



## Challenges and Opportunities for Sri Lankan Exporters in the German Market: A Specific Reference to the Electrical and Electronic Sector

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### Authors' contributions

*This work was carried out in collaboration between both authors. Authors RTV and EAGS designed the study, managed the analyses of the study, managed the literature searches, performed the statistical analysis, wrote the protocol and wrote the first draft of the manuscript. Both authors read and approved the final manuscript.*

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### ABSTRACT

Foreign missions have been the pillars of trade promotion and in particular, of export and export-oriented investment. In Sri Lanka, the potential for export promotion to Germany is immense. However, it is discernible that there has been no coordinated effort by foreign missions to promote trade with Sri Lanka. At present, Sri Lanka maintains 52 High Commissions/Embassies overseas. In Sri Lanka, the Electrical and Electronic (EE) sector is one of the emerging sectors supported by the National Export Strategy (NES), and currently, the sector serves niche markets that have great potential to diversify in the area of Electrical and Electronic Components. The EE sector is also considered to have potential to stimulate innovation, research and development (R&D) and investment in Sri Lanka. Certain challenges are highlighted in the literature when promoting EEC as a major export of Sri Lanka. However, in this process of promoting exports in the EEC sector in the

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international market, foreign missions are recognized as the responsible stakeholder since they can facilitate the export process through diverse networks. Therefore, this research examines the challenges faced by Sri Lankan exporters when exporting to Germany, focusing especially on the Electrical and Electronic Sector. To achieve this research objective, a qualitative methodology was adopted as it permitted the researchers to understand human behaviour and thoughts to identify preferences in trade promotion activities. Primary data were collected through two main sources, namely, structured interviews and focus group discussions, while secondary sources such as international trade databases and trade maps were used to triangulate the data. The population of the study was Sri Lankan exporters and importers, trade support institutions and diplomats. In total, 14 semi-structured interviews were conducted using the convenience sampling method and snowball sampling. Analysis of data collected through semi-structured interviews (14) revealed that trade fairs and Business to Business meetings were vital opportunities to increase trade promotional activities of exporters. Major challenges faced by Sri Lanka exporters to the German market include the need for internalizing industries, limited recognition of Sri Lanka's EEC sector locally and internationally, lack of business intelligence, lack of stakeholder communication, need to build strategic relationships and intergovernmental engagement. The study offers several recommendations to overcome trade barriers and to exploit the available opportunities in the host market.

*Keywords: Commercial diplomacy; economic diplomacy; export and investment promotion; business-government relations; internationalization of business.*

## 1. INTRODUCTION

Economies heavily dependent on exports are extremely vulnerable to the instability of both export earnings and economic growth associated with global shocks. Given that exports constitute a large and rising share of GDP for most developing economies — more than 66 percent of developing countries have an export share of over 20 percent — increasing export dependence results in substantial export earnings fluctuations [1]. Hence, volatility in export sales is closely linked to volatility in growth, so major fluctuations in export earnings result in fluctuations in economic growth [1]. Since Sri Lanka has been a developing country for the past decades, it is evident that it still relies on traditional export products, though the share of traditional exports has been declining over the years in the global market. Export concentration reflects the degree to which a country's exports are concentrated on a small number of products and services or a small number of trading partners [1]. For example, a country that exports one product to only one trading partner has a perfectly concentrated export portfolio. Sri Lanka's export portfolio is limited to a relatively small number of countries. Hence, it is very important to diversify the export portfolio of the country in the areas of products and markets.

Sri Lanka's trade deficit shrank to USD 407 million in May of 2020 from USD 823 million in

the same month of the previous year [2]. It was the smallest monthly trade shortfall since June of 2019, as imports plummeted 44.3 percent to an over 10-year low of USD 994 million, mainly attributable to the measures taken from March 2020 to restrict the importation of selected goods aimed at easing the pressure on the exchange rate and international reserves from the adverse effects of the COVID 19 pandemic [2]. Intermediate goods lead the decline, falling 53.6 percent, followed by capital goods (-40.3 percent) and consumer goods (-20.5 percent) [2]. Meanwhile, exports fell at a softer 39 percent to USD 587 million, as firms gradually resumed activities following the relaxation of lockdown measures and the recovery of both domestic and global supply and demand chains to some extent. Declines were seen in shipments of industrial products (-45.9 percent); agricultural goods (-15.2 percent) and mineral products (-12.2 percent) [2].

### 1.1 History of Trade between Sri Lanka and Germany

Germany is Sri Lanka's fourth-largest export market [3]. Sri Lanka's exports to Germany have been worth about twice as much as its imports from Germany for a long time [4]. For many years, Germans have also made up a large proportion of foreign tourists visiting Sri Lanka, which in 2018, numbered almost 156,888 arrivals to the country [4].

With the main objective of promoting trade between the two countries, Sri Lanka has concluded the following agreements with Germany [4].

1. Trade Agreements (agreed upon in 1950, 1955, 1958)
2. Investment Promotion and Protection Agreement (agreed upon in 2000)
3. Framework Agreement on Technical Cooperation (agreed upon in 1973)
4. Air Transport Agreements (agreed upon in 1973, 1995)
5. Double Taxation Agreement (agreed upon in 1979)

German international trade with Sri Lanka amounted to EUR 1.25 billion in 2017, with exports from Sri Lanka to Germany reaching almost EUR 654 million, and almost 571 million EUR of exports from Germany to Sri Lanka [4]. Germany's main imports from Sri Lanka are textiles, rubber and tea, and its main exports to Sri Lanka are machinery, electrical goods, chemical products and motor vehicles [4]. For years, Germany has recorded a trade deficit with Sri Lanka due to the difference between exports and imports. Moreover, Germany has traditionally been one of Sri Lanka's most important source markets for tourism [4]. Recent years have seen marked increases in the numbers of German tourists: 46,000 in 2010, 56,000 in 2011, 72,000 in 2012, 85,000 in 2013, 103,000 in 2014, 116,000 in 2015 and 133,000 in 2016 [4].

