

Misunderstandings & Challenges in Korea-India CEPA

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Two Misunderstandings

1. Since CEPA took in force
only India's trade deficit has been further expanded

2. Indian mango export to Korea has been restricted
due to excessively stringent SPS measures of Korea

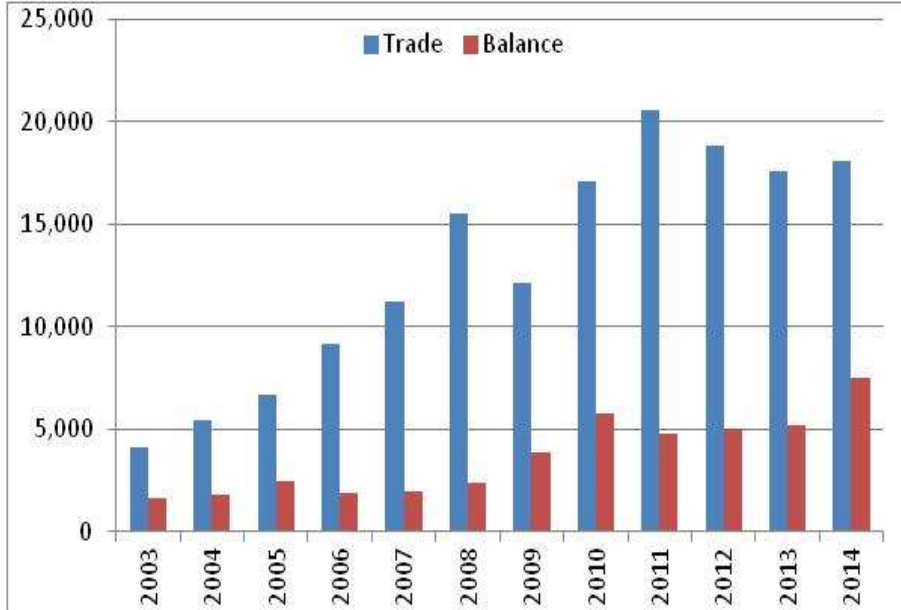
Is it really so ?

Despite the stagnation of trade volume, trade imbalance got worse

- While the trade volume decreased approximately 12% over the past three years, trade imbalance increased 57.7% (Kita.net)
- India's trade imbalance has been larger than that of Korea (Min. of Commerce and Industry)
- Since CEPA took in force, trade imbalance gap between the both has been 2~3 billions annually

Trade Balance with India in Korea

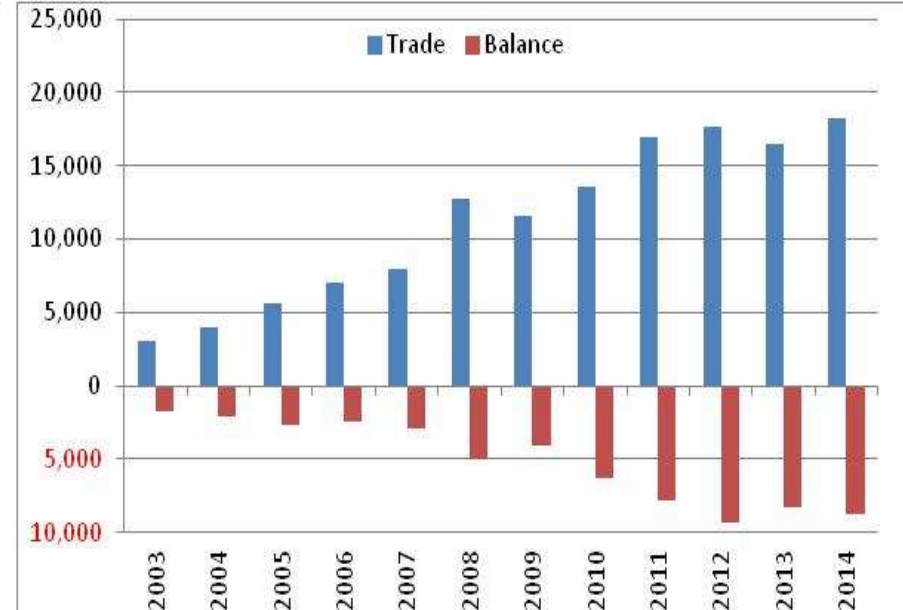
(million dollar)



