KIEP WORLD ECONOMY UPDATE

December 9, 2011 | Vol. 1 No. 3

ISSN 1976-0515

Two Years On: Achievements and Challenges in Trade Sector of Korea-India CEPA

Woong Lee, Associate Research Fellow (wlee@kiep.go.kr, Tel: 3460-1139)
South Asia Team, Center for Emerging Economies Research

Young chul Song, Researcher (ycsong@kiep.go.kr, Tel: 3460-1067)
South Asia Team, Center for Emerging Economies Research

Choong Jae Cho, Associate Research Fellow (cjsho@kiep.go.kr, Tel: 3460-1025)
South Asia Team, Center for Emerging Economies Research

Korea Institute for International Economic Policy

http://www.kiep.go.kr

Contents

Summary

▶ As of November 2011, it has been one year and eleven months since the Korea–India CEPA entered into force in January 2010.

▶ Since then, Korea's trade volume with India has been increasing at a faster rate than that of Korea with the world.

– Korea's exports to India in 2010 amounted to approximately USD 11.4 billion, recording a 42.7% increase from the same period in 2009, which is higher than the rate of increase in Korea's exports to the world (28%). Korea's imports from India in 2010 stood at USD 5.6 billion, an increase of 37% from 2009, which is higher than the rate of increase in Korea's imports from the world (31.6%).

– As a result, India became Korea's 7th largest trading partner in 2010, overtaking Germany.

▶ Despite an increase in the bilateral trade volume after the completion of the Korea–India CEPA, the following challenges remain.

– As of November 2011, there are quite a few items for which the CEPA preferential rate is higher than the MFN rate (around 17.3% of Korea's exports, and 1.5% of India's exports). Therefore, the actual concession rates have been lower, and the trade imbalance has been worsening.

▶ The governments on both sides need to look into an early upgrading of CEPA preferential rates (tariff reduction) in earnest so as to address the aforementioned problems.

– If both countries lower the CEPA preferential rates to the same level, the number of items for which the MFN rate is lower than the CEPA preferential rates will be reduced, which is expected to lead to a substantial increase in actual concessions and India's exports.

– In particular, if both countries can further reduce the CEPA preferential rates it is expected to be better in terms of addressing India's trade deficit.

– It is so because the majority of India's export items to Korea consist of price–sensitive raw/semi–finished materials while Korea's main export items to India are more sensitive to local demand.

▶ In addition, both Korea and India should increase the target for trade volume to USD 30 billion, set to be achieved by 2014.

– Since 1993, the bilateral trade volume steadily increased by 14.5% on average annually, and should it continue at this rate, the trade volume is expected to reach USD 34 billion by 2015, and USD 68 billion by 2020 even if the effect of CEPA preferential rates are not factored in.

– With the tariff reduction effect, the trade volume would increase even more, and it is expected that the trade deficit, a main concern of India, would be reduced with a further lowering of tariff rates.

1. Chronology of the Korea-India CEPA

■ As of November 2011, it has been one year and eleven months since the Korea-India CEPA entered into force in January 2010. The Korea-India CEPA was concluded when it was signed on 7 August 2009, three years and six months after Korea and India embarked on negotiations in March 2006. The agreement entered into force in January 2010 after being ratified in November 2009.

Table 1. Chronology of the Korea-India CEPA

Time	Contents	Remarks
May 2004	Decision made to pursue an FTA with India	Roadmap on the FTA formulated
January 2005~January 2006	Four meetings held by the Korea-India Joint Study Group	Public hearing held (Dec.2005)
January 2006	Decision taken to begin negotiations on the Korea-India CEPA	Trade Ministers' meeting
March 2006~September 2008	12 rounds of negotiations held	Agreement reached on the final version of the agreement (Sept. 2008)
October~November 2008	A review meeting held on the legal nature of the Korea-India CEPA	Negotiated and finalized the text of the agreement
February 2009	Preliminary agreement signed	General elections in India (April-May 2009)
7 August 2009	The Korea-India CEPA signed	Approval from the Indian cabinet obtained (July 2009)
26 August 2009	The bill on the ratification of the Korea-India CEPA submitted to the Korean National Assembly	
November 2009	Approval obtained from the Korean National Assembly	Agreement ratified
1 January 2010	Entry into force of the Korea-India CEPA	The bilateral summit held in Delhi, India
January 2011	The first meeting of the Korea-India Joint Committee	Held in Delhi, India

Source: Ministry of Foreign Affairs and Trade, Republic of Korea, and Related Press Releases

■ The first meeting of the Korea-India Joint Committee at the ministerial level was held in Delhi, India in March 2011, a year after the CEPA went into effect. Through the Korea-India Joint Committee, Korea and India agreed to improve the Agreement by increasing the trade volume, maximizing the utilization of the CEPA, and expanding trade liberalization. They also agreed to begin negotiations for an agreement on an MOU for simplifying the visa issuance procedure, and co-production of broadcast programs. Korea requested an MOU on the expansion of the multi-entry visa category to better facilitate business activities of Korean companies in India, streamlining of visa extension procedures, and simplification of required documentation for visa issuance. Both countries decided to work on an agreement at the working level for co-production of broadcast programs, movies, and animated cartoons to further promote the Korean Wave in India. In addition, Korea called for India's cooperation on i) opening of branches of Korean banks to better accommodate Korean companies entering India, and ii) resolution of delaying establishment of POSCO steel plants in India.