Since 1978, 51 German companies have invested in Sri Lanka and created some 12,000 jobs for the local population [4]. Since 2005, German direct investment in Sri Lanka totals more than 80 million US dollars (14.5 million US dollars in 2015) [4]. Founded in 1999, the Sri Lanka-Germany Business Council, in which businesspersons from both countries seek to promote bilateral economic relations, has 110 members now. To further enhance trade ties between the two countries, in March 2018, the Delegation of German Industry and Commerce in Colombo was officially inaugurated [4].

## 1.2 The Objective of the Study

In 2016, the Sri Lankan electronics industry (HS 85) accounted for just US \$ 241.80 million in exports but US \$ 1.37 billion in imports, creating a trade deficit of US \$ 1.13 billion [5]. This shows that there is a sizeable demand for

electronic products within the country, especially for finished goods. Although the growth of the sector has been volatile, with export growth rates of 45 percent in 2014 and -22 percent in 2015, the overall export growth trend between 2011 and 2015 was 4 percent, outperforming world export growth by 2 percent [5]. The Compound Annual Growth Rate (CAGR) for the electronics industry between 2012 and 2016 has been 2.57 percent for Sri Lanka, while for the world the CAGR has been -1.20 percent. The Sri Lankan EEC industry has experienced a resurgence in FDI inflows since 2013, reaching US \$ 90 million in 2016. The sector's main exports are wires and cables (22 percent); parts of boards, panels and consoles (19 percent); transformers and static converters (14 percent); switches (12 percent) and their components (33 percent). The industry caters to the automobile, telecommunication, consumer electronics and industrial application sectors, and provides employment for approximately 30,000 people countrywide. Most companies are based in export processing zones, under the supervision of the Board of Investment (BOI) [5].

Currently, a number of companies from Japan, Scandinavia and the United Kingdom manufacture under contract from EEC manufacturers in the country, including those in export processing zones [5]. These local EEC companies already have the technology and serve as Electronic Manufacturing Services (EMS) units for these Original Equipment Manufacturers (OEM) through, among other products, the manufacture of automotive electronic parts, batteries and small medical devices. Sri Lanka is leveraging the BOI incentives already available to encourage more businesses to use Sri Lanka as an EMS hub. Further, globally, manufacturers are actively looking for an alternative China+1 location in high-cost locations such as Japan, the Republic of Korea, the EU (particularly Germany) and the United Kingdom [5].

These international companies, mostly large multinationals, could be invited to move to Sri Lanka to meet the requirements of China+1. Even with these opportunities in hand, Sri Lanka has struggled to create a brand since entering host countries has been particularly difficult. (This part should be moved to the background to the study).

Therefore, this study focuses mainly on exploring the challenges faced by Sri Lankan exporters

and on identifying the successful strategies that are needed to enter the German market efficiently. This objective has been achieved through collecting diverse perceptions from stakeholders, including Sri Lankan exporters and German importers engaged in the electrical and electronic exports/imports between the two countries, officials from various government-related institutions and foreign attachés in Sri Lanka. (This part should form the objective of the study)

Accordingly, this study addresses the following research questions.

1. "What are the challenges faced by Sri Lankan exporters when trading in the Electronic Industry with Germany?"
2. "What are the opportunities available to Sri Lankan exporters when trading in the Electronic Industry with Germany?"
3. "What are the successful strategies available to Sri Lankan exporters when trading in the Electronic Industry with Germany?"(This part should have a heading titled Research Questions)

### 1.3 Significance of the Study

Most studies conducted to explore bilateral trade relationships have followed a quantitative approach, mainly using trade data. However, the key aim of this study is to examine the current and future trends, business challenges, importer's motivations and their interests to define the best strategies for Sri Lankan

exporters to obtain more exports and export-oriented investments in a centralized market. Therefore, diverse stakeholder viewpoints are necessary to look at these aspects separately and collectively. The significance of this study lies in the fact that the qualitative method is used to examine the stakeholder perspectives on the challenges faced by exporters when entering the German market and to analyze the information necessary to redefine and adopt the best strategies to promote exports in the host market. Findings of this study will have positive managerial implications for decisions regarding the factors impacting promotional campaigns and specifically business decisions such as Joint Ventures (JVs), Memorandums of Understanding (MoUs) and trade agreements to create ease of business through penetrating new markets in the EEC sector.

## 2. LITERATURE REVIEW

### 2.1 Brief Overview of Sri Lankan International Trade

The table depicted below illustrates Sri Lankan Exports by Country in percentages, according to the United Nations COMTRADE database on international trade [6].

Sri Lankan imports from Germany were US\$400.46 Million during 2017, according to the United Nations COMTRADE database on international trade. Sri Lankan imports from Germany - data, historical chart and statistics - was last updated in July of 2020 [7].



Fig. 1. Sri Lanka's exporting countries

Source: [7]



**Fig. 2. Imports from Germany to Sri Lanka**  
Source: Trading Economics



**Fig. 3. Exports to Germany from Sri Lanka**  
Source: Trading Economics

Sri Lankan exports to Germany was US\$547.12 Million during 2017, according to the United Nations COMTRADE database on international trade. Sri Lankan exports to Germany - data, historical chart and statistics - was last updated in July of 2020 [3].