Source: Kita.net

Trade Balance with Korea in India

(million dollar)



Source: CEIC

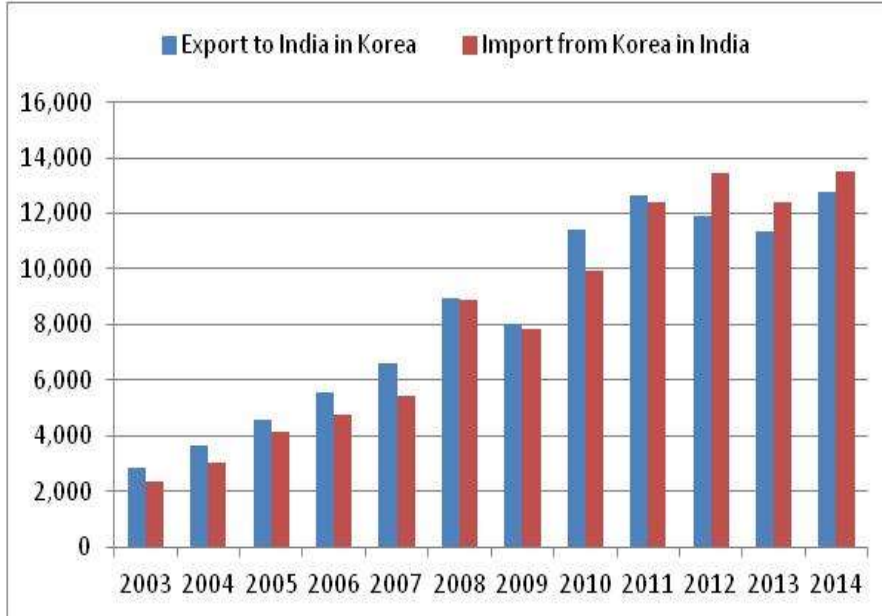
Is it really so ?

The problem is a mismatch in statistics

- India's import from Korea, which was small, has been overestimated since 2012
- India's Export to Korea, which was large, has been underestimated all the way

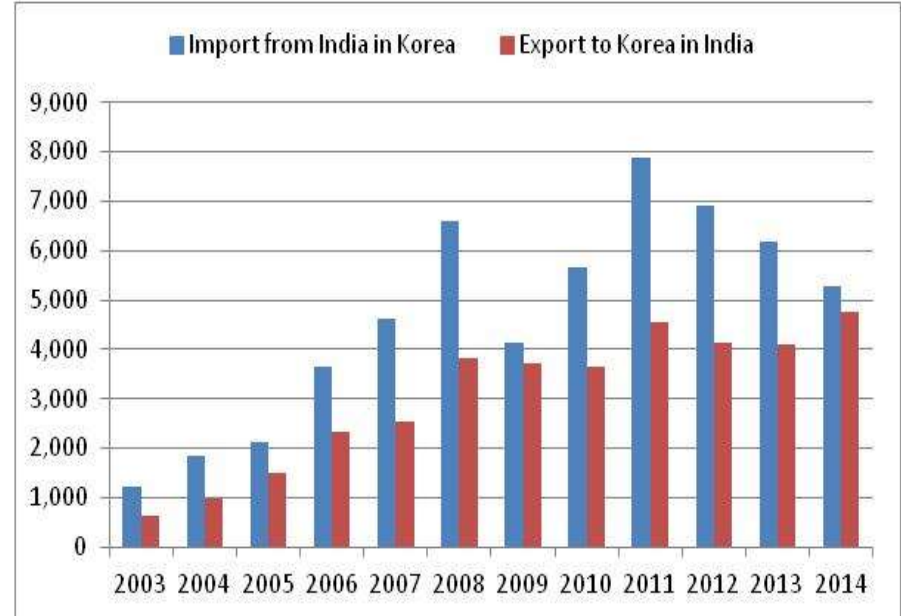
Comparison of Export and Import between Korea and India

