Chapter 4

Firm-specific issues in using India’s PTAs

4.1: Introduction

In analysing PTAs there is a new branch of literature (Harris and Suominen 2009, Takahashi and Urata 2010, Kawai and Wignaraja 2011), which focuses on finding out firm-specific issues, how firms use PTAs, what determines their usage, what impedes it, and whether RoO play any role in utilisation of the preferential schemes. This chapter poses the same questions in respect to India’s PTAs and tries to find answers from primary surveys conducted at the government agency level and the firm level. As firm responses to PTAs take time, the FTA with Sri Lanka was chosen for the firm level study as it has been in force for the last 10 years. The next section looks into the question of utilisation of trade preferences by the Indian exporters from a survey undertaken at Indian Government agencies. Section 4.3 gives firm-specific issues related to ISFTA, as was found from the primary survey of firms. The last section summarises.

4.2: Survey of Government agencies: utilisation of trade preferences by Indian exporters

There is no published trade data in India on the use of the various preferential schemes. Thus, to find out the extent of utilisation of preferences by the Indian traders, a primary survey was done of Indian Government administrative agencies – Certifying agencies for exports and Customs for imports. However, to find out utilisation of the PTAs by the importers, information required from the Indian Customs could not be availed after many tries. Also since from the literature there are
studies, which focus on partner country exporters’ utilisation of preferences under the PTAs (e.g. DeMel et al. 2011, looks into Sri Lankan exporters’ utilisation of tariff preferences under their various PTAs, including ISFTA) implying their use by the Indian importers, the focus of this study was to find the same for the Indian exporters, as to the best of our knowledge no such study has been undertaken to find the same in the Indian context. The survey of certifying agencies was undertaken in March-April 2009.

The annual number of Certificates of Origin (CoO) issued under the various preferential schemes was collected from the main certifying agency: the Export Inspection Council (EIC), New Delhi. EIC is the sole authority to issue CoO under India’s various PTAs like ISFTA, IAPTA, SAFTA, ITFTA, ISCECA etc. However, for SAPTA and APTA, apart from EIC other organizations like Federation of Indian Export Organisations (FIEO), various Export Development Agencies can also issue CoO. FIEO was thus surveyed to get data on its issue of COO under these two PTAs. It was found that number of CoO issued by it is comparatively much less than those issued by EIC. This can be seen in Figure 4.1

![Figure 4.1: CoO issued for SAPTA and APTA (average of 2006-07 to 2008-09)](image-url)

*Source: Author.*
As EIC is the main, and except SAPTA and APTA, the sole certifying agency, the data collected from EIC is thus analysed further. The annual number of CoO issued under the various PTAs by the EIC is given in Figure 4.2. It should be noted that the CoO issued notified in the data is for the preferential scheme requested by the exporters. It cannot throw light as to whether the scheme was finally used by the exporter at time of exporting or whether it was then accepted by the importing country Customs. It can be taken as the upper bound in use of preferential schemes, if the CoO issued by EIC is sent by the exporter to his/her importer and if the certificate is accepted by the importing country Customs when the importer presents it at the time of clearing his/her goods. Figure 4.2 gives an approximate idea about the usage of different preferential schemes by the Indian exporters. It is noticed that the exporters are using the ISFTA the most, which given it was the first bilateral FTA and has been in force for a long time, is not surprising. On an average approximately 50 per cent of all CoO issued for PTAs is issued under ISFTA. The next most sought after PTA is APTA, which got reincarnated from the limited scope Bangkok Agreement in 2006. Tariff liberalisation started in a more meaningful way. Liberal tariff preferences were given by China and South Korea under the new agreement, which perhaps accounts for the sudden jump in issue of APTA CoO from 2005-06. CoO issued under the Thailand FTA is low but given that preferences has been exchanged only in 82 items under EHS of the agreement it is not surprising. What is surprising is that SAPTA is still more preferred route for the exporters to South Asian countries, despite the more comprehensive SAFTA being in operation since 2006. SAFTA, despite having a more comprehensive coverage than SAPTA, has very low percentage of CoO being issued under it. In 2008-09 only 1 per cent of CoO was issued for SAFTA as compared to 26 per cent of CoO issued for SAPTA. Even when CoO issued by FIEO (see Figure 4.1) is taken into account it is seen that SAPTA is a more preferred preferential route for exporters than SAFTA. Also negligible quantity of certificates was issued in all the years under the Afghanistan PTA (on an average only 171 CoO were issued annually under IAPTA in the last five years) and is thus not depicted in the figure. On the other hand, under the Chile PTA, ever since its inception in 2007, CoO are being issued in fairly large quantities. However, compared to the GSP schemes used by Indian exporters, the issue of CoO is much less for all the PTAs taken together: of all CoO issued by EIC under different preferential schemes, 96 per cent, on an average, was issued under the GSP schemes as was found from the data collected from EIC; 3 per
cent was issued under all the PTAs taken together; and remaining 1 per cent CoO was issued under the Globalised System of Trade Preferences (GSTP), a preferential scheme between developing countries.

