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**Working Paper**

## Opportunity next door: An analysis of India market entry strategies of Sri Lankan firms

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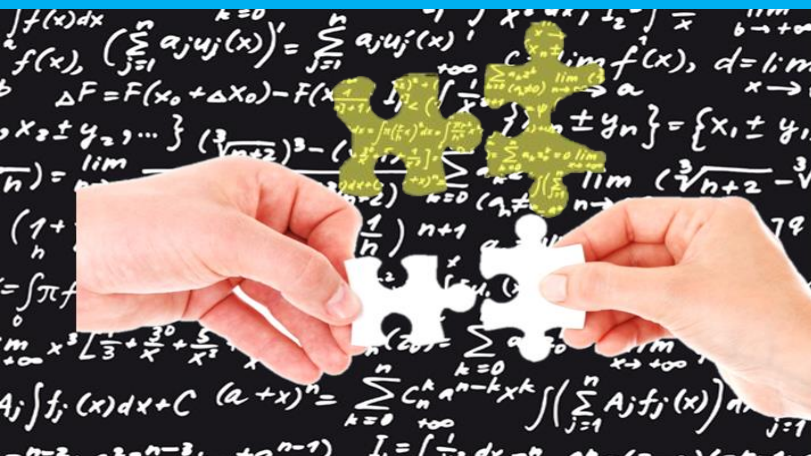
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## Opportunity next door: An analysis of India market entry strategies of Sri Lankan firms



Anushka Wijesinha

ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

# Working Paper

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ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

# WORKING PAPER

## **Opportunity next door: An analysis of India market entry strategies of Sri Lankan firms**

Anushka Wijesinha<sup>1</sup>

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<sup>1</sup> Author is an independent consultant and former Economic Advisor to the Minister of Development Strategies and International Trade, Government of Sri Lanka, as well as a researcher at the Institute of Policy Studies of Sri Lanka. The author appreciates the ARTNeT secretariat assistance in dissemination of this work. The paper aims to provide an accurate representation of the information collected from the surveyed firms. Any omissions/errors are the authors' own.

## **Abstract**

Sri Lanka and India have a bilateral free trade agreement that spans twenty years, and although exports from Sri Lanka to its large neighbouring market has grown over time, the market entry performance has been somewhat lacklustre. Yet, the success of some Sri Lankan firms holds useful insights on what has worked and what has not. The present paper, based on surveying firms and in-depth interviews, assesses the India entry strategies of leading Sri Lankan firms that have established themselves and seen success in India. Their experience bears lessons for others seeking to access the large and growing Indian middle-class market, and provides some salutary messages for trade promotion and facilitation entities to boost bilateral trade.

**Keywords:** Sri Lanka, India, Bilateral Trade, FTA, Trade Integration, Joint Ventures, Exports, FDI, Market Entry, Consumer Market, Business Strategies

**JEL codes:** F15, L14, L24

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### ***Dedication***

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*This working paper is dedicated to the memory of the late **Dr. Saman Kelegama**, Executive Director of the Institute of Policy Studies of Sri Lanka and Sri Lanka's chief trade negotiator at the time of his passing in 2017. Dr. Kelegama was an ardent supporter of Sri Lanka's deeper trade and investment integration with India, and was singularly the most published economist on the subject. It was the author's discussions with him on this topic during 2017 that inspired the exploration of this area - firms' experiences of trade and investment in India - to take the policy debate on bilateral ties beyond the confines of the pros and cons of the ISLFTA.*

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## **1. Introduction and context**

Sri Lanka and India share close historical, cultural and commercial ties, with substantial trade and investment exchange in recent decades. Bilateral ties reached a milestone with the forging of the Indo-Sri Lanka Free Trade Agreement (ISLFTA) in 1998 (and entered into force in 2000), which was the first bilateral FTA for both countries at the time. Since then, and for some time now, there has been an open debate among Sri Lankan business and policy circles as to whether Sri Lankan firms have leveraged the agreement, and the market opportunity more broadly, to succeed in the Indian market. While much of the existing analysis and literature has focussed on bilateral trade flows, the performance of ISLFTA and associated issues (for example, Kelegama 2014), there has been little to no literature that focuses on firm-level experiences and decision making dynamics. This paper aims to fill part of that void, by presenting the findings of a qualitative research conducted among Sri Lankan firms that have entered the Indian market. The purpose of the paper is to draw out key perspectives and lessons relevant to a wider Sri Lankan private sector looking to expand into the Indian market and through that also provide useful insights to firms in other smaller economies in the region keen to succeed in the Indian market. The paper also provides some policy recommendations for Government agencies involved in facilitating and promoting bilateral trade in both countries.

