancing between India and China, i.e.

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[37] "Korean Economic Delegation Visits India", *Korean News* (New Delhi), Vol. 22, No. 3, May-June 1994, pp. 8-9.

[38] "India and the Republic of Korea: Strengthening the Bonds of Cooperation and Friendship through Economic Reforms and Globalization", Facts for You (New Delhi), Vol. 17, No. 9, March 1996, p. 34.

[39] "Korea-India Agree to Boost Ties, Trade", *Korea News Review* (Seoul), Vol. 25, No. 9 (March 1996), p. 7.

Chindia strategy. It signaled Korea's surging interest in the Indian sub-continent. As one Indian national news paper in its editorial aptly commented: "Even as the Japanese kept studying Indian economic reforms and the European worried about the political uncertainty, South Korean business [have] decided, with their characteristic risk-preference, to first plunge and then learn to swim in the Indian market."[40]

Mutual economic gains apart, Korea's meteoric accent in the international stature − having assumed the second high office in the newly set-up WTO, achieving the coveted OECD status, and above all, the diplomatic edge it has secured in the unification process of the divided Korea following the end of Cold War together with decisive economic clout in the Asia-Pacific region − all of which have apparently persuaded India to forge close relations with Korea, more so with its well articulated aspirations to seek a place in the UN Security Council as well as in the APEC.

It should be noted that initially Korea's FDI was driven by a strategy for stable procurement of essential raw materials including crude oil, wood and coal during the early 1980s. Then Korean investors began venturing into foreign countries to sharpen their competitive edge that was softened by an appreciating domestic wage rates as well as by the increasing trade friction with the industrially advanced countries of the European Union and the US. Emerging regional trade blocs too added difficulties to the flow of Korean overseas investment. It is in these circumstances, Korea's FDI shifted to ASEAN and China especially in the labor-intensive manufacturing sectors. Against the huge flow of Korean capital investment overseas, India's share by all reckoning was only marginal during the most of 1990s. According to Bank of Korea, total actual investment in India as of mid-1994 stood at US $9,496,000 distributed into about 30 projects. Table 5-A and 5-B show the actual size of investment done by Korean enterprises in India during the 1982-94.

Table 5-A. Korean Investment in India, 1983-1992

Name of J/V Company	Date of Permission	Item	As on June 30, 1994 Unit: US $ 1,000 Approved Equity	Amount
LVT. & Dong In Pvt.	27.05.83	Stone Good	40	120
Daeshin Denken (India)	22.12.87	Elec. Part	25	60
Chanamama Toytronyx	11.02.88	Elec. Toy	30	24
Disco Stone Indo Ltd.	31.05.89	Grave Stone	100	3600
Hyundai Indo Stone	16.11.89	Minerals	-	667
Jark Needle Mfg. Co.	22.12.89	Needle	25	156
Indo-Korea Granite	26.03.90	Stone	60	210
Samwoo-Vasavi Swabs	31.12.90	Needle	30	50
Cheil Indoa Wool Text	07.04.91	Textile	-	1250
Fishing Falcons Ltd.	11.01.91	Fishery	40	1029
Mijura Stone (P)	31.01.91	Stone Process	50	42
Shin-A Chemical (Ind)	04.05.91	Resin	21	288
Gujrat Themis Biosyn	02.03.92	Petrochemical	34.2	1000

Source: Bank of Korea quoted in Krishan (1995) Continued …

Table 5-B. Korean Investment in India, 1992-94

[40] Times of India (New Delhi), 24 February 1996.

Name of J/V Company	Date of Permission	Item	As on June 30, 1994 Unit: US $ 1,000 Approved Equity Amount	
Hanil Era Textiles	03.04.92	Textile	15	1900
Karan Woo Sin Ltd.	22.10.92	Socks	20.4	351
Mardia Samyoung Capital	11.11.92	Antena & Elec.	25	710
Buoy Dae Fishery	16.12.92	Fishery	51	15
Montana Intl Ltd.	31.12.92	Nonmetal Goods	7	200
Shin-A Chemical Pvt.	16.03.93	Petrochemical	-	91
Korin Hair Processing	19.05.93	Human Hair	100	200
Advanced Lightening	18.06.93	Halogen Lamp	50	250
Chang Yun India Ltd.	23.11.93	Auto Parts	49	147
TDT Copper Ltd.	27.12.93	Copper	36	1940
DCM Hyundai Ltd.	29.12.93	Container	37.5	1500
Tai Chonbang Textile	27.01.94	Textile	28	994
Samcor Glass Ltd.	31.01.94	Nonmetal	5	1350
Daeyu Continental Ltd.	01.02.94	Textile	20	161.29
Ellyoung Metal Prdts.	22.02.94	Assy, Nonmetal	50	320
Gujrat Themis Biosyn	01.02.94	Textile	398	469
Indocount Choongnam	27.05.94	Textile	50	3500

