Chapter-I

INTRODUCTION

The introductory chapter deals with the history of tobacco, cultivating States in India. Present structure of Indian tobacco production, Review of Literature, Statement of the Problem, Objectives of the Study, Hypotheses, Sampling, Sources of Data, Scope and Limitations of the study.

1.1 HISTORY OF TOBACCO

Tobacco is one of the economically and commercially significant agriculture crops in the world.\textsuperscript{1} It is drought tolerant, hardy of short duration crop which can be grown on soils where other crops cannot be cultivated profitably. It had been cultivated in about 124 countries in the world. When Christopher Columbus discovered America,\textsuperscript{2} he found the natives using tobacco in much the same manner as it is used today. The American Indians believed it to possess medicinal properties, which was the main reason for its introduction in Europe. Tobacco was important in Indian ceremonies, such as the smoking of the pipe of piece. Evidently the natives of North and South America had developed crude methods of tobacco culture. Its extension to particularly all parts of the world began with its introduction in to Europe. Jean Nicot, the French ambassador to Lisbon, Portugal in whose honour the genus \textit{Nicotiana} was named, evidently he sent the seed of \textit{Nicotiana tabacum} to Catherine de Medicis, the queen consort and Reagent of France. Portuguese and Spanish sailors took tobacco from Europe to all parts of the

\textsuperscript{1} Report on Tobacco in Indian Economy, CTRI, Rajahmundry, 2008, p. 5.
\textsuperscript{2} Helen Hemingway Benton, Taylor, Utah; Encyclopedia Britannica, Inc., 18\textsuperscript{th} Volume, 15\textsuperscript{th} Edition, 1973-1974, Publisher, Chicago, pp. 464, 466.
world. Soon Tobacco became the chief commodity exchanged by the colonists for European manufactured articles.

Tobacco is the common name of the plant *Nicotiana tabacum*, and to a limited extent *N. rustica*, and the cured leaf that is used, usually after aging and processing in various ways, for smoking, chewing, snuffing, and extracting of nicotine. The common name was derived from an American Indian word applied both to a tube for inhaling the smoke and to a cylinder of leaf prepared for smoking.

Virginia is one of many homes to wild natural tobacco and the undisputed origin of commercially produced tobacco leaf as it today. That was the fame and fortune of “Virginia” tobacco, and it is now grown world-wide, in South America, Africa and Asia, the tobacco product is called Virginia ‘flue-cured’ or simply ‘Virginia’ tobacco.

In the year 1508, exactly 502 years ago Flue Cured Virginia (FCV) Tobacco was introduced in India by one of the peripatetic teams that visited South America and India. When the Britishers settled in the Virginia Coast in North America in early 17th century, the type of tobacco was cultivated by the natives of that area was *Nicotiana rustica*. *Nicotiana tabacum* was brought by them from the West Indies, which later on came to be known as Virginia tobacco. By modification of cultivation practices and through selection process, the milder and smoother type of tobacco was developed by the settlers. It acquired a bright colour and sweet aroma after the invention of flue-curing during

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1860s. The flue-cured Virginia tobacco is now an essential ingredient of cigarettes all over the world.

1.2 QUALITY OF VIRGINIA TOBACCO

The quality of flue-cured tobacco relates mainly to smoking characteristics. The smoking characteristics are mainly a result of the chemical composition such as total nitrogen content, nicotine content, sugars and chlorides. The manufacturer is determined by the physical properties of the leaf such as colour, body, and maturity, leaf size, filling value, texture and combustibility. The state-wise particulars of tobacco cropping area and production in India has mentioned in the above table 1.1.

### Table 1.1
Tobacco cultivating Sates in India

<table>
<thead>
<tr>
<th>State</th>
<th>Area (M. Hectares)</th>
<th>% of Total Area</th>
<th>Production (M. Tonnes)</th>
<th>% of Total Production</th>
<th>Yield (Kgs/Hect)</th>
<th>% Coverage under Irrigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>0.2</td>
<td>43.5</td>
<td>0.3</td>
<td>30.8</td>
<td>1376</td>
<td>33.1</td>
</tr>
<tr>
<td>Bihar</td>
<td>0.02</td>
<td>4.3</td>
<td>0.01</td>
<td>1.6</td>
<td>717</td>
<td>73.7</td>
</tr>
<tr>
<td>Gujarat</td>
<td>0.11</td>
<td>23.9</td>
<td>0.18</td>
<td>27.7</td>
<td>1657</td>
<td>73</td>
</tr>
<tr>
<td>Karnataka</td>
<td>0.07</td>
<td>15.2</td>
<td>0.09</td>
<td>9.2</td>
<td>1275</td>
<td>3.4</td>
</tr>
<tr>
<td>Maharashatra</td>
<td>0.01</td>
<td>2.2</td>
<td>0.01</td>
<td>1.5</td>
<td>1473</td>
<td>12.5</td>
</tr>
<tr>
<td>Orissa</td>
<td>0.01</td>
<td>2.2</td>
<td>0.01</td>
<td>1.5</td>
<td>625</td>
<td>10</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>0.01</td>
<td>2.2</td>
<td>0.01</td>
<td>1.5</td>
<td>1463</td>
<td>100</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>0.02</td>
<td>4.3</td>
<td>0.15</td>
<td>23.1</td>
<td>6834</td>
<td>100</td>
</tr>
<tr>
<td>West Bengal</td>
<td>0.01</td>
<td>2.2</td>
<td>0.01</td>
<td>1.5</td>
<td>570</td>
<td>Neg</td>
</tr>
<tr>
<td>Others</td>
<td>Neg.</td>
<td>Neg.</td>
<td>0.01</td>
<td>1.6</td>
<td>Neg</td>
<td>Neg</td>
</tr>
<tr>
<td>All India</td>
<td>0.46</td>
<td>100</td>
<td>0.78</td>
<td>100</td>
<td>2194</td>
<td>48.1</td>
</tr>
</tbody>
</table>


