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From Global to Local Tea Markets: The Changing Political Economy of Tea Production within India's Domestic Value Chain

Natalie J. Langford

ABSTRACT

The growth of emerging economies has led to a significant expansion of domestic markets in the global South. Yet, the vast majority of studies examining contemporary patterns of trade and production continue to use a *global* value chain (GVC) lens, therefore obfuscating important spatial and temporal shifts occurring within domestic geographies of production in the early decades of the 21st century. This article explores how a rapid increase in domestic consumption in the case of Indian tea production has transformed the industry, and how institutional and regulatory actors have responded to these changes. Using a value chain framework to explore the key actors and processes shaping the political economy of domestic production, this article identifies three processes which have driven the creation of new trade and production structures within India's domestic tea market: a significant rise in the outsourcing and fragmentation of the production process; the expansion of smallholder-led production; and the introduction of private standards and governance programmes within the domestically oriented segment of production. These trends have important implications for the tea industry and shed light on how domestic markets in the global South are being transformed under 21st century geographies of trade and consumption.

INTRODUCTION

Producers in the global South are often engaged in the production of goods and services for multiple end markets (Horner and Nadvi, 2018). However, the predominant literature on the organization of trade and production under globalization has overwhelmingly focused on the coordination of global value chains (GVCs) wherein producers in the global South supply goods and services to lead firms in the global North (Gereffi et al., 2005). While South–North trade linkages can be important for producers in terms of value

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addition, there are few empirical studies of how regional and domestic value chains have evolved under contemporary spatial and temporal dynamics of trade (for exceptions, see Krishnan, 2018; Pasquali et al., 2020). Although scholars have begun to examine the socio-economic implications of South–South trade for producers (for example, Bloomfield, 2020), more research is needed to understand how localized value chains are coordinated and governed, and how they compare with the governance of production for export markets (i.e. within GVCs). This is particularly significant given the continued economic expansion in the global South and the growth of local and regional markets in developing countries (Horner, 2016).

This article illuminates the ways through which a global perspective has obfuscated important shifts in geographies of production and trade in the 21st century. Using the case of the Indian tea industry, the article highlights distinctions in the political economy of production for different end markets (domestic and global) and demonstrates the ways in which growing domestic consumption continues to reshape such distinctions. The case of Indian tea is particularly apt for the study of evolving value chain dynamics because, over the course of the 20th century, the industry has shifted from one which was primarily export-driven (and directed through British colonial occupation) to one in which approximately 90 per cent of production feeds the local market (Arya, 2013). This article therefore asks, 'how has the political economy of Indian tea production evolved in relation to the rapid expansion of domestic consumption, and what are the regulatory implications?'.

Domestic markets in the global South have tended to be characterized as highly competitive, with producers competing over small margins within a lax regulatory environment (Knorringa, 2014). This has led to claims that the expansion of domestic markets may lead to a 'race to the bottom' for labour and environmental standards (Kaplinsky and Farooki, 2010). Contrary to these claims, other scholars have demonstrated a growing regulatory interest on the part of Southern actors in shaping the dynamics of production within local markets (Bartley, 2014; Schouten and Bitzer, 2015). Yet, what is often overlooked is the dialectic between the two, and how the rise of value chain relations in these competitive markets may amplify these competing tensions in the context of expanding consumption.

This article highlights the ways in which the contemporary political economy of Indian tea production is reshaping the above tensions in the case of the domestic market. It begins by demonstrating how changing dynamics of global and local competition led the largest domestic tea firms to switch from a vertically integrated model of production to a fragmented model characterized by outsourcing and subcontracting. It continues by illustrating the linkages between the emergence of a domestic value chain and the expansion of smallholder production, and the implications of this expansion for competition and for value capture. Finally, it highlights how these critical changes have led to new and growing governance gaps in which both market and state actors have sought to (re)govern production in the wake

of increased public scrutiny. As the vast majority of tea produced in India is for domestic consumption, this case highlights the need to look beyond the GVC, and to critically analyse the construction of domestic value chains (DVCs) in the global South. It highlights the importance of changing end-market characteristics in emerging economies and calls for future research to further examine the governance of overlapping production chains feeding local as well as global end markets.

The rest of the article is structured as follows. The first section discusses the increased significance of domestic-oriented production in the global South in the early decades of the 21st century. It highlights the key assumptions regarding contemporary patterns of governance within Southern markets and draws upon the GVC framework to highlight the roles that various actors play in the coordination and governance of production. The following two sections introduce the methodological approach, and then go on to highlight the transition of Indian tea production from an export-oriented industry to one which predominantly produces for the domestic market. The final substantive section examines the emergence of a domestic value chain in India's local tea market and demonstrates how contemporary trends related to sourcing, primary production and governance have impacted the political economy of production for the domestic market.

DOMESTIC VALUE CHAINS: CONSIDERATIONS IN AN ERA OF POLYCENTRIC TRADE

From Global to Domestic: Shifting Geographies of Trade

Domestic value chains have gained attention in recent years as global trade has become increasingly multi-polar in character (Horner and Nadvi, 2018). A focus on the DVC recognizes that trade is a significant feature of local (as well as global) economies and is expanding as emerging economies become key sources of demand as well as sources of production (Horner, 2016; Pickles et al., 2016). As South–South trade increases, geographies of trade are increasingly multi-directional, leading to a growth in polycentric trade (Horner and Nadvi, 2018). The considerable growth in the volume of domestic and regional trade within large economies has prompted calls to further study the coordination and governance of domestic markets by private and public actors (Bush et al., 2015). Criticisms have therefore emerged of a 'Northern' perspective due to its limited focus on the flows of goods and services from producers in the global South to consumers in the global North (Murphy, 2008).

In spite of this recognition, the majority of value chain studies continue to focus on the *global* coordination of trade and production (Barrientos, 2013; Mayer and Pickles, 2010). This is due to the genesis of the framework within the initial phase of globalization, in which lead firms from

industrialized countries reshaped the global economy through the outsourcing of production across borders to countries with lower labour costs (Gereffi et al., 2005). Today, the hegemony of these lead firms (predominantly based in the global North) is challenged by the emergence of new trade and production dynamics within contemporary globalization. The rapid economic expansion of Southern countries, most notably India, China and Brazil, has irrevocably altered geographies of trade and consumption (Henderson and Nadvi, 2011; Nadvi, 2014). This has been accompanied by changing geographies of corporate and geopolitical power as demonstrated through the rise of lead firms from these countries that are often dependent upon the large domestic markets in which they are established (Horner and Nadvi, 2018). It is therefore critical to understand how trade within domestic markets is organized and to identify the key actors coordinating and governing the production of goods and services for domestic markets. One way to do this is through the lens of the DVC, which is defined as a chain of production in which 'local lead firms organize and lead … sourcing from national suppliers [in order to] feed demand in domestic end markets' (Horner and Nadvi, 2018: 222). Although the DVC framework is analytically analogous to the GVC framework, it is important to reflect on how value chains embedded in local markets have been historically treated by the GVC approach, and how institutional differences within national borders might impact on the development of DVCs in different ways to that of cross-border GVCs.