Source: Bank of Korea quoted in Krishan (1995)

Of this, investments that were made in the period preceding India's economic liberalization were fractional and were largely confined to trading activities. However, since liberalization Korean approvals of investments increased both in value and volume of projects. Majority of these approvals were in labor-intensive sector. Apart from labor-intensive production, Korean companies have since ventured into areas opened up after liberalization including electronics, textile, automobiles, telecommunications, financial services, shipbuilding etc. Although in the past, several small and medium-sized Korean companies were setting up joint ventures in such manufactures as halogen lamps, cordless phones, pharmaceuticals, textiles and granite processing, however since 1993 major Korean companies (Cheabol) started to plan investment in sectors such as infrastructure including power generation, highway construction, telecommunications, port development and other industrial sectors like cement and fertilizer and heavy and chemical industry, sectors hitherto reserved for India's public sector.

The forces unleashed by the liberal economic thought provided a stable ground for paradigm convergence and resultant enhanced bilateral economic cooperation. In the deregulated financial regime corporate Korea was much freer to borrow and invest. First time, many Korean companies started to consider India as a production hub to carter the growing demand for their expanding export industries. These include Daewoo, Hyundai, Samsung, LG, Ssangyong, Hanil, Exim Bank of Korea, Korea Telecom, Daelim, Dongbu, Korea Development Bank, Hyosung, Daecom, Hanwha, TDT, etc. India's national body for small-scale industries, NSIC signed an agreement in July 1995 with the Korean Small and Medium Industries Promotion Corporation (SMIPC) for encouraging cooperation at the SME

Table 6. Foreign Direct Investment Approved

Year (Jan-Dec)	Amount in Million Dollars		Percentage of ROK with total investment
	With ROK	With all countries	
1991	2.5	218.3	1.16
1992	15.1	1485.5	0.10
1993	9.6	2890.5	0.33
1994	34.1	4522.5	0.75
1995	100.1	10213.9	0.98
1996	936.6	10510.9	8.91
1997	543.3	15302.9	3.56
1998	93.3	7800.9	1.20
1999	859.6	5665.6	15.17
Total	2,596.2	58,611.0	4.70

Source: Indian Embassy Seoul

(Small and Medium Enterprises) level. Under the aegis of the agreement, an SME Investment Seminar was held in Seoul in September 1995. A South Korean SME delegation visited India in March 1996. In line with these interactions, approval of Korean investment in India has risen from US $ 70 million in 1995 to over US $ 860 million in 1999. Table 6: shows year-wise approval of Korean investment.

Since 1995, Korean investment increased remarkably and Korea's total cumulative investment in India as per FDI approvals rose from a mere US $2.5 millions in 1991 to US $2.63 billions in 2002 making it the fifth largest investor in India after the US, Mauritius, UK, and Japan, which was about 4 percent of its total FDI. Daewoo Group was the first to initiate a major investment in India by acquiring dominant equity stakes in the Daewoo-DCM facility in Uttar Pradesh, India. Confirming Korea's commitment to the Indian market, Daewoo Motors invested more than a billion dollars to expand production facility. Korean commitment to strengthen Indo-Korean ties is further reflected in Hyundai Motor's decision to set up a 100 percent subsidiary with integrated manufacturing facilities, unlike the CKD (completely knocked down) Assembly Operations by most other manufacturers. This subsidiary has brought in manufacturing and engineering expertise of world-class standards. Hyundai has achieved 80 percent indigenization level.

