Chapter 5

Conclusion

This chapter tries to put together the salient findings of this study on India’s preferential trade and rules of origin therein. Policy implications from such findings are also discussed here. The chapter concludes giving the limitations of the study, thereby charting out future research areas.

This study was undertaken in the backdrop of growing regionalism in the world, through Preferential Trade Agreements (PTAs), and the consequent debate amidst economists on their usefulness in liberalising trade and the role Rules of Origin (RoO) of the agreements play in such trade. India’s PTAs were the specific context of the study. The main objectives of the study were: to analyse the preferential trade dynamics between India and its PTA partners; to evaluate the design and enforcement issues of RoO of these PTAs; and to find firm-specific issues in use of the PTAs.

In the first chapter the context of the present study was explained in details and the literature on PTAs and RoO were reviewed. PTAs are set up to foster more trade by liberalising trade (i.e. reducing or eliminating tariffs) among members. However, there have been debates on their effectiveness and extent of utilisation by traders. The debate is also on whether PTAs are building or stumbling blocks to multilateral trade liberalisation under WTO. Another debate on them surrounds RoO of the agreements. RoO in PTAs are necessary as they prevent trade deflection: they prevent simple transhipment of goods by requiring products to ‘originate’ in exporting member countries. However, restrictive RoO may also make traders forgo tariff preferences and pay full MFN tariffs, as cost of satisfying such RoO will be high due to compliance and administrative costs, which can be even more than the tariff preference margin that a PTA offers. In the literature many instances of low utilisation of preferences are cited where RoO have been shown to be the main culprit.
After reviewing the literature the gaps therein were discussed – there are methodological gaps in analysing role of preferences in intra-PTA trade. Gravity model analyses are mostly applied to find effect of PTAs. However, they consider overall trade and find effect of formation of PTAs on such trade by using a PTA dummy variable. Since many PTAs have large negative lists, a considerable number of products do not come under the purview of preferential tariffs. An overall trade analysis, then, does not give the true picture of preferential trade. There has also not been any attempt to analyse design or enforcement issues of RoO under the Indian PTAs. This is important as RoO design decides trade restrictive capabilities of the regimes negotiated under each PTA. Implementation issues are also very important from a policy perspective. Firm level study, to find out issues in use of the PTAs, is another under-researched area, specifically in the Indian context. As trading firms are the ultimate beneficiaries of any preferential tariff reduction, it is important to find how the PTAs are being utilised by them and what are the major barriers they face in their utilisation. At the time of writing this, to the best of my knowledge, a comprehensive study on all the Indian PTAs and their RoO has not been undertaken. Given the specific issues relevant to the study three objectives, mentioned above, were identified. A brief methodology was set out and required data source and time period of analysis was mentioned. The first chapter also gave the chapter scheme.

The first objective of analysing India’s preferential trade was dealt with in Chapter 2. There are fifteen operational PTAs India has with twenty five countries at the time of writing this. The question was put whether such PTAs are helping in boosting bilateral trade. Due to bilateral nature of the data, and a reasonable time period required post PTA implementation, only the bilateral PTAs with Sri Lanka, Afghanistan, Singapore, Thailand and Chile, which have been in force for at least three years, were analysed in details. The regional PTAs and bilateral PTAs coming into effect recently were also analysed, but preliminarily. It was found that the Asia-Pacific and ASEAN region are most important for both India’s exports and imports. Importance of the Asia-Pacific region accounts for India’s rising trade with China, which is a member of that group. In ASEAN India’s trade is mainly with Singapore, Malaysia and Indonesia. The SAARC region has a steady but small presence in India’s exports (over the last 20 years 4 to 5 percent of India’s exports go to SAARC countries and this figure has remained unchanged) but accounts for negligible
imports; important export destinations within SAARC are Sri Lanka, Bangladesh, Nepal and Pakistan. Trade with MERCOSUR is mainly with Brazil, and to an extent with Chile; with MERCOSUR nations imports are more in value than exports. Overall it was found that India’s trade is more in imports than in exports with the PTA partners.