(million dollar)



Source: Kita.net, CEIC

(million dollar)



Source: Kita.net, CEIC

Indian naphtha has been a main cause of mismatch in statistics

Naphtha is one of the largest beneficiary of items in CEPA

- Import duty of Naphtha is zero since 2010 CEPA
- India was the largest exporter of Naphtha to Korea from 2010 to 2012

Comparison of Export and Import between Korea and India

(million dollar)



Source: Kita.net, CEIC

Naphtha(HS 271012) Trade between Korea and India

(unit : million dollar)

	Import from India in Korea (KITA.Net)	Export to Korea in India (commerce.in)	Balance
2010/11	3,184	798	2,386
2011/12	4,509	1,294	3,215
2012/13	3,569	761	2,808
2013/14	2,244	347	1,897
2014/15	1,380	599	781

Source: Kita.net, Ministry of Commerce and Industry

No reason for Korea to tackle mango import from India

Status of Tariff rate for Imported Mango in Korea

HS 080450, MFN Rate 30%, As of 2015

Country	Import Duty	FTA
Australia	24%	O
Canada	27%	
Colombia	25.7%	
India	18.8%	
Peru	15%	
Turkey	30%	
USA	18%	
ASEAN	30%	
EU	19%	X
Taiwan	30%	

Source: Kita.net,



Trends of Tariff Reduction of Mango in Korea-India CEPA

Type of Tariff Reduction

: **SEN**, to be reduced by 50% within 8 years

Year	2009	2010	2011	2012	2013
Tariff	30%	28.1%	26.2%	24.4%	22.5%

Year	2014	2015	2016	2017~
Tariff	20.6%	18.8%	16.9%	15.0%

Source: Kita.net,

Challenges

Low utilization and No implementation of upgrade

- The lowest utilization rate among all the FTAs
- Joint Committee has not been held since 2011

Korea's Utilization Rate by FTA

Country	2012 (A)		2013 (B)		Change (B-A)	
	Export (%)	Import (%)	Export (%)	Import (%)	Export (%)	Import (%)
Chile	75.2	97.9	78.8	98.5	3.6	0.6
EFTA	79.8	61.9	80.0	41.4	0.2	△20.5
ASEAN	37.7	73.8	38.7	75.6	1.0	1.8
India	36.2	52.7	42.9	61.0	6.7	8.3
EU	81.4	66.8	80.8	67.8	△0.6	1.0
Peru	78.0	92.0	91.8	97.9	13.8	5.9
USA	68.9	61	76.1	67.3	7.2	6.3
Turkey	-	-	70.0	69.0	-	-
All FTAs	62.7	67.0	66.9	69.0	4.2	2.0

Source: Korea Customs Service

Challenges

To focus on CEPA improvement

- To increase concessional rate, to accelerate tariff reduction and to simplify rules of origin
- To increase CEPA utilization rate ultimately
- **Korea's concessional level is disadvantageous to that of Japan in the long term**

CEPA	Schedule of Concessions								
India- >Korea	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%
India- >Japan	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 concerned countries.

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.

