# Exporters' Willingness to Adopt the Tea Hub Concept in Sri Lanka

**Niroshini, G.D.U.[a], Dharmadasa, R.A.P.I.S.[b], and Amarakoon, A.M.[C]**

[a,b,c] *Department of Export Agriculture, Uva Wellassa University, Badulla, Sri Lanka*
[a]*niroshinigdu95@gmail.com*, [b]*sdharmadasa@gmail.com*, [c]*chamali.am@gmail.com*

**Abstract**

As one of the leading tea growing and exporting countries, Sri Lanka needs to take new strategic decisions to strengthen the sector, to compete with the global tea market. Consequently, the concept of tea hub has been introduced by the industry experts and some parties as a strategy, in which liberalization of tea imports for blending, value addition and re-exports could be steered. Nevertheless, this concept of tea hub has been a controversial topic in the industry, with the argument to make the whole country a tea hub or to establish a tea hub in a separate free zone within the country. The exporters are the major proponents of this tea hub concept, and also the major party who will privilege from it. With this background, this study has focused on the factors affecting exporters' willingness to adopt the tea hub concept in Sri Lanka, and has attepmted to identify the most preferred hub model among exporters. The sample consists of 56 tea exporting firms in Sri Lanka, which were selected according to the stratified sampling method. The primary data were collected using a structured questionnaire. Nine factors were used to measure the general objective. According to the results of probit regression, market experience and current status of importation of tea were significant at 95% significance level, and bulk tea export volume, tariffs and non-tariffs barriers, and influence of competitors were significant at 90% significance level. The current status of importation of tea, tariffs and non-tariff barriers, and influence of competitors have a positive relationship with the exporters' willingness to adopt the tea hub concept, while others have a negative relationship. This study concluded that majority of the exporters are willing to adopt the tea hub concept and prefer to have an exclusive free zone (46.15%) as a tea hub in Sri Lanka.

***Keywords*:** Liberalization, Multi-origin Tea, Tea Exporter, Tea Hub, Tea Imports

# 1. Introduction

Tea industry plays a major role in the Sri Lankan economy as an important agribusiness in the present, generating the highest net foreign exchange among all other plantation crops produced in Sri Lanka. Sri Lanka is celebrated for its unique and high-quality teas as the 4 th biggest tea producing country and the world's 3rd leading exporter in the global tea arena. In year 2013, the tea sector had contributed 15% to the total Sri Lankan foreign exchange earnings. More than 90% of the tea produced in the country, is sent to the export market (Central Bank of Sri Lanka, 2013). Also, it is placed second in export commodities in the world (Hilal,2010). Ceylon tea industry has a well reputed history which is over 150 years. At present, high competition from other countries has affected our position, and this has been aggravated by the high production cost of tea and the poor yield in Sri Lanka. Meanwhile, global consumers changing preferences rapidly has further eroded our market share, as Sri Lanka mainly depends on orthodox teas than CTC teas. The global preferences are rapidly changing into value-added teas. Sri Lanka should adapt to these market changes, otherwise, it might be difficult to keep its traditional market position in the globe (Tea Board Annual Report 2016). Therefore, sustainability of the tea industry in its current form is at risk due to the low productivity, low-value addition and increasing costs. It is necessary to adopt possible strategies and policies to improve the sector, because of its great contribution to the national economy.

As a strategy to revive the sector, one option, being vigorously debated, is that of a tea hub, where teas from other origins are imported for blending, value addition and re-export (Verite Research, 2013). A hub is the effective Centre of an activity, region or network. Commercial hub is an effective the center, the region or the network of an activity involving or relating to the buying and selling of goods (Edirisinghe, 2014). Therefore, a tea hub can be identified as the centre or the region of the importation of teas of other origin for blending, value additio0, and re-exportation purposes. Some exporters and some parties have proposed to make the country a tea hub or a standalone free trade zone for tea to bring more foreign exchange to the country.