Among the numerous Korean investors, LG Electronics and Chemicals has invested US $100 million while the Samsung group has made an initial investment of over US $50 million in production facilities of white and brown consumer goods for the Indian market. Hyundai Construction & Engineering Corporation is in the middle of constructing a huge Techno Park in Chennai city. Its big power plant project in the Mangalore and Goa area is also progressing well. In Andhra Pradesh Korea Heavy Industries Ltd is constructing the Kondapally Thermal Power Plant and LG Polymer India Ltd. is operating a chemical plant in the port of Vishakapatnam. LG Telecommunications Ltd is trying to make inroads in the Indian telecom industry with attention to the Hyderabad area. It has contract with the mobile handsets with the Reliance Infocom. The Indian Silicon Valley housed in the state of Karnataka is definitely being a fertile place for 'hybrid' sharing of technology, information

and expertise with Korea. In Bangalore, the foundation for such a partnership has already been laid by the establishment of research centers by both LG Soft India and Samsung Soft India.

With the cutting edge in the field of construction, some of the Korean companies are involved in development projects such as highways, power plants, chemicals, petrochemicals and metro rail projects in India. Furthermore, Korea and India have also close relationship in the field of shipbuilding and energy exploitation. Korean companies like Hyundai Heavy Industry, Daewoo Shipbuilding Marine & Engineering, and Samsung Heavy Industry have contributed to the development of offshore plant project and supplied various vessels such as oil tanker carriers, cargo-ships and LNG carriers. Korea's long-term commitment to India signals Korea's move away from the past market-seeking short-term approach to the long-term production-seeking approach.

Annual two-way trade also reflects this transformed economic relationship. The annual two-way trade volume between the two countries was recorded US $2.6 billion (I changed it from changed from 2.6 billion dollars) in the year 2002. Korea's trade volume with India recorded 0.84 percent of its total trade in the year 2002, whereas India's trade with Korea posted 2.2 percent of its total trade in the fiscal year 2001-02. Korean companies like LG, Samsung and Hyundai are now household names in India. Table 7-A, 7-B and 7-C show recent spurt in trade between India and Korea.

Table 7-A. India-ROK Trade
Exports by India (All figures in US $ million)

HS Code	Major Items	Jan-June 2001	Jan-June 2002	Growth (%)
27	Mineral fuels/oil and distillation	123.475	161.573	30.85
23	Oil cake	76.077	118.417	55.65
52	Cotton	106.281	109.595	3.02
26	Iron Ore	56.348	52.611	-6.63
29	Organic Chemical	44.675	48.739	9.10
10	Cereals	34.478	21.919	-36.43
72	Iron and Steel	28.141	17.932	-36.28
84	Machinery & Mechanical Appliances	11.983	17.199	43.53
	Others	115.649	676.092	13.23

Source: Indian Export Bulletin, 2002
Korean Statistics (Imported FOB basis, Exports on CIF basis).

Table 7-B. India-ROK Trade
Export-Import by India (All figures in US $ million)

Year/Months	2000	2001	Jan-Jun 2001	Jan-Jun 2002	Growth (%)
Export	984.705	1105.631	597.107	676.092	13.23
Import	1,326.165	1,407.728	783.832	621.614	-20.70
Total	2,310.870	2513.359	1,380.939	1,297.706	-6.03
Trade Deficit	-341.460	-302.097	-186.725	54.478	129.18

Source: Indian Export Bulletin, 2002
Korean Statistics (Imported FOB basis, Exports on CIF basis).

Table 7-C. India-ROK Trade

Imports by India (All figures in US $ million)

HS Code	Major Items	Jan-June 2001	Jan-June 2002	Growth (%)
84	Machinery & Mechanical Appliances	120.692	122.982	1.90
85	Electrical Machinery & Equipment	170.665	106.147	-37.80
87	Vehicles, Railway or Tramway	46.137	60.513	31.16
39	Plastics/Rubber and Articles there of	33.605	37.860	12.66
89	Ships, boats and floating structures	146.569	37.253	-74.58
72	Iron & Steel	36.372	28.370	-22.00
29	Organic Chemicals	36.372	26.461	-27.25
54	Man-made Filaments	29.980	26.287	-12.32
	Others	163.440	175.742	7.53
	Total	783.832	621.614	-20.70

Source: Indian Export Bulletin, 2002; Korean Statistics (Imported FOB basis, Exports on CIF basis).

