CHAPTER 9

CONCLUSION

9.1 The Main Questions and the Key Concerns Restated.

This thesis analysed the determinants of economic organisation in a traditional, export oriented, small scale firm dominated industry in India, the leather and leather products industry. Specifically, it looked at the relationship between export orientation, industrial clustering and performance in this industry that is organised primarily in the form of clusters in several locations spread across the country. It demonstrated the possibilities for transformation of the structure of a traditional industry in a developing country through exposure to international trade as well as the limits to this transformation set by the nature of the international market itself.

The queries to do with the link between export orientation, industrial clustering and performance in this industry were as follows: What are the factors that account for particular kinds of structure and organisation in a traditional, export oriented industry such as the one being examined here? What is the nature of the link between observed economic organisation in the form of clusters and the nature of markets on the one hand, and between economic organisation and internal institutional conditions on the other? To be precise, does export orientation and the availability of external markets contribute to the unequivocal upgradation of production conditions in a labour-intensive traditional industry organised in the form of clusters and if this has not happened, is this due to the deadweight of internal conditions? What is the role played by the State in shaping the organisation and pattern of development in this industry? How has the structure and organisation of the industry affected performance? What are the essential tenets of a strategy of viable development for an industry, such as the leather and leather products industry, in India? These questions were addressed with reference to economic organisation in the leather clusters of Madras and Calcutta.

These questions, it may be recalled, arose out of specific concerns. These concerns had to do with the factors contributing to change and development in traditional industries that are dominated by small firms and the possible development paths open
to traditional industries dominated by small firms that are organised in the form of industrial clusters. The relevance of clustering as an organisational form for firms of different sizes and in different parts of the production process was also a chief concern.

Chapter 2 reviewed a vast literature that came up from sometime in the 1970s on industrial clustering, a phenomenon that represented a form of economic organisation, where a group of firms, clustered together spatially and sectorally, managed to overcome traditional constraints associated with small scale individual existence and break into large scale national and international markets. It also reviewed in detail the experience of a special case of industrial clustering, that of Italy's "industrial districts", which were interesting primarily due to two reasons: first, because many of these districts demonstrated unusual economic success on the Italian domestic market and also on the international market; second, compared to other forms of small firm organisation, they had the capability of providing good pay and satisfactory social conditions. This, in turn, was possible due to a combination of specific characteristics seen in industrial districts as well as the fact that there was intense co-operation between firms as much as they competed with each other. It was also seen that the State played an active role in the provision of co-operative infrastructure as well as ensuring co-operation and regulated and shaped the economy in various ways that benefits accrued to all agents in the districts, including labour. It was seen that analytically, the discussion on industrial districts is as much a story of attainment of efficiency in small-firm contexts as a labour process one and an examination of the factors that can make both possible constituted a major concern of this study. In other words, the conditions that determine alternative paths of small-firm development, defined both in terms of efficiency and performance as well as rewards to labour, especially in the case of a traditional industry such as the leather and leather products industry in India, were of specific interest. In this context, the question of the role of the State in shaping institutions and creating conditions that ensure co-operation on the one hand and determining the pattern of rewards to labour in the leather industry has also been a major concern in this study.

Chapter 2 also reviewed the case of industrial clusters that exist in different parts of the world where it was seen that there were wide variations in patterns of linkages between firms, their growth within clusters and the distribution of benefits across different agents
in the clusters. The most obvious difference lay in what kinds of trajectories of growth were seen and how the returns to labour accrued. Industrial clusters have been seen to fit into any of the following in a typology of typical cluster development: stagnating clusters, Italianate clusters, hub-and-spoke clusters and satellite clusters. There were two clear patterns of development seen as far as labour standards were concerned, one centring on competitiveness and efficiency being achieved along with high rewards to labour, referred to in the literature as the 'high road to flexible specialisation' and the other where competitiveness centred around the casualisation of labour, referred to as the 'low road to flexible specialisation'. The majority of developing country clusters were examples of the latter, although in several clusters, the low returns to labour were accompanied by high growth and efficiency.

In the context of the literature on industrial clustering as well that on industrial districts specifically, this study examined for the leather and leather products industry in India the argument that exposure to international markets unequivocally upgrades production conditions in small-firm dominated industrial clusters. It also critically examined the view that internal institutional factors that are shaped by history and social relations prevent this upgradation through a resistance to change and that changing internal conditions as well as institutions is what is essential to being able to take advantage of international markets and lead the industry on to a sustainable growth path. In this context, it also analysed the relevance of clustering as an organisational form for different firms in the industry across its different segments. The findings of this study are summarised below.

9.2 The Essential Conclusions Summarised.
Economic organisation in the leather and leather products industry has been shaped by three factors: insertion into global markets from colonial times onwards, historical and contemporary links with the social structure and State intervention through government policy geared primarily towards exports. Within this broad understanding of the determinants of economic organisation, the following specific arguments may be made:

First, it is the insertion into global markets that has been the primary stimulus causing change and development of the industry and it is the nature of the international market combined with a specific set of policies to cater to it that can to a large extent explain
the structure and performance of the industry as a whole as well as the Madras and Calcutta clusters that have been specifically studied.

Second, internal institutional features such as historical factors and social relations have been important influences on the organisation of the industry as in typical traditional industries and have crucially affected the nature of clustering in the leather and leather products industry. The impact of historical factors as well as relations of caste and community have been important in both the clusters studied (and gender in Madras particularly) and may be said to be characteristic of the whole industry. Further, these internal institutional factors, far from functioning as major constraints on production for the export market have actually aided such production for the segment of demand that India currently satisfies and complemented the structure that has arisen to cater to the export market.

