CHAPTER 3

BACKGROUND TO THE LEATHER AND LEATHER PRODUCTS INDUSTRY

3.1 Introduction

It has been mentioned in Chapter 1 that this study is essentially concerned with the nature of the relationship between export orientation and industrial clustering in a small-scale sector dominated industry and that the case study considered is that of the leather and leather products industry in India. The leather and leather products industry is one of India’s oldest manufacturing industries that catered to the international market right from the middle of the nineteenth century, the demand for its products being both domestic as well as international right from the beginning. About 46% of the production in the sector is exported and it ranks fourth in the list of India’s top export earning industries and contributes roughly 4% to export earnings. The industry is also one with strong links with the social structure through caste and community. Thus a large number of people engaged in the industry (entrepreneurs as well as workers) are even today from traditional leatherworking castes (belonging to the lower castes in the caste hierarchy) and the Muslim community. Due to the age of the industry and its links with the social structure, the organisational structure that has emerged is a very complex one that contains within it elements of continuity with traditional structures as well as those that represent a break with them. In addition to these historical aspects of its evolution, the dynamics of the industry has been shaped to a large extent by export orientation from colonial times. The sector is dominated by small-scale firms although there also exist a significant number of medium and large sized firms in all segments of the industry. The industry is concentrated in several leather clusters in four or five distinct locations in the country, with each cluster containing a wide variety of enterprise forms and organisational structure. In the context of the literature on industrial clustering reviewed in the previous chapter, the leather and leather products industry constitutes an interesting case study for a traditional export oriented industry on the one hand, as well as one that is organised primarily in the form of small-firm dominated industrial clusters on the other. It is
also a sector where social factors have played a major role in shaping economic organisation.

This chapter presents the broad background to the Indian leather and leather products industry. It covers the main production processes in the different segments of the industry, the structure that has been built up to cater to demand for the different segments, the various categories of demand for the sector's products, and the policy framework within which the industry operates. Since this study is primarily an economic organisation study, the details of economic organisation have been understood on the basis of fieldwork done in two important leather clusters in India, Madras and Calcutta and presented in Chapter 7. The field-work was based on questions that arise from the literature reviewed in Chapter 2, conclusions obtained from aggregative data on production and export performance presented in Chapters 5 and 6 and background information about the industry collected from various published sources as well as on information collected during preliminary visits to the two clusters and other sites of leather and leather product production. The information collected from the published sources, as well as that obtained in the preliminary visits are presented in this chapter.

3.2 Structure of the industry and the production process.

The leather and leather products sector consists of the following activities: The process of raw material production, i.e., carcass collection and flaying, production of leather from the raw material, i.e., tanning, and manufacture of leather products from finished leather. Of these, carcass collection and flaying are dispersed across rural and urban areas all over the country whereas tanning and product making which constitute the manufacturing activities in the industry have come to be concentrated mostly in urban centres in the form of industrial clusters\(^1\). It is thus not enough to look at the manufacturing activities in the industry to get a reasonable idea of the structure of the industry. It is essential to look at the sector as a whole to include the process of raw material production as well because the linkages that exist between the sites of raw material production and those of manufacture are crucial to the structure of the

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\(^1\) The next chapter on historical evolution traces the processes through which the spatial organisation of these different activities took place from colonial times until the early seventies. The chapter on economic organisation looks at aspects of economic organisation in specific clusters.
industry, as the description below will demonstrate. Any research on the leather and leather products industry, even if it concentrates on one or another specific manufacturing site (such as any of the several leather clusters in India) needs to keep the linkages with other areas in mind and by the very structure of the industry, a purely localised study of the industry is not possible.²

In figure 3.1, I have traced the chain of production and trade from the village level flayers to the ultimate markets for the industry's value added products.

The first stage in the chain is the production of raw hides and skins from either dead or slaughtered animals. The major species of livestock that supply hides and skins to the leather industry are cattle, buffaloes, goats and sheep. India has the largest livestock population in the world, accounting for about 15% of the world's population of cattle, 56% of buffaloes, 20% of goats and 5% of sheep³. However, raw material availability and quality are one of the main constraints that the sector is faced with in an overall sense. Many of the problems that affect raw material availability seriously and have serious implications for export performance and quality in the sector are linked to the methods of procurement of raw hides and skins, their flaying and curing. In spite of the largest livestock population in the world⁴, the availability of hides and skins in India is constrained by a low rate of recovery. Available livestock are scattered and diffused throughout the country and their collection practices vary from region to region. Recovery takes place from both slaughtered as well as fallen (dead) animals and in a country where cow slaughter is not permitted in large parts, as well as where very often livestock that die are not recovered for days and sometimes weeks on end, the recovery rates are much lower than their potential. Thus, it was estimated in 1986 that the monetary loss due to non-recovery of raw hides and skins was of the order of Rs. 600 crores.⁵

² While this study has focussed on two specific clusters, it has also looked at other clusters in minor detail and has also examined issues of links between the clusters and their raw material sources in order to be able to capture this interconnectedness. Thus, while in many cluster studies (some of which have been analysed in Chapter 2), links with input suppliers that are crucial to an understanding of cluster development have been examined from the point of view of input suppliers within the clusters, this study has also looked at the links with remote areas of raw hide and skin collection.
³ CLRI (1987)
⁴ CLRI (1994)
⁵ CLRI (1987). It was also estimated that the net offtake rate worked out to 11.6, 23.3, 67.8 and 62 per 100 animals for cattle, buffalo, goat and sheep respectively.
FIGURE 3.1
PRODUCTION CHAIN IN THE LEATHER AND LEATHER PRODUCTS INDUSTRY

Sales in domestic market

Own export

Sales to Trading Houses

Own export

Sales to Trading Houses

Own sales in domestic market

Exporters

Domestic producers and traders

Exporters

Domestic producers and traders

Exports of finished leather

Household/home based product making units

Small scale product fabricating workshops

Small scale own account producers cum exporters

Large product making units

Traders and agents of product making units in the domestic & international market

Cheap domestic products like cycle seats, soles etc.

