

Potential Implications of Regional Comprehensive Economic Partnership to India-South Korea Bilateral Trade Ties

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I. Introduction

India and South Korea are the third and fourth largest economies in Asia. Both countries have strong economic and trade relations based on their shared strategic goals, common interests, and democratic principles. Bilateral trade between the two countries has expanded after the implementation of the Comprehensive Economic Partnership Agreement (CEPA) in 2010. The total volume of bilateral trade reached US\$ 21.4 billion from US\$ 13.5 billion in 2010 reflecting a compounded annual growth (CAGR) of 5.93 percent. Trade is considered as one of the most effective instruments to expand the bilateral economic and strategic partnership between the two countries. In 2018, heads of both countries set an ambitious target of bilateral trade of US\$50 billion by 2030 (Hindu Business Line, 2018).

India and South Korea are also party to a mega regional bloc, the Regional Comprehensive Economic Partnership (RCEP), which includes sixteen countries – the ten members of the Association of Southeast Asian Nations (Brunei-Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore,

Thailand and Viet Nam), Australia, China, India, Japan, Korea, and New Zealand. The RCEP represents 40 percent of world population and 30 percent of world GDP. It also accounts for 29 percent of world trade and 26 percent of world foreign direct investment (FDI) inflows. The objective of the RCEP is to strengthen trade and investment linkages, thereby contributing to the social and economic development of the member countries. Negotiations on the RCEP concluded on 4th November this year at the ASEAN summit at Bangkok, with fifteen member countries agreeing to start the legal text-based negotiations to finalize the agreement. India refused to join the agreement on the ground that its outstanding and domestic concerns are not adequately addressed. But, it will continue discussions with the member countries of the RCEP to explore possible options to join it.

The RCEP will be one of the largest agreements for the Asia-Pacific region and is likely to bring some fundamental changes to the nature of trade that is taking place under various bilateral and regional trade agreements. Against this backdrop, this policy paper tries to analyze the potential impact of the RCEP on the India-South Korea CEPA. The results of this analysis will depend on the scope and depth of

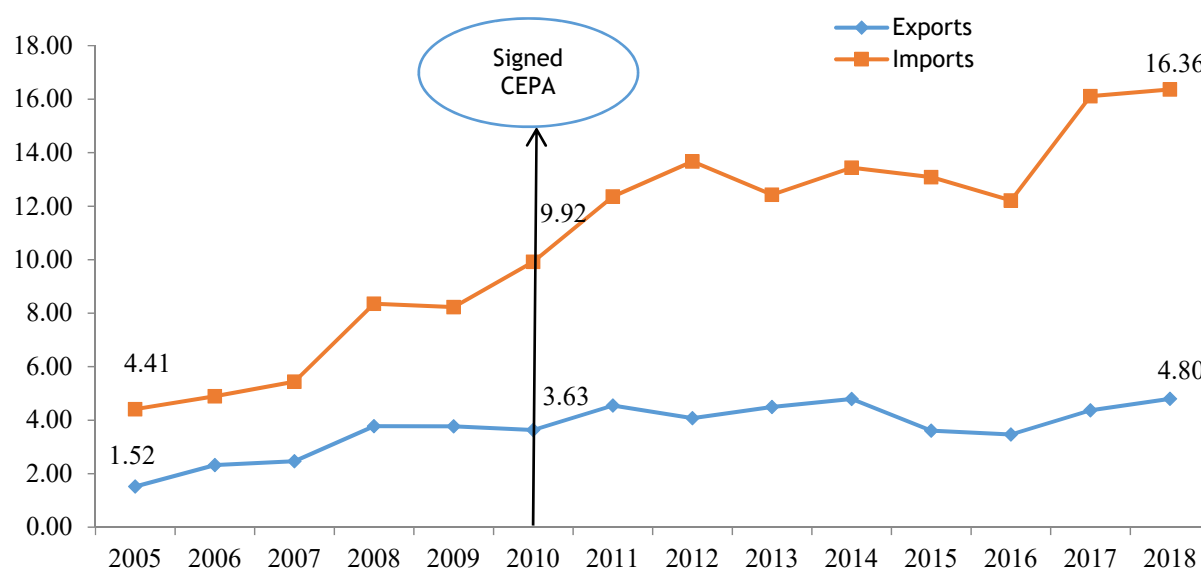
provisions of the proposed RCEP, which in turn could also impact the existing bilateral trade flows.