Tobacco is a principal cash crop of national importance. It has been playing a prominent role in the development of the nation’s economy. Although the cultivation of

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tobacco is regulating and restricting in India by the government, it is cultivated in an area of 0.46 million hectares (0.27% of the net cultivated area).

**Chart- 1.1**

**Present Structure of India Tobacco production**

<table>
<thead>
<tr>
<th>TOBACCO PRODUCTION</th>
<th>800 M.Kg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIGARETTE</td>
<td>308 M.Kg.</td>
</tr>
<tr>
<td>DOMESTIC</td>
<td>106 M.Kg.</td>
</tr>
<tr>
<td>EXPORT</td>
<td>202 M.Kg.</td>
</tr>
<tr>
<td>NON-CIGARETTE</td>
<td>492 M.Kg.</td>
</tr>
<tr>
<td>DOMESTIC</td>
<td>472 M.Kg.</td>
</tr>
<tr>
<td>EXPORT</td>
<td>20 M.Kg.</td>
</tr>
</tbody>
</table>

- **MAJOR PRODUCERS**
  - Andhra Pradesh
  - Karnataka
  - Orissa
- **PRODUCTS**
  - Cigarettes
  - Pipe Tobacco
  - Roll-Your-Own

- **MAJOR PRODUCERS**
  - Gujarat
  - Maharashtra
  - Bihar
- **PRODUCTS**
  - Bidi, Cheroot
  - Hookah
  - Snuff, Chewing

**Source:** Central Tobacco Research Institute, Rajahmundry, Andhra Pradesh, 2009.

Present in India, total tobacco production is 800 million kgs. In total tobacco production 62 per cent of production is non-cigarette tobacco, remaining 38 per cent is the cigarette tobacco (FCV, Burley and Oriental). It is also indicates that the cigarette tobacco have more export potential than non-cigarette tobacco, while taking the non-cigarette tobacco the domestic consumption higher than cigarette tobacco.
1.3 REVIEW OF LITERATURE

This section is intended to provide an overview of the available literature on the subject. This will help in formulating objectives of the present study and its relevance. Garner\(^6\) in his book "The Production of Tobacco" critically examined the history of tobacco industry and present distribution of production in United States, soil and cropping pattern, tobacco varieties, fertilisation of tobacco crop, transplanting field care and harvesting of tobacco crop, different methods of tobacco curing, grading and marketing practices, cost of production and profits and cultural practices in relation to yield and quality.

The Government of India\(^7\) brought out a report on marketing of tobacco in India. The report mainly concentrated on the trends in area, production and marketing of tobacco in the country.

The Directorate of Economics and Statistics,\(^8\) in its study entitled "Tobacco in India" the report mainly emphasises on area, production and productivity of tobacco in different States and international trade of tobacco and tobacco products during 1951-52 to 1953-54.

The Indian Central Tobacco Committee\(^9\) in its report focused on the tobacco cultivation in India and its economic importance, varieties of tobacco raised their

\(^7\) Directorate of Marketing and Inspection, "Report on marketing of Tobacco in India", Government of India, New Delhi, 1953.
distribution and concentration, cultivation practices, method of curing, grading and marketing of FCV tobacco and other varieties.

Another study which was undertaken by T.V.S. Rao's\textsuperscript{10} study named 'Marketing of tobacco in Guntur district' covers the marketing problems of different varieties of viz., FCV, sun cured Virginia, sun cured Natu and Lanka produced in Guntur district during 1955-62.

The NCAER\textsuperscript{11} studied the tobacco demand and supply conditions, cost structure of FCV tobacco and other varieties of tobacco scope for reducing the cost of cultivation, curing, marketing, financing.

A book published on 'Tobacco in Canada'\textsuperscript{12} covers the history of the leaf, auction selling, Quebec tobacco, Maritimes tobacco, Agricultural process etc.

Akehurst, B.C.\textsuperscript{13} in his book entitled 'Tobacco' studied the origin and classification of tobacco and its place in the world, general principles of cultivation such as tobacco plantation, cultivation of the crop, harvesting of the crop and curing and handling practices, areas, forms of production, harvesting and leaf processing of other varieties of tobacco.