Conceptualizing the Domestic Market through the GVC Approach

Traditionally, domestic markets within producer countries have been overlooked due to the tendency to promote export-oriented production within policy circles (Horner, 2016). As such, value chain analysis has predominantly focused on how producers become embedded within global markets and the socio-economic and developmental implications of their embeddedness within particular types of value chain (Gereffi et al., 2005). A key focus within this literature has been on the use of standards by lead firms to coordinate cross-border production and the capacity for producers to meet buyer requirements (Gibbon and Ponte, 2005; Nadvi and Wältring, 2004). The higher barriers to entry created through product and process standards have meant that producers with limited capital, knowledge and/or skills have tended to be excluded from GVCs altogether (Gibbon and Ponte, 2005; Nadvi, 2008). The (in)ability to meet standards has therefore become a key means of ensuring product differentiation and competitive advantage for producers (Barrientos et al., 2011). In this light, the domestic market is seen as the least desirable option for producers, reserved for those unable to meet standards or to acquire the economies of scale needed for exports. This is where the boundaries of analysis have typically ended, therefore

obscuring the dynamics of domestic markets which shape local processes and patterns of production.

The increasingly polycentric character of global trade challenges the primacy of export-led growth because the expansion of domestic markets offers producers different choices and potentially different development trajectories compared to previous generations (Horner and Nadvi, 2018). The noted growth in South–South trade reinforces the argument to look beyond the 'global' and to examine how different geographies of consumption may affect producers and production (Bush et al., 2015). It is in this context that a number of new studies have emerged which have sought to understand the shifting patterns of governance under these broader transformations and the likely implications for producers (Knorringa and Nadvi, 2016; Pasquali et al., 2020).

Such studies have indicated that Southern lead firms may not engage in practices of outsourcing to the same extent as Northern firms, instead preferring to operate within tightly integrated systems of production (Gereffi, 2014). Furthermore, it has been argued that Southern-oriented value chains may not use product and process standards to the extent seen within the global North (ibid.). This may be linked to the relative proximity between suppliers and buyers, less extensive use of subcontracting as well as fewer market and/or institutional pressures to use standards. This has led to the argument that local firms and producers may be able to upgrade to higher value-adding functions in the value chain without the associated costs typically needed to access Northern markets, such as conforming to stringent European standards (Horner, 2016). If this is the case, lower barriers to entry could aid the participation of developing country firms within value chains by allowing them to engage in value-adding activities which would have been difficult to achieve otherwise (Gereffi, 2014). Some argue that South–South trade between countries may lead to more sustainable production practices, due to more equal trading relations (Bloomfield, 2020). However, a more pessimistic view of Southern market expansion predicts that lower regulations could 'lock suppliers into slimmer margins and cut-throat competition' (Gereffi, 2014: 23). Indeed, studies tend to illustrate that SMEs supplying local markets may often be caught in a race to the bottom due to low margins and a lack of consumer demand for high quality products (Knorringa, 2014).

Lead firms coordinating GVCs may select suppliers based on differences in national regulations, geographical proximity to market, cost of production and labour productivity. The same may apply to lead firms coordinating DVCs given that institutional differences in particular locales may be a contributing factor in determining how firms pursue competitive advantage. For example, local variations in legal frameworks and regulations could be a decisive factor in determining the geographies of lead firm sourcing. The cost and/or productivity of labour could also vary significantly by region. Furthermore, industries may often be segmented into formal and informal

production systems in which the former is subject to laws and regulations and the latter operates outside of state purview (Chen, 2007). However, price is not the only consideration and firms will consider various types of risk when determining who their key suppliers are, such as concerns over the quality of production and/or the potential loss of control over activities (Azmeh, 2019).

Institutions Shaping Domestic Markets

Value chain studies have tended to focus on the inter-firm commercial dynamics which shape the governance of production (for example, Gereffi et al., 2005). However, the institutional environment plays an important and often overlooked role shaping the configuration of value chains (Fransen, 2013). A vast literature within global governance remedies this by highlighting the ways through which public, civic and private actors have shaped the regulation of transnational production networks resulting in a plethora of public and private standards (Barrientos et al., 2011; Mayer and Pickles, 2010). While there are limits to private and public forms of governance, it is nevertheless clear that the institutional environment plays a significant role in governing the activities of lead firms, whether they are coordinating global or domestic value chains.

Discussions of how domestic value chains are shaped and structured should also pay close attention to the role of national institutions (both formal and informal). Typically, institutional capacity within developing countries is perceived as weak due to limited resources and/or a lack of ability to implement new regulations and governance programmes because of political constraints (Kaplinsky and Farooki, 2010). From this perspective, it is assumed that the relatively low barriers to entry will benefit smaller enterprises with lower capacity (particularly in the informal sector) and intensify cut-throat competition. This would likely heighten worker vulnerability to exploitation and lead to a race to the bottom for producers. Yet, these assumptions are challenged by increasing evidence of the largely heterogeneous roles played by the state and other institutional actors in emerging economies, with some evidence of a 'regulatory renaissance' taking place, particularly in Latin America (Coslovsky, 2014; Piore and Schrank, 2008). Due to state sovereignty, public actors can play a greater role in regulating domestic (as opposed to global) value chains due to the fact that each stage of the production process is undertaken within the national border. Yet, the incentive for state actors to intervene will likely be influenced by broader political and economic factors (LeBaron and Phillips, 2018).

Further evidence of heterogeneous institutional pressures within domestic markets relates to changing consumer preferences. The growth of the global middle class may result in increased concerns over the quality of goods and services purchased, a preference for branded products and a heightened

awareness of social and environmental issues within production processes (Kharas, 2017). This may lead Southern lead firms to consider the use of standards to differentiate products sold, or to assure consumers that quality standards are met. There is already some evidence to suggest this may be the case as new standards governing social and environmental issues of production have emerged in the global South (Langford, 2019; Schouten and Bitzer, 2015). These Southern-led standards are often predicated upon differing forms of legitimacy compared to standards governing exports and typically have higher government involvement (Giessen et al., 2017; Schouten and Bitzer, 2015).

While the implications of increased South–South trade for value chain studies have begun to be addressed (Gereffi, 2014; Horner and Nadvi, 2018), there has been little attention paid to how the coordination of production in large domestic end markets is being shaped by changing market dynamics. The expansion of middle-class consumption, changing consumer preferences and higher levels of outsourcing all pose significant questions regarding the coordination and governance of production within Southern end markets. By examining these spatial and temporal shifts through a value chain lens, it is possible to better understand and compare the ways in which domestic actors (in particularly domestic lead firms in the South) coordinate and govern production, and how this impacts upon the regulatory frameworks governing producers. This is critical given the increasingly significant size of Southern domestic markets within the global economy.

