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## TRADE LIBERALIZATION: INDIA AND SOUTH KOREA

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### INTRODUCTION:

In the past half-century, especially the last two decades, the global economy has witnessed a significant shift towards free trade and financial transactions. This trend has been driven by international institutions like the GATT (now succeeded by the WTO), the International Monetary Fund (IMF), and the World Bank. These organizations have played a key role in promoting trade liberalization by reducing barriers like tariffs and quotas, while also working to establish a more stable and open international financial system.<sup>1</sup> It was observed in developing countries such as Bangladesh that trade liberalization and economic deregulation had reduced poverty and hence the concept of Trade liberalization plays an important role in uplifting developing countries.<sup>2</sup>

Trading among countries is a widely accepted economic concept. Changes in trade policy may have redistributive effects if the economy as a whole benefit from more open trade. However, this may not provide much consolation to individuals who are negatively impacted. When trade barriers are lowered, it shakes things up for an economy. This 'adjustment' is unavoidable, but economists believe it's a sine qua non. Trade liberalization essentially forces a reshuffling of resources, moving them away from less efficient sectors and towards areas where a country has a comparative advantage. In the long run, this reallocation should lead to a more productive and efficient economy. India and the Republic of Korea are two major democracies in Asia. Both countries had to struggle for their long-awaited liberation. A trend analysis states that trade liberalization had no impact on the economy as in India the rate initially drops and then increases after 1972. Korea commerce opens at a fast rate until 1972 and then decelerates.<sup>3</sup> The

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<sup>1</sup> Santos-Paulino, A., & Thirlwall, A. P. (2004). Trade Liberalisation and Economic Performance in Developing Countries: Introduction. *The Economic Journal*, 114(493), F1–F3. (Accessed on March 21, 2024) <http://www.jstor.org/stable/3590107>

<sup>2</sup> Sadiq Ahmed, & Sattar, Z. (2004). Impact of Trade Liberalisation: Looking at the Evidence. *Economic and Political Weekly*, 39(36), 4059–4067. (Accessed on March 21, 2024) <http://www.jstor.org/stable/4415507>

<sup>3</sup> Prabirjit Sarkar, & Brototi Bhattacharyya. (2005). Trade Liberalisation and Growth: Case Studies of India and Korea. *Economic and Political Weekly*, 40(53), 5635–5641. (Accessed on March 21, 2024) <http://www.jstor.org/stable/4417618>

main goal of trade liberalization is to boost economic growth. It aims to achieve this by capturing two types of gains: static gains from a more efficient allocation of resources, and dynamic gains from technological progress and knowledge transfer.

Trade liberalization works by removing barriers that hinder trade, such as tariffs or quotas. This creates a more competitive environment, encouraging businesses to become more efficient and innovative. Additionally, trade liberalization allows for a freer flow of knowledge and investment, which can further accelerate technological advancements and capital accumulation. In theory, this all leads to faster economic growth through increased exports and imports.<sup>4</sup> However, the impact on the trade balance (i.e. Exports vs. Imports) and the balance of payments (i.e. The flow of money in and out of a country) is uncertain. It depends on how much exports and imports rise compared to each other, and how prices of traded goods change. While trade liberalization can boost growth through increased efficiency (i.e. The Supply side), a worsening balance of payments (i.e. The Demand side) could hinder this growth if the deficits become unsustainable.<sup>5</sup> India and South Korea are moving beyond their economic ties and building a stronger relationship economically as well as in terms of politics. This newfound partnership stems from shared experiences of national division and a wary relationship with China, the rising regional power. Both countries are navigating how to engage with China's growing influence. India has been strengthening ties with Southeast and Northeast Asian nations, potentially as a hedge against China's future actions. South Korea, geographically limited and situated between China and Japan, needs to diversify its strategic options. India's potential as a partner is attractive due to their shared strategic concerns and economic ties.<sup>6</sup>

## THE DANCE OF THE TIGERS: ECONOMIES OF INDIA AND SOUTH KOREA:

India and South Korea have been major players in the worldwide shift towards trade liberalization over the last few decades. After adopting inward-looking economic policies for a while, both countries embraced liberalization with incredible outcomes. As a middle power, a multilateralist, and an international bridge builder, South Korea has grown in stature around the world. The nation has successfully built a network of free trade agreements and attained

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<sup>4</sup> Winters, L. A. (2004). Trade Liberalisation and Economic Performance: An Overview. *The Economic Journal*, 114(493), F4–F21. (Accessed on March 21, 2024) <http://www.jstor.org/stable/3590108>

<sup>5</sup> Santos-Paulino, A., & Thirlwall, A. P. (2004). The Impact of Trade Liberalisation on Exports, Imports and the Balance of Payments of Developing Countries. *The Economic Journal*, 114(493), F50–F72. (Accessed on March 21, 2024) <http://www.jstor.org/stable/3590110>