A report by Tobacco Board\textsuperscript{14} titled 'Selected Markets for unmanufactured tobacco from India' presents information on supply situation in India, and production of the leaf,

\textsuperscript{14}International Trade Centre, UNCTAD/GATT, Selected Markets for unmanufactured Tobacco from India, 1977.
imports of the leaf, exports of the leaf by selected countries viz., The European community, Italy, Ireland, Spain, Portugal and Egypt. The study also briefly presents domestic production of unmanufactured tobacco, exports of unmanufactured tobacco, exports, prospects of unmanufactured tobacco.

Purushotham\textsuperscript{15} in his study reveal ‘Market Behaviour of Cigarette Tobacco’ studied the economic importance of flue cured tobacco, farm market information, grading and growers supply response, structure of leaf tobacco market and export market of tobacco during 1960-61 to 1976-77.

A book whose title is ‘price spread studies on flue cured Virginia tobacco,’\textsuperscript{16} published by the directorate of marketing and inspection examined the marketing and price spread in marketing of FCV tobacco from the producer to the importer.

The report on ‘Introduction of Auction System for Virginia Tobacco in India’ published by Government of India\textsuperscript{17} covers the marketing system in Zimbabwe, USA and Canada. The report also clearly mentioned the method of auction, suitable for Indian conditions.

The Tobacco Board Report\textsuperscript{18} on marketing survey of tobacco production selected Middle East and Asian countries’ revealed that there is a vast scope for expansion of all products viz., cigarette, hookah, tobacco paste, beedies, chewing tobacco etc., in Middle

\textsuperscript{16} Directorate of Marketing and Inspection, Price spread of flue cured Virginia tobacco Faridabad, Market Research and Planning, 1981.
\textsuperscript{17} Government of India, Report on Auction System for Virginia Tobacco in India, Government of India, New Delhi, 1982.
\textsuperscript{18} Tobacco Board, Report on Marketing survey of Tobacco products in selected middle East and Asian countries Tobacco Board, Guntur, 1982.
East Asian countries. The study also analysed the export prospects in Saudi Arabia and Malaysia.

The Tobacco Board report on 'Tobacco Industry' analysed world tobacco situation, objectives of Tobacco Board, area, production and productivity of tobacco achievements of Tobacco Board in technical programmes for high productivity and Tobacco Board activities for the development of marketing of tobacco at national and international level.

Santhi Sree worked on the 'Tobacco Board - An Evaluation of its functioning', studied the origin and history of tobacco, characteristics of tobacco, world tobacco trade, area production and productivity of FCV tobacco in India and Andhra Pradesh, tobacco marketing situation before and after the establishment of tobacco board and achievements of tobacco board in tobacco marketing.

Another study in this field is a doctoral thesis of Ravindra Babu titled 'Marketing of Flue Cured Virginia Tobacco in Guntur District' which examined the Agro Industrial economy of tobacco, world consumption of tobacco, tobacco in Indian economy, macro-economic analysis of tobacco in Andhra Pradesh, marketing of tobacco in Guntur, tobacco marketing functionaries in Guntur, cost of production and price spread and role of tobacco in the marketing of tobacco in Guntur district.

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Tiwari, R.S. and Panch Mukhi, V.R.\textsuperscript{22} suggested in their study, to improve India’s export performance that appropriate action is needed to provide selective policy incentives to manufacturers in order to increase the output levels. Attention should is to be paid towards restructuring the export incentives schemes on a selective basis and to enhance their proper utilisation of efficient export, further, the research extended their suggestion that, there is the need to integrate trade policy, production, planning, in order to have efficient exports based on comparative advantage and exploration for coordination with other developing countries.

Deverajulu, M.\textsuperscript{23} emphasises on production and Marketing of FCV Tobacco in Prakasam district examined trends in the production of tobacco, importance of tobacco in Andhra Pradesh. Economic and social features of the study area, the cost structure and profitability of tobacco and its substitute and rotation crops, deals with production and function analysis of tobacco in Andhra Pradesh as well as Prakasam District.

Chalapati Rao, K.S.\textsuperscript{24} concluded in his research study, ‘India’s Trade Policy and The Export Performance of Industry’, that the evolution of export policies suggests that a variety of export measures have been adopted by the government without adequate appreciation of the objective conditions or a systematic and scientific review being attempted at any one time. One also gets the impression that the general approach of committees was to respond to government’s thinking and to provide justification for

policies already thought of. Very little thinking has gone into providing alternative strategies and policy measures.

John Stuart Mill\(^25\) in his article ‘Trade strategy – Leading issues in Economic Development’ observes that, the indirect benefits of trade on development widen the extent to the market. Induced innovations and increase productivity, increase savings and capital accumulation and that have an educative effect in stilling new wants and tastes and transferring technology, skills, and entrepreneurship. This emphasis is on the supply side of the development process, the opportunity that trade gives a poor country to remove domestic shortages to overcome the diseconomies of the small size of domestic market, and to accelerate the “learning rate” of its economy.