## 2.2 Brief Overview of the German Market

According to the Economic Complexity Index (ECI), Germany is the second largest export economy in the world and the third most complex economy. In 2017, Germany exported \$1.33T

and imported \$1.08T, resulting in a positive trade balance of \$251B [8]. In 2017, the GDP of Germany was \$3.68T and its GDP per capita was \$50.6k [8].

According to the Observatory of Economic Complexity (OEC) tool, the top exports of Germany are Cars (\$158B), Vehicle Parts (\$64.1B), Packaged Medicaments (\$50.6B), Planes, Helicopters, and/or Spacecraft (\$27.2B) and Human or Animal Blood (\$23.7B), using the 1992 revision of the HS (Harmonized System) classification. Its top imports are Cars (\$60B),

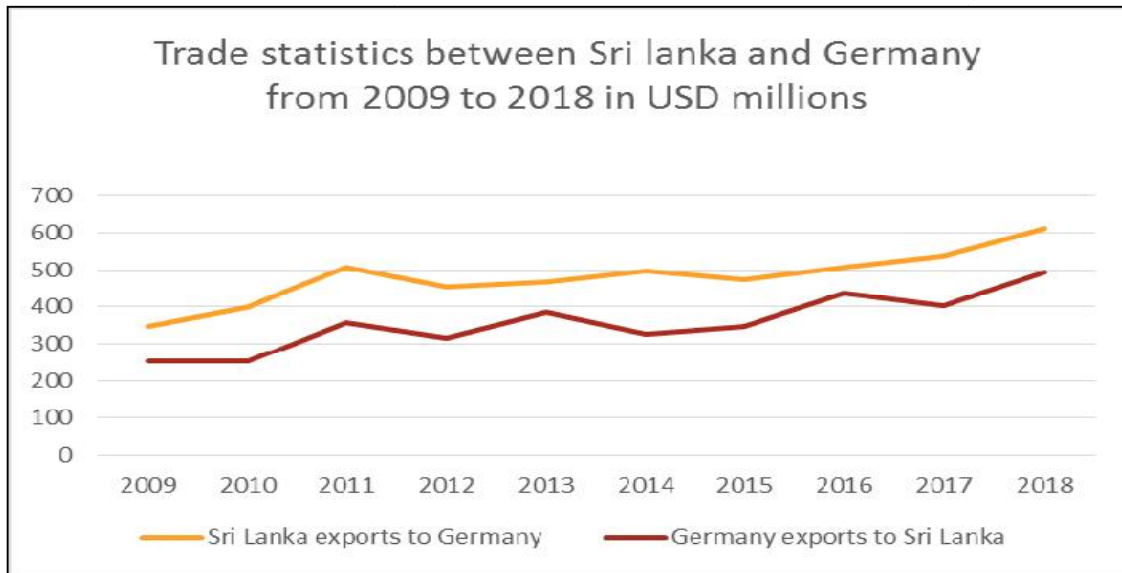
Vehicle Parts (\$42.1B), Crude Petroleum (\$30.1B), Packaged Medicaments (\$25.8B) and Human or Animal Blood (\$22.1B) [8].

The importance of the German market goes well beyond its borders. In some of the world's largest trade events such as MEDICA, the Hannover Fair, Automechanika and the ITB Tourism Show, an enormous volume of trade is being conducted in Germany [9]. The volume of trade, the number of consumers and the geographical location of Germany in the centre of the European Union make it the cornerstone around which many U.S.

firms are working to build their European and global expansion strategies [9].

Trade statistics between Sri Lanka and Germany in the past decade are depicted below in Fig. 4. The figure shows a growth of exports to Germany in the past decade.

However, the export basket was limited to a few products such as Spices and Concentrates, Boat Building, Electronic and Electrical Products and Processed Food (Table 1). In the last decade, the following were the main exports to Germany.



**Fig. 4. Trade Statistics between Sri Lanka and Germany**

Source: EDB, CBSL, SL Customs

**Table 1. Exports to Germany in USD Millions**

Product	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Spices Essential Oils and Oleoresins	3	5	8	7	11	16	20	22	18	18
Boat Building	0.0004	0	0	0	0	0	0	0	0	0.0522
Electrical and Electronic Products	27	40	29	27	23	24	21	23	22	26
Processed Food and Beverages	2	1	2	2	2	3	2	9	4	3

Source: Compiled using EDB, CBSL, SL Customs data

**Table 2. Break down of EEC Exports from Sri Lanka to Germany 2018 (in USD Thousands)**

Product	Exports value in USD thousand
-Instruments, appliances and machines for measuring or checking	10459.50499
-Transformers, contaminated or containing PCB	5063.97408
-Other	4792.93159
-Weighing machine...- Parts	1277.37545
-Boards... desks, cabinets and other bases for goods of 85.37, not equipped	1119.737

Source: Compiled using EDB, CBSL, SL Customs data

### **2.3 Barriers to International Trade in Germany**

In a global context, the demographic change affects trade through its impact on countries' comparative advantages and on import demand [10]. An aging population, migration, educational improvements and women's participation in the labour force will all play a role in the years to come, as will the continuing emergence of a global middle class [10].

There are certain challenges when promoting EEC as a major export of Sri Lanka. Firstly, the uncertainty arising from information asymmetry is one of the major trade barriers in new destinations, most of which are developing countries. Secondly, the language barrier, bureaucratic procedures, and security concerns all contribute to the sunk cost a firm has to take into account when entering into a new market [11]. As such, foreign missions are responsible for improving the opportunities available for trading in the EEC sector through their networks. It is quite obvious that there is a high potential for electronic exports to Germany, but Sri Lanka has not explored this market due to certain challenges and limitations. These challenges and limitations have been explored in this study using a multidimensional view through a stakeholder perspective.

