

# Benefits of international trade and economic integration in sri lanka



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## **Introduction**

Each country has its own natural resources, natural endowments and its benefits. Also countries are having limited resources and unlimited needs and wants. Different Country has different resources at different limit to fulfill their needs and wants. Therefore counties do try to overcome from these problems and do businesses with other countries through international trade and economic integration.

Tea industry in Sri Lanka is one of the main business in which the country gets foreign currency and is also the main drink of ordinary Sri Lankans. The demand for tea products are increasing in the world market.

So the article is about the Sri Lankan tea products, and the current economy of the country. Since the country is having mixed economy and also the economic system is playing vital role in the growth of the country. Also government intervention in the business is also included in the article. Government also has policies to achieve its objectives.

Moreover this will include the market structure and market force as well as international trade and economic integration.

## **Tea Products**

Our country Sri Lanka is one of the developing countries in Asia. The main businesses of our country include tourism, tea export, apparel, textile, rice production and other agricultural products. The main industries from which our country gains foreign currency are Tea business and Tourism industry. Recently, our country has become one of the countries exporting fair trade

tea to the UK and other countries. Tea is one of the main drinks of ordinary people. And the demands for tea products are increasing day by day. There are many different tea products in market.

## **Current Economy of Sri Lanka**

Our country has most strong growth rate of economy in recent years.

Inflation has been high but declining, averaging 9.2 percent between 2007 and 2009. The government influences prices through regulations, state-owned enterprises, and subsidies for a wide array of goods.

The inflation rate of consumer prices has been reduced in 2010. And the country is having high growth after the end of civil war.

### INFLATION RATE

Figure 1 : Inflation rate (consumer prices) [http://www.indexmundi.com/sri\\_lanka/inflation\\_rate\\_%28consumer\\_prices%29.html](http://www.indexmundi.com/sri_lanka/inflation_rate_%28consumer_prices%29.html)

Our government is trying to reduce the unemployment and increase the foreign investment for the economic growth of the country. Our Sri Lanka's tea plantation provides lots of job opportunity to Sri Lankan's. Tea plantations consist of approximately 220,000 workers and dependent population. So it shows the tea industry consist the huge number of job opportunity and have reduced the unemployment for some extent.

According to the GDP real growth rate it shows that 2002 the GDP of the country was declined and after that the economy has grown.

<http://www.indexmundi.com/g/g.aspx?c=ce&v=66>

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## **Economic system and government intervention**

We are having mixed economic system where the government allows and helps private businesses to grow in the market and also to open new businesses. Mixed economy is one of the main reasons for the proper use of resource available in the country and the government rules and regulation plays vital role. Since Economic policy has been a key topic of debate among the people who are interested in growth and development, the country have economic policies which consists distinct sections such as development strategy and, macroeconomic policy, agriculture, industry and technology development, employment and labour, institutional and governance issues, and social welfare and many others policies are for the benefit of the country or for the development of the country. And these policies help the country to have clear idea of the country position and are plans to achieve the aims of the country.

Last year government has promised to provide loans for the Agricultural development of country. It also includes improvement and profitability to marginal tea land. And expect new land will come under Tea aided by these loan facilities. The main aim is to encourage small business entrepreneurship. As result households and individuals will be benefited and also it will increase the living standard and employment can be increased.

The main aim of our government is to raising the standards of living and take in a higher quality of life by increasing income, employment level, and through the increase of total production of country, thereby actively contributing to the overall economic growth of our country.

<http://lankagazette.com/topstories/us-25mn-loan-for-tea-small-holders-to-develop-3500-hectares-of-new-land/>

The policies decide about the budget of the country and how they are going to achieve the objective. The governmental organization and institution helped to promote of tea industry in our country Sri Lanka in order to evaluate their role and contribution to the economic development of the country. During down fall of the industry, various government institutions were established to help and developed the industry,

Also our government has considered the problem of a lack of skilled workers in the tea industry, and plans are underway to start a program to train the workers in necessary job categories. According to the discussion held with the minister of professional and technical training, who said that under the program, skilled workers would be trained in the categories such as field officers, production officers, technical officers, electricians and tea plantation workers. It shows that government helps the businesses to overcome from market failure through stability of the economy and through promotion of positive externalities, provision of public goods and services (financed through taxation) and through efficient resource allocation.