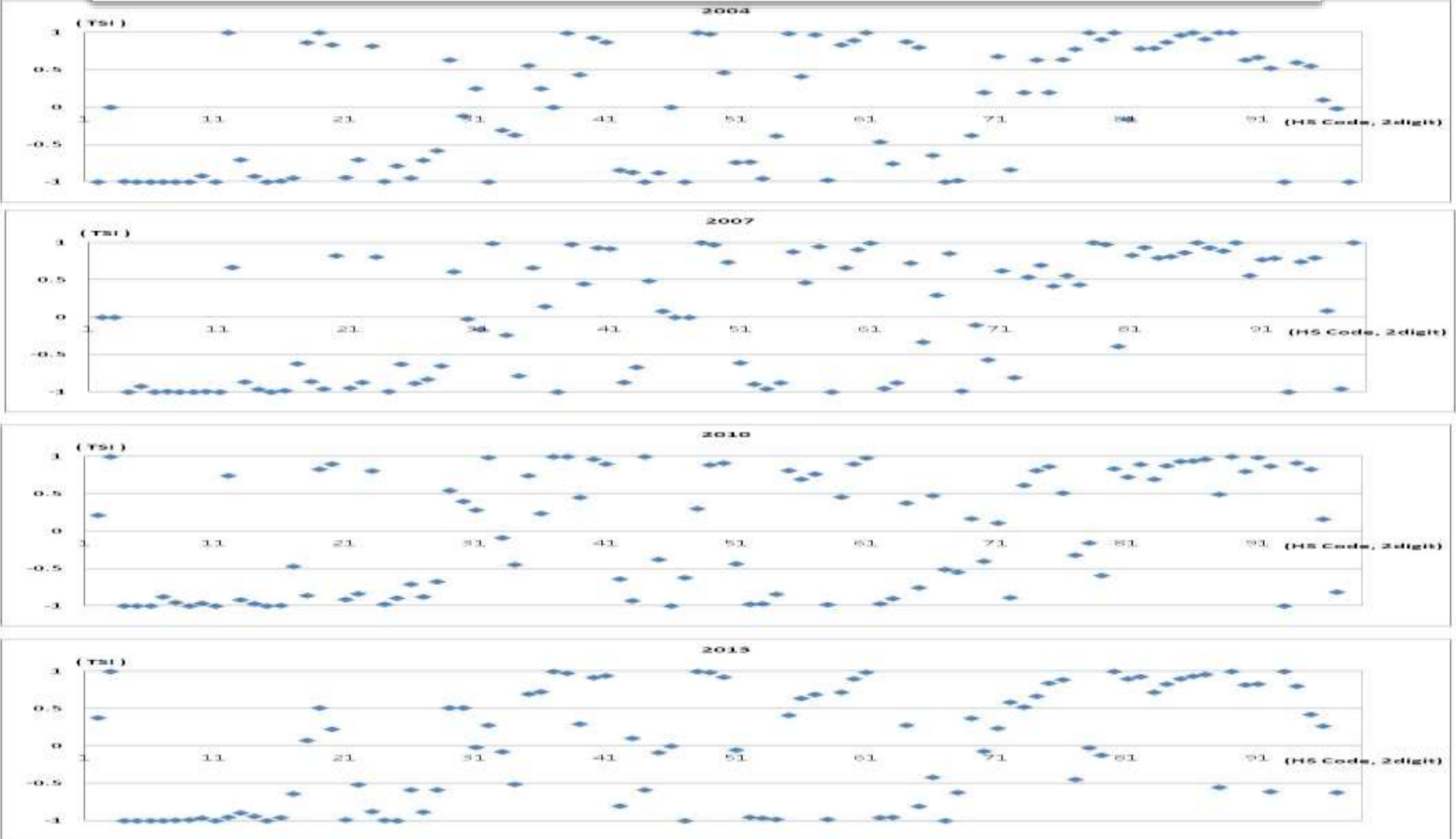
4) Tariff reductions differ between the two FTAs in that in the case of the Korea-India CEPA, it will be 1/n, meaning, E-5 would indicate 1/5 reduction while in the case of the Japan-India CEPA, it will be 1/(n+1), thus, B5 would mean 1/6 reduction.