4.3. Dominance of Managerial Logic

Take off under Cluster-seeking Phase, 2000s~present

The vibrant nature of the relationship between the two countries got further boost with the visits of the President of Korea Roh Moo Hyun to India in 2004, followed by that of President Abdul Kalam to Korea in February 2006. During the Korean President's visit, both sides agreed to establish a "Long-term Cooperative Partnership for Peace and Prosperity", which will seek to take advantage of economic complementarities and political convergences to forge closer and more extensive cooperation in bilateral/multilateral affairs. A Treaty on Extradition and another Treaty on Mutual Legal Assistance in Criminal Matters were signed by Indian Foreign Minister and the Minister of Foreign Affairs and Trade, Korea, Mr. Ban Ki-moon in the presence of Prime Minister and President Roh. Also, both countries have decided to conclude an agreement on exemption of visa requirement for holders of diplomatic and official passports. President Roh Moo-hyun's visit confirmed Korea's new attitude to India appropriately reflected in its 'Chindia strategy'. The President's visit also provided the needed push for Korean companies to move into new business fields.

Indian President Abdul Kalam's in his visit to Korea in 2006, called for greater co-operation in the field of science and technology to harness the full potential of cordial bilateral relationship. He stressed on the fact that the Korean prowess in the field of computer hardware and the Indian software capabilities had great joint potential. President added that with the irreversible trend of regional integration in Asia, we increasingly look at Korea as a key element in our "Look East" policy and a trusted partner in our vision for a dynamic and vibrant Pan-Asian Community of peace and prosperity.

High level of political commitment to further advance Indo-Korean bilateral cooperation provided strong stimulus to business leaders of both sides. India's Tata Motors, Mumbai, signed an agreement for acquiring Daewoo Commercial Vehicles, Kunsan (South Korea) at a cost of US$ 102 million in February 2004. Having established leadership in various product categories, Korean business initiated various policies targeted to enhance its competitive edge in the price sensitive Indian market. In this period, spatial distribution of Korean

industry in India shows sings of inward-cooperation, which envisions efficiency gains in promoting Korean industrial clusters – where information sharing, components sourcing, financial & marketing coordination becomes internal, and in turn reduces transaction cost. Many scholars, particularly endogenous growth theorists, have focused on the role of knowledge spillovers and their role in generating increasing returns (Krugman 1991). A study by Audretsch and Feldman (1996) shows that even after controlling for the degree of geographic concentration in production, there is a clustering of innovative activities in industries where knowledge spillovers play a decisive role. Other recent studies have emphasized the role of universities and education institutions and public laboratories in encouraging cluster formation (Audretsch and Lehman 2005). Empirical results coming out of these studies suggest that a high level of qualified and skilled labor force and the presence of good universities is a necessary condition for regional innovation. Likewise, the study by Asheim and Coenen (2005) on Nordic clusters also emphasizes the key role played by the supply of a highly skilled labor force and access to scientific excellence. Motivated by the logic of industrial clustering, Korean business has created a regional strategy to efficiently carter market needs of a vastly diversified Indian economy. The clustering of Korean business in India has also provided excellent opportunities to SMEs to join big business bandwagon. During this period, India witnessed [a huge entry in number of vendors – is this what you mean?] attached with conglomerates as well as SMEs. About 370 Korean companies are operating in Delhi (electronics industry) Chennai (automobile industry), Pune, Maharashtra (white goods industry) and in many other areas in India. Korea's expanded business presence in various parts of India has facilitated 'take off' in their bilateral economic relations. Geographic distribution of Korean industrial activities in India can be classified under the following industrial clusters:

A. LG-Samsung-led Consumer Electronics Cluster in National Capital Region (NCR)

History of Korean business in India begins from the NCR, which offered competitive infrastructure, closeness to government, and capital city's fast expanding consumer class.[41] Spearheaded by LG electronics, located in NOIDA (New Okhla Industrial Development Authority), the NCR became the initial industrial cluster for Korean manufacturing. Now, LG Electronics India plans to emerge as a $10-billion company in 2010 by consolidating the company's market share in consumer electronics, home appliances, information technology and mobile phone markets.[42] It is also planning to make India its global export hub and target countries in SAARC (South Asian Association for Regional Cooperation), South Africa and UAE (United Arab Emirates).