Small workshops and units producing cheap local products.

Vegetable tanned leather

Small bag tanning or pit-tanning tanneries

Small finishing tanneries

Semi finished leather

Medium and large integrated chrome tanneries

Semi finished leather

Small wet blue tanneries

Sales in local market, fairs etc.

Rural tanners cum cobblers, artisans and product making units

Raw hides and skins market

Middlemen and Traders

Raw hides & skins

Middlemen and Traders

Raw hides & skins

Village level flayers/tanning units

Slaughter Houses in Urban & Semi-urban areas.
In addition, carcass collection as an activity is strongly linked to traditional caste structures and most of it is done by people belonging to lower castes in rural areas, as part of caste-determined occupational structures in villages. Although the traditional system of disposing carcasses to the traditional flayers by farmers has been undergoing changes\(^6\), it was estimated that even in the mid-80s, 55% of carcasses were being disposed to the traditional flayer on the average all over the country\(^7\).

Different practices are in vogue in different parts. In Bihar, Gujarat, Madhya Pradesh and Maharashtra, it was found that carcasses were being procured by flayers free of cost, whereas in Andhra Pradesh or Tamil Nadu, the flayer paid the carcass owner something in cash or in kind\(^8\). In some states, after the flaying is done, the hide or skin is returned to the owner who sells it to the raw hide dealer or to the rural tanner. In some urban centres, the flayer is paid money to remove the carcass or to hand it over to a contractor authorised to collect the carcass. In general, therefore, there are both monetary arrangements as well as customary arrangements that rule the collection and flaying of dead animals. Both monetary as well as customary arrangements are governed by caste factors and the returns are low because of the low caste position of the workers\(^9\).

*Flaying* takes place as a dispersed and sporadic activity in rural areas, as well as in dispersed units and slaughterhouses in semi-urban and urban centres that are linked to markets for raw hides and skins. Traditionally, flaying of dead animals was an integrated part of the rural leather industry, where the flayer was very often a tanner and cobbler as well.\(^10\) Today, very little of tanning or product making takes place in rural areas, but the activities of carcass collection and flaying are still linked to customary obligations and to caste and as a result, those engaged in this activity are part of a large informal workforce that earn very little from the activity.

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\(^6\) The changes as well as the continuities in methods of carcass procurement and flaying are traced historically in Chapter 4.
\(^7\) CLRI (1987)
\(^8\) Ibid.
\(^9\) It will be argued subsequently that the workforce engaged in the carcass collection and flaying activities form the largest proportion of informal sector workers in the leather industry, which has seen a process of informalisation taking place to respond to particular patterns of demand.
\(^10\) Chapter 4 discusses the division of labour that existed within the industry traditionally and the factors that determined and intensified the division of labour.
Table 3.1 outlines some of the main problems that arise at various stages in raw material collection and processing. To quote only some examples from the table, the tools and methods of flaying used by both traditional flayers in villages as well as by butchers in slaughter houses are primitive in general and affect the quality of the tanned hide that is produced. Methods of curing are also traditional and this is another factor that affects the quality of the raw material. The raw hides and skins that are flayed undergo preliminary processing or curing such as salting to preserve them and are mostly transported to raw hide and skin markets all over the country, where also several defects can occur.

Table 3.1 Common problems that affect raw material quality.

<table>
<thead>
<tr>
<th>Nature of the problem</th>
<th>Main Cause</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Natural Defects.</td>
<td>Poor health of animals etc.</td>
</tr>
<tr>
<td></td>
<td>Transportation.</td>
</tr>
<tr>
<td></td>
<td>Loading and unloading.</td>
</tr>
<tr>
<td></td>
<td>Wool removing.</td>
</tr>
<tr>
<td>3. Defects during slaughtering.</td>
<td>Knife cuts, flay cuts, dragging of slaughtered animal, etc.</td>
</tr>
<tr>
<td></td>
<td>Poor quality of tools and implements used.</td>
</tr>
<tr>
<td>4. Defects with modes of recovery of fallen animals.</td>
<td>Time lag in recovery, transportation. Faulty flaying including techniques as well as implements used.</td>
</tr>
<tr>
<td>5. Defects in pre-curing practices.</td>
<td>Wetting and beating of unsalted hides and skins.</td>
</tr>
<tr>
<td></td>
<td>Time lag between flaying/slaughtering and salting.</td>
</tr>
<tr>
<td></td>
<td>Water cleaning prior to salting.</td>
</tr>
<tr>
<td></td>
<td>Development of bacteria, putrefaction, grain damage.</td>
</tr>
<tr>
<td></td>
<td>Time lag between first and second salting.</td>
</tr>
<tr>
<td>7. Defects due to improper storage.</td>
<td>Stacking on the floor.</td>
</tr>
<tr>
<td></td>
<td>Clogged water infections</td>
</tr>
</tbody>
</table>


Some raw hides and skins are consumed at the local village level by tanners and cobblers for making traditional leather and footwear but even they have to source most of their raw material from outside at high prices because the development of the urban clusters has led to the outflow of raw material from the rural to the urban areas.
Collection and trade in raw hides and skins is controlled heavily by middlemen and traders who take advantage of caste factors in giving very low prices to flayers. With the growth of the urban clusters, most of the raw hides and skins produced are channelised into the market chain that leads to the urban clusters.

