Chapter VI

POLICY INTERVENTIONS: LESSONS FROM THE PAST

6.1 Research Findings: Once More

In this dissertation an attempt has been made to assess the position of the Indian leather industry in the World market in terms of both short-run success as well as long-term sustainability of the process of development. In the introductory chapter a brief sketch of the performance of this sector in the World market is presented in terms of its revealed comparative advantage. It has been observed that over the period of globalization leather sector has been identified as one of our most dependable manufacturing sectors from where steady foreign exchange earning is possible without making any compromise with the employment generation objective. Chapter II has presented a profile of the leather industry in India stating explicitly the value chain from slaughtering and flaying to the manufacturing of finished fashion goods as valuable export items. It is observed that almost the entire beam-house and tan-yard operation of leather making process is carried out in small-scale and cottage-scale SSI units, generating substantial employment among the unskilled workers. Only a part of the tanning activity is organized in registered factory sector where most of the large firms operate in a vertically integrated way by carrying out tanning, finishing and final-product-making sequentially. The labour productivity of the sector has gone up significantly in the post-reform period and the capital productivity and total factor productivities are also improving\(^1\) over time indicating a positive role of technological up-gradation in ensuring a speedy growth of the industry. This pattern has been corroborated by the DEA-based analysis of change in output oriented technical efficiency of the leather producing firms over this period. The

\(^1\) Under certain specifications of the econometric model
chapter ends with an assessment of the export performance of the industry in the pre-reform period. It was observed that in spite of all the government incentives and supports emanating from the recognition of the sector as an export-thrust one, the enhancement of performance is mostly concentrated in the status of a jobber or fabricator leading to low value addition to products. In the World market India was considered as an exporter of raw hides, skins and low value leather goods without any noticeable brand image. This reveals the inadequacy of quantity-targeted short-term policies towards export promotion and indicates the urgent need for designing and implementing quality-targeted long-term policies.

Chapter III took up a detailed discussion of recent trends in leather export and following the constant-market-share (CMS) analysis, the total change has been decomposed into four components related to the growth of the sector, change in commodity composition as well as product destination and the nature of competitiveness. It is noted that the leather export is growing at an average rate of 3% per annum and both the unit value index and quantum index are growing fast, though the growth of the latter is stronger than that of the former. The realization value of leather is not always telling a much encouraging story; however, it is at least consoling to observe that the value is generally higher than the real exchange rate indicating that leather still belongs to the category of high value product in our export basket.

A component-wise analysis carried out at the next stage has shown that the volume of footwear is growing very fast but the growth in unit value index is almost negligible. This indicates the typical syndrome of quantity without quality, which in its turn implies that
India is concentrating on low quality leather manufacture without any supportive brand-image in the international market. The export is most stable for leather goods and components (where either brand loyalty or sub-contracting on a putting out basis dominates) and least stable for semi-finished and finished leather (where the price-sensitivity is high). Regarding direction of trade the major markets for our leather have been found in eight countries, viz., France, Germany, Hong Kong, Italy, Netherlands, Spain, UK and USA. In these countries India is mostly competing with other developing countries like China, Brazil, Argentina, Bangladesh, etc.

Chapter IV has discussed the types of price and non-price barriers that any exporter may have to face in the importer’s market along with the plausible strategic reactions on the part of the former. This provides the backdrop to analyze the impact of different non-tariff barriers erected in the developed countries against leather trade on ground of pollution and health safety in the post-WTO regime. It is observed that following a ban imposed by Germany on the use of a particular chemical, PCP, in the leather tanning process, the Indian producers gradually shifted to better production techniques in terms of cleaner chemicals and the innovations here were masterminded by the research institutes like CLRI whereas information among the stakeholders was disseminated by CLE. As a result India regained her market share in Germany and started playing in a better term with more advanced technology. Thus, the barriers extended challenges before India and with the help of technology mission she has gradually switched to better technology leading to an increase in factor productivity of the sector and generating hope about the long-run sustainability of the process.
Chapter V tried to assess the impact of different types of tariff and non-tariff barriers on leather trade in the post-reform, post-WTO period in terms of their influence on the supply-side factor like dependency ratio and demand-side factor like the analysis of market share. It has been observed that in all our major importing countries the bound tariff rate has gone down significantly over time though the number of lines has increased almost everywhere. This increase is more aggressive in case of leather goods and footwear and relatively less for semi-finished and finished leather. For non-tariff barriers, since there exists no universally accepted way to assess its stringency, different possible measures suggested in the literature is reviewed first and the method used by Kadekodi et. al. (2003) has been attempted to be replicated for the years 2000 and 2006 to get an idea about the increase in stringency following the SPS and TBT Agreements. The environmental trade barriers are more stringent for semi-finished and finished leather compared to leather manufacture. Regarding the influence of these barriers on the dependency ratio and market share a few interesting observations emerged:

