

## **The 21<sup>st</sup> S.J.E. International Symposium**

# **Understanding Economic Growth in India: Implications for India-Korea Cooperation**

### **Guest Editor's Introduction to the Special Issue**

**Lakhwinder Singh\*, Byung-il Choi, and Keun Lee**

Economic growth performance of the Indian economy during the first decade of 21<sup>st</sup> century has changed the perception of both the scholars and global institutions regarding her role in the future of the global economy. Since then the Indian economy has been widely recognized as one of the 'Southern Engines' of the global economy. While predicting about the future of the global economy, it has been remarked that 'the world's future lies in the hands of China and India.'<sup>1</sup> This is reflected from the growing importance of the cross border flows of trade, investment, technology and human resources.

The rise of Indian economy and her growing global influence is very much rooted in the accumulated capability building in production

\*Professor, Department of Economics and Coordinator, Centre for Development Economics and Innovation Studies (CDEIS), Punjabi University, Patiala 147002, India. (Tel) +91-98-8875-5642, (Fax) +91-17-5228-3073, (Email) lakhwinder.gill@pbi.ac.in; President, Korea Economic Research Institute, Yeoui-daero, Yeongdeungpo-gu, Seoul, Korea, (Tel) 82+2-3771-0007, (E-mail) byc@keri.org; Professor, Department of Economics, Seoul National University, Daehak-dong, Gwanak-gu, Seoul, Korea, (Tel) 82+2-880-6367, (Fax) 82+2-886-4231, (E-mail) kenneth@snu.ac.kr, respectively.

<sup>1</sup> Shorrocks, A. "Foreword." In Amelia U. Santos-Raulino and Guanghua Wan (eds.) *Southern Engines of Global Growth-UNU-WIDER Studies in Development Economics*, Oxford: Oxford University Press, Vii, 2010.

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through long drawn nurturing of science, technology and innovative institutional arrangements. Apart from growing economic influence in the global economy, India has remained in the forefront in reshaping the global governance and global institutions for generating international economic order under which southern economies can participate and share the benefits of a growing global economy. India's democracy has allowed her to build interconnections both with the advanced and developing countries. The cooperation has been remained as an instrument of her legitimacy for playing a leading role in securing a space for developing countries in global governance institutional arrangements.

India's recent economic catch up experience has amply showed that the leading and dynamic sector that has emerged is the services sector. However, this is in sharp contrast to the historical growth experience and observed long term patterns of economic growth of the industrialized countries of the western world as well as of the newly industrializing countries of East Asia. The classical pattern of economic transformation has underlined unique innovation capabilities resided in the national economies. India followed non-traditional pattern of structural transformation. Therefore, understanding a recent spurt in the economic growth experience of the Indian economy and its underling processes and determinants are relevant and significant to be unraveled with a view to draw lessons for the future course of economic growth process for the other developing countries.

The sustainability of economic growth process in the increasingly interdependent world economy lies in the synergy and complementarities among the strategic partner countries. The growing coordination and cooperation between the strategic alliances will only be durable if it is mutually beneficial and rewarding to each other. The recent increasing strategic partnership between India and South Korea symbolizes this trend. To further strengthening the growing coordination and cooperation between India and South Korea, the understanding of the changing structure and dynamics of the economies of both the countries is required to identify the areas of complementarities and competitiveness.

Keeping this in view an international symposium on the theme 'Understanding Economic Growth in India: Implications for India-Korea Cooperation' was organized on September 3, 2013 by the Institute of Economic Research of the Seoul National University in collaboration with the Centre for Development Economics and Innovation Studies of Punjabi University in India as well as the Korea Economic Research

Institute (KERI). The selected five papers out of the papers presented in the symposium while following the standard refereeing process of journal are included in this volume. The common thread that emerges from these set of five papers is the identification of complementarities and the areas of cooperation between India and South Korea.