One of the most important links in the chain between the flayer and the tanner is the raw material dealer, who organises collection, curing, storing, grading, packing and ultimately the transportation of raw hides and skins to the urban centres. These dealers lend advances to the primary producers and at the same time deliver the raw material on credit to the tanners. They thus maintain strong backward and forward linkages in the process of raw material management and many of the large groups that operate in the industry today come from families of raw material dealers who have been able to grow due to their control over this crucial segment of the production chain. There is a massive network of raw material dealers of different sizes who operate at different points in the chain. While the small-scale dealers operate in semi-urban/urban centres within a limited area of operation, the big dealers operate mainly in urban centres with a very wide network of collection systems. The small dealers deal directly with tanners or supply to the large dealers. Between the dealers and the primary producers, large numbers of middlemen are involved in the collection, preservation and trade of the raw hides and skins. According to CLRI (1987), "The organisational set up of raw material marketing looks like a pyramid with a large number of collectors/small dealers spread at the base and gradually narrowing down by the time it reaches the terminal markets."11

The mode of payment to flayers/collectors is usually through a system of advances normally offered against a guarantee of supply and on various terms and conditions such as a fixed rate of interest, fixed price, free of interest, discounted price as compensation for advance paid, etc12. The actual contracts are strongly influenced in most areas heavily by the fact that the flayers/collectors belong to low castes and the prices received are meagre. It has been noted13 that raw material dealers exercise a great deal of control over the primary producers and the system has generally worked

11 CLRI (1987), p 239
12 The actual arrangements vary from area to area across the country.
13 CLRI(1987)
to the disadvantage of the small flayer/collector. The system of raw material procurement is an area where the social embeddedness of economic transactions in the leather industry, something that has been emphasised in the literature on clustering, comes to the fore directly. This phenomenon and its implications have been discussed in detail in Chapter 8.

This complicated system of procurement and trade results in significant price mark-ups for the raw material that is only reflective of the number of layers involved in the middle and does not reflect any genuine adding of value\textsuperscript{14}. It has been estimated that between the procurement of raw material and its ultimate destination to the tanneries, price mark-ups in excess of 60\% are involved\textsuperscript{15}. It has also been found that when better prices accrue to the final product, none of it gets passed on to the lower levels, whereas when there is a slump in the market, the impact is immediately felt at all levels, and most of all by the primary producer who is forced to slash prices.\textsuperscript{16}

What are the implications of this phenomenon of tanning and product making getting concentrated in the urban areas? It 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 and (d) concentration of pollution loads in the urban clusters where the investment necessary to deal with it is extremely heavy.

Apart from these organisational features of raw material procurement, there are several structural features of the livestock population and availability that affect raw

\textsuperscript{14} It is necessary to note here that the number of layers of middlemen involved is essentially due to the fact that raw material production is completely decentralised and isolated, with no economies accruing at the level of the producers, and price mark-ups only reflecting profit margins at each level. An alternative system would need to think of economies accruing to the flayers as a group, where value addition can begin from the level of the producer.

\textsuperscript{15} CLRI (1987).

\textsuperscript{16} According to CLRI (1987) a hide which is bought for Rs. 100 from a flayer costs Rs. 158 by the time it reaches the urban tanner, with the 58\% mark-up price being shared by four middlemen. When prices swing to higher levels, they influence the first stage in urban markets and take a long time to percolate to the rural areas. In the case of a slump, the impact is felt quicker at the primary markets than in the urban markets.
material availability as well as quality, some of which have been mentioned earlier. To reiterate, these are related to the bad state of health of the livestock population, low recovery rates and defects that occur at various stages.

It has also been estimated that due to problems of availability, there will be a shortfall in raw material availability for the domestic leather industry. Appendix 3.1 and 3.2 provide information on the position with regard to raw material availability in relation to total livestock population, in comparison to other countries of the world and the extent of possible shortfall. Appendix 3.3 provides information on offtake rates in India in comparison to other countries of the world. 17

From the raw hide and skin markets, the raw material finds its way, through agents and traders, to different kinds of tanneries (that do either traditional vegetable tanning, or E.I. tanning, or wet-blue tanning or integrated tanning, as the figure shows). Tanning consists of operations done in four stages: those that are done in the beam house (or pre-tanning operations), in the tan yard, post-tanning and finishing operations. The division into these broad sets of operations exists for both vegetable as well as chemical (or chrome) tanning.

What needs to be noted at this point is that the production process can be split up into many component processes and can be done under a wide variety of production organisation forms, depending on how many processes are being undertaken by an enterprise, how mechanised the operations at each stage are, and how employment intensive and skill intensive they are, with all these determining how large or small the enterprise is, what kind of employment takes place, and what the conditions of production are 18.