According to Marc Astbury and Marius Lux, a country entering a foreign market should make adaptations to its online presence to cater to the new market [12]. Specifically, language adaptations are required to the native tongue [12]. This study suggests that strategies should be centered around maximizing the return on investment to increase Sri Lanka's market presence in Germany [12].

Karakaya and Harcar (2015) point out that the most important barrier to export as perceived by business executives is "lack of financial resources" followed by "inadequate market information provided by the government".

### **2.4 Challenges Faced by Sri Lankan Exporters**

Porter (1980) proposed six major sources of barriers to market entry. These barriers are; 1) cost advantages of incumbents; 2) product differentiation of incumbents; 3) capital requirements; 4) customer switching costs; 5)

access to distribution channels and 6) government policy.

For example, there are certain challenges when promoting EEC as a major export of Sri Lanka. Firstly, the uncertainty arising from information asymmetry is one of the major trade barriers when entering new destinations, most of which are developing countries. Secondly, barriers of language, bureaucratic procedures and many security concerns contribute to the sunk cost a firm has to take into account when entering into a new market [11]. These are the main issues, and as such, Sri Lanka's foreign missions are responsible for improving the opportunities available for the EEC sector through their networks when entering new markets.

### **2.5 Benefits of Promoting International Trade to Sri Lanka's Sustainable Economic Development**

Exports contribute significantly to Sri Lanka's Gross Domestic Product (GDP), which means that developing exports is an important way to grow the economy. Sri Lanka is a leading manufacturer of many traditional and non-traditional goods. It is important for the country, however, to diversify its product basket with new and innovative products to suit the world economy, recognizing the changing paradigm in international trade where Asia is becoming the growth centre of the world [5].

Sri Lanka has a strong potential to enhance its external trade performance since our brands are increasingly associated with high quality and ethical manufacturing practices. In addition to the mature export sectors of apparel, tea, rubber and coconut, exports of services such as ICT, tourism and logistics have grown significantly in the last decade. These sectors have proven their ability to diversify and access new market destinations [5].

Although Sri Lanka has experienced rapid growth and reduced poverty, the engines that pulled the economy have started to falter, pointing to a pressing need for replacement. Between 2013 and in 2016, annual real GDP growth slowed to an average of 4.4 percent [13]. The existence of the components of past growth may explain this slowdown. High-value export expansion is emerging as an inevitable direction for Sri Lanka to achieve its goals of sustainable development. Trade and current account deficits, as well as dependence on high foreign borrowing levels,

can be managed primarily by growing export revenues. Besides these considerations, increased trade revenues have the potential to generate investment inflows into new areas and new technologies, increase productivity, create jobs and strengthen the skills of the Sri Lankan labour force [5]. The strategic location of Sri Lanka at the crossroads between the area covered by the South Asian Association for Regional Cooperation (SAARC) and South-East Asia, the fastest-growing regions in the world, gives the country all the right conditions for exports to boom and for it to become a beacon of openness. Sri Lanka is close to many emerging markets and is already an important transshipment hub for the region [5]. It is evident that improving international trade through a sustainable approach would be the path for economic growth in the country.

## 2.6 Factors Favouring Trade between Countries

The increasing complexity of trade has serious implications for the world's poor, who often are disproportionately disconnected from global, regional – or even local – markets. Poverty is often concentrated in geographic areas that are poorly connected to active economic centres [14]. Firms and communities in these areas miss opportunities to develop skilled, competitive workforces; they are not integrated in global production chains and are less able to diversify their products and skills. Although globalization and trade present new opportunities, they are not without challenges, and developing countries may struggle to compete on a global scale [14]. The following are some barriers to international trade.

1. Inefficient or inadequate systems of transportation, logistics, or customs;
2. Poor connectivity in telecommunications, financial markets or information technology;
3. Complicated regulatory environments that discourage new investments;
4. Anticompetitive behavior by major market players or cartels that stifle innovation, productivity, or market growth

Further, globalization impacts have changed the rules of world competition. Global strategy is based on the search for a balance between local adaptation and global standardization. Globalization as an economic phenomenon has affected the growth of international trade

significantly [15]. Thus, the growth of international trade has been influenced by many factors that have accompanied globalization, such as the development of technology, government decisions, institutional activities, consumer behavior, increasing competition, and new trade agreements [15]. Improvements in the technology of transportation and communication do not occur spontaneously in an economic vacuum. The desire of people to take advantage of what they see as the benefits of closer economic integration—that is, the taste for the benefits of integration—is a key reason why it is profitable to make the innovations and investments that bring improvements in the technologies of transportation and communication. Moreover, public policy has often played a significant role in fostering innovation and investment in transportation and communication, both to pursue the benefits of closer economic integration (within as well as across political boundaries) and for other reasons, such as national defence [16].

## 3. METHODOLOGY

This study follows the qualitative research paradigm due to the exploratory nature of the research. The extant literature shows that there are many quantitative studies that have been carried out in the area [17]. Most of these consider the relationships between different elements using quantitative methods. Hence, the qualitative aspect of exporters' requirements was not manifest in these studies. Furthermore, exporters' perspectives on challenges in trade promotional activities have not been taken into consideration in many of these works. The qualitative method permits the understanding of human behaviour and thinking with respect to preferences in trade promotional activities. Thus, direct participation in the activity whereby the relevant knowledge is acquired, understanding human nature through meeting in person and rating the encounter qualitatively rather than quantitatively will provide novel perspectives on the phenomenon under study. Hence, the qualitative method was selected for this study. The Electrical and Electronic sector was selected for the study mainly because it is considered to be an important sector in the NES. It also has a huge potential for growing exports if linked with the correct potential markets, as mentioned in the Literature Review of this report [5]. Germany was selected as the trading partner since it is the fourth potential country for exports from Sri Lanka [5]. Further, other countries such as USA,



China and India reveal the presence of more Sri Lankan exports compared to Germany.

