

An Evaluation of Public Procurement Import Penetration: Liberalisation Effects of Preferential Trade Agreements for South Korea

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Context and Objectives: The study on South Korea evaluates the impact of Preferential Trade Agreements (PTA) on procurement liberalisation and import penetration negotiated/offered under WTO-GPA. WTO-GPA is a plurilateral agreement that facilitates procurement liberalisation among the WTO members that are signatories to the Agreement. PTAs negotiations are driven by partner countries'™ aim to liberalise trade such that tariffs and non tariff barriers are reduced/eliminated. South Korea acceded to the WTO-GPA accession in 1994, and signed three PTAs: Singapore (2006), European Free Trade Agreement (2006) and EU 28 (2011), with GPA member countries.

This paper maps changes in the volume and composition of sectoral imports for public procurements covered under the WTO GPA agreement as well as pre and post PTAs. We estimate the impact in terms of GDP, welfare impacts, allocative and distributive efficiencies as well as employment generation for the two scenarios, i.e. liberalisation through WTO-GPA and PTAs. In addition, we examine the ex-post impact of public procurement liberalisation achieved under the PTA and WTO-GPA regime by assessing the pros and cons associated with greater market penetration. The approach employs a bottom-up approach of analysis by aligning entity level demand for the public procurement market, and discusses the possible design of appropriate strategies for enhancing trade balance.

Data sources: The paper draws on data from several sources. The data on sector wise GPA imports (volume) are obtained from procurement statistics reported under Article XIX: 5 of the WTO-GPA; this is available for 2002, 2003, 2004 and 2010. This includes services and commodities demand reported by GPA member countries under Annexure I, II and III of the WTO-GPA. The aggregated data is compiled by sectoral classification in the Common Procurement Vocabulary (CPV). As a next step, the CPV sectoral classifications is concorded with 35-sector national Inout Output tables available in the World Input Output Database for South Korea. On the lines of GPA reports 2002-2004 are the basis for pre PTA analysis while the data for 2010 is the basis for post PTA analysis.

Methodology: An input output analysis is performed for the four year data segregated as pre and post PTA scenario. The sector specific impacts on GDP and employment are analysed along with sectoral import penetration profile. The results indicate greater and wider import penetration across economy in both service and product sectors post PTA. Further, the overall (direct and indirect) decrease in domestic demand created through public procurement markets is 34.5 % more in post PTA scenario. The probable decrease in domestic employment generation under the post PTA scenario is 41.5 %, higher than under the pre PTA scenario.

This study differentiates itself by providing ex post impact analysis of PTA in public procurement liberalisation under WTO-GPA regime for South Korea . As public procurement markets have been closely protected and strongly associated with public welfare impacts , pros and cons associated with greater penetration need to be scrutinised both for its allocative and distributive efficiencies. Further as current analysis uses a bottom up framework it can be easily applied for realigning entity level demand associated with public procurement market thus designing appropriate strategies for enhancing favourable trade balance & dynamics.