**Figure 4.2: Certificates of Origin issued to exporters annually under various preferential schemes**

![Graph showing certificates of origin issued annually under various PTAs](image)

*Source: Author, from data collected from EIC.*

**Table 4.1: CoO issued for overlapping PTAs and their RoO**

<table>
<thead>
<tr>
<th></th>
<th>Percentage of CoO issued</th>
<th>RoO criteria</th>
</tr>
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<tbody>
<tr>
<td><strong>For Sri Lanka</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ISFTA</td>
<td>90</td>
<td>CTH + 35% VA</td>
</tr>
<tr>
<td>SAPTA</td>
<td>9.8</td>
<td>40% VA</td>
</tr>
<tr>
<td>APTA</td>
<td>0.15</td>
<td>50% VA</td>
</tr>
<tr>
<td>SAFTA</td>
<td>0.05</td>
<td>CTH + 40% VA + PSR</td>
</tr>
<tr>
<td><strong>For Bangladesh</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SAPTA</td>
<td>86</td>
<td>40% VA</td>
</tr>
<tr>
<td>SAFTA</td>
<td>9</td>
<td>CTH + 40% VA + PSR</td>
</tr>
<tr>
<td>APTA</td>
<td>5</td>
<td>50% VA</td>
</tr>
</tbody>
</table>

*Note: CTH is change in tariff heading; VA is value addition i.e. the percentage of value to be added domestically to the export product; PSR is product specific rules.*

*Source: Author’s compilation.*
In cases where for a particular export destination there is an overlap of PTAs, data was collected on the frequency of use of the various PTA routes. Table 4.1 reports this frequency of use of PTA routes for various countries. For Sri Lanka the ISFTA CoO is sought most by exporters, while for Bangladesh the SAPTA route is more preferred. Comparing this with RoO under the agreements it can be said that maybe exporters choose PTAs based on value addition norms: lower value addition requirements, along with coverage of the agreements, may have prompted exporters to use a particular PTA for a country when more than one PTA is available to choose from.

**Figure 4.3: Number of transactions going with CoO in comparison to total export transactions to Sri Lanka**

![Figure 4.3: Number of transactions going with CoO in comparison to total export transactions to Sri Lanka](image)

Source: Author, from data collected from EIC and DGCI&S.

