

## **Exploring Barriers to International Trade Faced by Sri Lankan Exporters to the Indian Market**

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### **ABSTRACT**

**In recent decades, India has emerged as a major economy in the world. Although Sri Lanka is situated in close proximity to India and has entered into trade agreements with India to boost its international trade, it has still not been able to achieve the expected level of growth in exports to India. Based on the 2019 United Nations COMTRAD data, India is the third largest export destination of Sri Lanka, and the export revenue from trade with India amounted to US \$ 759 million in 2019. However, the statistics in the past years indicate a drop in Sri Lankan export revenue to India from \$ 767 million in 2018 to \$ 759 million in 2019. In spite of different bilateral and multilateral trade agreements entered into between the two countries, Sri Lankan export performance still remains unsatisfactory. This indicates that apart from tariff reductions, certain other non-tariff barriers influence international trade performance between the two countries. Therefore, this study aims to explore barriers to Sri Lankan exporters which undermine their international trade performance in the Indian market. The study follows a qualitative research methodology and has collected data using face-to-face unstructured interviews with twenty (20) respondents representing different stakeholders engaged in the process of exporting from Sri Lanka to India. The collected data was coded and analyzed through template analysis. Findings revealed thirty-five (35) important factors which influence successful penetration into and performance in the Indian market. The results reveal that host market and home market characteristics have a greater impact on successful performance in the Indian market than product or firm characteristics.**

**Key words:** International business, bilateral trade, Sri Lankan exports, Indian market, barriers to trade.

### **INTRODUCTION**

One major addition to the world business arena is the emerging economy of India, and it has the potential to become a major economy in the world in the near future. Despite the global financial crisis, emerging economies such as India and China have managed to sustain themselves without major adversity. The Indian economy grew at 5.02% in the fourth quarter of 2019 and is likely to become a major economy in the future. Indian GDP growth rate from 2008 to 2018 improved by 127%, and it currently ranks 20<sup>th</sup> in the world [1]. India accounts for more than three quarters of

the South Asian region's Gross Domestic Production and has a major influence over regional performance. In 2018, India ranked 45<sup>th</sup> on the Economic Complexity Index with a per capita GDP of US\$ 2010 in 2018, confirming India's progress towards economic development. These improvements have helped the country become a more attractive destination for foreign investment and international trade.

Trade relationships between India and Sri Lanka have a long history. Economic and international trade relations between India and Sri Lanka, which date back to pre-colonial times, began to pickup in the 1990s with the liberalization of the Indian economy. Among SAARC member nations, Sri Lanka is India's largest trading partner. On the other hand, India is Sri Lanka's largest trading partner when all nations are considered. Sri Lankan and Indian bilateral trade flow accounts for the largest trade relationship in SAARC. In 2019, bilateral trade between India and Sri Lanka amounted to USD \$ 4.59 billion. Sri Lankan exports to India have increased substantially over the last decade, especially after the introduction of the Indo-Sri Lanka Free Trade Agreement (ISLFTA).

Bilateral trade between the two economies accounted for a trade deficit of US \$ 3070 million in 2020 [2]. Table 01 shows the performance of international trade between the two countries over the past. The data confirm that in recent years, Sri Lankan exports to India have improved as a percentage, albeit at a slow growth rate. This suggests that although there is a large potential market for Sri Lankan goods in India, local exporters are yet to exploit this advantage.

**Table 1. Percentage of total trade of Sri Lanka with India (In %)**

Year	Exports %	Imports %
2005	9.09	17.31
2006	7.24	18.46
2007	6.82	24.43
2008	5.12	20.81
2009	4.56	17.97
2010	5.63	20.62
2011	5.16	22.08
2012	6.21	19.77
2013	5.44	17.77
2014	5.64	20.62
2015	21.37	6.31
2016	19.61	5.39
2017	21.08	5.96
2018	18.85	6.59
2019	19.66	6.45

Source: Compiled from United Nations COMTRADE data 2019 [2]

Both India and Sri Lanka have come a long way in liberalizing trade restrictions over the past to achieve national economic development through facilitating international trade. In 1998, both countries entered into the Indo-Sri Lanka Free Trade Agreement (ISLFTA) to open up their

economies to international trade flows and the agreement was implemented in March of 2000. ISLFTA paved the way for Sri Lankan exporters to move from Western buyers (concentrated mostly in Europe and America) to well diversified and emerging Indian markets. In most instances, since the progress of the South Asian Free Trade agreement (SAFTA) was identified as slow and involving some complications, a bilateral framework within a rule-based disciplinary framework is considered the best option to promote Sri Lankan products in the Indian market. To further facilitate trade between the two countries with the expectation of enhancing economic corporation and access to markets, the two governments are moving towards negotiations on a Comprehensive Economic Partnership Agreement (CEPA).

### Research Issue

Although there have been a few trade and investment promoting agreements at the regional and bilateral level (such as ISLFTA and SAPTA) signed between India and Sri Lanka, trade from Sri Lanka to India is still underperforming, in the view of many experts. SAPTA has enhanced intra trade between members, though there is an issue of net export diversion [3; 4]. In particular, the RTA has had a negative impact on Sri Lanka [3]. Although Sri Lanka is in close proximity to a large market in India, and thus has a greater opportunity to boost its international trade, Sri Lankan businesses were not able to achieve the expected level of growth in their exports to India [5]. Based on the 2018 United Nations COMTRAD data, India is the third largest buyer of Sri Lankan exports, amounting to US \$ 865 million in 2018, and this revenue is expected to grow further to US \$ 978 million in 2021 [1]. However, the statistics in the past years have indicated a drop in Sri Lankan exports to India from 8.9% in 2005 to 4.5% in 2009. In spite of some bilateral and multilateral trade agreements entered into between the two countries, Sri Lankan export performance is still unsatisfactory. Critics argue that apart from tariff barriers, there are many non-tariff barriers (NTBs) that exporters have to overcome when exporting to the Indian market. NTBs are inherent weaknesses in the SAFTA and ISLFTA agreements which impede Sri Lankan exporters competing in the Indian market.