CASE STUDY METHODOLOGY

This article explores these issues through the case of Indian tea. A case study methodology (Yin, 2009) was used to generate insightful data to capture the global and local dynamics and processes which are spatially and temporally transforming the political economy of Indian tea production. Fieldwork was undertaken in the UK, The Netherlands and India (primarily Delhi, Bangalore and Kolkata) between 2014 and 2018, during which in-depth, semi-structured interviews were conducted with 59 individuals representing lead firms, supplier firms, government bodies and civil society actors (including trade unions). Table 1 offers a breakdown of interviewees by type and number.

Interviewees were selected due to their involvement in the production, regulation and/or governance of Indian tea for export and/or domestic end markets. The majority of interviews took place in Kolkata, the north-eastern hub for firms involved in tea production and sales. Interviews explored the historical shifts within the industry, the role of end-market requirements in shaping the political economy of production, the impact of growing domestic consumption and the governance of production through national laws and regulations, civil society initiatives and standards.

Table 1. Interviewee Type and Number

Participant type	Interviewee type	Number of participants
Private	Lead firms	2
	Supplier firms	6
	Business association	1
	Smallholder federation	1
Public	Government officials	3
	Global institutions	4
Civil society	National NGOs	23
	Global NGOs	13
	Trade unions	6
TOTAL:		59

Key questions raised in the interviews facilitated the mapping and documentation of the actors and processes that are reshaping the political economy of tea production as the bulk of consumption has shifted from export markets to the domestic market. The value chain framework was selected due to its ability to delineate change and transformation within the organization of production through the systematic mapping of the key actors and processes shaping cross-border production of a particular good or service (Barrientos, 2002). Interviews were supplemented by secondary data sources including trade data and reports produced by companies, governments and civil society organizations linked to the Indian and global tea sectors. The tea sector was selected because the location of end markets has dramatically shifted over the past 30 years, with implications for the ways in which export versus domestic market requirements impact on the political economy of tea production. While many studies have examined the dynamics of export-oriented production (e.g. Besky, 2008; Neilson and Pritchard, 2011) there has been very little empirical exploration of the changing structures of domestic-oriented tea production in spite of the fact that the majority of tea produced in India is domestically consumed. The following section demonstrates the shifts in the geographies of trade and consumption within the Indian tea industry from the colonial era to the present day.

The INDIAN TEA TRADE: FROM UNIDIRECTIONAL TO MULTIDIRECTIONAL

The Historical Development of the Indian Tea Industry: A Political Economy Perspective

Historically, the Indian tea sector has depended upon exports both in volume and value terms (Gupta, 1997; Misra, 1987). The industry developed under British occupation and production was shaped by an extractive colonial trade model in which the majority of tea was exported to meet the growing demands of the British market, in an age of rapid industrial expansion (Besky,

2008; Chatterjee, 2001). Tight control by the British Administration meant a vertically integrated system of production, with individual firms controlling all aspects of production. Indian plantation estates were owned and operated by British firms throughout this period (Achinto, 2013). Workers were forcibly brought into Assam (the original site of tea production in India) from tribal communities in Central India, and became indentured labourers on the estates (Behal, 2010). During the 19th century, the British market remained the primary export market. However, exogenous economic factors in the early 20th century (most notably the Great Depression) led British companies in India to seek alternative markets (Gupta, 1997). During this period, attempts were made by these firms to build domestic demand for tea, albeit with limited success (Lutgendorf, 2012).

Despite independence from British rule in 1947, plantation estates continued to be controlled by British interests in the post-independence period. This posed an obstacle for value capture in what was (at that time) India's biggest export earner (Achinto, 2013). The government first attempted to remedy this through the creation of the Tea Board of India in 1953. The Board established a tax system, leading to tighter control of the industry (Mohan and Sequeira, 2012). Today, the Tea Board continues to be responsible for authorizing, registering and licensing all industrial activities pertaining to the industry (Neilson and Pritchard, 2011). Plantation estates are also governed by the Plantation Labour Act (PLA) of 1951. The PLA offers statutory protection for workers and places responsibility for worker welfare with the plantation owners. While criticisms have been levelled at the lack of proper implementation, the PLA does in principle offer numerous provisions for workers, including access to housing and medical care. Furthermore, a tripartite system of negotiations on wages affords plantation trade unions the right to enter into negotiations every three years with the state government and the employers' associations or industry representatives (ibid.). By law, planters cannot pay less than the state-set wage. Yet in spite of these legal protections, many tea workers continue to work for extremely low wages and to suffer from various forms of exploitation due to circumvention of the law by the industry (ibid.). Cash wages are still determined by piece rates and many workers are not on permanent contracts. NGO estimates from Assam put the percentage of workers on casual contracts at 50 per cent (BASIC, 2019). These workers do not have the same legal entitlements as permanent workers, and do not tend to have a regular source of income.

During the 20th century, the global tea trade grew significantly and as late as 1967 tea remained India's largest export earner (Nayyar, 2007). Yet global capital continued to dominate the industry, with profits repatriated to British lead firms and little capital left for reinvestment (Raman, 2010). In 1973, this led to further government interventions through the introduction of the Foreign Exchange Regulation Act (FERA). The FERA placed restrictions on the ability of foreign companies to maintain holdings, with all non-financial

subsidiaries required to dilute foreign ownership to a maximum of 40 per cent or to close operations (Majumdar, 2008). These changes allowed Indian firms to acquire a greater share of tea production, with the large Kanan Devan plantations (formerly owned by a British company) taken over by the Indian firm Tata Global Beverages during this period (Raman, 2010). However, Hindustan Lever (the largest domestic lead firm in India and subsidiary of global firm Unilever) was insulated from the FERA and retained a 51 per cent equity on the condition that 60 per cent of the subsidiary's output was in the core sector (a set of capital-intensive industries prioritized by the government for investment), and at least 10 per cent of the company's output was exported (Pant and Ramachandran, 2017). Having acquired Lipton tea brand in 1972, the firm subsequently acquired Brooke Bond in 1984 leading to the further expansion of its estates in South India and Assam. Overall, these changing ownership structures were accompanied by increased domestic consumption of tea as well as increased diversification of exports.

The rupee–rouble trading agreement with the Soviet Union led to the near monopolistic position of India as the primary source of tea imports for the Eastern bloc between the 1960s and the 1990s, with Russia becoming the most important market for Indian tea producers (Neilson and Pritchard, 2011). Following the collapse of the Soviet Union, India lost significant global market share in tea production to key competitor countries (Indian Institute of Foreign Trade, 2009). The stark decline in exports is evidenced by the fact that while Indian tea exports accounted for 53 per cent of the world's global tea trade in 1971, this had fallen to 15 per cent in 2017 (India Tea Association, 2019).

