View metadata, citation and similar papers at core.ac.uk
brought to you by CORE
provided by University of Bath Research Portal

Citation for published version:
Bloomfield, M 2020, 'South-South trade and sustainability: The case of Ceylon tea', *Ecological Economics*, vol. 167, 106393, pp. 1-8. https://doi.org/10.1016/j.ecolecon.2019.106393

DOI:
10.1016/j.ecolecon.2019.106393

Publication date:
2020

Document Version
Peer reviewed version

Link to publication

Publisher Rights
CC BY-NC-ND

University of Bath

General rights
Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

Take down policy
If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

Download date: 22. Sep. 2020

South-South Trade and Sustainable Development: the Case of Ceylon Tea

Michael J Bloomfield[1], *University of Bath*
m.j.bloomfield@bath.ac.uk

Abstract

While there is a substantial body of research focused on the links between North-South trade and sustainable development, research on South-South trade and sustainable development is still in its infancy. Given current understandings of the drivers of sustainable development, one might expect increasing trade in agricultural commodities within the global South to have a negative impact on sustainable development opportunities. In this sense, the Ceylon tea industry presents a puzzle. Despite exporting most of its tea to Southern markets, it has been among the top performers in terms of economic, social, and environmental practices. As such, the case raises a number of questions around shifting trade patterns and their implications for sustainability outcomes. I address these questions through four propositions – three mechanisms and one condition – through which South-South trade can expand the opportunities for sustainable development. While the exact nature of sustainable development outcomes will ultimately be decided through domestic political struggles, shifts toward more equal trade can make sustainable production more likely. Overall, the analysis draws attention to nuanced ways in which end markets shape their respective value chains and how these dynamics impact the potential for actors operating at the bottom of supply chains to shape sustainability outcomes.

[1] I would like to thank the editors of this special issue and the anonymous reviewers for their generous comments throughout the process. I would also like to acknowledge funding provided by the John Fell Fund, University of Oxford.

Introduction

International organisations, including the WTO (2010a, 2010b), UNCTAD (2015), and the UNDP (2013, 2019), have noted two significant trends in global trade: first, the increasing incorporation of developing country firms into global value chains (GVCs); and, second, the rise in trade between developing countries, often referred to as South-South trade. While both of these emerging trends have been greeted with considerable fanfare, the jury is still out as to how they might impact the economic, social, and environmental performance of Southern firms.

In this article, I consider the impact of both North-South and South-South trade on efforts to achieve sustainable outcomes in producer countries. I begin by reviewing the literature on South-South trade and sustainable development. While new studies are fast emerging, there remains significant scope to nuance our understanding of the mechanisms impacting both positive and negative sustainability outcomes associated with changing patterns of international trade. I then explore these debates in the context of the Ceylon tea industry. Through close study of the largest exporter by value of this globally traded commodity, I unsettle some assumptions underpinning existing understandings of South-South trade and sustainability. Contrary to the expectations of many trade economists, and running counter to – though not incompatible with – much of the emerging empirical literature on South-South trade in primary commodities, the case illustrates the ways in which South-South trade, at least in certain industries, can provide opportunities for domestic agents to drive sustainable development in producer countries. The implication is that a key avenue to sustainable development for some primary commodity producers runs not through linking into lead firms' GVCs, but rerouting through Southern markets to establish control over the identity of their products and processes, thus protecting them from the downward price pressures associated with unequal trade. In the discussion that follows, I produce a roadmap for future research, generating a number of propositions about the mechanisms linking South-South trade to sustainable development and the conditions under which this might take place.

South-South trade and sustainable development

There is a long and rich history of South-South cooperation as a concept, both in policy and scholarship. Interest has ballooned in recent years with the rise of the 'emerging powers', most notably the so-called 'BRICS'. This renewed attention has focused on the emancipatory potential of new relationships between Southern states in light of these development success stories and, often, involving their resources. Early assessments focused on how these new investors lead to more money being available and an improved negotiating position for recipient countries, as well as the championing of norms of non-interference, mutual respect, and solidarity. With time, assessments have become more attentive to how the asymmetric power relations and subsequent reproduction of inequalities between the BRICS and the recipients of their investment and how agency exercised within recipient states has also shaped outcomes (Brown 2012; Mohan and Lampert 2013; Scoones et al. 2013; Grimm 2014).[2]

South-South trade, as a particular subset of South-South cooperation, has likewise been lauded in policy circles for its potential to improve development outcomes. But, until recently, there has been a notable lack of detail as to the exact mechanisms through which these opportunities might be realised (e.g. UNDP 2004). As such, there is not a clear understanding of how South-South trade might impact existing efforts to promote sustainable development in producer countries, though many have expressed their concern (Kaplinsky and Farooki 2010; Nadvi 2014).

Recently, there have been a few notable exceptions. Hochstetler (2013), for example, outlines the parameters of the debate among trade theorists (see also Pulver 2007; Nadvi 2014; Schleifer and Sun 2018). In this excellent article, Hochstetler suggests that a majority of environmental economists fear that the rise in South-South trade has the potential to undermine gains made in promoting sustainable trade. These fears rest on a number of assumptions about South-South trade, assumptions that find their roots in neoclassical economics and conventional trade theory (Muradia and Martinez-Alier 2001). These can be divided into factors impacting standards in the producing/exporting country and those in the importing country.

[2] Though also see Muhr 2016.

In the exporting country, assumptions rest largely on a lack of incentives for Southern producers to implement high social and ecological standards when civil society pressure and, especially, state regulation is lacking. Developing countries have, arguably, a shorter history with environmental activism and so firms, consumers, and states are less likely to accept the higher prices associated with higher standards. For firms, higher standards would add to their cost of production (COP). Higher COP leads producers to charge higher prices, weakening their competitiveness at home and abroad. Developing country consumers are less likely to have been influenced by the environmental movement and, perhaps more importantly, will be less able to pay a premium for a more sustainable product. So 'ethical' consumer markets will be significantly smaller, which is precisely the reason that most 'private governance' initiatives tend not to target Southern markets (Bloomfield 2017b). Similarly, with less countervailing pressure from civil society, state policy makers are more likely to keep regulations, and the associated COP, low in order to maintain their home industries' comparative advantage in global markets.