**Table 2. International Trade Flows between India and Sri Lanka (1999 - 2019)**

Year	Exports to India (US\$ Mn)	Imports from India (US\$ Mn)	Trade Balance (US\$ Mn)	Import/ Export Ratio
1999	49	512	-463	10.4:1
2000	58	600.1	-542	10.3:1
2001	72.0	674	-542	8.4:1
2002	171	835	-664	4.9:1
2003	241	1076	-835	4.5:1
2004	385	1358	-973	3.5:1
2005	560	1439	-879	2.6:1
2006	489	1800	-1311	3.7:1

2007	516	2782	-2266	5.4:1
2008	419	2845	-2426	6.8:1
2009	325	1694	-1369	5.2:1
2010	474	2548	-2074	5.4:1
2011	525	4351	-3826	8.3:1
2012	571	3534	-2963	6.2:1
2013	544	3186	-2642	5.9:1
2014	625	3977	-3352	6.4:1
2015	645	4061	-3416	6.3:1
2016	551	3827	-3276	6.2:1
2017	690	4543	-3853	6.6:1
2018	767	4168	-3401	5.4:1
2019	759	3829	-3070	5.0:1

Source: United Nations COMTRAD data [2]

When compared to the international trade figures between 1995 and 2018, there is a sharp increase in the trade deficit between India and Sri Lanka, regardless of the implementation of ISLFTA and other multilateral trade agreements.

A review of the literature in the field reveals that the majority of studies examining trade barriers between the two nations focus on the effect of the removal of tariff barriers on enhancing trade between countries using quantitative methods and conclude that there are a number of NTBs influencing the slow growth of international trade development between the two markets. This implies that there are a number of hitherto uncovered NTBs in the Indian market that previous research has not identified. Examining these NTBs will enable exporters, importers and the two governments of India and Sri Lanka to minimize the challenges faced by Sri Lankan exporters and help to boost international trade between the two countries. Therefore, this study aims to explore the diverse challenges faced by Sri Lankan exporters to the Indian market.

### **The Objective of the study**

The above discussion reflects the mounting importance of the Indian market to the Sri Lankan economy.

Accordingly, this research addresses the research question given below.

1. What are the barriers faced by Sri Lankan exporters to the Indian market?
2. What are the recommendations made to Sri Lanka exporters to overcome the barriers they face in exporting to the Indian market?

In addressing these questions, the study first explores the factors that impede Sri Lankan exports to the Indian market.

### **Significance of the study**

According to the World Bank Report [6] "South Asia's integration into the global economy" forecasts that South Asia will show "the world's fastest growth in exports by 2028". This fact points to the huge potential that exists for both India and Sri Lanka to integrate business processes throughout the region based on the competitive advantage enjoyed by each country with the aim of reducing the production cost.

Therefore, studying these barriers and their influence on bilateral trade performance is imperative. Through managing these factors that impede exports, overall economic growth; export led growth; enhanced foreign income generation; improved bilateral trade and economic relationships; greater resource employability; encouragement of foreign direct investments and joint venture opportunities and the development of the macroeconomic status of the country could be achieved.

### **LITERATURE REVIEW**

International trade within SAARC is widely identified as a difficult market due to many reasons [4]. For example, scholars such as [4; 7] identified economic, political and institutional factors that challenge the promotion of intra-regional trade in SAARC. To understand the challenges for Sri Lankan exporters to the Indian market, it is important to understand the facilities allowed by regional and bilateral trade agreements between the two countries.

The ISLFTA, which was designed to facilitate trade between the two nations, is based on the "negative list" approach; each country extends its preferences to all commodities except those indicated in its negative list. The conditions agreed upon by both parties are based on considering sensitive issues related to the diversity of the two economies, such as local social and economic conditions, domestic industries to be protected, and revenue implications in tariff income, which are among the major issues considered. Both countries have agreed upon preferential treatment for 3932 tariff lines which have been made zero duty for Indian exports to Sri Lanka. Further, it was agreed to gradually remove Indian State Taxes impeding bilateral trade. India has offered quotas to Sri Lanka on certain tariff lines under three segments, namely, a) Tea: 15 million tons of tea with 50% margin of preference with no port entry restrictions since June 2007; b) Textiles: 25% tariff reduction for 528 textile items and c) Garments: 50% margin of preference on 8 million pieces over 233 tariff lines. When comparing the ISLFTA with SAFTA, ISLFTA is more beneficial to exporters, as the negative list agreed upon under SAFTA by India, Sri Lanka and Pakistan is much larger than those in their respective bilateral trade agreements [8; 9], pointing to the advantage of bilateral trade agreements in promoting trade between two countries. Consequently, it has been revealed that these bilateral trade agreements may even become a challenge to the continuation of SAFTA [9].

### **Benefits Assured by ISLFTS**

According to the provisions of the agreement, the Sri Lankan agricultural sector was fully protected and an immediate duty free list of 319 items and a 50% preferential duty list of 889 items were considerably smaller than that which was offered by India (India offered 1352 items

and 2799 items respectively). There are 1180 items on the Sri Lankan negative list that includes agriculture, livestock items, rubber products, paper products, iron and steel, machinery, and electrical items which are considerably larger than India's list of 429 items, which include garments, plastic products and rubber products. The agreement provided relaxed rules of origin (RoO) of 35% if the product has used more than 25% Indian materials. At the beginning of the agreement, Sri Lanka was given a longer phase-out period of eight years, whereas India agreed for three years. However, the agreed upon negative list is still more beneficial to India than to Sri Lanka as more competitive Indian products could enter easily into Sri Lanka and penetrate the local market despite high tariff rates [5].

ISLFTA brought many opportunities to Sri Lankan exporters. After Sri Lanka opened its economy in 1977, the United States became Sri Lanka's largest export destination with a value of \$ 2.69 billion exports in 2018 [1]. Prior to 2000 and before the implementation of ISLFTA, India was the fourteenth (14) largest export destination of Sri Lanka. However, it rose to third (3) place in 2019, accounting for US\$ 759 million worth of exports from Sri Lanka to India in 2019 [1] (see Table 3 below). In the early days of bilateral trade, a significant feature of bilateral trade performance was that increased exports were concentrated on a very few raw materials (ex: Copper and Vanaspathi), though exports have now been diversified to many areas. As at 2018, animal food (US \$ 78.5 million), pepper (US \$ 69.2 million) and other nuts (US \$ 41.6 million) are the largest commodities being exported from the Sri Lankan market to the Indian market [1].