At present, tea is primarily produced in the North Eastern Region (predominantly in Assam and West Bengal) and in South India (particularly in Kerala and Tamil Nadu) (Neilson and Pritchard, 2011). Teas grown in Darjeeling, Assam and the Nilgiris have been conferred geographical indictors under a WTO TRIPS agreement[1] which recognizes their intrinsic value (Das, 2009). The production of black tea is further classified as either orthodox or CTC (crush, tear, curl) (Kadavil, 2007). CTC tea tends to be used in lower-quality products such as the tea dust used in tea bags. Approximately 90 per cent of India's current black tea production is CTC, and 10 per cent is orthodox (India Tea Association, 2019). There are huge regional variations depending on the type of tea and the region in which it is produced. Assam CTC is only valued at around Rs 150 per kg while orthodox tea from Assam can fetch Rs 500 per kg and Darjeeling orthodox can fetch Rs 1,500 per kg (BASIC, 2019). Darjeeling is primarily export-oriented (approximately 70 per cent is exported) given the high values which can be fetched in foreign markets (Datta, 2010). Generally speaking, the north-eastern states tend to

1. World Trade Organization agreement on Trade-Related Aspects of Intellectual Property Rights.

Table 2. Percentage Share (of Total Production) in each Tea-producing State of India, 2018

State	% share
Assam	58
West Bengal	23
Tripura	1
Tamil Nadu	9
Kerala	8
Karnataka	1
Total India	100

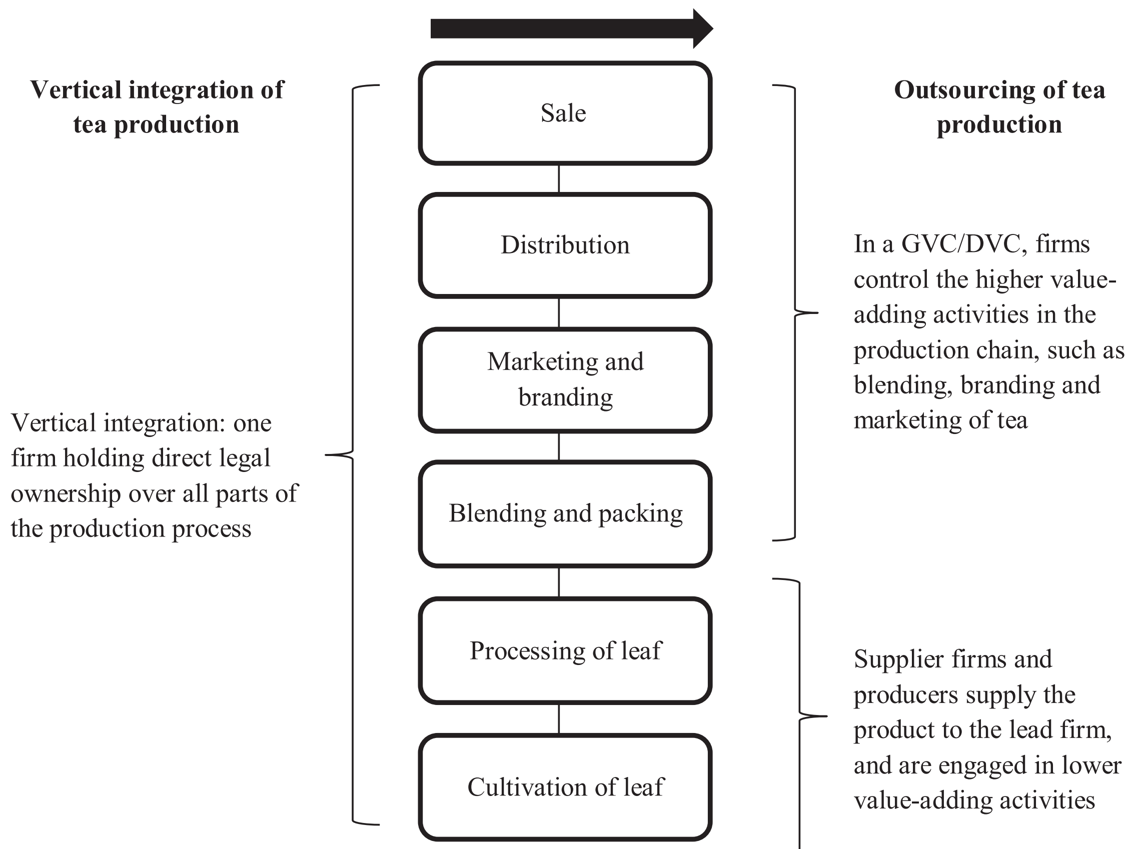
Source: Tea Board of India (2018)

produce branded tea whereas southern-grown tea tends to be unbranded tea. Table 2 demonstrates the dominance of Assam at the national level with over 50 per cent of India's total tea production coming from that state. Approximately 85–90 per cent of the tea produced in the North Eastern Region is consumed domestically. In the southern regions, approximately 50 per cent reaches export markets, with the rest consumed domestically (Indian Institute of Foreign Trade, 2009).

From the 1990s onwards, the Indian tea industry has been impacted by the changing corporate structures of the world's largest tea companies. A series of mergers and acquisitions accompanied by the forward integration of production (with an increased emphasis on core competencies by the multinational corporations) has led to considerable consolidation of market power at the global scale. At present, just three firms control approximately one fifth of the global tea market: Unilever controls 12 per cent, Tata Global Beverages controls 4 per cent and Twinings controls 2 per cent (Potts et al., 2014). As Figure 1 illustrates, these firms source their products through a complex set of intermediaries from producer to processor to blender. These inter-firm relationships contain significant degrees of power asymmetry with implications for the capture of value at each stage of the production process (Kadavil, 2007; van der Wal, 2011). At the global scale, the industry overall has shifted from vertical integration towards a value chain structure (see Figure 1) as firms have sought to advance their competitive position through the outsourcing of lower value adding activities.

Brand-based competition defines the business models of these large firms, and financial markets have further encouraged the valuation and protection of these intangible assets (Neilson and Pritchard, 2011). Key brands such as Lipton, PG Tips (Unilever) and Tetley (Tata Global Beverages) compete for global market share, and the price of tea is therefore a major competitive pressure for lead firms. Indian tea producers are left with little or no influence over the terms of trade in export markets, and the low prices fetched continue to adversely impact on tea workers and farmers (LeBaron, 2018).