■ The second meeting of the Korea-India Joint Committee is scheduled to take place in Seoul in 2012.

2. Issues and Achievements in Bilateral Trade since the Korea-India CEPA

A. Korea's Trade with India

1) Exports

■ Since the entry into force of the Korea-India CEPA, Korea's trade volume with India has increased at a faster rate than that of Korea with the world. Korea's exports to India in 2010 amounted to around USD 11.4 billion, a 42.7% increase from the same period in 2009, much higher than the rate of increase in Korea's exports to the world (28.3%). Korea's exports to India in 2011 (January – August) increased by 19% from 2010, which is lower than 23.7%, the rate of increase in Korea's exports to the world. The lower rate of increase in Korea's exports to India is attributable to the base effect of the sharp rise in Korea's exports to India in 2010.

Figure 1. Trends in Korea's Exports to India

(Unit: USD million)

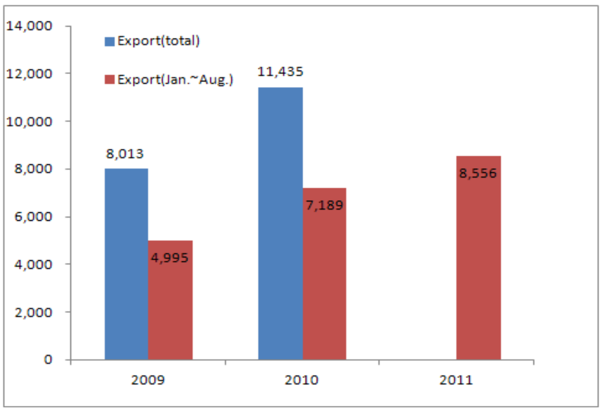
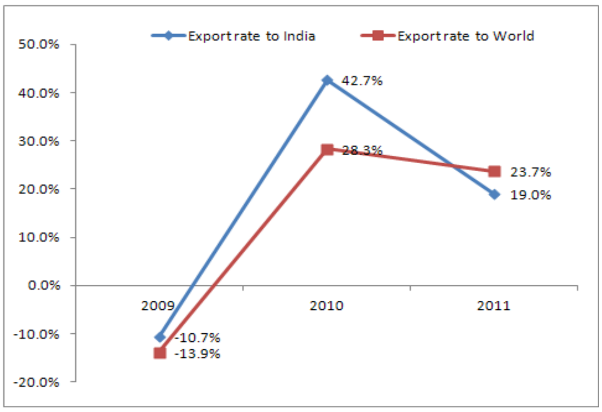


Figure 2. the Growth Rates of Korea's total exports and Korea's Exports to India

(Unit: %)



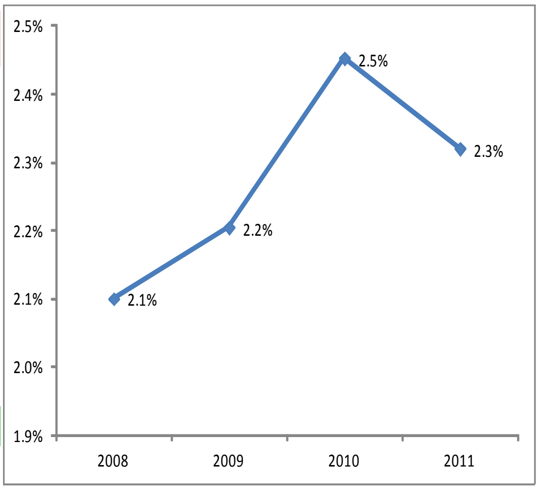
Note for Figures 1 and 2: The export growth rate in 2011 is of the period of January–August 2011.
Source for Figures 1 and 2: KITA.net Trade Statistics.

■ India overtook Germany to become Korea's 7th largest trading partner in 2010, up from 9th place in 2009. With regard to bilateral trade volume in real terms, India's rank could be as high as no.5, if Hong Kong and Singapore where most of the trade is undertaken in the form of entrepot trade, are ruled out. As for India's share in Korea's total exports, it was 2.1% in 2008, 2.2% in 2009, and rose to 2.5% in 2010. Currently, it stands at 2.3% in 2011 (January-August).

Table 2. Korea's Exports by Country

(Unit: %)

Rank	Country	2010	2011	Country	2009	2008
1	China	25.1	23.8	China	23.9	21.7
2	U.S.	10.7	10.0	U.S.	10.4	11.0
3	Japan	6.0	7.0	Japan	6.0	6.7
4	Hong Kong	5.4	5.5	Hong Kong	5.4	4.7
5	Singapore	3.3	3.8	Singapore	3.7	3.9
6	Taiwan	3.2	3.5	Marshall Islands	2.7	1.1
7	India	2.5	2.3	Taiwan	2.6	2.7
8	Vietnam	2.1	2.3	Germany	2.4	2.5
9	Indonesia	1.9	2.4	India	2.2	2.1
10	Brazil	1.7	2.4	Vietnam	2.0	1.8



Note: 1) Ranking as of 2010.
2) The share of 2011 is of Jan.-Aug. 2011.
Source: KITA.net Trade Data.