**Table 3. Major exports from Sri Lanka to India 2015 - 2019**

HS	Description	2015	2016	2017	2018	2019
2309	Animal feed	52.56	42.57	58.93	81.26	72.52
61 & 62	Apparel	21.42	24.67	27.51	50.9	49.42
94	Furniture, furniture parts & mattresses	16.59	18.74	20.67	24.53	27.06
85	Insulated wire and cables, Electric accumulators and other Electrical machinery and equipment and parts	23.14	21.73	24.26	34.07	24.54
74	Copper and articles thereof (wires, bars, rods, sheets etc.)	9.26	14.06	26.09	29.26	22.18
4707	Wastepaper	28.66	29.99	35.41	27.01	21.72
802	Areca nut	48.08	32.96	37.22	17.3	21.07
40	Rubber gloves, new pneumatic rubber tyres and other rubber products	15.33	16.06	19.7	23.99	19.08
907	Cloves	19.08	3.83	25.12	6.44	17.88
902	Tea whether or not flavoured	17.41	4.9	1.39	4.52	14.51

Source: Sri Lanka Customs and Department of Commerce [10]

Imports from India have grown at a rapid rate after the implementation of the ISLFTA. Export products of refined petroleum (US \$ 812 million), motor cycles (\$ 226 million) and planes, helicopters and spacecraft (US \$ 186 million) were the largest commodities exported by India to Sri Lanka in 2018. Over the years, the imports from India to Sri Lanka have increased gradually,

creating a trade deficit on the Sri Lankan side. For example, in the last 23 years, Indian exports to Sri Lanka have increased by more than 10% at an annual rate from US \$ 397 million in 1995. However, remarkably, over the past few years, Indian exports to Sri Lanka grew by over 80%. However, these items are excluded in the list covered by the FTAs, confirming the competitiveness of the Sri Lankan market. A study [11], using the GTAP model, analyzed trade between the two countries, and confirmed that the ISLFTA has enhanced Sri Lankan imports from India, for the most part because of the cheaper prices.

**Table 4. Indian Exports to Sri Lanka**

Serial No	HSCODE	Description	Share %	USD
1	87112010	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	17.81	242.73
2	27101942	Lubricating Oil	14.59	198.85
3	30049090	Pharmaceutical products	13.04	177.67
4	27101940	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	12.08	164.65
5	27101920	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	9.60	130.83
6	25232930	Salt; sulphur; earths and stone; plastering materials, lime and cement	9.49	129.38
7	17019910	Sugar & sugar confectionery	6.77	92.25
8	72071110	Iron and Steel	6.31	85.93
9	07031020	Edible vegetables and certain roots and tubers	5.28	71.92
10	09042110	Coffee, tea, mate and spices	5.03	68.51

		Total		1,362.72
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Source: Indian High Commission Sri Lanka [12]

The impact on Sri Lanka’s GDP growth through trade improvement is negative since Sri Lanka’s exports to India are insufficient to finance increasing imports from India [11]. Kelegama and Mukherji [13] confirmed that ISLFTA increased both exports and imports between the two countries where services also increased as a result of increasing Indian FDIs in Sri Lanka. Although there is a huge potential for the service industry in both countries, the trade agreements do not facilitate this aspect of trade. Weerakoon [9] confirmed that SAFTA rather than bi-lateral agreements between members facilitates more trade between SAARC member countries. However, lack of service trade facilitation is a limitation of SAFTA and the above researchers urge the need to concentrate on service liberalization between the two countries to reap maximum economic benefits.

**Table 5. Sri Lankan exports to India as a total and exports under ISLFTA**

Year	Exports (US \$ Mn.)			Imports (US \$ Mn.)		
	Total Exports to India	Exports under ISFTA	% under ISFTA	Total Imports from India	Imports under ISFTA	% under ISFTA
2000 (March-Dec.)	55.65	8.6	16	600	53.9	9
2001	70.12	15.9	23	601	113.1	19
2002	168.81	114.2	68	834	81.7	10
2003	241.14	238.8	99	1076	150.4	14
2004	385.49	339.9	88	1342	394.7	29
2005	559.21	543.0	97	1,399.43	246.2	18
2006	494.06	431.1	87	1,822.07	459.3	25
2007	516.4	398.2	77	2,785.04	385.3	14
2008	418.08	309.3	74	3,006.93	541.4	18
2009	324.87	218.5	67	1,709.93	371.7	22
2010	466.60	358.4	77	2,546.23	573.7	23
2011	521.59	391.5	75	4,349.43	579.6	13
2012	566.37	379.5	67	3,517.23	156.4	4
2013	543.37	368.8	65	3,092.67	393.4	13
2014	624.81	375.8	60	3,977.76	540.1	14
2015	643.03	407.28	63	4,273.30	253.3	6
2016	551.20	375.25	68	3,827.50	186.7	5
2017	689.48	442.29	64	4,495.99	257.04	6
2018	768.71	483.48	63	4,158.18	246.87	6
2019	759.37	489.89	64	3,830.82	198.74	5

Source: Sri Lanka Customs and Department of Commerce [10]

It is evident that a greater variety of exports and value added exporting industries were emerging in the Sri Lankan economy after the implementation of ISLFTA. India has further liberalized its garment quota terms through a MoU signed on October 2007. Through this MoU, the Government of India has reduced its duty to zero and further removed restrictions at entry ports and on the sourcing of fabrics from India to Sri Lanka for 3 million pieces of apparel products from Sri Lanka. Scholars such as [14] explained that ISLFTA facilitates trade creation rather than trade diversion. Hence, it helps partner countries strengthen trade ties to receive greater benefits expected through the ISLFTA. It is noteworthy that investments coming from India to Sri Lanka increased after 2000 [15]. To achieve this more fully, broader economic corporation should be created between the two countries. However, lack of political leadership in Sri Lanka, weak entrepreneurial culture and public misconception about trade ties and benefits largely hinder greater economic integration between India and Sri Lanka [15].

To promote exports from Sri Lanka to India, ISLFTA provides certain tariff benefits and this has resulted in the expansion of exports in recent years. Table 3 below illustrates the major exports of Sri Lanka to India.

**Table 6. Major Exports from Sri Lanka to India (2018)**

Serial No.	HS CODE	Description	Share %	USD (Mn)
1	23099030	Residues and waste from the food industries, prepared animal fodder.	26.39	77.93
2	27101960	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	22.46	66.32
3	854430	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	8.68	25.64
4	9041190	Coffee, tea, mate and spices	8.65	25.55
5	470790	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard	7.59	22.42
6	740811	Copper and articles thereof	6.52	19.24
7	8028090	Edible fruits and nuts; peel of citrus fruit or melons	5.93	17.52
8	621210	Articles of Apparel and clothing accessories, not knitted or crocheted	4.87	14.39
9	87120090	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	4.64	13.72
10	600622	Knitted or crocheted fabrics	4.26	12.57
		Total		295.30

Source: Indian High Commission Sri Lanka [10]

### Non-tariff barriers

Despite the geographic and the cultural proximity between the two countries, India was not a major export market of Sri Lanka since independence in 1977, with Sri Lankan exporters

preferring developed markets in the Western world for many reasons. The literature highlights that India gained more benefits through trade agreements mainly because of the asymmetries in the two economies in terms of export base, excess capacity, raw material supply base, degree of industrialization, lower freight charges and availability of skilled manpower [16]. However, the degree and extent to which these factors are challenging trade between countries were not investigated by Perera [16] who used a comprehensive quantitative study using a GATP model to elaborate the situation. Rahman [17] confirmed the prevalence of NTBs in South Asian trade and urged policy makers to address these weaknesses in SAFTA. Rahman [17] also identified several NTBs that are faced by exporters in trading between SAARC members. These are; a) market access difficulties faced on account of requirements relating to sanitary and phytosanitary-technical barriers (SPS-TBT), certification, labeling, registration, laboratory testing and standardization in partner countries; b) difficulties faced by partner countries due to infrastructural constraints that impede cross-border movement of goods from the exporting countries. This is due to lack of infrastructure, low handling capacity, lack of warehouse facilities etc. c) imposition of para-tariffs, surcharges, cess, VAT, sales tax, and other duties beyond MFN tariffs; e) requirements of licenses and permits from importing countries; f) anti-dumping and countervailing measures; g) interpretation of RoO, and h) lack of availability of adequate letters of credit (L/C) facilities and necessary financial intermediation.