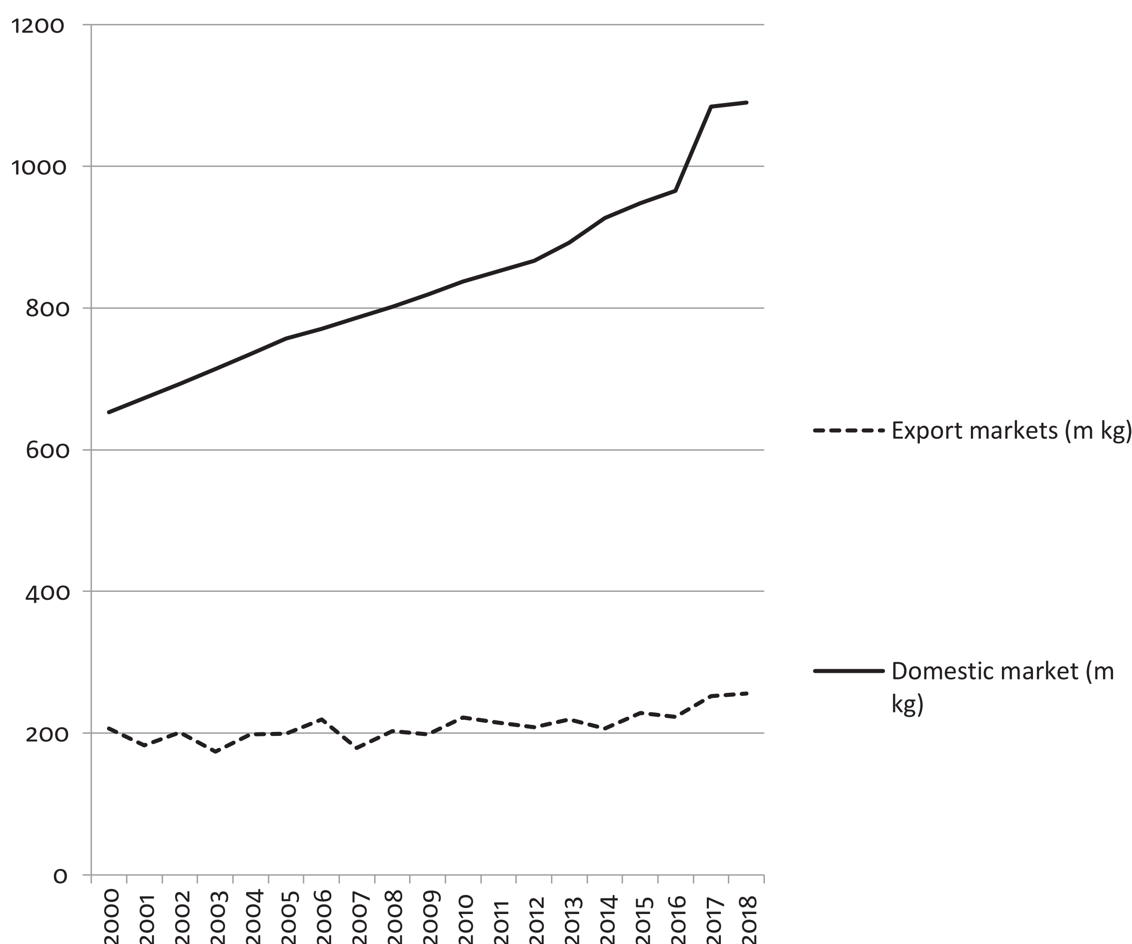
Figure 1. Value Chain Structure of Indian Tea Production: A Temporal Perspective



Shifting Geographies of Indian Tea Trade: The Growth of the Domestic Market

While the GVC of Indian tea production has been extensively studied, little is known about the domestic structures of production and how they have shifted in recent decades. The domestic market for tea in India grew steadily from the 1960s. Aside from the increased control of the industry by local firms following the introduction of FERA (which may have created a more positive perception of the industry among local consumers), the growth in domestic consumption was also due to the introduction of new technologies within tea processing which increased the availability of affordable tea (Lutgendorf, 2012). During the period 2000–18, the volume of tea consumed domestically rose from 600 million kg to over 1,000 million kg (see Figure 2) and while per capita consumption is still relatively low compared to some other countries, the overall increase in demand has meant that the majority of tea produced in India has fed domestic (as opposed to export) markets. By 2013, almost 90 per cent of tea produced was consumed domestically (Arya, 2013). The growth in the domestic market is correlated to the changing consumer preferences of Indian consumers. As disposable income has risen, consumers have switched from loose leaf teas towards premium, branded

Figure 2. Changing Volume of Tea Production for Export versus Domestic Markets, 2000–2018 (in million kg)



Source: India Tea Association (2019)

Table 3. Preferences for Packaged vs Loose Leaf by Region

Zone	Rural		Urban	
	Loose	Packaged	Loose	Packaged
North	11%	89%	8%	92%
West	18%	82%	17%	83%
Central	28%	72%	15%	85%
South	17%	83%	13%	87%
East	53%	47%	46%	54%
All India	25%	75%	20%	80%

Source: Tea Board of India (2018)

categories, with 2018 figures shown in Table 3 demonstrating preferences for packaged tea across the majority of urban and rural India.

The growth in domestic tea consumption has been accompanied by stagnation in relation to the volumes of tea exported, as detailed in Figure 2 which illustrates this pattern from 2000 to 2018. These trends differ in

comparison to other major tea producing countries such as Sri Lanka and Kenya which continue to be export-oriented: in both cases, approximately 95 per cent of their total production is exported (CPDA, 2008; ILO, 2018). However, the Indian case bears some similarity to China where approximately 66 per cent of tea production is domestically consumed (Lei, 2016).

Within the domestic market, Hindustan Unilever and Tata Global Beverages are the two largest firms and control approximately 27 per cent and 29 per cent of the market respectively (Potts et al., 2014). Hindustan Lever is a subsidiary of the global firm Unilever, the world's largest buyer of tea. Tata Global Beverages is an Indian firm by origin but can be considered a global lead firm due to its ownership of Tetley, a UK firm which it acquired in 2000. However, Hindustan Lever and Tata Global Beverages can simultaneously be considered domestic in the sense that some segments of the two companies purchase tea solely for the local market and with the majority of tea sourced from domestic producers — in contrast to Unilever and Tetley, which, whilst part of the same overall conglomerate, source tea for global markets and from producers across many regions. These intersections between the GVC and DVC highlight the merits of adopting a value chain analysis which is inclusive of multiple, overlapping chains of production (Langford, 2019). Alongside Hindustan Lever and Tata Global Beverages, there are a number of large tea companies which coordinate production for the domestic market. Interestingly, several of these companies (such as Goodricke Group) operate as lead firms in the domestic market but are also first-tier suppliers to global lead firms. Traditionally, these domestic players have maintained vertically integrated structures.

Large, branded companies have promoted packaged tea through extensive marketing campaigns in which brand has been linked to quality (Mukherjee et al., 2012). This trend parallels shifts in production occurring within the global tea market, in which the move to increasingly sophisticated blending recipes and the central role of branding have benefited larger multinational corporations over smaller firms (Neilson and Pritchard, 2011). Whereas branded tea in the domestic market was only 12 per cent more expensive than unbranded tea in 2009, it was 70 per cent more expensive by 2017 (BASIC, 2019). These changing market conditions led Unilever to increase its ownership share in its Indian subsidiary Hindustan Lever from 55 per cent to 67 per cent (the legal maximum under Indian law) in 2013 (Unilever, 2015). This illustrates once again the limits of studying value chains from a purely global perspective and demonstrates the porous boundaries of a domestic versus global value chain analysis.