[http://goliath.ecnext.com/coms2/gi\\_0199-7072587/Sri-Lanka-government-to-train.html](http://goliath.ecnext.com/coms2/gi_0199-7072587/Sri-Lanka-government-to-train.html)

our government has range of policies at its disposal in order to achieve its objectives of low inflation, high economic growth, high employment level and so many other goals. Therefore there are policies such as fiscal policy,

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monetary policy, exchange rate policy, income policy and supply side policy which can affect the businesses in many ways.

## **Fiscal policy**

Fiscal policy is the policy of central government to influence the economy of the country. Therefore fiscal policy will help our government to achieve its macro objectives. And there are two types of fiscal policy Expansionary and Contractionary fiscal policy. Our country government is trying to have full employment and also the spending of the government is high so that our standard of living will be high at the same time economy will grow. So we can say that our government is towards Expansionary since taxation had been reduced and the spending of government is high in recent years.

(Appendix 1)

## **Monitory policy**

Through monitory policy the government controls the supply of money, the availability of money, and rate of interest in order to attain a set of objectives oriented towards the growth and sustainability of the economy. One of the core objectives of our country is economic and price stability. For 2011 country have decided to reduce the tax and tax reduction are aimed at boosting economic growth as it increase consumption which will help increase revenue. Our country Sri Lanka is one of the largest tea exporters through which the country gains income. The income through this export will help the government allocate the budget in the monitory and fiscal policy.

We can say there is no wide fluctuation in the general price level in the economy which is helping to achieve sustainable economic growth and also

the price fluctuation at low rate would not have any major influence on our <https://assignbuster.com/benefits-of-international-trade-and-economic-integration-in-sri-lanka/>

economic decision regarding what to produce and how to produce, therefore enabling efficient allocation of resources in the economic leading to economic stability. (Appendix 2)

## **Market Structure**

The tea industry in the Sri Lanka market is having a monopolistic market since there are lots of tea businesses involved in selling and buying. Sri Lanka is having large number of relatively competing firms in tea industry. There are fewer barriers to entry, so that it is fairly easy for firms to set up and to leave these markets. Each firm is having different products and it is highly differentiated from others.

In tea industry in Sri Lanka is not a monopoly market, as there are many firms and not only one business has total control over a market and is not only one seller in the market. Also we can't say it is perfect competition since there are lots of competitors in the Sri Lankan market.

Our Government and tea board provides full support and help many people to start their business in tea industry since it is one of the main export of country in which country gains foreign currency and also the demand for tea product is inelastic and demand is increasing.

Considering the world market, Sri Lanka has an oligopolistic competition due to the tea producers being of less number. The entry barriers for tea are high in the world market due to the lack of natural endowment in different countries. Tight competition exists among the tea producers in the world and this makes Sri Lanka have an oligopoly in tea globally. And the products are highly differentiated one product to another.

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## **Market force**

The demand for our tea in the world market has increased. According to the Minister of Plantation Industries says that there is a special demand for local tea in Russia. Our country exported the largest quantity of tea in 2010 and highest quantity had been exported to Russia. Also now there are high demands for tea in the world market. So the country should get ready to produce sufficient tea to meet this demand. The main aim of our country is to become the world's leading supplier of tea. [http://www. itnnews. lk/? p= 22477](http://www.itnnews.lk/?p=22477)

## **Products**

Bulk Tea

Packeted Tea

Tea Bags

Green Tea

Instant Tea

Other Tea

-Silver Tips Tea

- Golden Tips Tea

Sri Lankan tea is praised as the best tea in the world.



Considering the world market we are practicing investment strategies since the tea industry in Sri Lanka is having high market attractiveness and high business strength compare to international competitors in the world market. Therefore the country was practicing differentiation strategies. Also the tea products of Sri Lanka are having high differentiation. More over most of the tea products in our country are in the star stage of BCG matrix. Therefore the industry is towards product development as it will increase core competitiveness and high competitive advantages of the business in the international market and also increase the foreign currency inflow as well.