Due to lack of data in the officially available statistics about trade through preferential routes, the study took recourse to an alternate route to ascertain preferential trade dynamics – first, it found out value of each of the preferential trade items given in a PTA (or non-preferential trade items given in the negative list) at the H.S. 6-digit or 8-digit level as was the case. Next the trade values in preferential items (or non-preferential items) was aggregated and compared with the value of overall trade for a particular PTA partner. For example, under the India-Sri Lanka FTA, Sri Lanka offered tariff concessions to all products originating from India except about a thousand items at the 6-digit HS level, which were kept in a negative list. Aggregating the value of these thousand items for a particular year and subtracting them from India’s total exports to Sri Lanka in that year, the value of trade in preferential items for that particular year was arrived at. For the Chile PTA, however, instead of a negative list there is a list of 296 items, at the HS 8-digit level, where Chile gives India preferential entry. So the value of these 296 items of India’s export to Chile were aggregated and compared with India’s total exports to Chile. This was done for all years from a year or two before a PTA came to force till latest data available. So there were two trend lines, one giving overall trade trend, the other giving trend in trade of preferential items. This was done for both India’s exports and imports. The trend line in preferential exports (or imports) do not give the actual trade in preferential items (as it is not known if items of trade are using tariff preferences at the time of import) but give the upper bound in preferential trade i.e. if all the preferential items are using preferences then this trend line depicts their values over the years.

From the analysis it was found that after the PTAs came into effect both exports and imports in preferential trade items from the PTA partners increased. However, an interesting contrast was found amidst preferential exports and imports – preferential imports were the driving force behind the substantial increase in total imports from
the PTA partners, whereas preferential exports, though increasing in value, could not explain the amount of increase in total exports value to PTA partners. This indicated that most of increase in India’s exports, post PTAs coming to effect, were in non-preferential items. Thus the PTAs per se cannot be said to be behind the increase in exports that has been witnessed in recent years. In recent times India’s top exports, worldwide, have been in gems and jewellery, petroleum products, machinery (both electrical and non-electrical), vehicles, iron and steel and their articles. Many of the items under these headings have not got preferences under the PTAs. So, even though listed in the negative list in the PTAs, these important export items from India account for more of total exports under the PTAs, as they do worldwide. At the same time, it was noticed that most of India’s PTA partners got preferential benefits exactly in the items that are of export interest to them e.g. spices for Sri Lanka, electrical equipments for Thailand, copper ores and concentrates for Chile, and dried fruit and nuts for Afghanistan.

As imports in preferential items were found to have increased tremendously after the PTAs came to effect and as they explain majority of imports from the PTA partners, a panel data analysis was carried out to find if the effect of tariff preferences on the imports was statistically significant or not. The bilateral PTAs with Sri Lanka and Thailand were chosen for the panel data analysis as at least five data points are required after PTA coming into effect to carry out a meaningful analysis about tariff preferences having any effects. The aim was to find out if tariff preferences were significant in explaining the increasing trend of imports from these countries. Available secondary data on imports of top twenty preferential products, at the HS 6-digit level, from each of these countries, for the last twenty years was processed in a panel system. As trade values at such disaggregated levels fluctuate a lot from year to year, averaging of the data was resorted to. This was done to see which items were imported most ever since the PTAs came to effect. Top twenty products, for each of the PTA partners, were calculated by averaging their values over the years after the PTAs came to force. Next tariff preference margins – (MFN Duty - Preferential Duty) – for each of these products, for every year, were calculated. Apart from preferences other factors could play a significant role in increasing imports from a partner country e.g. even without a PTA in place import values may increase from a trading partner as general import demand of a product goes up. To include some of the unobserved
factors a fixed effect model was run. So a simple model was proposed where import values of top twenty preferential items can be determined as a function of tariff preferences under ISFTA. The other factors that affect imports of such items were hoped to be captured by the fixed effects model. This methodology is better than the overall gravity models generally used in ascertaining effects of a PTA, as here the exact items getting preferences are regressed on the tariff preference each gets under the PTA. The gravity models use a PTA dummy variable to find effect of preferences. This has been criticised in the literature as such a dummy cannot satisfy the strict exogeneity conditions required for OLS. The alternate methodology, developed here, can be used for finding effects of tariff preferences exchanged in a PTA in a more effective manner.