## **2. The Indian market opportunity**

It is widely acknowledged that Sri Lankan businesses have a great opportunity to leverage on the growth of the Indian economy. Until the recent slowdown, India was the world's fastest growing large economy, with GDP growth between 2015 and 2019 recorded at 6.7 per cent and growth in fiscal year 2019-20 (April 2019 to March 2020) at 4.2 per cent. It is expected that once the fallout of the Covid-19 pandemic abates, the Indian economy has sufficient growth potential to place it on a stronger growth path once again - the Government think tank NITI Aayog forecasts that growth will reach pre-Covid levels by the end of the 2021-22 fiscal year (The Hindu, 2020).

Amidst this, the growing Indian consumer market offers a considerable business opportunity for Sri Lankan firms who are constrained by the small, 21 million population, domestic market at home. Within this, the Indian middle-class consumer market alone is estimated to be more than ten times Sri Lanka's total domestic market. Quantitative analysis by Kharas (2017) shows that between 2015-2022, India's middle class would expand by 380 million people.<sup>2</sup> Other estimates suggest that by 2025, this would have grown to 580 million people – about 41 per cent of the population (Constable 2018). According to a 2017 report by Boston Consulting Group, India is set

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<sup>2</sup> For China, the number is 350 million Chinese, and for the rest of Asia 210 million.

to be the third largest consumer market by 2025, with domestic consumption rising to US\$ 4 trillion by 2025 (Boston Consulting Group, 2017). BCG observed that 'rising affluence levels would drive changes in consumer behaviour and spending patterns that have big implications for firms' (Boston Consulting Group, 2017). About 40 per cent of the population would be living in urban areas by 2025, and city dwellers would account for over 60 per cent of consumption (Chaurasia, 2018).

While Indian middle-class consumption was just 5 per cent of global middle-class consumption in 2015 (at US\$ 1.9 trillion, compared to US\$ 4.7 trillion in the United States), by the end of this decade it is set to rise to 9 per cent (US\$ 3.7 trillion) and to 17 per cent by 2030 (US\$ 10.7 trillion). After Japan, India is poised to overtake the US to become the world's 2nd largest middle-class market by 2022, according to the Brookings Institute (Brookings Institute, 2018). It's clear that slicing off even a modest share of this would be a game-changer for Sri Lanka firms struggling with a small market at home and facing tepid growth overseas in their traditional markets in the west.

### **3. Trade context: Sri Lanka's exports to India and firms' entry**

By 2019, Sri Lanka's exports to India had grown to US\$ 760 million from US\$ 56 million in 2000 when the ISLFTA came into force (Department of Commerce, 2020). Of this, exports under the ISLFTA amounted to US\$ 490 million (around 64 per cent of total exports to India), from US\$ 8 million (6 per cent) in 2000 (Department of Commerce, 2020). Between 2015 and 2019, product categories that have seen the most growth are essential oils and cosmetic or toilet preparations (from US\$ 3.5 million to US\$ 11.4 million), activated carbon (from US\$ 0.4 million to US\$ 4.6 million), apparels (from US\$ 21.4 million to US\$ 49.4 million) and furniture, furniture parts & mattresses (from US\$ 16.6 million to US\$ 27.1 million). Interestingly, these export performances can be closely linked to the performance of specific firms, indicating that the expansion in exports to India under the ISLFTA has taken place primarily due to the role of lead firms.