The next Korean major was Samsung India Electronics Pvt. Ltd. which currently produces color televisions, color monitors, refrigerators and washing machines at its existing

[41] National Capital Region (NCR), comprised of India's capital Delhi and the adjoining areas of neighboring states of Haryana, Uttar Pradesh (UP) and Rajasthan, is emerging as the most important business centre of the country. The NCR is unique because of the intensity of population and its huge purchasing power as well as the agglomeration of businesses. NCR contributes about 4 per cent to India's gross domestic product (GDP), with tax collections contributing 15 per cent of the total, according to analysts. For further details, see http://www.scribd.com/doc/12751005/The-NCR-is-Emerging-as-the-Most-Important-Business-Centre-of-the-Country.

[42] For details, see http://www.domain-b.com/companies/companies_l/lg_electronics/20050322_turnover.html

manufacturing complex at NOIDA. Samsung India has announced to set up a 1-million mobile phone manufacturing facility in the NCR, and also plans to jack up the capacity to 20 million by 2010. A refrigerator manufacturing facility has been established by Samsung India Electronics Ltd in Noida. This refrigerator facility is Samsung's fourth overseas refrigerator manufacturing facility and the fifth in the world. This state-of-the-art, modern facility has an initial production capacity of 500,000 units per annum, which can be subsequently enhanced depending on the company's requirements.[43] Investing around US $135 million in India, Samsung India generates 1.8 per cent of the annual turnover of the South Korean parent Samsung Electronics. The Indian subsidiary also has substantial revenue from the export of refrigerators, televisions, washing machines and color monitors to the Middle East and the SAARC countries.

LG Electronics and Samsung India are also exporters of TVs, washing machines, air conditioners, color monitors, from India. Both LG and Samsung have become household name in India even beating their arch-rivals such as Sony, Hitachi and Toshiba brands in the price sensitive Indian market. Statistics show that LG and Samsung command between them a market share of 24 percent in the color television market, 40 percent in the refrigerator industry's frost free segment, 38 percent in the air- conditioning industry, and close to 55 percent in the microwave oven segment.[44]

B. Hyundai-led Auto Industry Cluster in Chennai, Tamil Nadu

Korea's initial success prompted auto major Hyundai Motors to firm-up its India Strategy. Parent Hyundai Motor company established its subsidiary Hyundai Motor India Ltd (HMIL) at Irrunattukottia, near Chennai, in 1997 with an initial investment of US $614 million. Indian plant is the largest manufacturing facility of Hyundai Motor Company outside Korea. Hyundai is the second largest and the fastest growing car manufacturer in the country, which markets over 18 variants of passenger cars across four models. The company emerged as the second largest exporter of passenger cars from the country. Hyundai Motor India Ltd, registered total sales of 489,328 vehicles in the calendar year (CY) 2008, an increase of 49.6 percent over CY 2007. In the domestic market it clocked a growth of 22.4 percent with 245387 units in 2008, while overseas sales grew by 92.5 percent, with exports accounting for 243,931 units in 2008.[45] In continuation of its commitment to provide the Indian customer with global technology, HMIL commissioned its second plant in February 2008 which produces an additional 300,000 units per annum, raising HMIL's total production capacity to 600,000 units per annum. HMIL has invested to expand capacity in line with its positioning as HMC's global export hub for compact cars. Apart from the expansion of production capacity, HMIL currently has 251 strong dealer network across India, which will be further bolstered in 2009. For the procurement of automobile parts, HMIL has 78 venders, among them 49 venders supply 59 percent of the automobile parts. These venders are located within the radius of 50 km from the HMIL in Chennai.[46]

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[43] For further details, see http://www.tribuneindia.com/2002/20021211/ncr1.htm

[44] "LG and Samsung 'Take Over' India's Consumer durables Market," *Emerging Markets Economy*, April 8, 2003, at http://findarticles.com/p/articles/mi_qn4174/is_20030408/ai_n12918145/

[45] For further details, see http://www.hyundai.co.in/aboutusn.asp?pageName=comp

[46] For the details about HMIL-led automobile cluster, see Jongsoo Park, "Foreign Direct Investment in India since 1991: A Korean Perspective", in Sushila Narasimhan and D.Y. Kim (eds.), *India and Korea: A Forging Relationship* (New Delhi: Manak, 2005).