<sup>6</sup> Brewster, D. (2010). India's Developing Relationship with South Korea: A Useful Friend in East Asia. *Asian Survey*, 50(2), 402–425. (Accessed on March 21, 2024) <https://doi.org/10.1525/as.2010.50.2.402>

economic dominance at the same time. Nonetheless, a growing number of South Korean officials interpret their nation's position as a medium power as actually existing between two superpowers.<sup>7</sup>

Following an economic crisis in 1991, India started down the route toward trade liberalization. Previous to this, India had protectionist policies in place to support its own industries. On the other hand, these policies stunted growth and caused inefficiency. India implemented a number economic reforms as a result of the crisis, including lowering tariffs, easing limitations on foreign investment, and streamlining trade processes. Exports increased dramatically as a result of this deregulation, especially in industries like information technology and textiles. India had fast economic expansion as a result of its big and skilled workforce drawing in global investment.<sup>8</sup>

The tale of South Korea is one of remarkable growth propelled by exports. After the Korean War devastated much of the world, the government decided to industrialize with an eye toward exports. This required significant government intervention, with funds and infrastructure being provided to particular industries for development. South Korea concentrated on industries where they could take use of economies of scale and their trained labor force, such as shipbuilding, electronics, and autos. This tactic helped South Korea enter the developed world along with trade liberalization initiatives including tariff reductions and export promotion plans.<sup>9</sup> South Korea and India's trade liberalization efforts are not isolated instances.

Growing bilateral trade connections have been beneficial to both nations. 2010 saw the two countries sign the Comprehensive Economic Cooperation Agreement (CEPA), which increased trade even more. By removing tariffs on a large number of items, this agreement promoted increased economic integration. Furthermore, important facets of their economic cooperation have included knowledge sharing and cooperation in fields like infrastructure development and technology. Trade liberalization has posed difficulties in addition to its many positive effects.

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<sup>7</sup> Carolin Wefer, (2021). Building On the Middle: Diversifying South Korea's Foreign Policy Narrative and Economic Ties. Kei Special Report No.6 (Accessed on March 21, 2024) [https://keia.org/wp-content/uploads/2021/11/KEI\\_SMA\\_Carolin-Wefer.pdf](https://keia.org/wp-content/uploads/2021/11/KEI_SMA_Carolin-Wefer.pdf)

<sup>8</sup> Lee, J. (2013). India - South Korea Strategic Partnership. Institute of Peace and Conflict Studies. (Accessed on March 21, 2024) <http://www.jstor.org/stable/resrep09286>

<sup>9</sup> Botto, K. (2021). South Korea-India Relations. In South Korea Beyond Northeast Asia: How Seoul Is Deepening Ties with India and ASEAN (pp. 28-36). Carnegie Endowment for International Peace. (Accessed on March 21, 2024) <http://www.jstor.org/stable/resrep37768.10>

There are worries in India regarding employment losses in specific industries as a result of heightened import competition.<sup>10</sup>

In addition, maintaining fair competition between domestic businesses and well-established international competitors continues to be a crucial concern. Maintaining a competitive edge in a worldwide economy is another difficulty South Korea faces, particularly with rising labor prices. Furthermore, continued negotiations are still needed to guarantee a fair and balanced commercial relationship between the two countries. The trade liberalization instances of South Korea and India could benefit developing economies many lessons. Sustained growth may result from embracing inclusiveness and resolving associated difficulties.

## **CONCLUSION:**

Trade liberalization has had a major impact on the economic ecosystems of South Korea and India. Their bilateral trade relationship has developed since trade restrictions were removed, leading to an increase in trade volume, a greater range of products, and eventually economic growth for both countries. India's exports have increased dramatically as a result of its improved access to the Korean market, especially in industries like information technology and textiles. Conversely, South Korea has benefited from lower import costs from India, which has made it possible for them to strategically direct resources into high-value exports. Liberalization of trade has also promoted an atmosphere that is friendlier to foreign investment. The transfer of important information and experience in fields like technology and infrastructure development has also been made easier by this cross-border investment.

The liberalization of trade between South Korea and India has been successful, however sustainability must be embraced for longevity. The possibility exists for both countries to collaborate on the creation and application of clean technology, the encouragement of ethical manufacturing methods, and the maintenance of just labor standards across their supply chains. Knowledge exchange in fields like sustainable agriculture can help both economies even more. Incentives that are distributed unevenly may make social inequality worse. Common sustainability standards and efficient monitoring systems are essential to addressing these

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<sup>10</sup> PANNEERSELVAM, P. (2016). ADVANCING INDIA'S RELATIONSHIP WITH JAPAN AND SOUTH KOREA: QUEST FOR MIDDLE-POWER COOPERATION. Institute of Peace and Conflict Studies. (Accessed on March 24, 2024) <http://www.jstor.org/stable/resrep08992>

issues. India and South Korea can make sure that their economic partnership contributes to a sustainable future by placing a high priority on accountability and transparency.

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