## **International trade**

International trade is very important for our country as it helps in many ways for country to overcome from different problems. Our country is not self-sufficient and international trade helps our country to import the resources or goods needed. Also helps to export the products to other country which is bringing foreign currency to the country. International trade has contributed immensely development of our nation. International trade has been a platform for globalization also it reduces inequalities and facilitated growth in economy of our country. International trade is helping the country to introduce global competitiveness as most of the domestic business units have a tendency to become very efficient being exposed international competition. Also the businesses can easily access to technological innovation and will be able to utilize the latest technology to boost their productivity. There is high price for Sri Lankan tea products from countries such as Turkey, Iran, Russia, UAE and Kuwait, therefore we can sell our products to the foreign countries through international trade and can increase

country income. Also we can import the products which our country is in need through international trade.

## **Benefits of economic integrations**

Economic integration helps to reduce or deduct customs duty within the integrated area, so it helps to reduce the prices for both distributor and the customers. Through this our country can increase profit by increasing demand as we can acquire goods and services at much low cost due to removal of trade barriers and tariffs completely. It also helps to have freedom and helps to have market expansion and more foreign investment into the country and great diffusion of technology. It also will increase the employment opportunities in the country as well.

Our country integration with World Trading Organization helps to reduce customs duty or trade barriers and tariffs with in the integrated area. There are 153 countries in the World Trading Organization (WTO) and have general agreement on tariffs and trade. Our country Sri Lanka is one the country in WTO. And the rules of this integration covers trade in all goods and helps international trade flow as smoothly and freely as possible and reduce risk in doing oversea businesses.

So our country can export products with low price since our country is part of WTO and through integration the trade barriers around the world are lower than they have been before. So the cost of product can be reduced and we can sell our products much more less price. And also imported products we can get at low price.

## **Conclusion**

As I am planning to start up a business in selling tea products to the ordinary Sri Lankans the facts spoken above could be taken into consideration.

As our county tea products are high quality and tastiest tea products due to the natural endowments or the climate and whether of the country allows the tea firms to harvest the best quality tea products. Also the demands for tea products are rapidly increasing, and due to increase in demand a high supply could be generated through starting a tea business.

Moreover countries economy is rapidly growing and lot of development projects are been done. Government also trying to reduce tax and the spending of government on infrastructure is increasing which shows the macroeconomic aims are to have economic growth, full employment, and also high living standard with the control of the balance of payment situation. In 2010 the government pledged loan facilities for agricultural development and is designed to the benefit of Tea small holders, small producers, women, landless householders and young people in rural area. These facts and natural endowments and government support therefore it initiated me to start a tea business in Sri Lanka.

## **Our business vision**

To be the leader in tea industry in Sri Lanka, and also spreading our presence in all key economic geographies in Sri Lanka

To be the best quality tea product producer to the nation and the most efficient and affordable price provider in tea product.

## **Our mission**

We will lead the way through quality of our products and enthusiasm of our employees and customers. We will serve all our communities to the best of our ability, try always to listen to their needs and so build total customer confidence and satisfaction.

## **Key objectives**

Get profit \$ 20000 within 1 year through introducing a new product and increasing sales and also through cost cuts and providing with affordable price to customers

Increase customer perspective 10% or brand name 10% through increasing brand awareness, through promotions and value added services within 2 years.

## **Stakeholders of the business**

Customers – Customers are one of the key stakeholders of the business as they are vital to the survival of the business. We will try to provide excellent services to its customers while selling the product and has excellent relationship through respects, friendly services and so on.

Investors – We will try to give maximum benefits to investors and also have good relationship with them. Through website or through other communication method we will provide information about the business performance.

Employees – Employees are the other key stake holders of the business. We will provide training programs to employees to familiarize them company's

policy and working practice. Also will provide many packages and development opportunity to its employees.

Government - Government can influence and affect business in number of ways. We have to follow the rule and regulation that is made by the government.

## **Competitive strategy**

For the growth of our business we can practice Diversification strategy since it is going for new market with new product. Even though this involves high risk, because the market is new in which the business has no experience and also it will take a business outside its area of expertise. Also we can practice cost leadership as here our business can tries to reduce the price or attempt to produce goods or service at lower cost than the competitors in the market. This is to charge lower prices than the rivals and to compete in price wars that may take place. This strategy high light passing on the cost advantages to the customer through cutting down cost in every junction of the value chain or emphasizing on economies of scale in order to give customer cost benefits.

## **Implementation**