International Journal of Research in Economics and Social Sciences(IJRESS)
Available online at: http://euroasiapub.org
Vol. 8 Issue 3, March- 2018
ISSN(o): 2249-7382 | Impact Factor: 6.939 |

The Growth of Tea Industry in India under SAFTA: An Evaluative Study

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Abstract

India is one of the largest tea producing countries in the world. The globalization process has affected the Indian tea industry in a number of ways. India, being a strong leader in the SAARC region is committed to make the South Asian region a free trade region. India is currently under bilateral agreements and the free trade agreement SAFTA which is currently not fully functional. It is expected that when this agreement becomes fully operational it will adversely affect the Indian tea Industry. The objective of the present paper is to analyze the impact of SAFTA on tea industry in India. The study found that there is very less trade among the SAARC members. The SAARC members trade in homogeneous products and therefore compete with each other on the same line of products. It is also found that the operationalization of the SAFTA agreement will not benefit Indian tea industry favorably.

Introduction

The tea industry is one of the oldest and perhaps the most efficiently organized agricultural enterprises in the country. Tea is of great importance to India's economy as it is one of the major foreign exchange earners. India has long been the largest producer and exporter of tea in the world. In recent years, however, India's leading position as the largest producer and exporter of tea has been challenged by other emerging producers mainly Sri Lanka and Kenya.

The major tea producing countries in the world are India, China, Sri Lanka, Indonesia, and Kenya. These five countries alone account for more than 75 percent of the world's total production. Talking about two of the most important countries i.e India and Sri Lanka we find that they account for around 29 percent of the total world production. The other major producing country is Bangladesh which constitutes 1.25 percent of total world production. The SAARC region altogether accounts for 30.24 percent of the total world production.

Realizing that cooperation among the neighbors is essential for economic prosperity the SAARC members have committed themselves to make the region as a free trade region so that every country gains from free trade. This will enhance greater economic and political stability and will enhance cultural cooperation between member nations.

The final goal of this trading block is intended to reach towards the South Asian Free Trade Association (SAFTA) to form a free trade area in South Asia with a favorable treatment towards the least developed countries (LDC's) comprising Bangladesh, Maldives, Bhutan, and Nepal. SAFTA will facilitate the free movement of goods and services.

The Indian tea industry saw a threat to its survival as India signed the SAFTA Agreement. The agreement aims to create the South Asian region a free trade region. As India and Sri Lanka are competitors in tea market and Sri Lankan teas are better in quality than the Indian tea. This posed a major threat to the domestic market. Protecting the home market is going to be a challenging task as the consumers would always be looking for value for money. As of now, tea sector is protected by bilateral agreements. But these bilateral agreements are mostly coming to an end and the market for tea in commodity form is shrinking, countries are opting to purchase tea from wherever it suits them best in terms of quality and pricing, and other global producers are keenly eyeing the Indian market. As and when the Indian market opens for unrestricted tea imports, the Indian producers would suffer.

Objectives and methodology

The main objectives of the study are:

1) To analyze the trend in production, yield, and area in SAARC countries
2) To analyze the impact of SAFTA on Indian tea industry.

The study relies mainly on secondary data from various issues of Economic Survey, The Reserve Bank of India Bulletin, The Tea Board of India, The Food and Agriculture Organisation Reports, International Tea Committee Annual Bulletin of Statistics, Tea Digest and Tea Statistics. In addition to that, printed material published in various newspaper i.e. The Economic Times, The Financial Express, The Business Standard, The Business line, The Hindu etc, and various research papers are also consulted to enrich the knowledge on the present topic.

For the analysis of data, relevant statistical tools and techniques are used. Trends/ growth rates are also ascertained with the method of CAGR. To calculate the linear trend in the area, production and productivity following method a linear functional form is adopted

$Y = a + bx$

Where, Y is the dependent variable (Area, Production, and Productivity)

X is the independent variable (time)

'a' is the intercept and;

'b' is the slope.

II. Review of Literature

The main consideration behind reviewing the already existing studies is to evaluate these studies in the line of sampling design, the methodology followed and the suggestions made. It is done for the reasons that the present study could be designed in such a fashion that the outstanding points of such work could be incorporated in the present study.

The Free trade agreement is likely to go a long way towards deeper integration of the two South Asian countries such as freeing of trade in services, free flow of investment, trade facilitation, harmonization and mutual recognition of standards and coordination of macroeconomic policies (Sikdar et.al, 2006). The South Asian countries have many characteristics that would enable them to go beyond the FTA framework and work for deeper economic integration, such as the formation of a common market and economic union. However, this will be conditional upon working on the current challenges facing South Asian countries. Formation of an FTA is expected to create relative advantage for the member countries (Banik, 2006). A brief analysis of trade baskets of SAARC countries shows that export baskets of major SAARC countries are significantly similar reflecting that they may be competing with one another in same industries in the international markets (Jain and Singh, 2009). The India-Sri Lanka free trade agreement will adversely affect the tea industry India, particularly south India as the tea industry will face stiff competition from Sri Lanka (Harilal and Joseph, 1999). The free trade agreement between India and Sri Lanka will have varying effects across regions and sectors in both countries. In India the plantation crops would be the worst affected (Reghunathan, 2002). The signing of the free trade agreement with the Association of South East Asian Nations (ASEAN) there are apprehensions that the consequent reduction in import tariffs will adversely affect the Indian Tea Industry (Nagoor and Kumar, 2010). The India ASEAN preferential trade agreement may cause a significant increase in India's imports of plantation commodities from the ASEAN countries, which is mainly driven by trade creation rather than trade diversion (Veermani and Saini, 2011). There is immense potential of trade between India and Pakistan. However, they did not make any sincere and earnest efforts to exploit that potential. On the contrary, both the countries have been finding ways and means to reduce trade dependency on each other. The opening up of the trade routes would not only result in higher levels of trade but also create many economic activities on both sides of the border. In the process, a lot of employment opportunities would be generated. Both the countries stand to gain from higher levels of trade cooperation (Ghuman and Madaan, 2006). The failure of India and Pakistan to normalize their political and trade relationship hinders the growth of SAARC including the possibility of its future as a viable trading block (Pandian, 2002). There is immense trade potential between India and Pakistan that can be tapped. A feasible solution to enhance trade can be found in a viable give and take between the two countries (Taneja, 2004). The empirical result in terms of trade among the regional group suggests that the smaller countries, namely Bangladesh and Sri Lanka reap the higher gains from openness (Chawdhury, 2005). India is perceived as a country that imposes the maximum non-tariff barriers in the region- a notion shared by governments of SAARC countries, industry bodies and academic studies- it is time that the country established a new image in the region. By addressing the barriers to goods liberalisation India could regain the trust of other member countries- a precondition for any further widening and deepening of the integration process in South Asia (Taneja and Sawhney, 2007).

Trend in Production, Area, and Yield

India is the second largest producer of tea in the world and the largest producer of black tea in the world. For long India had enjoyed a dominant position in the world tea trade. But in recent years the dominance of India in the world tea market has been challenged by the new emerging producers namely, Sri Lanka and Kenya. India is in the South Asian region and a member of the South Asian Association for Regional Cooperation (SAARC). The world tea market is dominated by the Asian countries namely China, India and Sri Lanka. Tea is mainly grown in the South Asian countries mainly due to the favorable climate for the tea crop. Amongst the SAARC countries the leading producer of tea are India, Sri Lanka, Bangladesh and to some extent Nepal. Out of these countries, India and Sri Lanka are the leading producers.