It is a concept that is over 100 years old in the world tea market. United Kingdom (London), Germany (Hamburg), and the Netherlands (Rotterdam) are some popular tea hubs in operation for over a century (Tea Exporter Association, 2015). Dubai Multi Commodities Centre in Jebel Ali Free Zone is one of the world's most important hubs for processing and finishing tea. The DMCC's Dubai Tea Trading Centre (DTTC) provides facilities combining warehousing, blending and packaging, tea tasting units and research and development laboratories. They have been providing their services to importers in the Middle East and the adjacent regions. It is an ideal location to re-export tea after blending & packaging. DTTC processes teas from 13 different tea producing countries including 6 African nations, Middle Eastern producers such as Iran, and Asian countries including India, Sri Lanka, Nepal, China, and Indonesia (DMCC, 2018). Also, DTTC provides no tariffs, favorable financial terms, and a secure regulated environment. Tea producing countries like Kenya, China, Indonesia, and India also have exclusive free zones for the importation of tea for blending and re-exporting purposes (Kelagama, 2010). Baissac (2011) has defined exclusive free zones as geographical areas contained within country's national boundaries, where the rules of business are different from those that prevail in the national territory. The zones are more liberal and effective, and the different rules include investment conditions, international trade and customs, taxation and regulatory environment.

However, this tea hub concept is utilized by other tea growing and re-exporting countries in a different manner. The significant factor of this is that importation of tea from other nation is fully liberalized.

## 1.1. Research Problem

There are several strategies and techniques that have been proposed to reconstruct the Sri Lankan tea industry from the current miserable situation. Among them, the tea hub concept is one of the controversial points in the tea industry. This concept is not new and has been debated in Sri Lanka for a decade. There are several arguments on this among stakeholders in the industry.

One of the arguments reagarding the tea hub concept is that the tea hub will allow blending Ceylon tea with the cheap multi-origin teas and it will affect the image of "Pure Ceylon Tea", its auction price and in turn the local tea producers. Sri Lanka has a reputation for pure Ceylon tea, which has lasted over many years. Liberalization of tea importation is needed to implement a tea hub concept in Sri Lanka. Therefore, some stakeholders warn that the liberalization of tea imports through the tea hub will invade the position of Ceylon tea and collapse whole industry. But Kelegama (2010) has pointed out that imported teas will not depress the prices of local teas, and mix blends will not dilute the image of pure Ceylon tea if statutory safeguards are in place. The proponents of this concept reveal that the implementation of the tea hub concept will encourage the value addition through blending. Hence, it will expand tea export volume, bring in higher revenue, create new employment opportunities and provide a bigger contribution to Sri Lankan economy. Tea Board Annual Report 2016 has mentioned that further promotion of value-added tea exports would positively contribute to Sri Lankan economy. So, this tea hub concept will provide more benefits through value addition.

Tea Exporters Association have proposed 4 models for the tea hub in Sri Lanka.

1. Expand the current import scheme
2. Allow selected tea exporters to import tea for re-exports
3. Establishment of an exclusive Free Zone
4. Establishment of a logistics and service centre similar to the Dubai Tea Trading Center

Therefore, proper identification of this concept will be a good foundation before acceptance or rejection. This study attempts to find out the factors affecting exporters' willingness to adopt the tea hub concept in Sri Lanka. Furthermore, this study attempts to identify the most preferred tea hub model among exporters, and the opinion of the tea hub concept among tea exporters.

## 2. Literature Review

Tea sector has been facing unprecedented challenges over the past years. It is vital to sustain the industry's competitive advantage over other beverage commodities, through the development of new business models, trading and investment. The industry ought to transform in the future and that need is denoted by many signs in the technology, markets, and management of the industry (Brouder et al.,2013). Matthyssens & Vandenbempt (2008) argue that companies must break the existing rules of the game, and reshape the boundaries of the industry in order to obtain competitiveness.

Blending is the most lucrative aspect of the tea trade, meaning a considerable proportion of the profits will be drawn abroad, but not in the tea producing countries (TCC, 2010). The process of mixing different teas together to produce a final product is called tea blending. Blending local tea with foreign teas give a consistent blend that minimizes fluctuations in quality and increases the range of tea blends that can be exported (Kelagama, 2010). Therefore, liberalization of tea imports will provide several benefits to the tea exporting firms. The liberalization of tea import facilitates exporters to blend cheaper imported teas with local teas, and it will reduce the Free on Board prices of the teas (Kelagama, 2010). A low FOB price caters to raise the competitiveness of the product, and will increase the possibility that goods will be successful in the market. Furthermore, it will enhance the ultimate export volume of the tea from the country.