The sampling techniques that were used in this research are convenience sampling and snowball sampling, both of which are non-probability sampling methods. Since the analysis was undertaken as a qualitative study, it is crucial that the appropriate respondents with accurate knowledge and experience are selected for the interviews. To this end, due to its speed, cost-effectiveness, and ease of availability of the sample, convenience sampling was used.

In order to examine the challenges and opportunities inherent in choosing Germany as an export destination, primary data was collected via two main sources viz: structured interviews and focus groups, while secondary sources such as databases and trade maps were also used to triangulate the primary data. In order to apply this methodology suitably, 14 semi-structured interviews were conducted using the convenience sampling method with diverse stakeholders consisting of knowledgeable informants in their natural working environments in order to improve the quality of findings. Further, snowball sampling was also used because of time limitations and the convenience of collecting data within the time-schedule.

A semi-structured interview protocol was developed based on an extensive literature review. Prior to conducting the interviews, this protocol was tested for its content by two experts in the EEC sector and one senior executive from the EDB in the field of international trade promotion activities. Each interview took approximately 20-30 minutes. Two interviews were carried out as focus group discussions. Out of the 12 interviews, 10 were individual interviews and were conducted either through Skype (1), telephone conversations (1), sending the same questions through email (3) and face-to-face conversations (3). The interviews were recorded with the permission of the interviewee while notes were taken by the researcher during the interviews. Confidentiality and anonymity were ensured throughout in respect of the interviewees. The collected interview data was first recorded and then transcribed in English (Aberdeen, 2013). A word processing technique was used to carry out the analysis. Themes and sub-themes were identified to understand the role played by and the success of the foreign missions in promoting international trade. Secondary data was collected

from the Export Development Board (EDB), Central Bank of Sri Lanka (CBSL), Sri Lanka Customs, European Union (EU), International Trade Centre (ITC) and the World Trade Organization (WTO) and analyzed through the content analysis method. Quantitative figures from these secondary data sources were primarily used to triangulate the qualitative data gathered through the interviews. (The methodology should be structured coherently so as to guide the reader in comprehending the issues to be analysed).

#### 4. RESULTS

Further to the data analysis and the following research questions, six (6) codes were identified as the challenges faced by exporters in exporting EEC to Germany. The research questions are presented below.

1. What are the challenges faced by Sri Lankan exporters when trading in the Electronic Industry with Germany
2. What are the opportunities available to Sri Lankan exporters when trading in the Electronic Industry with Germany?
3. What are the successful strategies available to Sri Lankan exporters when trading in the Electronic Industry with Germany?(There is no need to repeat what you have already captured under research questions. Just go straight to the point and analyse your data)

The six codes are (i) internalization of industries, (ii) promotions, (iii) business intelligence, (iv) stakeholder communication, (v) building strategic relationships and (vi) inter-governmental engagement. These results were evident from the data analysis, and the analysis identifies the codes as important aspects in breaking barriers to enter the German market. Once segregated, many codes were identified, but this paper limits its discussion to the most important factors which were identified as crucial entry barriers.

#### 5. DISCUSSION

Respondent 6 is an Exporter in the EEC sector and he mentioned that forming partnerships with allied organisations in order to better expose Sri Lanka's capabilities to high growth markets that are still unaware of the country's capabilities is important. However, he pointed out that without partnerships, it is still difficult to enter the market. The data analysis based on the data gathered

from Respondent 6 reveals what a Sri Lankan Exporter in the EEC Sector expects from the German Embassy in order to promote Sri Lanka for low scale production in Germany. He also stated that exporters expect the embassy to promote Sri Lankan companies as an outsourcing destination for research and development (R and D). The respondent also mentioned that one of the reasons for trade barriers can be the language barrier when promoting in Germany. Furthermore, criteria that are important for investment should be identified. In addition, he mentioned timeliness and quality as the major characteristics distinguishing the German market. Respondent 6 especially mentioned the support exporters require from the foreign mission in identifying opportunities in the German market. These requirements are introducing them and disseminating information on the available opportunities. Respondent 6 further elaborated one expectation from the foreign missions as creating a product service map. He described this product service map as involving researching, identifying and understanding the products which should be manufactured in Sri Lanka so that the supply chain can focus on the aforementioned needs and supports and plug into that particular value chain.

Respondent 7, an exporter in the EEC sector, mentioned that foreign missions in Germany should help companies gain a better understanding of market-specific knowledge and knowledge on international business processes. He further stated that they reach Germany through their connections in Switzerland since language is a barrier. He stated that there is lack of support from Sri Lanka and the mission in Germany in promoting products via the German language.

Respondent 8, an importer in the EEC sector, stated that the necessary information and guidance for enterprises in understanding and accessing international markets should be provided.

Both Respondents 12 and 13, who are EDB Officers, expressed the importance of a National Pavilion at trade fairs to promote the sector as a country in order to eliminate entry barriers. The following were mentioned as the value additions resulting from a National Pavilion.

1. Functional values - Country branding, Market linkage, Match making,

Promotional material, Access to special exhibitions, Location advantages, Preparation meetings, Parallel event participation.

2. Commercial values - For SMEs- Guidance, For Large companies- leads and recommendations

They further mentioned that training programmes for EDB officers and action plans for SME support activities at trade fairs were crucial. They pointed out that the German Import Promotion Desk (IPD) is willing to train EDB officers to develop their capacity with the view of supporting and developing SME sector exports to the German market. Further, trade fair participation activities with a real time schedule (Washing Line) should be introduced. Conducting preparatory workshops for exhibitors (SME) and post participation workshops for evaluation is another aspect which is as important as participation, as per exporters' opinions.