The long term economic growth experience of India and South Korea, in a comparative framework, is analyzed in a set of two papers. First, the paper by Singh and Bhargoo, while following more inclusive approach of national innovation system, has analyzed the question of why growth rate differ across India and South Korea and over time. The five decades long macroeconomic performance of the national economy and structural transformation shows the state of economic development of the Indian economy. Indian industrial and services sectors had grown steadily but services sector displayed higher level of dynamics in the first decade of 21<sup>st</sup> century. This has tilted the income structure of the Indian economy towards services sector. The service sector has remained standalone sector and could not resolve the long standing problems of mass poverty and imbalance in the balance of payments. Whereas the South Korean economic development process led by industrial sector generated dynamics in the system as a whole and this dynamics able to sustain fast economic growth and transformation of the economy. Both the countries have shown some similarities with regard to establishing and using the national innovation system and harnessing it for realizing national goals. The state has played a leading role to establish suitable institutional arrangements and prodding the economic agents of production to specialize in short cycle technology that have allowed Korea to succeed to grow boundlessly and fairly for a longer period of time. Despite India's strong science and technological institutional base, the economic agents of production remained preoccupied with long cycle western technologies and failed to industrialize her economy. However, India is deficit in industrialization and Korea can benefit if investment is made in such sectors. The Korean firms working in India can generate close linkage between the firm and public research institution and reap the benefits of innovative capability of the science and technology institutes. These are some areas emerges from the study for cooperation. Similarly, Indian ICT firms can make investment and both Korea and India will have mutual benefits. The authors have further argued that disruption of economic growth can be prevented if the state lead the markets and harness the complementarities of the state and the market.

Second, the paper by Ok, Lee and Kim has examined the recent eco-

conomic catch up experience of the Indian economy while developing an alternative explanation of leapfrogging based on Neo-Schumpeterian economics. The authors have argued that the most significant factor that makes Indian catch up unique is the higher productivity level of the service sector than the manufacturing sector. The service sector growth of the Indian economy is the export led especially of the information technology. The software IT revolution created client server system based new markets global service trade. This paradigm shift has lowered entry barriers for India IT firms such as fixed investment costs, experience and skill gaps. India's country specific advantages further decreased the costs of entry for the ICT firms. The paper based on empirical and theoretical analysis argued that Indian IT services firms able to secure global competitive advantage through generating strategic and organizational innovations.

The other two papers in this issue have examined the relationship between two economies through investment and trade. Gill has examined the process of South Korean foreign direct investment in India. The author has reviewed the theoretical and empirical literature to identify the uniqueness of the behavior of the developing countries' firms. Public policy which is largely a neglected factor in this kind of analysis has been brought out clearly in this paper. An important finding that emerges from the empirical findings is that South Korean FDI in India comes in areas where Korea has competitive advantage and Indian economy direly needs that investment. The econometric analysis provides evidence regarding the two factors, that is, large Indian market and low wage cost that derives Korean investment in India. However, the author argues that liberal policy regime do play an important role in attracting foreign investment.

Kim and Lee have investigated the relationship between trade and investment between India and South Korea covering the period 1983-2012. The multivariate estimates for trade and FDI based on vector error correction model shows the unidirectional link between trade and FDI. The empirical result clearly brings out that the trade led investment of South Korea to India. However, an important finding that emerges from the econometric model is that the trade and FDI neither affects income nor affects exchange rate in both the countries. In fact this finding is counter intuitive. However, the authors have added the caveat that the level of trade and FDI from South Korea to India is so small to generate any dynamic spillovers effect.

Finally, in his paper, Motohashi examined another niche market which

is growing by leaps and bounds in India, that is, the foreign innovation investment. The author has argued that Indian science and technology institutions and universities are of very high quality. India has developed high quality, but low cost scientific manpower that has attracted multinational companies to open R&D centers in India. He has examined the nature and character of R&D centers located by multinational companies from various developed countries in India. A significant finding that has emerged from the analysis is that the multinational R&D centers located in India has increased product innovations developed locally for local market due to the expansion of the India market. The author suggested that multinational firms should reduce head quarters' control to attract talent for the development of autonomous innovation organizations. This will help in generating linkage between high quality Indian research institutions and the multinational R&D centers located in India. This kind of synergy will be mutually beneficial.

The papers in this issue bring out important facets of the growing Indian economy. An in-depth analysis of the economic growth processes of the India economy both macro and micro dimensions show ample scope for economic cooperation between India and South Korea. These studies will be expected to go a long way in initiating debate on the underling processes of economic catch up of India.