NTBs are identified as a significant factor that hinders the expected trade performance from a trade agreement and it is common when traders engage in international trade between India and Sri Lanka. SPS-TBT are the most common NTBs in the SAARC region identified by ADB and UNCTAD, which stated that 86.3 percent of NTBs in the SAARC region are due to SPS-TBT related causes. The tariff quota system, license requirements and anti-dumping countervailing measures have also been highlighted as NTBs in the SAARC region. On the other hand, difficulties in documentation procedures and in obtaining RoOs have been identified as other significant NTBs in the South Asian region [18]. Similarly, weaker and smaller economies in the South Asian region are less likely to benefit through regional and bilateral trade mainly because of tariff and non-tariff barriers [19]. In South Asian regional trade, India often achieves export gains, whereas the export gains of smaller economies are frequently insignificant [20]. Total tax incidence (TTI) has been identified as a NTB faced by Bangladeshi exporters to India [21]. Indian customs surcharges are at a high level in addition to excise duties for many products. Imported products are most often priced after accounting for these taxes and duties paid at different locations, making the imported product less competitive in the Indian market. This has been a major concern of Bangladeshi exporters to India [21].

When exporters face barriers to trade for well-established export items in foreign markets, this means that new export products have to be developed from scratch – economies of scale need to be achieved, brand development must be carried out, and marketing-buyer relations must be developed. Exporters from developing countries, where goods and services are most often price and cost sensitive, will face serious challenges in such situations. Hence, facilitating exporters in the way of easing out trade barriers will benefit international trade between countries.

## **METHODOLOGY**

Selection of the data collection method of this study was influenced by the qualitative approach and the exploratory nature of the research questions. The researcher conducted semi-structured,

face-to-face interviews within the qualitative paradigm. This allowed the researcher to collect data from the context in which the social phenomena naturally occur and to generate an understanding which is grounded in the perspectives of the research participants themselves [22, 23, 24]. Much of the research examining bilateral and regional trade performance between India and Sri Lanka is based on quantitative methodology [20; 25; 26], and most often uses econometric models based on the Gravity model, the CGE model and GTAP. However, the current researcher followed the qualitative approach to better understand human perceptions and behaviors in the development of bilateral trade performance. Therefore, this study also helps to fulfil calls for qualitative marketing research to go beyond spatially bounded studies of one culture in one specific site [27], which required adopting a qualitative research approach.

The sampling strategy used for this study is the non-probability sampling method. Limited resources and the difficulty of specifying a sampling frame dictated the use of non-probability sampling techniques. Using this perspective, convenient samples of respondents were selected. Using convenience sampling methods, twenty (20) respondents were selected from five (05) categories that consisted of senior economists, senior researchers, regional diplomats, senior government officials, and regional traders. Measures were undertaken to ensure that respondents were qualified to participate in the study [28] in order to maintain the quality of the data collected. To ensure that the key informants were reliable proxies for their organizations, the researcher selected those individuals who participated at decision making levels.

**Table 7. Respondent's profile (insert)**

<b>Group</b>	<b>Category</b>	<b>Number of Respondents</b>
1	<b>Sri Lankan exporters</b> (Spice trade, Confectionary manufacturer, Furniture manufacturer, Hospitality service, Printing service, Vehicle manufacturing, Beauty care products, Garments)	10
2	Senior economists/Academic	03
3	Senior researchers interested in international trade and international business	03
4	Regional Diplomats - Indian Embassy Officers in Sri Lanka	01
5	Senior Government Officers	
	5.1 Department of Commerce – Sri Lanka	01
	5.2 Export Development Board – Sri Lanka	01
	5.3 Ministry of Foreign Trade- Sri Lanka	01
	<b>Total</b>	<b>20</b>

The respondents from Sri Lankan exporting companies represented a wide variety of industries including the health and sanitary, spices, biscuits, plastic materials, pharmaceuticals, garments, printing and ink and furniture industries. The respondents taken together cover all roles in the international business arena. Further, it was decided to collect data from participants in their natural working environments. Specifically, data was collected at the participants' work premises

and at neutral places of convenience suggested by the participants. An interview protocol was used in all instances to ensure a consistent pathway in analyzing the interview data. This interview protocol and guideline were tested in a pilot study that was not included in the sample. After the completion of the field work, all interviews were transcribed precisely and comprehensive descriptions were drawn accommodating all interviews. An effort was made to capture a holistic picture of the respondents' stories by multiple readings of interview transcripts [29].

The template analysis technique [30], also known as thematic coding or codebook analysis, was used to analyze the data of the five respondent groups. The first phase of data analysis was assigning codes to the initial set of materials obtained from the interviews. Secondary level categories were used in assembling the data in meaningful ways to a higher order level. At this stage, the researcher refined and differentiated the initial codes.

### **ANALYSIS AND FINDINGS**

In the results from the data analysis, thirty five (35) higher order codes were identified (Appendix 1) and ranked based on the respondents' frequency of mentioning the important factors. These factors were those that were important in promoting exports from Sri Lanka to India. These 35 important factors were then categorized into three groups using the existing literature on international business - namely, 1) Firm characteristics, 2) product characteristics, and 3) Host market characteristics and Home market characteristics, all of which are important to a firm's decisions on international market entry and performance. Using the international business literature, these codes were further sub-divided into two groups, Firm Characteristics (internal) and Environmental Characteristics (external). These sub-divisions were identified through re-grouping the above thirty-five (35) higher order codes. Appendix 1 shows the categories/ clusters that were further developed. Data analysis reveals that Environmental Characteristics are more influential than Firm Level Characteristics to Sri Lankan exporters when attempting to enter and perform successfully in the Indian market. Appendix 2 shows barriers to international trade faced by Sri Lankan exporters in the Indian market and are further explained as below.