Respondent 15 and 16 are senior officials of the SLEMEA. They mentioned that the entry barriers can be minimized through promoting sectors and building relationships by recognizing the importance of government to government relationships, broader engagements at the ministerial level and the nurturing of existing relationships for international business outcomes.

Respondent 14 is from the International Trade Centre (ITC) Geneva Office and he is a TIP Leader and Trade Strategy Adviser. This respondent mentioned that the commercial attaché at the mission should identify potential companies that exporters need to meet in Germany in order to promote SL exports, services or investments. He stated that the mission could also organise special events to which German companies could be invited to promote SL products which will enable Sri Lankan companies to reach out to potential buyers by enabling them to overcome entry barriers.

The identified barriers can be categorised as follows.

### 5.1 Lack of Business Intelligence

The officers who have not yet gained international business expertise may face new and challenging circumstances, attitudes and/or procedures. Therefore, officers should familiarize

themselves with the environment of the host country, its traditions and practices, its vocabulary as well as its verbal and non-verbal contact norms. European business practices could be different from the norms of other countries, especially when it comes to trade. Many European business partners demand high quality standards and effective, dedicated and accurate contacts. In order to ensure confident and trustworthy relationships with stakeholders to strengthen trade ties, specifically in the host market, the most effective approach is to meet business partners in person at trade fairs and follow up these contacts through business-to-business meetings.

### **5.2 Limited Recognition of Sri Lanka's EEC Sector Locally and Internationally**

This research identified the importance of trade fair participation and business-to-business meetings to promote trade in the host country. Internet, e-mail, Skype and video conferences make it possible to communicate and exchange information effectively in real time. However, these methods are limited by the unavailability of physical testing of products and the lack of personal interaction. Physical presence, especially in intercultural communication, is very important and can make a difference. In addition, immediate feedback and communication adaptation are key to promoting trade.

Hence, personal contacts and strategic relationships between parties are crucial for trade. Trade fairs draw together sellers and buyers and, in most instances, provide the highest concentration of these decision-makers. In fact, they provide an opportunity to reach specific individuals who would otherwise be difficult to contact. The benefit of trade fairs is that visitors are open to new information because that is the whole intention of visiting a fair. Hence, access to information is a vital factor. Business deals are carried out by individuals in real life. Nonetheless, in order to make an arrangement, the parties involved need to build trust and establish confidence. Trade fairs are the ideal environment for business partners to meet one another and build trust through complementing both parties. A successful business meeting at a trade fair can be the starting point for a long-term business relationship. Further, the following value additions could be obtained through a National Pavilion at a trade fair.

Functional value additions - Country branding, Market linkage, Match making, Promotional material, Access to special exhibitions, Location advantage, Preparation meetings, and Parallel event participation. These sorts of values can be accumulated by participating at trade fairs, and understanding the strategies used for branding and promotional materials. Through event participation and networking, buyer linkages can be explored and identified. Government Officials can obtain greater access to market linkages when they meet the organizers and the officials of the respective countries.

Commercial value additions - For SMEs, guidance to maximize their buyer meetings and for Large Companies to gain recommendations through trade fairs while adding commercial value to the companies.

### **5.3 Lack of Strategic Relationships**

Trade promotional activities are one of many activities which can be used to build strategic relationships. The most popular and convenient method for trade promotion is trade fair participation. There are many important advantages to trade fairs such as generating leads and facilitating engagement and interaction which can be carried out by strong leadership and strategic relationships developed by the foreign missions, as per the findings. Further, trade fair participation acts as a mode for companies to meet and network with people to build strategic relationships.

Referrals are another means of building relationships with individual companies in the host country. Arranging B2B meetings with top importers through a commercial attaché is a known methods in this respect. Additionally, according to this study, using both the designation and the charisma of the heads of the foreign missions creates a strong impact on trade partners when these heads of missions become involved in trade fairs.

### **5.4 Lack of Communication**

It is important to build strong communications between the Government, Diplomatic Missions, Exporters and Importers of the host country. Among these activities that build communication, the international perspective on pre- fair workshops to groom participants in trade fairs is vital. Finding methods to convey information through communication channels will build

relationships while helping the businesses to grow. It is also evident that effective communication has been hindered due to the language barrier when promoting exports in Germany. Hence, the foreign mission should play an effective role in mediating and pitching to German importers.

### 5.5 Need for Inter-Governmental Engagement

The study has also revealed that problem solving and assisting with trade disputes on a Government to Government level is crucial to enhance opportunities to enter the market. Further, if trade agreements are signed bilaterally or multilaterally, then the chances of entering into foreign markets improve dramatically.

### 5.6 Need to Internationalize Industries

The world economy needs industrial transformation in developing countries. In this sense, small and medium-sized industrial companies (SMEs) need to work together with the service sector in order to enhance their productivity and strategic capabilities. Indeed, SMEs in the industrial service sector have gained special attention from governments, as these companies have been a core component of production and innovation networks in developed nations. Nevertheless, these businesses, as well as the manufacturing SMEs they represent, face the threat of internationalization today. Hence, since Sri Lankan SMEs are mostly subcontractors, it is important to internationalize these SMEs.

All these challenges are mutually dependent on each other. Hence, these identified barriers should be addressed methodically and common programmes which will cater to and solve as many barriers as possible should be found.