The total production of tea by the SAARC countries is given in table 1.1. The share of India in total world production in the year 1990 was 28.41 percent which has declined to 22.78 percent in the year 2015(Tea Board of India). The share of India in total world export was 18.55 percent in the year 1990 which declined to 12.68 percent in 2015(Tea Board of India). The share of India in total tea production in SAARC region was 70.95 percent in 1990 which has increased to 74.1 percent in 2016. The production from India has grown at a compound annual Growth rate of 2.4 percent during the period 1990 to 2016.

From the table, it can be seen that India is the largest producer of tea amongst the SAARC countries followed by Sri Lanka, Bangladesh, and Nepal respectively. In all the countries the tea production had shown an increasing trend. In Sri Lanka, the tea production has increased at the compound annual growth rate of 1.9 percent during the period 1990 to 2016. The tea production in Bangladesh has increased at the compound annual growth rate of 1.6 percent during the same period. There is a considerable increase in the growth of tea production in Nepal where tea production has grown at a compound annual growth rate of 12.0 percent during the period 1990 to 2016. The tea production in SAARC region has increased at a compound annual growth rate of 2.3 percent during this period.

Table 1.1: Production of tea by SAARC countries (Production in tonnes)

Year	India	Bangladesh	Sri Lanka	Nepal	SAARC	Year	India	Bangladesh	Sri Lanka	Nepal	SAARC
1990	668100	39075	233165	1249	941589	2004	879000	57580	308090	11651	1256321
1991	720300	45012	240747	1476	1007535	2005	907000	57580	317200	12500	1294280
1992	754200	45632	178870	1626	980328	2006	949000	58000	310800	13043	1330843
1993	703900	48900	231871	1993	986664	2007	973000	58500	305220	15168	1351888
1994	753000	50515	242214	2351	1048080	2008	987000	59000	318700	16160	1380860
1995	753900	52000	245961	2457	1054318	2009	972700	59500	290000	16208	1338408
1996	756000	47675	258427	2721	1064823	2010	991182	60000	331400	16607	1399189
1997	780000	53310	276861	2906	1113077	2011	1095460	60500	327500	17438	1500898
1998	810000	50575	280056	3020	1143651	2012	1135070	62524	330000	18726	1546320
1999	874000	56000	283760	4493	1218253	2013	1208780	66259	340230	20588	1635857
2000	826000	46000	305840	5085	1182925	2014	1207310	63780	338032	21394	1630516
2001	847000	52000	295090	6638	1200728	2015	1233140	66101	341744	21394	1662379
2002	854000	58000	310000	7518	1229518	2016	1252174	64500	349308	23821	1689803
2003	846000	57500	303230	8198	1214928	CAGR	2.4%	1.9%	1.6%	12.0%	2.3%

Source: FAOSTAT

The share of each country in total SAARC production is given in table 1.2

Table 1.2: Share of major tea producing countries in total production from SAARC (in percent)

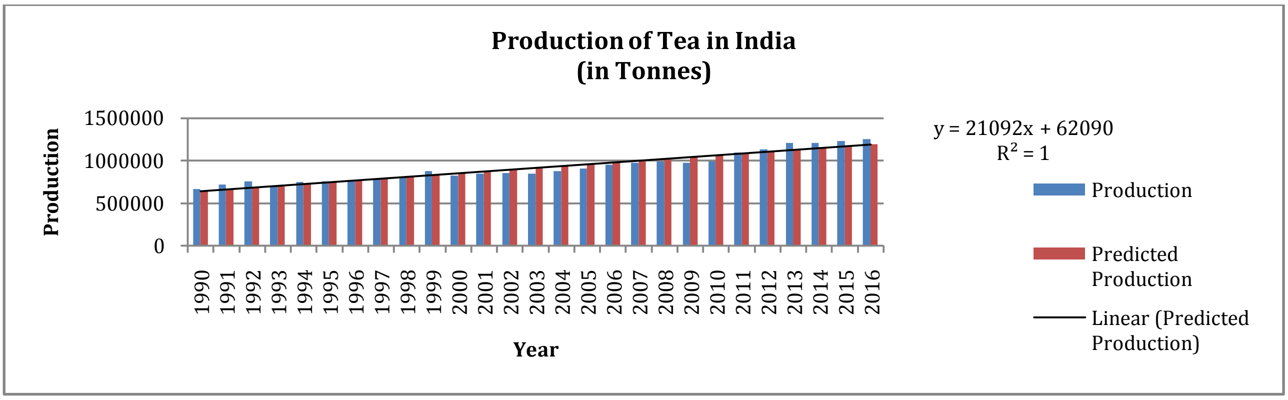
Year	India	Bangladesh	Sri Lanka	Nepal	Year	India	Bangladesh	Sri Lanka	Nepal
1990	70.95	4.14	24.76	0.13	2004	69.96	4.58	24.52	0.92
1991	71.49	4.46	23.89	0.14	2005	70.07	4.44	24.5	0.96
1992	76.93	4.65	18.24	0.16	2006	71.3	4.35	23.35	0.98
1993	71.34	4.95	23.5	0.2	2007	71.97	4.32	22.57	1.12
1994	71.84	4.81	23.11	0.22	2008	71.47	4.27	23.07	1.17
1995	71.5	4.93	23.32	0.23	2009	72.67	4.44	21.66	1.21
1996	70.99	4.47	24.26	0.25	2010	70.83	4.28	23.68	1.18
1997	70.07	4.78	24.87	0.26	2011	72.98	4.03	21.82	1.16
1998	70.82	4.42	24.48	0.26	2012	73.4	4.04	21.34	1.21
1999	71.74	4.59	23.29	0.36	2013	73.89	4.05	20.79	1.25
2000	69.82	3.88	25.85	0.42	2014	74.04	3.91	20.73	1.31
2001	70.54	4.33	24.57	0.55	2015	74.18	3.98	20.56	1.29
2002	69.45	4.71	25.21	0.61	2016	74.10	3.82	20.67	1.41
2003	69.63	4.73	24.95	0.67					