Third, the role of the State has been crucial in determining the nature and degree of export orientation as well as influencing the nature of cluster development in the industry. The most vital aspect of the role played by the State in the leather and leather products industry has been in determining the nature of export orientation and formulating policies to tailor production primarily towards the international market. Policies, while targeting exports with changes in emphasis and instruments used over time, have primarily facilitated production for the lower ends of the international market which in turn has resulted in the kind of structure that has been observed. Thus, while the nature of the international market has influenced structure, organisation and performance, this has taken place because State policy shaped it crucially. However, while the role of the State was crucial in determining structure in the leather and leather products industry, the State did not function in any typical way that is characteristic of clustering experiences.

Fourth, in spite of the structure and organisation of the industry as well as policy being primarily tailored towards production for the international market, India has progressively been losing share in various segments in the international market for leather and leather products. Its export performance in terms of rates of growth has declined in the period of the 1990s and it has been steadily losing out to competitors in all segments. The industry, taken as a whole has been unable to either maintain its
position in existing segments or reach out to higher value-added segments in the international market in any significant manner (the latter, where it has taken place, is limited to a few firms in the industry).

Production for the export market and actual export performance are thus limited largely by the nature of the export market and the policies of export orientation in the leather and leather products industry in India, with internal institutional factors playing a complementary role. Each of these major conclusions is briefly elaborated below with reference to the evidence presented in the different chapters that constitute this study.

To begin with, the nature of insertion into global markets is summarised. It has been seen that the international market has been the major stimulus causing change in the leather industry from the colonial period and throughout its development. At the time of the leather industry's insertion into the international market, there was hardly any domestic/national market in existence and its case is that of the transition to production for the export market without the intervening stage of the national market. This is important and stands out in contrast to most international clustering experiences, including that in the leather industry in other parts of the world, where there was a gradual transition made from production for the needs of domestic markets to that of the international market. The implication of this is that policymaking has always tried to tailor policies to the export market, with the domestic market being considered secondary even as it developed to account for a greater percentage of demand than exports.

Throughout its development, India's role and position in the international market for leather and leather products have been determined by changes in the patterns of international production and demand and this has been facilitated by State intervention that responded to international changes and a perceived role for India within it. In the post-independence period, the first stimulus for structural change in India's domestic production and exports came with a major relocation of tanning from the advanced countries to developing countries due to stringent anti-pollution laws in the former. Subsequently, there was a relocation of labour-intensive processes within leather product manufacture to developing countries due to high labour costs in the
advanced countries. These two major relocations in the international leather industry stimulated first tanning and then labour-intensive leather product making in many developing countries, of which India was a prominent one. Policies of export orientation got geared essentially to take advantage of these relocations with progressive emphasis being provided to the production of first finished leather and then leather products.

Along with changes in the international market and policies reflecting these changes, India has played different roles in the international market for leather and leather products - as a raw material supplier in the colonial and immediate post-colonial period until 1973; as an intermediate product supplier (i.e., supplier of finished leather, footwear components, etc) from 1973 onwards; and also as a supplier of low labour cost leather products in the lower ends of the international market from the 1980s. At each stage, it has functioned as a raw material or component supplier, or as a low cost producer in the global commodity chain for leather and leather products.

It was seen that the international market for leather and leather products can be considered a typical case of a buyer-driven commodity chain where different countries supply to different segments which in turn vary from the high-quality premium segment to the low labour cost price sensitive segment. India caters mainly to the latter segment where the level of competition is extremely high. It can be seen that in this industry, contrary to common perception, the international market is highly varied in terms of kinds of demand and the very high premium placed on quality applies to only particular segments at the top-end of the spectrum, like in typical buyer-driven commodity chains. Production for international markets does not ensure that quality need be a major consideration for production. Production at lowest cost can also be an objective for a country choosing to cater to the low end of the market. India, in turn, has historically catered to the low labour cost segment because this has been considered one of the major competitive advantages that it possesses. This can be seen in both policy initiatives for the sector as well as been reflected in the attitudes of buyers.

It can be seen that the nature and degree of insertion into international markets have fundamentally determined economic structure and organisation in the leather and
leather products industry. This has taken place through the formation of clusters of production, in the structure of the entire chain of production beginning from the sources of raw material supply to the ultimate markets for the industry’s products and the composition and organisation of the main clusters throughout their development. Further, the international market impacted Madras and Calcutta in different ways, although the essential structure was the same and reflected responses to stimuli from the international market. The differences between Madras and Calcutta can be attributed to the nature of product specialisation and the presence or absence of the domestic market.

It was seen in Chapter 4 how the process of cluster formation took place in response to demand from the international market in the colonial period. From the mid nineteenth century, the development of international trade necessitated the production of raw hides and skins as well as of tanned leather in reasonably large quantities to permit trading, requiring major changes in the organisation of production. Organisational change was reflected in changes in the unit of production, location of production, scale of production, technology and labour process. Tanning saw the process of concentration of capital and the creation of the large factory in urban and semi-urban leather clusters to cater to army demand, where the workers came from the former rural leather artisans and earned wages, in contrast to the customary obligations that prevailed previously. This major stimulus inducing change came about when the traditional economy was breaking up in an economic as well as a social sense. In an industry that might have died or declined due to the decline in several types of traditional demand, the external market provided a major stimulus that provoked reorganisation.