Narinder Kaur\(^26\) examined in his research study that, in India, the process of export growth was influenced by a variety of domestic and external factors underlying the trends in India’s principal exports varied considerably between commodities. External factors played a significant role in the export performance of the country, while domestic factors and policies were also crucial. Moreover, aggregative explanations are not representatives of the actual experience growth in the world demand, changes in the market distribution of exports, foreign income and income elasticity of foreigners’ demand, price elasticities, changes in competitiveness i.e., export prices: trade policies tend to be the main determinant of export performance. The researcher recommended that keeping in view India’s development, trade and financial needs, the export promotion

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measures should be adopted in the light of broader economic and social needs of the country and the changing global environment.

Renato Ruggiero,\textsuperscript{27} Director General of the World Trade Organisation (WTO) feels that protectionism would only aggravate problems by creating more barriers and would decrease the growth prospects of developing countries. Market access, he says is important for the growth of world trade and had a direct bearing on development and employment in member countries. He describes the ongoing financial services negotiations as a "rendezvous" for the new organisation in which developing countries had a stake. This, he says, is because financial services held the key to competitiveness since the real competition among developing countries in future would be in the capital market and having good financial services infrastructure would enable nations to compete and attract investments.

Sujan Hazra and David L. Sinate\textsuperscript{28} in their article: "Fifty Years of India's Foreign Trade: Issues and Perspectives", opined that the slow pace of India's export growth was mainly due to anti-export bias of import substitution policy coupled with the limited reach of export promotion measures. According to the authors, though substitution is unavoidable the country cannot ignore efficiency in a medium to long run perspective.

Ashwini K. Puri\textsuperscript{29} states that the "Export Factoring will be a boon for Indian Exporters". According to him factoring will fulfil a long felt need in the country for

\begin{footnotesize}
\begin{enumerate}
\item Renato Ruggiero. "WTO, India's case for Market Access, Services pressed", EXIM No.11, 1995.
\item Sujan Hazra and David L. Sinate. "Fifty Years of India's Foreign Trade; Issues and Perspectives", Bombay, RBI, occasional papers, Vol.18, Nos. 2 & 3, Special Issue, June and September 1997.
\item Ashwini K. Puri, Director of foremost factors Ltd., International factoring comes to India", The Economic Times; Bangalore, Friday, 28 March 1997.
\end{enumerate}
\end{footnotesize}
export funding, a common practice abroad. 35 per cent of India’s total exports were carried out on credit. And since exporters could not always ascertain the credit-worthiness of every potential overseas customer, a good business opportunity was sometimes lost or given up. With export factoring, problems of this kind would be instantly solved. He points out that, the credit investigation is an ongoing part of the factoring service so that the Clint is continually updated on customer’s status, the main multi-service packages are commercial credit risk management, overseas payment collection, prompt pre-shipment, sales ledger administration.

Dhawan, R.K.\textsuperscript{30} states that after a phase of robust growth, export has gone into tailspin. And buck is being passed from exports to Government to global market. It is true that Indian exporters do not enjoy the same advantages available to exporters in other countries. The cost of credit is highest in India, the lack of infrastructure and power also pose a problem. According to him there are two sets of exporters, one of those who are solely dependent on exports and two, those who cater to lucrative domestic market, but prefer to exports. Nearly 25 per cent of the exporters fall in the second category, with the entry of multinationals into Indian market, exporters are now focusing on the Indian markets rather than face of hassles of exports. In most cases, Indian exporters have been exporting at prices lower than their cost of production in order to compete internationally.

Sahib Singh\textsuperscript{31} opined that the domestic sector would require effective protection against unfair foreign competition by strengthening the antidumping machinery on the

\textsuperscript{30} Dhawan, R.K., Secretary General, FIEO, Exporters Camp, \textit{The Economic Times}, Bangalore, October, 1997.

\textsuperscript{31} Sahib Singh, "Development of India - Trade Policy Entering the 21\textsuperscript{st} century", Global Economic Challenges in the New Millennium – India Strategic Agenda, IIFT Publications, New Delhi, 1998.
one hand and appropriate tariff measures on the other. Active involvement of the Export promotion councils, commodity boards, chambers of commerce and industry, both at the national and regional levels, including individual industry associations is called for in monitoring the inflow of injurious imports in continuous basis so as to effectively counter the unfair foreign competition. Further he suggested, while the Government has been extending its full support and striving hard to remove the irritants, both internal and external, in the smooth flow of trade, it for the trade and industry to take full advantage of the various facilities and incentives provided for expansion of exports.

Charles W.L. Hill\textsuperscript{32} opines that one big impediment to exporting is ignorance of foreign market opportunities. Moreover neophyte exporters often become discouraged or frustrated with the exporting process because they encounter many problems, delays, and pitfalls. The author suggests the way to overcome ignorance is to gather information. Government Agencies and Export Management Companies can help an exporter in identify export opportunities. Many of the pitfalls associated with exporting can be avoided if a company hires an experienced export management company, or export consultant, and adopts the appropriate export strategy. The problems arising from lack of trust between exporters and importers can be solved by using a third party i.e., trusted by both normally reputable bank.

