

Improving Export Competitiveness of Sri Lanka through Value Added Exports: A Case Study on Sri Lankan Cinnamon Industry

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INTRODUCTION

Sri Lanka is known for "Ceylon cinnamon," which is branded as "True cinnamon" since it outperforms other cinnamon varieties available across the world, widely classified as "Cassia" (Sri Lanka Export Development Board, 2017). The two varieties mainly differ based on the composite of coumarin, which can be injurious to human health if consumed in large quantities. The coumarin composition in Ceylon cinnamon is negligible while Cassia contains significant amounts of coumarin (Sri Lanka Export Development Board, 2017). Sri Lanka has been ranked as the no.1 cinnamon exporter in the world. (Sri Lanka Export Development Board, 2019). Having one of the rarest ingredients in the culinary realm it is astonishing to comprehend that the annual cinnamon exports of Sri Lanka stand around 213.25 Mn. USD, which comprises 1.79% of the total merchandised exports (Sri Lanka Export Development Board, 2019). Considering the market demand for cinnamon-based products in over 40 countries in the international markets, the potential of this industry is very high. Although Ceylon cinnamon is being distributed in a wide span of the market, for years it has been exported in its organic form without doing any value additions, thus the forgone opportunity of expanding revenues is owned by very own export destinations of Sri Lanka. This brings to questioning grounds as to if Sri Lanka has utilized the opportunities created by natural resources to expand export income effectively.

Accordingly, this study aims to explore the white spaces in the export market of Sri Lanka to improve the competitiveness of cinnamon through value-added exports. The objectives of the study are (i) to identify the current context of value addition in the cinnamon industry, (ii) to explore the demand for cinnamon-infused consumer products and opportunities to be a part of the global value chain, and (iii) to identify the gap between the opportunities in the international market and problems faced by Sri Lankan cinnamon exporters.

METHODOLOGY

This research was conducted following a qualitative approach. The case study method was used to analyze the data gathered. Although research has been previously conducted (Malkanthi & Krishani, 2019) to understand what factors hinder the diversification of export baskets the most, there are only a limited number of studies conducted to understand what and how the exports should change to serve the global market gaps.

Representing the cinnamon exporters, the top three cinnamon exporters of Sri Lanka were selected based on the data provided by the Export Development Board (EDB). Value Added cinnamon products are commonly found in the food and beverage category. Therefore, one multinational company which operates in the fast-moving consumer goods (FMCG) industry was included in the sample. Finally, the EDB was selected to the sample to evaluate policy decisions taken so far and discuss the way forward. To justify and support the evidence and contradictions found in the data and to bring in new arguments, additional data were gathered referring to articles issued by the Export Development Board and other publications (Sri Lanka Export Development Board, 2017 and 2019). Interviews were conducted with the exporters, representatives from the multinational companies and the Export Development Board to collect data.

The analysis was conducted adopting the thematic analysis method. In this method, codes are generated initially from the data collected and the codes are clustered together to build meaningful themes under which the data will be explained and debated. Findings were then compiled into a report.

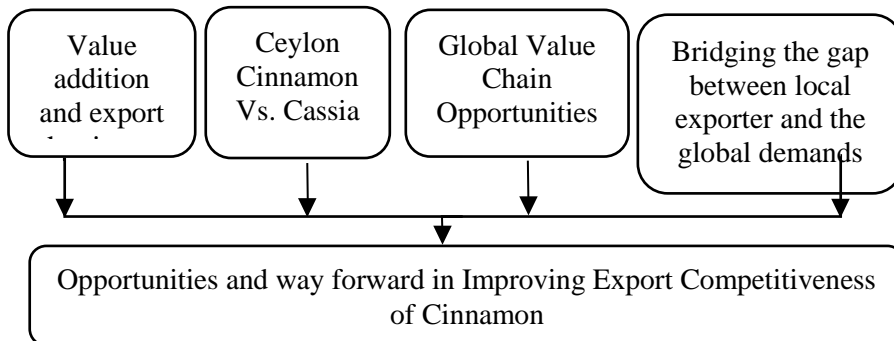


Figure 1: Conceptual Framework

In line with the thematic analysis method, the concepts are the themes identified by clustering the codes derived. Since the research was conducted in a qualitative approach, the operationalization has taken place through a

discussion and evaluation of the ideas shared by the sample participants rather than a numerical measurement of the concepts.

FINDINGS

For the ease of reference and respecting the ethics of collecting data, the exporters were referred to as X1, X2 and X3. The FMCG was referred by the code F1 and the EDB will be referred to as it is. The exporters represented the top three cinnamon exporters in the country and the FMCG represents one of the largest MNCs operating in the FMCG industry in Sri Lanka.