Next, the number of CoO, issued under the most used PTA i.e. ISFTA, is compared with number of transactions that exporters do annually with the PTA partner i.e. Sri Lanka. This data was collected from visits to the Directorate General of Commercial Intelligence and Statistics (DGCI&S), Calcutta to get an idea about the extent of use of preferential schemes. Comparison of the two numbers gives the extent of utilisation of the ISFTA by Indian exporters and is given in Figure 4.3. The figure shows a significant big gap between total export transactions and export transactions with
CoO. Over the years this gap has gone up. In the latest available data, approximately 11 per cent of total export transactions were issued CoO. It is not known whether these certificates, sent by the Indian exporters, are being accepted by the Sri Lankan Customs. Thus, the true utilisation rates of ISFTA, in various years, maybe even less. So, this 11 per cent can be taken as the upper extent of utilisation of ISFTA by the Indian exporters, for 2008-09. Though this is a small amount, it is not surprising as utilisations of most PTAs involving developing countries are found to be negligible from previous studies (Takahashi and Urata 2010 and Kawai and Wignaraja 2011). These studies indicate that RoO, low firm awareness and infrastructural issues are the reasons behind the low utilisation rates they find. According to Inama (2009) the relation between RoO and low utilisation of preferential schemes is an “acknowledged reality” (pp 362). Manchin and Pelkmans-Balaoing (2007) find that the additional administration costs to prove origin exceeded the initial cost gain from tariff reduction (under AFTA) and hence perhaps explain the low utilisation of preferences. To delve into the role RoO play in such low utilisation of preferences and also to find other firm-specific issues in use of PTAs a primary survey of Indian firms exporting to Sri Lanka was next undertaken. Findings of the survey are detailed in the next section.

4.3: Survey of firms: issues in use of ISFTA from Indian exporters’ perspective

4.3.1: The ISFTA

India and Sri Lanka have had commercial links since time immemorial due to geographical proximity, common cultural heritage, colonial linkage and shared historical roots. Sri Lanka has always been dependent on its large neighbour for much of its import requirements. India in the past, however, did not import much from Sri Lanka. This led to a huge trade gap in favour of India. One major reason for forming the FTA was to reduce this skew in bilateral trade. This was expected to happen, as establishment of an FTA would grant the small island economy free access to the large Indian market of over a billion people. The FTA was also expected to attract trade driven foreign investments to Sri Lanka. India was expected to gain from the
FTA on the ground that it could import cheaper raw materials from Sri Lanka and get an export market for its goods in Sri Lanka. However, the most important impetus for the FTA was the emergence of similar trade arrangements around the major world economic powers. Till 1997, India and Sri Lanka had no FTA with any other country (they were though part of the regional SAPTA and the then Bangkok Agreement), which may have prompted the nations to engage with each other by establishing the prevalent form of trade agreement – an FTA.

The ISFTA is in operation for the last one decade. The signing of the agreement led to a variety of studies trying to estimate its potential and probable impact. Some of these tried to look into the potential for trade expansion (Mukherji 2000, Jayatissa and Thenuwara 1999) or the impact of ISFTA on a regional perspective (Harilal and Joseph 1999). After the agreement came into operation some authors tried to estimate the value of tariff concessions exchanged with respect to both product coverage (Weerakoon 2001) and value coverage (Mukherji et al. 2004). Kelegama (2003) documents the increase in bilateral trade after the ISFTA came into operation. The study by Mukherji et al. (2004) also estimates the extent of trade creation or trade diversion under the different categories of concessions. Sikdar (2011) using a GTAP database shows that the economic impact of ISFTA is more in favour of the smaller nation Sri Lanka, and thus states that there are good prospects between the countries if the CEPA comes to effect. Nag (2011) discusses issues with respect to the FTA that has a bearing on the planned CEPA between the two countries. De Mel et al. (2011) focus on use of ISFTA from the Sri Lankan exporters’ perspective. No study, till date, to the best of our knowledge has tried to find firm-specific issues in use of the agreement. To find issues of firms in regard to the FTA a primary survey was conducted with Indian exporters. The next sub-section discusses the survey design and sub-section 4.3.3. reports the findings.

4.3.2: The survey sample and questionnaire

For conducting the primary survey first the target group was defined. Exporters, specifically those exporting to Sri Lanka, were needed to be interviewed to find their experience regarding ISFTA, whether they were using the agreement or not. Due to need for conducting the interviews at firm premises and given a reasonable time period to complete the survey three cities were identified for doing the survey. From
the survey of certifying agencies it was ascertained that among the Export Inspection Agencies (EIAs) under the EIC, Mumbai EIA, followed by Chennai EIA has been issuing the highest numbers of ISFTA CoO (see Table 4.2). Kolkata (Calcutta) EIA was issuing the lowest percentage of CoO under ISFTA.

