



IMPACT OF THE TEA INDUSTRY ON THE SRI LANKAN ECONOMY

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AUTHOR'S CONTRIBUTION

The sole author designed, analyzed, interpreted and prepared the manuscript.

Received: 05 February 2022

Accepted: 15 April 2022

Published: 18 April 2022

Short communication

ABSTRACT

The Sri Lankan tea industry has a long commercial history. It is one of the major commercial plants to gain export earnings to the country. The tea industry in Sri Lanka is a major component of the agricultural sector. In this study, the research problem is How the Tea Industry Affects the Economy of Sri Lanka. The objectives are this study, identify the relationship between the Sri Lankan economy based on GDP and the tea industry based on export performance in the Sri Lankan tea industry, identify the challenges pointed by the Sri Lanka tea industry and give recommendations for policymakers to improve tea industry. Secondary data were used in this study and MS Excel and SPSS statistical packages were used to represent and analyze data. Finally, this study has identified a negative relationship between the tea industry and the economy of Sri Lanka and gives recommendations for policymakers and the Sri Lankan government.

Keywords: Tea industry; Sri Lankan economy; GDP; export earnings; Sri Lankan Tea Industry; major commercial plants; Agricultural sector.

1. INTRODUCTION

1.1 Brief History of Sri Lanka Tea Industry

James Taylor introduced the tea industry to Sri Lanka in 1867 by starting the first tea estate in Sri Lanka at the Lul- Kandura, Kandy. James started the tea factory in 1872 including all operations in the Lul- Kandura estate and he made first the sale of Lul- Kandura tea in Kandy, in the same year. The first shipment of Ceylon tea 10 kg shipped to London in 1873.

1.2 Commercial history of the tea industry

Focusing on the history of commercial tea production, it increased dramatically from 1880 to 1888, surpassing the area under cultivation by

400,000 acres (1,69km²) in 1899. Many popular British people buy coffee plantations and convert them into tea. In 1880, John Walker & Co. rapidly developed tea processing technology with the first tea rolling machine. The first public Colombo Tea Auction¹ was held in 1884 at the premises of Messrs. Somerville & Co., Ltd. At the 1893 Chicago World's Fair, one million packets of tea were sold.

¹ A pound of tea fetched a record price of 36.15 per pound at the London Tea Auction. The Tea Research Institute was established in 1925 to research yield maximization and production methods. In 1927, Sri Lanka's tea production exceeded 100,000 metric tons,

¹ *The Colombo Tea Auction (CTA) is the single largest tea auction in the world.*

the total area of tea estates exceeded 60 hectares and the total harvest exceeded 200,000 metric tons in the 1980s. Sri Lanka was the official tea supplier for the 1980 Moscow Summer Olympics, the 12th Commonwealth Games and Expo 88. From 1992 to 1993, all state-owned estates were privatized due to huge losses.

1.3 Sri Lanka's Economy

Sri Lanka's economy is measured in terms of the country's gross domestic product (GDP). Gross domestic product (GDP) is a monetary measure of the market value of all finished goods and services produced over some time. It is a measure of the size of the economy. Sri Lanka is a developing country that has moved away from a socialist orientation and opened up its economy to foreign investment. The tea industry plays an important role in the Sri Lankan economy. The contribution of the tea industry to the GDP in 2019 was 0.7% and 11.3% of the total exports in 2019 [1,2].

1.4 Sectoral Composition of GDP

Sri Lanka has traditionally been an agriculture-based economy but over time the value of the agricultural sector has declined and the services and industrial sectors have increased. Data from the 2019 Annual Report of the Central Bank of Sri Lanka show the sectoral composition of the GDP.

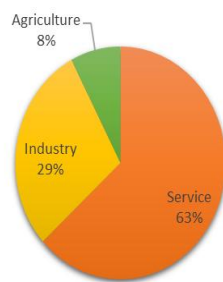


Fig. 1. Sectoral Composition in GDP Sri Lanka - 2019

(Source: Annual Report 2019, Central Bank Sri Lanka)

The service sector gives the highest contribution to the GDP at 57.4% while the agriculture sector gives the lowest contribution to the GDP at 7%. The industrial sector contributes 26.4% to the GDP.