- India’s relative market shares in importing countries are not very sensitive with respect to the extent of trade barriers (both tariff and non-tariff ones);
- The dependency ratio is sensitive to trade barriers only in case of semi-finished and finished leather; however, instead of an inverse relation the association is positive indicating a favourable influence of such barriers on the volume of trade.

These two observations taken together indicate a strong possibility of coping in terms of technological improvement. To explore this possibility in greater detail an analysis of leather patent by Indian research institutes has been carried out in this chapter. It is noted that the involvement of CLRI in process innovation has gone up significantly over time.
and the number of patents in leather is also growing significantly suggesting long-run viability of the sector’s promise. However, to realize this potential the most vital support has to come from proper policy backing. It would be appropriate to discuss the suitability of government policy pursued so far to realize the export potential of leather industry.

6.2 A Brief Review of Existing Policies

In a developing country like India government policies play a major role in deciding the future of a labour intensive traditional industry like leather and leather manufacture. Until Independence, the Indian tanning and leather manufacturing industry remained in the cottage and small-scale sector. The British were interested in getting regular supplies of raw hides and semi-finished leather for the manufacture of leather products in the UK. The growth and progress that were noticed in the leather industry during the British reign was mostly due to favourable demand conditions created by the two World Wars. During that period all raw hides and skins were exported to London for auction.

During the 1950 and 1960, the government policies helped in the establishment of tanneries in the small-scale sector. The policies pursued by the Government in that period focused on two major objectives (i) promotion of internal production and (ii) increase in the export of finished leather, footwear, leather goods, etc. in place of raw hides and skins. Heavy duties on import of manufactured leather goods and restrictions on exports of goat skins and raw hides were some of the protective measures adopted by the government to help the sector. In the 1970s, the external environment, particularly the crisis led by the oil-shock, favoured the growth of the leather industry. The industry was identified as an export thrust sector and generator of employment in both rural and urban
areas. Rising real wages and public concerns about environmental damage in western countries such as the USA, UK, France and Germany resulted in a gradual shift of the tanning industry to low wages and less pollution conscious countries such as Spain, Portugal, Turkey, South Africa and South-East Asia. India had some special advantage among these countries as here the raw material base was strong and chrome tanning process, basic chemicals, leather finishing materials, etc. were readily available. So, the need for some supportive policy intervention was felt at the government level and the Seetharamaiah Committee was constituted in 1972. The Committee made four important recommendations:

- Ban on export of raw hides and skins;
- Quota restrictions on export of semi-finished leather;
- An increase in finished leather manufacturing;
- A comprehensive scheme of incentives for boosting exports of finished leather and leather products;

The recommendations were accepted and implemented in 1973 and simultaneously the Planning Commission appointed another committee (Kaul Committee) to suggest appropriate policies for technical support to the leather industry. It recommended the imposition of a uniform duty on all machineries imported for tanning, finishing and making of leather and leather products.

In spite of all these policy initiatives the response in the leather sector was rather sluggish (confer chapter II) and to make the sector more vibrant, the Ministry of Commerce, Government of India has set up Pande Committee in 1985, which recommended duty-free import of raw hides and skins, wet blue and crust leather and finished leather under
the open general list (OGL), liberal import of machineries and equipments needed for the industry and strengthening of the production infrastructure to help improve the production of footwear. The essence of the suggestions falls under three categories:

- Increase in raw material availability;
- Up-gradation and modernization of technology;
- Provision of package of incentives to increase competitiveness of exporters of leather goods.