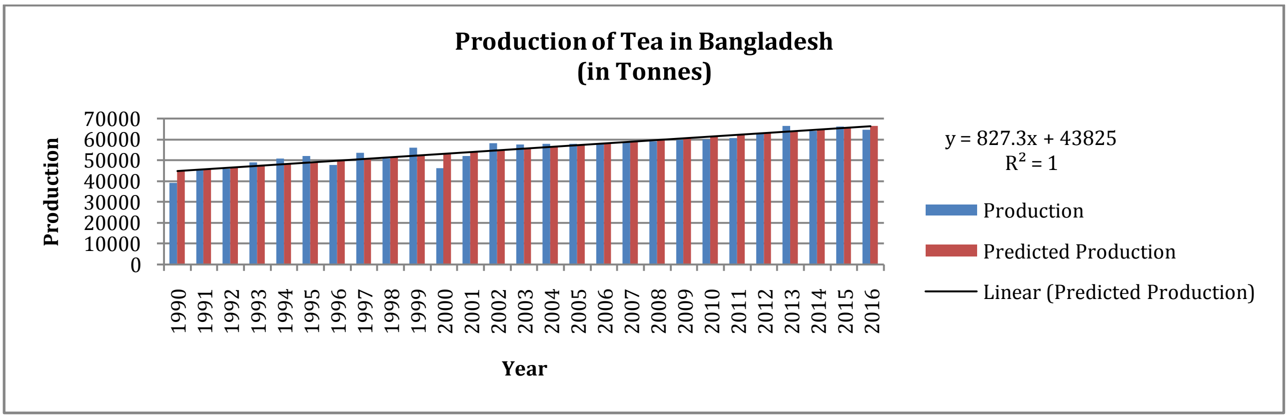
Source: Calculated from FAOSTAT

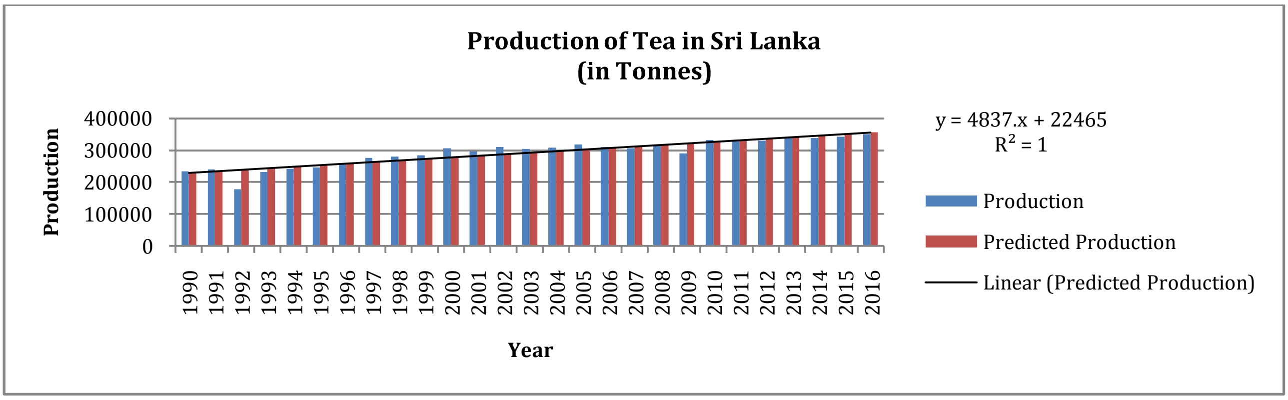
It can be seen from the table that share of India in the total production is the highest ie.74.1 percent in 2016. The share of Sri Lanka is 20.67 percent followed by Bangladesh with 3.82 percent and Nepal with 1.41 percent in the total SAARC tea production in 2016.

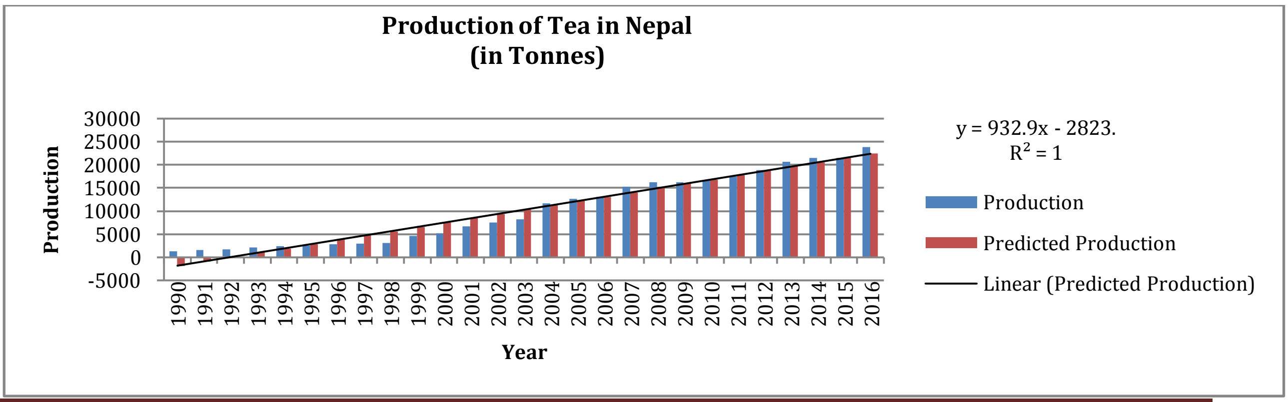
The linear trend in the production of tea in major SAARC countries is shown in fig 1.1

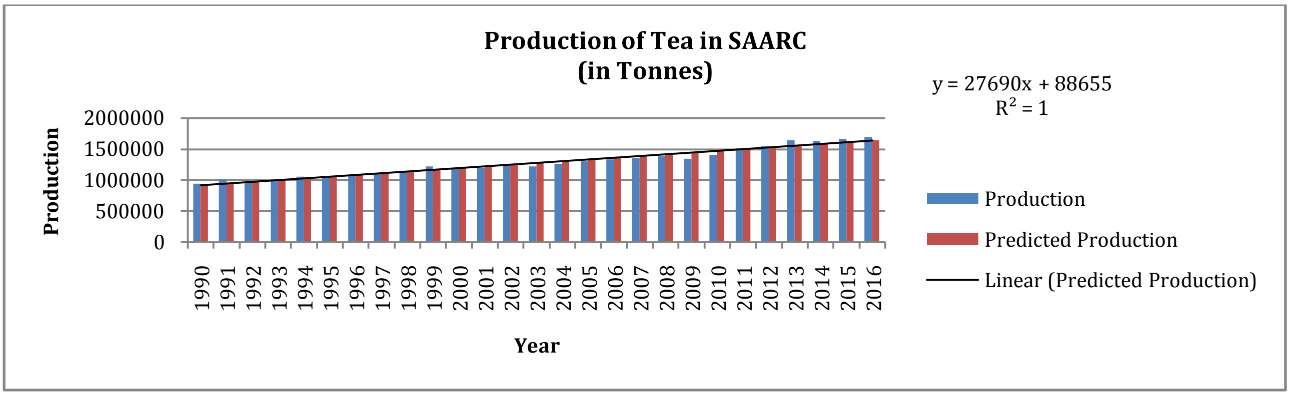
Figure 1.1: linear trend in the production of major SAARC countries











From the above analysis, we can see that in all the SAARC countries the tea production is increasing gradually.

The total area harvested is highest in India followed by Sri Lanka, Bangladesh, and Nepal. Area harvested in major SAARC countries is shown in table 1.3 below. The total area harvested in India has increased at a compound annual growth rate of 1.3 percent during the period 1990 to 2016. In Sri Lanka, the total area harvested increased at a compound annual growth rate of 0.9 percent during the period 1990 to 2016. Area harvested in Bangladesh has increased at the compound annual growth rate of 0.2 percent. In Nepal, there is a considerable increase in the area harvested of tea which increased at a compound annual growth rate of 12.9 percent during the period 1990 to 2016. Although the area harvested in Nepal is much less when compared to the rest of the tea producers. From the data, it is evident that in all the tea producing countries there is an increase in the area under tea cultivation.

