

UNIT 11 LEATHER PRODUCTS

Structure

- 11.0 Objectives
- 11.1 Introduction
- 11.2 Trends of Leather Exports from India
 - 11.2.1 Commodity Composition
 - 11.2.2 Markets
- 11.3 World Trade
- 11.4 Avenues and Prospects
- 11.5 India's Competitive Advantages and Disadvantages
- 11.6 Policies and Strategies to Boost Export
- 11.7 Let Us Sum Up
- 11.8 Answers to Check Your Progress
- 11.9 Terminal Questions

11.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the trends of leather exports from India
- describe the commodity composition of leather export
- discuss the markets for various leather products
- describe the nature of world trade
- discuss the avenues and prospects
- explain India's competitive advantages and disadvantages
- describe the policies and strategies to boost export.

11.1 INTRODUCTION

Leather products are important item of world trade. The major producers of leather products are Italy, Korea, China and India. As a result of strict pollution norms in developed countries, the leather industries are gradually shifting in the developing countries. India is one of the important exporter of leather products. India has competitive advantage in the export of leather products. Low labour cost and large base of raw material may help India in emerging as a leading exporter of leather products. It requires adequate strategies and commitment to boost the exports. In this unit, you will learn the trends of leather exports from India, avenues and prospects, India's competitive advantages and disadvantages and policies and strategies to boost export.

11.2 TRENDS OF LEATHER EXPORTS FROM INDIA

The export of leather items are one of the important upcoming area of India's total export. It accounts for about 5% of India's total export for the year 1999-2000. The Indian leather industry has been able to keep up the tempo of growth of leather exports, inspite of global recession, particularly in established markets like Europe and USA upto 1995-96. The exports have increased from \$1298.10 million in 1993-94 to \$ 1754.84 million in 1995-96. Afterwards, the export remained stable for three years, upto 1998-99. The exports came down from \$1660.34 million in 1998-99 to \$ 1540.27 million in 1999-2000. Look at Table 11.1 which shows the exports of leather commodities from India.

Table 11.1: India's Exports of Leather and Leather Manufactures

US \$ million

Year	Export
1993-94	1298.10
1994-95	1611.07
1995-96	1754.84
1996-97	1607.17
1997-98	1658.69
1998-99	1660.34
1999-2000	1540.27

Source: CMIE, July 2000.

The reasons for the shortfall in total leather and leather products can be attributed amongst other factors, to current depression on account of international recession and poor economic condition prevailing in the European markets, devaluation of currencies of major competing countries in Asia and to the mass closure of tanneries in the State of Tamilnadu, due to non fulfilment of pollution control norms. Although these tanneries were subsequently opened, this has affected the confidence of foreign buyers badly as they are afraid about the consistency in supplies of their requirements.

11.2.1 Commodity Composition

Table 11.2: Item-wise exports of leathers products

(\$ million)

Items	Year				
	1995-96	1996-97	1997-98	1998-99	1999-2000
Finished leather	371.85	301.32	296.19	268.38	239.08
Footwear of leather	340.92	337.74	282.24	324.74	331.20
Leather goods	363.14	294.49	387.79	411.07	385.25
Leather footwear component	243.33	222.93	240.77	241.06	229.77
Leather garments	414.21	424.73	425.72	381.94	318.94
Others	21.39	25.96	25.98	33.15	36.03
Total	1754.84	1607.17	1658.69	1660.34	1540.27

Source: CMIE, July 2000

Look at Table 11.2 which shows item-wise export of leather products from India. The major items of India's export of leather products are finished leather, footwear of leather, leather goods, leather footwear component and leather garments. The leading contributor of these items in India's total leather export is leather goods (25%), footwear of leather (23%), leather garments (21%), finished leather (16%) and leather footwear component (15%) for the year 1999-2000. Let us discuss the trends of exports of these items.

Finished leather: India has the natural advantage of abundant raw material for the leather and leather goods industry. According to the available statistics, India has 15.4 per cent of world cattle population, 53 per cent of buffalo population, 19.7 per cent of the goat and 4.6 per cent of sheep population. The major centres of leather production in the country are Tamilnadu, Calcutta, and Kanpur. Calcutta is strong in processing cow hides, while Kanpur specialises in buffalo hides. Tamilnadu processes both hides and skins. Whereas tanneries in the organised sector are quite modern and produce a wide range of leather acceptable in the international market, leather produced in the other sectors is lacking in quality and consistency.