It was found that the dependent variable (import value of top 20 items from each of the partners) and the independent variable (tariff preferences) were not stationary. Panel unit root tests could not summarily reject the null hypothesis of ‘no unit root’ for each of these series at the level. However, the series were found to be integrated of order one. So a panel cointegration analysis was carried out and it was found that the series are cointegrated for each of the PTA partners implying in the long run there was relationship between the variables. Accordingly a dynamic GLS (DGLS), specified in the literature, was run to find out the relationship between increase in imports and tariff preferences. From the panel DGLS analysis it was found that tariff preferences are indeed significant in explaining increasing imports from Sri Lanka and Thailand.

So for the first objective it was noticed that the coming into force of the PTAs did increase trade in preferential items, though it was more for imports than exports; also it seems that India has given more preferences to the PTA partners in items of their interest than it has got for its own exporters; further analysis shows that tariff preferences indeed have helped increase imports significantly with respect to India’s trade with Sri Lanka and Thailand.

From the literature review in Chapter 1 it was found that RoO play an important role in use of preferences in a PTA. Their effects on preferential trade depend on their design. Thus, Chapter 3 evaluated the RoO design of India’s operational PTAs. This was the second objective of the study. It was found that India’s RoO regimes have evolved from simple, short texts with few rules to complex, long texts with a plethora
of rules as newer PTAs were negotiated. For ascertaining restrictiveness of the RoO designs an index analysis, available in the literature, was resorted to. Analysing the provisions regarding RoO given in the texts of the agreements and using the index measure, restrictiveness levels of the RoO under the various PTAs were calculated. On a comparative scale (comparing with least restrictive RoO of Singapore-Australia FTA and most restrictive variant in NAFTA) it was realised that the RoO designs in Indian PTAs are from medium to high restrictive in nature. There was also a non-monotonicity in the increase in restrictiveness – initial PTAs had medium restrictiveness, later agreements had higher restrictiveness, however, after the Thailand FTA there had again been a decline in restrictiveness scores, implying more liberal RoO design in latest PTAs. The high restrictiveness of RoO for some of the PTAs is mainly due to the absence of supplementary measures to RoO, which relax the stringency of such rules. Supplementary rules were included in the later agreements and thus brought the scores down, for example in the Korea CEPA inclusion of de minimis rules, relaxation of the territoriality rules have made its RoO design less restrictive. However, it has to be kept in mind that in negotiating any PTA, agreeing on the criteria for originating products is the most difficult task. Adding more clauses stating exceptions to the general rules agreed upon increases the complexity of the RoO regime chosen. So even if the RoO have high restrictiveness values in the initial PTAs they have more procedural simplicity than the later ones. However, for small partner countries even medium restrictiveness variants of RoO may affect their use of preferential trade. This was found to be the case with the exporters of Sri Lanka: the heavy import dependence for inputs in most of Sri Lanka’s manufacturing industries, made even the ‘medium-restrictive’ RoO of India-Sri Lanka Free Trade Agreement (ISFTA), as found from the analysis, to be ‘high-restrictive’ for their businesses. This was pointed out in bilateral discussions between the countries and a request was put forward by Sri Lanka for a downward revision of the domestic value added (DVA) rule. However, the US GSP scheme, to which Sri Lanka is one of the beneficiary nations, also requires same DVA percentage as does Sri Lanka’s FTA with Pakistan. Thus instead of reducing the already low DVA requirement supplementary rules, or perhaps product specific rules, may be used to relax the stringency of the rules. This may help the traders as when they find a general rule closes their option of using the PTA, an alternate rule (a product specific rule – say for a particular product there is a “CTC or DVA” rule) or a special rule (a
supplementary rule – say if CTC not possible to achieve a de minimis rule may be applied and if DVA is not possible an absorption rule may be followed) will make it easier for them to use preferences for their products.