Vegetable tanning is the traditional tanning method. It is of two types, i.e., bag tanning and pit tanning. In bag tanning, the carcass is sewn together into a bag and then tanned with amla or babool or myrabulan bark. This is done by filling the bag

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17 The information in the Appendices is dated, but is the only information available. What is important is that the figures provided in the Appendices give an idea of the extent of the problems involved
18 This, it may be recalled from Chapter 2, constitutes one of the conditions for the development of clusters that have process or product specialised firms that can develop inter-firm linkages to achieve economies of scale.
with the tannin solution and hanging it up for several days to absorb the solution. In
the second method, pit tanning, the open hide instead of being sewn into bags, is
soaked in pits and tanned with the same vegetable substance. Before tanning is done,
various pre-tanning operations such as salting, liming (soaking the hide/skin in lime
solution to remove the hair from the outer side, or the skin side of the hide/skin, as
well as to make the inner flesh side bouncy) and deliming (soaking the limed hide/skin in sulphuric acid to remove lime) are done in pits filled with the respective
solutions. Traditional vegetable tanning is highly labour intensive and involves hard
manual work in extremely difficult working conditions. The tanned leather made
through either bag tanning or pit tanning processes is tough, reddish in colour and
used for special products like saddlery, sports goods, and for shoe soles. One problem
with vegetable tanning is the long time taken for tanning the hide. It takes nearly three
weeks for the hide to be tanned, rendering it relatively less economic to undertake
compared to chrome tanning. Improved methods for vegetable tanning have been
developed by the Central Leather Research Institute (CLRI), Madras but these have
not yet become popular\(^{19}\). All over the country, those involved in traditional tanning
come from leatherworking castes where skills have been handed down across
generations. With the decline in rural tanning mentioned earlier as well as the
relatively uneconomical process of production of vegetable tanned leather, a large
number of these workers have remained unemployed in villages or migrated to towns
and cities, very often getting employed as leather workers in the different clusters.
Traditional vegetable tanning takes place mostly in dispersed rural areas, unlike
chrome tanning (which will be discussed below) and clustering is rare, except in the
instance of one significant conglomeration of large numbers of traditional units in
Calcutta which has been analysed in this study\(^{20}\).

One form of vegetable tanning that has been popular in the international market right
from when it began is the Madras produced East India leather, or E.I. leather as it is
referred to. E.I. tanning consists of a process developed in colonial times in Tamil

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\(^{19}\) One of the places where the technology developed by the CLRI has been used and been successful is
in the establishment of a flaying and rural tanning-cum-product making co-operative in Mandi,
Himachal Pradesh. A large part of the first hand information on methods of raw material procurement
and the possibilities of decentralised flaying and tanning centres being set up was obtained from a visit
to the site of this experiment in 1999.

\(^{20}\) The clusters, it will be seen, came up to enable production in large vegetable tanyards, but with the
development of chrome tanning, all the clusters switched predominantly to production of chrome
tanned leather.
Nadu, which has been restricted to this area due to favourable climatic conditions. Apart from this demand, in recent years, the demand for vegetable tanned leather and products made out of it has gone up, though not very significantly, with the increase in demand for bio degradable products in general.

*Chrome tanning* is the more modern process of tanning using powdered chrome as the tanning substance. There are two major stages to the chrome tanning process: production of semi-finished leather through wet blue tanning and crust formation, and leather finishing. Both these stages can be done in the same tannery (which have been referred to as integrated tanneries here) or can be divided between different tanneries. Each of these major processes involves a number of sub-processes, which include complicated, and sometimes repeated operations. In chrome tanning, the 'wet blue' stage, when the leather acquires a light blue hue, is the preliminary stage. It prepares raw hides and skins for the first stage of the finishing stage by tanning it in chrome liquor. The chrome tanned leather undergoes a number of operations to be available in the crust stage as semi-finished leather. In each of the operations that are done in order to produce semi-finished leather, it is possible to use purely manual, or highly mechanised operations, or a range of semi-manual and semi-mechanised operations.

The process of finishing also involves a large number of operations that are a combination of manual and mechanised operations which can be split up between as many units as there are numbers of operations, or can all be done under one roof in highly mechanised factories or somewhere in between.

Vegetable tanned leather that is made traditionally is used to produce cheap products such as cycle seats, etc. for the local market in semi-urban areas and the urban clusters, or to produce traditional items such as shoes and bags that are demanded in the national as well as the international markets. Finished chrome leather is produced either by integrated tanneries (which exist in different sizes and employ different production modes), or by finishing tanneries that acquire semi-finished leather from E.I. or wet-blue tanneries. This finished leather has several uses. It is either exported directly to product makers in other countries, or goes into the production of leather products in a large variety of production organisation forms. The kind of production organisation form depends on the product being produced. For example, footwear production of the standardised variety is amenable to assembly line production and is also demanded in large batches and therefore produced to a very significant extent by large
domestic and multinational firms. At the same time, a large chunk of footwear production is also decentralised, ranging from production by small independent producers producing and selling relatively small numbers in the national as well as the international market, to small producers who are essentially subcontractors to larger firms, with the chain of subcontracting extending from large firms down to tiny household workshops. Bags, wallets, and leather garments, on the other hand, require greater supervision for their production and are not amenable to assembly line production and are produced typically in small batches in smaller enterprises.

