Chapter – II

REVIEW OF LITERATURE

An effective and intelligent research can be established based on the previous studies. The review would support to bring out a clear picture about trade relations with other countries. Here in the review most of the study is related to Comprehensive Economic Partnership Agreement. As most of countries start with Economic Cooperation Agreement and end up with Economic Partnership Agreement. It was found out that, there are many reviews available for Economic Partnership Agreement than Economic Cooperation Agreement. Therefore researcher has selected available source for gathering knowledge related to the study in the descending order of time.

Geethanjali Nataraj and Ashwani (2014) carried out the analysis of Economic relations between India and Japan. The signing of the India-Japan Economic Partnership Agreements (EPA) is further expected to boost bilateral trade and investment relations between the two Asian giants. The study has analyzed the likely impact of India-Japan EPA on both trade and investment relations and other areas of cooperation. Moreover the study analyzed the comparative advantage of India and Japanese exports in the world market. The study has computed the International Revealed Comparative Advantage (IRCA) for both India and Japan by using the Balassa Index. It is evident that, some of the commodities having the
highest IRCA for India. These items have been India`s top export items commanding a sizeable share in the world market. Similarly, some of the Japanese products those are highly competitive in the world markets. Bilateral Revealed Comparative Advantage (BRCA) shows that, there is tremendous scope for trade. The study concluded that India-Japan EPA is a major step in enhancing bilateral relation. While in trade it would be beneficial to both the countries and particularly for India. Japan would find it easier to invest in India and cater to the huge domestic markets as well as use it as a manufacturing hub using cheaper labour. Overall, the India-Japan EPA is a step in right direction. The reduction and abolitions of tariffs through EPA will result in an increase in trade and investment relations between two of the largest economies in Asia.

_Biswa Nath Bhattacharyay and Kakali Mukhopadhyay (2013)_ in the study “Economic wide impact of the integration between Japan and India: A Computable General Equilibrium Analysis” shows that India — Japan comprehensive Economic Partnership Agreement (CEPA) is a major step for harmonious economic rise of Asia. The study evaluates the economy wide impact of the proposed CEPA between India and Japan at 2020. The study has used a widely recognized global Computable General Equilibrium (CGE) model. Result of the CGE analysis on the economy-wide impact of CEPA suggests that tariff reduction will create a marginal increase in output growth for both India and Japan as compared to business as usual scenario. In terms of effect on exports, India`s export to Japan would increase significantly, more than that of Japan to India. As for the welfare aspects,
simulation results suggest a positive net welfare gain for both countries. Moreover, the results suggest that Japan will not reduce its heavy reliance on the Chinese market, though India will. On the whole, compared to Japan, India will gain more, if CEPA materializes by 2020.

Jawahar Babu (2012) in the study of “Indo-Japanese Comprehensive Economic Partnership Agreements (CEPA) — A Tool of Strengthening Bilateral Trade Relations” the author has attempted to portray the bilateral benefits to be shared by partnering countries through bilateral trade agreements in the backdrop of Indo — Japan Comprehensive Economic Partnership Agreement. While World Trade Organization (WTO) endeavors to bring order, justice and equity in world trade, the bilateral trade pacts between the countries helps in building people to people relationship in both the countries, while sharing enormous political, social and economic gains. This study demonstrated that the India stands to gain significantly thought this agreement. The Agreement has ensured that the sensitive sectors for India are fully protected including agriculture, spirits and also certain categories of industrial products such as automobiles and its parts. This agreement will ensure access to a highly developed Japanese market for pharmaceutical sector. Japan has committed to give the same treatment for India`s generic products as their domestic industry. The Japanese side has also lowered their tariffs for petrochemicals and chemical products, Jewellery and cement. This study found that it is absolutely necessary for India to take steps to strengthen the competitiveness of Indian products and to improve the comprehensive productivity through revision
of the labour act, improvement of infrastructure and while both the countries must explore every possibility to reap optimum gains in economic cooperation. It should culminate to bringing the two strong and peace living nations of Asia even closer.

Rahul Nath Choudhury (2012) the study of “Analysis of FTA between India and Korea: Challenges and opportunities” tries to assess the possible gains for both the Korea – India CEPA, the growth of exports from Korean manufactures is expected to be higher than that of its imports. The import trends at the disaggregate level also indicate that India is emerging as an important market for Korea. Across product groups, the number of tariffs lines covering Korea`s exports to India is more broad based whose share in world exports has increased over the years. The study concluded by increasing bilateral trade and investment, the Korea – India CEPA, will increase interest in business, reflecting the complementarily between the two economies.