We can conclude that Indian tea production is no longer dominated by exports to foreign countries but is instead increasingly dependent on the domestic market. While value addition in select export markets may be high, many large producers (planters) claim that they fetch good prices on the

domestic market, relative to exports overall.[2] However, this is primarily the experience of larger firms involved in the production of premium teas, and there may be variations depending on the quality of teas being sold. While many studies have analysed the GVC dynamics that shape Indian tea production, there remains a gap in our understanding of how domestic dynamics shape the political economy of production (Neilson and Pritchard, 2011). The following section sheds light on this question by drawing extensively on primary research to analyse three important characteristics of domestic production through a value chain lens.

THE CONTEMPORARY ORGANIZATION OF PRODUCTION IN THE DOMESTIC MARKET: THREE KEY TRANSFORMATIONS

The Formation of a Domestic Value Chain for Indian Tea

Historically, the coordination of production for the domestic market has been characterized by vertical integration in which tea firms selling to the market exercised direct control over production via ownership of plantation estates. However, the contemporary coordination of production for the domestic market has radically changed. The following section explores the key political economic factors which led to an increased fragmentation of production and the emergence of value chain dynamics within the domestic market.

During the 2000s, the vertically integrated production system became increasingly untenable for the largest domestic firms owing to price volatility on global tea markets. In 2001, global tea prices plummeted due to oversupply which led to a systemic crisis within the industry (CEC, 2007). Many plantation estates closed because managers were no longer able to pay the necessary taxes and overheads (Chattopadhayay, 2005). In addition, many estates failed to meet yield targets and to maintain the quality of tea produced (Larsen, 2016). At the height of the crisis, approximately 100,000 permanent tea workers were affected by estate closures with NGO reports indicating chronic impoverishment in tea-growing regions (CEC, 2007). As workers faced destitution, estate owners protested the cost of their legal obligations under the PLA by claiming that compliance with costly regulations undermined the competitiveness of the industry (Neilson and Pritchard, 2011). This remains their perspective today.[3]

For the largest domestic firms, the crisis demonstrated the significant commercial risks in continued plantation ownership. Both Hindustan Lever

2. Interview, Managing Director, Planter 2, 7 July 2015; Interview, Managing Director, Planter 4, 20 July 2015; Interview, CEO, Planter 5, 3 August 2015.
3. Interview, Managing Director, Planter 2, 7 July 2015; Interview, Managing Director, Planter 4, 20 July 2015; Interview, Managing Director, Planter 6, 2 July 2015.

and Tata Global Beverages owned significant plantation estates in the north-eastern and southern tea growing regions, but in 2005, Hindustan Lever announced its plans to sell the majority of its estates. The sale of Hindustan Lever's plantations to McLeod Russel made the latter company the largest tea producer in the world (Dutta, 2019). Tata Global Beverages feared that it would become uncompetitive in light of Hindustan Lever's decision, and also sold its operations in Assam and in the Nilgiris, but maintained ownership of its Darjeeling tea estates due to the higher sale prices of this region's production (Raman, 2010). Prior to the sale of its Kanan Devan estates, Tata downsized its labour force by offering workers voluntary retirement packages a year before the sale.[4] This resulted in the intensification of labour amongst the remaining workforce. Given that Tata still sources tea from the estates, this intensification has essentially allowed Tata and other firms to 'buy the tea at a lower cost' (Raman, 2010: 167). Between the two firms, it is estimated that a total of 36,000 workers were laid off through the sale of estates (Groosman, 2011; Raman, 2010). New plantation companies were formed through this process of vertical 'dis-integration' based in the tea-growing regions in Assam, Kerala and Tamil Nadu. They include the Kanan Devan Hills Plantations and Amalgamated Plantations Private Limited (formerly owned by Tata Global Beverages) and McLeod Russel (formerly owned by Hindustan Unilever).

Given the significant combined market share of Hindustan Lever and Tata Global Beverages, the coordination of production for the domestic market was radically transformed by the construction of a DVC characterized by similar sourcing practices to those used by lead firms in global markets. By creating a DVC, both firms were able to eliminate the mounting risks associated with the management of plantation estates. Firstly, they no longer had to meet the costs of running plantations, which included compliance costs associated with national regulations and law.[5] Instead, supplier firms would be responsible for compliance and for meeting such costs. Secondly, the firms were afforded more flexibility within their domestic sourcing base. While retaining some degree of ownership (and therefore creating dependency) within the new plantation companies formed, the firms were also able to geographically expand their supplier base.[6] This reduced the risks associated with pest outbreaks as well as risks posed by trade union unrest. These lead firms hold contracts with their 'priority factories' and spread their sourcing of tea through a 1:8 ratio, meaning that every kilo of tea is sourced from eight different sites or factories.[7] By switching from vertically integrated

4. In the case of the sale of the Kanan Devan Hills Plantations, Tata instituted an employee buyout. For more information on the case, see Raman (2010: 166–67).
5. Interview, CEO, Lead Firm 1, 4 June 2015; Interview, Head of Sustainability, Lead Firm 2, 16 July 2015.
6. Interview, CEO, Lead Firm 1, 4 June 2015; Interview, Head of Sustainability, Lead Firm 2, 16 July 2015.
7. Interview, CEO, Lead Firm 1, 4 June 2015.

Table 4. Structures of Ownership in the Indian Tea Industry

Type	Size	Ownership	Processing Facilities
Smallholding	1–25 acres (<10.12 hectares)	Proprietor	None: leaf is transported to bought-leaf factory
Registered tea gardens	<200 hectares	Single proprietor or partnership firms	Processing facilities may be on site, or tea may be processed at a bought-leaf factory
Plantation estates	>200 hectares	Large companies, limited liability companies or state/worker ownership	Processing facilities on site

Source: Kadavil (2007)

systems of production to a model of outsourcing across a broader supplier base, domestic lead firms have freed themselves to further specialize in the marketing and branding of tea products, leading to increased domestic market consolidation.

The (Re)Organization of Tea Production in the Domestic Value Chain

By focusing the frame of empirical investigation on the DVC, the role of the informal sector within Indian tea production is brought to light. For while global lead firms sourcing for export markets only source tea from plantation estates, tea sold in the domestic market is extensively sourced from smallholder producers. GVC analysis obfuscates the significance of these producers due to its exclusive focus on export-oriented production whereas a DVC lens invites scrutiny of these additional sites of production. The co-existence of smallholders alongside plantation estates and registered tea gardens creates a segmented industry in which different regulations and norms apply to different types of producer. For example, plantation estates and registered tea gardens operate in the formal sector and are subject to national regulations set by the Government of India, including the PLA. In contrast, smallholders operate in the informal sector and outside the purview of state regulation. Table 4 illustrates the legal definitions that constitute these varying ownership structures.