■ Korea's exports to India have been increasing primarily in boilers and machinery, electric equipment, steel, and auto parts. The exports of boilers and machinery including their parts, the largest export items of 2010, totaled USD 1.8 billion, representing a 55.6% increase from 2009. In addition, the exports of electric equipment (32.8%), steel (41.2%), and auto parts (30.6%), and organic chemicals (86%) rose significantly compared with 2009. The exports of boiler and machinery including their parts (4.8%), electric equipment (13.5%), steel (17.6%), and auto parts (15.7%), and organic chemicals (31.9%) in 2011 (January-August) increased compared with the same period in 2010.

Figure 3. Korea's Exports to India by Item

(Unit: HS 2, USD 1,000)

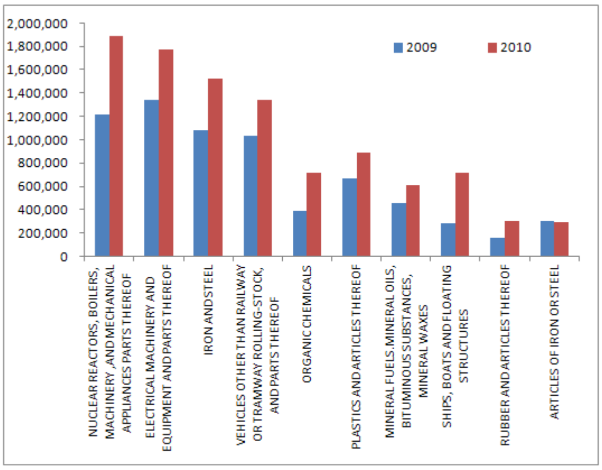
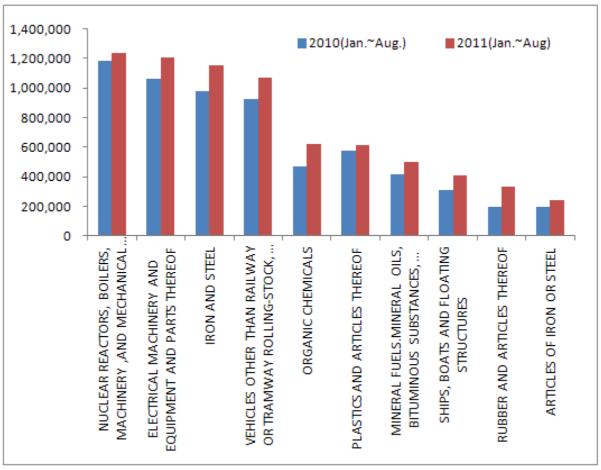


Figure 4. Korea's Exports to India by Item (Jan.-Aug.)

(Unit: HS 2, USD 1,000)



Source: KITA.net Trade Statistics.

2) Imports

■ Since the Korea-India CEPA entered into force, Korea's imports to India rose sharply compared with that of Korea to the world during the same period. Korea's imports from India in 2010 amounted to around USD 5.6 billion, an increase of 37% from 2009, which is higher than 31.6%, the rate of increase for Korea's imports from the world during the same period. Korea's imports from India in 2011 (January-August) rose by 46.1% compared with the same period in 2010, which is higher than the 26.7% increase in Korea's imports from the world.

Figure 5. Korea's Imports from India

(Unit: USD million)

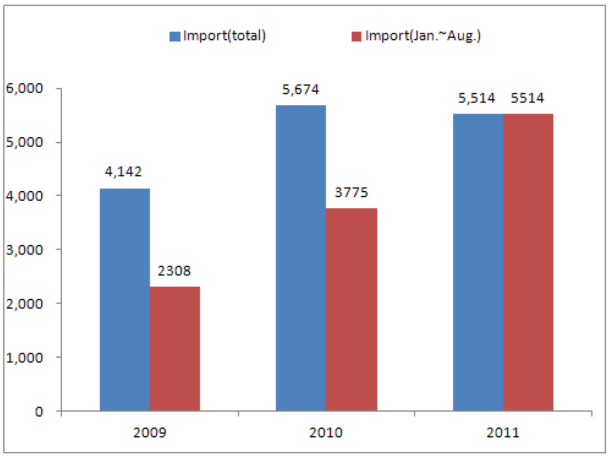
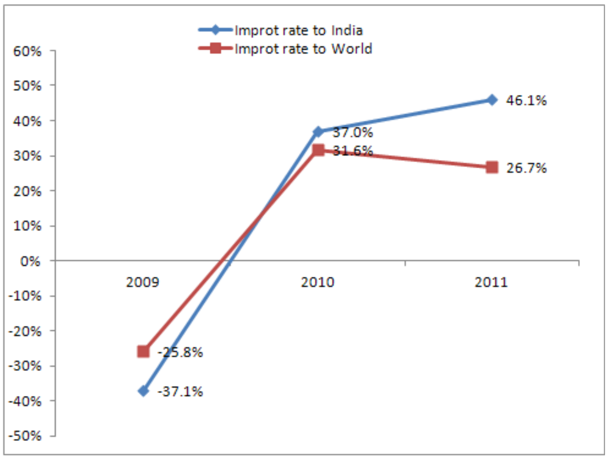


Figure 6. the Growth Rates of Korea's Total Imports and Korea's Imports from India

(Unit: %)