In the importing country, expectations rest on similar assumptions. There is less civil society pressure in these importing countries and so there is less likely to be consumer demand for these products, especially if this involves a price premium. The average household income is lower, so consumers should be more sensitive to price. And, with less of a history of environmental activism, Southern states are less likely to have high social and environmental regulation, so home-grown industries are less likely to apply pressure to the state to ensure imports are also subject to their domestic standards.

The set of assumptions associated with the producing/exporting country broadly aligns with those underpinning the 'pollution haven' hypothesis, the 'race to the bottom' hypothesis, and similar theories of comparative advantage (e.g. Leonard 1988). The set of assumptions associated with the importing country broadly align with theories of 'trading up' or the 'California effect' (Vogel 1995), whereby trade with developed countries can drive up standards. Clearly, with the rise of South-South trade, the concern is that there may be a so-called 'Shanghai effect' (Adolf et al. 2017), whereby trade between developing countries drives standards down. These assumptions seem sensible in theory, and have been recently reinforced through empirical study across a number of

agricultural commodities (Dauvergne and Neville 2009; Kaplinsky et al. 2011; Adopf et al. 2017; Dauvergne 2017; Schleifer 2016, 2017).

But, there could also be potential for South-South trade to lead to improved sustainability outcomes. South-South trade not only reflects development success, but also offers development opportunity in the form of new (and increasingly middle-class) consumers. Even conventional economists would agree that an increased willingness and ability to pay for higher social and environmental regulations could accompany this economic success.

However, the main assumption underpinning the positive potential of South-South trade stems more from political economic analysis than neoclassical economics. And there are some prominent ecological economists subscribing to this perspective (e.g. Muradian and Martínez-Alier 2001; Gilgum and Eisenmerger 2004; Mol 2011; see also Hochstetler 2013). The basic premise is that South-South trade will be less unequal and producers will, therefore, be under less pressure to engage in unsustainable practices (Shirotori & Molina 2009; UNDP 2013; Fridell 2014).

This broadly aligns with the work of more critical scholars of global environmental politics. For these scholars, South-North trade is highly unequal and this inequality has been implicated in unsustainable production. As lead firms in Northern markets attempt to maximize their profits and compete based on price, they scour the world for cheap inputs, creating incentives for producers to cut costs associated with social and environmental standards in order to win the right to supply these lead firms (Dauvergne and Lister 2013). States in which production takes place face similar incentives. In order to attract foreign direct investment (FDI) and give their domestic producers the best chance at competing in global markets, policymakers face pressure to keep the regulatory burden low (Bloomfield 2017a).

What is notable here is that most of the literature has been rather structural in its approach. When agency has been explored in these trading relationships, it has tended to focus on the large, lead firms channeling value creation and capture. Less work has been devoted to exploring the role of agency at the bottom of the supply chain. Southern actors have tended to be treated as 'rule takers' and not potential agents of sustainability

in their own right (Pulver 2007; Schouten and Bitzer 2015). Schleifer and Sun's (2017) recent piece is a notable exception. Exploring the uptake of sustainability certifications for palm oil in China and India, this study confirms that the implications for the rise in South-South trade on sustainability is nuanced, that developing countries cannot all be treated as the same and, importantly, that domestic actors in the global South can impact the outcomes (Schleifer and Sun 2017).

These are important findings. But, when one considers the heterogeneity in the global South, there remains a need to also study local agency beyond the 'rising powers' of China, India, and Brazil (Horner 2016). This is essential if we are to avoid reproducing the lopsided attention that has been given to the most powerful actors in studies on North-South trade by concentrating solely on the most economically dominant state actors in the South (Murphy 2008; Horner 2016). Trade dynamics and their implications for sustainable development will surely be different from the perspectives of actors operating within less powerful states, and such a shift in focus could very well challenge emerging perceptions of South-South trade and sustainability.

Thinking in terms of GVCs provides the tools to understand how the dynamics of inequality play out in global trade by placing firms at the center of the analysis and moving away from more state-centric approaches to South-South cooperation and international trade. While we can expect the sustainable development outcomes of South-South trade to be ultimately determined through domestic power struggles, this cannot be delinked from the supply chain struggles that impact the parameters within which domestic politics and decision-making take place (see also Muhr 2016). For example, negotiations between workers and owners or between industry associations and regulators are impacted by concerns over costs, price, and competitiveness, which, in turn, influence the outcomes of these negotiations. In other words, policy decisions are made in the context of real and perceived possibilities shaped by the power dynamics in particular markets. As such, one must consider how the opportunities for sustainable development change in what Horner and Nadvi (2018: 230) have called the 'new geography of trade', where value chains are coordinated by different firms and end in different markets.

Given these dynamics, attention to both the structures of GVCs and agency exercised along them is key. Agency can be thought of as the property or ability of actors

to do something or to make something happen. Colin Wight has described the accepted definition in international politics to be along the lines of 'the faculty or state of acting or exerting power' (cited in Brown, 2012).

Building from recent work on South-South cooperation and agency, agency is understood as 'embedded', meaning that agency is always informed, constrained, and channelled by its socio-economic context while simultaneously having some potential to act upon it (see also Brown 2012; Mohan and Lampert 2013). As mentioned, scholars have pointed to the lack of attention paid to African agency, especially in analyses of China's increased involvement on the continent. Brown (2012), for example, has argued that the new opportunities arising from Chinese investment have given African states more space to manoeuvre and exert their agency (see also Scoones and Cabral 2013). Mohan and Lampert (2013) have noted that this African agency has not been confined to elite or state agents, but actors beyond the state are also shaping outcomes. Following a similar logic, I consider both elite agency, often associated with the state, as well as agency beyond the state in order to capture the range of actors involved, as well as emphasising that these actors are not passive recipients of structural changes, but are also actively – and increasingly – able to shape these changes.

Methods and Data

When conducting research on a counterintuitive case, an historical approach focusing on the processes at work, over time and in context is most appropriate (George and Bennett 2005; Bennett and Checkel 2014). Structural factors can be explored, but the possibility of agency playing a significant role remains. Here I use a within case study to nuance understandings of the relationship between South-South trade and sustainable development, inductively generating propositions to map out an agenda for further study.