Smallholder production under Indian law is defined as a farm or enterprise of less than 10.12 hectares in area. As Table 5 illustrates, in 1991, smallholder production was responsible for just 7 per cent of India's total tea production. Yet by 2019, smallholder production was estimated to provide over 48 per cent of total tea production, with an estimated 180,448 small tea growers producing tea on 161,648 hectares (India Tea Association, 2019). The growth of this production segment has been exponential; during the period 2014–18 production by smallholders rose by 248 million kg, an increase of 62 per cent (ibid.). During this same period, production in

Table 5. Growth of Smallholder Production in India in terms of Total Tea Production (%), 1991–2019

Year	Small growers	Plantation estates
1991	7%	93%
2001	24%	76%
2011	28%	72%
2012	32%	68%
2013	31%	69%
2019	48%	52%

Sources: India Tea Association (2019); Tea Board of India (2013)

Table 6. Production (million kg) of Plantations and Registered Tea Gardens vs Smallholders in India, 2019

	North India	South India	All India
Registered tea gardens and plantation estates	575.46	116.80	692.26 (52%)
Small growers	538.30	108.07	646.37 (48%)
Total	1,113.76	2,24.87	1,338.63

Source: India Tea Association (2019)

the formal sector declined by over 100 million kg, a decline of 13 per cent (ibid.). The total production (in million kg) of plantations versus smallholders by region is detailed in Table 6.

The expansion of smallholder tea farming was linked to both market factors and government initiatives. Favourable tea prices during the 1990s due to undersupply on the global market made tea cultivation attractive to producers (Kadavil, 2007). Yet, this expansion was also heavily supported by the creation of government programmes which encouraged farmers to convert from vegetable to tea production (Seddon and Schmidt, 2017). In Assam alone, state efforts to popularize small tea production has led to an increase from 657 farmers in 1990 to over 84,000 in 2019 (BASIC, 2019).

While smallholders have historically played a marginal role in Indian tea production, their rapid expansion has significantly altered the domestic structures of production. Smallholder production has been linked to higher productivity as compared to plantation estates due to the intensive and manual nature of work needed for tea cultivation in the absence of machinery: pruning, spraying and plucking are typically done by hand within smaller sites of production (Hayami and Damodaran, 2004). The regular plucking of the densely packed tea leaves by smallholders is said to increase the overall productivity in terms of yield per hectare (ibid.), and Indian smallholders in the tea industry are more productive than plantations, as illustrated by Table 7.

A further competitive advantage of smallholder production is the fact that farmers are self-employed and make use, first and foremost, of family labour. Where waged labour is used on smallholder sites, farmers are

Table 7. Productivity of Smallholders versus Plantation Estates, 2011–13 (kg per hectare)

Year	Small growers	Registered tea gardens and plantation estates
2011	2,000	1,970
2012	2,292	1,882
2013	2,367	2,035

Source: Tea Board of India (2013)

not constrained by any broader regulations regarding wages, nor are they required to provide housing or wider social support to their workers. A dual structure of tea production for the domestic market thus emerges, in which plantation estates are obliged to follow the PLA (which creates additional costs) while smallholders are able to produce cheap tea without having to cover any additional non-wage welfare expenditure for day labourers. Figure 3 illustrates the complexity within the DVC caused by these developments and highlights the interconnections between the dual structures of domestic market production.

Smallholders occupy a weak bargaining position in the DVC relative to the larger plantation estates. This is due to the fact that the leaf must be processed within five to seven hours and yet the majority of growers do not have access to processing facilities (Kadavil, 2007). Instead, they must transport and sell the leaf to bought-leaf factories or estate factories within a short period of time. Intermediaries, known as agents, transport the leaf on behalf of smallholders who do not have access to a vehicle (ibid.). In such a context, smallholders are vulnerable to low returns on their product and to adverse incorporation into the market (Larsen, 2016). While the premium market for tea is growing, there is still a significant segment of the population which consumes low-grade tea. The perception of tea as an 'everyday drink' contributes to relative price inelasticity in the lower segments of the tea market (Tea Board of India, 2018).

An important development within the DVC is the subcontracting of production by plantation estates to smallholders. As Table 8 illustrates, on average plantation estates in India are sourcing around 17.9 per cent of tea from smallholders. This has the potential to undermine the agency of tea plantation workers, as it provides plantation owners with a cheap source of tea.[8] Relatedly, the establishment and growth of smallholder production may eventually lead to competitive advantage in exports. For example, key competing countries such as Kenya and Sri Lanka have long had a more established base of smallholders and are less dependent upon plantation estates in comparison to India (ILO, 2018; KEPSA, 2014). Together, the divestment

8. Interview, Managing Director, Planter 2, 7 July 2015; Interview, Managing Director, Planter 3, 19 July 2015.

Figure 3. Dual Structure of the Domestic Value Chain

Source: author's own construction

of domestic lead firms from production (i.e. vertical dis-integration) and the expansion of smallholder farms in India have transformed the political economy of tea production in recent decades. This leads to the question of how institutional and regulatory actors have responded to these developments within the domestic value chain.

New Institutions of Governance

The dominance of value chain dynamics in the domestic market has led to new commercial and institutional pressures. Domestic lead firms have

Table 8. Percentage of Smallholder-sourced Tea in Estate Factories, by Region, 2017–18

State	RTG%	STG%	% of STG in estate factories production
Assam	57.82	42.18	21.79
West Bengal	46.34	53.66	18.45
Others	42.53	57.47	19.25
Tamil Nadu	33.58	61.42	15.76
Kerala	82.23	17.77	14.31
Karnataka	94.97	5.03	0.53
All India	53.09	46.91	19.73

Notes: RTG = registered tea garden; STG = smallholder tea garden
Source: India Tea Association (2019)

become sensitive to quality and food safety concerns while simultaneously becoming less able to maintain direct control over production due to divestment from plantation ownership. The growth of smallholder production has made control over production ever more difficult given the introduction of new intermediaries within the value chain (including agents and bought-leaf factories) and the geographical fragmentation of growers.[9]

This fragmentation creates new vulnerabilities for Hindustan Lever and Tata Global Beverages who are increasingly dependent on this smallholder value chain but whose key competitive advantage lies in the protection and enhancement of their branded products. Growing Indian consumer engagement with branded goods and the implicit link between brand and quality leaves domestic lead firms vulnerable to potential food safety, social and/or environmental scandals. This became evident in 2013 when a national NGO campaign exposed illegal levels of pesticide present within tea sold by domestic brands (Greenpeace, 2013). While pesticide misuse was identified in both the plantation and smallholder segments, the geographical fragmentation of smallholder producers created additional governance difficulties because processing factories were often unaware of where their tea had originated.[10] This led to a higher perception of risk associated with the sourcing of leaf from the bought-leaf factories.[11] Hindustan Lever, Tata Global Beverages and the Tea Board faced mounting pressure as a result which drove a new interest in governing production embedded within the DVC. While the Tea Board launched a regulatory instrument called the Plant Protection Code in response, this was a self-certification programme and came under immediate criticism due to the lack of a strong enforcement mechanism. The domestic lead firms (Hindustan Lever and Tata) in turn led the