Exports of finished leather from the country have increased significantly upto 1995-96 and reached to \$ 371.85 million, gradually the exports of finished leather started declining and reached to 239.08 million in 1999-2000. Though there are no restrictions on exports of finished leather from the country, but the pressures from product manufacturers are strongly pervad-

ing in favour of restrictions. The major buyers of Indian leather at present include Hong Kong, Italy, Spain, Germany and South Africa. These five countries accounted for about 50% per cent of the total exports of finished leather from the country during 1999-2000. The domestic demand for leather in India is growing at a faster rate than expected. This is due to the fact that the demand for leather footwear in India, which used to be at a very low ebb till a few years ago, has picked up sharply. The increasing affluent middle class population and growing consumer market is mainly responsible for this spurt. International brands like Reebok, Adidas, Florsheim have already entered the domestic market. The demand for genuine leather goods and accessories is also on the increase. It is also expected that with the automobile giants like Ford, Mitsubishi, Hyundai putting up large manufacturing facilities, the demand for upholstery leather will go up in the near future. It is estimated that India will need another 4.5 billion square feet of leather by 2000 AD. To meet the growing demands of domestic industry's needs, Council for Leather Exports is planning a major campaign to promote foreign direct investment, joint ventures etc. in the tannery sector and to update tanning technology in the country.

Footwear of leather: Leather footwear is the second largest item of export of leather goods from India. The exports were increasing and reached to \$340.92 million in 1995-96. Thereafter it declined for two years and again increased to \$ 324.74 in 1998-99. It further increased to \$331.20 million in 1999-2000. Despite the overall negative growth in other items, the footwear export has shown marginally positive trend in 1998-99 and 1999-2000.

The leading markets for India's footwear of leather are UK, USA, Germany, France and Italy. They accounted for about 76% of India's total export of leather footwear. Thus, India's export efforts are concentrated in just a few countries.

India is the fourth largest footwear in the world and the eight largest exporter according to SATRA report on World Footwear Markets 1997. The production of footwear has been increasing at a faster rate in India. Small scale production and exporting of shoe uppers were the characteristics of India's shoe industry until recently. Despite large raw material resource and long established trading relationship with the west, India's footwear industry has not achieved the rapid growth experienced by other Asian producers. There are signs that legislations in Europe regarding presence of pentachlorophenol (PCP) in leather and other chemical treatments may temporarily reduce the flow from the East. Though Germany has at present the most stringent restrictions on products containing PCP and AZO dyestuffs in Europe, the rest of the EU looks set to follow the same. Western European manufacturers, however, continue to find it hard to compete with lower labour cost of producers and there has been a decline in overall production in this region, although Italy has bucked the trend, sustaining a remarkable increase in both production and exports.

Eastern European manufacturers are still seeking new mass markets to replace those lost with the break up of the former USSR. Footwear firms in Taiwan and Korea are shifting production to other Asian nations especially to China due to rising labour costs. The reasons for India's low share in the global footwear market are inconsistency in quality, high competition, delay in delivery schedules, lack of brand names etc.

The suggestions to strengthen Indian footwear industry include open door policy to attract foreign investment, development of design talent, off the shelf availability of components, dereservation from SSI sector and evolving sizeable HRD programmes. India has been facing stiff competition from China, Indonesia, Thailand and other Asian countries. High quality and design, modern technology, joint ventures etc. are the strength of the competitors. Moreover, domestic capital and management, long term orientation, domestic research capacity, liberalisation provide an excellent basis for the future development and growth of footwear export from India.

Leather goods: The category of leather goods consists of number of articles such as handbags, wallets, belts, briefcases, passport credit card cases, gloves, upholstery, harness and saddlery. In fact in this category, nearly 100 types of articles are made for export and the list is ever expanding. The most popular item is ladies handbags. Cattle based leather are widely used in leather goods industry, followed by buffalo and goat based leather. Linkages with the

tanning industry in this sector are relatively less as compared to footwear and leather garment sector.

The export of leather goods was \$ 363.14 million in 1995-96. It declined marginally and again reached to \$411.07 million in 1998-99. In the year 1999-2000, it again marginally declined to \$385.25 million.