The key findings of the analysis confirm that internalizing industries, promoting business intelligence, improving stakeholder communication, building strategic relationships and intergovernmental engagement will decrease entry barriers to Germany and enhance the EEC sector's identity and positioning and make it more competitive. It will also enable cooperation between industry and government for the creation of clusters and connectivity with academia and develop a large and educated workforce, including energetic and creative youth, for the EEC market.

It is very evident, then, that the Foreign Mission in the host country should play a vital role in enabling entry for exporters to the host country. Among the activities that foreign missions need to be engaged in, the international perspective on pre-fair workshops to groom the participants of the trade fairs and the service-capability map were identified as crucial components by the interviewees of this study. According to the interviewees, the challenges and opportunities are varied and foreign missions can help exporters overcome these challenges and empower them to seize the available opportunities. The majority of these activities were extracted from the literature review findings. Table 3 shows the activities of the foreign mission which can help exporters enter Germany.

**Table 3. Foreign Missions' activities to support companies enter a market**

Activities carried out by the foreign mission	1.	Coordination
	2.	Identifying potential sectors
	3.	Logistics
	4.	Country Image Building
	5.	Trade Promotion through trade fairs, B2B meetings
	6.	Tourism Promotion
	7.	Trade Information (markets, buyers, products)
	8.	Gathering and dissemination of market information
	9.	Networking
	10.	Arranging B2B meetings on request
	11.	Problem solving and assistance with trade disputes
Stakeholder Expectations	1.	Development and introduction of Government relations
	2.	Partner search and negotiations
	3.	Market development programs
	4.	Export service programs (counselling and advice)
	5.	Referral
New Activities	1.	Mapping Sri Lanka's product/service capability in to the value chain
	2.	Pre-fair workshops

Source: Data analysis of the study

As mentioned above, foreign missions can support the mitigation or even elimination of entry barriers to Germany. Further, the ability to meet quality expectations and maintain the quality of products and services, the ability to keep costs competitive and maintain competitiveness of a company in the long run, institute stable policies for trade governed by the Government and the respective and related institutions and instruct companies on the details of quality infrastructure in Sri Lanka have to be considered when carrying out trade promotions.

## 6. CONCLUSION

The qualitative methodology was chosen to garner the opinions of the relevant stakeholders on the challenges faced by exporters. Data was gathered through two channels, namely, primary data through structured interviews and focus group interviews, in order to analyse the threats to and the opportunities for trade promotion efforts in the host country, and secondary sources such as international trade databases and trade maps used to triangulate the primary data. The convenience sampling procedure was used to perform the 14 semi-structured interviews. The population included exporters and importers from Sri Lanka, trade support institutions and diplomats. In the population, the number of respondents is infinite and are distributed around two geographical areas. In order to increase the accuracy of the results, interviewees comprised varied contributors and knowledgeable informants. Due to time constraints and convenience, convenience sampling and snowball sampling were used together to gather data. It was revealed in the study that trade fairs and business to business meetings were the most successful trade promotional practices. This result was derived from an overview of the data obtained from 14 semi-structured interviews.

Therefore, the research identified the importance of trade fair participation and business-to-business meetings to promote trade in the host country. Internet, e-mail, Skype and video conferences makes it possible for trade partners to communicate and exchange information effectively in real time. However, the unavailability of physical testing of products and the lack of personal interaction is a limitation of these virtual platforms. Physical presence, especially in intercultural communication, is very important and can make a difference. In addition, immediate feedback and communication

adaptation are key. Hence, personal contacts and strategic relationships between parties are crucial for trade. Trade fairs draw together sellers and buyers and, in most instances, provide the highest concentration of these decision-makers. In fact, they provide an opportunity to reach specific individuals who would otherwise be difficult to contact. The benefit of trade fairs is that visitors are open to new information because that is the whole intention of visiting a fair. Hence, access to information is a vital factor. Business deals are carried out by individuals in real life. Nonetheless, in order to make such an arrangement, the parties involved need to build trust and establish confidence. Trade fairs are the ideal environment for meeting each other and building trust through the interaction of both parties. A successful business meeting at a trade fair can be the starting point for a long-term business relationship. In addition, officers who have not yet gained international business expertise may face new and challenging circumstances, attitudes and/or procedures. Therefore, these officers should familiarize themselves with the environment of the host country, its traditions and practices, its vocabulary as well as its verbal and non-verbal contact norms. European business practices can be different from the norms of another country, especially when it comes to trade. Many European business partners demand high quality standards and effective, dedicated and accurate contacts. In order to ensure confident and trustworthy relationships with stakeholders to strengthen trade ties, specifically in the host market, the most effective approach is to meet trading partners in person at trade fairs and follow up these contacts through business-to-business meetings. This paper presents some managerial and policy implications such as the necessity for the pro-activeness of the heads of foreign missions and strategic and trustworthy relationships between the two countries. The study concludes that the current activities carried out by the Sri Lankan Foreign Mission in Germany does not satisfy exporters' expectations and requirements. The recommendations of this study are provided not only to the Sri Lankan Governments and foreign missions but to their German counterparts as well.

## 7. IMPLICATIONS OF THE STUDY

According to the data and information gathered from the identified sources, the following implications can be identified. These implications

are divided into managerial implications and policy implications. The managerial implications can be categorised according to the relevant institutes that are involved, namely, the Sri Lankan Embassy, the Consulate in Germany, the German Embassy and the AHK in Sri Lanka.