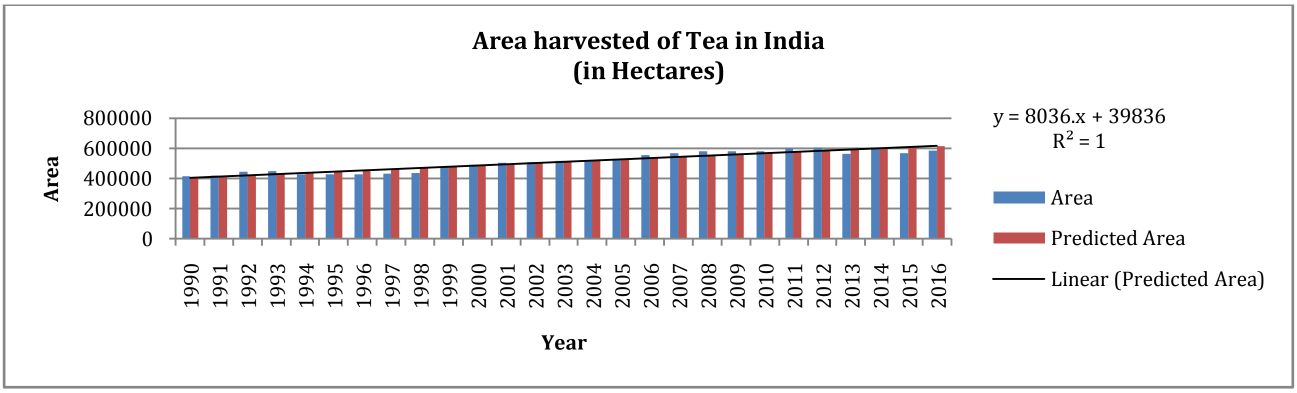
Table 1.3: Area harvested in major SAARC countries (in hectares)

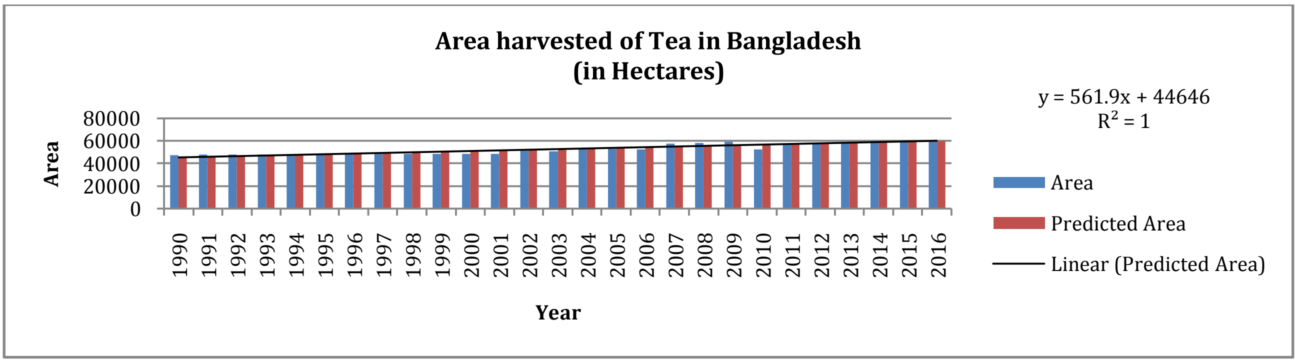
Year	India	Bangladesh	Sri Lanka	Nepal	Year	India	Bangladesh	Sri Lanka	Nepal
1990	415000	47418	221758	889	2004	520000	53215	212720	15012
1991	421000	47629	221691	890	2005	521000	53239	212720	16000
1992	444000	47657	221836	900	2006	555611	52609	212720	16012
1993	448000	47782	197230	880	2007	567020	57580	212720	16420
1994	426000	47786	187309	900	2008	578458	58005	221969	17500
1995	428000	47780	188970	899	2009	579000	59000	221969	16718
1996	427000	48015	187563	772	2010	579000	52236	221969	17127
1997	431000	48308	190473	780	2011	600000	56670	221969	17451
1998	434000	48598	188970	6000	2012	605000	57900	221969	18149
1999	474000	48562	195460	8000	2013	563980	58300	221969	19036
2000	490000	48600	188970	8700	2014	604000	59925	221969	19271
2001	504000	48600	188970	11997	2015	566660	60424	225378	19271
2002	510000	50990	210620	12365	2016	585907	60059	231628	20747
2003	516000	50977	210620	12643	CAGR	1.3%	0.9%	0.2%	12.9%

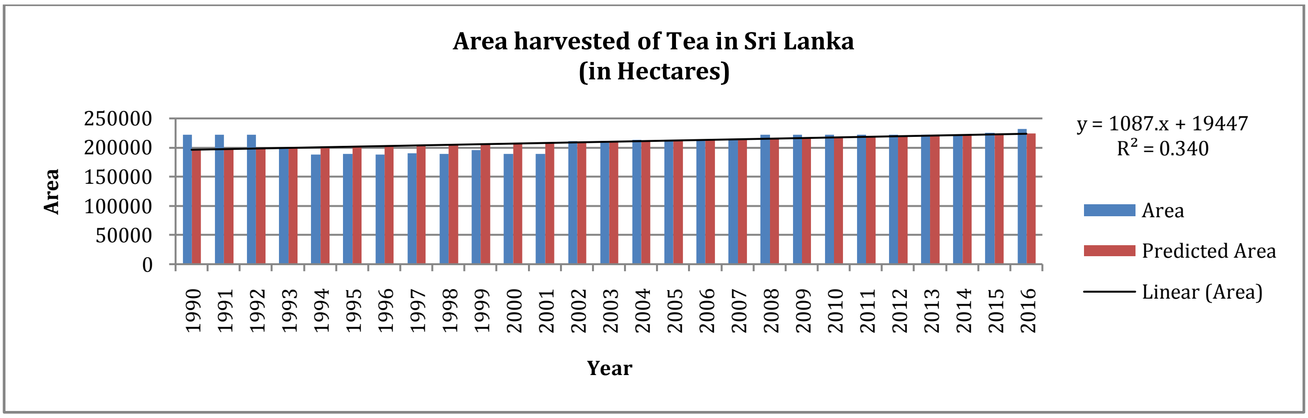
Source: FAOSTAT

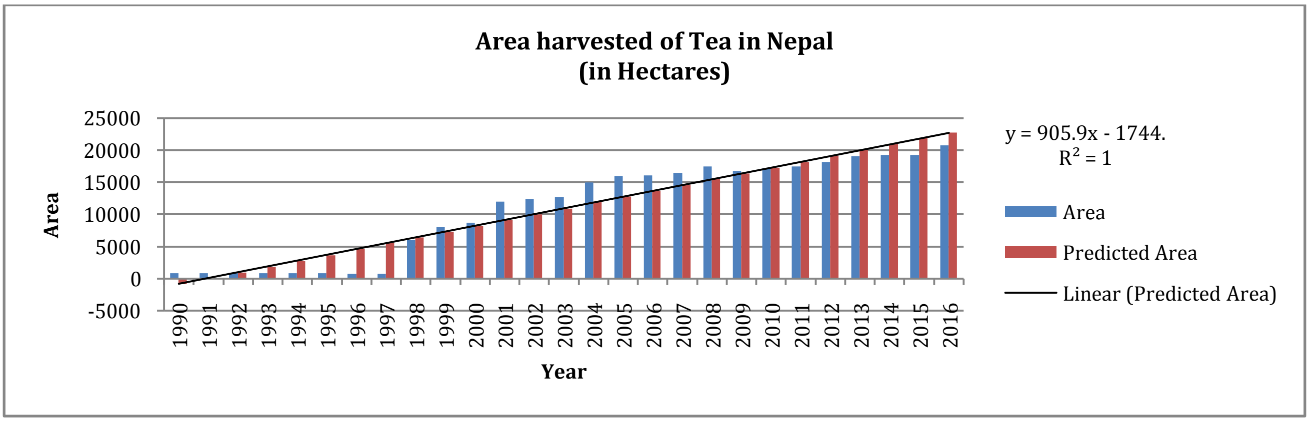
The linear trend in area harvested of tea in major SAARC countries is shown in figure 1.2.

