India-Korea CEPA: Potentials and Realities

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Abstract
The present study investigates the potential economic impacts of India-Korea CEPA using trade indices, partial equilibrium and computable general equilibrium. Two hypothetical tariff liberalization scenarios are examined in GTAP model focusing on short run and long run and one hypothetical scenario is examined in SMART model. Using the partial equilibrium WITS-SMART model, we tried to assess the impact of liberalization under the CEPAAs, assuming full liberalization of imports from the India into Korea and vice versa. We more specifically looked at consumer surplus, trade creation and diversion results as well as the impact on tariff revenues. Using GTAP model, it is a good instrument for identifying the winning and losing countries and sectors under policy changes. GTAP can be used to capture effects on output mix, factor usage, trade effects and resultant welfare distribution between countries as a result of changing trade policies at the country, bilateral, regional and multilateral levels. Finally, India-Korea sensitive list has been evaluated in the light of findings. In addition, bilateral investment flows has also been discussed. The GTAP results reveal that both India and Korea gains in terms of welfare. Sectoral output and employment effects are mixed. Both countries are gaining significantly in their bilateral trade flows. The SSA results reveal that the CGE results are robust. Using partial equilibrium analysis, SMART model indicates positive effect on consumer surplus and on other trade flows. However, tariff revenues will be reduced by this agreement. India is expected to loose US$-768.37 million while Korea will loose by US$ -1232.6 million. The study recommends the following in light of our findings. First, in order to tamper the losses in budget revenues, countries should seek to diversify their tax base. Secondly, if the consumers are to truly benefit of EPAs, the national capacity to limit rent capture by importers and exporters should be strengthened.

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