9. Interview, CEO, Lead Firm 1, 4 June 2015; Interview, CEO, NGO 8, 12 August 2015.
10. Interview, CEO, NGO 2, 3 June 2015; Interview, CEO, NGO 8, 12 August 2015.
11. Interview, Head of Sustainability, Lead Firm 2, 16 July 2015; Interview, CEO, Planter 5, 3 August 2015.

design of a new sustainability standard for the domestic market, known as Trustea; the Tea Board was later invited to join this initiative and accepted (Langford, 2019).

The Trustea code was designed to govern food safety and social standards for India's domestic tea market. Its development can be read as a regulatory response to the limitations posed by the legal separation of production between lead and supplier firms, and the challenges of coordinating ever-more fragmented chains of production. While Trustea is not being explicitly led by consumer pressures, many Indian firms believe that consumers will soon exhibit a greater interest in the governance of tea production.[12] The creation of Trustea marks the creation of a new mode of governing the DVC and also reflects the ascendancy of private as well as public standards to govern production within the domestic sphere. The emphasis on private rather than public mechanisms perhaps reflects the relative failure of the Tea Board to tackle systemic regulatory issues within the industry: this is certainly a view which is widely shared among stakeholders in the private sector and within Indian civil society.[13]

CONCLUSION

Domestic value chains coordinated by domestic lead firms are increasingly prominent within the global South. In India, the expansion of domestic consumption in the late 20th and early 21st centuries has shifted tea production from an export-oriented to a domestic-oriented industry. Thus, the political economy of tea production as a whole is increasingly shaped by domestic rather than global market factors. The significance of local trade and production to Indian tea producers challenges the tendency of development scholars to focus on the *global* value chain dynamics of commodity production and advocates for a more polycentric approach to the study of global trade and production.

This article has demonstrated the precise ways through which domestic pressures have transformed the political economy of tea production in recent decades, and the regulatory implications of this transformation. It identified key three shifts within contemporary domestic trade and production and the key governance challenges associated with these. First, the article identified value chain dynamics as a recent phenomenon within the local tea market, created by the decision of the largest domestic firms to divest ownership of their plantation estates. The emergence of new intermediaries

12. Interview, Head of Sustainability, Lead Firm 2, 16 July 2015; Interview, Managing Director, Planter 2, 7 July 2015; Interview, Managing Director, Planter 3, 19 July 2015.
13. Interview, Head of Sustainability, Lead Firm 2, 16 July 2015; Interview, Managing Director, Planter 2, 7 July 2015; Interview, Managing Director, Planter 4, 20 July 2015; Interview, CEO, NGO 3, 14 August 2015.

as a result further extended the length and complexity of the domestic supply chain. Second, the article highlighted the dependence of domestic lead firms on smallholder production. This dependence increased price competition between suppliers and placed an ever-growing percentage of production outside the purview of state oversight. Third, the article illustrated that private standards have been developed to govern the domestic value chain in response to the challenges of domestic (out)sourcing and the expansion of smallholder production.

Domestic markets in the South have often been characterized by low barriers to entry, lax regulatory frameworks and cut-throat competition (Gereffi, 2014; Kaplinsky and Farooki, 2010). Yet, debates continue as to whether these dynamics will remain characteristic of production as emerging economies expand. On the one hand, the case of Indian tea partially confirms the picture of a market under increased competitive pressures and subject to low barriers to entry. Outsourcing has allowed domestic lead firms to focus on market expansion while simultaneously placing price pressure on the now 'independent' suppliers and smallholders. Their significant domestic market share of 56 per cent increases the power of the lead firms to dictate prices. These competitive dynamics are further entrenched due to the growth of smallholder production (where production costs are lower due to the use of family labour). The cheaper price of tea in the smallholder segment has produced fierce competition between the smallholders and the plantation estates.

On the other hand, evidence suggests that domestic markets face new regulatory pressures in the context of expansion. Lead firms have come under increased pressure to regulate production as a result of growing civil society and institutional interest, with evidence that some NGOs have successfully driven firms to improve the governance of their supply chains. The creation of Trustea can be read as a response to these pressures. However, the fact that private rather than public standards have been used arguably exposes the weakness of public institutions, particularly when it comes to the issue of production within informal spaces. Table 9 illustrates some of the key challenges and opportunities created (from a regulatory perspective) through these three distinct transformations within the production of Indian tea for the domestic market. For example, some NGOs argue that modernization of the PLA and affording plantation labourers the same rights as agricultural labourers would have some social benefits. However, trade unions argue instead that the PLA should be strengthened in terms of its regulatory oversight and implementation.[14]

Overall, this article has shed light on the 'black box' of domestic markets which continue to be overlooked within GVC studies. The evidence

14. Interview, CEO, NGO 3, 14 August 2015; Interview, Director, Trade Union 2, 11 July 2015; Interview, Director, Trade Union 3, 9 July 2015; Interview, Trade Union 5, 7 June 2015; Interview, Trade Union 6, 4 June 2015.

Table 9. Regulatory Implications of the Three Transformations

Transformation	Challenges	Opportunities/Possibilities
Move from organized to unorganized production	Decline of public regulations' influence over the Indian tea industry	Modernization of the PLA and granting plantation labourers the same rights as agricultural labourers could have social benefits (NGOs) PLA could be strengthened in terms of regulatory oversight and implementation (Trade Unions) Increasing lead firm regulation of small tea growers as pressures around quality and social standards rise
Divestment and value capture	No direct ownership of production by lead firms	Lead firms focus on protection of intangible assets leading to increased engagement with corporate social responsibility and the use of standards
Growth in Southern markets	Decline of transnational private standards' influence over South–South markets Poor enforcement of public regulations and few alternative private standards	Increase in new constellations of actors involved in shaping governance of social standards, such as local civil society organizations Convergence and normalization of global norms around social standards by lead firms engaged in Northern and Southern markets Growth of Southern market consumer pressure

Source: author's own construction

from the Indian tea industry demonstrates that the expansion of large domestic markets in the global South is leading to significant transformations within political economies of production. The increased use of subcontracting and outsourcing, the growth of informal production and the emergence of new regulatory standards demonstrate points of both divergence and convergence in comparison to the global value chain. These findings call for further research into domestic value chains in which complex interactions within national supply chains are continuing to impact and shape the future dynamics of production in an era of polycentric trade.

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