Source: KITA

Challenges

Trade imbalances and structural improvements are long term challenges

Change in Korea's TSI (Trade Specification Index) over India during the last 10 years



Source: Ministry of Commerce and Industry, India

Challenges

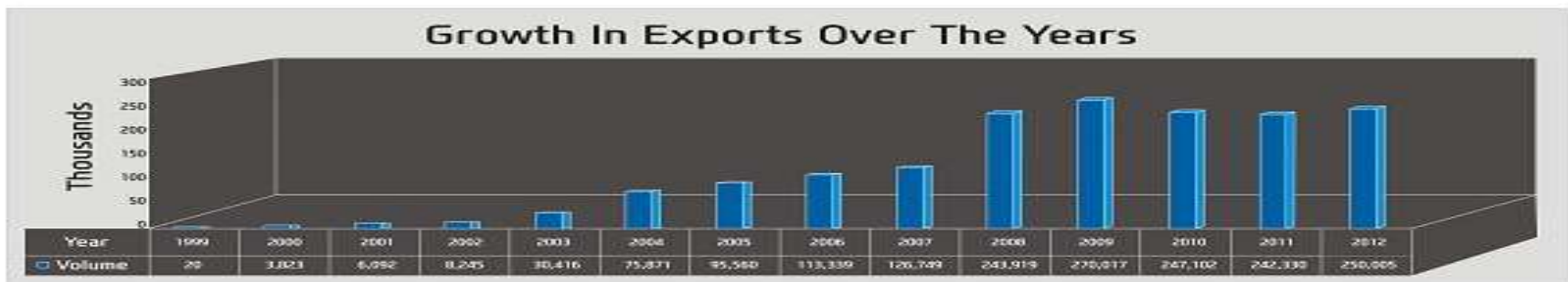
To concentrate on GVC rather than trade volumes and imbalances

- Korea's export to India contributes to India's export to the other countries
- HMI is the largest exporter and a huge tax contributor with more than 1 lakh employees

Exports

Hyundai Motor India Ltd (HMIL) is the country's largest passenger car exporter. HMIL began exporting cars in 1999 when it shipped a batch of 20 Santros to Nepal and it reached the first milestone of exporting 100,000 cars in four years and ten months in October, 2004. In October, 2005 it exported its 200,000th car followed by its 300,000th & 400,000th car in October, 2006 and August, 2007 respectively. By exporting the 1,000,000th car in February, 2010, HMIL became the 'Fastest' Indian passenger car manufacturer to achieve this stupendous milestone in record time.

Since inception of Hyundai Motor in India, it has become the leading exporter of passenger cars with a market share of 48% of the total exports of passenger cars from India, making it a significant contributor to the Indian Automobile Industry.



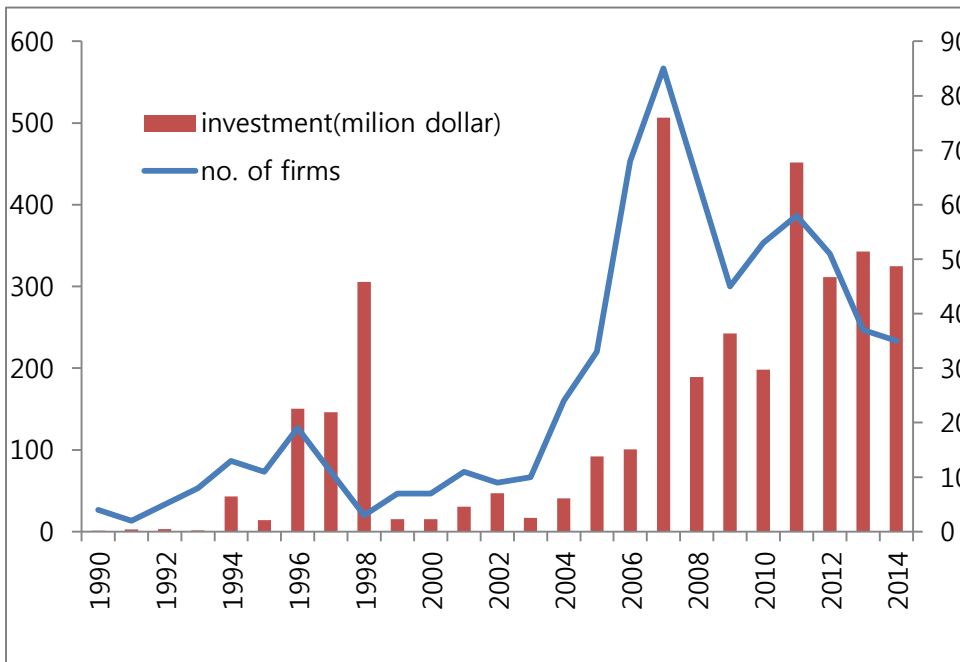
Currently, Hyundai Motor India is exporting six of its popular models namely - Santro, i10, i20, Accent, Eon and Verna to 119 countries. In 2012, in spite of a global slowdown, Hyundai Motor India exported a total of 250,005 cars.