The leading markets for India's leather goods are USA, Germany, UK, Italy and Netherlands. They accounted for about 68% of India's total leather exports for the year 1999-2000. As regards to the problems in marketing leather goods, high competition, inability to get reasonable price, poor brand images are the major ones.

Leather footwear component: India is one of the largest exporter of footwear components in the developing world. It accounts for 15% of India's leather exports in the year 1999-2000. The export of leather footwear component was to the tune of \$243.33 million in 1995-96. It declined in 1996-97 and again increased to \$241.06 million in 1998-99. It further reduced to \$229.77 million in 1999-2000. The leading markets for India's leather footwear component are UK, Germany, Italy, USA and France. They accounted for about 79% of India's total leather exports.

Leather garments: The export of leather garments was to the tune of \$ 414.2 million in 1995-96. It increased to \$425.72 million in 1997-98. It declined to \$318.94 million in 1999-2000. The leading markets for India's leather garments export are Germany, UK, USA, Italy and Spain. They accounted for about 75% of India's leather garments export.

The rapid increase in India's exports upto 1997-98 mainly due to the boom in leather garment industry in world markets particularly in Germany, UK and USA. As the leather garments boom spread to other countries in Europe, India's exports to this region also recorded manifold growth. However, India's share in world exports of leather garments is low. Though a host of reasons are responsible, the prominent of them are high competition, low quality of raw material and delays in delivery schedule. Indian garment industry faces stiff competition from China, South Korea, Turkey, Hong Kong and even Pakistan.

Among the industrialised countries Italy and Spain have excellent in the market for leatherwear. Despite high wages and rising costs of environmental protection, the two countries exports are continuously rising. Both countries succeeded in boosting exports through product differentiation and greater specialisation. Design flair, production quality and product performance are the characteristics that brought success to Italian and Spanish firms.

11.2.2 Markets

Table 11.3: Major Markets for India's Leather Exports

Countries	Year			
	1996-97	1997-98	1998-99	1999-2000
Germany	362.35	363.49	369.09	291.60
UK	201.42	216.03	235.42	256.95
USA	297.37	250.81	255.81	250.70
Italy	182.84	221.48	199.54	158.72
France	71.94	75.84	77.38	80.63

Source: CMIE, July 2000

Look at Table 11.3 which shows India's major markets for leather and leather manufactures export. The major markets are Germany followed by UK, USA, Italy and France. They accounted for 67% of India's total exports of leather and leather manufactures. This shows that India's markets for leather exports are highly concentrated in a few markets.

Check Your Progress A

- 1) Enumerate four major items of India's export of leather products.

.....

- 2) Enumerate four major markets for India's leather exports.

.....

- 3) State whether the following statements are True or False.

- i) Leather goods are the second largest item of leather products export from India in the year 1999-2000.
- ii) The exports of finished leather have been decreasing since 1995-96.
- iii) The domestic demand for leather in India is declining.
- iv) Leather footwear is the second largest item of export of leather goods from India.
- v) Germany is the second leading market for India's leather products export.

11.3 WORLD TRADE

Production and consumption of leather and leather products may have grown at a rather slow pace over the past two decades but the industry's trade has been expanding briskly. There are at least two reasons for the markedly different trends. First the major markets for finished products continue to be in industrialised countries though there has been a rapid growth of production capacity in developing countries. Secondly many of the newer producers of finished products, particularly footwear, have no domestic source of raw materials. These new entrants are predominantly export oriented and rely on imports of leather or hides and skins. As far as world imports are concerned, recent years have witnessed a rising trend in global imports of leather and leather products.

USA is the leading importer of virtually all leather products in the world. Other major importers of leather products include Hong Kong, Germany, France, Japan, UK, Russia, Netherlands, Italy and Belgium.

The rising trend in imports of leather articles in particular in the US, EU and Japan point to the decline of the leather industry in these countries and a rising level of consumption of leather products. The prime factors that have caused the decline of the leather industry and consequent rise in import of leather products in these markets are as under:

- (a) There has been steep rise in the wage levels in these countries
- (b) Strict pollution control laws in these countries have contributed to marketing leather manufactures a high cost operation.
- (c) Efforts to replace labour-intensive operations by automation in making certain leather products have not succeeded.