Mukras (2004) argues the collapse of local enterprises as indigenous industries may impossible to compete in markets that are flooded with inexpensive imports is the common result of liberalization. Specially in Sri Lanka, being one of the major tea growing nations, liberalization of tea imports will affect the tea industry, as well as country's economy, both positively and negatively.

Many companies in other countries have put their commodity trading activities into a separate and centralized unit to manage the risk and problems involved in commodity trading. The trade blocks provide free trade areas or preferential trade systems. The tariff and non- tariff barriers will be decreased by the country's free movement.

## 2.1. Average Price for Pure Ceylon Teas

Value adding stages, secondary processing and packaging, use primarily processed tea as their inputs. Price of the primarily processed tea directly influences the performance of the value-added tea producing firms. This is conclusive with respect to firms who compete in terms of price, though the input prices are significant to all value-added tea producers (Ariyawardana,2001). This cost of production of primarily processed tea is affected by production structure. Kelagama (2010) has pointed out that if value addition is done using only domestic tea, it will decrease the profitability as inputs may be more expensive. The unit value of Sri Lankan tea export is higher due to this increased cost of production of Sri Lankan tea.

Exporters can cater to the price conscious consumer by supplying tea at a lower price through the blending of Ceylon tea with other origin tea (Kelagama, 2010). In the blending, different grades of tea coming from different origins are mixed to obtain a product that contains color, taste, aroma, and other acceptable perceptions of the consumer. According to Gogoi (2014), blending will provide the customer with a blend that would contain high-quality expensive tea, which customer may not normally buy, mixed with a low-priced tea.

## 2.2. Market Experience

Marketing experience will increase firm growth by assisting the growth of priorities of the firm as a strategic objective, and by contributing with their expertise to improve the effectiveness of revenue growth strategies (Kimberly *et al.*, 2018). The effectiveness of work and the experience will enhance the effectiveness of the decision making and of the innovation processes. The experience of the firm in the industry is represented by the firm's age, and it will influence the success of the firm (Takalashi, 2009). Mion and Opromolla (2014) have shown the importance of experience in the previous market or region-specific export to determine the export entry decisions of firms. Therefore, the market experience would be affected when adopting new strategies or concepts by the firms.

## 2.3. Value Added Tea Export Volume

Value-added tea production is very important as it is an industry-wide strategy, but its implementation depends on firm level. Therefore, they play a significant role in uplifting the performance of the industry (Ariyawardana, 2001). Sri Lanka is currently exporting different value-added teas to the global market, but the demand for value-added tea being exported from Sri Lanka is not significant in quantity to fulfill the requirement of the foreign markets (Hilal and Mubarak, 2013). The quantity of VAT is limited due to low productivity, and unavailability of different types of teas. Kelagama (2010), stated that the liberalization of imports would appear as an essential prerequisite to enhance the export of value-added goods, but ongoing protection within the industry impedes the ability of the country to strive in the global market for value-added exports.

## 2.4. Bulk Tea Export Volume

Sri Lanka exports approximately 60% of tea in the bulk form, and 40% in value-added form (Ganewatta and Edwards, 2000). At present Sri Lanka exports pure Ceylon orthodox tea and other tea grades, mainly in bulk form than the VAT to the global tea market. Gayani (2006) has expressed that bulk export of tea causes low prices, loss of income, and the discrepancy between export prices and retail prices. The Sri Lankan tea exporters export VAT or bulk tea or both. The adoption of tea hub concept will facilitate the greater provision of VAT to the global market. The producers of bulk tea have expressed several apprehensions despite the seemingly positive impact that liberalization would have on the economy (Kelagama, 2010).

## 2.5. Current Status of Importation of Tea

At present importers who imports tea from other growing countries must register in the Sri Lanka Tea Board. The exporters who registered their entity under (Tax and control of export) Act no.16 of 1959 are eligible to register as an importer of tea. According to the Sri Lanka Tea Board annual report (2016), 129 firms have been registered as importers. However, they are permitted only to import of CTC (cut, tear, and curl) teas required for the production of tea bags, and specialty teas for the value addition due to lack of domestic production (Kelagama, 2010). Feng and Swenson (2016) have conducted a research study on the connection between imported intermediate inputs and exports. They had used Chinese manufacturing firms' data to estimate the causal effect of increased imported intermediate input on firm export outcomes. They have found firms that expanded their intermediate input imports, expanded the volume and scope of their exports. Further, they showed the benefit of imported inputs differed in a number of aspects including industry R&D intensity, firm ownership, export destination and import source country. Then finally they concluded that imported inputs facilitate Chinese firms to increase the scale and breadth of their participation in export markets.