Although Sri Lanka has had a bilateral FTA with India for twenty years now, Sri Lankan firms have experienced a mixed performance in the Indian market (Wijesinha, 2017). A combination of long outstanding trade facilitation and non-tariff issues (discussed extensively in, for example, Wijayasiri and Jayaratne, 2016 and Verite Research, 2015), along with a lack of market information, proactive export promotion, and aggressive market entry by Sri Lankan firms, has meant that Sri Lanka has yet to fully leverage on the opportunity presented in this large market next door. The government and private sector embarked on a joint initiative in 2019 to explore this further (see Box 1 for more).

While there are no exact published numbers of Sri Lankan commercial presence in India, the information based on interviews with chambers of commerce (particularly the Indo-Lanka Chamber of Commerce and Industry), the high commissions of both countries, and the Sri Lanka Export Development Board, helped to identify firms operating in India. These range from apparel facilities like the Brandix India Apparel City in Visakhapatnam which employs over 20,000 workers and houses 15 factories integrated to the apparel sector,<sup>3</sup> to the furniture manufacturer and retailer Damro who have over 80 showrooms across India and export over 100 40-ft containers per month (Daily FT, 2020).

#### Box 1: Private public initiative on ‘Break Into India’

While the two countries work to resolve issues in the existing agreement within the contours of a proposed new agreement (the ‘Economic and Technology Cooperation Agreement’ or ‘ETCA’), a parallel and complementary effort was embarked on in 2019 to identify proactive measures for accessing the Indian market<sup>4</sup>. A ‘Break Into India Strategy’ Committee was appointed by the then Minister of Development Strategies and International Trade in late 2018, comprising almost entirely of private sector representatives who have market experience in India. The Committee was co-chaired by one representative from the private sector (a former Chairman of the Ceylon Chamber of Commerce, the country’s largest industry association) and one from the public sector (the Chairman of the government’s trade promotion agency, the Export Development Board). The material presented in this working paper is based on the author’s own analysis undertaken during this work, and is published with due permissions.

## 4. Methodology

The research used a qualitative methodology approach, based on both a semi-structured questionnaire and in-depth interviews with key informants during March to August 2019. The contents of the semi-structured questionnaire were validated by members of the Committee, in order to ensure industry relevance. In-depth interviews were carried out over the phone and in person.

A total of 18 firms were surveyed and their chief executives interviewed, from the following sectors: textile and garment manufacturing, apparel brand retail, household goods manufacturing and retail, tea, logistics, processed food and beverages, porcelain, ceramics and glassware, natural cosmetics and herbal products, and boat

<sup>3</sup> See <http://www.brandixapparelcity.com/Content.aspx?id=3&Type=S&Page=3>

<sup>4</sup> In addition to this, the government embarked on procuring a detailed market study to identify clear and actionable market entry information for Sri Lankan firms looking to do business in India.

building and ship repair. Additional interviews were carried out with stakeholders from academia and chambers of commerce.

The analysis was conducted, and results compiled, along eight (8) focus areas:

1. Reasons for exploring the Indian market
2. Overview of entry strategies and commercial approaches used
3. Key contributing factors to initial success
4. Key initial challenges faced and lessons learned
5. Experiences with Government institutions and officials
6. Experiences with Indian business partners and employees
7. Strategies to remain competitive and grow in the Indian market
8. Factors determining better market entry and improved likelihood of success

## **5. Findings on firm-level strategies**

### **5.1. Reasons for exploring the Indian market**

The first area of exploration was the question of ‘Why did you explore the Indian market?’. The analysis suggests that the most common and apparent opportunity that presented itself to these firms was the geographical location of India. Several firms noted that the proximity of the two economies was their primary motivation, as it meant easier and cost-effective logistics as well as business travel. A few firms indicated that their key reason for pursuing the Indian market was that the ISLFTA allowed many categories of Sri Lankan exports duty free access into India and also further east to Japan under India’s FTA with Japan.<sup>8</sup> A majority of the firms indicated that the cultural dimension played a role in their decision, observing that cultural similarities between Sri Lanka and India was highly favorable for conducting business in a familiar environment and ‘catering to a customer not unlike their own’. Firms also noted that the availability of a large labor pool in the Indian market provided the opportunity to scale up fast – something that was not possible now in Sri Lanka due to acute labour shortages.