Table 4.2: ISFTA CoO issued from various EIAs

<table>
<thead>
<tr>
<th>Certifying agency</th>
<th>Average % (last 5 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mumbai</td>
<td>35.13</td>
</tr>
<tr>
<td>Chennai</td>
<td>26.19</td>
</tr>
<tr>
<td>Delhi</td>
<td>23.45</td>
</tr>
<tr>
<td>Kochi</td>
<td>9.56</td>
</tr>
<tr>
<td>Kolkata</td>
<td>5.67</td>
</tr>
</tbody>
</table>

Source: Calculated from data collected from EIC.

From a visit to DGCI&S, ports of importance for exporting to Sri Lanka were identified (see Table 4.3). The Sikka port, in Gujarat, tops the list. It was found from discussions with DGCI&S officials that the Sikka port is important as one particular company is exporting high value petroleum products from there to Sri Lanka, and thus it is not considered for our survey of firms. Ports in Mumbai (Nhava Sheva Sea and Mumbai Sea) are very important as exporters have been using them frequently to export to Sri Lanka. Next in importance is Chennai Sea. Kolkata Sea is among the top five ports through which Indian exporters are exporting to Sri Lanka. Delhi ICD though important has low value of exports going from it to Sri Lanka.

Three cities are chosen for the survey – Chennai: high port traffic to Sri Lanka and high issue of CoO; Calcutta: high port traffic but low issue of CoO; and Delhi: low port traffic but high issue of CoO. Chennai is chosen over Mumbai (both have high port traffic to Sri Lanka and high issue of CoO) as Chennai is traditionally important for India’s exports to Sri Lanka. Kolkata has high value of exports going to Sri Lanka but very low levels of CoO issued under ISFTA. Delhi has lower port traffic but quite high incidence of issuance of CoO. From the DGCI&S, a list of exporters, exporting to Sri Lanka, was obtained for these three cities. The list covered 50 top exporters to
Sri Lanka, in 2008-09, from the ports of Delhi, Calcutta and Chennai. Thus 150 firms were targeted for the primary survey. The export managers of all these firms were contacted to get information on their use and/or perceptions regarding ISFTA. The sampling method followed was thus stakeholder sampling, a branch of purposive sampling.

<table>
<thead>
<tr>
<th>Table 4.3: Top 10 Indian ports exporters use to export to Sri Lanka</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port name</td>
</tr>
<tr>
<td>SIKKA</td>
</tr>
<tr>
<td>NHAVA SHEVA SEA</td>
</tr>
<tr>
<td>CHENNAI SEA</td>
</tr>
<tr>
<td>TUTICORIN SEA</td>
</tr>
<tr>
<td>MUMBAI SEA</td>
</tr>
<tr>
<td>KOLKATA SEA</td>
</tr>
<tr>
<td>DELHI (ICD)</td>
</tr>
<tr>
<td>VISAKHAPATNAM SEA</td>
</tr>
<tr>
<td>NEWMANGALORE SEA</td>
</tr>
<tr>
<td>VADINAR</td>
</tr>
</tbody>
</table>

*Source: Calculated from data collected from DGCI&S.*

Next a questionnaire was prepared, which had a mix of qualitative and quantitative questions. It was divided into three parts: the first section dealt with the firm profile; the next section had questions to ascertain the firm’s use of ISFTA and its business experience with Sri Lanka; and the third section had questions on RoO of ISFTA. A pilot survey was done in Delhi and Calcutta (in July 2010) and from the five firms surveyed it was found that the questionnaire was lengthy. Though the questionnaire was only five pages, the respondents, Export Managers/International Marketing Managers of the export firms, were busy professionals with less time in hand to answer so many questions. It was also found that on the question of value of firm’s exports to Sri Lanka, some firms were unwilling to answer this as they did not want to disclose their export values. This question was dropped in the final questionnaire. Also to shorten the questionnaire the initial section on firm profile was deleted as it
was realised that such information could be easily got from the PROWESS\textsuperscript{45} database. The next two sections were merged, keeping only basic questions on use of the FTA, reasons for non-use, business experience and some questions on RoO. Finally a two page questionnaire emerged (see Appendix 4.1, page 190), covering these basic questions in a multiple-choice format, and only one open-ended question (the last one) on suggestions regarding the PTAs. The survey was first started in Delhi, then in Calcutta, and lastly in Chennai. The survey took seven months to complete (August 2010-February 2011).