## 2.6. Demand for Multi Origin Tea

Sachithra (2016) identified that Sri Lanka has to expand the country's export sector. Expansion of a country's export sector not an easy duty. The demand of the product determines how much of that particular product should be supplied by the country. The demand condition meant by the nature of market demand for an industry's product (Porter, 1990b). Demand conditions are the forces based on buyer's requirement on quality, price and services in an industry. Therefore, those demand conditions arrange the direction of innovation and product development. The modification of a demand or a new demand is one of the sources that could gain advantages to the firm (Passemard and Kliner, 2000).

The demand for tea produced in Sri Lanka is a derived demand. Ceylon tea has a long and colorful history of over hundred years. Hence "Ceylon Tea" is still preferred and it is the island's most important product (Ganewatta and Edward, 2000). The consumers make all decisions on tea origin through brand names. The market for pure teas, such as pure Ceylon tea, is considered a niche market (Kelagama,2010). So, Ceylon tea (single origin tea) has a very strong base.

## 2.7. Ratio between Number of Countries that Export Multi-Origin Tea to Pure Ceylon Tea

Commodity trading involves building a relationship with clients, understanding their unique needs, gathering intelligence on flows, and understanding market demand and supply, in order to structure the deals to meet the clients' needs. When moving towards new services, manufacturers must understand the customers purchasing operation and how they may change (Vaitten *et al.* 2018). Therefore, it is necessary to identify the prevailing supply condition of the firms. That can be determined through the number of countries that pure Ceylon tea is exported to.

## 2.8. Influence of Competitors

Sri Lanka tea industry has been facing competition from countries which are re exporting to major country markets (Hilal and Mubarak, 2013). Nzeki (2004) has noted that among the 20 major exporters 6 were high income countries such as France, Belgium and Germany. They are increasing tea exports by more than 44 percent, reflecting exports of VAT by importation of tea in bulk for blending and retail packed for exports. The significant point is those countries do not have their own tea. United Kingdom is one of the major markets for Ceylon tea, and it plays its role as the commercial hub of the international tea market (Kasturiratne, 2008). China has a small share of black tea (around8%) at present, and if they could make much more black tea that could affect the market for black tea to some extent. Although tea trading center in Dubai, which was established recently, has been generating considerable concern among global tea suppliers by blending tea of different origins. They have access to the whole of Gulf market and other countries in west Asia (Asopa, 2007). EPZA (2005), has pointed that Kenya has been fully liberalized to carry out the marketing of tea independently for the trade members.

Coyne and Horn (2009) mentioned a new direction in its strategy that would probably provoke a constructive, rather than a destructive response from its biggest rival. When implementing a new strategy, the rival responded as predicted, and the result was a turnaround in the fortune of the entire industry. At present competitors are equally powerful. Therefore, new thinking, new orientation, and intelligent moves are essential for the success of the strategic move. Business expansions, acquisitions and organizational restructuring through the enduring efforts of the organizational leadership have caused a history of successful business strategy (Herath and De Silva, 2011).

### 2.9. Tariffs and Non-tariffs Barriers

Export tax and export quota are two main policies that can be used to gain economic efficiency in the export industry. Export quota improves the producer price, while the export tax increases the government revenue. High export tax for tea has caused deteriorating position of Sri Lankan tea in the global tea market (Edward and Ganewatta, 2000). Therefore, tariffs & non-tariffs barriers act as a significant factor for exporters' performance.

The reduction in input tariffs acts as a cost saving effect to direct more non-exporting firms to export, and existing exporters to increase their export intensity by using more and better import intermediate inputs in china (Yu and Tian, 2013). Kirui *et al* (2014) reveal Vietnam should gradually phase out its non-tariffs barriers and create a clear tariff reduction to enhance the international competitiveness of the tea sector; thereby processing mills can upgrade their operation efficiency to survive, and they can be viable in the long term andbe internationally competitive.

