

Competitiveness of Sri Lankan tea and spices in India's market: impact of liberalized trade policies

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The Uruguay Round Agreement on Agriculture was the major instrument in liberalization of agricultural trade during the last decade. In addition to that, India and Sri Lanka signed the South Asian Preferential Trading Agreement (SAPTA) and Indo-Sri Lanka Free Trade Agreement (ISLFTA) to intensify regional and bilateral trade. In the above context, the study analyzed trends, potentials and prospects of bilateral trade of tea and spices between India and Sri Lanka. Statistical publications of the Director General of Foreign Trade – India (DGFT), websites of DGFT and Food and Agriculture Organization (FAO) and the statistical publications of the Government of Sri Lanka were the sources of data. Annual compound growth rates (CGR), Revealed Comparative Advantage (RCA), Revealed Symmetric Comparative Advantage (RSCA) and constant market share models (CMS) were the analytical tools.

From the triennium 1997-99 to triennium 2000-02, India has increased its exports to Sri Lanka by 54 percent while the reverse flow increased by 57 percent. Study found that clove, nutmeg and mace were competitive among agricultural exports of Sri Lanka to India while major agricultural exports – tea and pepper - and other spices were not competitive in India's market. Large positive market composition effects of tea and pepper show that India has increased tea and pepper imports in 2000-02 triennium over 1997-99 triennium. However, competitive effect of tea and pepper shows that those exports, which were predicted as competitive exports to India with duty reductions under ISLFTA, were not competitive in India's market. Mutual trade of tea and spices between India and Sri Lanka would be complimentary rather than competitive, if trade flows, processing and re-exports are properly regulated. It can be concluded that the impact of tariff concession given by India for Sri Lanka's tea and spices under ISLFTA is trivial as India has increased importing those products from other countries rather than from Sri Lanka in spite of discriminatory low tariff.

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