Two aspects of cluster formation in the leather and leather products industry stand out in contrast with international experience. One, this represented an example of a traditional industry where the transformation from a village unit based form of production to the factory form for exports came about without the intervening stage of production for a domestic market. Subsequently, even when the domestic market developed, the overall production structure continued to be tailored to production for the international market, particularly in the prominent clusters. This constitutes an important aspect of the historical embeddedness of this industry, where a colonial
preoccupation with production for the international market constituted a dominant priority throughout the post-independence period. This aspect has important implications for the structure of the domestic market, as will be seen below. Two, contrary to international experience, the leather clusters in India first saw a major concentration of scales and subsequent deconcentration. Concentration of scales was marked by the emergence of larger factories in response to war demand following which, as war demand declined, small-scale firms emerged by buying off machinery from the large concerns in small batches and specialising in specific operations. Small-scale dominated clusters emerged out of an initial concentration of scales, unlike in most clusters that have been researched, where very often the gradual exposure to the external market resulted in a concentration of scales.

The composition of the clusters in the period from 1973 until the present reflects the need for flexible forms of production for the international market. Both clusters contain the whole range of organisational forms presented in Chapter 3, from vertically integrated enterprises with the whole production process internal to the firm to a huge number of units doing part processes and linked to each other vertically or horizontally, with a wide range of intermediate structures in between. While there are large numbers of ‘stage’ firms and firms of all sizes exist which specialise in specific processes or products with dense inter-linkages between them, in both Calcutta and Madras, the objective of individual firms in the industry is vertical integration. The process-specialised firm has come into existence to meet market demand, but each firm in turn aspires to integrate forwards or backwards. This is a major difference between the clusters studied here and classical industrial district type forms of industrial organisation, and also many small-scale clusters like Tiruppur. Further, in the context of backward integration, the choice for a typical firm in the industry is not between whether to “make” or “buy” but to retain the facility for both and use both depending on the situation. The situation can be characterised as two distinct and somewhat contradictory tendencies existing simultaneously: one, of flexibility achieved through a decentralised but hierarchical production structure between firms in order to cope with the extreme volatility of the international market and two, of vertical integration largely due to a lack of production co-ordination of the type seen in successful industrial clusters. The simultaneous occurrence of the two apparently contradictory tendencies of decentralisation and vertical integration is actually a
reflection of the lack of "collective efficiency", the existence of which is a fundamental characteristic of successful industrial clusters that surrogates for scale, achieved through specialisation and production co-ordination. Thus, here, co-ordination between firms exists primarily to cope with volatility in the international market and not really to achieve the economies associated with specialisation and co-ordination as is possible in successful industrial clusters. Simultaneously, vertical integration occurs primarily due to the absence of genuine co-operation between firms in the cluster. This implies that given the existing structure, forging different forms of co-operation between firms at different stages in the production process and thereby conscious creation of clusters, where increasing returns accrue from specialisation and co-operation, becomes difficult. Thus, while the typical cluster in the Indian leather industry is a cluster alright, it is a cluster in itself rather than being a cluster for itself.

This flexibility is not only in the structure of production but in labour processes as well. In both the Madras and Calcutta clusters, informalisation is a major feature of the labour market, irrespective of the nature of the enterprise. Informal methods of recruitment and remuneration are a guaranteed system of exerting control over the labour process and even in the segments such as footwear manufacture and finished leather production where production conditions can favour vertical integration, flexibility is attained through control over labour. The availability of cheap labour presents the possibility of adjusting instantly to changes in demand, whereas investment in more machinery, even if the costs can be recovered quickly, prevents the possibility of such instantaneous adjustments. The control over the labour process constitutes the most certain element in the production process for an entrepreneur and in a situation where entrepreneurs consider production conditions to be vulnerable, informal labour processes are used and are widespread. The use of informal labour processes becomes possible primarily due to employment based on caste in Calcutta and that segregated by gender in Madras.

It may be concluded that the leather industry in India as a whole can be characterised as a mechanised traditional industry functioning with flexible production organisation and informalised labour processes. In terms of the typology of clusters that has been discussed in the literature, there has neither been a transition to a classical industrial district nor a clear evolutionary shift towards hierarchically organised districts with
distinct core-ring structures centring around a few lead firms of the hub-and-spoke kind, nor has there been a clear evolution into a satellite form of organisation in either of the two clusters. In fact, it may be argued that both the Madras and Calcutta clusters are hierarchically organised ones with a combination of independent and dependent firms at lower levels of the hierarchy, with some characteristics of the satellite form of organisation prevailing. Another feature of clustering in the leather industry in India is the existence of inter-cluster relationships in the historical and the contemporary period, due to the industry’s organic links with the entire production chain up to the sources of raw material supply and a broad (though changing) division of products between clusters. In an organisational sense, these characteristics distinguish clusters in the leather industry from standard experiences of clustering that have been seen.

It can thus be seen that the international market has crucially shaped organisation of production in both the clusters. A combination of two phenomena occurred simultaneously in response to the export market: significant modernisation (although unequal between different types of enterprises) combined with a process of informalisation of production and labour processes. The modernisation aspect was seen in the growth of the factory sector, mechanisation, scales of operation as well as productivity in the industry as a whole and in the two clusters studied. The informalisation aspect can be seen in the simultaneous growth of the non-factory (unregistered) sector, a change in its internal size composition and in the prevalence of informal labour processes across different kinds of enterprises in the industry, ranging from the highly formal to the informal. The aggregate data that captures these aspects was analysed in Chapter 5. The process by which this took place was examined in the fieldwork whose results were presented in Chapter 7 and analysed in Chapter 8. What is interesting is that both the degree of modernisation as well as that of informalisation are related to the need for flexibility in production given the vulnerability of the international market.