Following the grand success of Hyundai Motors, Samsung Electronics has established its second Indian manufacturing complex in Sriperumbudur, Chennai, producing CTVs, refrigerators, air conditioners and washing machines. According to Samsung India Deputy Managing Director Ravinder Zutshi, Sriperumbudur manufacturing unit of Samsung is the "biggest" in the Indian consumer electronics industry. The manufacturing facility has a production capacity of 1.5 million units per annum for Flat TVs and 0.3 million units per annum for LCD TVs.[47] LG electronics which has major market in South India also has plans to establish manufacturing facility in this area. Not only Samsung and LG but many other Korean corporations have set-up their facilities in the region. At present, more than 120 Koran companies are located in this fast emerging Koran industrial cluster.

C. POSCO-led Steel Industry Cluster in Paradeep, Orissa

POSCO, the world's third largest steel company with over 30 million tonnes per annum (mtpa) capacity and diversified operations in 16 countries, entered India in 2005. POSCO has proposed to build a 12 million tonne steel plant at an investment of around US $12 billion with the necessary accompanying infrastructure using the Finex process which overcomes the dependence on coking coal at Jagatsinghpur District of Orissa (10 km south of Paradip Port, Orissa) A bi-national Project between India and Korea, the POSCO-India project has three main elements, consisting of the integrated steel plant, as well as the development of mines and related infrastructure.[48] During Phase I of the project, POSCO-India will construct railway sidings in the mining areas and the plant site and link it to the main railway line. The Central Government has also been carrying out the construction of railways in the Banspani-Tomka and Cuttack-Paradip sections. In accordance with the MoU, the Government of Orissa has actively considered improving accessibility by establishing road links and developing existing local roads that connect the proposed steel plant and township zone. POSCO-India will also construct access roads for efficient construction and operation. A Captive Port will be developed at the mouth of the Jatadhari River, 10 km from Paradip, for exclusive use by POSCO-India in order to secure consistent and timely movement of raw materials and products. In the sector of power, POSCO-India has plans to set up a Captive Power Plant (CPP) with an estimated capacity of 1300 MW per annum, and will install a power transmission facility to receive power from the Paradip GRIDCO substation to meet the requirements during construction period. Water for the steel plant will be sourced from the Jobra Barrage of the Mahanadi River.

POSCO intends to set up a Special Economic Zone (SEZ) in Orissa to manufacture superior steel and export 6.3 million tonnes of its production. This would help in achieving the target for exports set by India's National Steel Policy (NSP) – 2005 — annually 26 million tonnes by 2019. POSCO-India would build an "Indian township" and a "Korean township" with modern amenities to house all employees in the SEZ and the Domestic Tariff Area (DTA). Following in the footsteps of steel major POSCO, South Korean companies have evinced a keen interest in the Indian market, proposing a plethora of investment proposals worth $2.8 billion in steel, mines and the power sector. Following POSCO's announcement, around 50-60 South Korean companies have expressed their keenness to set up shop in the state. POSCO has requested the state to develop a 2000-acre patch close to the

[47] Andy Mukherjee, "Sriperumbudur seeks will to be a Shenzhen" (March 16, 2007), at http://www.livemint.com/articles/2007/03/16002659/Sriperumbudur-seeks-will-to-be.html

[48] For further details about the project, see http://posco-india.com/website/project/details.htm

proposed factory to set up downstream and ancillary industries.

D. Samsung-LG-led White Goods Cluster in Pune, Maharashtra

South Korean consumer electronic giant LG has established its mobile phone and DVD player manufacturing unit at the Ranjangaon Industrial Estate near Pune, that commenced operations in October 2004. Covering over 50 acres, the facility manufactures LCD TV, GSM Phones, Color Televisions, Air Conditioners, Refrigerators, Microwave Ovens Color Monitors. LG Electronics has given a major thrust to push its mobile handsets in the Indian market. The LG Electronics, has shifted its UK-based microwave oven manufacturing facility to its Ranjangaon plant, "Microwave ovens are not a high-value product and moving to India helps cut down cost, as India offers cheap labor and raw materials compared with that in UK," said Kwang-Ro Kim, president, South West Asia, LG Electronics Inc and managing director, LGEIL. South Korean firm Hyundai Heavy Industries has signed a memorandum of understanding (MoU) with Maharashtra Government for setting up a construction equipment plant in the state. Hyundai would invest about Rs 260 crore in the proposed plant at Chakan near Pune. The MoU was signed by Maharashtra's Principal Secretary (Industries) V.K. Jairath and Hyundai Chief Operating Officer K.H. Park in the presence of Industries Minister Ashok Chavan here. The Maharashtra government has identified the Hyundai Chakan plant as a "mega project". Also, LG's four South Korean vendors, which include companies such as Starrion, Dongli and Nanco, are also coming to Ranjangaon. They will be investing another Rs 200 crore and have been allotted 20 acres of land at the Ranjangaon MIDC. Taking clue from LG, Hyundai Electronics has plans to grow its consumer durables business in India. At present a major portion of the company's sales is contributed by its flat screen televisions and the company is likely to increase its product portfolio this year adding microwave ovens, frost-free refrigerators among other white goods. Hyundai Electronics is keen to establish its production facilities in this region.

