

The Competitiveness of Sri Lankan Tea: A Policy Analysis Matrix (PAM) Approach

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Tea production in Sri Lanka seems to be distorted in recent decades due to government intervention through different taxes and subsidies. In addition, Sri Lankan tea industry is facing enormous challenges such as low productivity, low replanting rate, high cost of production, and shortage of labor. Moreover, Kenyan and Chinese teas are becoming rapidly popular in the world market, while Sri Lankan tea is losing its market share by 1.2% during the pandemic situation. The study aims at undertaking a detailed analysis of policy support for tea production in Sri Lanka for the period of 2006-2019 using Policy Analysis Matrix (PAM) Approach. The study is based on the secondary data obtained from the Sri Lanka Tea Board, Department of Census & Statistics, Trade map Web, Central Bank of Sri Lanka and Ministry of Plantation. The Nominal Protection Coefficient (NPC), Effective Protection Coefficient (EPC), and Domestic Resource Cost (DRC) are estimated using PAM approach. Study results indicate that the values of NPC, EPC, and DRC are less than one for the period of 2006-2019. Hence, study suggests that Sri Lankan tea industry is not protected through the policy interventions while the available resources are efficiently and effectively utilized and there is a vast scope for Sri Lankan tea in terms of export to the countries. Additionally, DRC values indicate that the use of domestic factors are socially profitable in Sri Lanka despite increase cost of production over the years. However, tea production and export in the country will be negatively affected in the coming years due to recent government policy changes, such as the import banning of chemical fertilizer and other agro chemicals, as well as increased Cess tax. Therefore, the Sri Lankan government needs to consider about increasing input subsidies and other agricultural subsidies, which could affect competitiveness in tea industry in the country. Furthermore, lowering export Cess tax and establishing trade agreements with other nations will help to raise tea's export share in the global market.

Keywords: Cost of production; Domestic resource cost; Effective protection coefficient; Nominal protection coefficient; Policy Analysis Matrix (PAM); Tea industry