- (d) Imported articles of equivalent quality are available at less than half price of the local products.

11.4 AVENUES AND PROSPECTS'

Unlike imports, which are dominated by developed countries, the leading exporting countries of leather products include both developed and developing countries. Except for Italy which is the largest exporter of leather, footwear as well as leather manufactures, to the world markets, all other major exporting countries are from developing world. China and Hong Kong together account for about 1/3rd of world exports of footwear. Thailand, Indonesia, Brazil and Republic of Korea are other leading exporter of leather footwear. On the other hand, share of Italy in footwear exports has been coming down. As far as finished leather, leather manufacturers, leather goods including travel goods and handbags etc. and leather garments are concerned, exports are dominated by developing countries like Hong Kong, Korea Republic, China, India, Argentina and Brazil.

Among the competitor suppliers of leather and leather products, China has developed rapidly and it has consistently had the fastest growing economy in the world. There is no denying the fact that China has today emerged as the leading supplier of leather products to the global market. This pre-eminent position has been achieved by China partly due to relocation of many shoe and garment factories from South Korea, Taiwan and Hong Kong to China in the eighties and early nineties. There has also been migration of industry from western countries, particularly the USA, to China. With its increasing export of leather and leather products, China has today more than 25% of the global market share. Along with China, Indonesia and Thailand also benefited due to migration of this industry from Taiwan and South Korea. Now migration of this industry from Taiwan and South Korea has stopped and these industrial units are in the process of stabilisation in these countries.

India is also facing stiff competition from many other countries in major export markets like Vietnam, Thailand and Indonesia in South Eastern Asian region, the newly established independent countries of Central Asian region and Eastern African countries endowed with huge livestock population and flexible economic policies. All these countries are poised to become big exporters soon.

Therefore, no time should be lost by Indian leather industry to strive for high quality production, aggressive marketing management to occupy a prime position as one of the top most exporting countries.

11.5 INDIA'S COMPETITIVE ADVANTAGES AND DISADVANTAGES

There has been a migration of the leather industry from the developed countries to the developing countries. Except for the very high end of the designer market, there is very little that is produced in the West today. There are many reasons for this - high wage levels, labour preferring to work in hi-tech industries, and stringent pollution controls, to name a few. Production first shifted to countries like South Korea, Taiwan, Hong Kong and Singapore in the East and Spain, Greece and Portugal in the West. Today wage levels even in these countries have risen drastically and production is further shifting to countries like China and Indonesia. However, developed countries after investing heavily in China are now looking to India for expanding their production base due to cost economy factors. For India, competition comes mainly from China, Indonesia, Thailand, Malaysia and Philippines.

India's first major strength is its raw material base. India possesses the largest livestock population in the world. The cloud on the horizon here is that there appears to be a decline in almost all species of late. Factors affecting this situation need to be remedied. Customers abroad often complain about the predictability of an Indian finish. We need to upgrade equipment as well as skills to develop leathers with the flair of an Italian finish. The Taiwanese and Koreans have been very successful in this regard.

It is anticipated that there will be a raw material shortage by the middle of the Ninth Plan. It is imperative that additional capacity for breeding, tanning and finishing are set up which are comparable to International Standards and will result in high quality leathers.

India's next major strength is the availability of skilled manpower at reasonable wage levels. There are segments of the industry which produce quality levels comparable to the best from Italy and Germany. Even larger segments now produce goods as good as any from South Korea and Taiwan. The issues to be addressed here are increasing productivity and a commitment to quality. A lot of business has come our way because of the steep wage increase in South Korea and Taiwan. There is a lesson in this for us and the Government both at the Centre and State levels should be sensitive to this while negotiating wage settlements. Wage increases have to be linked to higher productivity and better quality. It is only this that can fetch a better return.

Our first major weakness is the absence of an effective national policy on the slaughter of animal and the poor conditions for storage and transportation of hides and skins. A lot of good leather is either down-graded or lost because of this apart from the pollution hazards that are a result.

Higher availability of better quality hides & skins will only result in a better price realisation. Some times orders are lost because an exporter is not confident about covering raw material in the grades required. Exporters are now increasingly looking to imports from all over the World to augment their local purchases.