The following implications are identified for the Sri Lankan Embassy and Consulate in Germany. The first is the necessity for an action plan created by the foreign mission in consultation with all stakeholders to promote trade in the host country. It is important to have a plan to carry out activities related to international trade. This plan should be formulated in consultation with stakeholders from Sri Lanka and Germany. These stakeholders can be the decision makers of the EDB, the BoI, the DoC of trade related organizations, the German Embassy in Sri Lanka, the AHK and the Sri Lankan Consulate in Germany. This action plan should include trade promotional activities and trade-related information based on the demand and supply of both countries. Further, it should include a map portraying Sri Lanka's capability in sectors which will generate foreign exchange in the EEC sector. This could be expanded to other merchandise and service exports as well. Secondly, the Ambassador should be proactive in trade promotional activities. The Ambassador's charisma should reflect the image of the country he represents. The study has revealed that the role of an Ambassador is crucial to building strategic relationships. Therefore, the Ambassador's involvement in trade promotional activities at an intergovernmental level through building strategic relationships was identified as a major aspect of promotion. The study further identifies that the involvement of the leadership of the foreign mission can establish and strengthen intergovernmental relationships. Thirdly, building strategic and trustworthy relationships with host market stakeholders has been found to be crucial.

Fourthly, trade fair participation should be done with a well-defined and inclusive delegation and it should be organized through the foreign mission. The study shows the need to identify institutional conditions and available opportunities in the host market. It is notable that an institutional void decreases opportunities and hence, gap identification is crucial. The delegation should also cover the required supply chain components. Lastly, trade promotion is highly dependent on the skills and motivation of the providing individual and/or team and on the

quality of the relationship between commercial diplomats and their beneficiary. In this respect, personal involvement, personal contacts, willingness, reputation of the relevant officers or individuals in promoting trade has been identified to be important.

Considering the German Embassy and AHK in Sri Lanka, trade fairs and other promotional events could be coordinated and carried out collaboratively with foreign missions. The trade promotion activities carried out by the AHK shows promising results where it has succeeded in securing several business ventures. Hence the strategies of the AHK can be utilized when required.

Considering the policy implications of the study, these are also categorised based on the institutions involved, namely, the Government of Sri Lanka, commercial diplomacy related to agencies in Sri Lanka and the Government of Germany.

Extension and expansion of economic integration through foreign missions, strategies defined and updated as per stakeholder requirements, global trends and effective trade promoting tools, a mechanism to evaluate and monitor the return on investment (RoI) for trade promotion activities are the implications which the Government of Sri Lanka should focus on. Further, policies to provide sufficient budgets for trade promotional activities in every year's National Budget should be an added advantage. Moreover, decision making through inclusive policies that focus on arranging effective trade fairs where officers' role in participating in trade fairs on market intelligence should be enhanced.

With regard to commercial diplomacy related agencies in Sri Lanka, policy considerations should include strengthening these agencies through capacity building and upskilling officers on negotiation, sales, and communication related to trade.

As per the Government of Germany, recommendations can be provided to create policies to strengthen ties between Sri Lanka and Germany and to create awareness in Germany on Sri Lanka's capabilities through bilateral agreements.

## 8. RECOMMENDATIONS

Trade missions are usually led by the Minister or the Head of the foreign mission and include high-

level government involvement to provide participating businesses with a forum for developing new partnerships (or maintaining existing ones) in the destination regions through a variety of activities, including market meetings and networking functions, site visits, trade exhibits and industrial matchmaking sessions.

Through engaging in these missions, organisations will boost their capacity to build global partnerships (foster existing business connections and find partnership opportunities), protect international sales and attract foreign capital, gain skills in and knowledge of international markets, and strengthen their international visibility by new export market entries.

## 9. LIMITATIONS

This study is a qualitative study and the lack of an opportunity to support the findings through a quantitative study is the first limitation of this study. Therefore, future researchers can focus on investigating the same phenomena through a quantitative method.

This study was carried out using the convenience sampling method and this is the second limitation of the study. Due to time constraints, the quality or suitability of respondents for the research might vary and there can be issues which could have restricted the researchers' ability to reach many respondents. The snowball sampling technique was used to gather data or information from the specifically identified group of respondents from the industry. To overcome these limitations, a comprehensive sampling technique should be identified and implemented by future researchers.

The third limitation is the manual data analysis method. As a remedial measure, the analysis could be done in a methodical manner using a qualitative data analysis computer software package such as Nvivo which is used for the analysis of unstructured texts, audio clips, video clips, and image data, including (but not limited to) interviews, focus groups, surveys, social media, and journal articles.

Resource limitation was the fourth constraint since access to foreign counterparts was restricted. Hence, the study had to be limited to known, Sri Lankan resources. To overcome this limitation, this study should be extended to many sectors and multiple countries.

## 10. FUTURE RESEARCH

Based on the afore-mentioned limitations, the following areas can be identified as future research opportunities. Some of these areas were identified in this study and some need further analysis using mixed-method research. These are the relationship between trade promotion and the leadership of a foreign mission, communication gaps existing between foreign missions and home country counterparts, role played by the leadership of a foreign mission in promoting international trade, role of Government officials in promoting international trade, effect of business-to-business training given to Sri Lankan exporters in promoting international trade, effectiveness of trade fairs in promoting Sri Lankan international trade, strategies to reduce entry barriers to countries, effect of trade fairs in promoting international trade, the mediating role of leadership and communication, strategies to carry out successful trade fair participation and the impact of the Government of the host country on effective trade promotion.

## DISCLAIMER

The products used for this research are commonly and predominantly used products in our area of research and country. There is absolutely no conflict of interest between the authors and producers of the products because we do not intend to use these products as an avenue for any litigation but for the advancement of knowledge. Also, the research was not funded by the producing company rather it was funded by personal efforts of the authors.

## CONSENT

As per international standard or university standard, respondents' written consent has been collected and preserved by the author(s).

## COMPETING INTERESTS

Authors have declared that no competing interests exist.

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