I collected the data for this study from industry and government databases and websites, existing academic studies, and 'grey literature' produced by established civil society groups. This is supplemented with the contextual knowledge gained from fieldwork

conducted in Sri Lanka, including in-person interviews with industry and government elites, many of whom supplied me with industry statistics in written form.[3]

I chose Ceylon tea for the puzzle it presents. Running counter to the expectations of environmental economists, and deviating from findings documented in recent studies across other agricultural projects, Sri Lanka has come to export approximately 80 per cent of its tea within the global South – most of which is sold in the Middle East, North Africa, and the CIS regions[4] – while also becoming a top performer in producer-driven sustainable development. For example, the country is the highest value and largest value-added exporter of tea, has 100 percent of its plantation workforce unionized resulting in higher average wages than other major producers, and has been recognized as the 'cleanest' tea in the world in terms of pesticide residue by the ISO Technical Committee. The industry has achieved these results without the drivers usually associated with Northern market incentives.

While there is no agreed definition of what constitutes sustainable development in agriculture, with at least 70 definitions and no consistent indicators in the literature (FAO 2017), the purpose of this study is not to quantify the performance of the Ceylon tea industry or to systematically compare across major tea producers based on a particular set of indicators. Through a focus on the industry's relative successes along the three dimensions of agricultural sustainability established by the UN and enshrined in SDG 2.4.1 – namely, economic, social, and environmental – I raise a number of questions about the relationship between South-South trade and sustainable development, providing a roadmap for further work in this area.

Sustainable commodity governance in the Ceylon tea industry

[3] I conducted 11 weeks fieldwork in Sri Lanka between 2014 and 2015. I visited plantations, training institutes, auction houses, tea houses, tea factories, and tea estates. I conducted 30 interviews with elites from industry, civil society, and the state. More formal interviews were supplemented by informal conversations with people working in and around the industry.

[4] The top-ten export destinations for Ceylon tea in 2016/17 were, in order, Turkey, Russia, Iraq, Iran, U.A.E, Libya, Azerbaijain, Syria, China, and Japan (Sri Lanka Tea Exporters Association 2018, available at http://teasrilanka.org/statistics).

Tea is an extremely important commodity for Sri Lanka and continues to be a major source of foreign exchange and provider of employment within the country.[5] Tea accounts for 65 percent of Sri Lanka's agricultural revenue, 13.5 percent of its export revenue, and approximately two percent of the country's GDP, while directly and indirectly employing about two million people (about 10 percent of the population). It is the fourth largest tea producer in the world (behind only China, India and Kenya) and it is the third largest tea exporter (recently falling behind Kenya and, even more recently, China). But the country remains the highest tea export revenue earner due to its high prices on the world market and is the largest value-added tea exporter.

Tea cultivation began in pre-independence Ceylon as a diversification experiment in 1867. The country had a large number of coffee plantations, but disease was killing the coffee crops. The experiment was a success. What began as a 19-acre tea plot quickly grew until, in 1965, Ceylon became the largest exporter of black tea in the world. Before independence in 1948, it was the British controlling the industry and its spoils. Even post-independence, the tea industry was dominated by large plantations owned by large foreign firms, mostly British.

Eventually, though, the Sri Lankan Government intervened. In the 1970s, following post-colonial movements that were fast spreading across the developing world, the Government formally changed the country's name to Sri Lanka and went about nationalising the foreign-owned plantations. They broke up most of these and redistributed the opportunities to smallholder plots. A number of plantations did, however, survive and were run by the state. In 1975, the Government created the Sri Lanka Tea Board (SLTB) to administer, control, and regulate the industry. In the 1990s, due to a perceived economic need and in the name of efficiency, the Government – again following trends sweeping across the developing world – re-privatised most of the remaining plantations. But, by this time, historical power relations had been destabilised and the Sri Lankan tea industry was poised for future success.

The main achievement of the Ceylon tea industry setting it apart from its competitors is its success in value creation and capture. In 2016, approximately 57 percent of Ceylon tea exports were of the value-added variety (e.g. tea bags and other packaged teas), which is

[5] The following figures come from the SLTB and the Sri Lanka Department of Commerce 2018.

more than any other major tea producing country (Department of Commerce 2013; Silva 2018). In comparison, only about 15 percent of Kenyan tea, its nearest competitor in terms of exports, is shipped in packaged form while the bulk sales of Kenyan tea are lower quality, fetching a lower price (Mohan 2018). They have managed to achieve this, at least in part, through trading largely outside of the Northern markets dominated by large TNCs. This, in turn, appears to have expanded the opportunities to implement forward integration strategies, incorporating higher value-added activities into their portfolio. This forward integration has been key to maintaining control over the identity and quality of the product, protecting it from downward price pressures and allowing for the higher COP associated with higher social and environmental practices.

The current industrial landscape of tea is occupied by a small number of TNCs. Research published by the IDH Sustainability Initiative (2011), and echoed in a recent UNCTAD (2016a) report, estimates that the three largest companies – Unilever (which owns Lipton and PG Tips), Tata Global Beverages (which owns Tetley), and British Associated Foods (which owns Twinings) – still control around 20 percent of production. When it comes to the highest value-added stages of production, the same reports estimate that these TNCs account for up 85 percent of the total tea production (Ibid.)

But with the Ceylon tea value chain, things are different. The highest value stages of production include domestic and producer-owned companies. We can divide the tea value chain into three broad stages of production: 1) producing and processing; 2) trading; and 3) blending and packaging.

1) At the **producing and processing** stage, we find Unilever, Tata Tea, James Finlay, McLeod Russel, John Keells, and MJF Holdings, for example.
2) In the **trading** stage, we find Unilever and Tata Tea – again at the top – along with Akbar Bros., James Finlay, Van Rees, and MJF Holdings.
3) And at the **blending and packing** stage, we find Unilever (Lipton, PG Tips), Tata Tea (Tetley), Associated British Foods (Twinings), and MJF Holdings (Dilmah).