## 3. Methodology

This research was conducted with tea exporters in Sri Lanka. There were 282 tea exporters registerd in Sri Lanka Tea Board in 2017. Those exporters were divided into two scales according to their export volume by SLTB. The sample size was 56 tea exporters for this research study. It was 20% from the poulation. Therefore, 11 tea exporters from large scale, and 45 tea exporters from the small scale were selected through the stratified sampling method. Quantitative approaches was used to collect primary data for this study. A structured questionnaire was used to collect the data through direct interviews, telephone calls and emails.

The probit regression model was used to identify the factors affecting exporters' willingness to adopt the tea hub concept in Sri Lanka. The probit regression equaion is,

$$Y_i^* = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \ldots\ldots\ldots\ldots + \beta_k X_{ki} + U_i$$

Table 1: Description of variables in the probit regression model

| Variable | Variable Description |
|---|---|
| Willingness to adopt tea hub concept in Sri Lanka | Yes = 1 No = 0 |
| Average price for pure Ceylon teas | Average price per kg for pure Ceylon teas recorded in 2017 (Rs/kg) |
| Market experience | Years up to 2018 |
| Value added tea export volume | Total VAT export volume in 2017 (kg) |
| Bulk tea export volume | Total bulk tea export volume in 2017 (kg) |
| Current status of importation of tea | Yes = 1 No = 0<br><br>(Dummy variable) |
| Ratio between number of countries export multi-origin tea to pure Ceylon tea | Ratio Number |
| Demand for multi-origin tea | High (1,0) Medium (0,0) Low (0,1)<br><br>(Dummy variable) |
| Tariffs & non-tariffs barriers | Mean sum of rates |
| Influence of competitors | Mean Sum of Likert scale scores |

The data was analysed using "STATA 14" statistical softwae and Microsoft Excel. Both statistical and descriptive analyses were used to appproach the general and specific objectives.

# 4. Results and Discussion

## 4.1. Factors Affecting on Exporters' Willingness to Adopt Tea Hub Concept

Table 2: Results of probit regression analysis

| | |
|---|---|
| Number of observations = 56 | LR $chi^2(10) = 50.33$ |
| Prob > $chi^2 = 0.0000$<br>Pseudo $R^2 = 0.7321$ | |
| Log Likelihood = -9.2110779 | |

The likelihood ratio chi square of 50.33 with a p value 0.0001 shows the model as a whole is statistically significant, that is, it is significantly better than a model with no predictors.

| Variable | Marginal Effect | P Value |
|---|---|---|
| Market Experience | -0.0061631 | 0.039** |
| Current status of importation of tea | 0.3294776 | 0.033** |
| Average price for pure Ceylon teas | -0.0004603 | 0.205 |
| Bulk tea export volume | $-1.14*10^{-7}$ | 0.060* |
| Value added tea export volume | $1.39*10^{-7}$ | 0.131 |
| Ratio between the number of countries exporting multi origin tea to pure Ceylon tea | 0.0219289 | 0.841 |
| Tariffs & non-tariff barriers | 0.0696828 | 0.057* |
| Influence of competitors | 0.1653271 | 0.099* |
| Demand (H) | 0.0285197 | 0.778 |
| Demand (L) | -0.0006734 | 0.995 |

**statistically significant at 95% significance level (P<0.05)
*statistically significant at 90% significance level (P<0.1)

According to the results obtained through the analysis, market experience and current status of tea importation are significant with a 5% significance level. The bulk tea export volume, tariffs & non-tariff barriers, and influence of competitors are significant with a 10% significance level. The marginal effect of the market experience is -0.0061631, and it has a negative relationship with the willingness to adopt the tea hub concept. When one-unit changes in the experience, it decreases the probability of willingness to adopt the tea hub concept by 0.0061631. It reflects that low experienced companies have higher willingness to adopt this concept than well experienced companies. Therefore, recently established firms are likely to adopt new concepts and strategies to enhance their export volume through blending and value addition with other origin tea.