#### **Market and Cultural Diversity**

Market and cultural diversity were identified as the most important factors by the respondents when entering the Indian market (see Appendix 1). Similar to the findings of [21; 31], respondents have mentioned that the large size of the Indian market compared to the Sri Lankan market and the cultural diversity of India influence decisions to internationalize to the Indian market. The respondents chose this category with a frequency of forty-four (44). Given below are a few instances where respondents have mentioned the heterogeneity existing in India as a restraining factor for international trade performance.

***Embassy officer 01:** 'In India different customer groups exist. A certain class of people would like to purchase a BMW, a big brand, while another group would like to purchase something affordable.'*

***Embassy officer 02:** 'It's a very complex social structure in the Indian market'*

***Government officer 01:** 'It's very hard to understand the Indian people, they say one thing at one time and another thing at another time. Sometimes they say they are*

*interested to trade with us, but I didn't see any results afterwards; progress is very weak'.*

Sri Lankan exporters feel that there are additional costs to be incurred and considered when deciding to enter the Indian market.

**Exporter 01:** *'There are some states in India which are very similar to Sri Lanka. There are also some parts of India which are very similar to Bangladesh, Pakistan and so on...'*

**Exporter 07:** *'Cultural diversity in India is another obstacle compared to other markets such as the Middle East and Europe. In India, religion, languages and other cultural attributes differ from state to state. We need to understand their culture and, language by researching on them. This is the cost of networking with India.'*

The exporters stated that the size of the Indian market and the competition they faced restrained their performance. Another group expressed the opinion that they benefit from market diversity through the identification of niche markets. For example, Sammaddar [32] mentioned that in India, food choices are diverse across the nation and across different meals, noting a possible niche markets in which organizations can succeed. Respondents participating in the current research believed that the extent of the impact of Indian cultural diversity depends on the type of product traded.

**Exporter 05:** *'Culture has a big influence on trade. However, I think it depends on the product that you trade.'*

Similar to the findings of Doole & Lowe [33], respondents also stated that the importance and challenge of identifying the Indian market properly is greater than the competition they faced in the regional market.

**Exporter 01:** *'The Indian market is complex and it takes time to understand how customers behave. We need more time to establish ourselves in the Indian market because we have to identify market trends existing there.'*

Respondents spoke about the difficulty in entering Indian markets and were concerned about the tight competition in marketing and promotional activities.

**Exporter 04:** *'The process of applying to start a business in India is very difficult. You have to go through different government institutions.'*

**Exporter 06:** *'We don't do mass marketing. We only do niche marketing. In India, we see such a diversity and the population is huge and the land size is quite large. So we can't cater to the whole market. Only a selective segment of the market is possible and better to sell our products.'*

Indians are mostly perceived as traditional consumers who do not like to switch between brands in certain types of products. Moreover, due to this restriction, respondents mentioned that the tendency of consumers to shift between products is lower than in the Western market. Hofsted [34] mentions the risk averse nature of Asian people; risk avoidance will make people refrain from running risks through their behavior. This leads to the creation of particular consumption patterns, where the probability of testing a new brand introduced to the market is lower than in a

risk accepting country. The high competition faced by exporters and the difficulty inherent in designing marketing strategies to suit the Indian market are influenced by this cultural dimension of risk avoidance.

**Embassy officer 01:** *'If we take tea, Indians love their own tea. We don't want to change to another brand.'*

This resistance to change might be because Indians are more religious and traditionalist. Findings [35] state that religiosity and traditionalism influence Indian markets. These characteristics of Indian consumers affect regional consumer behavior because the consumer's attitudes and preferences are influenced by religiosity and traditionalism [35].

**Exporter 02:** *'The Indian market is so very diverse. Many regional cultures exist in India. I think we have more than a hundred languages in India so an exporter who enters the Indian market has to face many difficulties in identifying the market.'*

#### **4.2 Regional Market Size and the Power of India**

Compared to Sri Lanka, the larger market size of India is a dominant factor in trade. The Indian market represents 73% of the total South Asian regional market and reflects the dependence of other smaller members such as Sri Lanka, Nepal and Maldives on India. This unequal market size confers a competitive advantage to India compared to Sri Lanka. Among the products traded between the two countries, Sri Lanka has a comparative advantage for a few product categories, whereas India has a similar advantage for many products [1].

A few respondents stated that although this unequal market power exists in India, it is a disadvantage to smaller countries such as Sri Lanka; however, it is also an opportunity for these smaller countries to reach out to a market where a variety of consumer preferences exist.

**Exporter 08:** *'India is the largest country in the South Asian region and the closest country to Sri Lanka, and we have a huge advantage in joining with them'*

Despite the Indian market being the largest in the SAARC, the possibility of generating international trade flow is relatively low because of the lower power for consumer expenditure in many parts of India.

**Exporter 01:** *'The competition from India is very high. This is because their economies of scales are far better than ours.'*

Also, the possibility for an international company to cater to the entire Indian mass market is difficult because of the non-homogeneity of Indian consumer preferences. Many respondents highlighted the importance of concentrating on a niche market segment which is advantageous due to the complexities in consumer behavior and cultural diversity existing in the Indian market.

#### **4.3 Exporters' Attitudes to the Indian Market**

Although Sri Lankan exporters are willing to initiate their businesses in the Indian market, they said that they prefer the Western market. This is because their experience outside the Indian market is greater than their experience of the Indian market.

**Researcher 03:** *'Marketing and corruption exist in South Asian countries. Sri Lankan traders are not willing to face these factors in the export market so they believe it's easier for them to trade with other countries such as USA, UK, Germany or West Asia.'*

**Researcher 02:** *'I think India's interests lie elsewhere. They are looking at fast growing markets like ASEAN, EU and Singapore and now their major interest is in service exports. Their demand does not come from South Asia but from USA and increasingly from South East Asia.'*

Similar to the findings of [36], the respondents confirmed their knowledge of the Western market, and the technological requirements that are able to improve trade performance have been well identified by the exporters. In particular, the respondents highlighted the fact that managerial misconceptions and negative attitudes about the Indian market limit their interest in exporting to India.

**Embassy officer 01:** *'The attitude of Management towards the Indian market is very important. Sri Lankan exporters make narrow judgments about the Indian market through their own experience. Even though the top management or owners of businesses are willing to go ahead, sometimes progress has been halted due to negative attitudes at lower management levels about the Indian market.'*

**Academic 03:** *'But compared to other countries, we gain big benefits by working with India. Even though some parties criticize the relationship and negotiation with India, what I feel is that it's beneficial for us to go ahead and trade with India'*

In the long term, most Sri Lankan exporters expect to build a relationship with the agent, distributor, or with the final customer to build sustainable business ties. A few respondents were not satisfied with the attitudes of and the support they get from their foreign trading partners (agents and distributors) in the process of capturing the Indian market.