The role of the agricultural sector in the Sri Lankan economy: The main activities (sub-sectors) of the agriculture sector are fisheries, afforestation,

and the cultivation of major crops such as rubber and tea.

Agriculture Production in Sri Lanka: The agricultural output index, which measures the output of the agriculture and fisheries sectors, remained broadly unchanged at 0.03 percent in 2019, compared to 11 percent in 2018. Tea, rubber, and other crop sub-indices declined compared to the previous year. Meanwhile, a decline in fishing activities was also reported during the year [3].

Tea: The declining trend in tea production, which has been observed since 2017, continued into 2019, primarily due to local factors. Tea production fell by 1.3 percent to 300.1 million kilograms in 2019, while tea production fell to 300.1 million kilograms due to labor issues, dry weather conditions in the first half of the year and heavy rainfall over the next quarter. The average yield in the small plantation sector was generally higher than the yield in the large plantation sector, reflecting the potential for replanting old plantations and replenishing high-yielding tea plants, and applying good agricultural practices.

The average export price of tea fell from 9.1% to USD 4.6 to \$ 5.1 per kg in 2018. Meanwhile, the annual average price at the Colombo Tea Auction (CTA) fell 6.0 percent to 546.67 rupees per kilogram. From Rs. 581.58 per kilogram recorded in 2018: (<https://www.srilankabusiness.com/tea/about-tea/industry-capability.html>) [4].

2. LITERATURE REVIEW

Sri Lanka Tea Industry – M.A.J.F.N. Thasfiha, D.K Dissanayaka, Arachchige R.P.S Udara: This research paper is about the Sri Lanka tea industry. There are 3 objectives based on this. The objectives are to identify the manufacturing process and the economic assistance it provides to Sri Lanka, how to enhance it, the potential for development, and the strategies and policies that Sri Lanka should adopt to enhance global market integration. The study focused primarily on the impact of the tea industry on the Sri Lankan economy and the location of plants, the availability of raw materials, demand, and the potential for improving the production process. Secondary data are used to analyze the data here. Finally, they found that the Sri Lankan tea industry functions as the country's foreign exchange and source and source of employment. Sri Lankan tea has a special place in the global market. They identified the difficulties facing the tea industry and proposed several strategies to improve the quality of the tea industry.

3. METHODOLOGY OF THE STUDY

This section examines whether the objectives of the study were achieved by analyzing data.

This study used secondary data and the dependent variable in this study was the Sri Lankan economy measured in the gross domestic product (GDP) and the independent variable was the tea industry measured with export performance. Websites, annual bank reports, and magazine articles were the main sources of information.

Composition of Sri Lanka's total exports: The industrial sector was the largest contributor to Sri Lanka's total export earnings, that share is 78.9%. The agriculture sector's contribution is 20.6% and its value is US \$ million 2461.9.

The performance of agricultural exports, which accounted for about 21% of total exports, continued to decline in 2019 (Annual Bank Report, Central Bank of Sri Lanka, [3]. 2018, driven by lower earnings from tea and spice exports. The table below shows Sri Lanka's total export composition for 2019.

Contribution of the Tea Industry to Export Earnings to Sri Lanka: According to the Central Bank of Sri Lanka, earnings from tea exports, the second largest contributor to Sri Lanka's total export earnings, fell by 11.3 percent.

In 2019, exports increased by 5.7 percent to the US \$ 1346 million. However, tea exports increased by 3.6 percent from 282 million kilograms in 2018 to 293 million kilograms in 2019.

The decline in earnings from tea exports was largely due to lower average export prices. Although the average price of tea at the Colombo tea auction was relatively high compared to Kolkata and Mombasa (Kenya), the average tea export price in 2019 fell by 9.1 percent in 2018 from the US \$ 5.06 to the US \$ 4.60 per kilogram. Auctions. Turkey continues to be the number one importer of Sri Lankan tea in terms of value and volume. Russia, Iraq, Iran, and Syria were other major tea export destinations in Sri Lanka.