4.3.3: Findings

All the 150 firms were contacted first over the phone for getting an appointment for an interview with their managers looking into the firms’ exports to Sri Lanka. 57 companies responded, out of which 51 questionnaires could be completed: 18 from Delhi and Chennai each and 15 from Calcutta. The responses from these 51 questionnaires are put together and presented in this section. The export firms surveyed were mostly private Indian firms. A few were foreign Multi National Corporations (MNCs) and others Government owned. Information on firm profiles obtained from PROWESS database is put in Appendix 4.2 (page 192). Appendix 4.3 (page 194) gives the response codes to the questions. The next sub-section gives the general findings with regards to firms’ use of the FTA and their business experience with Sri Lanka. Findings related to RoO are reported in sub-section 4.3.3.2. Section 4.3.3.3 presents further analyses from the data collected.

4.3.3.1: General findings from the survey

Figure 4.4 gives the product profile (products exported to Sri Lanka) of the firms surveyed. In our sample many of the exporting firms were exporting metal products to Sri Lanka, mainly steel pipes and tubes. Some were exporting chemical products, mainly medicines, organic chemicals, cosmetics and detergents. Other products exported to Sri Lanka included machinery and appliances (both electrical and non-electrical), plastics and rubber articles, paper products and vegetable products (agro products like chilli, turmeric, onions etc).

\textsuperscript{45} PROWESS is a database of Indian firms developed and maintained by Centre for Monitoring Indian Economy (CMIE).
The ISFTA was used by 24 firms in the sample. Rest 27 did not use the FTA. Thus in this sample 47 per cent of the exporters used the ISFTA. The use of ISFTA, when seen with respect to products firms are exporting, shows some interesting results as can be seen from Figure 4.5. It was found that 87 per cent of the metal exporting firms use the ISFTA, while the utilisation figure for firms exporting plastic and rubber products is 60 per cent. However, vegetable products and paper products exporting firms in the sample have not used the ISFTA. About 40 per cent of machinery and chemicals exporting firms in our sample used the ISFTA.

Apart from not getting preferences, lack of awareness was found to be the reason behind low utilisation of preferences – 33 per cent firms cited not being aware as a major reason for not using the ISFTA (see Figure 4.6). Some firms said that their importer in Sri Lanka was asking for CoO of SAPTA/SAFTA. So they were not using ISFTA route. Only a small percentage of firms (4 per cent) cited RoO to be the reason for not being able to use the FTA.
Firms, which were using the ISFTA, mostly felt that the trade agreement has helped them in increasing exports to Sri Lanka (58 per cent). Some however, said that ISFTA was not helpful in increasing exports. They said that it just is a route to help the importers in Sri Lanka. They felt exporters do not get any benefit of any trade agreements, as one export manager put it, “It gives benefit for importer and paperwork for exporter”. However, firms which felt the ISFTA helped in increasing
their exports said that the lower tariff duty of ISFTA helps their importer, and so they get more orders and thus exports have increased after the FTA came into effect. Some firms even said that the agreement helped as it gives Indian companies a competitive edge over cheap Chinese products in the Sri Lankan market.

Most firms reported having satisfactory business relation while exporting to Sri Lanka. However, about 19 per cent of firms 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, some others (agro product exporters) cite sudden levying of additional cess on their products by the Sri Lankan Government and then their sudden withdrawal, which makes the business environment uncertain. Other minor issues were port congestions especially during monsoon in Colombo port, which apart from the time delay in delivery of goods cause problem for the exporters as it raises the freight cost.