II. Bilateral Trade Flows

Bilateral trade between India and South Korea has been increasing since the implementation

of the CEPA. Figure 1 demonstrates the trend of exports and imports in pre- and post-CEPA. India's exports to South Korea were US\$1.52 billion in 2005 and increased to US\$4.80 billion in 2018. Imports from South Korea in the same period have increased from US\$4.41 billion to US\$16.36 billion. The overall bilateral trade equilibrium is unfavorable for India and its trade deficit has also increased from US\$ 2.24 in 2005 to US\$ 11.56 billion in 2018.

Figure 1. India-South Korea Bilateral Trade (USD billion)



Source: ITC Trade Map, 2019

The nature of trade between India and South Korea offers some crucial observations (See Annex 1) India's top five exports contribute 40 percent to the total exports. India's top five exports include light oils and preparations, aluminium (not alloyed), medium oils and preparations, ferro-chromium, unwrought zinc (not alloyed), oilcake and other solid residues. India's exports are highly concentrated in a few product categories and most of these are in raw material and intermediate products. On the

other hand, India's imports from South Korea include medium oils and preparations, parts of telephone sets, electronic integrated circuits, parts and accessories, articles of goldsmith, base station and apparatus and machines (See Annex 2). The sustained increase in India's trade deficit with South Korea is because of the nature of this trade. India's exports to South Korea are primary and intermediate products while its imports constitute a large number of

highly technology-intensive intermediate products. To put it in value chain perspective, India is an upstream supplier of raw material and intermediate products and South Korea is also an upstream supplier of intermediate products and exports in advanced and sophisticated technology products.

III. Comparing Provisions of the CEPA and the Proposed RCEP

Regional and bilateral trade agreements have emerged as an “irreversible feature” of the global trading system. The rapid expansion of RTAs and bilateral trade agreements as share of preferential trade has created many overlapping agreements (Bhagwati, 1995 & 2008). This explains the nature of crisscrossing trade agreements containing overlapping provisions between different and often overlapping trade agreements (Baldwin, 2006). The multiple bilateral, regional and multilateral trade agreements with different provisions pose significant regulatory and operational challenges and also increase the cost of doing international trade.

The genesis of the RCEP is based on the structure of the existing ASEAN+1 FTA and aims to be a much more comprehensive trade agreement (ASEAN Secretariat, 2012). The RCEP is

likely to serve as an umbrella agreement for many existing trade agreements of the Asia-Pacific region. The “Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership” states that the RCEP will be in line with the ASEAN+1 FTA in terms of conditions of existing bilateral/plurilateral FTAs between and among the participating countries. However, it does not provide adequate explanation on how the RCEP will treat the bilateral FTAs outside the ASEAN+1 FTA. This makes a compelling case to understand the potential impact of the RCEP on the CEPA. Table 1 analyses the coverage, depth and scope of the proposed RCEP vis a vis the CEPA. The RCEP has 20 chapters while the CEPA has only 11 chapters. This indicates that the RCEP is a much more comprehensive agreement compared to the CEPA. A number of 21st century trade provisions relating to Standards, Technical Regulations and Conformity Assessment Procedures, Small and Medium Enterprises, Economic and Technical Cooperation, Institutional Provisions, Government Procurement, Electronic Commerce, Trade Remedies, Sanitary and Phytosanitary Measures and Intellectual Property are part of the RCEP but not covered under the CEPA. Inclusion of these provisions in the RCEP will provide greater scope to India and South Korea to deal with disguised trade barriers at a regional level rather bilaterally.

Table 1. Coverage of Provisions in India-South Korea CEPA and RCEP

S. No	Key Provisions	India-South Korea CEPA	RCEP*
1	Trade in Goods	Yes	Yes
2	Trade in Services	Yes	Yes
3	Trade Facilitation & Customs Cooperation	Yes	Yes
4	Telecommunication	Yes	Yes
5	Investment	Yes	Yes
6	Competition	Yes	Yes
7	Bilateral Cooperation	Yes	No
8	Dispute Settlement	Yes	Yes
9	Audio Visual Cooperation	Yes	No

10	Movement of Natural Person	Yes	Yes
11	Rules of Origin (Product Specific)	Yes	Yes
12	Technical Regulations and Conformity Assessment Procedures	No	Yes
13	Small and Medium Enterprises	No	Yes
14	Economic and Technical Cooperation	No	Yes
15	Institutional Provisions	No	Yes
16	Government Procurement	No	Yes
17	Electronic Commerce	No	Yes
18	Trade Remedies	No	Yes
19	Sanitary and Phytosanitary Measures	No	Yes
20	Intellectual Property	Yes	Yes