What is important to note is that MJF Holdings, which owns Dilmah tea, is a Sri Lankan, producer-owned company. It appears as a major player at every stage in the commodity

chain, capturing significant value at each stage, including the lucrative blending and packing stages. According to the founder and current Chairman of the company, Merrill J Fernando, entering Southern markets was much easier than entering those in North as the latter have much more established brands, with much more secure market share.[6] Additionally, when Dilmah did attempt to enter its first Northern market, the large, established companies attempted to block the company's entry using numerous tactics, from predatory pricing to leveraging their buyers to legal challenges over Dilmah's 'single origin' claims.[7] But the company persevered and was eventually able to establish itself in the Australian and New Zealand markets. The challenges reported by Dilmah hint at some of the challenges confronting Southern, producer-owned firms when attempting to add higher value-added stages of production, like branding, and when trying to enter more established and competitive consumer markets in the North.

MJF Holdings is not the only domestic company to gain significant market share in high value stages of the tea value chain. At the trading stage, we find Akbar Bros., which is also a Sri Lankan trading company and the largest exporter of Ceylon tea worldwide. At the retail end, companies like Mlesna have joined Dilmah in packaging and selling its own brand teas, often in its own international retail locations. Once the exclusive stomping grounds of established Northern-brands and the TNCs that own them, Sri Lankan companies have managed to carve out significant market share in the global tea market, capturing additional value for the Sri Lankan economy through direct earnings, wages, tax revenues, and positive externalities.[8]

This is incredibly rare for tropical commodity producers. To accomplish this feat took concerted efforts from both industry and the state, the latter helping in the form of subsidies to support local companies in their efforts to expand. For example, the state helped supplement the cost of importing machinery, included printing facilities for labels, without which the feasibility of creating local brands for export would have been doubtful.[9] This also contributed to a healthy printing industry in Sri Lanka, an example of the potential positive externalities that contribute to value capture.[10]

[6] Interview with Chairman of Dilmah, September 2014.; Interview with Chairman of Dilmah, April 2015.
[7] Ibid.
[8] See FAO report for more details on these dimensions of value capture (Nevin 2014).
[9] Interview with Chairman of Dilmah, September 2014.
[10] Similar positive externalities can be seen with Akbar and Mlesna.

Local commodities auctions also play a role in facilitating producer-driven sustainable development. According to the Ceylon Chamber of Commerce (CCC), 98 percent of Sri Lankan tea is sold through the Colombo auction with only 2 percent in allowable direct sales.[11] Established in 1883 by the CCC, they also introduced the Colombo Tea Traders' Association (1894) and the Colombo Brokers' Association (1896) as industry groups to help regulate what is now the largest tea auction in the world. This strategy is not unique to Sri Lanka; most major tea producing countries have since opened their own domestic auctions (Talbot, 2008), and for good reason.[12] The FAO has noted the value addition opportunities the auction brings to the economy (Kasuriratne 2015). But arguably more importantly, this has also enabled domestic actors to maintain control over the trade in Ceylon tea: devising, monitoring, and enforcing rules around its quality and identity.

In addition to supporting individually branded companies, the SLTB has taken steps to brand all tea grown in Sri Lanka as 'Pure Ceylon' tea, keeping the colonial name as part of this branding strategy. The brand is actively marketed worldwide by the Tea Promotion Division of the SLTB, following in the footsteps of the Ceylon Tea Propaganda Board, established in 1932 for this purpose. But this industry-wide branding also requires resisting practices that might devalue the brand, such as prohibiting the export of poor quality tea and refusing the label to products that blend Ceylon tea with lower quality teas from other places, a vital part of maintaining its high value. The industry and the state have developed the brand, including the iconic lion label (Figure 1), to promote Ceylon tea worldwide, which has become a success case of sorts in 'product-place co-branding' (Ranasinghe et al. 2017).

[11] Interviews with Secretary General and Deputy Secretary General of the CCC, April 2015.

[12] Because the major tea producers adopted this strategy, the London tea auction was forced to close in 1998.

Figure 1: The 'Lion' logo, developed by the Sri Lankan Tea Board to certify 'pure Ceylon tea'.

The SLTB began the effort to register the label as a certification mark domestically in 2003 and it was finally approved in 2010. The SLTB safeguards the name and franchises it out to the private sector. Additionally, efforts are underway to develop geographical indications (GIs) for all six regions in which Ceylon tea is grown, which helps to further differentiate and protect Sri Lankan teas from competition and imitation. Promoting the Ceylon brand has become a lynchpin of sorts, holding together the various elements of the industry's sustainable development strategy. By differentiating Sri Lankan tea from its lower cost competition, the reputation of quality associated with the brand allows the industry to maintain the high prices necessary to sustain its relatively high COP. In effect, this expands the negotiating room for domestic interests advocating for policies that increase COP or squeeze margins in other ways.

Recall that, post-independence, the Government broke up most of the plantations and redistributed the land to smallholders. Now smallholder farms, which are defined as being less than 50 hectares and tend to be family operated, produce approximately 76 per cent of Ceylon tea (Silva, 2018). This constitutes a redistribution of value at the farming stage, from large foreign firms to small local businesses. Furthermore, it represents changing labour conditions, from what were (and really still are) notoriously underpaid plantation workers to smallholder farmers who capture the surplus value directly. As a recent FAO study has noted, this shift from large, vertically integrated plantations can lead to more equity, efficiency, and empowerment for workers (Dishanka & Ikemoto 2014). It has been seen as a 'sustainable solution' to the poor socio-economic condition of workers and low labour productivity associated with plantations (Ibid. 2014),

providing opportunities for occupational and crop diversification, and generally providing better living conditions than on plantations (Mohan 2018).

Smallholders harvest the green leaf (pre-processed tealeaf) and sell it to local factories for processing. Here too the Government has intervened, creating a 'green leaf formula': the price paid to smallholders is fixed to the prices the factories receive in auction, ensuring a fair distribution of value between the farmers and factories.[13] Through this policy, the Government has reduced transaction costs and risks associated with this type of contract buying (Herath & Weersink 2009).