Figure 1.2: linear trend in area harvested in major SAARC Countries









The productivity of tea in terms of yield in major SAARC countries is given in table 1.4 below

Table 1.4: Yield of tea in major SAARC countries (in Kg/ha)

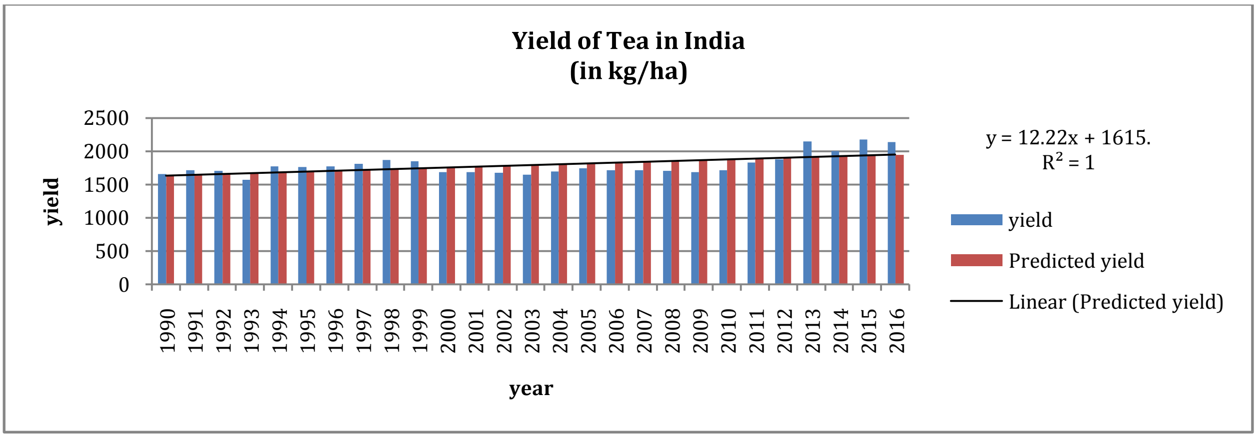
Year	India	Bangladesh	Sri Lanka	Nepal	Year	India	Bangladesh	Sri Lanka	Nepal
1990	1658.1	824.1	1051.4	1404.9	2004	1690.4	1082	1448.3	776.1
1991	1710.9	945.1	1086	1658.4	2005	1740.9	1081.5	1491.2	781.3
1992	1698.6	957.5	806.3	1817.8	2006	1708	1102.5	1461.1	814.6
1993	1571.2	1023.4	1175.6	2264.8	2007	1716	1016	1434.8	923.8
1994	1767.6	1057.1	1293.1	2612.2	2008	1706.3	1017.2	1435.8	923.4
1995	1761.4	1088.3	1301.6	2732.5	2009	1680	1008.5	1306.5	969.5
1996	1770.5	992.3	1377.8	3524.6	2010	1711.9	1148.6	1493	969.6
1997	1809.7	1103.5	1453.5	3725.6	2011	1825.8	1067.6	1475.4	999.3
1998	1866.4	1040.7	1482	503.3	2012	1876.1	1079.9	1486.7	1031.8
1999	1843.9	1153.2	1451.8	561.6	2013	2143.3	1136.5	1532.8	1081.5
2000	1685.7	946.5	1618.5	584.5	2014	1998.9	1064.3	1522.9	1110.2
2001	1680.6	1070	1561.6	553.3	2015	2176.2	1094	1516.3	1110.2
2002	1674.5	1137.5	1471.8	608	2016	2137.2	1073.9	1508.1	1148.2
2003	1639.5	1128	1439.7	648.4	CAGR	1.0%	1.0%	1.4%	-0.8%

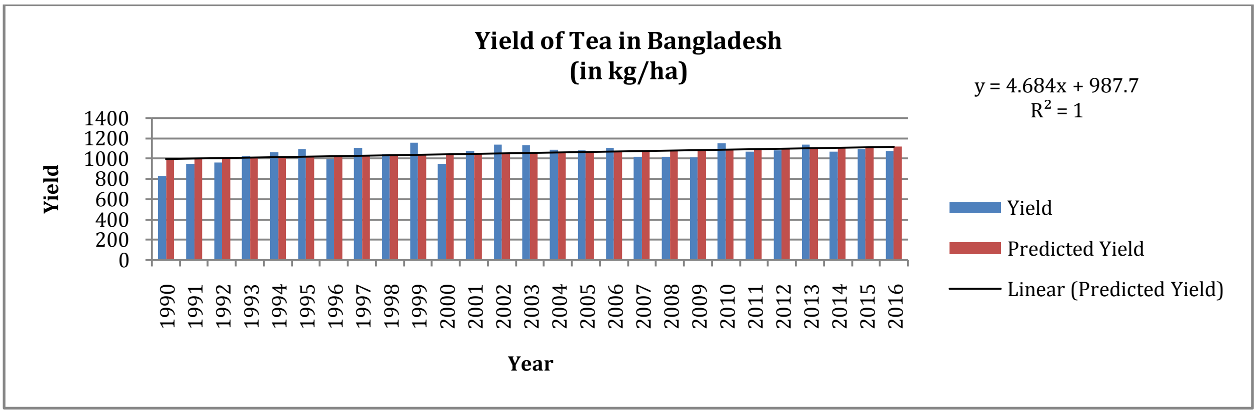
Source: FAOSTAT

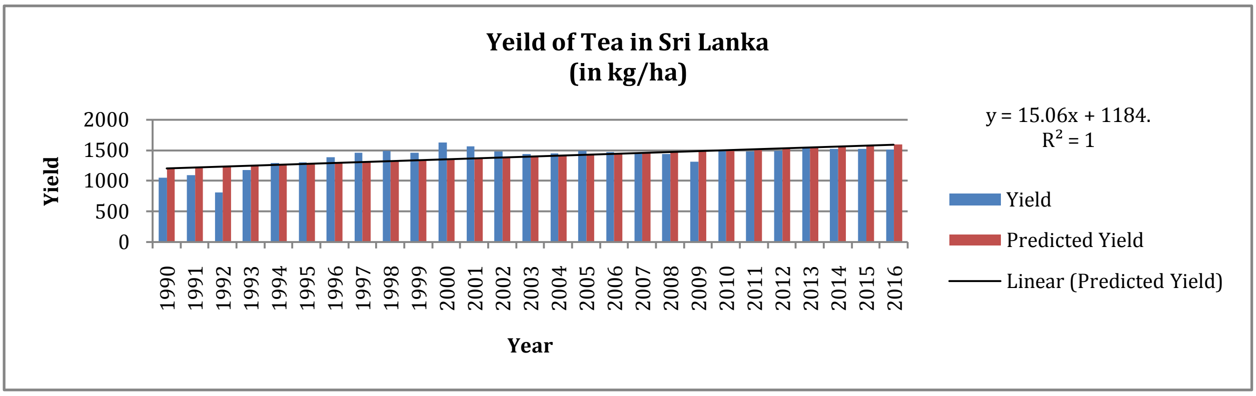
In India the yield of tea has increased from 1658.1 kilogram per hectare in 1990 to 2137.2 kilogram per hectare in 2016 with the compound annual growth rate of 1.0 percent during this period. In Bangladesh the yield of tea has increased from 824.1 kilogram per hectare in 1990 to 1073.9 kilogram per hectare in 2016 with a compound annual growth rate of 1.0 per cent during this period. Yield of tea in Sri Lanka has increased from 1051.4 kilogram per hectare in 1990 to 1508.1 kilogram per hectare in 2016 with a compound annual growth rate of 1.4 percent during this period. In the case of Nepal the yield of tea has seen a decline from 1404.9 kilogram per hectare in 1990 to 1148.2 kilogram per hectare in 2016 with a compound annual growth rate of -0.8 percent during this period.