Source: Text of India South Korea CEPA, 2009 and *Joint Leaders Statement Declaration of RCEP countries, 2019

Tariff reduction commitments under the CEPA and RCEP differ significantly. The RCEP proposes tariff reduction on 90 percent of tariff lines in line with ASEAN+1 FTAs, while in the CEPA tariff reduction commitments are on 77.8 percent of all tariff lines (ASEAN Trade Centre. 2016, RIS.2015). Six percent of tariff lines are in sensitive categories, and the remaining sixteen percent of tariff lines are in the exclusion list under the India-South Korea CEPA. Tariff liberalization commitments are comprehensive in the RCEP in comparison to the CEPA. The RCEP contains a chapter on Customs Procedures and Trade Facilitation (CPTF) that underpins the importance of creating global and regional supply chains through effective trade facilitation and customs procedures, in order to provide a greater predictability, consistency and transparency in international trade operations. The RCEP uses the template of the World Trade Organization's (WTO) Trade Facilitation Agreement (TFA) to negotiate rules on customs procedures and trade facilitation. It advances from existing trade facilitation measures negotiated under different bilateral and regional trade agreements. The WTO TFA (refer to more or less similar provisions of the RCEP on trade facilitation) contains 12 articles and 48 technical measures while the CEPA has 10 articles and relevant technical measures. A fundamental

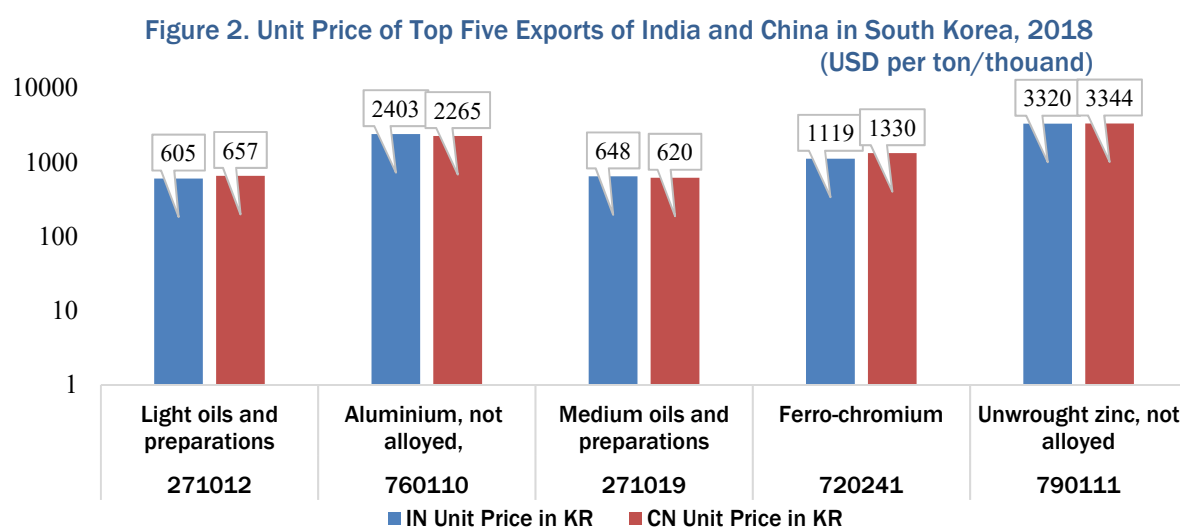
difference between the WTO TFA and trade facilitation provision of the CEPA is not only with coverage but also the depth and legal obligations. Article 5.4 of the CEPA related to risk management contains a combined "binding and best endeavor" clause while the corresponding is a "binding" clause in Article 4 of the TFA. Likewise, Article 5.5 of the CEPA is binding in nature and underpins the importance of simplified customs procedures for efficient release of goods in order to facilitate trade. However, it does not deal with perishable goods. Article 7 of the TFA on the release and clearance of goods lays a "binding clause" and prioritizes the quick clearance of perishable nature of goods.