Most governments around the world realise the trade-restricting capabilities of RoO and are thus trying to simplify their design – EU is trying to liberalise its various RoO under different PTAs; America too has negotiated less restrictive RoO for other PTAs after NAFTA. The Indian trade policy makers do perhaps realise the restrictive capacity of RoO and thus may have incorporated supplementary rules in the later PTAs (Korea CEPA) or chosen only a single method of determining origin (MERCOSUR PTA), whereby the restrictiveness scores of the later PTAs have declined. Still the later PTAs have long list of RoO clauses, as is evident from the number of pages devoted to them, which may be difficult for traders to understand.

It was also witnessed that by simple techniques (under-invoicing of imported inputs and including profit margins in DVA calculations) RoO could be circumvented in case of copper exports from Sri Lanka and edible-oil exports from Sri Lanka and Nepal. This exposed the vulnerability of the rules to trade malpractices. Joint verification and/or certification mechanism and timely bilateral discussions are of paramount importance for effective implementation of the rules. Later agreements have included clauses on verification, safeguards and penalties to check and stop violation of RoO. So for policymakers the challenge is to design a RoO which will not be restrictive yet will be strict enough to prevent trade deflection and also will be easy to understand and comply by the traders.

In Chapter 4 firm specific issues in use of India’s PTAs were explored, which was the third objective. First, utilisation of preferential schemes by Indian exporters was determined from a primary survey of certifying agencies. The same by importers was not possible to be ascertained as data from Indian Customs, required to find utilisation by importers, could not be availed. Studies were found in the literature with respect to the Sri Lanka FTA from Sri Lankan exporters’ view (thereby indicating use of the preferential scheme from the Indian importers’ viewpoint). Such studies have shown that utilisation of ISFTA by the Sri Lankan exporters has been good on account of copper and edible oil trade but in recent years, as copper and edible oil trade has been checked, the utilisation rate has been coming down. From the survey it came to the
fore that Indian exporters too are not using the preferential schemes much. When compared to certificates of origin (CoO) issued under GSP, CoO issued under all PTAs put together is very negligible – on an average, over the last five years, only about 3 per cent of CoO is issued for the various PTAs as compared to about 96 per cent under GSP (about 1 per cent of CoO is applied for GSTP). Amidst the PTAs the exporters applied mostly for the ISFTA. Initially, in 2004-05, when not many PTAs were in operation, CoO applied for ISFTA accounted for approximately 60 per cent of total application for all PTAs. In latest data collected, 2008-09, 35 per cent of total applications for CoO under PTAs are for ISFTA. However, even for ISFTA, out of the total annual export transactions to Sri Lanka, only about 11 per cent were issued CoO in 2008-09. This figure was arrived at by comparing the annual number of CoO issued by Export Inspection Council (EIC), Delhi, the sole certifying agency for ISFTA, with the annual number of export transactions going to Sri Lanka, which was got from a visit to the Directorate-General of Commercial Intelligence and Statistics (DGCI&S) in Calcutta. It was also found that if there was more than one PTA to export for a particular partner, the traders applied for that PTA which had less strict RoO, especially lower DVA norms. Thus RoO seem to be a determinant in using the preferential schemes.

