

AN ANALYSIS OF TRENDS AND DETERMINANTS OF SPICE TRADE OF THE WORLD

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Spices, being in the category of the high value agricultural products (HVAPs), have higher market values than the traditional cereal grains and export crops. Though the importance of spice in the world trade is frequently cited, it is not subjected to a systematic analysis in the recent literature on international trade. The present study was aimed at analyzing the spice trade flows of the world with special reference to the trends and determinants of the exports and imports. The specific objectives were to analyze the composition of spice trade of the world, comparative advantage of the leading exporting countries of spice, extent of regional spice trade and to find the determinants of the spice export flows. Market shares, geographical orientation of trade, market and product concentration ratios of major exporters of the major spice products were calculated. Revealed Comparative Advantage Index (RCA index) and Trade Intensity Index were used to determine the comparative advantage and the degree of regional trade respectively. The Gravity Model in international trade was used to analyze the determinants of the spice export flows. Trade data for imports and exports were retrieved from the Trade Map of International Trade Centre (ITC). Spice products at HS 06 digits level was used for the analysis. Pepper dominates the world spice trade accounting for 30% of the spice trade in 2012 while cloves, cinnamon, nutmeg and mace, cardamoms, various other seeds, ginger and vanilla have a market share of less than 10% for each product group. All the leading countries of these products are developing or emerging economies except for vanilla and nutmeg and mace in which France, Germany and Netherland are within the top 3 exporters. Sri Lanka has a monopoly in Ceylon Cinnamon with 41% of world market share. Top 10 exporting countries have high concentration over geographical destinations. However, leading exporting countries from European Union have well diversified export destinations. Sri Lanka records the highest RCA index for pepper and cinnamon, while Comoros dominates the cloves exporters. The TI index is generally higher among the regional trade partners. India, with four regional trade partners has the highest TI index. In the results of OLS estimations of the gravity model, all the trade cost variables show the expected signs and are statistically significant. The BTA dummy is significant and it increases the trade flow by 79.0% compared to no-BTA. Further, the presence of RTAs inclines the spice export flow significantly. These results show that the leading spice exporting countries are highly concentrated on few trade partners, while some exporters from the developed world have diversified their trade. The traditional spice exporters have the comparative advantage. Thus, considering the potential for market diversification, comparative advantage and the significance of regional integration, there is enough room for developing countries to exploit the spice market.