Creation of Korean industrial clusters led to substantial deepening of industrial activities and subsequent increase in the combativeness of Korean products in India. Table 8 shows impressive growth in the volume of export-import between India and Korea during 2000s.

These upcoming Korean industrial clusters have the potential to achieve economies of scale, and emerge as competitive hubs of manufacturing in India. Among the OECD countries, Korea is the first country with which India has completed the JSG report. The Indo-Korea Joint Study Group (JSG) has recommended that India and Korea should enter into a Comprehensive Economic Partnership Agreement (CEPA) covering, among other things, Trade in goods; Trade in services; Measures for Trade Facilitation; Promotion, facilitation and liberalization of investment flows; Measures for promoting bilateral economic cooperation in identified sectors; and Other areas to be explored for furthering bilateral partnership.

Converging theoretical paradigms have paved the way for a comprehensive economic partnership envisaged under the India-Korea CEPA, which can greatly assist the two countries' to foster 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 committed to improve their investment environments by removing constraints to foreign

Table 8. India's Export-Import to Korea

(Value in US $ Millions)

Year	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
Export	764.86	1,041.68	1,827.21	2,512.76	2,853.19
%Growth		36.19	75.41	37.52	13.55
India's Total Export	63,842.55	83,535.95	103,090.54	126,262.67	162,983.90
%Growth		30.85	23.41	22.48	29.08
%Share	1.2	1.25	1.77	1.99	1.75
Import	2,829.17	3,508.77	4,563.85	4,802.26	6,040.58
%Growth		24.02	30.07	5.22	25.79
India's Total Import	78,149.11	111,517.44	149,165.73	185,604.10	251,562.26
%Growth		42.7	33.76	24.43	35.54
%Share	3.62	3.15	3.06	2.59	2.4
Total Trade	3,594.03	4,550.45	6,391.06	7,315.02	8,893.78
%Growth		26.61	40.45	14.46	21.58
India's Total Trade	141,991.66	195,053.38	252,256.27	311,866.78	414,546.15
%Growth		37.37	29.33	23.63	32.92
%Share	2.53	2.33	2.53	2.35	2.15
Trade Balance					
India's Trade Balance	-14,306.56	-27,981.49	-46,075.20	-59,341.43	-88,578.36
Exchange rate: (1US$ = Rs.)	45.9516	44.9315	44.2735	45.2849	40.241

Source: Department of Commerce, Export-import data bank, various years

Note: The country's total imports since 2000-2001 does not include import of Petroleum Products and Crude Oil

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.[49]

5. POLICY LESSONS

During the first LIEO, India-Korea bilateral economic cooperation failed to pick-up as trade liberalization was primarily dictated by the needs of imperialism, not the demands of economic fundamentals/ or the forces of demand and supply. India, a part of the British colonial-imperial system, and Korea, falling under the harsh Japanese colonialism after centuries of subordinate relations with China, could not benefit from the free trade doctrine

[49] For the larger implications of CEPA on both Korea and India, see Choong Yong Ahn, "Korea-India Economic Cooperation: Performance and Issues", paper presented at 8th Korea-India Dialogue, New Delhi, May 20-21, 2009.

promoted by imperial interests. In the intervening period between two LIEOs, which spans from post-WW I to the end of Cold War period, India-Korea bilateral cooperation suffered due to the growing capitalist-communist dichotomy. During this period, paradigm diverged so sharply that earlier era trade, investment and market linkages largely collapsed.