Gupta, S.P.\textsuperscript{33} in his article observes that, world merchandise trade is now showing a 0.6 per cent of India’s share. World trade covers a vast number of items. But, India’s share in this list is very low. A review of top 200 items of trade in 1994, which


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accounted for 95 per cent of trade, reveals that India’s exports are either nil or negligible in respect of 71 items. Also India does not figure in many manufacturing products that are fast growing items in world trade. According to author, there is an urgent need for India to diversify its export basket and shift to high-value, high technique value-added products and to divert all attention to increasing India’s penetration in world market.

Basu, P.K.\(^{34}\) suggests in his research thesis “Foreign Trade Policy in India Since The Plan Period (1951-85)”, formulation of a national export policy incorporating term strategy and an appropriate organisational set up. Further the researcher suggests that, to achieve the export goal, planning product mix for country’s export, prioritising commodities and markets for promotion of exports, strengthening marketing efforts, liberalising exchange control system and policy towards channelisation of foreign trade, negotiation for reduction of tariff and non tariff barrier, economic co-operation among developing countries to secure better terms of exports of primary commodities are an essential and necessary.

Quarterly Economic Report\(^{35}\) of “The Indian Institute of Public Opinion” reveals that the new EXIM policy aims at 20 per cent export growth, which is not impossible. But unfortunately the aim was not fulfilled in that period. The amended policy has only liberalised import and thus may affect the domestic industry. The needs of small exporters who contribute 75 per cent of the country’s total exporters have not been kept

in mind. Incentives like MDA (Market Development Assistance) are given only to recognised exporters while small exports create maximum employment. Infrastructure bottlenecks, corruption, non-availability of export finance and complicated labour laws are hindering export growth, which speaks in favour of growth without import input.

“World Agriculture series”\textsuperscript{36} by Layten, D. and Mark T. Nielsen examined various aspects of tobacco crop such as its Tobacco production, Chemistry, technology and methods of cultivation different type’s tobacco.

Rajiv Gandhi Institute of Contemporary Studies\textsuperscript{37} concentrated on the WTO Agreement - implications for Indian tobacco sector presents information Indian tobacco exports demand functions, International trade in tobacco, world supply and distribution of un-manufactured tobacco, the Uruguay round agreement, impact of Uruguay round on world tobacco prices and trade and trading blocs and regional arrangements. It covers only WTO and its implications.

In the study entitled “Voice of Virginia Tobacco Grower”, Sivaiah\textsuperscript{38} examined various aspects of Virginia tobacco crop such as its economic importance, particularly of FCV tobacco, Virginia tobacco trade development, crop production research and development, grading, pricing and marketing, Tobacco Board and its functions, policy planning and exports and the agriculture situation then and now. Indian Tobacco Board,

\textsuperscript{36} Layten, D. and Mark T. Nielsen, Black well Science, 54 University Street, Carlton, Victoria, Australia, 1999.
\textsuperscript{37} Rajiv Gandhi Institute of Contemporary Studies, Jawahar Bhavan, New Delhi, 2000.
Guntur, organised a Seminar on “Export Promotion Strategies for Tobacco”\(^{39}\) in collaboration with Gitam Institute of Foreign Trade, Visakhapatnam, it discuss origin of FCV tobacco, multitrading system, problems in Indian tobacco industry, prospects for global growth, requirement of the exporters, exports of tobacco and tobacco products in the context of globalisation, prospective on Indian exporters and manufacturers meeting export potential and facing competition. Strategy to promote exports in CIS and Russian Federation, strategy to promote exports to in Africa, Europe and middle east and south East Asia.

Tobacco Research Board, Zimbabwe\(^{40}\) reveals information regarding “Flue Cured Recommendations” presents information production of seedlings, soils, fertilisation, cultural practices, irrigation, rotation, disease control, varieties, managing drought, forestry, pesticides, storage and conditions of cured leaf.

The Tobacco Board\(^{41}\) news capsule analysed China leaf tobacco imports show upward trend, China tobacco exports, curing and mechanisation, countries reports, United States leaf, alternative used for tobacco, leaf lands India realises increased volumes of FCV and Philippines enjoy crop increase.

“Tobacco News Capsule”\(^{42}\) analysed tobacco news covered situation in United States, Ukraine, Malawi FCV tobacco prices, G.M. tobacco, Nicotine free tobacco, the right cure of flue cured tobacco, seed success for tobacco, Chile’s market tobacco market gaps, smoking bans have no significant business impact, leafing little room for orals,

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\(^{39}\) Seminar on “Export Promotion Strategies for Tobacco”, organised by Tobacco Board, Guntur and Gitam Institute of Foreign Trade, Visakapatnam, 3\(^{rd}\) and 4\(^{th}\) September 2001.


\(^{41}\) Tobacco Board, Tobacco News Capsule, November 2006.
restrictions reach Argentina and lower tar-to-nicotine ratio cigarettes reduce exposure to whole smoke.

“Tobacco Reporter”\textsuperscript{43} journal analysed U.S. tobacco production to Europe, Zimbabwe no long top producer, Central tobacco comes to America, why the multinationals have been less successful in Africa than they are in other parts of the world. It also covers shortage of labourers is causing hardship for us tobacco farmers.