The current status of tea importation has a positive marginal effect. The firm being an importer, increases the probability of willingness by 0.3294776. That means firms who are currently engaging in tea importation have high propensity to adopt the tea hub concept. This concept will allow firms to import teas from other regions in a more liberalized environment. Therefore, firms who imports tea, look to expand their imports to enhance their export. The bulk tea export volume has a negative marginal effect ($-1.14*10^{-7}$) on the probability of willingness to adopt the tea hub concept. When the volume of bulk tea export in the firms decreases, willingness to adopt the tea hub concept increases. This revealed that firms, who are engaged in more bulk tea exports, will not adopt the concept, as pure Ceylon tea is being exported in bulk. The marginal effect of the tariffs and non-tariffs barriers is 0.0696828. The probability of willingness to adopt the tea hub concept increases by 0.0696828, when the tariffs and nontariff barriers change by one unit. It explains simply that exporters' willingness increases when the tariffs & non-tariffs barriers increase. Exporters' express less satisfaction on tariffs, such as import duty, export excess, tea board promotion levy; and non-tariff barriers will cause to enhance the willingness to adopt the tea hub concept.

The influence of competitors shows a positive relationship (0.1653271) with the exporters willingness to adopt this concept. The willingness will increase when the influence of competitors increases. It means popular tea hubs in the world, EPZ in tea growing countries, re-export countries, and other tea growing countries have influenced exporters' willingness to adopt the tea hub concept in Sri Lanka. The average price for pure Ceylon tea, value added tea export volume, ratio between number of countries that export multi origin tea to pure Ceylon tea, and demand for multi origin tea are not significant at any significance level. However, the value-added tea export volume has a positive relationship ($1.39*10^{-7}$) with the willingness to adopt the tea hub concept. The probability of willingness will increase by $1.39*10^{-7}$ when the volume of the value-added tea increases. This revealed that firms, who export more value-added tea, are willing to import tea from other countries and expand their value-added export volume by blending and value addition with other tea of different origins. The ratio between number of countries export multi origin tea and pure Ceylon tea shows a positive relationship (0.0219289) with the willingness to adopt the tea hub concept. That means when ratio goes up, exporters expect to adopt the concept. Although it explains dependent variable will increase when increasing the number of countries export, multi origin tea relative to the number of countries export pure Ceylon tea.

The relationship between demand for multi origin tea with willingness to adopt the tea hub concept is explained by dummy variables. The high demand has a positive relationship with the dependent variable. The willingness will be increased by 0.0285197 units, when demand is increased from moderate to high, while all the other variables are held constant. Low demand has a negative relationship with the dependent variable. The willingness will decrease by 0.0006734 units, when demand decreases from moderate to low, while all the other variables are held constant.

The marginal effect of the average price for pure Ceylon tea (-0.0051412) shows a negative relationship with the willingness. That means probability of willingness to adopt the tea hub concept decreases by 0.0051412 when average price changes by one unit. However, there should be positive relationship with the dependent variable because exporters are willing to adopt this concept to reduce their cost of production by blending Ceylon tea with other origin tea. Therefore, to adopt this, exporters should have a high cost for pure Ceylon tea. Yet, this result shows a negative coefficient. This may be due to the different tea purchasing pattern of the companies. Firms purchase Ceylon tea via auction according to their foreign buyer's requirement. It depends on the grade of tea, taste of tea, color of tea, and destination of the buyer. Therefore, types of tea purchased from the auction varies from firm to firm. Finally, we can determine that average price for pure Ceylon tea is not suitable to measure the cost of production of the firms.

## 4.2. Exporters' Preference of Tea Exporter Association Proposed Tea Hub Models for Sri Lanka

The exporters, who are willing to adopt the tea hub concept, were asked to rate the above 4 tea hub models, which were proposed by Tea Exporter Association (TEA), based on their satisfaction. According to the results obtained, establishment of an exclusive free zone was the first choice of 46.15% exporters of the sample. 43.59% exporters have expressed establishment of a logistics & service center similar to DTTC as the second choice, and 53.85% would like to allow selected tea exporters to import tea for re-export as the third option.