These policies constitute the first phase of government support where the primary target was to help the industry in developing capacity to graduate from a supplier of raw materials to that of finished products.

The second phase started around 1986 when active support system was attempted to be extended in terms of institutional research and marketing strategies. Consequently, the Central Leather Research Institute (CLRI), the Council for Leather Export (CLE) and the Leather Technology Institutes gained prominence. The CLE has facilitated Indian leather and leather goods export with countries worldwide by serving as the focal point for collecting, collating and disseminating information on world trends in fashion and design, product development and adaptation by organizing the participation of Indian exporters in international fairs and buyers-sellers meetings, inviting foreign experts to provide technological input to Indian leather exporters and arranging international leather fairs in India. Foreign customers are provided information on Indian leather and leather products manufacture and export through several activities of CLE (Muchie 2000).
One of the determinants of India’s success is related to the designation of the industry as an export thrust sector. With this designation the industry received government assistance in labour management and meeting foreign exchange demands. The Leather Technology Mission, established by the Government, created an institutional arrangement that linked the efforts of government research institutions like CLRI and the leather industry as a way to improve the quality of finished leather and enhance the effective use of cleaner technologies. This has been reflected in the gradual improvement of export performance of leather footwear, leather garments, leather goods etc.

The 1990s witnessed important changes both in the domestic and external environment requiring policy responses from the Government of India. At the domestic front Government of India initiated the New Economic Policy in July 1991. The Murthy Committee was set up in 1992 with an objective to enhance the impetus for export promotion by encouraging growth of the leather product sector. The export target was set at $6 billion by 1999-2000. On the external front, a new trading regime with the WTO as a global institution came in January 1995. Environmental considerations were brought into the world trade agenda. India as a member of the WTO has an obligation to confirm to its commitments on the trade policy. Developed countries, particularly the USA and members of EU, tightened the environmental requirements on imports of goods of polluting industries like leather. At that period India had to face keen competition from China, Hong Kong, Thailand and other Asian countries in the world leather export market. These changes necessitated changes in the industrial and trade policies of India in the 1990s. Liberalization of the economy did not discourage the government from
continuing its support of the export thrust status for the leather industry. A market-state partnership evolved to integrate innovations with market experience (Sankar, 2007).

The export-import policy for the period 1997-2002 aimed at accelerating exports through restructuring various export promotion schemes and simplifying procedures so as to make them transparent and easy to administer. The Ministry of Commerce identified leather and leather products as one of the eleven specific products for export promotion. By the turn of the century the volume of leather export fell way below the magic target of $6 billion set by the Murthy Committee. In 2003 all types of hides and skins and semi-processed leather were permitted for export. The foreign trade policy 2004-09, announced on August 31, 2004, concentrated on two objectives: (a) to double India’s percentage share of global merchandise trade within the next five years and (b) to act as an effective instrument of economic growth by giving a thrust to employment generation. A new promotional measure to accelerate growth of exports called ‘Target Plus’ scheme has been introduced and all star export houses\(^2\) are made eligible for consideration under the scheme. The special Economic Zones (SEZs) have been set up since 2000 to boost manufacturing, augment exports and generate employment. To give a further incentive to the leather and footwear industry in 2005-06 a reduction of customs duties on seven specified machineries from 20% to 5% and reduction in the duty on ethyl, vinyl and acetate from 20% to 10% were observed (Sankar, op. cit.).

In spite of such supportive policy back-ups Indian exporters are still supplying mostly generic type of leather and leather products in the international market and the export

\(^2\) Export houses with an export turnover of Rs. 10 Crores in the previous licensing year have been identified as *star export houses* and offered some special incentives.
share of India in global trade on leather and leather products has gone down from more than 8.1% in 1987 (enjoying Third rank) to merely 2.62% (Eighth rank) in 2006. During the same period of time China made a fabulous progress in leather trade, catering to nearly one-fourth of the total world export. So, to assess adequacy of these policy measures one need to study the relative performance of India in the World market compared to her rivals and should have a look into the rival’s policy as well.