A journal on “Tobacco International”\textsuperscript{44} mainly focuses on U.S. cigarette sales, Zimbabwe political turmoil, causes shortages through out the bread basket of Africa. Free market energises U.S. tobacco, Reynolds American rolls Forward, Greek Cigarettes, Competition grows Greek cigarettes one at the juncture three continents look to growing markets.

The “World Tobacco”\textsuperscript{45} journal covers Cigarette fire safety stand and gain ground in Europe, Fight against possible sale ban cigarettes, Latin America sweeps board at cigar awards, the future of filters, the little cigars, controversy cigar and cigarettes.

A report on activities of Tobacco Board\textsuperscript{46} submitted Ministry of Commerce and Industry, Department of Commerce presents information on supply situation in India, and production of the leaf, imports of the leaf, exports of the leaf by regions and selected countries viz., Russia, Belgium, Netherlands, U.K., Singapore and France. This study also briefly presents domestic production of unmanufactured tobacco, exports of un

\textsuperscript{43} Tobacco Reporter, USA, November 2007.
\textsuperscript{44} Tobacco International Magazine, USA, November 2007.
\textsuperscript{45} World Tobacco, November 2008.
\textsuperscript{46} A Report on activities of Tobacco Board submitted ministry of Commerce and Industry, Department of Commerce, 2008.
manufactured tobacco, export prospects of unmanufactured tobacco, physical and chemical properties of FCV tobacco in different soils in India. This journal did not pay attention to production and economies of FCV tobacco.


A journal on' Tobacco Asia'48 covers Features of tobacco products. Chinese high end cigarettes going low tar, China; new function tips filter harmful materials, China; Leaf tobacco production goes from small to large, Tobacco in the twenty first century in various countries. Except cultural and medical implications.

A journal on “World Tobacco”49 discusses Russia’s smoking image, packaging and design, world tobacco Latin America, smoke less special. The future filters, tougher times continue for tobacco.

“The Tobacco Board Year Book”50 analysed on the recent trends in the Domestic and International of FCV tobacco market, India cigarette production by 2007-08. The

48 Tobacco Asia, Thailand, 4th quarter, 2008.

1.4 STATEMENT OF THE PROBLEM

Agriculture has always been the backbone of the Indian economy and despite concentrated industrialisation in six decades, agriculture still occupies place of pride. It provides employment to around 70 per cent of total workforce in the country. According to central statistical organisation the share of agriculture in GDP is around 20 per cent in 2008-09. The study shows that in India Tobacco has been a prime source\textsuperscript{51} of livelihood for millions of people and the tobacco industry providing employment to 36 millions people including 6 million farmers are engaged directly or indirectly in tobacco cultivation, processing, manufacturing grading, marketing and other allied activities. So the Indian tobacco industry is a prominent place over the past six decades. India is being a world second largest exporter of FCV tobacco. The sustainability of Indian tobacco industry is especially FCV tobacco mainly depends on exports. India is now facing stiff competition from many developing countries. World FCV tobacco exports a near stagnation; some of the major factors that stand in the way of exports of tobacco are anti-smoking campaigns, increasing health conscious among the people, high taxes on tobacco products and a world-wide variety of restrictions on trade promotion of tobacco.

\textsuperscript{51} Krishna Murthy, V., Director; CTRI Perspective Plan, Vision-2025, Central Tobacco Research Institute, Rajahmundry, August 2008, p. 5.
In the post-WTO regime commodities having comparative advantages in the world markets only withstand competition from outside. However, certain countries have been imposing tariff and non-tariff barriers in the post-WTO regime causing imbalances in the international trade to the detriment of developing nations. The entire world tobacco market is under the control of four or five Multi-National Companies (MNCs). But India does not permitting Foreign Direct investment in Tobacco industry.

Most of the existing studies in this area have by and large focused on general marketing problems of FCV tobacco. (Narayana Duvvurry, 1973) (Govt. of India, 1975) (Tobacco Board, 1982) (Ravindra Babu, P. 1984) (Devarajulu, M. 1989) (Rao, T.V.S. 1995) Some studies have examined production related aspects. (NCER 1971) (Gopala Chari, N.C. 1978) (Ramana, R., Krishna Murthy, A.N. and Shankara Murthy, H.G. 1980) (Galab, M.N. 1984) (Sing, A.N., Rajendra, N. and Panikav, S.N. 1984) (Patel, G.N. and Patel, R.H. 1986) (Padmaja Rani, K. 1989) (Kori, S. 1991) (Sivaiah, B.V. 2001). Tobacco has been playing a vital role in India's exports over the years. Of late, however, it has been facing stiff competition from a large number of exporters, and it redesigns and strengthens efforts is essential to improve the exports in the adverse situation. Prof. Rama Chandraiah.V.52 in his article:

All the above reports, strategic studies, research publications only concentrated on production, consumption, demand, supply, future growth and performance of tobacco industry. Further as observed from the Indian research studies, it is found that there are scanty of studies that focused on the Export Performance. Therefore, the researcher felt

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jést and apt to chose the research topic – “Export Performance of FCV Tobacco in select Indian companies”.