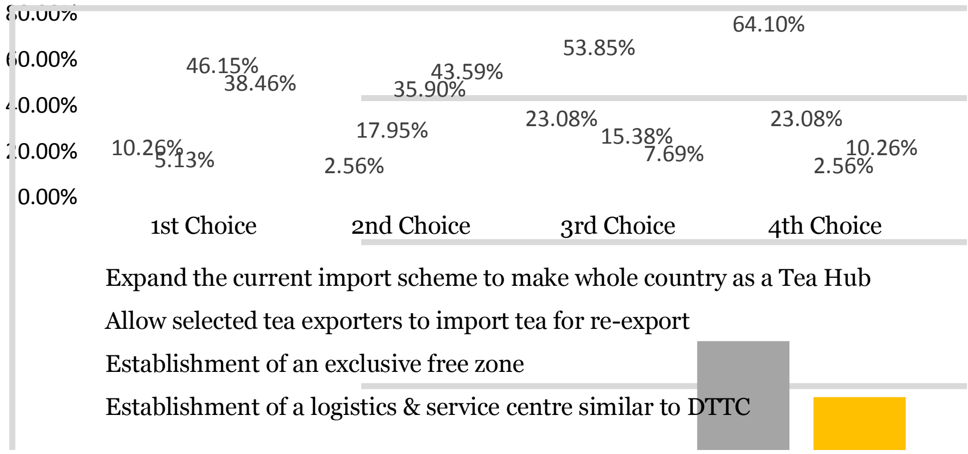


Figure 1: Exporters' preference of TEA proposed tea hub models for Sri Lanka

Expanding the current import scheme to make the whole country a tea hub was selected as the fourth choice by 64.10% exporters. According to the results, expanding the current import scheme to make the whole country a tea hub is the least preferred model of the exporters, who are willing to adopt the tea hub concept in Sri Lanka.

## 4.3. Most Preferred Tea Hub Model of Exporters

Below results have shown that among the exporters who are willing to adopt tea hub concept, 46.15% exporters have expressed establishment of an exclusive free zone as the best choice. Establishment of a logistics & service Centre similar to DTTC was the first choice of 38.46% exporters. 10.26% respondents like to allow selected tea exporters to import tea for re-exportation, and only 5.13% from the sample expressed expanding the current import scheme to make the whole country a tea hub as the first choice. Therefore, the most preferred tea hub model of tea exporters is establishment of an exclusive free zone.

The establishment of an exclusive free zone, and establishment of a logistics and service Centre similar to DTTC is 84.61% of exporters' willingness to have a tea hub in a separate zone in the country without impeding the ongoing process. Moreover, this result will reveal that the majority of the exporters are willing to liberalize the tea importation from other countries to make Sri Lanka a tea hub under well-regulated conditions.

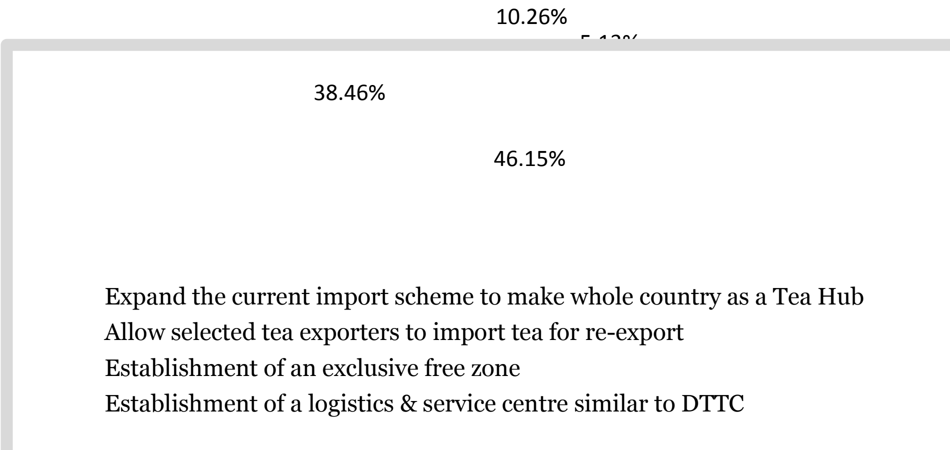


Figure 2: Most preferred tea hub model of exporters

## 4.4. Sentiments of Tea Hub Concept

*Adoption of Tea Hub Concept Will Cover the Shortfall in the Supply Side and Increase the Available Quantity for Export*

According to the results obtained 13 companies from the exporters who are willing to adopt this concept have strongly agreed with the statement. Majority of the firms from the above group, and 41.18% of exporters from firms who do not wish to have a tea hub, have expressed that the adoption of the tea hub concept will cover the shortfall in the supply side, and increase the available quantity for export. There are only 2 companies that have disagreed with the statement.