We also need to set up large training facilities to feed skilled labour to the growing number of production facilities. What exists is inadequate and even more so when one takes the magnitude of the opportunity into account. After all, it is this skill and at the price it is offered which will bring us business.

The quality of accessories made in India is also an area to be addressed. Metal fittings, locks, zips, snap fasteners, lining materials and various footwear accessories all need to be imported if the product is even to be of an average quality for the Western market.

We are at a disadvantage as our competitors in Taiwan, Korea, Hong Kong and China make very good quality products. Exporters in these countries can readily pick up articles from the open market whereas an Indian exporter needs to shop for these abroad. This is a regular complaint from our buyers because of the time delays it entails.

Besides, the environmental factor seems to be a crucial challenge for India's leather export. Developed countries are increasingly putting up trade barriers on environment grounds as it gives them a competitive edge. On behalf of the European Commission, the Commissioner for the environment recently stated that developing countries should take into account the environmental impact of goods exported to developed countries. At the same time, the Commission stated that it was not the intention to prevent exporters from exporting their goods to European markets, but that it has to respond to mounting consumer awareness in Europe. Environmental awareness is indeed increasing rapidly in Western Europe and it will not be long before additional measures are introduced.

Experts predict that companies that find it difficult to comply with environmental norms may be extinct by 2000 AD. Those which barely meet regulations may just about manage to keep their neck above the water. Only corporates which treat Health Safety and Environment (HSE) as a strategic issue will thrive in the 21st century.

11.6 POLICIES AND STRATEGIES TO BOOST EXPORTS

The Indian leather industry which is the fourth largest in terms of earning foreign exchange for the country is currently facing a crisis of sorts with the lack of raw materials to meet the export obligations and a situation which persists with obsolete technologies. Absence of

proper marketing strategies and increasing competition from other countries have today necessitated effective measures to retain its prominent place in the country's exports list.

The target set by the Government of India regarding the export earnings from leather products by the turn of the century may remain a distant dream if the indiscrete and neglective policy towards the industry is not revised to give it a new lease of life. The need to import raw materials for the leather industry becomes obvious from the fact that the focus of leather exports over the years has shifted from the export of hides and skins to the exports of value added leather products. The Indian leather exports today mainly consist of leather footwear and a wide range of leather products with latest sophistication in style and design catering to the need of the changing world.

Despite the bottlenecks involved in ensuring the smooth growth of the leather industry, it has improved its performance during the last few years. However, India's share in the export of leather and leather products in the global market is negligible at three per cent. The Indian leather industry is spread over organised as well as unorganised (small-scale) sectors. The small scale and cottage sector accounts for over 75 per cent of the total production. Leather goods industry is reserved for the small scale sector. Units in the organised sector can, therefore, enter this area only with a minimum export obligation of 75 per cent of their production. They can, however, take up manufacture of finished leather from semi-finished stage without any export obligations.

The nature of the sector, given that 75 per cent is, in the unorganised sector, has been leading to unchecked exploitation of the smallscale and cottage producers. This has resulted mainly due to the lack of an effective policy to protect the interest of the smallscale producers. Large scale producers of leather and related products often resort to squeezing of the small scale producers who often depend on this profession for their livelihood.

The smallscale and cottage industry as well as the large scale producers have been confronted with the constraint of inavailability of raw hides and skins. The industry has been harping on the need to augment the raw material resources either by importing from other countries or by identifying newer species of material. It is needless to say that the producers of leather in the unorganised sector are again the victims of the inaction or shortsightedness on the part of the government.

Leather industry also lacks organisational set up. With the exception of a few organised units located in central places, the major share of production flows from small and cottage units which continue to be disorganised with inadequate finance and other assets. Thus the players have been expressing the need to revamp the present set up to meet the changing technological needs and to ensure coordination among the small and large organised sectors to realise the objective of overall development of the industry.

Those trying to strike a nail in the coffin have also singled it out as a polluting industry and the resultant stringent environmental regulation is at present posing a threat to the growth of this industry. Most of the tanneries in India are century old with no modern drainage facility. No adequate measures have been taken, inspite of its importance as a forex earner to recycle or diffuse the effluent. Experts have time and again warned that unless the pollution problem is solved through comprehensive policy measures, the leather industry, particularly the tanning sector may face rough weather in the future.