Plantation worker wages remain very low and their job prospects remain limited. Across the global tea industry, cases of exploitation are being reported even on Fairtrade and Rainforest Alliance certified farms supplying Northern brands, first in India (LeBaron 2018) and now Sri Lanka (Fuller 2019). The industry as a whole clearly has a lot of work to do. But, with these essential caveats in mind, the wages and conditions of plantation workers in Sri Lanka are improving and, according to available wage and benefits indicators, the industry seems to be performing at least on par if not exceeding other major tea economies. This can be attributed to the work of Sri Lankan civil society, unions in particular.[14] Wages in the sector have made impressive gains relative to wages in Sri Lanka's textiles and manufacturing industries (Silva 2018) and are rising faster than tea prices (ILO 2018). At the time of writing, after a period of industrial action, the Government, industry, and unions appear to have agreed to a 40 percent wage hike after a prolonged period of stagnation. Wage figures vary from source to source – and producers have an incentive to inflate their labour costs – so these need to be treated with due care. But, Sri Lankan workers seem to receive the highest wages amongst plantation workers when compared to their peers in competing countries, even when purchasing power is considered. For example, in 2014, according to the Planters' Association, the average plantation worker in Sri Lanka earned just US$4.68/day. But in Kenya, it is an even lower US$3.66/day. And in Assam India, it is lower still at

[13] Interview with Executive Director of the Tea Research Institute, in person, September 2014.
[14] For a detailed ethnographic study of unions, including the role and agency of Malaiyaha Tamil women, in the labour politics of the Ceylon tea industry see Jegathesan 2013.

US$1.60/day.[15] But wages also vary by task and region (ILO 2018) so definitive comparisons remain elusive.

According to the Planters' Association, Sri Lankan workers have also earned benefits above and beyond what workers in other tea economies are receiving.[16] For example, each worker is guaranteed 300 days of work per year.[17] This is a very important protection for these workers who, without this, could be forced into the precarious labour associated with seasonal work, which has historically opened the door to exploitation.[18] Unions are particularly strong in Sri Lanka and, combined with the on-going efforts of domestic NGOs, they have managed to fight for decent work even when these gains have the potential to squeeze margins for owners and weaken the global competitiveness of the industry, a concern often voiced by industry leaders. Indeed, some studies suggest the increase in wages and benefits is making the plantation model relatively more expensive than the smallholder model of production (Herath & Weersink 2009), further incentivising the move toward smallholder production.

Higher wages add to the COP of producers, especially when one considers that labour accounts for around 70 percent of the COP for Ceylon tea compared to around 50 percent in Kenya, which is the closest competitor in terms of wages while maintaining a much lower COP (Wal 2008). Labour accounts for a uniquely high proportion for Ceylon tea due to the picking and processing methods used.[19] This means that even equal wage increases to its competition will make Ceylon tea relatively more expensive, but also relatively more impactful in terms of capturing and redistributing industrial value domestically through labour earnings.

Maintaining the reputation of the Ceylon brand also creates incentives to maintain high environmental standards. Here the Government also plays a major role, taking a strict

[15] All figures are courtesy of the Planters' Association [On file with author]. Note that according to the Labour-Related Establishment Survey, wages for Sri Lankan plantation workers were reported to be closer to US$2.50/day, while India ranged between about US$1/day to US$1.50/day (again, figures coming from Planters' Association, 2014). Meanwhile, the Oxford Business Group (2016) estimated average tea worker wages in Kenya and India to be less than half that in Sri Lanka.
[16] Interview with Chairman of the Planters' Association, in person, September 2014.
[17] Ibid.
[18] See, for example, Chandrabose & Sivapragasam, 2011; Kurian 1982; Little, 1999; Weerakoon, 1975, Silva, 2007.
[19] 90 percent of Ceylon tea is picked by hand and processed in the 'orthodox' method, with significantly less mechanization than the 'crush, tear, and curl' (CTC) method used by most of their global competitors.

stance on the use of pesticides and fertilizers, so much so that industry has expressed concerns about its impact on their competitiveness vis-à-vis their global counterparts who face no such regulation.[20] Other examples of industry-wide environmental sustainability include banning DDT very early on and becoming the first to achieve the 'Ozone Friendly Tea' designation under the Montreal Protocol, which means all Sri Lankan tea is grown without methyl bromide. As a result, the country was awarded the Montreal Protocol Implementers Award in 2007. The Government also provides various subsidies for factory modernization, helping producers meet quality standards, including ISO 22000, HACCP, Good Manufacturing Processes (GMP), and Good Agricultural Practices (GAP) (Silva 2018). And the Tea Research Institute (TRI) of Sri Lanka, established in 1925, provides related advice and training to the industry. While no systematic index of environmental sustainability in agriculture currently exists (UNCTAD 2016b), the Ceylon tea industry appears to perform at least as well as its major competitors and has a built-in incentive – its brand – to continue to do so.

While there remains significant room for improvement in an industry where concerns along all three dimensions remain, the case study points to the Ceylon tea industry as a top performer among major producers, and all without the mechanisms associated with North-South trade present. This raises a number of important questions about the dynamics of South-South trade and the following discussion proposes an agenda for studying the links between trade patterns and opportunities for producer-driven sustainable development.

Discussion

In the period immediately following independence, about 90 per cent of Ceylon tea was shipped to the London auction from which it was sold, packaged, and redistributed to major markets, mostly in Europe and North America (Wilson 2011). Now all Ceylon tea is sold through the Colombo auction with well over 80 per cent destined for North Africa, the Middle East, and CIS countries.[21] When Northern buyers began shifting their sourcing to regions offering a cheaper product, Southern buyers buoyed the sales of Ceylon tea. While this shift in trading patterns was not completely engineered from

[20] Interview with Chairman of the Planters' Association, in person, September 2014.
[21] Figures are courtesy of the Planters' Association [On file with author].

within Sri Lanka, these changes have generated new opportunities for Ceylon tea stakeholder agency within the value chain. Below, I offer four propositions concerning the link between South-South trade and sustainable development based on this analysis, which I hope will provide the basis for further research in this area.

Proposition 1: South-South trade offers Southern producers lower barriers to entry than in Northern markets, facilitating forward integration strategies.

Northern markets contain well-known brands, from Tetley to Lipton to PG Tips to Twinings. The trade patterns have been set for decades. As such, relationships up and down the value chain are well established. Southern markets offered an alternative for fledgling Sri Lankan tea companies, as the large Northern brands and their parent companies did not have the same foothold in these markets, a foothold gained from their colonial head-start.[22] The founder of Dilmah outlined the barriers they faced when attempting to enter Northern markets, suggesting a specific mechanism through which South-South trade might help local producers create sustainable industries, namely, by offering producers lower barriers to entry than those in oligopolistic, Northern consumer markets. This aligns with studies on the upgrading possibilities available in domestic and regional markets, as illustrated in Brazilian footwear and furniture (Navas-Aleman 2011) and Indonesian electronics and garments firms (Kadarusman and Nadvi 2013).[23] Of course domestic markets of large, emerging economies offer more opportunity for these countries while firms from smaller economies will continue to rely on exports.