Table 3: view of the exporters on statement

| View of Exporters | Willingness to adopt tea hub concept | | | |
|---|---|---|---|---|
| | Yes | | No | |
| | Frequency | Percentage | Frequency | Percentage |
| Strongly Agree | 13 | 33.33% | 0 | 0% |
| Agree | 21 | 53.85% | 7 | 41.18% |
| Neither Agree nor | 4 | 10.26% | 9 | 52.94% 5.88% |
| Disagree | 1 | 2.56% | 1 | 0% |
| Disagree | 0 | 0% | 0 | 100% |
| Strongly Disagree | 39 | 100% | 17 | |
| Total | | | | |

Adoption of tea hub concept will facilitate exporters to import tea from other countries without any restriction. At present the production capacity of CTC, and green tea within the country are not adequate for the fulfilment of the export demand. Though the country is named as the largest orthodox tea producer, exporters have not been able to cater to all the buyers' requirement by using only Ceylon orthodox tea in terms of price, and other sensory properties. Moreover, the country does not produce teas such as specialty tea, herbal tea, handmade tea and virgin teas, due to the lack of enough human and physical resources, and other climatic and environmental factors. Therefore, majority of the exporters think adoption of the tea hub concept will cover the supply, and increase the available quantity for export

*The Reputation of Ceylon Tea May Be Diluted with the Export of Ceylon Tea Blended with Other Origin Tea in the Long Run*

Below results show the majority of the exporters in both samples have expressed that the reputation of Ceylon tea may be diluted with the exportation of Ceylon tea blended with other origin tea in the long run. The 3 exporters from the sample who are willing to adopt the tea hub concept strongly agreed, and 8 exporters disagreed with the statement.

Sri Lanka has earned a reputation as a producer of high-quality tea, and Ceylon tea is synonymous with quality and taste over the years. The unlimited tea imports to the country may reduce the reputation of Ceylon tea. The consumers who wish to buy pure Ceylon tea may waver on the product that they purchased. Thus, the monopolist market for Ceylon tea may be diminished with time.

Table 4: View of exporters on statement

| View of Exporters | Willingness to adopt tea hub concept | | | |
|---|---|---|---|---|
| | Yes | | No | |
| | Frequency | Percentage | Frequency | Percentage |
| Strongly Agree | 3 | 7.69% | 11 | 64.71% |
| Agree | 14 | 35.90% | 4 | 23.53% |
| Neither Agree nor Disagree | 14 | 35.90% | 2 | 11.76% |
| Disagree | 6 | 15.38% | 0 | 0% |
| Strongly Disagree | 2 | 5.13% | 0 | 0% |
| Total | 39 | 100% | 17 | 100% |

However, some exporters reveal that the reputation of Ceylon tea is already damaged by the poor production quality of teas and blending in foreign countries. The packaging of tea in Sri

Lanka on a large scale is needed to curtail the practice of blending Sri Lankan tea with inferior quality teas and cheap teas by the corrupt dealers overseas.

## 5. Conclusion

According to the results obtained there are 5 factors that significantly affected the exporters willingness to adopt the tea hub concept. They are market experience, current status of importation of tea, bulk tea export volume, tariffs & non-tariffs barriers and the influence of competitors.

The current status of importation of tea, value added tea export volume, ratio between number of countries export multi origin tea to pure Ceylon tea, tariffs and non-tariffs barriers, the influence of competitors and high demand in relation to the moderate demand for multi-origin tea have a positive relationship with the exporters' willingness to adopt the tea hub concept.

Average price of pure Ceylon tea, market experience, bulk tea export volume and low demand in relation to the moderate demand for multi-origin tea have a negative relationship with the exporters' willingness.

There may be both negative and positive impacts on the tea industry and Sri Lankan economy by adopting this tea hub concept. Especially, Sri Lankan tea exporters can increase their export volume through value addition, and thereby the country can gain more foreign earnings, expand the service sectors, and create more employment opportunities. Conversely, the prevailing demand and reputation for Ceylon tea in the global market may be diluted, and much more uncertainties can e occur, if it is adopted without any proper conditions.

The study has found that the majority of the exporters (69.64%) are willing to adopt the tea hub concept. Among them 46.15% of exporters are willing to have an exclusive free zone as a tea hub, and 38.46% are willing to have a logistic & service center similar to Dubai Tea Trading Centre. Therefore, finally it can be concluded that the majority of the exporters want to import other origin tea under proper safeguards for blending and value addition through the tea hub concept.

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