As a majority of the leather products come from the unorganised sector, dearth of adequate trained and skilled manpower is also posing a serious threat to the leather sector. As the majority of the manpower in the sector is devoid of skills, it is a great task before the industry to develop its manpower resources and a sense of complacency in this regard can stand in the way of achieving the export targets within the stipulated time period.

Though a lot of thrust has been laid on exports, marketing of leather products in the domestic market has not been stressed to realise the huge potential. Thus a stable strategy need to be devised for marketing of the leather products within and outside the country.

Of late, the leather sector has also been facing the threat from synthetic substitutes, stiff competition from other developing countries, changes in fashion and design, stringent pollution measures, innovation and application of modern technology. This has necessitated an urgent need to equip the leather manufacturing units in the country with advanced technology and equipment by enforcing research and technological advancement to benefit all sections of the industry.

Adequate institutional finance, an indispensable criteria for the largescale development of any industry has been eluding the leather industry. Small manufacturing units and tanners are often deprived of institutional finance because of their unsympathetic policies and attitude towards them. This has forced the small scale manufacturers to rely on other costly sources for finance making the inputs of the products costlier.

If the projected exports target is to be met, the government also needs to look into the modernisation of the manufacturing units for ensuring optimisation and quality improvements. This calls for comprehensive efforts in developing leather processing machinery, on a systems approach basis with necessary instrumentation and automation through microprocessor controls.

The much needed teeth to the industry can be provided only through footwear designing and component fabrication using computer aided designing. Only such steps can ensure greater competitiveness for the Indian leather products in the international markets.

As the modern genetics and genetic engineering has been making rapid strides in recent times, concerted efforts are called for utilising the technology in breeding cattle and other animals that are source of hides, skins and furs. The genetics and genetic engineering can ensure faster growing animals (with grown hormone) possessing skins with better properties of strength and finish.

Technologies to utilise slaughter house by-products for producing adhesives, animal feeds and a variety of other products will yield significant additional revenues, to the people who are engaged in these activities.

Opposition to tanneries being set up and the opposition from the environmentalists have also been adding to the problems being faced by the leather industry. However, comprehensive policy measures on the part of the government to tap the huge potential of export in the global market can reverse the fortunes of this industry. Apart from netting considerable foreign exchange it will also help the thousands who depend on this trade for their daily bread.

Check Your Progress B

- 1) Enumerate five major importers countries of leather products.

.....

- 2) Enumerate three India's competitive advantages in exporting leather products.

.....

- 3) Enumerate five competitor countries of India's leather products export.

.....

- 4) State whether the following statements are True or False.

- i) USA is the leading importer of all leather products in the world.
- ii) Developing countries are only exporters of leather products.
- iii) China has emerged as the leading supplier of leather products to the global market.
- iv) There has been migration of leather industry from developing countries to developed countries.
- v) Developed countries are increasingly putting up trade barriers on environment grounds.

11.7 LET US SUM UP

The Indian leather industry has been able to keep up the tempo of growth of leather exports inspite of global recession, particularly in established markets like Europe and USA. The exports kept on rising till 1995-96. The export performance has been stable from 1996-97 to 1998-99. The major items of exports of leather products are finished leather, footwear of leather, leather goods, leather footwear component and leather garments. The major markets for India's exports include Germany, UK, USA, Italy and France.

The leading exporting countries of leather products include both developed and developing countries. Of late, there has been a migration of the leather industry from the developed countries to the developing countries. The shifting is primarily due to high wages and strict pollution norms in the developed world. India has competitive advantage in the export of leather products due to availability of skilled manpower at reasonable wages. Conducive export promotion strategies are needed to boost exports from India.

11.8 ANSWERS TO CHECK YOUR PROGRESS

A3 i) False ii) True iii) False iv) True v) False

B4 i) True ii) False iii) True iv) False v) True

11.9 TERMINAL QUESTIONS

- 1. Describe the trends in leather export from India.
- 2. Explain various items of leather products exported from India.
- 3. Analyse the markets for India's leather exports.
- 4. What are the avenues and prospects of leather exports. Analyse India's competitive advantages and disadvantages in leather export.
- 5. Explain the policies and strategies to boost India's leather export.