Chapter 5 showed that the organised (registered) factory sector grew significantly in terms of number of enterprises, employment and output over the period 1979-80 to 1997-98 whereas the unorganised (unregistered) non-factory sector shrank in terms of numbers of units and employment especially in the nineties. While this can be
interpreted as a growth in the formal sector and a decline in the informal sector, following conventional definitions, the decline in the non-factory sector did not mean a fall in unorganised activity as such, and only indicated a change in the size composition of the unorganised sector. In the non-factory sector, there was a tendency towards a larger size composition and this appears to have taken place simultaneously with the growth of the factory sector. Further, the segments that saw an increase in numbers of enterprises and employment were those representing two of the value-added manufactures emphasised by the export thrust, i.e., leather garments and leather goods. Thus, a process of informalisation has taken place in terms of the growth of unregistered enterprises producing newer manufactures in the industry. Within the factory sector, there was a relative decline in tanning as an activity accompanied by an increase in value-added activities, reflecting the emphasis of the export thrust.

It was also seen in the fieldwork that within the complex and flexible production structure that has emerged in response to international demand, there was an increase in mechanisation and a large number of firms in the industry have gone in for modernisation to cater to the export market. This has been enabled by large scale liberalisation of machinery imports as well as the fact that export markets require a minimum level of quality upgradation that can come only with upgradation of processes. However, a major feature seen in both the clusters is that actual decisions with regard to the nature of technology upgradation have been circumscribed by the need for flexibility in production and labour processes. In addition, catering to the lower ends of the international market has meant supplying products at lowest possible prices and since the acquisition or upgradation of technology involves incurring significant costs in the immediate sense, it very often functions as a deterrent.

*Exposure to international markets therefore does not unequivocally upgrade production conditions in a comprehensive manner in the kind of industry analysed in this study.* India's relative specialisation in the international division of labour in the leather industry has been given by the nature of the international market and policies and the degree of upgradation has been circumscribed by the need for extreme flexibility to cater to the low labour cost segment across the production process. This conclusion for the leather and leather products industry in India marks a point of
departure from what has been considered as the dominant view that has been summarised in the Introduction.

Within this broad structure that is similar between the two clusters, there are some differences in the organisation of production between Madras and Calcutta and this is dependent on their different histories, the kinds of products being produced in each cluster and on the nature of markets, as mentioned earlier. The major difference lies in the numbers and the size of large firms in the clusters with Madras (and Tamil Nadu in general) having a large number of large modern firms in comparison to Calcutta. This is because of the initial size of capital available in Madras to begin with as well as the relative specialisation that the Madras firms have done in the international market. Chapter 4 showed that the kind of capital that got concentrated in Madras in tanning was larger due to the greater affluence of the community that made the investments. In addition, Madras also emerged as a major tanning centre that developed finishing capacity to cater to the international market, with some of the large firms taking the lead. The larger capital available with these firms also enabled them to integrate forward and set up footwear making facilities, with a large part of the operations being automated. Madras is therefore presently the major exporter of finished leather and footwear and a major chunk of this is done by a select number of large tannery-cum-footwear making units. Further, Madras also did not have a history of leather product making as a result of which there was no local market for leather and leather products and almost the entire cluster caters to the export market directly.

By contrast, Calcutta began with smaller capital in the leather industry and with a significant local product making industry existing from colonial times. Due to the history of product making, Calcutta found it easier to specialise in leather good production for the international market too. At present, Calcutta is the major centre for exports of leather goods such as handbags, wallets, briefcases, etc. Its tanning industry did not grow in scale to the extent that it did for some firms in Madras (or Tamil Nadu) because it caters primarily to the domestic market, supplying finished leather to both exporters as well as domestic producers of leather footwear and goods. Significant volumes of tanned leather produced in Calcutta are sent to Madras, Agra and Kanpur, where exporters of leather products use it. Thus, while Madras is almost exclusively and directly export oriented, Calcutta supplies leather to exporters, which
makes a large part of its production export-oriented. When the Soviet and East European market crumbled, tanneries in Calcutta started to focus on production for direct export as well as indirect exports through sale of tanned leather to exporters in Calcutta as well other clusters. While the argument that the tanning industry in Calcutta concentrated on production for the domestic market is true, it must be remembered that a large part of this was raw material for exporters in different clusters, including Calcutta itself. The impression created, therefore, that the Madras industry is more progressive and modern than Calcutta because it caters to the export market which is more discerning and demanding, only presents a partial picture which does not capture the dynamics of production ultimately tailored to the international market which takes place in both clusters. Even when firms produce primarily or exclusively for the domestic market, they form part of the above structure that has developed in response to the nature of the international market. This finding, that export oriented production takes place to a large extent through structures that might not be particularly modern is a second aspect that marks this study out from alternative views.

Another crucial difference between the clusters is that some of the tannery-cum-footwear-exporter firms that have come into existence in the Madras cluster and in Tamil Nadu in general have few production links with other firms in the cluster and have become independent of the cluster in a production sense, whereas even these kinds of firms continue to have linkages with lower levels in the hierarchy in Calcutta. This, again, is due to the nature of the products produced, with it being possible to centralise and introduce assembly line production in footwear and to some extent in tanning, unlike with leather goods, where decentralisation is natural and also more profitable.