Further research will be needed to untangle the potential trade-offs from entering markets with lower barriers, including greater competition and, therefore, the potential for lower prices and lower standards (Kaplinsky and Farooki 2011; Nadvi 2014) – a significantly different outcome than the one illustrated here.

Proposition 2: South-South trade offers Southern producers exit options from the price pressures of Northern markets, enabling them to sustain a higher COP that often accompanies higher quality products and processes.

---

[22] Tata began in textiles, using the Indian domestic market to establish itself and branch out into other industries. When it moved into beverages, it was so large it simply bought an established Northern brand (Tetley) to penetrate Northern tea markets.
[23] See also Horner and Nadvi 2018.

South-South trade also appears to have allowed Sri Lankan firms to avoid the downward price pressure that lead firms in Northern markets place on producers. As TNCs were shaping markets in the North, shifting consumer demand away from the more expensive Ceylon tea, nurturing a presence in these Southern markets seems to have allowed the industry to maintain its relatively high standards and related COP.

In Southern markets for Ceylon tea, the ability for the industry to maintain its high prices seems more related to the quality of the product and not the sustainability criteria, though these are clearly related. Whether these are cultural factors unique to tea, or whether there are more universal lessons here will need to be explored further. For example, it is possible that large buyers (i.e. brands) have simply not yet shaped these end markets to their advantage, using blending and branding to push supplier prices down and the prices consumers pay up. But looking beyond tea, what this particular case analysis does is to reinforce the need to better understand the ways in which these different end markets can offer different opportunities for upstream actors to engage in sustainable practices.

Proposition 3: South-South trade allows producers new opportunities to differentiate their products and control their product's identity, both vital to maintaining the value of primary commodities.

Southern export markets provided opportunity for domestic agents to implement strategies to keep control over the identity of their product, maintaining and further cultivating differentiation from other teas, which has been essential in sustaining the value of Ceylon tea. The reason the lion logo is so important is it keeps brands from degrading the quality and reputation of Ceylon tea through blending. This brand strategy is used widely across the industry; the teabag becomes a tool to blend teas in ways that make the tea's provenance less significant, forcing down prices. Tea becomes just another undifferentiated commodity. This aligns with findings from the coffee industry (Daviron and Ponte 2005; Daviron and Vagneron 2011); the impacts of different business models on sustainable development, including both the strategies of big brands and those of producers across industries, should be the focus of future study.

Importantly, the power dynamics in Southern markets will continue to change. Large Northern brands and TNCs may penetrate these markets as well. Or these growing Southern firms may take up similar strategies. It will be difficult to generalise and, as Horner and Nadvi (2018) suggest, each case in these shifting chain landscapes will

require a nuanced understanding of the various factors impacting participation and the associated outcomes.

Proposition 4: Where South-South trade leads to more equal trading relationships, there will be increased opportunity for stakeholder agency within producer countries. Where South-South trade remains highly unequal, there will be less.

But what explains the difference between these rather optimistic propositions and the more pessimistic assessments of South-South trade based on other agricultural commodities? There are two things different about this case. First, unlike previous studies, this analysis does not focus on trade with 'rising powers' (i.e. India, China, and Brazil). None of these countries import significant volumes of Ceylon tea. Unequal trading relationships between these rising powers and their Southern trading partners for most agricultural commodities are not reproduced in this particular version of South-South trade. Second, tea is an end-use consumer item, in contrast to other primary commodities like palm oil and soy that are mostly used as inputs into various end-use products. With such undifferentiated commodities, there is ample opportunity for large buyers downstream to force prices down through global competition. While South-North trade in tea demonstrates a similar dynamic through big brand strategies, the less unequal trade evident in Sri Lanka's trading relationships has allowed producers to bring Ceylon tea directly to the end-use consumer. So there appears to be more scope for South-South trade to lead to positive sustainability outcomes (e.g. capturing value and maintaining control over the product's identity) for some commodities than others. More work in this area is also required.

Conclusion

The implications of the rise in South-South trade for sustainable development are not well known. Most analyses to date remain pessimistic. Because the drivers of sustainable development associated with the 'California effect' are missing, could we see a 'Shanghai effect' emerging? While there is certainly evidence to support this rather gloomy prediction, the case presented here shows the possibility for more positive outcomes. If we wanted to present the Sri Lankan case in similar terms, how would a hypothetical 'Colombo effect' be defined? In short, it would posit that trade between developing

countries may lead to more equal trading relationships, which in turn provide opportunities for producer-driven sustainable development.

The tea industry illustrates how asymmetrical power relations in markets – as exemplified by South-North trade stemming from colonial trade patterns – can result in downward pressure on social and environmental standards. In mature, Northern markets, competition is fierce and market share is jealously guarded. Market leaders protect against new entrants through both relatively benign branding strategies and more malign predatory pricing. Years of competition and profit maximizing behavior have rendered these consumer markets virtually inaccessible to fledgling firms while incumbent firms drive down the prices extended to producers. Market power has rested with large TNCs and producers have been forced to keep their COP low in order to supply these Northern market leaders.

But the Ceylon tea case demonstrates how producers might overcome these asymmetries. Deploying forward integration strategies in Southern markets allowed the industry to differentiate its product, escaping some of the extreme competition amongst undifferentiated producers in Northern markets. By creating and maintaining the value of their products, the Ceylon tea industry has managed to maintain the prices necessary to sustain the higher COP that accompanies higher economic, social, and environmental standards.

The analysis suggests South-South trade does not in itself drive sustainable development, but it can expand the opportunities for industry stakeholders to pursue more sustainable production. With less price pressure comes more room to move. And when more value is captured locally, there is more money available to pursue sustainability goals locally. But neither reduced price pressure nor increased value creation and capture guarantee sustainable development. Money made by producer-owned firms may go offshore, workers may still be exploited, and the environment degraded. The exact nature of sustainable development outcomes will continue to be determined through domestic political struggles. But changing the power dynamics in GVCs changes the parameters within which these domestic distributional conflicts take place and could go some way to strengthening the hand of those pushing for positive change. Overall, the case of Ceylon tea suggests there is an alternative path to sustainable development that runs through

Southern markets and not via the Northern markets that conventional trade theory would have us believe.