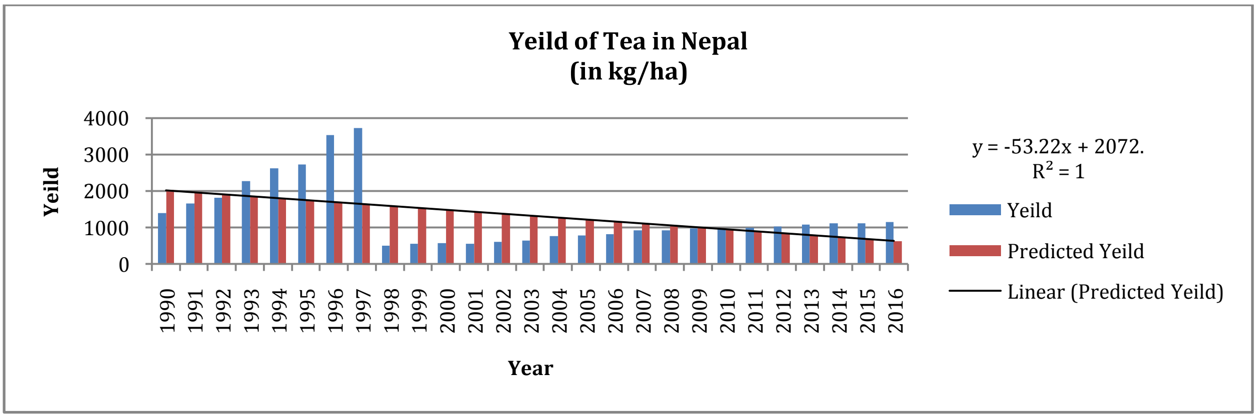
The linear trend in yield of tea by major SAARC countries is given in figure1.3 below

Figure 1.3: trend in yield of tea by major producing countries.









From the analysis, it is evident that the yield of tea in Sri Lanka has grown much higher than the rest of the SAARC countries. The yield of tea in India is lower when compared to Sri Lanka and Bangladesh. Whereas, the total yield of tea in Nepal has registered a negative growth rate.

Impact of SAFTA on Tea industry in India

Amongst the tea producing countries in the South Asian region Sri Lanka is the leading exporter of tea followed by India, Bangladesh and Nepal. The total export of tea from SAARC countries is given in table 1.5. From the table, it can be seen that the total exports from India have increased from 198136 tonnes in 1990 to 254841 tonnes in 2013 with a compound annual growth rate of 1.1 percent during this period. In Bangladesh, there is decline in the export of tea from 21126 tonnes in 1990 to 665 tonnes in 2013 with a compound annual growth rate of -14.0 percent during this period. The tea export from Sri Lanka has increased from 216033 tonnes in 1990 to 317710 tonnes in 2013 with a compound annual growth rate of 1.7 percent. There is a considerable increase in the export of tea in the case of Nepal which increased from 23 tonnes in 1990 to 10206 tonnes in 2013 with a compound annual growth rate of 30.3 percent during this period. The total tea export from the SAARC countries increased with a compound annual growth rate of 1.3 percent during the period 1990 to 2013.

Table 1.5: Export of tea by major SAARC countries (In Tonnes)

Year	India	Bangladesh	Sri Lanka	Nepal	SAARC	Year	India	Bangladesh	Sri Lanka	Nepal	SAARC
1990	198136	21126	216033	23	435318	2003	174246	7348	297003	2160	480757
1991	215144	26862	212017	9	454032	2004	174728	10635	298909	3740	488012
1992	166359	24990	181259	21	372629	2005	159121	12560	307793	5406	484880
1993	153159	29620	134742	19	317540	2006	181326	7842	204240	3881	397289
1994	150874	29040	115097	25	295036	2007	193459	5269	190203	9697	398628
1995	158333	26430	178005	72	362840	2008	203207	8259	318329	9762	539557
1996	138360	20981	218714	73	378128	2009	203863	5339	288528	9196	506926
1997	191472	21740	267726	81	481019	2010	234560	1981	312908	8498	557947
1998	201798	25049	270938	35	497820	2011	322548	945	321074	8854	653421
1999	177507	21494	268330	119	467450	2012	225082	838	318396	9893	554209
2000	200868	11000	287005	82	498955	2013	254841	665	317710	10206	583422
2001	177603	6400	293524	70	477597	CAGR	1.1%	-14.0%	1.7%	30.3%	1.3%
2002	181617	3964	290500	80	476161						

Source: FAOSTAT

The share of major tea exporting countries in the total SAARC export is presented in table 1.6 below

Table 1.6: share of major tea exporting countries in total tea export from SAARC (in percent)

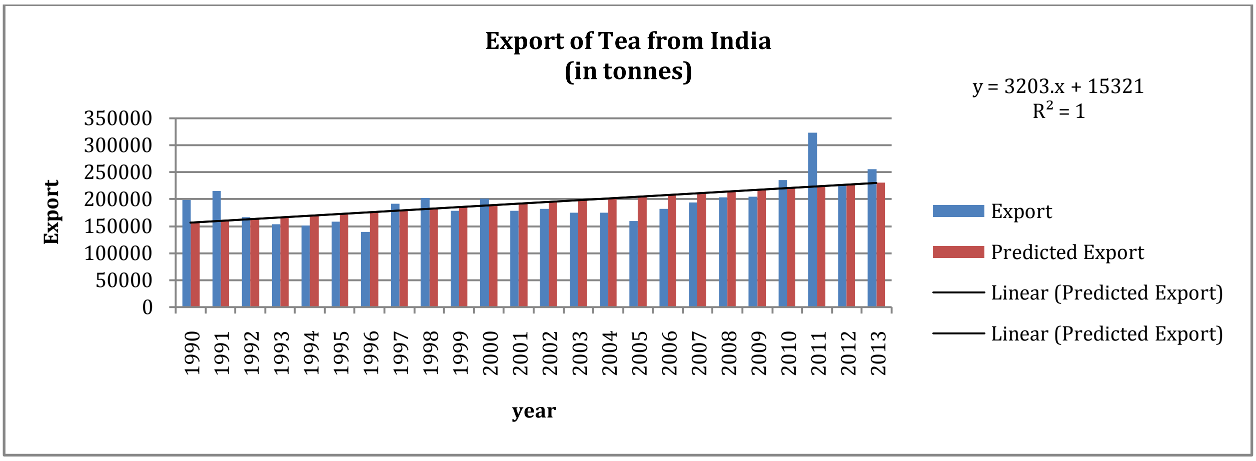
Year	India	Bangladesh	Sri Lanka	Nepal	Year	India	Bangladesh	Sri Lanka	Nepal
1990	45.51	4.85	49.62	0.005	2002	38.14	0.83	61	0.01
1991	47.38	5.91	46.69	0.001	2003	36.24	1.52	61.77	0.44
1992	44.64	6.7	48.64	0.005	2004	35.8	2.17	61.25	0.76
1993	48.23	9.32	42.43	0.005	2005	32.81	2.59	63.47	1.11
1994	51.13	9.84	39.01	0.008	2006	45.64	1.97	51.4	0.97
1995	43.63	7.28	49.05	0.019	2007	48.53	1.32	47.71	2.43
1996	36.59	5.54	57.84	0.019	2008	37.66	1.53	58.99	1.8
1997	39.8	4.51	55.65	0.016	2009	40.21	1.05	56.91	1.81
1998	40.53	5.03	54.42	0.007	2010	42.03	0.35	56.08	1.52
1999	37.97	4.59	57.4	0.02	2011	49.36	0.14	49.13	1.35
2000	40.25	2.2	57.52	0.01	2012	40.61	0.15	57.45	1.78
2001	37.18	1.34	61.45	0.01	2013	43.68	0.11	54.45	1.74

