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Competitiveness of black tea exports from Sri Lanka in the Japanese market

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Tea is the most important agricultural export from Sri Lanka. Black tea is the leading segment of Sri Lankan tea industry accounting for 98.6 percent of the total tea export value. Japan is the most sophisticated tea market in the world. As Japan is not a black tea producing country, its black tea market completely depends on imports from other countries. Japan is one of highest revenue earning markets for two Sri Lankan black tea products, tea bags less than 4g and bulk tea of more than 10kg in weight. The Sri Lankan tea industry has recently shown a decline in black tea production due to irregular weather patterns in tea cultivating districts and long-term existence of lower yielding older plantations. The high cost of production, due to labor deficits and poor growth in value addition, have become challenges to maintain competitive tea prices in the export market. Competitiveness describes dimensions such as profitability, resource usage efficiency, and productivity of a certain producer when compared with other producers in a same market. Determination of competitors, level of competitiveness, and price effects is important for understanding market dynamics and planning within a highly unstable market environment. The main rivals of Sri Lankan black tea in the Japanese market were identified using data from Japan's Ministry of Finance. The Export Similarity Index was used in this exercise. Market concentration and competitiveness were measured using the Hirschman-Herfindahl Index and Revealed Comparative Advantage index respectively. The econometric import demand model to analyze price effects on competitiveness was estimated using Seemingly Unrelated Regression technique. United Kingdom, France, Malaysia, Kenya and Indonesia are the main rival countries of Sri Lanka. The Japanese market is highly concentrated for black tea as Sri Lanka occupies the highest market share around 60 percent. Sri Lanka's competitive power is higher than that of Kenya, and Indonesia for tea bags and that of United Kingdom, France, Malaysia for bulk tea. Sri Lankan export price of tea has a significant effect on import demands of United Kingdom, France and Malaysia for tea bags. For bulk tea Sri Lankan export price has a significant effect on France and Malaysian import demands.

Keywords: Hirschman-Herfindahl index, export similarity index, revealed comparative advantage, import demand model, seemingly unrelated regression

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