**Exporter 01:** *'Indian have their own protections going on. For us to start an independent business is very tough. Unless we go in the form of a joint venture or a strategic partnership like the ones our companies are doing at the moment, India is a very difficult place to do business.'*

One respondent highlighted the difficulty of finding and entering into a trade relationship with an Indian distributor. The attitudes of the agents or the distributors in the Indian markets are not encouraging when compared to similar experiences outside the Indian market. The trustworthiness between trading partners and the willingness to build closer trade relationships are not strong between the two countries. Cultural, language, political and religious diversities influence the creation of a trusting relationship between two parties that are not familiar with one another.

### **Political and Economic Harmonization between the Two Countries**

The influence of political harmonization is identified under two categories. The first is the nature of the political relationships between the two countries. In eight (8) instances, respondents highlighted the importance of strong political relationships between the two countries.

**Academic 02:** *'Our commitment to success rate is low. That is how I still feel. At the top leaders' level and even at the business sector level I don't see positive actions. People guard their individual interests.'*

**Academic 03:** *'From time to time we have some misunderstanding. So that affects our trade relationships and performance causing them to delay further in implementation. Each one has his own interests. So, it's difficult to have a common objective.'*

The second factor is the political stability of the two governments and the stability of the different Indian states. Respondents had mixed attitudes about the lack of political stability in both countries and the fact that state governments hinder trade performance.

**Exporter 01:** *'What I consider most important is the political instability of India and Sri Lanka. India also has some issues with their state governments. Each and every country has some sort of political issues. Anyway, this has impacted on our export performance in India.'*

**Researcher 02:** *'Now, the political tension is less of an issue than in the past'*

### **Export Product Diversity of Each Member**

Respondents have highlighted this factor as important in the creation of trade in seventeen (17) instances. Salvatore (2002) states that another advantage of trading competitive rather than complementary products is the greater chance to create international trade opportunities. However, the respondents of this study stated the lack of product diversity between the two markets which prevented the smooth exchange of products as India and Sri Lanka specialized in similar export items. Often, respondents highlighted the fact that South Asian regional members also have a lack of product diversity, hindering the export performance between two countries.

**Academic 01:** *'Because South Asian intra-trade performance is low, we don't have a competitive advantage for many products. Often, we are both competing for similar products like tea, rubber, garments and other raw materials.'*

**Academic 03:** *'As far as technology is concerned, India is ahead. Sri Lanka is still to develop and produce consumer and other industrial items. Both countries must design and develop their trade patterns on raw material exports'*

**Researcher 03:** *'Most South Asian countries trade similar products. That is a challenge. If you take the EU there is a big product diversity so the level of integration is faster.'*

Table 3, 4 and 6 reflects the fact that both countries are exporting raw material for industries in India and Sri Lanka. For instance, both countries specialize in exporting tea and garments. Lack of trade complementarity is still a common issue between the two countries. This has created stiff competition in both markets. Exporters pointed out the influence of this factor on their strategic decision to limit offering certain products to the Indian market. Indian companies have captured the Sri Lankan market through lower pricing and cost advantages. Many respondents highlighted the importance of identifying a niche market to avoid the disadvantage of this stiff competition in the Indian market.

### **Disturbance at the Customs**

In 2018, cigars, cheroots, cigarettes with tobacco substitutes and tobacco, and water pipe tobacco are a few export products that had to pay the highest import tariffs to enter Indian markets [1]. Respondents have highlighted in fourteen (14) instances the interference from Indian customs.

**Exporter 03:** *'Barriers at the point of custom documentation, clearing, containerization, and handling are still challenging us in our attempts to export to India'*

**Exporter 05:** *'Sometimes there are many regulations and we have to fill the forms with all the details and that takes time'*

Frequent barriers at the customs have made some exporters prefer western and other markets to India.

**Academic 02:** *'Even though we reduce duty levels, because of the non-tariff barriers trade is restricted. Customs treatment at the ports discourage Sri Lankan exporters. Mainly in India, what I personally feel is that this is the major barrier to exporters. Exporters are not willing to spend their time and money because they could bargain for a higher price from Western or even African countries. So the problem is that.'*

This uncertainty avoidance can be explained using Hofstede [34]. This author has explained that cultural influence exists in the Indian market. Indian and Sri Lankan governments impose strict rules and regulations on international business operations because of these governments' desire to avoid uncertainty. Western cultures are more prone to accepting uncertainty and therefore they welcome foreign investments and international business operations through the removal of barriers. Therefore, foreign investments are facilitated and international business activities are encouraged in these countries. Uncertainty avoiding cultures such as India and Sri Lanka try to minimize the possibility of facing uncertain situations by strict laws and rules, safety and security measures [34]. This has resulted in Indian and Sri Lankan governments requesting detailed documentation and other evidence to clear cargo. This extensive documentation and legal adherences de-motivate exporters from engaging in bilateral trade.

**Researcher 03:** *'In the Southeast Asian region, the customs and tariff systems are not developed in a way to function efficiently. So things move very slowly between these countries'*

Most exporters prefer Western or East Asian markets because these cultures are uncertainty accepting cultures [34]. Governments in these countries encourage foreign trade and foreign direct investments in their markets. They accept the risks associated with engaging in internal business activities and this facilitates trade. Consequently, many international business operators prefer Western or East Asian markets. Many exporters identified unnecessary documentation and inefficient customs procedures as delaying shipments to customers. On the other hand, respondents stated that customs procedures will become more favorable as the relationship between the trading partners becomes more trustworthy and transparent over time.

**Exporter 04:** *'Often customs will not even request us to show the containers shipped by our company. This is because we have a long lasting reputation. We haven't done anything illegal. This is the perception the customs has of us.'*

**Academic 02:** *'Health and sanitary standards are requested by SAARC member countries even though products are accredited with the International quality requirement.'*

## **Flexibility of Marketing and Promotional Strategies**

The respondents also pointed out the challenges they have to face when exporting and marketing value added products to the Indian market, while also highlighting, in fourteen (14) instances, the importance of marketing and promotional strategy.

One challenge is the high marketing cost that has to be incurred by smaller scale exporters [37]. The respondents stated the necessity of adopting marketing strategies [31; 38; 39; 40] to suit local requirements.

**Exporter 01:** *'Over the past years, we have gradually increased our branded products (labels) in the Indian market. Now we have two of our brands in India. It was hard to enter the market.'*

Standardization of marketing and promotions were not recommended by many of the respondents. The difficulties faced in branding and other marketing activities make many regional traders decide to limit their exports to non-value- added products.