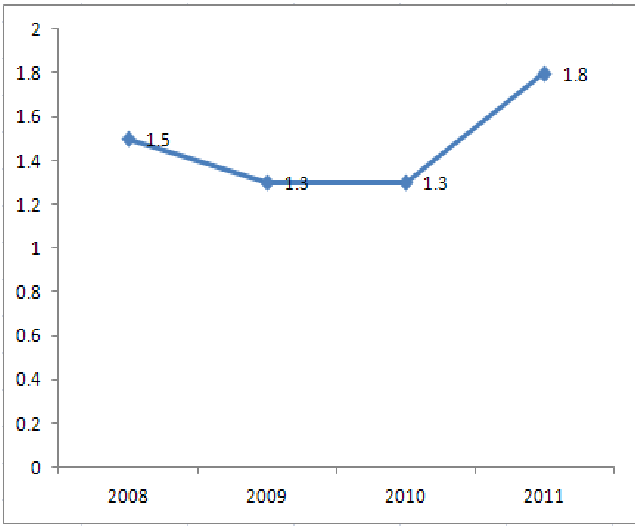
Note for Figures 5 and 6: The import growth rate in 2011 is of the period of January–August 2011.
Source for Figures 5 and 6: KITA.net Trade Statistics.

■ India's share in Korea's total imports was 1.5% in 2008, 1.3% in 2009 and 2010, after which it rose to 1.8% in 2011 (January-August). Although Korea's imports from India recorded increases recently, India has remained Korea's 16th largest source of imports since 2008.

Table 3. Korea's Imports by Country

(Unit: %)

Rank	Country	2011	2010	Country	2009	2008
1	China	16.9	16.8	China	16.8	17.7
2	Japan	12.4	15.1	Japan	15.3	14.0
3	U.S.	7.4	9.5	U.S.	9.0	8.8
4	Saudi Arabia	6.0	6.3	Saudi Arabia	6.1	7.8
5	Australia	5.	4.8	Australia	4.6	4.1
6	Qatar	4.2	2.8	Germany	3.8	3.4
7	Indonesia	3.7	3.3	Taiwan	3.0	2.4
8	Taiwan	3.0	3.2	UAE	2.9	4.4
9	Germany	3.0	3.4	Indonesia	2.9	2.6
10	UAE	2.9	2.9	Qatar	2.6	3.3
16	India	1.8	1.3	India	1.3	1.5



Note: The share of import in 2011 is of the period of January-August 2011.
Source : KITA.net Trade Statistics.

■ An increase in Korea's imports from India has primarily been in steel, minerals, cotton, aluminum, and zinc. The imports of minerals, the largest import item in 2010, totaled USD 3.1 billion, increased by 35.6% from 2009; and also, steel (118%), cotton (66.1%), aluminum (435%), and zinc (264%) have substantially increased compared with 2009. In particular, although the tariff rate for cotton products fell only by a mere 0.5% with the CEPA preferential rates, the imports of cotton have risen considerably. In 2011 (January-August) as well, the imports of minerals (50.9%), steel (53.8%), and organic chemicals (57%) have increased significantly compared with the same period in 2010.

Figure 7. Korea's Imports from India by Item

(Unit: HS 2, USD million)

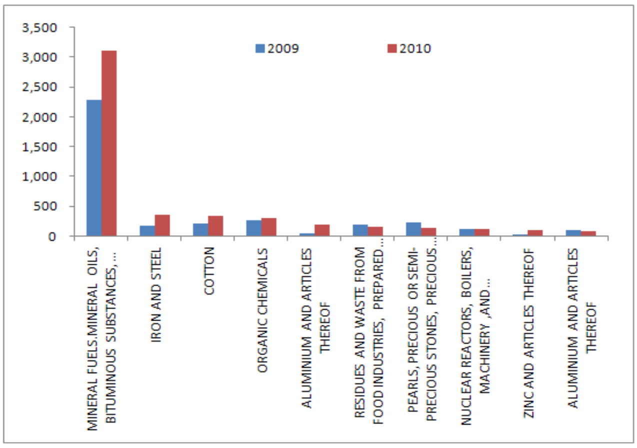
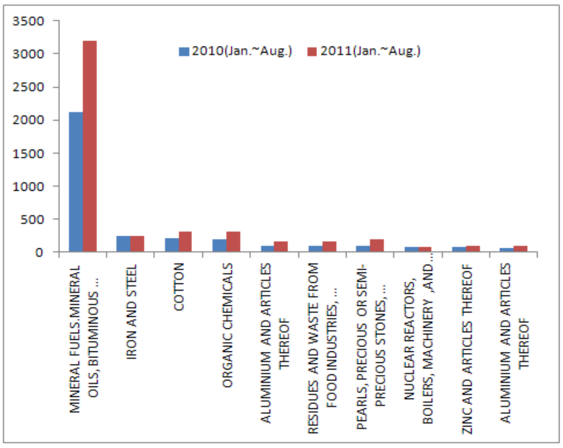


Figure 8. Korea's Imports from India by Item (Jan.-Aug.)

(Unit:: HS 2, USD million)

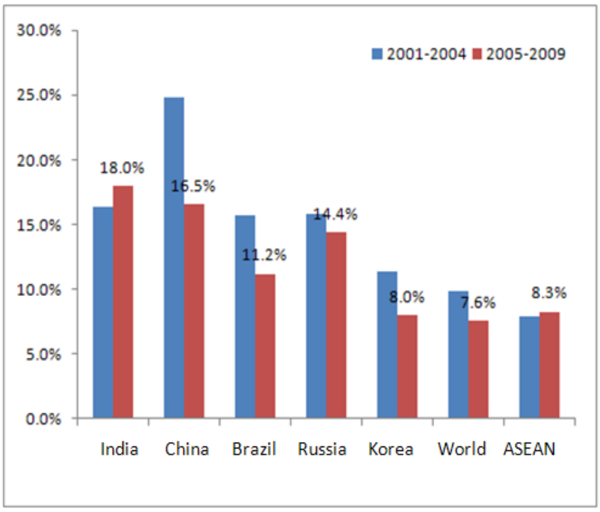


Source for Figures 7 and 8 : KITA.net Trade Statistics.