It was mentioned above that that the production process can be split up into many component processes and can be done under a wide variety of production organisation forms in the tanning segment. It can be seen that this splitting up of production processes in the product making segment as well also results in several alternative organisational forms, depending on how many processes are being undertaken by an enterprise, how mechanised the operations at each stage are, and how employment intensive and skill intensive they are, with all these determining how large or small the enterprise is, what kind of employment takes place, and what the conditions of production are.

Once the leather and leather products are manufactured, they are sold in the domestic or the international market through a wide network of agents and traders to a wide range of buyers. The system of trade in leather products is as complicated as that in raw hides and skins and involves several layers of intermediaries in both national as well as international markets.

Having gone through the production chain for leather and leather products, a summary of the major characteristics of the different kinds of enterprises that exist in the tanning and the product making segments, or the 'production core' of the sector, is provided in Tables 3.2 and 3.3.21

21 These tables have been prepared on the basis of preliminary observations made in the first stage of the fieldwork in the two clusters that have been studied here, and also on the basis of interviews done of firms from other clusters such as Agra, Delhi and Kanpur at various international and national fairs held in New Delhi, Madras and Calcutta.
Table 3.2: Kinds of enterprises and their characteristics in the tannery segment.

<table>
<thead>
<tr>
<th>Kind of Enterprise</th>
<th>Technology/Degree of Mechanisation</th>
<th>Market Catered to</th>
<th>Nature of Labour Employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural traditional vegetable tanneries</td>
<td>Traditional bag tanning or pit tanning-mechanisation almost nil</td>
<td>Product sold to local cobblers/other product makers selling in local market</td>
<td>Family labour, apprentices from the same community</td>
</tr>
<tr>
<td>Urban traditional vegetable tanneries</td>
<td>-do-</td>
<td>Product sold to cycle seat, saddlery and sole manufacturers in domestic market</td>
<td>Informal, caste based employment</td>
</tr>
<tr>
<td>Small tanning jobwork workshops</td>
<td>One or two machines doing simple tanning or finishing jobs</td>
<td>Production on the basis of orders from larger units</td>
<td>Informal employment</td>
</tr>
<tr>
<td>Small scale tanneries doing own production</td>
<td>Significant mechanisation</td>
<td>Product sold to exporters or domestic manufacturers of leather products.</td>
<td>Some permanent workers and largely casual workers with no benefits</td>
</tr>
<tr>
<td>Small scale tanneries that are part of larger groups</td>
<td>-do-</td>
<td>Product made for other units that are part of the group</td>
<td>-do-</td>
</tr>
<tr>
<td>Medium scale and large integrated tanneries (diversified into product making units too)</td>
<td>Highly mechanised, sometimes automated</td>
<td>Direct exports of own finished leather and products, or sales to product exporters</td>
<td>Combination of casual and permanent employment depending upon demand. Strong links with the informal labour market</td>
</tr>
</tbody>
</table>

Source: Preliminary fieldwork.
Table 3.3: Kinds of enterprises and their characteristics in the leather product making segment

<table>
<thead>
<tr>
<th>Kind of Enterprise</th>
<th>Technology/Degree of Mechanisation</th>
<th>Market Catered to</th>
<th>Nature of labour employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural artisanal units</td>
<td>Traditional hand tools used - no mechanisation</td>
<td>Traditional products sold in the local market</td>
<td>Self employed artisan with at most one apprentice Combination of family and hired, casual labour recruited from the informal market</td>
</tr>
<tr>
<td>1. Traditional tanners-cum-cobblers</td>
<td>-do-</td>
<td>Modern shoes sold in the local market</td>
<td></td>
</tr>
<tr>
<td>2. Rural artisanal modern shoe producing units</td>
<td>-do-</td>
<td>Premium artisanal products like kolhapuri chappals sold in the domestic and export markets, as well as modern shoes and chappals sold in the domestic market</td>
<td>Mostly self employed, sometimes hiring casual labour from the informal market</td>
</tr>
<tr>
<td>Urban and semi-urban artisanal units established mainly by migrated artisans</td>
<td>-do-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jobwork units and fabricating units</td>
<td>Simple machines and handtools used</td>
<td>Produce on orders from larger units</td>
<td>Informal employment</td>
</tr>
<tr>
<td>Small scale product making units engaged in own production</td>
<td>Significant mechanisation</td>
<td>Mostly exported</td>
<td>Combination of casual and permanent employment depending upon demand. Strong links with the informal labour market</td>
</tr>
<tr>
<td>Small scale product making units that are part of large groups.</td>
<td>-do-</td>
<td>Mostly exported on behalf of group</td>
<td>-do-</td>
</tr>
<tr>
<td>Medium scale and large integrated product making units with backwardly integrated tanneries</td>
<td>Highly mechanised, sometimes automated</td>
<td>Direct exports or domestic sales</td>
<td>Combination of permanent and casual employment depending on demand. Strong links with the informal labour market</td>
</tr>
</tbody>
</table>

Source: Preliminary fieldwork.