**4.3.3.2: Findings from the survey related to RoO**

Firms that use the FTA and have imported components in making of their products said that their products fulfil both criteria of the RoO under ISFTA i.e. 35 per cent value addition in India, and a change in tariff heading from imported component to final product. However, understanding of the CTC rule amongst exporters was little opaque – to about 8 per cent respondents it had to be explained what was the change in tariff heading rule. Only after the explanation they said that their products fulfil the condition.

The experience of one firm explains the problem with the CTC rule. This firm was selling detergents to Sri Lanka and using the ISFTA route since the agreement came to force. Recently, however, there was a change in the formulation of the product: speckles (the coloured particles detergent powders have these days) were being imported as a result of this change in formulation. But this made the final product, the detergent, non-originating in India. The imported speckles value was less than 1% of total value of the final product; however, these speckles were in same HS heading as the final detergent. So not being able to fulfil the CTC rule the company could not anymore use the ISFTA route. This throws light on how as production processes change, which they will change with time, the CTC rule becomes difficult to meet.
The suggestion of this firm regarding future PTAs was, not surprisingly, to use the DVA rule only as CTC is arbitrary. This problem of CTC has been pointed out in the literature: products in the chemical chapters (and also machinery and transport equipments) have a problem that their intermediate inputs and final products are under the same heading and sometimes even the same sub-heading. So change in the CTH (even CTSH) is impossible.

However, another exporter, manufacturing lead articles, stated the difficulty of attaining 35 per cent domestic value addition (DVA) under ISFTA and stated because of this rule it could not use the ISFTA. This value addition is difficult when this exporter imports lead which makes up most of the value of the final product. Thus for this firm even though CTC was fulfilled it could not use the FTA because of the DVA rule.

One export manager said that RoO should be designed in such a way that “a commercial guy”, like himself, can understand them: he lamented that the use of too many jargons make RoO texts in Indian PTAs complicated; he also stated that different RoO under various PTAs make it all the more difficult to comply with them: differing levels of CTC in the different Agreements (somewhere CTH, somewhere CTSH) add to the confusion. He asked how can the same product be originating in India, under rules of one agreement, and becomes non-originating under those of another agreement? However, no other respondent felt overlapping RoO to be a problem.

Majority of the firms (90 per cent) in the survey using the ISFTA reported that they get their CoO from EIC (the authorised agency that issues CoO for ISFTA). A few though reported taking CoO from the various Chambers of Commerce, which are not authorised to issue CoO for ISFTA. On probing further it was found that for exporting to Sri Lanka two CoO are sent by some exporters: one for the product being exported and the other for using ISFTA. However, there is no need for exporters to give two CoO as the ISFTA CoO is the only required proof of the product originating in India. Some of the firms were not aware of this and they continue to send two CoO to their importer.
Two firms raised issues about the physical verification requirement. They were unhappy with the functioning of the certification process under EIC. One firm using the GSP scheme (but not using ISFTA) had also talked about “red-tapism” related delays caused by certifying agencies. However, when asked about costs to satisfy RoO all firms said it cost less than 1 per cent of the value of their export shipments. The cost is very negligible: a firm has to pay Rs 150 to get a CoO and Rs 500 (plus cost of transport for the inspecting official) for verification of the first consignment, which is not required for the next one year or the next 20 consignments, whichever is first. The EIC has a policy of processing CoO forms within 24 hours. However, there are delays involved in getting the CoO and it imposes some transaction costs on the firms, which are not easily quantifiable.