IV. Likely Implications of RCEP to India-South Korea Bilateral Trade

It is challenging to examine the potential impact of the RCEP on bilateral trade between India and South Korea. This is because of two reasons: first, the scheduled tariff commitments of the RCEP are yet to come into public domain; and second, as discussed in the previous section, the coverage, depth and scope of the agreement are comprehensive vis a vis the CEPA. Nevertheless, existing literature help us to understand

the impact of regional trade agreements which broadly focus on: a) the impact on member countries; and b) the impact on the rest of the world. The potential impact of a mega trade pact results in the form of trade creation and trade diversion and determine the formation of a “stumbling bloc or building bloc” for global trade liberalization (Bhagwati and Panagariya 1996; Panagariya 1996, 1998; Robinson and Thierfelder 1999). Reduction in import tariffs through trade agreements impacts the price elasticity of products and creates possible opportunities of both trade creation and trade diversion. However, it is not always the case that lower unit price will improve price competitiveness, which in turn will improve the price competitiveness and increase exports. Other factors such as quality of trade products, trade policies and buyer-seller relations are also key determinants in this context.

Figure 2 compares the unit price of the top five exports of India and China in South Korea.¹ It demonstrates that India and China compete in top product items under their existing bilateral trade agreements. Currently, import tariffs in South Korea are zero for India while for China are 3 percent for light oil and preparation; 1 percent for aluminum, not alloyed; 5 percent for medium oil preparations; 2 percent for ferro chromium; 3 percent for unwrought zinc, not alloyed, respectively (Annex 3). The prevailing tariff structure indicates that the elimination of import duties under the RCEP may improve the competitiveness of China in certain product categories where it is now relatively less price competitive. These product categories are light oils and preparations, ferro-chromium and unwrought zinc (not alloyed). India’s exports in these product categories are likely to face price competition in South Korea.

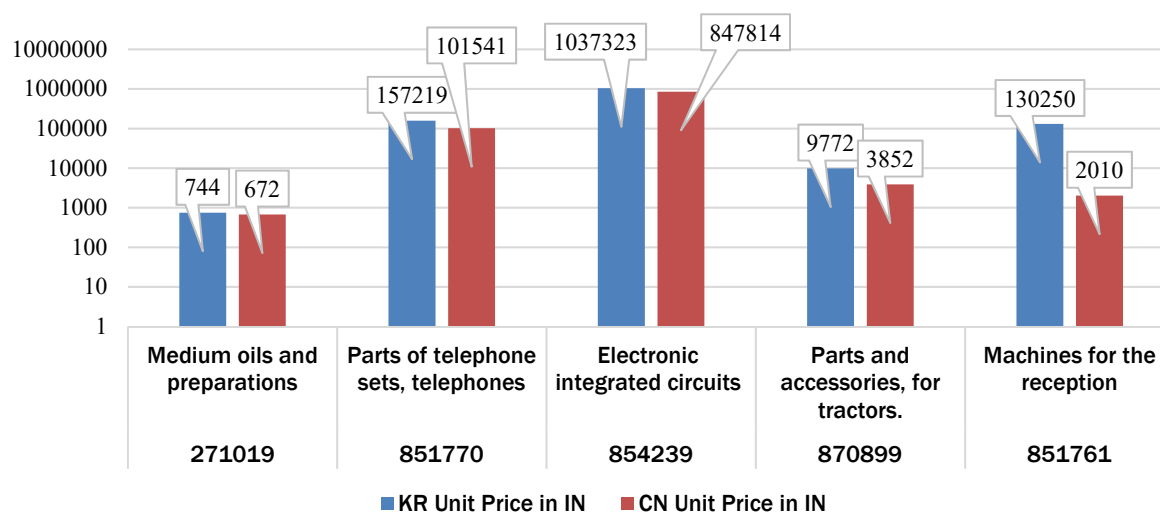


¹ India and South Korea are anchors to the unit price analysis of their bilateral trade. Therefore, China’s unit price of exports is displayed in the context of bilateral trade between India and South Korea.

Figure 3 compares the unit price of top export product items of South Korea and China to India. It shows that China is relatively competitive *vis a vis* South Korea in the Indian market despite the fact that it does not have a bilateral trade agreement with India. Import tariffs on Chinese products in India are 10 percent for medium oil and preparations; 15 percent for parts and telephone sets; 7.5 percent for electronic integrated circuits; 15 percent for parts and accessories for tractors and 20 percent for machines (Annex 4). On the other hand, import tariffs on these products in India range between 0 to 5 percent for South Korea. Despite low import tariffs, the unit price of South Korean top

exported products is high *vis a vis* China. It is difficult to identify the specific reasons behind the high unit price of South Korea without undertaking a comprehensive product and firm level analysis. However, the economic complexity index² (ECI) provides some insights. The ECI ranked South Korea at 6th and China at 33th positions out of 126 on the ECI with an index value of 1.78 and 0.60 respectively. This means that South Korea's exports were high value, technology-intensive sophisticated products while China's exports are relatively low-value products to the world. This could be considered as one of the key factors behind the high unit price of South Korea's exported products to India.