A few firms noted the availability of, and accessibility to, business infrastructure such as warehouses and port-related facilities. Yet, there were several firms who observed that gaining access to such facilities was a long and tedious process.

Some firms noted that their reason was that tapping into the Indian was the logical next step for Sri Lankan firms that faced saturation in the domestic market and who were looking to expand to a larger consumer base. This view reinforced the notion highlighted earlier that for Sri Lankan firms limited by our small domestic market, the growing Indian consumer market offers a positive opportunity.

Next, the focus of the study was on what business strategies, models of engagement, and entry approaches were followed.

## **5.2. Overview of entry strategies and commercial approaches used**

We observed that Sri Lankan firms that have had success in India have adopted different business strategies depending on their specific product/business as well as their own risk appetite. While we cannot generalize these strategies for others, there are some common threads that emerge – ranging from basic or more distant approaches, to approaches that are much more locally entrenched. Research on entry experience of firms in sectors ranging from fresh produce, to furniture, to industrial products shows that for the majority of them a key strategy was to make business connections with Indian buyers *before* entering India, and engaging a local partner (who would help navigate domestic rules and regulations) from the very start of the entry process.

On the basic or ‘distant approach’ end of the spectrum, several firms undertook participation at industry exhibitions and conferences organized in India and visits by company officials as a key first step in their entry to India. On the other - locally entrenched engagement - end of the spectrum, firms opted to establish their own setup for handling and distribution their products. A few firms sought to appoint a local distributor, rather than setting up a distribution operation themselves. Certain firms, after their initial entry success, looked to expand to nearby states by retaining a third-party service provider to set up a distribution network in the targeted area, to facilitate their expansion process quicker.

After finding a partner, firms with a consumer product would negotiate with key department stores for brand placement and this had proven to be effective in creating a brand image among the Indian customer. These firms stressed the importance of offering a customized product and meeting the client’s specific requirements, explicitly as well as implicitly through the knowledge gained in the industry. After starting from single brand retail, a select number of firms extended their products to multi-brand outlets. Nonetheless, market entry into retail remained challenging for many, as securing good retail space was difficult in an already crowded market.

A few firms also indicated that they appointed local franchisees and dealerships to get their products to market, after the initial business infrastructure was set up. A standout feature shared among many of the firms reporting success in India is that they established early on an office in their chosen Indian city and a small team comprising primarily of Indian nationals. This had helped the firm commence and run operations more smoothly.

In a couple of instances (mainly among firms in manufactured products), the entry strategy followed was through acquisitions of factories of firms that were already well established in India and had all the required operational arrangements in place.

Following naturally from this entry approach/strategy is the question of what factors contributed to firms' initial success.

### **5.3. Key factors contributing to initial success**

An important trait that was observed across several firms was the emphasis they placed on developing a competitive product that was relevant to the Indian consumer. Alongside this, another trait observed among these firms was a good understanding of the local consumer, and not going in with a 'cookie-cutter' product that was simply being extended to India from the firm's other market/s. While these might seem obvious at first, these firms cited many examples of other firms (Sri Lankan and otherwise) who failed in the Indian market because they went in with an existing product with a view to simply replicate sales in that market (rather than developing an Indian consumer-focussed product).

The 'strengths in the product offering', including offering products with the best quality, timeliness of delivery, competitive pricing, and customization possibilities, were cited by the firms as key ingredients to their success.

The successful firms made it a priority to understand the Indian market well - acquiring local business knowledge and studying it carefully.

As one firm surveyed noted, 'we took time to truly understand the Indian consumer'. Another noted, 'we coupled this understanding of the Indian market with an understanding of our own strengths and weaknesses, in order to identify how we can gain a competitive advantage over Indian competitors in the market'. Several firms noted that modifications had to be made to initial product development and marketing strategies to better cater to different Indian consumer segments and requirements - something that these firms had not had to do much of in the small Sri Lankan market. These firms had clearly quickly recognised that India is a vast country and each state has often been described as '*a country in itself*'. They agreed on the need for conducting focused studies on selected states and industries and making this available to potential new entrants – especially those who cannot afford to conduct the market studies themselves.