1.5 OBJECTIVES OF THE STUDY

The present study on Export Performance of FCV Tobacco is taken with an overall objective of appraising the performance of Exports of FCV tobacco in general and India in specific. The following are the specific objectives for the convenience of an elaborate discussion and systematic analysis.

1. To study the export performance of FCV Tobacco, in different regions of the world, namely West Europe, East Europe, Middle East, South and South East Asia, Africa, North and South America, Australasia.

2. To find out the problems of the exporters regarding their trade according to the regions of the world.

3. To find out the association between type of exporters and problems of exporters.

4. To explore the association between type of exporters and their prospects of exporting.

1.6 HYPOTHESES

In view of the proposed objectives, the researcher has formulated the following hypotheses for the study.

H1o. There is no variation in the export performance (Viz., Average Quantity and value) in different regions of the world namely, West Europe, East Europe, Middle East, South and South East Asia, Africa, North and South America, Australasia.

H2o. There is no association between type of exporter and the problem experienced by the exporter.
H₃₀. There is no difference in the problem experienced by the exporter region-wise.

H₄₀. There is no association between type exporter and the prospect of exporter.

1.7 RESEARCH METHODOLOGY

The study purports to be both theoretical and empirical exposition of the "Export Performance of FCV Tobacco". Theoretical analysis will be based on the principles of trade strategies and the dynamics of the emerging global trade scenario under the WTO’s multilateral trade system, while examining the evaluation of trade system, from being unilateral, bilateral and regional to the full fledged multilateral framework, emphasis is being given on the implications of such a system on the developing economies. This aspect is also examined in view of global environment of Tobacco trade and its implications of Indian tobacco industry.

This empirical study is based on the data analysis using statistical methods. To find out the region wise linear growth rates, Ordinary Least Square (OLS) method was used. Regression analysis⁵³ was used to find out the behaviour of the trade variables under the study.

1.8 SAMPLING METHOD

A survey was conducted to elicit their views and draw conclusions on the impact of trade policies and trade environment on their export performance to assess the firm level, industry level, regional level and competitive countries impact of these changes and

⁵³ Ouseph, T.P. Dynamics of Export promotion strategies and Global Trade Environment on Export Performance; studies on Disaggregated export demand function with reference to Kerala, Doctoral thesis submitted to the Mahatma Gandhi university Kottayam, 2005.
the strategies adopted by them to confront new challenges. Details are presented in table 1.2.

The researcher has chosen simple random sampling technique for collection of primary data and identified 140 tobacco exporting companies spread over India which are registered in Tobacco Board. The researcher has administered a well structured questionnaire to collect the primary data. Scale used for obtaining responses to the questionnaire is nominal scale. The duration of the survey run from May, 2010 to November 2010. After several reminders and personal contact with the several respondents the researcher could get responses only from 50 respondents. These 50 usable responses represent 35.7 percent of the total sample size which is adequate and justified (Ouseph, T.P. 2005) for further process and data analysis. The particulars of the sampling have been presented in the Table 1.2.

Table 1.2

Region-wise Tobacco Exporters and Sample Percentage

<table>
<thead>
<tr>
<th>S.No</th>
<th>Region-wise</th>
<th>Places</th>
<th>Number of Exporters</th>
<th>Number of Exporters responded</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>West</td>
<td>Gujarat, Maharashtra</td>
<td>11</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>North</td>
<td>Delhi</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>East</td>
<td>Calcutta, Orissa, Assam</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>South</td>
<td>Andhra, Tamilnadu, Kerala, Karnataka</td>
<td>122</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>140</td>
<td>50</td>
</tr>
</tbody>
</table>

The questionnaire has been divided into four parts, Part-A consists of 7 questions at the beginning of questionnaire which reflects the respondents profile, Part-B consists of 9 questions relating to the general problems of the exporters in Indian tobacco Industry, Part-C consists of 13 questions which reflect the problems of tobacco exporters, while exporting tobacco to different regions of the world and Part-D comprising of 9 questions which reflect the prospects of Indian FCV tobacco exports, including quality of tobacco, FDI investment etc. The questionnaire used in this survey has been taken from the earlier research studies (Ouseph, T.P.2005). Annexure-1 details the questionnaire.

1.9 STATISTICAL TESTS USED

Descriptive statistics and inferential statistics were used selectively for the testing of hypotheses. Descriptive statistics like frequency, mean, standard deviation for all the study variables were computed.

**Frequency:** Frequency or one-way tables represent the simplest method for analyzing categorical (nominal) data. Frequency was used as one of the exploratory procedures to review how different categories of values are distributed in the sample of this study.