To delve deeper into the issue of use of PTAs and their RoO and how they affect exporters, a primary survey was undertaken in three cities – Delhi, Calcutta and Chennai – with exporters who are exporting to Sri Lanka. Sri Lanka was chosen for the firm survey because of the longer time period the FTA with it has been in force. A questionnaire was prepared to elicit opinions of firm export managers (/marketing manager/international sales manager) on the use of ISFTA and RoO therein. From the 150 identified firms 51 responses were obtained. Approximately half of the respondents said they use the ISFTA. Many of the firms using the ISFTA, more than half of the respondents, felt that the trade agreement helped their firms in increasing exports to Sri Lanka. Some firms felt that the agreement helped as they give Indian companies a competitive edge over cheap Chinese products in the Sri Lankan market.

The most important thing that came out from the primary survey was the low levels of awareness that the exporters have about the ISFTA even after 10 years of its being in operation: 33 per cent of exporters were not aware about the ISFTA. Low awareness
and products not getting concession (i.e. negative list products) were the two main reasons for an exporter not using the ISFTA. About 30 per cent of exporters said they do not have information on other Indian PTAs. Thus, the Government of India (GoI) should put in more effort to make sure that information on the various PTAs reaches the ultimate users of these agreements: the traders. This is of paramount importance. The GoI do give information on the different PTAs through the Department of Commerce website. It is a comprehensive site giving all information on PTAs and other issues. However, the website needs to be updated regularly, in which it was found to be lagging behind. Even if it is done, technologically not so proficient firms need other informative tools to know about the benefits of the PTAs.

About a fifth of the respondents reported unsatisfactory business relation with Sri Lanka due to a host of non-tariff barriers (NTBs). Some industries face problems with product certification from the Sri Lankan Standard Institute (SLSI), some others cited sudden levying of additional cess on their products by the Sri Lankan Government and then their sudden withdrawal, which makes the business environment uncertain.

With regard to the design of RoO one firm, in the chemicals industry, stated its problems with the Change in Tariff Heading (CTH) rule of ISFTA: it was impossible for this firm’s final product to satisfy CTH when imported inputs were used, even though value of imported inputs was low. Maybe supplementary rules, like *de minimis*, to relax the CTH are required or maybe product specific rules, which give a choice between DVA and CTH, need to be designed. Another exporter, exporting metal articles, stated the difficulty of attaining the 35 per cent DVA required for using ISFTA. This value addition was difficult as imported raw materials made up most of the value of the final product. Thus for this firm even though CTC was fulfilled it could not use the ISFTA because of the DVA rule. Another firm manager rued about the different RoO under various PTAs. He said that the differing levels of CTC in different agreements (somewhere CTH, somewhere CTSH) add to the confusion. Overlapping agreements with differing RoO create confusion, as is clear from the question the manager put up: how can a product be originating in India, under rules of one agreement, and becomes non-originating under those of another agreement?

Those who use the FTA said RoO did not add any major costs on them. Less than 1 per cent of the value of their export shipment is needed for satisfying origin rules.
The cost of obtaining a CoO for a consignment is a meagre Rs 25 for the form and Rs 150 as certification fee. Travel and stay costs of a certifying official are to be borne by the exporter plus Rs 500 per man-day to be submitted during physical verification of the first consignment, and routine verifications thereafter – there is a mandatory requirement of physical verification once in a year or after every twenty consignments, whichever occurs earlier. Only one firm in Delhi said that there was ‘red-tapism’ in the process of getting the certificates and bribes had to be paid to obtain the CoO without delay. All other firms in the survey, however, said that the cost of satisfying the rules were negligible. However, incorporating rules like the mandatory requirement of supporting the verifying official’s travel and stay, that firms have to bear during the physical verification of the consignments, can lead to corruption and misuse. Juxtaposing this with the fact that pursuing the veracity of CoO is a lengthy process and routine verifications can exceed staff resources in developing countries, as pointed out in a World Bank (2004) study, we do arrive at a serious situation where RoO design *per se* is not the problem but implementing them is. This was what emanated from the survey. Majority of the firms, even though satisfied regarding the design and costs of obtaining CoO, complained about the delay in getting the CoO. So there are high transaction costs, which are difficult to capture, but they do play an important role in use of the preferential schemes. Thus, when asked for suggestions, many firms wanted a better certification process.