**Exporter 01:** *'I feel if we have our own brand we have control in the Indian market. But it's difficult. So, at the moment, we feel that selling in bulk form is more profitable for our company than spending a lot on promoting our own brand'*

**Researcher 02:** *'Marketing, brand development, buyer relations and that sort of thing takes time in India. The most recent venture in India took us the last 5 to 10 years. Producers in the region have to take time to tap that taste advantage. A particular business that I know launched their intimate apparel in India in the 2010's. It is their own brand and it's somewhat successful in India. There are signs that regional trade is taking place. But it's a gradual process.'*

Many respondents stated the interest in the cinema of the consumers in the Indian market. To attract consumers' attention it is important to design media campaigns in a cinematic manner.

**Exporter 03:** *'If we want to design an advertisement in India, we have to do it creatively. Indian Ads are very eye catching, like movies. Indian businesses spend a lot on advertisements'*

**Exporter 07:** *'Indian competitors use celebrities to market their products which is costly to a new international player like us'*

Pricing is the most sensitive factor in the Indian marketing mix. Because of the lower income level and purchasing power, most Indian consumers are price conscious.

**Government officer 01:** *'India is a very price conscious market. They ask products for very low rates'*

Consumers compare competitive brands with respect to their pricing and the product attributes being offered. Therefore, respondents perceive that pricing has to be competitive if the exporter is willing to operate in the Indian mass market. Also, the comparatively low production cost helps Sri Lankan exporters to succeed in the Indian market. However, with the prevailing economic situation Sri Lankan exporters find the Indian market to be quite challenging.

**Government officer 01:** *'This region is quite price conscious, and people are at the poverty level. They have low purchasing power to buy quality products, and exporters need to keep an eye on the low cost of whatever they export to this Indian market'*

**Academic 02:** *'We can't match Indian competitive prices. Indian products are much cheaper. To enter India our product has to match the price of the comparative Indian product. So, if we don't match the price, consumers will not consider buying our product.'*

**Academic 03:** *'They have lower purchasing power and therefore cannot demand a variety of goods. That's not the case in the EU and ASEAN countries, even when we try to sell they don't have the purchasing power. They search for the lowest priced product to satisfy their needs and wants'*

**Exporter 05:** *'In some Indian states, we have to decide on the price based on the local competition. Often we have to go with the cost to meet the Indian competitive price, with a very little margin sometimes.'*

**Academic 03:** *'Sometimes it is difficult to develop a product and introduce it to the regional market. It is especially difficult to compete with the Indian market since its prices are competitive. We have to produce everything at the lowest possible price, which is very hard at the moment.'*

### **Preferential Tariff Reductions**

In fourteen (14) instances, respondents highlighted the importance of preferential tax reliefs provided under bilateral trade agreements. Preferential Tariff Reductions are tariff reductions granted for selected export and import items in trade agreements between the relevant parties. Most respondents spoke about the preferential nature of tariff reductions which do not give them the real benefits which are expected by these agreements in order to boost the trade between India and Sri Lanka.

**Academic 01:** *'What we can do is analyze and identify the items frequently traded between the two countries and try to reduce the duty levels for these items. But what has happened is we have negotiated and given tax reductions for the goods that are least traded as well. So how could it improve trade? That's simply a joke.'*

**Academic 03:** *'The frequently traded items are disregarded from their list. So how can we improve trade? Unless and until you give direct tax reductions to mostly traded goods, trade will not improve.'*

High Indian state taxes (NTB) have hindered the entering of Sri Lankan exporters to the Indian market. Most Indian states charges state taxes from foreign entrants whereas such taxes are very low for local industries. This aspect was illustrated by the following comments;

**Exporter 02:** *'We have to pay internal taxes, that is state taxes in India, which substantially increases our cost and selling prices. This destroys our competitiveness in India'*

**Embassy officer 01:** *'India is bigger than Sri Lanka. Exporters complain about the state taxes in India. Indian states run independently so they have to charge taxes.'*

### **Proximity to the Indian Market and Transportation Costs**

On thirteen (13) occasions, respondents stated the importance of being proximate to the Indian market. Few researchers [25; 41; 42], stated that being proximate is not a strong conducive factor in developing international trade between two countries. High transport costs, lack of integration

of the transport systems in South Asia also impede intra-regional trade performance of South Asian members [4]. Most respondents stated that trade patterns between the two countries depend on proximity to the foreign market. High transportation costs and additional costs restrain exporters from trade with distant members. Most exporters in Sri Lanka said they concentrate on the Indian market because of its market size and the proximity to their country. However, lack of cross border transit points and quality road connections across the Indian market are significant hindrances to bilateral trade [6].

**Academic 01:** *'Even India has interests in other parts of the world. They see us as their secondary market. However, they do have some political interest in us because we are a neighboring country.'*

### **Government Support in Promoting Bilateral Trade**

The respondents highlighted the importance of the government role in promoting bilateral trade opportunities eleven (11) times, since both countries are at a developing stage and the Sri Lankan government's support to develop the SME exports sector is essential to expand trade with the Indian market.

**Exporter 01:** *'The government should help us find ways and means to reduce cost of exports so that we can be more competitive in the Indian market'*

Both countries are developing economically and rely on tariff income. This makes both countries and their governments more sensitive when it comes to relaxing the tariff rates of mostly traded goods and services.

**Researcher 02:** *'If you take Sri Lanka, the government faces revenue problems so it's difficult for the government to reduce tariffs because it will lose some government revenue. This is the big picture. However, we need to balance this issue'*

**Researcher 02:** *'I think India has taken some positive steps. They gave unilateral duty free to too many less developed countries. They provide financial assistance to some of these countries. There is some financial facilitation from the partner. In comparison, India has done a great amount. It's a commercial purpose.'*

Export promotion measures such as tax rebates, low-interest loans, low prices on land leasing, electricity and water, free introduction to and advertising in overseas markets are still widely used in many developing countries [43; 44; 45]. The ethnocentric attitudes of many governments that have an objective of protecting local industries has become a major barrier in expanding the regional market. Consumer ethnocentrism causing the protection of local industries at the expense of the welfare benefits of consumers [46; 47; 48] is common in many Indian markets.

A government's political slogan such as "Be Indian Buy Indian" or "Buy Sri Lankan Products" is directing consumer perception towards local brands. Most respondents stated that unless consumers are willing to buy a foreign product, it is very difficult and costly to enter and operate in the Indian market.

**Exporter 02:** *'The success of India is the slogan 'be Indian buy Indian' and that is the concept we have to build in Sri Lanka as well. I don't know whether the present Sri Lankan campaign is functioning effectively. We must build that attitude in our people.'*

**Researcher 03:** *'Consumers are looking for quality and price. This is like Indians are now moving away from the attitude of buying local (Indian made) products. I think*

*this behavior is better for Sri Lankan exporters to concentrate on quality plus price in a Niche Market'*

### **Competition in the Indian Market**

Another factor which discourages bilateral trade is stiff competition in the Indian markets. The summary results sheet reflects that respondents stated this factor as important with a frequency of nine (9).