Not only the formation of clusters in the colonial period and their subsequent structure and composition through the post-independence period, but also the structure of the sector as a whole has been shaped by the needs of the international market. It was seen in Chapter 4 that in the colonial period, with the growth of international demand and the formation of semi-urban and urban clusters, there was a major decline in rural tanning and the rural areas became areas for the procurement of raw hides and skins, i.e., the village became the lowest link in a long chain of production and marketing.
that led right up to the international market. This structure continued to persist and in fact got strengthened with the development of the clusters as a result of which tanning and product making got concentrated in the urban areas. This process has resulted in (a) poor quality of raw material due to the low level of health as well as poor living conditions of animals, decay of hides and skins caused by delays in processing and high prices due to high transportation costs and a long chain of intermediaries involved in trade (b) decline in rural tanning leading to unemployment among trade leather working communities and artisanal migration to urban and semi-urban areas and (c) adverse terms of trade for rural tanners and product makers who have to procure their raw material from the clusters and (d) concentration of pollution loads in the urban clusters where the investment necessary to deal with it is extremely heavy.

Economic organisation and structure have also been affected by internal institutional factors such as social relations and historical factors in both clusters. It has been seen that they have been important in different stages of the production chain in the sector, i.e., at the stage of raw material collection, in the structure of firms as family firms, in entrepreneurship and employment and been crucial determinants of economic organisation right from the colonial period. The system of production that came into existence in the colonial period made use of traditional social linkages and structures and the chain that connected rural areas to urban centres, as well as the production structure in the clusters, was intricately interwoven with caste structures. It was seen how this happened in Chapter 4 and also how with the growth of external markets, social structure with its inequalities and hierarchies adjusted perfectly to the needs of the market in the historical period.

However, over the entire period of the industry’s development, it is not the existence or persistence of social relations per se that has determined the trajectory of how they have affected economic outcomes in the leather and leather products sector, but the multiple ways in which they have affected economic decisions. Caste and community have been important factors influencing economic transactions in the leather industry in India and they been used effectively to achieve particular economic ends by entrepreneurs to primarily ensure flexibility in production and labour processes in both clusters. Through the production chain, caste based employment has served to keep labour costs low where it exists. Common minority community identity has been
important in entrepreneurship as well as in employment and is based on notions of 'trust' and patronage. Whether it is 'trust' generated through common identity, or a lack of it legitimised by caste, the maintenance of strong hierarchies within a typical firm is what is achieved through either form of social relations in the arena of employment. In entrepreneurship, social relations have helped maintain closedness from external scrutiny and control through the prevalence of family firms. It has resulted in joint action for particular kinds of lobbying by entrepreneurs from specific communities. The impact and functioning of social institutions and historical influences can be seen in the sector as a whole and is present in both clusters, and these institutions have been useful in maintaining hierarchy and the lowly position of the majority of workers in the industry. This has been necessary in an export-oriented industry catering to the lower ends of the market and is maintained and propagated because it keeps labour costs low. It is not that modernisation and success in export markets can be attributed to the breaking down of such institutions in a major way in any one cluster, as has often been argued. In fact, social relations have served the purpose of justifying the maintenance of a large informal workforce in both the clusters, i.e., the existence of these institutions has aided the informalisation of labour processes that has been seen.

The relative influences of the international market and internal institutional factors such as historical factors and social relations have been summarised above. It has also been a crucial conclusion in this study that the State played a crucial role in shaping the structure and development of the sector, primarily through its emphasis on export orientation. Right from colonial times, the overriding priority for the development of the leather industry has been its role as exporter and foreign exchange earner. Facilitating exports through different sets of policies has constituted the main crux of policies towards the sector. The policies over the years were described in Chapter 3. In the analysis of the role of the State in the leather and leather products industry that was done in Chapter 8, some salient points emerged which are noteworthy.

One, given the overall emphasis on developing the leather and leather exports industry as a major export earner, there were major changes in the specifics of export policy over time. These changes were in the perception regarding what kinds of policies are best suited to enhancing export performance and what kinds of firms need
to be encouraged to maximise export performance. They have also been related to changes in the international market and the major relocations, where the dominant idea has been that India should exploit its ability to produce at low cost, but at the same time there has been the articulation of the perspective that India should establish a presence in high value added segments. Regarding the first, maximising exports and encouraging and protecting small-scale firms were both integral parts of policymaking for the leather and leather products industry over a long period. In more recent years, the perception regarding small industry and its ability to export has changed along with changes in emphasis in export policy itself. The idea is not merely that indigenous industry should develop in subsequent value added stages in order to be able to export in labour intensive segments that have been relocated to developing countries, but that Indian firms should be able to compete in segments of the international market where brand image is important and where large firms are considered to have an edge. This, it has been argued in Chapter 8, is also because the State has represented the interests of a segment of large, successful firms that have seen success due to the nature of clustering that has taken place and who in turn grew from small scales. The articulation of this perspective is consistent with overall changes in small-scale sector policy and as a result, reservation and other targeted incentives provided to small-scale production have been considered unnecessary and actually detrimental to the goal of maximising exports. It was never considered possible or necessary to explore whether facilitating small-scale sector development through focusing on groups of firms in clusters might be an alternate strategy of competing effectively in international markets. This is also consistent with a policy of economic liberalisation that advocates a withdrawal of specific incentives for trade in favour of across-the-board price incentives.

Two, it has been an overriding priority to keep labour costs low as this is considered the competitive edge that India possesses in export markets. Thus, in the phase of extensive small-scale firm development with the expansion of reservation policies and other incentives, given the overriding priority of maximising exports, policies for small-scale development have been less concerned with protecting employment, in spite of it being a proclaimed goal. Policies have rather been primarily aimed at facilitating entry where it might be difficult and in protecting the existence of enterprises without necessarily protecting terms of employment. This has resulted in
or aided the informalisation of labour processes that has been seen in the registered and unregistered segments of the industry.