From Tables 3.2 and 3.3 it can be seen that of the 13 different kinds of enterprises listed, 10 of whom exist in urban areas, 11 kinds are clearly small units. The degree of mechanisation, markets catered to, type of output produced, and employment vary between the units, but all of them employ informal labour. The rural traditional tanneries, and traditional tanners-cum-cobblers, who are essentially self employed
and only use family labour, the rural artisanal shoe making units (where seasonal hiring of labour takes place) and urban and semi urban artisanal units clearly are part of the unorganized and hence informal sector. The other seven kinds of units might or might not belong to the unorganised sector. In fact, of these, many small scale tanneries and product making units engaged in own production, as well as those that are part of larger groups could be considered part of the organised sector, but could still be considered part of the informal sector due to the fact of being dependent to a great deal on the informal sector for credit, recruitment, etc. Thus, apart from a handful of large integrated firms that undertake all activities from tanning to product making and operate fairly independently even as part of a cluster, most of the other kinds of units could be considered to be employing informal production processes or to be at least linked organically to the informal sector for employment, credit etc.

Tanning is undertaken throughout the country, but the major units are concentrated in and around Madras and North Arcot district in Tamil Nadu, Kanpur and Calcutta. These centres account for about 85% of tanning and finishing capacity. Product making from finished leather for sale in the export as well as the domestic market has also tended to get concentrated in these clusters as well as in Agra, Delhi, Bangalore, etc.\(^{22}\)

### 3.3 Demand and the nature of markets

Demand for leather and leather products is almost equally distributed between domestic and export demand, with about 55% of total production going to satisfy domestic demand and roughly 45% exported\(^{23}\). Figure 3.2 classifies the demand for various products produced by the sector and the kind of units that meet the demand. It shows that domestic demand is restricted to conventional leather items such as footwear and bags, wallets, etc. apart from finished leather, whereas international demand includes, in addition, footwear components (which consist of shoe uppers that are imported by shoe manufacturers abroad to save on labour intensive upper making operations), and leather garments of which India is turning into a major exporter. Domestic demand, given that it represents almost half of total demand, however, is not the driving force for the structure that has evolved in the industry, as this study

\(^{22}\) The detailed information on all this has been provided in Chapter 7.

\(^{23}\) These figures, as CLRI (1994) notes, are only guesstimates, since there are no studies that have looked at the size and nature of the domestic market.
will argue subsequently. The structure of production catering to domestic demand is organically linked to the structure of production catering to international demand, in spite of the fact that in many parts of the country, large numbers of enterprises cater exclusively to domestic demand.

It can also be seen that it is small-scale enterprises that cater to most categories of demand in both the domestic and the international market. What is notable about the demand for this sector's products is its segmented nature, whether it is for the export market or the domestic market. This means that due to large numbers of varieties of different products that exists and their differing product specifications, demand is specific and flexible. Small batch and small enterprise production with their inherent flexibility are suited to this sector and this has contributed to its structure. Demand for leather footwear, garments and accessories is also highly volatile, dependent on changes in fashion and seasonal changes in demand, and this has influenced the size of units and the kinds of processes that take place in the industry.

Apart from the large integrated firms mentioned in the Introduction that produce exclusively for the export market and whose main demand segment is the medium price range in the international market, almost all other kinds of enterprises, whether they produce for the domestic market or the export market, aim primarily at producing output at as low a cost as possible, because they produce for the bottom segment in the international as well as the domestic market. In a highly volatile and segmented market, firms/units have evolved strategies that enable this cost cutting through keeping wage costs as low as possible by informal employment, extensive subcontracting and job-working to cut down capital costs, and very little innovation or technological development as this involves capital costs. Another major aspect of demand for the sector's products is that it gets mediated through a long chain of non-producing intermediaries, and output produced passes through many hands before it reaches the customers, in both the domestic and the international market. Pressure from these intermediaries also forces enterprises to keep margins as low as possible.

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24 Chapter 6 will locate the demand for India's products in the international market in the context of global commodity chains for manufactures.

25 The season for leather and leather product exports begins in April and ends by December every year.

26 Refer to Knorringa (1996) for an explication of producer-trader relations in the Agra footwear cluster. He found that the conditions of production and employment in the cluster were set by the buyers of the products in both national and international markets. A publication by the Swiss Agency
These factors have necessitated the evolution of a production structure that has, built into it, a high degree of flexibility to cater to the kind of demand mentioned above.

**FIGURE 3.2**

**CATEGORIES OF DEMAND AND HOW IT IS MET.**

**Domestic market**
- Footwear
- Handicrafted & traditional footwear
- Western style cheap footwear
- Village craftsman & urban artisanal clusters

**International market**
- Bags, wallets, belts, travel goods etc
- Finished leather
- Footwear components
- Leather garments
- Footwear
- Small and medium enterprises in urban clusters
- Small and medium enterprises in semi-urban areas
- Large domestic and multinational firms

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for Development Cooperation (SADC) (1999) states that profit margins for small leather product traders are in the range of Rs. 10,000 to 20,000 per month, whereas it varies from Rs. 1-1.2 lakhs for the large trader in the domestic market. The report also notes that wholesale hide traders operating in urban markets are extremely powerful in terms of possessing capital and controlling entry and exit in the market.
3.4 Technological Aspects of the Leather and Leather Products Industry

Since the leather industry in India is a traditional one as well as an export oriented one, and since it contains a wide variety of organisational forms that involve different levels of sophistication, the need for technological upgradation and its feasibility are issues that acquire significance in order to cater to 'discerning' international markets. A comprehensive understanding of technological needs of the sector as a whole needs to encompass the entire sector beginning from raw material procurement, especially since many of the problems faced by the industry have to do with poor raw material availability and quality. As is obvious from the discussion in a previous section, improving quality of raw material is as much an organisational issue as one involving improved technology for flaying, curing, preservation and transportation of raw material. Chapter 8 presents a detailed exposition of the raw material constraint on the basis of the findings of this study and discusses the possible options to ease this constraint, which involve both technological as well as organisational aspects. Here, only the background to technological aspects is presented.