6.3 Lessons from the Rivals

Like India two of her major competitors in the World Leather Market, namely, Brazil and China are also enjoying comparative advantage in terms of domestic availability of raw materials and cheap labour combined with long experience in traditional leather making.

Though India has the largest stock of bovine animal in the world the production of hides and skins depends not only on the number of livestock but also on the off take rate and the average weight per animal. Here India is lagging far behind Brazil and especially China as with 21% of world bovine stock India accounts for only 7% of total leather production. Moreover, China augmented the availability of raw materials by import also. In terms of the export value of the leather and leather products, China has become the largest exporter since 2000, overtaking the position held by Italy for a long time. Brazil and India occupied the 6th and 8th position by 2002. China took advantage of pig-skin products and invaded the US market which was a relatively uncontested terrain (Rajda 2005). India concentrated more on the EU market where the non-tariff barriers were more

---

3 India’s poor record is due to ban on cow slaughter and poor rate of collection of hides from the fallen animals, low average weight per animal (about 10 kg compared to world average of 18 kg) and a number of pre-mortem and post-mortem defects.
demanding in terms of quality compliance and, therefore experienced a sluggish export growth.

China today has a sharp lead in the market where they have created credentials for their ability to supply large volume at low price. The Chinese producers mostly operate on a buy-back basis and since they work on imported hides, which come from young healthy animals killed for their meat, their quality is also better.

It should be noted here that unlike Italy and Spain, markets for the products of these three countries are either in the medium-priced or the low-priced product segments. Despite its large export share of 53% in terms of pairs of leather shoes in the world exports, China's share in the world export value of leather footwear in 2002 was only 21%. Unlike Brazil and India, China by relying on large scale imports of hides and skins and processed leather, concentrates her efforts in production of leather and leather products, which are labour intensive and where value additions are higher than in the early stages of production.

Brazil’s main export, in terms of weight, is wet-blue leather and this dominance of wet-blue can be attributed to the tariff policies of Brazil and Italy. Brazil imposed an export tax only on salted hides. Italy had zero import duty on salted hides and wet-blue leather but levied import duties on crust and finished leather. As a result Brazil specialized in a low-value added and highly polluting activity.
Chinese government's open-door policy, special preference treatment to Hong Kong, Chinese and Taiwanese to travel and invest in China, joint venture tax incentives like 2-year exemption and 50 per cent discount in income tax in third year, one-stop shopping centre for getting all approvals within a few days for foreign investment into China, streamlining of government structures and procedures, and delegation to local authorities the power to approve foreign investment attracted large flow of investment. The well established banking, financial and trade infrastructure of Hong Kong also facilitated this shift and boosted the trade in leather and leather products. China developed an early-warning system for making proactive responses to the technical barriers to trade. In 1994 China Association of Leather Industry registered the certification trademark. After seven years' preparation in 2003 the Genuine Leather Mark (GLM) Eco-Leather has been pushed to the international market. The GLM-Eco-leather specifies the requirements (a) to enable the domestic leather industry to adopt to international rules, apart from regulations on ordinary physical and chemical indexes of leather, (b) the standard stressed regulations on hexavalent chromium, forbidden azo-dyes, free formaldehyde and PCP that possibly exist in leather and (3) to adopt the national standards for testing of physical and chemical indexes and the German standard for testing of special chemicals.

Though leather-export of India is faring well compared to her past performance its responses to the international demand is rather sluggish in comparison to that of China. The major reasons for that have been identified as dominance of cottage and small scale units in this sector secured through the selective licensing and reservation policies of the government, the campaign by organizations like People for Ethical Treatment of Animals (PETA) resulted in boycott of Indian leather by 40 foreign companies, etc. and finally the
reactive nature of Indian policies to the demands of liberalization and globalization. The speed of response has been slow as it is evident in realizing the potential supply of hides, tannery modernization and relocation and restructuring of leather manufacturing units (Sankar op. cit.).