Three, in spite of the existence of clusters from colonial times in the leather industry, the experiences of clusters across the world and the extensive discussions around the economics of cluster organisation, small-scale sector development policies in India including those that recognise their export potential and performance in specific industries have not taken notice of clustering as a specific organisational form in any concrete sense. The possibility that small scale enterprises can exist, specialise and do well in clusters due to the nature of markets or the characteristics of particular industries, as well as the fact that the conscious development of division of labour between firms in clusters might be an effective market strategy, is not concretely recognised in policymaking in India even today and can be seen clearly in the case of the leather and leather products industry. Thus, even in the arena of the provision of 'real services', where the State or supporting institutions have played a major role in successful clusters across the world, the State in India has provided these services for small firms only half-heartedly and not in line with the needs of the cluster as a whole, but keeping only individual enterprises in mind. This is in spite of the fact that in this industry, due to its catering to exports, it has been considered necessary for the State to set up institutions to provide these services.

Four, the State has played only a minimal regulatory role and been specially supportive to a group of leading firms in the industry. Given the nature of large firm growth and size differentiation, these firms have had a major say in how policies are framed. Proprietors of these firms exercise control over industry level associations and are considered the 'leaders' of the industry, being part of government committees, etc. It was seen how while many of these firms might have undertaken modernisation and managed limited entry into medium levels in the international market, they continue to undertake highly dependent production and still rely largely on supplying to the low levels of the international market, where control over smaller firms as well as informal labour processes are essential. The State has articulated the interests of this group who also have a vested interest in maintaining existing structures of production. This is reflected in import policies, a reluctance to break entrenched structures with respect to raw material collection, and the absence of effective
regulation. In large parts of the industry, there have hardly been any regulations imposed on firms with regard to size, labour standards and pollution norms over the years. Further, regulation is seen as necessary only when it becomes an impediment to exporting, as the example of insistence on the setting up of common effluent treatment plants shows. This, in the larger sense, is also beneficial in catering to the lower ends of the market.

The State has thus played a crucial role in tailoring export orientation policies to conditions that reflect the international division of labour, where countries like India are considered to have an advantage due to low labour costs and absence of stringent regulations on pollution and production standards.

Finally, it has been seen that the effect of export orientation of the kind that has been seen in India has resulted in declining export performance over time, in absolute terms in more recent years (the nineties) and throughout in relative share terms. Chapter 6 showed that over the post-1973 period, there was growth in export values as well as substantial diversification in commodity and country composition. However, this has not got translated into higher shares in international markets. In fact, every time there has been a policy shift towards value-added exports, the change in commodity composition has occurred, but resulted in declining shares in international markets. It appears, therefore, that the structure of the industry and the clusters has been unable to create a stable niche for the products of India’s leather and leather products industry in the international market.

9.3 Epilogue.

The Indian leather and leather products industry’s example studied in this thesis appears to suggest that the scope of export orientation as a vehicle of major transformation and development in a traditional industry is limited, primarily due to the nature of the international market, the nature of policies of export orientation and organisational form where a typical cluster is not an adequate cluster ‘for itself’. It also shows that quite different from the arguments contained in the ‘dominant view’, social and historical institutions played a complementary role in the creation of the structure that came up to cater to the international market. If export performance has been unsatisfactory and if India is finding it increasingly difficult to cater to the
challenges of the international market in the leather industry, it is not the ‘deadweight’ of social institutions that is the primary retarding factor in the segments of demand that India caters to. For the dominant segment of demand that India caters to, it is the basic tenets of the policy of export orientation that need to be reviewed and alternative scenarios worked out. In the context of a discussion on possible alternative scenarios of development, it is also necessary to assess the relevance of clustering as an organisational form in the industry as a whole and for specific kinds of firms in the different segments that constitute the industry.

The relevant issues that arise are: What are the future options open to the leather and leather products industry in India? How are these options linked to clustering as an organisational form?

In the realm of future possibilities, one can visualise three distinct but not necessarily exclusive trajectories for the leather and leather products industry in India – (a) to consolidate the existing low value segment of demand in the international market through appropriate policy measures; (b) to reduce the dependence on the international market by catering systematically to the domestic market and not merely treating it as a residual category and (c) to target higher segments in the value added chain for leather and leather products. All these options are intricately related to the kind of clustering that is in existence and depend on what changes can be effected in the structure of the sector, of the clusters and in firm behaviour.

In the present scenario, what advantages does existing in a cluster offer for different categories of firms in the existing structure of production and what are the changes that would be feasible? For firms at lower levels, such as jobwork tanneries, fabricators of leather products and small scale tanneries and product making units, which form the majority of firms in both the clusters studied as well as in the others, they exist and grow through the linkages that they form with one another vertically and horizontally, in spite of the fact that there is also a tendency towards vertical integration. What is essential, for any of the above trajectories chosen, is for these firms to co-ordinate their decisions in a systematic manner to achieve collective efficiency and for the clusters to evolve institutions that provide real services particularly to these firms.
Even the majority of medium and large-scale enterprises in the leather garment and leather good segments depend on linkages of different kinds, both horizontal and vertical. In leather goods and leather garments, even large firms will continue to find clustering and the benefits therein advantageous, given the nature of international production systems, where small batch production is seen to be most viable. Further, all firms in the clusters benefit from the availability of flexible pools of labour at low cost. Given that the majority of firms are dependent on the system of clustering for survival and growth, a formal structuring of linkages is essential and beneficial for this segment as well.