From this study it is clear that the RoO in the India-Sri Lanka Free Trade Agreement became a contentious issue and both countries have had cause for complaints against the regime chosen and its implementation: for Sri Lanka the design is restrictive in some cases and hinders the utilisation of the preferential schemes; for India there has been a lot of concern over the violation of these rules, which has necessitated that more focus be given on implementation issues. From the primary survey of Indian exporters it came out that the rules themselves did not pose many problems, however, the certifying process, especially the physical verification component was found to cause a lot of delay in shipment for many firms. Physical verification of first consignment (and then in every twenty consignments, or in a year) is a necessary requirement under India’s PTAs. It can be bypassed and a lot of delay can be cut short through adoption of self-certification processes as is there in NAFTA. Compared to European origin models where competent certifying agencies are involved in the
issuance of proofs of origin, NAFTA allows an exporter to complete and sign a CoO, which states the origin of the goods to be of the exporting country. India follows the European model. For self certification mechanism to work the penalty system, in case a mis-declaration of origin or fraud is found out, needs to be stringent and effective, which perhaps is difficult to ensure in a developing country perspective. So a physical verification requirement cannot be entirely ruled out even though the process can be streamlined further to ensure minimum delays.

Regarding design of the RoO a case may be put forward to have a single rule of Change in Tariff Classification (CTC) instead of the general twin rule (DVA+CTC) followed in most of India’s PTAs. Use of CTC for determining origin renders procedural simplicity and it also prevents the possibility of RoO violation by accounting frauds, as was witnessed in the copper and edible oil trade. Also fluctuations in exchange rates or material costs can change percentage value added calculations, and if one shipment of a firm satisfies DVA, there is no guarantee that the next shipment will also do so. A CTC based RoO will not require complicated accounting procedures and thus will not make RoO proof a burden on firms, particularly small and medium enterprises. However, use of CTC has the problem of reliance on the HS system which essentially is a classification system and there can be cases, as is well-documented in the literature, where CTC at even sub-heading level cannot be achieved even though substantial transformation is done e.g. some products in the chemicals and machinery and mechanical appliances chapters. Also CTC, unlike DVA, can be captured by special interest groups for protectionist purposes as was seen during negotiations under NAFTA. Also from the survey it was found that firms did not have any problems with the DVA norm in ISFTA, which is one of the lowest amidst any PTA, but their understanding on CTC rule was not very clear and also some firms could not use the preferences as CTH was not possible to comply with. Giving alternative to the CTC rule e.g. putting in place an alternate DVA norm, or putting in de minimis clauses can take care of part of the problem with the rule. However, it cannot be said with certainty that following a particular RoO will be less restrictive or problematic. So the focus should be on supplementary rules to relax the stringency of the twin criteria. Focus should also be given on implementation of the rules to check for difficulties and malpractices.
India and Sri Lanka are planning to deepen the economic integration by including trade in services and investment, by establishing a comprehensive agreement. RoO in goods has proved to be the sore point for both countries. Nationality of a service-provider, and henceforth their RoO, is a more contentious issue. Both the countries should keep in mind the problems that arose while enforcing the RoO and put the learning to good use in future PTAs where additional clauses on implementation of RoO can be introduced. This has been introduced in some of India’s later PTAs, like the Korea CEPA. Top priority should be given to check trade malpractices otherwise we will end up having just paper agreements with no real utility, as a miniscule of traders uses the PTAs and in some cases disutility, as traders flout the rules and cause distress to the domestic industry.