Challenges

The most efficient way to enhance GVC is to expand mutual investment

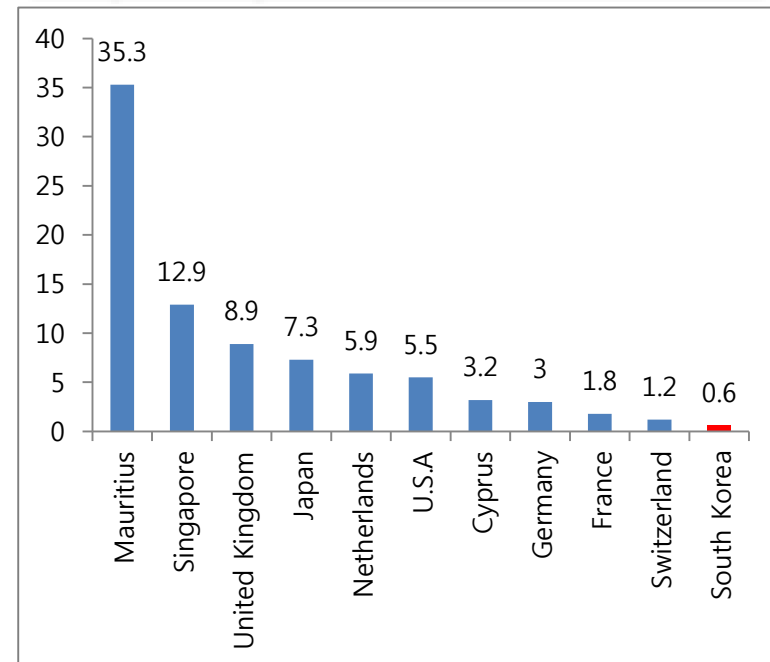
- Mutual investment is too low to compare to their economic sizes and potential
- India is the 16th largest investment destination for Korea.
- The share of Korea among foreign investments into India is fairly small

Trends in Korea's FDI to India



Source: Korean EXIM Bank

Percentage of investments into India by country (cumulative, 2000-2015)



Source: DIPP, Ministry of India

Challenges

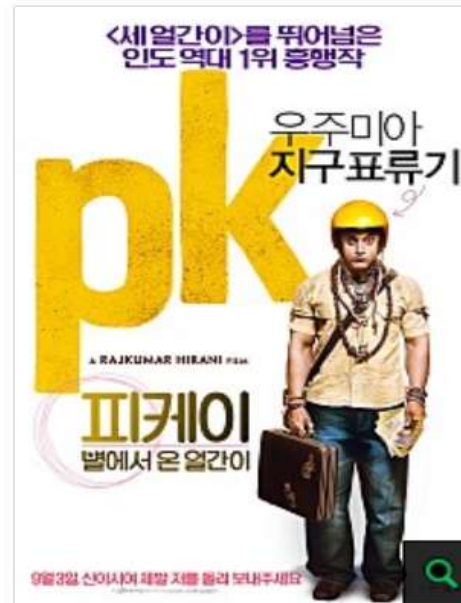
Expand the scope of trade to the service sector

- Indian IT Professionals, R&D, movies, tourism and education have very high potential
- New Aviation Agreement between both requires active use

Concessions of Movement of People in Korea-India CEPA Agreement

About 90 lists
Belong to
IT specialists

Total 163
professional fields
are open



Thank you!