Out of the 51 firms 15 gave suggestions related to RoO (see Figure 4.7). The most important suggestion that many firms gave was that there should be more information about the PTAs. The exporters also want more products, specifically their products, to be included under the agreement. On the certifying process many firms wanted the physical verification requirement to be changed. Some firms wanted a change in the mandatory requirement of physical verification from once in every six months to once in a year, which has already been done but the firm was not aware of the changes. Another firm wanted the requirement to be based on trade values rather than on number of consignments. This particular firm sent small value items many a times in a year, thus the 20 consignments quota got over for this firm quickly and its product (tin packaging material) had to go through physical verification requirements more than once a year, which resulted in delays. A firm manager asked that if for GSP this pre-export physical verification requirement is not there, why is it there for ISFTA? The problem with the physical verification process was put succinctly by a Delhi firm manager: a shipment to Colombo reached in 3 working days (generally) whereas the documents get delayed because of the physical verification requirement, thereby causing problems to the customer (importer) in Sri Lanka. Again a few firms, in Calcutta, wanted online application for CoO, which is in place at the EIC website but exporters are not aware of. An interview, during the survey of Government certifying agencies, with one official at the EIA (Delhi) had brought forth a paradox – why, even after providing online submission of CoO under the various schemes and very minimal costs to provide a CoO, the exporters still use their agents and pay much
more to get the certificates? From the firm survey it was clear that this information has not somehow reached all exporters that they can get their CoO just with a few clicks of the mouse.

Another manager pointed out that benefits from trade liberalisation 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. Also, unilateral tariff liberalisation by countries also reduces the scope of these agreements. This came out from the survey when another respondent firm manager complained that their export product (raw materials) was getting preferences until recently, when the Sri Lankan Government decided to put MFN tariffs zero on all raw materials in the industry thereby making the ISFTA null and void for these products exported from India.

**Figure 4.7: Firms’ suggestions**

![Diagram showing firms' suggestions](image)

Note: Firm suggestions on the certifying process have been clubbed with RoO issues.

*Source: Author.*

So there are different concerns regarding the same rules: for some the CTH rule is impossible, for some the DVA rule poses a problem, for others different DVA norms under the overlapping agreements complicates their trade operations, whereas yet many others complain about the certification process.
4.3.3.3: Firm-specific determinants in use of ISFTA

Surveys done on PTAs have generally given rise to few firm-specific characteristics that determine use or non-use of a PTA. Such surveys say that a firm that has more export than domestic sales will be using a PTA more than a firm which exports less. Thus major exporters are expected to use PTAs more than minor exporters. It is also generally agreed that older firms, with more experience and bigger firms, with more resources, will be more likely to use a PTA than newer or smaller firms (Kawai and Wignaraja 2011).

Out of the 51 firms surveyed, for 40 firm-specific financial data could be obtained from PROWESS. Cross tabulations were done and Chi square tests used to find firm-specific determinants in the use of ISFTA (see Appendix 4.4, page 197). Among these 40 firms it was found that major exporters (whose exports is more than 20 per cent of their total sales) are indeed using the ISFTA more compared to minor exporters (see figure 4.8). 65 per cent of major exporters use the ISFTA compared to 40 per cent of minor exporters. However, with respect to age and income of firms counterintuitive results were obtained. Bigger (whose total income is more than Rs 1000 crores) and older (who have been in business for more than 30 years) firms used the ISFTA lesser than smaller and newer firms. This can be clearly seen from figures 4.9 and 4.10. 58 per cent of newer firms use the ISFTA compared to 48 per cent of older firms. 64 per cent of smaller firms use the ISFTA as compared to 40 per cent of bigger firms. Now why has this been so? It can be guessed that this is so perhaps because newer firms are more technology savvy and informative about the agreement and thus use ISFTA more. However, why should smaller firms use the FTA more? We can hazard a guess: maybe because of the fact that the big firms cater to different markets, whereas small firms cater mostly to one or two markets. Thus the Sri Lankan market accounts for a bigger share of exports for a small firm than a big firm. Thus a small firm is more likely to use the preferential route. A big firm may not bother to do the extra paperwork needed for using the ISFTA as they anyway have assured markets in Sri Lanka and also elsewhere. However, it also has to be borne in mind that these results were not found to be statistically significant when the Chi-square tests were used. So maybe the sample size is not big enough to draw any definite conclusion on this and further studies need to be undertaken to prove or disprove these findings.
Figure 4.8: Use of ISFTA and firm export intensity: percentage of respondents

Source: Author.