Given the skewed preference exchange, low utilisation of preferences, low awareness levels of firms, problems in implementation of RoO, what is important now is to pause, reflect back on the decade long experience in various PTAs, their effects on trade, and thereby their utility to the traders, the ultimate users of such preferential arrangements, and then decide on the course for future negotiations. Utility of PTAs goes beyond economic outcomes as Europe’s history in regional integration has proven. Also, joining more PTAs may bring long-term dynamic gains. But it also has to be kept in mind that benefits from trade in goods under the PTAs are going to be limited by the extent of multilateral liberalisation that will take place once the Doha Development Round, under the WTO, gets done. Moreover unilateral tariff liberalisation by countries also reduces the scope of these agreements. Upgrading of the FTAs to comprehensive trade agreements may counter this and bring in benefits in multiple areas (services, investment etc), but to reap all such future benefits a careful consideration should be given to the current planning of the agreements and their implementation.

Policy suggestions as they have emanated from this study, which will help trade and traders, are given as follows:

- While negotiating for preferences under future PTAs care should be given to see that products of export interest to India get tariff concessions.
Deeper tariff cuts are needed in PTAs as margins of preference under PTAs may reduce through unilateral/multilateral tariff cuts.

More comprehensive agreements, which include trade in services, need to be established, as erosion in tariff preference margin in goods will make the PTAs covering only goods not anymore meaningful in the future.

More products need to be included in future PTAs. India’s recent PTAs are comprehensive agreements covering most of the trade in goods. So perhaps there is a need to upgrade the initial agreements and extend tariff concessions under them to most of the traded products.

While choosing future PTA partners care should be taken so that there are no overlaps in the agreements – if a PTA already exists with a country it makes little economic sense in establishing another PTA with the same country.

More PTAs should be forged with trade partners of importance to India (as the GoI is now doing by negotiating a FTA with EU).

Supplementary rules should be included in the design of RoO to relax the stringency of main methods of origin determination. As India’s recent PTAs have these supplementary rules the initial RoO under the older PTAs need to include such rules.

The plethora of rules in the different PTAs confuses traders and complicates the administration of RoO. Same RoO for all the PTAs is the need of the hour as harmonisation of the different rules under the various PTAs will help immensely.

The issue of RoO enforcement takes a very important dimension as a policy tool and needs to be closely monitored for each of the PTAs – in this regard regular bilateral discussions and joint verification of RoO are of paramount importance.

More information needs to be made available to the traders on all existing and forthcoming PTAs. The Department of commerce website needs to be updated timely giving all information on new trade agreements. Also capacity building
programmes may be organised by the Department of Commerce to give the traders, not proficient in use of websites, knowledge about the PTAs.

- Not only giving information to traders is important, but feedback from traders also needs to be collected through Export Promotion Councils, Industry associations to evaluate the use of the various PTAs by both exporters and importers.

- More information needs to be made available by the GoI on use of PTAs. If the number of import consignments using CoO while clearing the Customs, is known it will facilitate future studies in this area and will thus help in analysing the effect of PTAs, which will thereby help the Government to take a call on future PTAs.

The biggest limitation of this study is that the primary survey could not be extended to Indian importers – data required for the purpose could not be availed from the Indian Customs. Also a bigger sample size in the survey of exporters would have made possible more quantitative research. As RoO and preferences affect different industries differently a case study approach focussing on a particular industry may have given better insights. Another, disadvantage of the study is that the analysis completely relied on official trade data, which does not capture the huge informal trade, present between India and its partners, especially between India and Sri Lanka.

Future research in this area can help overcome the limitations of this study: informal trade dynamics between India and Sri Lanka need to be studied, through a primary survey, to compare and contrast its effects with effects of establishment of the FTA; a primary survey may also be done at the Indian Customs to cull out the exact data on preferential imports with PTA partners; a survey of importers will help to tell the other side of the story; effects of PTAs on consumers (end-user industries) may be tried to find out through industry-specific case-studies. The examination of the link between RoO and preferential trade within conventional trade theories seems to be a further interesting area of research.