B. India's Trade with Korea

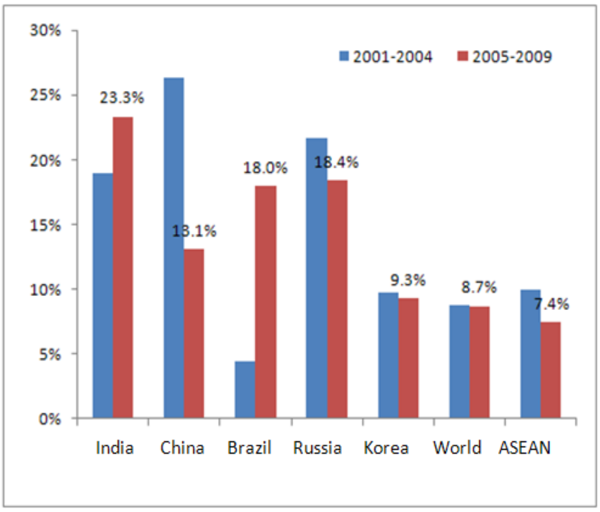
- India is one of the fastest growing countries in trade along with China. India's rate of increase in export and import over the past 5 years has been higher than that of emerging economies of Asia and the world. Rate of increase in India's export was 18% in 2005-2009, higher than that of China (16.5%). As for India's imports, its growth rate during the same period was 23.3%, higher than that of Russia (18.4%). In particular, India's total trade volume in 2010 was USD 577.4 billion, reaching the USD 500 billion mark in just 8 years after achieving USD 100 billion in 2002.[1)]

Figure 9. Growth Rate of Exports by Period



Source: IMF DTS.

Figure 10. Growth Rate of Imports by Period



Source: IMF DTS.

■ After the entry into force of the Korea-India CEPA, Korea's share in India's exports and imports in 2010 declined relative to 2009, but Korea's rank remains the same at no.11 in both 2009 and 2010. In terms of imports, Korea rose to no.9 in 2010 from no.10 in 2009. Korea's share in India's total exports was 1.9% in 2009, and 1.6% in 2010, while it recorded a nominal fall to 2.8% in 2010 from 2.9% in 2009.

Table 4. India's Top 10 Exports Partners (2010)

(Unit: USD million)

Rank	Country	Exports	Share (2010)	Country	Share (2009)
1	UAE	34,349	13.7%	UAE	13.4%
2	U.S.	25,548	10.2%	U.S.	10.9%
3	China	19,615	7.8%	China	6.4%
4	Hong Kong	10,329	4.1%	Hong Kong	4.4%
5	Singapore	10,302	4.1%	Singapore	4.2%
6	Germany	6,758	2.7%	U.K	3.4%
7	Belgium	6,296	2.5%	Germany	3.0%
8	Indonesia	6,245	2.5%	Saudi Arabia	2.1%
9	Saudi Arabia	5,227	2.1%	Belgium	2.1%
10	Japan	5,191	2.0%	Japan	2.0%
11	Korea	4,140	1.6%	Korea	1.9%

Table 5. India's Top 10 Imports Partners (2010)

(Unit: USD million)

Rank	Country	Imports	Share (2010)	Country	Share (2009)
1	China	43,479	11.8%	China	10.6
2	UAE	32,753	8.9%	UAE	6.7
3	Switzerland	24,802	6.7%	Saudi Arabia	5.9
4	Saudi Arabia	20,385	5.5%	U.S.	5.8
5	U.S.	20,050	5.4%	Switzerland	5.8
6	Germany	11,891	3.2%	Australia	4.3
7	Iran	10,475	3.0%	Iran	4.0
8	Nigeria	10,787	2.9%	Germany	3.5
9	Korea	10,475	2.8%	Indonesia	3.0
10	Indonesia	9,918	2.7%	Korea	2.9

Source for Tables 4 and 5: Department of Commerce in India.

3. Problems in the Korea-India CEPA

A. Items for CEPA Preferential Rates to be Increased

■ At the time of the entry into force of the Korea-India CEPA in 2010, there were quite a few items for which the CEPA preferential rates were higher than the MFN rates[2] due to the standard tariff rates and the subsequent lowering of the actual tariff rates by India. Korea and India began negotiations in 2006 based on the MFN rate of 1 April 2006, and since then, as India continued to lower the MFN rate, there were items for which the CEPA preferential rate was higher than

1) To reach the USD 500 billions of the total trade volume, after reaching USD 100 billions, it took 13 years for China and 17 years for S. Korea.
2) MFN (Most Favored Nation) rates are the rates at which are commonly applied to the members of WTO (World Trade Organization).

the MFN rate at the time of the entry into force of the CEPA in January 2010. India's average tariff rate for non-agricultural products was 16.4% in 2006, and it fell to 10.1% in 2009.