Impact of Tea Industry Export Performance on Sri Lanka's GDP: The study used the SPSS software and Microsoft Excel to present data using tables and figures and to analyze data based on simple linear regression. As mentioned above, the Sri Lankan economy is measured with GDP in 2010-2019 and the tea industry is measured in the same year range. However, fluctuations in export performance can be seen in the tea industry (Annual Bank Reports, Central Bank of Sri Lanka 2010,2011,2013,2019, [3,5-8].

According to Fig. 2 (Correlation table) can be identified a weak negative relationship between GDP and export performance in the tea industry.

Table 1. Composition of total exports of Sri Lanka – 2019

Category	Share %	Value (US\$)
Agriculture exports	20.6	2461.9
Industrial exports	78.9	9426.3
Mineral exports	0.3	33.9
Unclassified exports	0.2	17.9

(Annual Bank Report,2019)

Table 2. Export earnings- Tea Industry- 2010 -2019

Year	Share %	Value (US \$ million)
2010	16.6	1375.4
2011	14.1	1490.9
2012	14.4	1411.9
2013	14.8	1542.2
2014	14.6	1628.3
2015	12.8	1340.5
2016	12.3	1269
2017	13.5	1529.8
2018	12	1428.5
2019	11.3	1346.4

(Source: Central Bank (Various issues))

Table 3. Export Performance of Tea Industry on GDP

Year	GDP	Export Earnings (US \$ millions)
2010	8	1375.4
2011	8.4	1490.9
2012	9.1	1411.9
2013	3.4	1542.2
2014	5	1628.3
2015	5	1340.5
2016	4.5	1269
2017	3.4	1529.8
2018	3.2	1428.5
2019	2.3	1346.4

(Source: Central Bank (2010,2011,2012,2013,2019))

Correlations			
		GDP	Export Performance (US \$ millions)
Pearson Correlation	GDP	1.000	-.032
	Export Performance (US \$ millions)	-.032	1.000
Sig. (1-tailed)	GDP	.	.466
	Export Performance (US \$ millions)	.466	.

Fig. 2. Relationship of GDP and Export Performance of the Tea industry

(Source: Author developed)

As a result of analyzing data, finally this simple linear regression model.

$$GDP = 6.224 - 0.001ExP$$

GDP – Gross Domestic Product

Ex – Export earnings in the Tea industry

According to this model, again can be identified the negative relationship between GDP and export performance in the tea industry in Sri Lanka. For every additional unit of tea exchange performance, the expected rate of GDP decreases by 0.001 on average, holding all other variables constant. For every additional unit of all other variables without considering the independent variable, tea export performance is considered constant.

4. CONCLUSION

The Sri Lankan tea industry has a long history but in the current situation, the tea industry's impact on the Sri Lankan economy has decreased. With the opening up of the economy in 1977, the impact of the industrial sector was greater than the impact of the agricultural sector on GDP. Sectoral Composition of

Sri Lanka's GDP the service sector records the highest GDP while the agriculture sector records the lowest gross domestic product. The tea industry belongs to the agricultural sector. Current statistics show that although the contribution of the tea industry is steadily declining, the tea industry still plays an important role in earning foreign exchange. Productivity enhancement and competitiveness are identified as the major challenges facing the tea industry in Sri Lanka. Another challenge is that foreign countries such as India, Kenya, and Indonesia are raising tea levels relative to Sri Lanka. With modern marketing, consumption of soft drinks, juices, coffee, and alcohol, tea is declining. The Government of Sri Lanka has sought to increase the competitiveness of various strategies and policies such as the fertilizer subsidy scheme, tree planting, new planting, and subsidy filling. The Sri Lankan tea industry needs to take immediate action to increase labor productivity and land productivity to increase the export earnings of the tea industry.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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