It is a small number of ‘leading firms’ in the tannery-cum-footwear making segment, mostly in Tamil Nadu, that have in a production sense broken free of their respective clusters but continue to have horizontal links with other firms for joint action and to access the common labour pools available in the cluster. Is it possible that this kind of independent production will become the dominant tendency, given the tendency towards vertical integration? Will the cluster as an organisational form become irrelevant or even less important except as a mere agglomeration? The structure of the international market appears to suggest that this tendency can at best be possible only in the tannery and footwear segment to some extent. For the other segments and for a significant part of the market for tanned leather and footwear, flexible production with interlinkages between firms, i.e., clustering as an organisational form will continue to be relevant.

It is keeping the above in mind that the different alternative trajectories need to be discussed. Consider the option of consolidating the existing low value segment of the international market. A major obstacle to such consolidation is the absence of a collective strategy at the level of groups of firms or clusters taken as a whole. As noted earlier, both the decentralisation that exists as well as the vertical integration that is seen is actually a response to the volatility in the international market. Decentralised production and co-ordination between firms takes place not really to achieve the economies associated with specialisation and co-ordination as is possible in successful industrial clusters. Simultaneously, vertical integration occurs primarily due to the absence of genuine co-operation between firms in the cluster that can help
small and decentralised firms overcome the problems of guaranteed input supplies or marketing. Firm behaviour at different levels is also characterised by price undercutting of one another that harm firms taken as a whole together. Consolidating presence in the existing dominant segment in the international market in different products would in the first place require a concrete recognition of clustering as an organisational form and the economics of clustering on the part of policymakers. This involves a need, first, to recognise the importance of the provision of real service centres to take care of typical input, credit and marketing problems encountered by individual enterprises. Second, it would be necessary to create a mechanism by which firms are required to link up with each other for production, pricing and marketing to take advantage of increasing returns from specialisation and co-ordination and ensure stability in transactions. In other words, some conscious inter-linkages and co-operation are essential between enterprises across size configurations to be able to consolidate existing segments of demand where marketing channels are already known and to reduce the degree of vulnerability seen. This would involve concrete planning at the cluster level and also effective regulation to check malfeasance. Of course, this segment would still remain a precarious one due to its very nature and the fact that large numbers of countries compete fiercely for this segment.

Attempting to consolidate the low labour cost segment in the international market could also be combined with consciously catering to the domestic market, which constitutes more than 50% of demand for the leather and leather products industry in India. This is particularly pertinent in the context of the precariousness discussed above. It has been seen that when the international market became unreliable, firms in Calcutta, for example, automatically created structures for supplying to the domestic market which has turned out to be lucrative and sustainable for a wide range of relatively cheap leather products such as footwear and leather goods. It would be sensible to explore the possibility of consciously organising production structures through clusters to cater to the domestic market in different segments and in different price ranges. This would involve planning for the domestic market through appropriate policies for specific clusters, as well as a review of the policy discouraging the use of leather in domestic production. The domestic market could thus be a market that provides a base and not merely a fallback option when the international market becomes too precarious. This is part of the strategy that is seen to
have been feasible in small-firm dominated industrial clusters in other parts of the world, even while catering to low labour cost segments of international markets.

As far as catering to higher value segments in the international market for leather and leather products is concerned, it is being done at a minimal level by larger enterprises in the industry, or the 'leading firms' that have been talked about earlier. Is it possible that the industry as a whole could graduate to production for these segments or even that catering to such a segment could become the dynamic and dominant tendency of the industry? This at least seems to be the vision of not only the current policy makers but also of those whose opinions dominate in the industry. The reality not only as it exists but also as what seems feasible is, however, quite different. What needs to be realised is that the high value segment internationally is limited to certain specific product lines in footwear and fashion products and it is not that the entire range of leather products has a high and a low value segment. Further, it is not that only export possibilities in the high value segment are dynamic. Thus for a whole range of leather products such as wallets, belts, piecegoods, mass consumption jackets, etc the so called low value segment produces the quality which is the international norm and international demand in this sector will essentially be determined by cheapness of the product. Such a segment is thus primarily catered by production from low wage countries and not by countries such as Italy or Germany. With a focus for India to primarily target the high value segment it may not be the case that the entire range of exportable leather products of this country can be taken to that segment. It will mean restricting itself to a small range of products in the high end, which are highly design intensive, sensitive to tastes and fashion and dependent on efficient marketing channels and brand names in the international market, of which India presently has very little capability. India will in this scenario thus restrict itself to a range of products where it faces stiff competition from well established global leaders and at the same time give up its obvious advantage in a segment where cheap third world production will continue to dominate. If one considers that at present a substantial majority of India's exports actually belong to this low value segment, the impracticality of this policy vision seems even starker. However, this is not an argument to foreclose the option for a part of the industry to graduate or move into the high value segment. Rather, the suggestion is to place such a tendency in the context of the totality of production and export possibilities of the industry. The most
optimistic and realistic scenario is where a gradual move to the high value segment occurs in conjunction with the stability and expansion of the low value one as well. Policies thus cannot be focussed primarily on the perceived needs of the high-end firms, as they very often appear to be, they must reflect the realities and potential of the industry as a whole. This means that policies must be carefully planned and targeted for the different segments and in areas where interests may clash a more balanced approach is necessary. For example, a balance needs to be struck between the availability of finished leather for exports on the one hand and for catering to the domestic market on the other. It must be remembered that the problem of raw material availability can be mitigated to a large extent by restructuring methods of raw material collection and trade and this is a better option to explore rather than restricting leather supplies for domestic production.