Figure 3. Unit Price of Top Five Products of South Korea and China in India, 2018
(USD per ton/thousand)



HSN 851761 (Machines for the reception) values are in unit

2 The economic complexity index coined by Hausmann et al. (2011), Simoes and Hidalgo (2011) based on the premise that countries differ in the amount of productive knowledge and tend to produce and export different products. Please refer to

Hausmann, Ricardo, et al. 2014. *The atlas of economic complexity: Mapping paths to prosperity*. MIT Press.

V. Conclusion

This policy paper is an attempt to understand the potential impact of the RCEP on the existing CEPA between India and South Korea. It explains that bilateral trade between India and South Korea has increased after the implementation of the CEPA and this has also contributed to an increase in India's trade deficit. The nature of trade reveals that South Korean exports to India include highly technology-intensive products and are well diversified across product categories. On the other hand, India's exports to South Korea are raw material and low value intermediate products and its top five products contribute approximately 40 percent to the total exports to South Korea, reflecting a greater concentration of the export basket.

The RCEP is a much more comprehensive agreement both in terms of coverage and depth. It contains new areas of negotiations such as standards, technical barriers to trade, conformity standards, and E-commerce. These areas are not negotiated in the CEPA. In addition, the legally binding nature of the RCEP and CEPA are different as the latter contains a combination of "best endeavor," while the former places more emphasis on the binding clause rather than best endeavor. The potential impact of the RCEP on the bilateral trade of India and South Korea indicates that trade liberalization under the RCEP may have some impact on the exports of India to South Korea. On the contrary, South Korea's exports to India are unlikely to face price competitiveness challenges from China due to its highly differentiated, technology-intensive and quality exports. However, it is important to mention that such unit price analysis only provides anecdotal evidence and requires further empirical investigation to assess the impact on bilateral trade between India and South Korea. **KIEP**

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Annex 1. India's Exports to South Korea

India's Exports to South Korea (USD in million)								
HSN	Product labels	2014	2015	2016	2017	2018	Average Exports for last five years	Share
271012	Light oils and preparations	597.54	348.72	487.74	657.33	695.73	557.41	13.25
760110	Aluminium, not alloyed,	467.67	492.66	507.48	720.71	487.35	535.17	12.72
271019	Medium oils and preparations	985.00	101.83	66.51	93.56	284.57	306.29	7.28
720241	Ferro-chromium	169.87	165.44	143.33	244.55	262.50	197.14	4.68
790111	Unwrought zinc, not alloyed	53.48	116.52	63.92	140.93	151.25	105.22	2.50
230649	Oilcake and other solid residues	83.11	88.96	44.66	36.90	90.39	68.80	1.64
740311	Copper, refined,	0.00	1.81	0.00	137.72	131.17	54.14	1.29
780110	Unwrought lead,	38.42	24.58	15.38	50.56	132.98	52.38	1.24
903289	Regulating or controlling instruments	57.32	79.56	68.46	30.08	25.27	52.14	1.24
120740	Sesamum seeds	82.25	54.25	37.35	37.50	41.01	50.47	1.20
710239	Diamonds, worked,	42.76	42.28	50.13	53.25	53.35	48.35	1.15
290124	Buta-1,3-diene	24.58	63.39	21.01	63.58	38.59	42.23	1.00
540233	Textured filament yarn of polyester	44.05	39.40	41.40	37.38	43.32	41.11	0.98
271099	Waste oils containing mainly petroleum	72.36	45.38	44.80	0.29	0.00	32.56	0.77
240120	Tobacco, partly or wholly	32.67	25.42	38.62	34.43	28.11	31.85	0.76
Total exports		4794.9	3609.6	3465	4370.1	4799.9	4208.6	