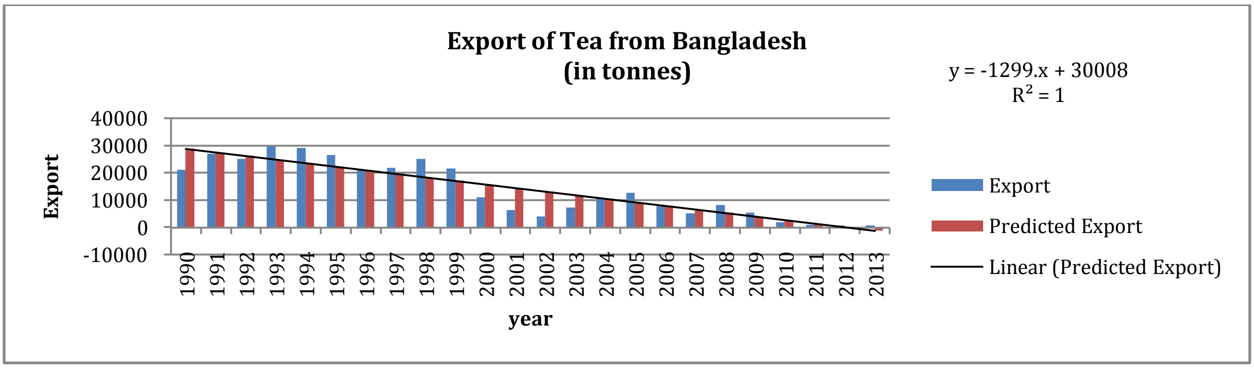
Source: calculated from FAOSTAT

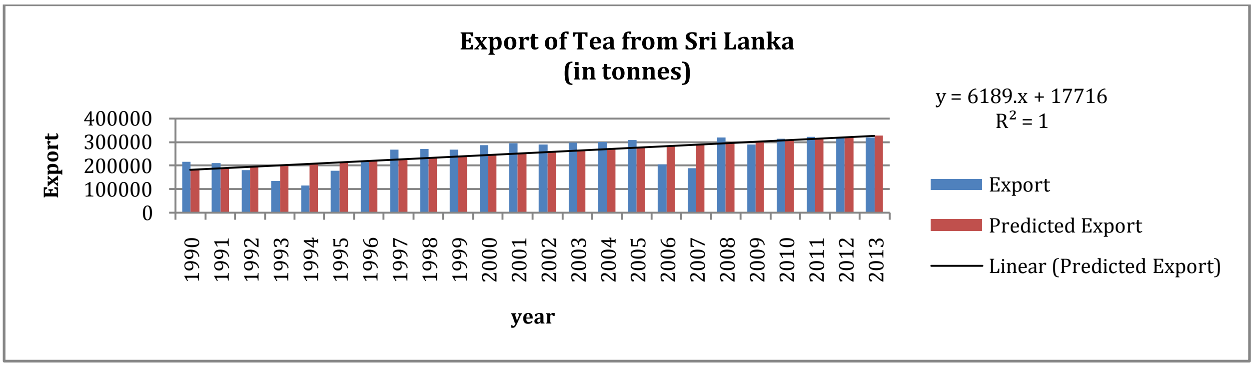
From the table, it can be seen that Sri Lanka has the highest share in tea exports amongst the major tea producing countries. The share of Sri Lanka is 54.45 percent in the total export of tea from SAARC countries. India is the second largest exporter of tea from the SAARC region with 43.68 percent share. India is followed by Nepal and Bangladesh respectively.

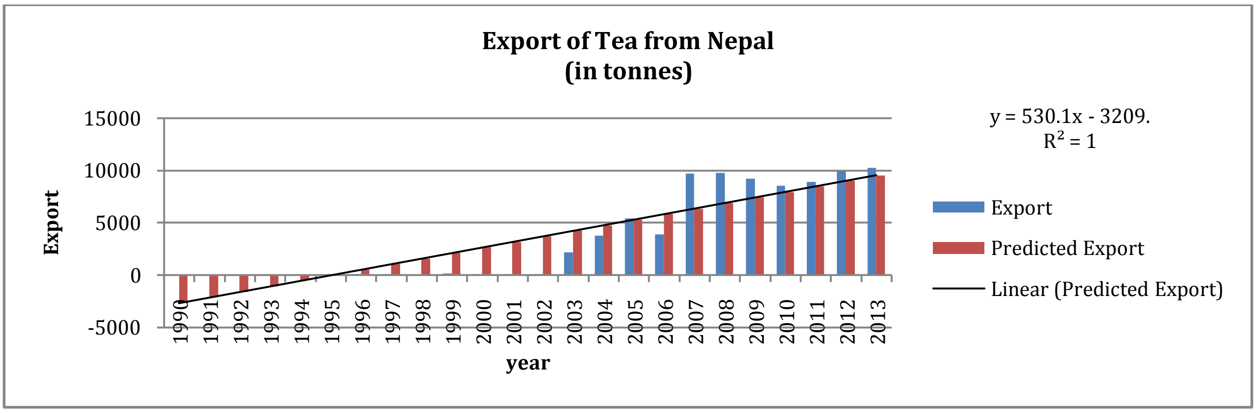
The linear trend in tea export by major countries is given in figure 1.4

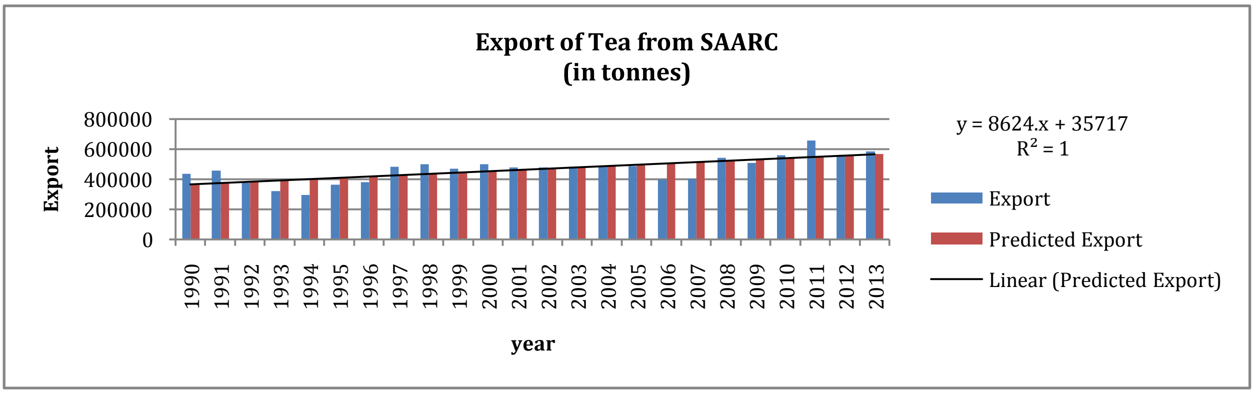
Figure 1.4: linear trend in tea export by major SAARC Countries











The total export of tea from India to major SAARC countries in terms of value is presented in table 1.7 below. It can be seen that the share of tea in India's export basket to SAARC countries is very low. Tea constitutes only 0.3 percent of the total export of India to SAARC. A valid reason for this low export share may be that major countries in SAARC region produce tea. Therefore, all the countries compete in the same line of production.