The production of leather involves the chemical processing of a natural substance that involves the use of several kinds of materials, tools and machinery. The conversion of leather into value added products, similarly involves a number of materials and machinery. According to the CLRI 27, the materials needed in the value added chain for leather and leather products can be classified into biomaterials (such as leather, wood for footwear lasts, and so on), synthetic fabrics, composites, chemicals (bulk chemicals such as sodium chloride, sulphuric acid, lime etc and speciality chemicals), metal based materials (fittings such as buckles, locks and embellishments) and packing materials. Raw materials constitute a very major component of costs in leather and leather product manufacture and reducing costs in various materials is most essential for cost reduction. At the same time, since many chemical processes are involved, processing in this industry generates large volumes of effluents that are harmful from the environment point of view. Further, international production and trade norms have also become particular about abiding by minimum standards with regard to controlling pollution in this industry. A large amount of technology development has taken place to develop materials that are economical as well as

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27 CLRI (1994)
cleaner and greener. Improvements in technology in materials used involve a reduction in wastes, development of new materials that are substitutes for leather and are biodegradable and ecofriendly. Similarly, in chemical usage, innovations centre around the need to reduce chemical wastes, changing the composition of tanning materials towards vegetable-based ones rather than chrome based ones, reducing and treating effluents generated in tanning, etc.

Similarly, the issue of mechanisation consists of the introduction of machines for manual processes, especially in the pre-tanning segment, the replacement of obsolete machines with modern ones where they already exist, and the addition of more and sophisticated machines with introduction of new processes and technological development. Basic machines for the tanning industry have been manufactured in India for more than thirty years now. Initially, these were mostly of the mechanical variety, which were manufactured in small workshops using small machine tools. Later, larger firms began manufacture of imported machines for shaving, glazing and splitting. With import liberalisation of leather sector machinery over the years, the larger firms have gone out of the market to a large extent and indigenous production of machines for the leather industry consists once again of manufacture by small and medium firms in the clusters and otherwise. One of the major problems faced by indigenous manufacturers of machinery is their inability to keep pace with developments in tanning technology that have taken place which essentially meant development of hydraulic and electronically controlled machines.

While the need for machinery acquisition at different levels has been emphasised and while there has been significant progress in the development of machines for various processes, a major problem is its availability at appropriate scales, and the availability of information regarding new developments, even in cases where this has been overcome. Similarly, liberal import policies have made access to imported machinery

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28 CLRI (1994) notes that several small and medium firms in Calcutta have entered into the manufacture of tannery machines such as hydraulic presses, setting, pressing, sammying, shaving, and staking machines.

29 Hydraulic machines are generally, faster, more efficient, compact and present less problems. Similarly, electronically controlled equipment is more versatile, flexible and accurate and can be tailored more suitably to varied demand.
easy, but their acquisition has been subject to different problems, as Chapter 7 will show.

Since this is an industry where there is in place a comprehensive institutional structure to cater to its needs, including technology, many of the innovations required already exist, unlike other traditional industries. What matters is how these can be taken up at the firm level in terms of information and actual availability. An example is provided by the development by the CLRI of technology for viable vegetable tanning at the village/district level, which has been adopted very scantily due to lack of information and support on the one hand and vested interests on the other.

3.5 Government Policy.

The question of the degree and intensity of state intervention has occupied a significant place in the discussion of success or failure in industrial clusters, as Chapter 2 showed. It was noted that a cluster of small firms in a district or region will not in itself generate dynamic economic growth and needs an institutional structure that does the job of provisioning that very often needs the active intervention of the state, although the form of that intervention may itself vary. It was also noted that the Italian experience shows that irrespective of the changes that have occurred with changes in competitive contexts, the continuing vitality of the industrial districts has been dependent on sustaining formal institutions that can ensure co-ordination, overcome scale difficulties, and generate the results historically generated by Italian industrial districts in terms of economic vitality and labour standards.

This is particularly true if what is aimed at is not merely resolving market failures in small firm development, but to ensure growth combined with high labour standards, where the latter is ensured by effective regulation as much as by co-operation between capital and labour.

In this context, the questions that need to be answered with regard to state intervention in the leather and leather products industry are: How has the State shaped the conditions for growth and accumulation in this traditional, small-scale based, export-oriented industry?
What have been the imperatives of State policy towards the sector? How has the State influenced the sector's export orientation as well as export performance? What are the essential tenets of the creation of a policy and institutional structure to cater to an export-oriented, traditional industry organised in the form of clusters? While these questions can be answered only at the end of the study, this section outlines the main aspects of policy towards the leather industry.