An important point highlighted by several firms, and serves as guidance for potential entrants, is the significance of finding appropriate business partners in India before making any plans to enter the country. The firms stressed that many of their successful operations of breaking in and expanding were the result of having a network of Indian

partners to promote and help assimilate their business into the Indian market. The links ranged from forming joint venture partnerships with local Indian distributors to employing local staff in key port locations. 'Having strong relationships with Indian owners, partners, and government authorities', was cited as a key contributing factor to initial success. Related to this, was another trait observed among the successful firms - building an experienced and committed team leading the local operations, 'with a discipline and desire to succeed'.

Finally, a frequently cited factor was the stamina and patience to endure initial challenges that proved to be daunting. As one firm put it, 'not abandoning the venture at the initial stages' was a key reason for success later.

On the question of challenges, the firms reported several that they faced in the initial stages.

#### **5.4. Key initial challenges faced and lessons learned**

Although the firms surveyed had succeeded in the Indian market, breaking in and establishing themselves proved to be challenging. One respondent observed, 'In such a vast country when starting on a small scale, it is difficult to build brand awareness, and advertising is very expensive'. Similar views were expressed by others - 'significant media spends are required to get an adequately high proportion of Share of Voice (SOV) when introducing a new product to the Indian market', 'finding reliable and trustworthy retail dealers who want help your brand and gaining brand acceptance among them is not easy' and 'understanding Indian consumer dynamics such as their concept of price-versus-value took some time'.

A few firms noted that while some regulatory and procedural barriers had been relaxed over the years and made more business-friendly, previously (in the first decade and a half of the ISLFTA period) they faced substantial regulatory and procedural ambiguity around setting up business in India as a foreign company and 'big risks had to be taken' by often having to vest ownership of the company with an Indian national in order to meet local requirements.

Nevertheless, 'navigating domestic business barriers' – either policy or practice – was the most cited challenge by the firms surveyed. Firms cited issues like 'fragmented tariff and non tariff barriers in bilateral trade and complex regulations that differed from state to state' and 'unfair and unfriendly trade practices that emerged as the product was gaining traction'<sup>5</sup> as factors that dampened the competitive edge of their businesses. A common challenge faced by the firms was familiarizing themselves with

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<sup>5</sup> One firm cited an example of where product samples were taken for testing and it took nearly six weeks for the sample to be approved and released, while the shipment was held in Customs until then and the goods perished.

the local political and bureaucratic approaches as well as understanding and handling regulatory barriers, political intervention and rent-seeking. Cited as a challenge by firms, but also an area for immediate attention, was the lack of a one-stop source of information and assistance to navigate the many elements of starting a business in India. Firms indicated that they would have benefited from having guidance on registering and licensing, local accounting and audit services, distributor inductions, legal advice, market research, etc. Several firms mentioned the challenges in dealing with legal procedures, which tied them up in court for long periods of time and restricted their focus on the growth of their business.

### **5.5. Dealing with government institutions and officials**

Associated with the difficulties Sri Lankan firms reportedly faced in navigating the complex business climate in India is their experiences in dealing with Government institutions and officials. Here, there were mixed sentiments expressed by firms. Due to the size and expanse of India, problems in understanding and interpreting the varying state regulations arose, which contributed to making the entry process harder for new entrants. One firm noted, “there are many different interpretations of the same regulation”. One strategy used by firms to overcome this, given their lack of experience in dealing with the Indian bureaucracy, was to retain the services of an external consultant to liaise with these authorities. While this would be a bearable expense to larger firms, it would be a financial constraint on a small or medium Sri Lankan firm looking to break into the Indian market.

In contrast to firms establishing product distribution and brand retail, firms that invested in India reported positive experiences with the Foreign Investment Promotion Board (FIPB), who were reportedly welcoming of, and aggressively promoting, foreign direct investment (FDI). Yet, several firms reported that bureaucratic delays and uncertain tax and other regulatory rules often made doing business complicated for new entrants. A few firms reiterated that they were able to overcome these issues through strong networking (with the authorities) and continuous relationship building.