My intention is that the four propositions generated from the case will act as a roadmap for future research in this area. I have specified some potential research directions for each, but many more are possible, including how additional value captured is distributed between more and less powerful stakeholders within producer countries or the extent to which Northern brands and large TNCs are able to (re)assert their dominance in Southern markets, the strategies they deploy to do so, and the implications for sustainable development where this has been the case. More generally, the analysis reinforces calls for more empirical work to be undertaken on South-South trade and sustainability, with increased attention to the nuanced ways in which end markets shape their respective value chains and how these dynamics, in turn, impact the potential for actors operating at the bottom of supply chains to shape sustainability outcomes.

References

Adolph, C., Quince, V., & Prakash, A. (2017). The Shanghai Effect: Do Exports to China Affect Labor Practices in Africa? *World Development*, *89*, 1–18. https://doi.org/10.1016/j.worlddev.2016.05.009

Bennett, Andrew, and Jeffrey T. Checkel. (2014). *Process Tracing: From Metaphor to Analytical Tool.* Cambridge: Cambridge University Press.

Bloomfield, M. (2017a). *Dirty Gold: How Activism Transformed the Jewelry Industry.* Cambridge, MA: MIT Press.

Bloomfield, M. (2017b). Global production networks and activism: can activists change mining practices by targeting brands? *New Political Economy*

Brown, W. (2012). A Question of Agency: Africa in international politics. *Third World Quarterly*, *33*(10), 1889–1908. https://doi.org/10.1080/01436597.2012.728322

Chandrabose, A. S., & Sivapragasam, P. P. (2011). *Red Colour of Tea: Central Issues that Impact the Tea Plantation Community in Sri Lanka*. Human Development Organization with the patronage of CCFD France.

Dauvergne, P., & Lister, J. (2013). *Eco-Business: A Big Brand Takeover of Sustainability.* Cambridge, MA: MIT Press.

Dauvergne, P. (2017). Is the Power of Brand-Focused Activism Rising? The Case of

Tropical Deforestation. *The Journal of Environment & Development*, *26*(2), 135–155. https://doi.org/10.1177/1070496517701249

Dauvergne, P., & Neville, K. J. (2009). The Changing North-South and South-South Political Economy of Biofuels. *Third World Quarterly, 30*(6): 1087–1102.

Daviron, B., & Vagneron, I. (2011). From Commoditisation to De-commoditisation… and Back Again: Discussing the Role of Sustainability Standards for Agricultural Products. *Development Policy Review*, *29*(1), 91–113.

Daviron, B., & Ponte, S. (2005). *The Coffee Paradox: Global Markets, Commodity Trade and the Elusive Promise of Development*. London: Zed Books.

Dishankaa, S. & Ikemotob, Y. (2014). Social Development and Labour Productivity: The Problem and a Solution for the Tea Plantation Sector of Sri Lanka. *Colombo Business Journal, 5*(1).

Fridell, G. (2014). *Coffee*. Oxford: Polity Press.

Fuller, L. (2019). Tea label giants vow probe after Sri Lanka labor abuse expose. *Thomas Reuters Foundation.* Retrieved April 30, 2019, from https://www.reuters.com/article/us-sri-lanka-tea-workers-abuse-exclusive/exclusive-tea-label-giants-vow-probe-after-sri-lanka-labor-abuse-expose-idUSKCN1R802V

George, A. L., & Bennett, A. (2005). *Case studies and theory development in the social sciences.* Cambridge, MA: MIT Press

Gilgum, S., & Eisenmerger, N. (2004). North-South Trade and the Distribution of Environmental Goods and Burdens: A Biophysical Perspective. *Journal of Environment and Development, 13*(1), 73–100.

Grimm, S. (2014). China–Africa Cooperation: promises, practice and prospects. *Journal of Contemporary China*, *23*(90), 993–1011. https://doi.org/10.1080/10670564.2014.898886

Groosman, M. (2011). Tea Sector Overview. *IDH Sustainable Trade Initiative.*

Herath, D., & Weersink, A. (2009). From Plantations to Smallholder Production: The Role of Policy in the Reorganization of the Sri Lankan Tea Sector. *World Development*, *37*(11), 1759–1772. doi:10.1016/j.worlddev.2008.08.028

Hochstetler, K. (2013). South-South Trade and the Environment: A Brazilian Case Study. *Global Environmental Politics*, *13*(1), 30–48. https://doi.org/10.1162/GLEP_a_00152

Horner, R. (2016). A new economic geography of trade and development? governing

South–South trade, value chains and production networks. *Territory, Politics, Governance*, *4*(4), 400–420. https://doi.org/10.1080/21622671.2015.1073614

Horner, R., & Nadvi, K. (2018). Global value chains and the rise of the Global South: unpacking twenty-first century polycentric trade. *Global Networks*, *18*(2), 207–237. https://doi.org/10.1111/glob.12180

Jegathesan, M. (2013). *Bargaining in a labor regime: plantation life and the politics of development in Sri Lanka* (Doctoral dissertation). Columbia University, New York City.

Kadarusman, Y. and K. Nadvi (2013). Competitiveness and technological upgrading in global value chains: evidence from the Indonesian electronics and garment sectors. *European Planning Studies, 21*(7), 1007–28.

Kaplinsky, R., Terheggen, A., & Tijaja, J. (2011). China as a Final Market: The Gabon Timber and Thai Cassava Value Chains. *World Development*, *39*(7), 1177–1190. https://doi.org/10.1016/j.worlddev.2010.12.007

Kaplinsky, R. & Farooki, M. (2010) Global value chains, the crisis, and the shift of markets from north to south, in: O. Cattaneo, G. Gereffi & C. Staritz (Eds) Global Value Chains in a Post-Crisis World: A Development Perspective. Washington, DC: The World Bank, 125–153.

Kurian, R. (1982). *Women workers in the Sri Lanka plantation sector : an historical and contemporary analysis*. Geneva: International Labour Office.