**Exporter 01:** *'I don't think it's worthwhile to do marketing heavily at this moment in India, because the markets in India are tough'.*

**Exporter 04:** *'It's hard to build a market in India because there is high market competition. Indian customers now prefer products from outside the South Asian region. Especially from the West and from East Asia'.*

This perception of high competition is purely because most exporters in both countries have specialized in similar export items. The lack of a diversified range of products creates stiff competition in the Indian market [20; 42].

## **RECOMMENDATIONS**

### **Government intervention in resolving Non-Tariff Barriers (NTB)**

The two governments concerned should further implement effective agreement initiatives that value all imported products from both countries and evaluate them based on customs valuation assessment of the WTO. To address SPS-TBT related issues, India can further extend its capacity building knowledge to Sri Lanka to enhance Sri Lanka's standardization institutions. To resolve disputes between the two countries, both governments can encourage the development of an effective mechanism that is more transparent to address trade and investment related issues. The South Asian Regional Standards Organization (SARSO) [49] could play a more active and interactive role in developing and monitoring the progress of agreements and the performance of standards and certifications. Both countries should encourage cooperation among customs agencies to resolve the disputes that arise in trading between the two countries. India should also be concerned about controlling the state tax charges that may de-motivate other exporters from the SAARC countries.

Both countries can negotiate on reducing para-tariffs which are import duties such as port and airport levies and cess. These are not the standard ad valorem duties defined in most trade agreements. To reduce the cost of transportation and to maintain the quality of the products traded, both countries have to concentrate on developing infrastructure-related trade facilitation. To address this issue, both countries can join other SAARC members to access a greater market. Investments in multimodal transport facilities are identified as the best strategy to solve NTB related issues.

### **Attractiveness of Niche Markets**

It is recommended that smaller and medium sized businesses search and enter a niche market in their international operations [50; 51; 52]. From the research analysis, it was revealed that in the Indian market, the consumer purchasing power is low. Therefore, it is beneficial for most companies to search and enter into niche markets in India where profitability is high. The easy

access to neighboring markets is an added advantage to these niche firms. Financial and fund difficulties could be avoided through concentrating on a niche segment in the Indian market. The researcher found the importance of exporting value added or branded items to these niche segments. In the process, careful attention has to be paid to pricing and advertising in order to capture these niche customers.

### **Consideration on Ethnocentrism Attitudes of Indian Consumers**

The data analysis has revealed that influences of ethnocentrism on Indian consumers are higher than on customers in other Sri Lankan export destinations. Thus, it is essential to consider the influence of consumer ethnocentrism in a company's marketing and other strategic decisions. The literature reveals that the influence of consumer ethnocentrism depends on the type of product and its necessity to consumers. The more the necessity the less will be the ethnocentric effect.

### **Consideration of the influence of the cinema on Indian consumers**

On many occasions, it was highlighted that Indian consumers' prefer Indian cinema and music. Sri Lankan exporters can consider these aspects when designing their marketing and promotional activities in the Indian market.

### **International business strategies**

Findings prove that Indian consumer preferences are for products outside the Sri Lankan market. This has been influenced by the cultural perspectives imbedded in consumers of both countries. Thus, Indian consumers perceive that certain attractive products imported from outside are of a higher quality than Indian or Sri Lankan made products. To help consumers avoid this perception, the researcher elicited from the respondents the possibility of Sri Lankan and Indian companies entering into strategic alliances either with Western companies or with other South Asian companies which are reputed in the global market. These strategic alliances could be made either through licensing agreements, technological transfers, Research and Development partnerships or supplier and marketing arrangements. Strategic alliances as an alternative mode of entry provide an excellent strategic fit, especially between firms located in different cultural backgrounds.

## **CONCLUSION**

The EU and the USA are the major export destinations of Sri Lanka [53]. With the global financial crisis and the resulting world economic destabilization, Sri Lanka was affected due to its dependence on these distressed markets. Therefore, Sri Lankan export diversification, both in terms of products as well as export destinations, is required. To enjoy the economies of scale, the Indian market provides a great opportunity to Sri Lanka to enter into integrations and boost its trading performance.

With the economic crisis gripping Sri Lanka's traditional export markets and the food price crisis threatening the global economy, Sri Lankan exporters should view India as an opportunity and not as a threat, and strive towards more meaningful and positive cooperation in facilitating inclusive and equitable development policies. With a view to promoting trade, this research aimed to identify impediments to international trade between the two countries. The study also offers some practical recommendations to minimize the impediments identified in this paper.

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**APPENDIX**

**Appendix 1. Critical Factors influencing on the Successful performance in the Indian Market**

Number	Higher Order Codes	Characteristics	
1	Cultural Diversity of two countries	Host market and Home Market Characteristics	Environmental Characteristics
2	Exporter's attitude about the Indian market		
3	People movement between two countries		
4	Price Conscious consumers		
5	Positive attitude towards the western market and products		
6	Consumer Ethnocentrism		
7	Diversity in communicating Language		
8	Competition within the local market		
9	Proximity of two countries		
10	Harmonization of standards		
11	Disturbance at the Indian custom		
12	High transportation costs within the Indian states		
13	Diversity of Indian Markets		
14	Political Instability of state governments		
15	Informal Trade between two countries		
16	Power of India over other small regional countries		
17	Government interest of entering in to Bilateral Agreements		
18	Government support in developing bilateral trade promotions		
19	Political harmonization of two countries		
20	Legal Barriers in trade		
21	Economical harmonization of members		
22	Fluctuation of foreign exchange rates		
23	Level of FDI between the countries		
24	World Economic Downturn		
25	Mismatch of tariff reductions and time taken		
26	Maturity of the trade agreement		
27	Preferential Tax reductions provided in FTAs		
28	State taxes charge in India		
29	Technological development of two countries		
30	Consumer attitudes about the products		
31	Demand for the product	Product Characteristics	Firm Level
32	Export Product Diversity of each member		
33	Flexibility of Marketing and promotional strategies	Firm Characteristics	
34	Reputation of the Exporter		
35	Production Cost/ Economies of Scale		

**Appendix 2. Barriers to international trade faced by Sri Lankan exporters in the Indian market**

<b>Number</b>	<b>Barriers to trade between India and Sri Lanka</b>
1	Market and Cultural Diversity
2	Regional Market Size and the Power of India
3	Exporters' Attitudes to the Indian Market
4	Political and Economic Harmonization between the Two Countries
5	Export Product Diversity of Each Member
6	Disturbance at the Customs
7	Flexibility of Marketing and Promotional Strategies
8	Preferential Tariff Reductions
9	Proximity to the Indian Market and Transportation Costs
10	Government Support in Promoting Bilateral Trade
11	Competition in the Indian Market