On a positive note, several firms observed that many government activities dealing with doing business in India have been computerized and are being facilitated electronically, which has enabled a smoother conduct of business. India has steadily risen in the World Bank’s ‘Doing Business Index’ rankings and in 2019, the country jumped 23 places to 77<sup>th</sup>.<sup>6</sup>

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<sup>6</sup> the World Bank has since announced a suspension of the DBI, owing to methodological concerns.



## **5.6. Experiences with Indian business partners and employees**

The overall perspectives of surveyed firms on conducting business with Indian partners was centered around challenges in establishing sound partnerships early on. Most Sri Lankan firms surveyed noted that while business partners in India are much more aggressive than what they are used to, once trust is established *'they become very supportive'*. It was also noted that Indian partners *'value strong family ties and cultural traditions, and that is reflected in their decision making'*. On similar lines, a firm specifically noted, *'personal relationship built on years of trust, confidence, and reliability played a huge part in our success in India'*.

Yet, several firms observed that 'equal partnership' was not easy to find. An established Sri Lankan food products business noted that finding partners with genuine interest and willingness to 'jointly develop the business' was a challenge. The head of the India operation of a successful furniture firm extended the advice that, *'Indian business partner expect good margins and a competitive price and quality of products. It is always important to maintain credit discipline with your partner'*.

When it comes to the recruitment and performance of Indian employees, several Sri Lankan firms mentioned that a lot of time and resources were invested in recruiting candidates to suit the company's purpose and business needs. A few firms noted that industry-specific talent may not be readily available in certain states, which delays plans for establishment or expansion. A view shared by many was that a Sri Lankan firm will often find that Indian employees are committed and hardworking as long as they have been treated well and good work relationships are created from the beginning. Some noted that *'the work culture is more productive than in Sri Lanka and it is more target- and goal-driven'*, and this could be *'because of the influence of many multinationals operating in the country'*. Others observed that Indian managerial level employees learn and adapt rapidly and *'have a good understanding of international business'*, more so than Sri Lankan managers. Yet, retaining workers beyond four to five years proved to be a challenge to many of the firms interviewed.

## **5.7. Strategies to remain competitive and grow in the Indian market**

After successfully breaking into India, the firms faced the challenge of not merely surviving but also needing to excel and thrive. The now-established enterprises followed strategies to maintain their growth and competitiveness in the Indian market, and much of these were linked to the early stage approaches followed. Most of the factors to maintain competitiveness and growth in the Indian market, as cited by the firms, centered around having a close "ear to the ground" and adapting quickly. The following were some of the perspectives shared by CEOs of the firms interviewed:

- continuously strive to create value in the mind of the Indian consumer;
- be adaptable by tailoring your products to cater to the Indian lifestyle;

- take time to understand the Indian consumer market and invest in research and development;
- understand which market segments to compete in, and be willing to change strategy to optimize on the opportunity;
- consistently re-engineer products to make them more cost competitive; and
- provide excellent after sales and customer service, as a key differentiator.

Aside from these approaches, a key focus in maintaining competitiveness and driving growth was by having a strong team of Indian nationals in the firm's local operations.

### **5.8. Factors determining better market entry and improved chances of success**

For this area, firms were asked to look back and identify what factors could have helped their Indian market entry. This, in turn, has lessons for Government as well as business associations in devising their support strategies to support potential new entrants to India. Several successful firms stated that their initial struggles were a result of a combination of several factors - a lack of government support, inability to overcome initial challenges, and poor knowledge-based entry preparation by the firm. The role of Government featured strongly in these discussions. As such, they shared identified factors that are directed at a) Sri Lankan government; b) Indian government; and c) both governments.