Compared with Brazil and India, China has been quick to seize the export opportunities and undertake industrial and trade policy reforms. This is possible perhaps because of the one party rule, provision of safety net for displaced workers and technical and financial support from Hong Kong and Taiwan. However, the comparative advantage of China is not rooted to technological innovations (as China has not frequently been found to apply for patents in the leather sector) and, therefore, it may be pseudo in nature. Growth in the earning of the sector is important but the question is regarding the temporality vis-à-vis sustainability of this process of development.

6.4 Direction of Future Research

From the foregoing discussion it has become apparent that to explore her export potential in leather industry India is following the right track; has made substantial progress in catching up with advanced technology and sufficient emphasis is laid on creating proper infrastructure for marketing, networking and advertising. Initiatives taken by the forum of producers and exporters are supported by government policies and a stable state-market partnership is contributing towards the success of the industry. In spite of all these favourable points we are losing our relative position in the world market. So, definitely India has some scope for improvement and a major criticism faced here is that our policies are overly concerned with the improvement of efficiency and productivity to
ensure better success in the market. However, the firm level organizations in an industry
may not be the outcome of just market conditions and technological choices (Banerjee &
Nihila 1995). Characteristics of the agents involved in a traditional industry are also
equally important and these historically determined traditions create an inertia which is
hard to break down through changes in market conditions alone. If advanced technology
of west is introduced as a sign of up-gradation, which will shift the production from small
scale and cottage sector to large scale factories and the ethnic identity of the communities
traditionally associated with leather processing will be threatened. This will obstruct the
trickling down effect of this prosperity to the bottom layers of the society and will attack
the ethical values related to social equity. The extent of social accountability can be
assessed in terms of SA8000 which is an international standard for improving working
conditions around the world. In future the notion of corporate social responsibility can be
introduced in assessing performance of India’s leather export.

The export performance of the industry over time as well as across space is not uniform
and this diversity opens up avenues for further investigations. The Indian leather industry
is dispersed over different regions of the country with concentration observed in North,
East, West, South and Central India. An enquiry into the pattern of regional development,
its changing profile and nature of specialization at a disaggregated level would be of
interest to the future researchers.

It has been recognized in the literature that since there is concentration of small
enterprises in the leather making process, for effective control of pollution from the pre-
tanning and tanning process it would be cost saving to form clusters where the
installation of common effluent treatment plants (CETP) would be not only more manageable but cost-effective as well. The leather clusters and CETP in the North Arcot District of Tamil Nadu are always projected as success stories for combating tannery-led pollution (Kennedy 1999). However, the CETP in the New Calcutta Leather Complex at Bantala is not of much success (Banerjee 2009) and here the attempt of planned cluster formation did not take off till date. In fact, Kolkata has a natural cluster in Tiljala, Tangra and Topsia area of East Kolkata where they are basically distinguished from each other in terms of ethnic identity. These natural clusters are generally more durable and vibrant compared to planned clusters. So, to make efforts towards planned cluster formation viable, one needs to figure out the factors that constitute the strength of the natural cluster and should try to replicate those in developing planned clusters. To meet the objective of enhancing cleaner leather export in future one may carry out a study centered around successful CETP development and management without incurring high treatment cost.

It has been discussed in the text that since early fifties the Government of India started encouraging chrome tanning to produce more pliable leather capable of producing more fashion goods. Gradually chrome tanning became the dominant mode of leather processing and it replaced vegetable tanning almost everywhere. A number of innovations have been patented by Indian individuals, corporations and research institutes in this line since then. However, it would be interesting to note that while the effluents from chrome tanning damage the environment, vegetable tanning is environment-friendly. Vegetable tanned leather has medicinal value (Sujatha 2002), it is used to produce footwear for cracked foot and preferable to chemically tanned leather. Instead of imitating the banned western production processes of chemical tanning, India could
explore the possibility of developing her eco-friendly and health-friendly indigenous process of vegetable tanning, and thus, create her own source of comparative advantage in production and export of leather and leather goods. This is another under-explored area awaiting further research.