Rajaram Panda (2012) “India and South Korea relations: Past and Future Trends” this study demonstrated that the CEPA has helped in Boosting India – South Korea bilateral trade. The CEPA which came into existence proved to be a catalyst in taking the bilateral ties into a higher gear. In the first year of its operation, CEPA unleashed the economic growth impulses and as a result bilateral trade surged over the previous year. The growth rate in India – South Korea trade is significantly higher than that in both Korea`s total trade and its trade with China. While Korea`s imports from India grew significantly, thus shrinking India`s trade deficit with Korea and allaying fear and concerns expressed in some quarters
in India that the CEPA will widen Korea`s trade surplus with India. Both countries are committed to sustain this growth momentum over the years as they progressively reduce or eliminate the tariffs on imports from each other. The CEPA facilitates greater integration among Asian markets and offers South Korean companies a competitive edge vis-à-vis those from Japan and China. Fully appreciating the role of CEPA as catalyst to promote trade and investment, the two countries also agreed to upgrade the CEPA to make it more ambitious so that the two countries can realize the set trade target.

**Shahid Ahmed (2011)** in the study of “India – Korea: An Assessment” investigated the potential economic impacts of India – Korea CEPA using partial and general equilibrium analysis. SMART simulation results revealed positive consumer`s surplus gains for India and south Korea. According to the author India`s consumer`s surplus will be increasing by US $ 317.8 million while consumer`s surplus in South Korea will be increasing by US $ 452.8 million. The sensitivity analysis indicated that the results are more stable for South Korea compared to India in case of free trade in goods. The study concluded that India and South Korea will have positive effects on consumer`s surplus as a result of CEPA. Moreover India and South Korea will gain in terms of trade by US $ 5.7 billion and US $ 1.82 billion respectively and there is need to implement CEPA as fast as possible.

**Biswajit Nag (2011)** The author has Analyzed the Positive and Negative views about the current trade between India and Sri Lanka and their possible
implication in post Comprehensive Economic Partnership Agreement (CEPA) period. The author found that an aggregate view of trade between India and Sri Lanka since the Free Trade Agreement (FTA) came into force suggests a very positive picture with overall trade growing by many folds. Furthermore, the increased diversity and greater value addition in exports both from India and Sri Lanka is a positive development. It is also important to note that many products which experienced huge growth in trade are in the negative list of Sri Lanka. Sri Lankan experts observe that the main growth of exports from Sri Lanka has been due to copper products and vanaspati. Excluding these two products the export growth was much lower. Actually Sri Lanka does not possess any distinct comparative advantage in these products. However, due to short-term tariff arbitration by Indian manufacturers investing in Sri Lanka helped exporters. In the goods sectors, CEPA negotiation targeted to reduce negative list of both the countries so that India and Sri Lanka receive additional markets access. Moreover, under the CEPA framework Sri Lanka will enjoy better market access in India than South Asian Free Trade Agreement (SAFTA) route.

Shahid Ahmad (2010) in study of “India — Korea: potentials and Relations”, investigated the potential economic impacts of India — Korea Comprehensive Economic Partnership Agreements (CEPA) using trade indices, partial equilibrium and computable general equilibrium. In this study the author formulated the objectives like recognizing their long-standing friendship, strong economic ties and close culture links, through the recommendations of Joint Study Group (JSG)
negotiations on the CEPA has provision for substantial cuts in tariffs CEPA would improve their attractiveness to capital and human resources, and create larger and new markets, to expand trade and investment not only between then but also in the region. One hypothetical scenario is examined by using Strategic Marketing and Research Techniques (SMART) model and two hypothetical tariff liberalization scenarios are examined in Global Trade Analysis Project (GTAP) model focused on short run and long run tariff liberalization. Finally bilateral investment flows has also been discussed. The GTAP results revealed that Korea gains while loses in terms of welfare. Sectorial output and employment effects are mixed. Both countries are gaining significantly in their bilateral trade flows. The Systematic Sensitivity Analysis (SSA) results revealed that the Computable General Equilibrium (CGE) results are robust. Using partial equilibrium analysis, SMART model indicated positive effect on consumer surplus and on other trade flows. This study concluded that India and south Korea’s consumer`s surplus will be increasing as result of this CEPA. Indian and South Korean consumers will drive gains from the FTA since they will have access to goods at lower prices. Despite consumer surplus gains, the CGE analysis concluded that India – South Korea CEPA would result in welfare loss for India. India`s large welfare loss may also be due to allocate inefficiency, and decline in employment opportunities for unskilled labor and trade diversion and the output in India decline in labour intensive sector. Further this study also indicated that there is possibility of increase in bilateral exports however there is substantial possibility of trade diversion as result of bilateral trade in goods.
**Gregory P, Corning (2009)** “Between bilateralism and regionalism in East Asia: The ASEAN — Japan Economic Partnership” The study focus on the key issues in harmonizing bilateral free trade agreements. The ASEAN+1 free trade agreements with China, South Korea and Japan represent the first attempts to structure cooperation in trade across southeast and northeast Asia. It is therefore important to examine the agreements and the extent to which they actually liberalize trade. This study further examined the challenges in consolidating regionalism in a modest context of an ASEAN+1 FTA. It discussed some of the major choices made in the negotiation of the ASEAN — Japan Comprehensive Economic Partnership (AJCEP) and the way in which these choices might help or hinder the consolidation of economic regionalism. This study discussed of the major perspectives on economic integration in East Asia with a particular focus on the key issues in harmonizing bilateral FTAs. It then explored Japan’s efforts to reconcile bilateralism and regionalism by examining both the course of the AJCEP negotiations and by comparing the final agreement with FTAs Japan has reached with individual ASEAN members. The agreement does expand cooperation in areas such as sanitary and phytosanitary measures to all signatories but ignores issues like labour mobility and government procurement. It also makes limited progress in harmonizing and liberalizing rules of origin.