The second coming of LIEO ending paradigmatic dichotomy revitalizes old trade-investment links and facilitated/forged new economic interactions. By taking the advantage of existing paradigmatic convergence, both India and Korea have successfully redefined bilateral economic cooperation which already transcendent remnants of Cold War era structural barriers. Indeed, economic cooperation between the two countries has come a long way; however the legacy of differing regulatory structures/regimes in finance, industry, and bureaucracy will die hard. Analysis in this paper points to the fact that time has come to remove the remaining bottlenecks by initiating a proactive policy framework, which can enhance institutional infrastructure with clear targets. Following policy lessons can be taken into consideration to further expand bilateral economic cooperation:

1. In the absence of any significant political road blocs between India and Korea, growing trend of bilateral FTAs between other Asian economies, and following the commencement of CEPA negotiations in March 2006 conducting 12 rounds of negotiations and concluding 3 inter-sessions, it is highly desirable that India and Korea should sign CEPA. India's relative edge in the service sector and Korea's comparative advantage in the manufacturing sector makes both economies a fit case to sign the cooperation agreement. This will result in a win-win situation for both economies.[50]

2. Before global political economic and strategic interests start to alter paradigmatic convergence, India and Korea must create institutional infrastructure that can bring visionaries, regional experts and policy makers at one platform. This may include establishment of India-Korea Imminent Person's Group, coordination committees on specific industrial sectors, and the establishment of research center to analyze and manage social, political fallout of important economic decisions and policies. This can help widen the ASEAN+3 to a more open entity (Ahn, 2009).

3. Increasing number of Korean residents in and around emerging industrial clusters in India, and growing number of Indian nationals in Korea are vital resources in further deepening of mutual understanding. Consequently, people to people interaction between the two countries has increased substantially in the recent times; however there is need to institutionalize these interactions aimed at strengthening 'Track-II Diplomacy'.

4. By taking the advantage of Korea's globally competitive manufacturing prowess, India has created various Korean industrial clusters; however Korea lags behind in taking advantage of India's emergent service industry, particularly in the field of software development, English language education and financial and banking services.

5. Both governments need to study regulations governing bilateral investment, production and market access. In the wake of Asia-wide move to create Asian Economic Community, common Indo-Korean policies to rationalize regulations can positively contribute in the evolving Asian economic order.

[50] For India, signing of CEPA with Korea is crucial to achieve long-term stated developmental goals as it can provide vast Korean market for knowledge-intensive services, whereas Korea can improve market access to India for its formidable manufacturing industry. For deeper insight, see Choong Yong Ahn (2009).

6. CONCLUSION

The analysis largely conforms to the basic assumption set forth in this paper that the economics of CTPs deeply affects the structure and nature of RECs. It concludes that the script of economic interaction has always been played well on similar economic thoughts. It highlights that the diverging economic paradigms create dissimilar regulatory structure and pushes economic cooperation to take a back seat. During the Cold War period, diverging paradigms based on the capitalist-socialist dichotomy led to the fragmentation of RECs. It argues that a new economic dynamics begins with the end of Cold War era capitalist-socialist dichotomy when mainstream economic thinking started to converge around market-based system. This led to an unprecedented market revolution transforming the economies of former communist bloc. Not only transition economies adopted market-based system but many other economies started to rethink the activist role of state in the market place. Termed as second LIEO, the neo-liberal revolution paved the way for a single world economy and with it a new economic order capable of transforming the regimes of economic cooperation.

The analysis of India-Korea economic cooperation provides a convincing empirical rationale that paradigmatic convergence positively affects bilateral/multilateral economic cooperation. Exclusively 'market-seeking' bilateral economic cooperation approach between India and Korea before 1990s confirms that dissimilar regulatory structures based on the paradigm divergence, adversely constrain bilateral economic interaction. On the other hand, CTPs create matching regulatory structures of 'production-seeking' era after 1990s confirm that the economics of paradigm convergence can stimulate wider economic interaction. The take-off phase in the bilateral economic cooperation starts with the application of managerial logic to streamline Korea's 'India strategy'. This new strategy led to the 'cluster-seeking approach' which facilitated larger move led by big business and followed by Korean SMEs to establish their presence in the Indian market.

However, one should not take for granted the paradigm convergence, as currently declining global economy with shrinking demand may unleash forces that can adversely affect market-based economic systems. In order to safeguard the current momentum in the bilateral economic cooperation between India and Korea, both nations should be vigilant to protect open market system and the free flow of capital, goods and possibly labor.

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