Even in the high value added segment certain crucial questions need to be addressed. Has this segment necessarily got to be catered by large integrated firms alone from a production point of view? Further, is the tendency to grow out of the cluster a natural tendency justified by the production process or is it a reflection of the phenomenon that leather clusters in India are not ‘genuine clusters’ (in the sense of each being a cluster for itself)? More specifically, can clusters play a more organic role than they have been playing in the minimal sense now for such firms? Even the large enterprises that represent these tendencies, it has been seen, are producing to order for buyers who provide designs and other production specifications, i.e., even their production structures are dependent on international subcontracting arrangements and do not involve enterprises exporting on their own terms. If this segment really wants to compete with market leaders such as Italy, it has to develop independent capacities for design innovation, brand positioning and ensuring marketing channels to say the least. Whereas this is not an easy task, the viability of such a scenario can exist only if these can be developed and shared at a cluster level. To hope that, independent firms, however large, can attain this with some regularity and stability is rather far fetched, since there are already in existence a large number of policy initiatives and incentives to encourage production of high value products by larger firms. These initiatives, focusing as they do on individual firms have not been able to help large, independent firms perform consistently in high value markets. Even internationally and specifically for Italy, it is clusters that have played a crucial role in generating quality
inputs and real services that are required by all kinds of firms, irrespective of size. It is in such an endeavour, of making clusters cater effectively to a wide range of firms, including the ones that have partially broken free of the cluster, that some of the entrenched structures given by caste, community and history that act as obstacles to development would need to be consciously challenged. For example, it has been seen that raw material availability and quality are affected by the large number of intermediaries involved in raw material collection and trade and faulty organisational practices due to the degraded condition of the workers involved. As noted earlier, the intermediaries very often come from the caste or community involved in raw material trade and actively prevent the percolation of benefits down to the ultimate carcass collectors and flayers through entrenched hierarchies. Similarly, their operations also hike up raw material prices without any genuine value addition. Substantial improvement in raw material quality could come about by providing the actual workers involved with know-how as well as reasonable incomes and by reducing the number of intermediaries. Such experiments have already been tried and been successful, as Appendix 7.4 showed and could be generalised given the will of the State and other institutions involved in the industry. Making clustering more effective would thus need to be combined with reorganising several aspects of the production chain as a whole.

Finally, one needs to address one of the major concerns of this thesis, that of the possibility of upgrading labour standards in this industry that is a major employer of people from vulnerable sections of society. As seen above, a sustainable development path for the leather industry will need to focus on consolidating the existing and viable low cost segment of the international market by keeping the domestic market as a base through effective clustering. For both, the low labour cost advantage is essential. While it is difficult and unrealistic to visualise a classic ‘high road’ type of strategy of development with a major upgradation of labour standards, it is also clear that the specific abysmal conditions of labour in the leather industry arise primarily due to the volatility of the market and this is manifest in intense flexibility in work conditions and casualisation. It is made possible also due to caste and gender segregation, which allow for the legitimisation of the casualisation, as argued before. Within a strategy that attempts to stabilise market conditions through the consolidation of existing segments, combined with catering to the domestic market
and selectively and gradually catering to the high value-added segments, certain specific measures can be undertaken to ameliorate the conditions of labour. For example, stable incomes can be provided to the large number of people involved in raw material collection and trade through an elimination of intermediaries and introduction of better practices for carcass recovery and curing of hides. At the firm level, cluster level policies can ensure that (a) labour contracts are stable and ensure minimum wages irrespective of caste, community or gender, (b) facilities necessitated by the Factories Act are provided wherever applicable and rights such as that to collective bargaining and to redressal of grievances through public institutions are ensured. Given that wage costs actually comprise only about 4-5% of total costs, it is not infeasible for firms to improve conditions of work and realise increases in productivity, if stability of markets is ensured. Isolated examples where this has been tried successfully have been quoted in this study as that of a large-scale tannery that gives a monetary incentive to its workers if targets are achieved/exceeded, mentioned in Chapter 7. What is necessary for this to become generalisable is to ensure stability of markets and to change the mindset of entrepreneurs in the industry. This can be visualised possibly only if the possibilities and potential out of clustering and the necessity of restructuring the production chain are realised and adequate regulation ensured. This appears to be least on the agenda of policymakers and the dominant voices in the industry, especially in the context of economic liberalisation.

Given the existing structure of the international market and a lopsided policy vision, different kinds of firms have functioned rationally to ensure survival, whether it is small firms forging specific kinds of relationships within clusters or some large firms trying to partially break out of clusters. The deadweight of institutions does not serve as a proximate factor that might retard or threaten the survival of a segment of the industry, as apprehended. Neither does a mere exposure to external markets necessarily dynamise the industry as the history of the industry is in itself a record of such exposure. In fact, given its history, the industry will continue to thrive with a high degree of vulnerability, with firms and clusters finding their own set of solutions and survival strategies. It is only if one has a totalistic vision encompassing all agents and segments in the industry that the question of an alternative development path becomes pertinent. This alternative path, in the context of a labour surplus economy that also needs to take advantage of its low labour costs, can be envisaged if the
dynamic and efficient possibilities from more effective clustering are realised and the benefits are shared, at least partially, between different agents who are separated by class, caste, gender and size. It need not be a choice between a ‘low road’ and a ‘high road’ strategy of development, it might be possible to think of a middle path that is suitable and sustainable at least in the medium term.