Economy wide Impact of CEPA between Canada and India

Topic: International trade 1
Author: Kakali Mukhopadhyay
Co-Authors: Debesh Chakraborty, PAUL J. THOMASSIN

India has emerged as one of the world's fastest-growing economies. India's rising per capita income, rapidly expanding manufacturing base and services sectors, with renewed focus on infrastructure and natural resources requirements, make it a market of tremendous opportunity. Canada is one of the G7 industrial economies. It has been ranked the 9th most competitive economy in the world, according to the Global Competitiveness Index 2009–10.

Bilateral trade between Canada and India expanded considerably in the past decade. Canada's total merchandise exports to India in 2008 were six times higher than that in 1999 and reached the level of US$2.6 billion in 2008. India's exports to Canada also grew by 10.7% CAGR during the same period. Since imports from Canada were larger than exports to Canada, India had a trade deficit vis-à-vis Canada of nearly US$1.2 billion in 2008.

India's leading sectors of exports to Canada in 2008 were chemical products, which accounted for 25.2% of total exports to Canada, followed by textiles and wearing apparel, miscellaneous manufacturing products as well as machinery and equipment. These four categories together made up more than 70.0% of the total Indian merchandise exports to Canada. Products that reported strong import growth in the past ten years included chemical, rubber and plastic products, textiles and apparel, machinery and equipment, as well as miscellaneous manufacturing products. The structure of India's bilateral trade with Canada is different from its overall exports to the rest of the world.

In recent years, both India and Canada have been engaged in the process to enhance bilateral cooperation in a number of areas of mutual priority such as trade and investment; education; science, technology and innovation; environment and energy. In 2009, India and Canada announced the setting up of a Joint Study Group (JSG) that will explore the possibility of a Comprehensive Economic Partnership Agreement (CEPA) between India and Canada.

In July 2011, Canada and India completed the second round of negotiations toward a Comprehensive Economic Partnership Agreement (CEPA). In the second round, progress was made in the areas of goods, services, origin procedures, temporary entry for business persons, technical barriers to trade, sanitary and phytosanitary measures, and institutional provisions. Prime Ministers from both the countries are committed to conclude CEPA negotiations by 2013. A joint study group has estimated the gains and losses of the proposed CEPA between two countries. The exercise considers the current scenario not the long run impact.

In this background, the current study estimates the economy wide impact of proposed CEPA between Canada and India for the year 2030. It uses a global CGE Model based on GTAP Database 7. A number of simulation exercises involving shallow and deep integration are conducted focusing on sensitive sectors for both the countries. The findings of the study show that both the economies will benefit from the growth in GDP, export and import from the proposed CEPA at 2030. The study estimates the trade creation and trade diversion effects. The proposed agreement will also improve the welfare of both the countries at 2030. However, the impacts on the energy resources and the environment are mixed. The study concludes by suggesting several areas of collaborative research for an in-depth enquiry.