X1 has been in the business for a span of more than 30 years and exports to over 50 countries, X2 has experience of around 20 years while X3 has been in the business for around 10 years.

X1 was settled in the comfort zone of exporting cinnamon in bulk, and they considered value addition as a separate business focus. Contrastingly X2 was highly focused on continuous research and development and interaction with experts to understand the white spaces for Ceylon cinnamon. X3 was also prone to innovative value-added cinnamon products and has outputs in the form of cinnamon beverages now extended to 15-20 flavours.

After developing themes and reviewing, the researcher arrived at four main themes; Value addition and export business, Ceylon cinnamon Vs. Cassia, global value chain opportunities, bridging the gap between the local exporter and the global demands.

Value addition and export business

X1 being a manufacturing-focused business, finding value additions such as producing an end consumer product is an entirely different concept that is much deviated from their primary focus area.

In the opinion of X2, they believe that the lack of access to cinnamon exporters to get in touch with individuals with such expertise is a reason why they are incapable of developing innovative and commercially feasible products for the international market.

X3 exporter disclosed that he has been in the voyage of continuously bringing up value additions apart from bulk exporting.

Ceylon cinnamon Vs. Cassia

In the global market, the buyers hardly differentiate Ceylon cinnamon and Cassia as exclaimed by X1, X2, and X3. They tend to generalize and understand both kinds as cinnamon, where the local exporters face difficulties competing in the market.

The knowledge on the difference between Ceylon cinnamon and Cassia is very low in the market. Few takeaways from the journey of tea export while building their own brand have been cited in an article. They state that “educating the masses” is important when our product is unique and has a rival who is competing at a very low price (National Development Bank, n.d.).

Global Value Chain Opportunities

Although we perceive the idea of value addition mostly in producing a consumer good, it can also be equally important to focus on developing intermediate products that are in the global value chain. This is as raw cinnamon bulk, and they need to go through flavour extractions to be used in beverage making. Bridging the gap between the local exporter and the global demands. According to F1, the global procedure of F1 is to purchase cinnamon and other flavours they require for their products from flavour houses situated in different parts of the world. Sri Lanka as a nation famous for flavouring aids in the culinary realm has the potential traits to establish flavouring houses.

Bridging the gap between the local exporters and the global demands

EDB as the main authority responsible for uplifting and enhancing export competitiveness acts as a key play of the exporters’ journey as well. X1 claimed that EDB has been very supportive. X2 has not sought EDB’s assistance and they have been too focused on research and development on their own. X3 expressed that they received the support of EDB when they developed their business up to an exporter level.

X1 would state they haven’t received any financial assistance so far, but the exemptions given on travel restrictions during pandemic conditions had been a great assistance to conduct their business activities smoothly. X2 stated that they received a benefit from a program of a tax write-off in 2015 for research expenses made during the year. This program was highly regarded by X2 especially as they have been making research and development a priority, but the program is currently not functioning.

Further, it is noticeable that except for the tax write off none of the incentive schemes disclosed by X1, X2 and X3 have been targeted at promoting value addition in the industry. The inconsistency of policies and the poor implementation also makes the incentives ineffective.

CONCLUSIONS

When exploring the current context of value addition in the industry, it was evident that only 30% of the total cinnamon exports consist of value addition in the attributes of cinnamon powder, oils and beverages. Although most of the exporters are in search of ways, they can diversify their export basket and understand the market gaps that cassia cannot cater to. It was realized that considering the health impacts that distinguishes Cassia from Ceylon cinnamon if a value-added product is to be launched, the competitive edge is a composition of at least 80% cinnamon in the product where Cassia cannot compete. As a result, 2 progressive additions in terms of value added to the cinnamon exports have been launched: pharmaceutical supplements and nutraceutical supplements.

MNCs situated locally have products that can be developed into cinnamon-based products they can source the local manufacturing and export them through the MNC as well. Establishing flavour houses and various cinnamon extracting institutions that are required for food manufacturing can give the opportunity to Ceylon cinnamon to directly cater to the global value chain.

Cassia being a tenth of the price of Ceylon cinnamon, has become the buyer's choice for cost benefits. Even though Ceylon cinnamon is rich in quality and health perspectives the products that have an insignificant composition of cinnamon have given the opportunity for Cassia to be capitalizing on many value addition opportunities. Absence of laws enforced on maintaining quality standards, the local exporter is affected. The high labour cost and the high costs on inventory make it difficult for start-ups to persist. Furthermore, the clearing and shipping process is heavily disturbed by corrupted government officers and bribery that disturbs the smooth functioning of operations of the local exporters.

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