On a), the Sri Lankan government, they indicated the following would have been useful: Having an authoritative Sri Lankan official in India to help overcome legal and regulatory barriers that arise during the set up and operation process. As one firm put it, 'a strong Sri Lankan voice to support and counteract influence applied from the Indian side';

- Having a strong and supportive Sri Lankan consulate in key cities relevant for Sri Lankan business, with access to information, knowledge on regulations, and good business leads;
- Awareness and availability of information in Sri Lanka on the successful entry strategies of Sri Lankan companies and being able to guide and advice potential new entrants;
- Strong foreign relations between the two countries, which in turn helps business-to-business ties and also resolve trade and investment issues that arise;
- Having connections with Indian consultants with state-level expertise, who have access to a state-specific network of information on business opportunities, administrative barriers, state-specific regulations, and can provide assistance to navigate the state system.

On b), the Indian Government, they asserted the following would have made a difference:

- Indian government's commitment to ensure Sri Lankan businesses receive fair treatment and are offered a level playing field at all times;
- Making the intricacies of Indian regulations less opaque and timely notifications of alterations to reduce transactions costs.

On c), both Governments, they noted the following is important:

- Having a robust government-to-government working arrangement to resolve trade issues and avert crises (e.g. sudden trade facilitation issues faced by businesses on either side) in a consensual and timely manner.

## **6. Firms' market entry to India: Summary findings and recommendations**

### **6.1. Summary of strategies and experiences**

In summary, the findings of firms' strategies for, and experiences of, their market entry into India can be categorized under three key pillars – people, product, and process.

- People: Building a good Indian team on the ground from the outset, who understand the domestic conditions and can navigate the market dynamics.
- Product: Ensuring that the product offering is world class, continually introducing new products and being more innovative; taking time to truly understand the Indian consumer; and entering India with a product suitable to the local market at a competitive price.
- Process: Investing more time and resources to research into Indian business practices; building trade partnerships quickly and early on and expanding distribution at a more rapid pace; ensuring required approvals as well as funding mechanisms are in place right from the outset; and insist on government intervention (on both sides) intervention to remove facilitation bottlenecks when they arose and push for a level playing field from day one.

### **6.2. Recommendations for strengthening the chances of success**

This final section summarizes the insights and recommendations for strengthening India market entry, generated from stakeholder discussions during the study and in-depth interviews with surveyed firms. Many of these areas are relevant not only to Sri

Lanka, but also could be highly applicable to other smaller economies in Asia seeking to make greater inroads into the Indian domestic market.

#### *6.2.1. Knowledge sharing on India entry experience and strategies*

As evidenced by the findings in this report, there are many shareable lessons of firms' experience with Indian entry and operations, which would benefit potential new entrants. Sharing of these lessons and knowledge exchange of strategies around how issues were dealt with could even be useful for those already operating in India - a form of peer-to-peer learning. Chambers of commerce and industry in the country, together with public bodies (like the Export Development Board) could organize periodic forums for this sort of knowledge and experience sharing.

#### *6.2.2. Briefings on Indian regulatory environment*

Periodic briefing sessions on Indian regulatory and policy changes can be facilitated by the Indian High Commission in Colombo and the Export Development Board, with a view to help current and prospective India market entrants. These regular briefings can help bridge the information gap around the business regulatory landscape in India that Sri Lankan businesses face. The briefings should comprise officials from relevant regulatory authorities in India who can provide clarifications to questions posed by the Sri Lankan business community. For example, sessions can focus on the changing business establishment regulations introduced by the federal government as well as the new Goods and Services Tax (GST) now applicable uniformly across all states.

#### *6.2.3. Boosting commercial diplomacy presence and trade promotion capabilities*

Increasing the number of commercial attaches in key Indian cities that matter for Sri Lankan firms (especially in emerging target cities) would be essential, as well as enhancing the commercial diplomacy capabilities in the Sri Lankan diplomatic missions in India in order to more aggressively and regularly resolve trade and investment facilitation issues that arise. Specifically, institutions like the Department of Commerce, now under the Ministry of Foreign Affairs, would need to increase their commercial presence in India from the current approximately 3 commercial counselors to at least twenty. They would also need to be located in more cities than the country's missions or consular offices currently are, and as such standalone trade sections would need to be established in cities important for Sri Lankan businesses.

To complement this, trade promotion agencies like the Export Development Board (EDB) can consider appointing a specialised and expert 'India market access team', with short- and medium-term targets. The EDB would need to hire an Indian trade expert to sit at the EDB offices in Colombo to provide continual guidance to Sri Lankan exporters (as a common resource) on accessing the Indian market.