**Pravakar Sahoo et al (2009)** in this study of “Gains from India– Korea CEPA” discussed the bilateral economic relations between India and Korea that have been strengthening over the years, since 1991. The increase in merchandise trade
between the two countries has been mainly because of changing demand structure and comparative advantage of both the economies in complementary sector. However, the size of the trade is relatively low, given the size due to both qualitative and quantitative barriers which led both the countries to lose comparative advantage in their important export items. Therefore, CEPA provisions to reduce and eliminate tariffs and non-tariff barriers in large number of product categories would make their exports competitive in each other’s markets. The successful completion of CEPA is timely and supported by increasing Trade Complementarity Index (TCI) which shows Indian and Korean trade has gradually became more compatible over the period. The CEPA also provides opportunities for the Korean industries to enter manufacturing sector in a big way due to elimination of tariffs and non-tariffs barriers. The agreement which proposes for bilateral economic co-operation would strengthen the economic co-operation and both the countries would benefits immensely. This study concluded that, the India ─ Korea is a step in the right direction especially in the backdrop of slowdown of world trade. The reduction and abolition of tariffs due to CEPA would result in increase in trade and investment relations between two largest economies of Asia. The India ─ Korea CEPA would boost trade and investment between two countries when the developed world is turning to protectionism because of global financial crisis.

Sahid Ahmed (2009) in the study of “Free Trade among South, East and South ─ East Asian Countries” investigated the potential trade flows between countries of South, East and South East Asian region as a result of tariff
liberalization using the GTAP model. Hypothetical tariff simulations have been undertaken to explore the rational for deeper integration among South, East and South East Asian Nation. This study revealed that tariff liberalization has positive effects on all country groupings of South, East and South East Asian Nations, with no or nominal negative effective on rest the world. The study revealed that free trade among South, East and South East Asian countries will be welfare enhancing. The Results indicated highest increase in global exports of rest of East Asia, followed by South Asia, China, South East Asia, Japan and other developed countries. Moreover, this study established that engagement for South Asian region is crucial for Asian Regionalism if the goal is to maximize welfare of the people in the region. This study also emphasized that there is a huge unrealized potential in the countries of this region and free trade will be welfare enhancing, hence, there is a need to explore greater cooperation in South, East and South East Asian region like the EU.

Biswajit Nag (2005) in his study “Trade cooperation and performance in East and South Asia: Towards a Future integration” suggested that in many cases of regional trading arrangements, resulting from multilateralism. It becomes increasingly apparent that there is much to gain from regional trade facilitation measures. Regional Trade Agreements (RTAs) may lead to “trade diversion” which can limit the benefits derived from trade liberalization. Regional peace, stability and mutual trust are basic preconditions for successful regional cooperation. In the first and second stages of RTAs development, agreements by and large follow a
“positive list” approach. In the third and fourth stages, creation of single market involving trade facilitation measures and the liberalization of trade in services, plus movement of labour and capital. However, the rapid proliferation of RTAs, especially in the 1990s, has blurred all of these stages. To be Consistent with the multilateral process RTAs should be outward looking. This study analyzes that ASEAN as a collection of small countries would like to be a “hub” and become connected with different countries separately through agreements such as the ASEAN – china or ASEAN – India arrangements. Moreover, selected trade agreements and the performance of major Asian economies to harness the possibility and implication of further trade cooperation among South, South – East and North – East Asian countries. In this context, the merits of harmonizing trade cooperation among ASEAN, SAARC and North – East Asian countries has been explored.

Vinod Rege (2000) stated that in his study on “The world trading system: what`s in it for business?” exporters have some assurance that they can obtain their requirements without delay and at competitive costs. Tariff bindings also assure that their importing costs will not be increased by higher customs duties. The business community has the primary responsibility to convert tariff reductions and liberalization commitments into trade opportunities through its export promotion and development strategies. Detailed knowledge of the concessions on goods and services products of actual and potential interest to the community is necessary to develop such strategies.