Source: ITC Trade Map, 2019

Annex 2. India's Imports from South Korea

HSN	Product labels	India's Imports from South Korea (USD million)					Average Exports for last five years	Share
		2014	2015	2016	2017	2018		
271019	Medium oils and preparations	863.19	517.76	515.70	600.27	800.54	659.49	4.63
851770	Parts of telephone sets	591.88	1133.35	469.39	436.11	342.86	594.72	4.18
854239	Electronic integrated circuits	129.56	198.55	283.68	389.90	659.04	332.15	2.33
870899	Parts and accessories	302.68	292.14	285.38	315.74	318.15	302.82	2.13
711419	Articles of goldsmiths	0.00	0.00	28.75	1347.26	0.04	275.21	1.93
851761	Base stations of apparatus	26.78	0.00	435.57	868.38	0.21	266.19	1.87
851762	Machines for the reception	481.07	236.31	38.65	359.73	169.50	257.05	1.80
720838	Flat-rolled products of iron or	144.43	200.95	193.74	215.50	288.37	208.60	1.46
890800	Vessels and other floating structures	102.49	103.90	164.52	247.41	315.70	186.80	1.31
790111	Unwrought zinc, not alloyed	50.57	91.61	259.83	227.24	282.13	182.28	1.28
291736	Terephthalic acid and its salts	478.87	136.29	53.82	99.39	100.25	173.72	1.22
870840	Gear boxes and parts thereof	117.96	135.21	173.07	220.49	208.31	171.01	1.20
720917	Flat-rolled products of iron	295.92	189.87	134.50	78.31	136.95	167.11	1.17
721049	Flat-rolled products of	139.45	118.45	148.23	198.74	225.96	166.17	1.17
843149	Parts of machinery of	115.29	132.79	167.69	169.25	222.87	161.58	1.13
Total Exports		13437.25	13087.66	12214.05	16111.06	16363.83	14242.77	

Source: ITC Trade Map, 2019

Annex 3. Indian Exports to South Korea

Indian Exports to South Korea (USD in thousand)						
HSN	Product labels	2018 (USD thousand)	Quantity (ton)	India's Unit Price for South Korea (per ton)	India's World Unit Price (USD per ton)	Import Tariffs in Korea
271012	Light oils and preparations	695730	1149423	605	666	0
760110	Aluminium, not alloyed,	487350	202845	2403	2436	0
271019	Medium oils and preparations	284570	439281	648	642	0
720241	Ferro-chromium	262500	234654	1119	1145	0
790111	Unwrought zinc, not alloyed	151250	45552	3320	3294	0
South Korea exports to South Korea (USD in thousand)						
HSN	Product labels	2018 (USD thousand)	Quantity (ton)	China Unit Price for South Korea (per ton)	China 's world Unit Price (USD per ton)	Import Tariffs in Korea
271012	Light oils and preparations	80347	122242	657	653	3
760110	Aluminium, not alloyed,	8125	3587	2265	2140	1
271019	Medium oils and preparations	1585626	2556227	620	600	5
720241	Ferro-chromium	2657	1997	1330	1195	2
790111	Unwrought zinc, not alloyed	1000	299	3344	3059	3

Source: Author Calculation based on ITC Trade map database

Annex 4. South Korean Exports to India

South Korean Exports to India (USD in thousand)						
HSN	Product labels	2018 (USD thousand)	Quantity (ton)	Korea Unit Price for India (USD per ton)	Korea World Unit Price (USD per ton)	Import Tariffs in India
271019	Medium oils and preparations	723200	972376	744	662	5
851770	Parts of telephone sets, telephones f or cellular networks	118229	752	157219	303725	0
854239	Electronic integrated circuits	32157	31	1037323	1810464	0
870899	Parts and accessories, for tractors.	346845	35495	9772	8261	5
851761	Machines for the reception	100032	768	130250	183115	0
Chinese Exports to India (USD in thousand)						
HSN	Product labels	2018 (USD thousand)	Quantity (ton)	China Unit Price for India (USD per ton)	China World Unit Price (USD per ton)	Import Tariffs in India
271019	Medium oils and preparations	43220	64317	672	600	
851770	Parts of telephone sets, telephones f or cellular networks	6018722	59274	101541	109202	15
854239	Electronic integrated circuits	296735	350	847814	753160	7.5
870899	Parts and accessories, for tractors.	97453	25302	3852	4797	15
851761	Machines for the reception	228958	113937	2010	2233	20

Source: Author Calculation based on ITC Trade map database

Note: HSN 851761 (Machines for the reception) values are in units.