ILO. (2018). *Future of Work for Tea Smallholders in Sri Lanka*. Colombo: International Labour Organization, ILO Country Office for Sri Lanka and the Maldives.

LeBaron, G. 2018. The gobal business of forced labour: report of findings, SPERI & University of Sheffield.

Leonard, H. J. (1988). *Pollution and the Struggle for the World Product: Multinational Corporations, Environment, and International Comparative Advantage.* Cambridge: Cambridge University Press.

Little, A. (1999). *Labouring to learn : towards a political economy of plantations, people, and education in Sri Lanka*. Basingstoke : Macmillan.

Ministry of Plantation Industry. (2012). *Sri Lankan Tea Industry Statistics*. [On file with author].

Mohan, G., & Lampert, B. (2013). Negotiating China: Reinserting African agency into China–Africa relations. *African Affairs*, *112*(446), 92–110. https://doi.org/10.1093/afraf/ads065

Mohan, S. (2018). *Value Chain Upgrading for Competitiveness and Sustainability: A Comparative*

Study of Tea Value Chains in Kenya, Sri Lanka and Nepal. Geneva: ICTSD.

Mol, A. P. J. (2011). China's Ascent and Africa's Environment. *Global Environmental Change, 21*(3), 785–794.

Muhr, T. (2016). Beyond 'BRICS': ten theses on South–South cooperation in the twenty-first century. *Third World Quarterly*, *37*(4), 630–648. https://doi.org/10.1080/01436597.2015.1108161

Muradian, R., & Martínez-Alier, J. (2001). Trade and the Environment: From a 'Southern' Perspective. *Ecological Economics, 36*(2), 281–297.

Murphy, J. T. (2008). Economic geographies of the global South – missed opportunities and promising intersections with development studies, *Geography Compass 2*(3), 851–873.

Nadvi, K. (2014). "Rising Powers" and Labour and Environmental Standards. *Oxford Development Studies*, *42*(2), 137–150. https://doi.org/10.1080/13600818.2014.909400

Navas-Alemán, L. (2011). The impact of operating in multiple value chains for upgrading: the case of the Brazilian furniture and footwear industries. *World Development, 39*(8), 1386–97, doi: 10.1016/j.worlddev.2010.12.016.

Oxford Business Group (2016). Orthodox thinking: tea remains vital economic contributor. Retrieved April 30, 2019, from Oxford Business Group website https://www.oxfordbusinessgroup.com/analysis/orthodox-thinking-tea-remains-vital-economic-contributor

Pulver, S. (2007). Introduction: Developing-Country Firms as Agents of Environmental Sustainability? *Studies in Comparative International Development*, *42*(3–4), 191–207. https://doi.org/10.1007/s12116-007-9011-7

Ranasinghe, W.T., Thaichon, P., & Ranasinghe, M. (2017). An analysis of product-place co-branding: the case of Ceylon Tea. *Asia Pacific Journal of Marketing and Logistics, 29*(1), 200-214. https://doi.org/10.1108/APJML-10-2015-0156

Schleifer, P. (2016). Private Governance Undermined: India and the Roundtable on Sustainable Palm Oil. *Global Environmental Politics*, *16*(1), 38–58. https://doi.org/10.1162/GLEP_a_00335

Schleifer, P. (2017). Private regulation and global economic change: The drivers of sustainable agriculture in Brazil. *Governance*, *30*(4), 687–703. https://doi.org/10.1111/gove.12267

Schleifer, P., & Sun, Y. (2018). Emerging markets and private governance: the political

economy of sustainable palm oil in China and India. *Review of International Political Economy*, 1–25. https://doi.org/10.1080/09692290.2017.1418759

Scoones, I., Cabral, L., & Tugendhat, H. (2013). New Development Encounters: China and Brazil in African Agriculture. *IDS Bulletin*, *44*(4), 1–19. https://doi.org/10.1111/1759-5436.12038

Silva, K. T. (2007). *Transition from tea worker to outgrower? : the impact of an outgrower pilot scheme on workers in selected tea plantations in Sri Lanka*. Kandy : Institute of Social Development.

Silva, G. (2018). *Targeted Policies For Production and Export Diversification Sri Lankan Case Study*. Presentation to UNCTAD 10th Multi-year Expert Meeting on Commodities and Development 25-26 April 2018, Geneva.

Shirotori, M., & Molina, A. C. (2009). *South-South Trade: The Reality Check*. Geneva: UNCTAD.

Talbot, J. M. (2002). Tropical commodity chains, forward integration strategies and international inequality: coffee, cocoa and tea. *Review of International Political Economy*, *9*(4), 701–734. doi:10.1080/0969229022000021862

UNCTAD. (2016a). Tea: An INFOCOMM Commodity Profile. *UNCTAD Trust Fund on Market Information on Agricultural Commodities*. https://unctad.org/en/PublicationsLibrary/INFOCOMM_cp11_Tea_en.pdf

UNCTAD. (2016b). SDG Goal 2.4 - Sustainable food production. Retrieved April 30, 2019, from UNCTAD DGFF 2016 website: https://stats.unctad.org/Dgff2016/people/goal2/target_2_4.html

UNDP. (2004). *Forging a Global South: United Nations Day for South-South Cooperation, 19 December 2004*. New York: United Nations Development Programme.

UNDP. (2013). *Human Development Report 2013: The Rise of the South – Human Progress in a Diverse World*. New York: UNDP.

Vogel, D. (1995). Trading up: Consumer and environmental regulation in a global economy. London: Harvard University Press.

Wal, S. van der, & Centre for Research on Multinational Corporations. (2008). *Sustainability issues in the tea sector: a comparative analysis of six leading producing countries*. Amsterdam: SOMO.

Weerakoon, B. (1975). *The tea worker and the nationalisation of Sri Lanka's plantations : (based on the findings of the Agency House Commission's Report)*.

Wilson, R. (2011). *Statistics on the Ceylon Tea Industry*. [On file with author].

World Trade Organization Committee on Trade and Development. (2010a). Participation of Developing Economies in the Global Trading System. *WY/COMTD/W/172/Rev. 1*, 21 January 2010.

World Trade Organization Sub-Committee on Least-Developed Countries. (2010b). Market Access for Products and Services of Export Interest to Least-Developed Countries. *WT/COMTD/LDC/W/48*, 1 October 2010.