Together, these offices and officers can boost the availability of information on state-level, sectoral and product opportunities - current sectors where Sri Lanka can grow more in, as well as new potential sectors that Sri Lanka can pursue.

#### *6.2.4. Commercial law support for Sri Lankan businesses*

Building specialization in Sri Lankan commercial law firms regarding Indian commercial issues to help Sri Lankan firms deal with legal issues faced in India. There can also be a specialised legal unit at the Department of Commerce to help provide initial guidance, and subsequently refer them to more specialised international commercial law services. In addition, the commercial desks at our missions in India can have a pool of 'approved' Indian law firms that Sri Lankan companies can consult with, to resolve issues on the ground.

#### *6.2.5. Mapping Indian legal and regulatory landscape*

Creating an easily accessible database of the general rules and regulations of doing business in India, which needs to be continually updated given the ongoing reforms underway. This should also include a mapping of administrative and regulatory agencies that a business needs to deal with. This should be freely available to all potential entrants and can be housed at the EDB. The second step would be to develop state-level as well as sector-specific regulatory mapping.

#### *6.2.6. Exploring new distribution models*

Establishing of 'Export Houses' in key Indian states or similar models to help smaller Sri Lankan exporters break into the Indian market without having to establish their own distribution presence on the ground. This model has proven to be effective in other markets and other sectors (see Box 2, for an example of the Colombian flower industry in the US market). It is expected that such models can unlock the market for more Sri Lankan exporters in a shorter time and in a cost-effective manner for individual exporters, than is currently possible.

#### **Box 2: Joint distribution models - Example of the Colombian flower industry**

For a long time the Colombian flower industry struggled to break into the US cut flower value chain and were only simple commodity-type exporters of cut flowers. The real value was being captured by US distributors and retailers, who had much better bargaining power as they were on the ground in the market. To counter this, the Colombian Flower Industry Association established a joint facilitation and distribution centre in Miami. They invested in this as a common trade facility for all Colombian flower exports into the US. This changed the game, as they were able to aggressively break into value chains that they hadn't before and had an on-the-

ground presence for the industry to utilize. It provided a platform for hundreds of cut flower SMEs to break into the US market.

## **7. Concluding remarks**

As the bilateral FTA between Sri Lanka and India marks twenty years since coming into operation, efforts to deepen it to cover services, investment and economic cooperation seem to have stalled indefinitely. Nevertheless, exports from Sri Lanka to India market have grown over time, and some Sri Lankan firms have gained a lucrative foothold in this rapidly growing consumer market – both as exporters to, and investors in, the country. With the middle class consumer market in this neighbouring economy expected to be over ten times Sri Lanka's own, small domestic market, more aggressive market entry is required in order to fully capitalize on the opportunity. The success of Sri Lankan firms holds useful insights on what has worked and what has not. This paper, has assessed the India entry strategies of leading Sri Lankan firms that have established themselves and seen success in India, based on surveying these firms and in-depth interviews. The strategies adopted can be categorised into some key themes, ranging from leveraging on competent and trusted local partners to effectively navigate the complex Indian market, to forging joint venture partnerships. Some firms adopted lighter touch approaches, whereas others adopted more embedded approaches. A clear message emerged of the need to spend time and resources to understand the consumer segments well, and target the product offering accordingly, rather than going in with existing products and approaches that have worked elsewhere, given the unique characteristics of the Indian consumer, which also vary by state. Their experiences bears lessons for others seeking to access the large and growing Indian middle-class market – relevant not only to firms from Sri Lanka, but those from other smaller economies in Asia as well. The paper also provided some salutary messages on what government and private sector entities on both sides can do for export promotion and trade facilitation, to boost bilateral trade and investment in general, and Sri Lanka's exports and investment into India in particular. Further research into firm level strategies of Sri Lankan and Indian firms can reveal more about the opportunities for bilateral trade and investment, and can better inform efforts to resolve trade facilitation issues and efforts to deepen the ISLFTA to a more comprehensive agreement.

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