Figure 4.9: Use of ISFTA and firm age: percentage of respondents

Source: Author.
4.4: Summary

In this chapter the use of PTAs by Indian exporters and firm-specific issues related to such use were tried to be ascertained. First, the question on utilisation of preferential schemes by the exporters was tried to be answered from a primary survey of certifying agencies. The same by importers was not possible to be ascertained as data from Customs, required to find utilisation by importers, could not be obtained. Among the PTAs the exporters are applying mostly for the ISFTA. However, it was found that only about 11 per cent of total annual export transactions to Sri Lanka were issued CoO. And when compared to issuance of CoO under GSP (96 per cent of total issue of CoO from EIC), issuance of CoO under all the PTAs put together is negligible (3 per cent). It was also noticed that when there is more than one PTA to export under for a country, the traders apply for those PTAs which have less strict RoO like lower DVA norms. Thus RoO seems to be an important factor in using of the preferential schemes. To delve deeper into the issue of RoO and how it affects exporters, a primary survey was undertaken in three cities (Delhi, Calcutta and Chennai) with exporters specifically exporting to Sri Lanka. Out of the 150 respondent firms (50 in each city), 51 interviews could be done. Based on the information collected from the survey it was found that approximately half of the
respondents use the ISFTA. A third of the respondents not using the FTA complained that their products did not get preferences under the agreement and thus they could not use the FTA. Another third of the respondents were not aware about the ISFTA and said that they need more information on ISFTA and other the PTAs. Firms which use ISFTA said that RoO did not add any major costs on them, even though some complained that the time delay in getting the certificates was a problem. Thus in suggestions relating to RoO many firms gave suggestions to make the certification process better. With regard to the specific rules (DVA and CTH) one firm had problems with the CTH rule (it is impossible for their products to satisfy CTH if imported inputs are used), while for another meeting 35 per cent value addition was difficult. So nothing conclusive can be drawn from the survey as to which design of RoO is better. Maybe more supplementary rules to relax the main methods of origin determination are required or maybe case by case the product processes need to be studied and then product specific rules need to be designed, as India has negotiated in the later agreements.

Firm-specific characteristics in using ISFTA were also tried to be discerned. It was found that major exporters are using the ISFTA more compared to minor exporters, which is what is expected. However, with respect to age and income of firms there were counterintuitive results. Bigger and older firms used the ISFTA lesser than smaller and newer firms. This may be because newer firms are more technology-savvy and informative about the agreement and thus use ISFTA more. And for a small firm tariff preferences under ISFTA maybe very important as Sri Lanka may be among the very few countries a small firm caters to. A big firm, on the other hand, caters to many major markets and Sri Lanka is not a big market for them. If this is so then it is evident that a small firm will try to use the preferential route more than a big firm will do. These results were, however, not statistically significant. The sample size is small, so to draw definite conclusions on these further studies need to be undertaken.

Future research in this area can help overcome the limitations of this study: primary survey with importers needs to be done. The GoI should publish data on imports coming under the preferential routes in the official trade statistics so that further analyses can be carried out on the level of utilisation by importers. Industry-specific
case studies also need to be done to find out the exact effects of PTAs on consumers (end-user industries). A more comprehensive study to understand various industries’ concern regarding various RoO needs to be undertaken: some industries have been left out of benefits of the trade agreement because of the design of the RoO. The most important thing that has come out from the study is the low levels of awareness that the exporters have about the ISFTA even after 10 years of its being in operation. The GoI needs to take more effort to ensure that information on the various PTAs reaches the ultimate users of these agreements: the traders. The GoI gives 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. Capacity building programmes can be organised by the Department of Commerce to give the traders knowledge about the PTAs. More information can be provided to the exporters, through the various Chambers of Commerce, the Export Promotion Councils, and the different Industry associations, so that more Indian exporters can take help of the preferential schemes. 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. If proper information is not given and feedbacks not taken, the PTAs will become mere paper documents giving preferences with little relevance in actual trading between the nations.