Table 1.7: export of tea from India to major SAARC countries (value in billion rupees)

Year	Sri Lanka	Afghanistan	Bangladesh	Pakistan	Nepal	Bhutan	Maldives	total tea export to SAARC	total export to SAARC
1990-91	-	-	-	0.009	0.007	0.0003	-	0.0163	9.57
1991-92	0.01	-	-	0.02	0.02	0.0006	-	0.0506	15.32
1992-93	0.01	-	0.0002	0.09	0.02	0.0009	-	0.1211	21.33
1993-94	0.02	-	-	0.03	0.03	0.0003	0.00007	0.08037	28.17
1994-95	0.02	-	0.001	0.06	0.06	-	0.0004	0.1414	38.15
1995-96	0.02	-	-	0.009	0.02	-	0.00008	0.04908	57.55
1996-97	0.12	-	0.0002	0.007	0.03	-	0.0008	0.158	60.41
1997-98	0.13	-	-	0.25	0.02	-	0.0002	0.4002	59.87
1998-99	0.09	-	0.0003	0.04	0.02	-	0.001	0.1513	70.65
1999-00	0.07	-	0.0004	0.02	0.005	-	-	0.0954	61.21
2000-01	0.08	-	0.011	0.39	0.03	-	-	0.511	88.1
2001-02	0.09	-	-	0.13	0.01	-	0.00008	0.23008	96.62
2002-03	0.12	-	0.002	0.2	0.009	-	0.0003	0.3313	131.84

2003-04	0.16	-	0.003	0.28	0.02	0.0003	0.001	0.4643	190.61
2004-05	0.27	-	-	0.23	0.02	-	0.0002	0.5202	199.53
2005-06	0.25	0.16	0.0002	0.44	0.02	-	0.000001	0.870201	245.61
2006-07	0.29	0.51	0.001	0.91	0.00002	-	-	1.71102	292.74
2007-08	0.39	0.37	-	0.3	0.000009	-	0.00008	1.060089	387.2
2008-09	0.48	0.93	-	0.6	0.0006	-	0.0002	2.0108	388.21
2009-10	0.67	0.98	0.011	0.79	0.0009	-	0.0004	2.4523	396.46
2010-11	0.7	0.36	0.29	1.33	0.01	-	0.0005	2.6905	530.14
2011-12	0.52	0.07	-	1.78	-	-	-	2.37	627.06
2012-13	0.27	0.08	-	2.04	-	-	-	2.39	803.06
2013-14	0.23	0.25	1.31	1.96	-	-	-	3.75	1063.35
2014-15	0.37	0.19	0.38	1.25	-	-	-	2.19	1253.53
2015-16	0.28	0.14	0.84	1.93	-	-	-	3.19	1171

Source: calculated from Tea Statistics, Tea Board of India

In 2004, India signed the South Asian Free Trade Agreement along with other SAARC members. The aim of this agreement is to create a free trade area. Accordingly every country has to reduce its tariff rates and other duties for free export and import of goods. The basic aim through this agreement is to increase trade between the SAARC members. But the implementation of this agreement is not free from difficulties. The basic difficulty in implementing this agreement is that all the countries in the region have homogenous production line. They trade in same products in the international market.

Among the SAARC members, apart from India, Sri Lanka, Bangladesh, and Nepal also produce and trade in tea in the international market. The peculiarity in the case of India is that it is not only the biggest producer of tea in the region but also the largest consumer of tea. Its domestic consumption is 78.92 percent of the total production. That is 78.92 percent of the total production is consumed within the country. Since there is very less import from other countries the domestic market is entirely dominated by Indian tea. Therefore it is also the biggest market for other countries. Currently, the import of tea is subject to restriction and a very small quantity is imported from other countries for blending purposes. So the entire Indian tea market is protected from other competitors.

Moreover, the Indian tea industry is facing a lot of problems mainly low yield of the bushes, old age of the tea bushes, rise in the cost of production, labour issues, closure of tea gardens etc. Because of these issues in the tea industry, the Indian tea industry is losing its hold in the international markets. Indian tea is not able to get good prices in the international market which is leading to low profitability in the market. One of the major problems of the tea industry is the old age of the tea bushes. The tea bushes are very old which affect the quality and yield of the bushes. This is one area where the domestic industry should focus its attention on. The Indian tea industry has always adopted a protectionist approach when it comes to competing with other competitors.

Another major hurdle in implementing the SAFTA Agreement is that there exist very high tariff and non-tariff barriers among the SAARC countries that are stated to be required to protect their infant and traditional industries. Even after several efforts are undertaken by members to reduce the tariff rates still the tariff rates are very high. And whatever tariff reduction has been made is very insignificant.

The homogenous production pattern and commodities is also a major difficulty in the implementation of the South Asian Free Trade Agreement. The countries produce same products and compete in the market which becomes competitive rather than complementary.

Political enmity amongst the SAARC members is another major problem in the successful implementation of the South Asian Free Trade Agreement. This situation has given a good opportunity to the non-SAARC members to expand their trade in the SAARC region. It is also evident from past experience that these non SAARC countries often interfere in the external policies of the SAARC countries. The general environment in the SAARC region is that of mutual mistrust and the fear of unknown. Some of the political enmities are very historical for instance the enmity between India and Pakistan over the Kashmir issue. Then there is always a tiff between India and Sri Lanka over the issue of Sri Lankan Tamils. These three countries are the major player in the SAARC region and therefore they are crucial in the successful implementation of the SAFTA Agreement. Therefore, if the issues between these countries are not resolved it will continue to reduce the trade potential in the region.

As far as the tea trade is concerned India's tea industry can hope that free trade with SAARC members could boost its exports to Pakistan. Pakistan is the biggest consumer of tea in the region. It imported 121900 tonnes of tea in 2013 (FAOSTAT). Pakistan imports its tea mainly from Kenya and from some other countries including India. If the free trade agreement comes in place the Indian tea industry can provide good quality tea to this neighboring country at a low price. But, Sri Lanka has signed bilateral agreement with both India and Pakistan. With the current tension between India and Pakistan, there is little hope for the Indian tea Industry to penetrate the Pakistani markets. Also, Sri Lanka, the leading exporter of tea in the region will be eying the Pakistani market. In order to have a successful implementation of SAFTA India and Pakistan must resolve their issues. Therefore the success of SAFTA depends on the relation between these two leading countries.

Summary and conclusion

As far as the tea industry is concerned when the free trade agreement comes in place the Indian market will be flooded with the tea from other major producers mainly Sri Lanka. The Sri Lankan tea is better than Indian tea in terms of quality. It is pertinent to mention here that if the present trend continues, the SAFTA agreement will prove comparatively more beneficial to Sri Lanka. Therefore, it will be very challengeable for the Indian tea industry to save its domestic market.

It can be concluded that in the prospective years the competition in the region for its share in the market will augment and the only way out for the Indian tea industry is to address its weaknesses properly and improve the production, quality, and yield of the tea. Only then the Indian tea industry will flourish in the stiff competition within the region.

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