■ As of 2011, the CEPA preferential rate for 8 out of the top 50 export commodities to India (HS 6) is still the same as or higher than the MFN rate, and the exports of these items amount to around USD 1.6 billion in 2011 (January-August), accounting for 17.3% of the total. The top 50 export items to India account for about 64% of the total exports. On the other hand, among the top 50 import commodities from India, there are only 3 items for which the CEPA preferential rate is either the same as, or higher than the MFN rate as of 2011. The imports from India during the same period amount to around USD 90 million, which accounts for about 1.5% of the total imports.

Table 6. Comparison between the MFN Rate and the CEPA Preferential Rate on Korea's Top 50 Export Commodities to India (As of Jan.-Aug. 2011)

(Unit: %)

HS		Commodity	CEPA Concession Type	Import Share	Tariff Rates	
					MFN Rate in 2011	CEPA Preferential Rate in 2011
Organic Chemicals	291736	Terephthalic acid and its salts	SEN	3.37	10	11.3
Nuclear Reactors, Boilers, and Machinery, and Their Pars	840290	Of steam and other vapour generating boilers	E-5	0.63	7.5	7.5
	842952	Machinery with a 360° revolving superstructure	E-8	0.86	7.5	9.4
	843149	Of derricks, Of road rollers, mechanically propelled Of ships derricks and cranes, Of other excavating, levelling, tamping or excavating machinery for earth, mineral or ores, Of pile driver, snow plough, not self-propelled	E-5	1.06	7.5	7.5
Electric Equipment and its Parts	850423	Having a power handling capacity exceeding 10,000kVA	E-8	0.63	7.5	9.4
Motor Vehicles	870840	Gear boxes	SEN	0.45	10	11.3
	870899	Other Parts	RED	10.27	10	10.6

Note: 1) E-5 (To be abolished within 5 years), E-8 (to be abolished within 8 years), SEN (to be reduced by 50% within 10 years), RED (to be reduced to 1-5% within 8 years).
2) The share of the aforementioned commodities in the total exports is 18.11%. Korea's exports to India from Jan. to Aug. of 2011 totaled around USD 8.6 billion.

Source: KITA.net Trade Statistics, Tariff Concessions in the Korea-India CEPA, Tariff rates from the Customs Offices of Korea and India.

Table 7. Comparison between the MFN Rate and the CEPA Preferential Rate on

Korea's Top 50 Import Commodities from India (As of Jan.-Aug. 2011)

(Unit: %)

HS		Commodity	CEPA Concession Type	Import Share	Tariff Rates	
					MFN Rate of 2011	CEPA Preferential Rate of 2011
Feeds	230690	Other		0.5		
	2306901000	Of sesamum seeds	SEN		55.10	55.13
Organic Compounds	292421	Ureines and their derivatives; salts thereof	E-5	0.2	2.0	5.2
Steel	720230	Ferro-silico-manganese	E-8	0.8	5.0	6.0

Note: The share of the aforementioned commodities in the total imports is 1.6%. The total imports from India amounted to around USD 5.5 billion from Jan. to Aug. 2011.
Source: KITA.net Trade Statistics, Tariff Concessions in the Korea-India CEPA, Tariff rates from the Customs Offices of Korea and India.

■ However, since such a discrepancy is not likely to be addressed in any significant manner in 2012, there is a need to further reduce the CEPA preferential rate between the two countries in order to further increase the trade volume. As for two (840290, 843149) out of Korea's export items to India (Table 6), the CEPA preferential rate in 2012 is likely to be lower than the MFN rate: however, they account for only 1.7% of the total exports. In the case of India, there will not be any item for which the CEPA preferential rate will be lower than the MFN rate from 2012, yet their share in the exports is nominal, at best (1.5% during the January–August period of 2011).

B. Trade Concessions to be Increased

■ Despite the entry into force of the Korea-India CEPA, the aforementioned discrepancy has led to an expansion of items outside of the list of concessions, thus undermining the impact of the CEPA. At the time of entry into force of the CEPA in 2010, the concessional rate vis-à-vis the bilateral trade volume was 89.7% for Korea, and 85.5% for India. Especially in the case of Korea, the CEPA preferential rate is higher than the MFN rate on items accounting for at least 17% of the trade volume. Therefore, India's actual concessions based on the trade volume fall to less than 68.2% from 85.5% initially. It is lower than the concessional rate at which India offered to Japan in the CEPA which went into effect in August 2011. The concessions between Korea and India are smaller in scale than those between Japan and India, but the tariff rates are being reduced at a faster rate.

Table 8. Comparison of Schedules of Concessions between

the Korea-India CEPA and the Japan-India CEPA

Category	Schedule of Concessions								
Korea-〉 India	To be abolished immediately	E-5	Sub-total	E-8	Sub-total	RED	SEN	Total	Outside of Concessions List
	34.8%	14%	52.4%	22.1%	74.5%	8.5%	2.4%	85.5%	14.5%
Japan-〉 India	To be abolished immediately	B5	Sub-total	B7	Sub-total	B10		Total	Outside of Concessions List
	Around 7.6%	Around 10.0%	Around 17.6%	Around 0.1%	Around 17.7%	Around 72.0%		Around 90%	Around 10%