**Mean:** Mean of all the responses to each variable was calculated describing the central location of the data. The formula to calculate the mean is as follows:

\[ \bar{x} = \frac{\sum x}{n} \]

where \( \sum x \) is sum of all data values

\( N \) is number of data items in population

\( n \) is number of data items in sample
Standard Deviation: The standard deviation was used to establish a scale for determining the significance of differences between scores.

\[ \alpha = \sqrt{\frac{\sum (x - \bar{x})^2}{n}} \]

- \( \alpha \) = standard deviation
- \( \Sigma \) = sum of
- \( x \) = each value in the data set
- \( \bar{x} \) = mean of all values in the data set
- \( n \) = number of value in the data set

Chi-square: Chi-square test statistic was used to measure the degree of association among nominally scaled variables. The statistic was computed using the following formula.

\[ x^2 = \sum \frac{(f(a) - f(e))^2}{f(e)} \]

- \( x^2 \) = chi-square
- \( f(a) \) = actual frequency or number of observations in a cell
- \( f(e) \) = expected frequency or number of observations in a cell in the theoretical distribution
- \( \Sigma \) = symbol for ‘summation’ the differences are cumulative

Correlation: Correlation analysis was used to measure the closeness of the relationship between variables. It measures the degree to which changes in one variable are associated with changes in another.

Regression Analysis: This was conducted in order to know the moderator effects indicated by the interaction of X and M in explaining Y. Following is the equation.

\[ Y = d + aX + bM + cXM + E \]
1.10 STATISTICAL DATA ANALYSIS

The researcher has used the statistical tools like Ordinary Least Squares (OLS), Regression analysis to find out region wise growth rates, and worked out find the behaviour of the trade variables under the study. In addition chi-square test and routine descriptive statistics, like frequency, mean, Standard Deviation (SD), were used. The computer software is SPSS version 17.0 and MS-Excel has been used for computation of OLS and chi-square test. Analysis of growth rates are worked out by using the linear function.

1.11 SOURCES OF DATA

The researcher used both primary and secondary data for data analysis and interpretation of results.

The primary data was collected through the structured questionnaire. The researcher administered the questionnaire among the respondent companies spread over the different geographical parts of India and were requested to respond to the response pattern given. The questionnaire was intended to know the opinions of the respective companies on to the questions posed in each section. The researcher also contacted the executives working with different tobacco companies and noted down their opinions in the form of interview regarding the export performance of FCV tobacco. The very purpose of the survey was to know the retrospect and prospects and to analyse the problems faced by the exporters in the context of global environment of trade.

The secondary data have been collected from the publications of Indian Tobacco Board, Ministry of Commerce, Government of India viz., Annual Reports, Brochures and

In addition to the above, efforts have been made to visit the auction floors and hold discussions with the personnel of Tobacco board and the farmers participating in the auction floors to have a feel of the problems and to elicit their viewpoints on the various issues under study.

1.12 SCOPE OF THE PRESENT STUDY

The scope of the study covers the performance of India’s FCV exports from different regions of the world and covers the performance of tobacco business at international level in form of volume, value and role in foreign exchange earnings.

1.13 LIMITATIONS OF THE STUDY

The quantitative analysis is based on the secondary data collected from various sources. There are some discrepancies in the data from different sources. International agencies provide data on calendar year (January 1st to December 31st) basis, but in India,
the data is available on financial year (April 1st to March 31st) basis. Every attempt was made to collect data in a uniform manner. The quantitative analysis is limited to the period from 1989-90 to 2008-09. The survey of exporters is based on sample and limitations applicable to any sample survey will be applicable to the study. Survey was limited to FCV tobacco exporters. This research primarily based on primary information, i.e. opinion survey. One of the major problems which this type of study is that the findings do not reveal what organisations are actually doing. The information disclosed by the respondent may not be the true reflection actual export practices followed by them. A more qualitative research with case studies is necessary in this area.

1.14 PLANNING OF CHAPTERISATION

The thesis consists of seven chapters. All the chapters are arranged as under

Chapter-I: The introductory chapter deals the history of tobacco cultivating states in India, present structure of Indian tobacco production, Review of Related Literature, Statement of the Problem, Objectives, Hypotheses, Sampling, Sources of data, Scope and limitations of the study.

Chapter-II: This chapter includes role and importance of foreign trade policies and export promotion strategies in India.

Chapter-III: An overview of the market environment of FCV tobacco and presents the constitution and functioning of the tobacco board against the background of the complexities confronting FCV tobacco exports.
Chapter-IV: This chapter presents some external sector developments. The international trade environment, the Uruguay Round Agreement (1986-94), free and fair competition among WTO member countries. Assess the background of Tobacco exports from India, review of world tobacco trade, discussion of the Uruguay Round Agreements on Agriculture and its implications for World tobacco trade and prices.

Chapter-V: This chapter examines World tobacco markets scenario, India’s share in world FCV tobacco exports, and region wise percentage share of India exports and analyse the region-wise export performance of FCV tobacco exports

Chapter-VI: This chapter covers a brief account of the problems faced by the exporters based on a survey of the export companies.

Chapter-VII: This chapter covers brief research findings, based on the data analysis, suggestions for future research also.

In this chapter, an attempt was made to present the importance of the study, explaining the history of tobacco in order to state the rationale and incentives behind this thesis. The objectives and hypotheses formulated were presented in order to enumerate the directions to the study. Finally, the planning of chapterisation would give the readers an opportunity to orientate themselves more easily.