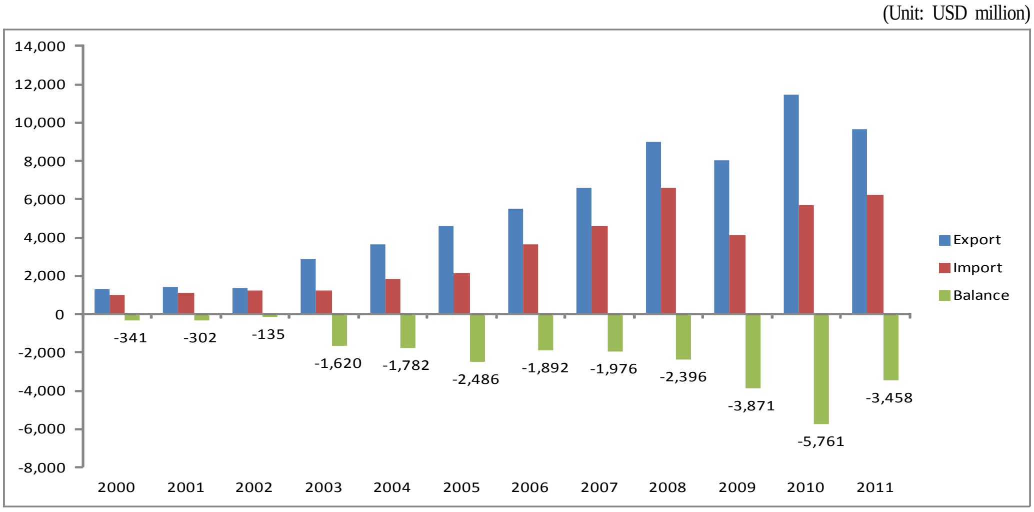
Note: 1) The table is prepared according to the schedule of concessions of the countries concerned.
2) E-5 and E-8 of Korea mean "to be abolished within 5 and 8 years" respectively. RED indicates "to be reduced to 1-5% within 8 years", and SEN means "to be reduced by 50% within 10 years."
3) B5, B7, and B10 indicate "to be abolished within 5, 7, and 10 years" respectively.
4) Tariff reductions differ between the two FTAs in that in the case of the Korea-India CEPA, it will be 1/n, meaning, E-5 would indicate 1/5 reduction while in the case of the Japan-India CEPA, it will be 1/(n+1), thus, B5 would mean 1/6 reduction.
Source: KITA, "Impact and Implications of the Japan-India CEPA for Korean Business," p. 9.

C. Trade Imbalance to be Addressed

■ Despite the steadily increasing trade volume, the trade imbalance continues to worsen. In particular, India's trade deficit vis-à-vis Korea has been increasing sharply since 2003. India's trade deficit vis-à-vis Korea was around USD 300 million in 2000, and it rapidly rose from 2004 onwards, reaching over USD 5 billion in 2010. Genuine efforts by both Korea and India are needed to address the trade imbalance.

Figure 11. Trade Balance between Korea and India

(Unit: USD million)



Note: 1) The trade balance is based on Korea's exports/imports with India.
2) The numbers in 2011 represent the amounts from January to August.

4. Policy Implications

A. Early Upgrading of the Korea–India CEPA Preferential Rates

■ To address the aforementioned problems in the Korea-India CEPA, the CEPA preferential rates are to be upgraded in the near future (namely, the acceleration of the CEPA preferential rate reduction). If both Korea and India reduce the CEPA preferential rates to the same level, the number of items for which the MFN rate is lower than the CEPA preferential rate is expected to be reduced considerably, leading to greater concessions and an increase in India's exports to Korea. In particular, it is expected that the lower the level the CEPA preferential rates are adjusted, the better it will be in terms of addressing India's trade deficit.

■ The simulation of an increase in trade volume and welfare in relation to tariff reduction through the "SMART" program offered by the World Bank's WITS (World Integrated Trade Solution) revealed that the effect of India's tariff reduction vis-à-vis Korea's exports would be greater than that of Korea's tariff reduction vis-à-vis India's exports. While a 10% tariff reduction on all items except for agricultural and fishery products will increase Korea's exports to India by USD 180 million, it will lead to an increase of USD 600 million in the case of India. Whereas the welfare effect accruing to India from the dead weight loss will increase by USD 55 million, it will result in an increase of USD 18 million in the case of Korea.

■ Korea's weaker tariff reduction effect than that of India is attributable to the different nature of trade on both sides. In the case of Korea's export items to India, the majority consist of auto parts, parts of wireless telephones and electric and electronic products, ships, and steel products (35.2% of the total exports to India). As these items are supplied to Korean companies operating in India, they are more sensitive to local demand than tariff rates. On the other hand, India's top export items to Korea, namely, oil and oil products, and cotton products (60.2% of the total exports), have high price elasticity.

■ Tariff reductions are expected to help address India's trade deficit and improve the welfare effect for both Korea and India. A 20% tariff reduction on all items except for agricultural and fishery products will result in an increase in terms of trade effect to the tune of USD 350 million and USD 1.1 billion for Korea and India respectively, which would help cut India's trade deficit by

USD 750 million. A 50% tariff reduction would accrue, in terms of trade effect, USD 880 million and USD 2.8 billion for Korea and India respectively, which would lead to a fall of USD 1.92 billion in India's trade deficit. A 20% tariff reduction will yield the welfare effect worth USD 35 million to Korean consumers and USD 1.1 billion to Indian consumers. A 50% tariff reduction will considerably increase the welfare effect to the tune of USD 82 million and USD 2.3 billion for Korean and Indian consumers respectively.

Table 9. Simulation Result via SMART by World Bank WITS
(All items except for agricultural and fishery products)

(unit: USD)

India's Import Commodities from Korea (With Tariff Reduction)		
Tariff Reduction	Trade Effect (Increase in Korea's Exports)	Welfare Effect for Indian Consumers
10%	$175,932,111	$55,141,591
20%	$351,864,221	$106,131,026
50%	$879,660,584	$229,026,764
Korea's Import Commodities from India (With Tariff Reduction)		
Tariff Reduction	Trade Effect (Increase in India's Exports)	Welfare Effect for Korean Consumers
10%	$558,383,268	$17,770,726
20%	$1,116,766,536	$34,956,796
50%	$2,791,914,284	$81,773,964

Note: The simulation result has been obtained on all items except for agricultural and fishery products of both Korea and India as of 2009. As the Korea-India CEPA entered into force in 2010, the tariff reduction effect has been simulated as of 2009.
Source: The authors' own calculations using SMART.

B. Target Trade Volume to be Raised

■ A higher target in trade volume needs to be set, taking into account the entry into force of the Korea-India CEPA, and an early upgrading of the CEPA preferential rates (an accelerated tariff reduction). And efforts will need to be made by Korea and India to attain the target.

■ Korea and India set the target at achieving USD 30 billion in trade by 2014 when the Korea-India CEPA entered into force in January 2010. This target is relatively low, given the combined trade potential of Korea and India, and an expected increase in trade resulting from the tariff reduction. In effect, the bilateral trade volume has been rising rapidly since 1993 (14.5% from 1993 to 2010), and the rise has been particularly sharp since 2003(28.45% from 2003 to 2010). Moreover, India has been setting higher targets in FTAs with other countries lately (table 10).

Table 10. India's Trade Volume Target by Country

Country	Trade Volume Target
ASEAN*	To achieve USD 70 billion by 2012 (Around USD 50 billion as of 2010)
EU**	To achieve USD 200 billion by 2014 (Around USD 80 billion as of 2010)
Singapore*	To achieve USD 32 billion by 2015 (Around USD 16 billion as of 2010)
China**	To achieve USD 100 billion by 2015 (Around USD 60 billion as of 2010)
Korea*	To achieve USD 30 billion by 2014 (Around USD 15 billion as of 2010)
Malaysia**	To achieve USD 15 billion by 2015 (Around USD 8 billion as of 2010)
U.S.A	To achieve USD 100 billion by 2015 (Around USD 60 billion as of 2010)
Germany	To achieve USD 20 billion by 2012 (Around USD 13 billion as of 2010)
Russia	To achieve USD 20 billion by 2015 (Around USD 5 billion as of 2010)
Africa	To achieve USD 70 billion by 2015 (Around USD 45 billion as of 2010)

Note: * Already signed the FTA with India.
** Currently in negotiations on the FTA.
Source: Local press in India.

■ Therefore, Korea and India should, in all earnest, look into raising the trade volume target to a higher level. A forecast based on the average growth rate of trade volume (14.5%) over the past 13 years (1993-2010) puts the bilateral trade volume at approximately USD 34 billion by 2015, and USD 68 billion by 2020. However, the projected figures are based solely on the average growth rate excluding the tariff reduction effect of the CEPA. Doubling the current CEPA preferential tariff reduction could have the effect of increasing the bilateral trade volume to around USD 48 billion by 2015. The projection has factored in an increase in trade volume resulting from a 50% reduction in the MFN rate of 2009, which was before the CEPA took effect. Therefore, doubling the CEPA preferential tariff reduction would further increase the bilateral trade.

■ Accelerating the tariff reduction to raise the target for bilateral trade volume is expected to help address the trade imbalance for India. A 10% tariff reduction would put India's trade deficit vis-à-vis Korea at USD 11 billion by 2015, and USD 22.5 billion. A 50% tariff reduction would further reduce it to USD 7.3 billion by 2015, and USD 15.4 billion by 2020.

Table 11. Estimation of Korea-India Trade Volume and Trade Balance

(Unit:: USD million)

Year	Estimation based on average growth rate		Estimation with 10% Tariff Reduction		Estimation with 20% Tariff Reduction		Estimation with 50% Tariff Reduction	
	Trade Volume	Trade Balance	Trade Volume	Trade Balance	Trade Volume	Trade Balance	Trade Volume	Trade Balance
2011	19,647	6,653	20,613	6,144	21,637	5,578	27,780	3,994
2012	22,562	7,683	23,669	7,101	24,842	6,455	31,943	4,645
2013	25,909	8,873	27,178	8,208	28,522	7,469	36,730	5,400
2014	29,752	10,246	31,208	9,486	32,748	8,642	42,234	6,278
2015	34,166	11,832	35,834	10,964	37,600	9,998	48,564	7,297
2016	39,236	13,662	41,147	12,670	43,171	11,567	55,841	8,480
2017	45,057	15,776	47,248	14,642	49,567	13,381	64,210	9,853
2018	51,742	18,215	54,254	16,920	56,912	15,479	73,832	11,447
2019	59,420	21,031	62,299	19,551	65,345	17,904	84,897	13,297
2020	68,237	24,282	71,537	22,591	75,028	20,708	97,619	15,444

Note: Estimations of trade volume and trade balance with tariff reduction (10%, 20%, and 50%) have factored in not only the average growth rate, but also the tariff reduction effect from the simulation via SMART of World Bank WITS based on the MFN rate.

Source: The authors' own calculations using SMART.