Before going into the details of government policy, some points need to be kept in mind:

One, by virtue of it being an export industry and catering to British war demand from colonial times, the State played a major role in shaping the structure and planning the growth of the industry through the colonial period and in the entire post-independence period. Two, in keeping with the need to have control over the growth and development of the industry for the same reason, the State built up an array of institutions to promote the industry from very early on, which made it very different from other traditional industries. Thus, one of the essential conditions that are necessary in small-firm based clusters, the existence of a network of formal institutions to cater to the needs of small firms, has been there. At the same time, there have been contradictions in policymaking that have come due to a disproportionate emphasis on the foreign exchange earning role of the leather sector that is a carryover from colonial times. Thus, while there have multiple priorities that have dictated policy towards the sector, the overriding emphasis has been on boosting exports, as the following description will show. At the same time, there has been little recognition of the fact that since the industry is organised in the form of clusters with strong links with rural areas in an economic as well as a social sense, policies (even to encourage exports) have to be cluster based on the one hand and deal with the linkages between the clusters and the hinterland on the other. The actual policy measures for the leather industry therefore very often reflect conflicting priorities towards the development of the industry on the one hand and a lack of understanding of the structure and organisation of the sector on the other. This will become clear below. Before that, a brief idea of the institutional structure that has been built up is provided.

The promotional structure for the development of the leather industry is quite vast, with institutions set up for basic research on materials and processes (the Central Leather Research Institute in Madras), for building a pool of technical manpower
(colleges of leather technology in different parts of the country), for training workers through training institutes (Footwear Design and Development Institute), national level programmes such as the UNDP assisted National Leather Development Programme and the Leather Technology Mission, various state level leather boards and other such initiatives. There are also a large number of business associations, formed by entrepreneurs in different segments of the industry, and an extremely active Council for Leather Exports (CLE) under the aegis of the Ministry of Commerce. What is important to note is that the need for specialised institutions to cater to the sector's needs has been perceived from the colonial period and institutions have been accordingly developed, despite the predominantly unorganised nature of the industry. This is an important aspect that needs to be highlighted from the cluster point of view, because an institutional structure to meet the sector's needs has been an integral part of the success of most clusters. A necessary condition for successful clustering, therefore, seems to have existed in the leather industry in India from early times.

Government policy towards the leather industry has been guided by the imperatives of two primary aspects: the first aspect is based on the premise that this is a traditional industry providing employment to a large number of people who constitute the bottom of the economic and social hierarchy, that production based on small scale can be conducive to maximisation of employment and harnessing of skills in the sector and that production of many articles made of leather should therefore continue to be produced in artisanal or small scale units; the second aspect is based on the fact that the sector has always been a large foreign exchange earner and that exports should concentrate on adding value to raw material such that outflow of raw material from the country in semi-processed or finished form should be regulated and exports of more and more value added items should be encouraged. Both policies for small-scale sector development as well as policies for export promotion have thus influenced the leather industry.

3.5.1: Small Scale Sector Policy.

The main aspects of small-scale sector policy that have had a bearing on the leather industry are reservation, subsidised long-term finance and various incentives. The
policy of reservation has been inspired by the following concerns: that this is a traditional rural industry providing employment to a large number of people in rural India and that modernisation and mechanisation which might be caused by large scale production might lead to displacement of artisans and people belonging to vulnerable sections of society; that production of various articles for domestic consumption should take place in artisanal units. Many segments of leather and leather product production have thus been reserved for the small-scale sector from 1967 and reservation continued to be a major tenet of policy until February 2003. The provision of subsidised long-term finance and various incentives have been in existence essentially given the recognition that in a small-scale dominated industry, they have to be available to individual producers to overcome constraints on growth and performance. Changes in all these came about with changes in the conceptualisation of the importance of the small-scale sector and these are traced below.

Small-scale reservation has been in existence for the leather and leather products industry since 1967, when reservation was extended from the handloom and small powerloom sector to a large number of industries where small-scale is important. The list of reserved items was gradually expanded over the years until the late nineties. A gradual process of dereservation has been taking place from the late nineties, following a series of arguments being presented by industry associations and committees appointed to look into problems faced by the industry. The arguments run as follows: Reservation does little for the promotion of small enterprises and only serves the purpose of keeping out large enterprises. It is necessary to allow large enterprises to produce products that were hitherto reserved for the small-scale sector particularly in export sectors, because exporting requires minimum scales of operation for efficient production as well as marketing. An important committee constituted to suggest reforms for the small-scale sector in India argues that in important sectors such as textiles and leather, the pace of expansion of exports is threatened because "India is unable to supply sufficient quantities within stipulated delivery schedules". In addition, reservation runs counter to a policy of import liberalisation where small enterprises will find it difficult to compete with imports. Thus enterprises need to be able to expand to minimum economically viable size in order for production to be

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efficient and to encourage exports. The argument for dereservation thus constitutes a major aspect of the changed conceptualisation of the small-scale sector, and within that of the leather sector as a major export earner.

It is clear that it is understood that minimum viable scale for exports in the leather sector is higher than that permitted by the limits set by reservation policy. It is also clear that policymakers have generally considered larger firms to be more capable of exporting successfully in the industry and have therefore considered the policy of reservation to be a major hindrance to the entry of large firms in the sector. However, it must be remembered that reservation offers an opportunity for small firms that might face entry barriers to enter an industry and does not necessarily prevent larger firms from entering the segment that is reserved provided they fulfil a 75% export obligation. In a sector where exports are being promoted, reservation does not discriminate against larger exporting firms.

As far as credit facilities are concerned, the leather industry is one of the industries that have ostensibly been targeted for provision of subsidised credit from nationalised banks and financial institutions. It has often been stated that providing cheap credit to small enterprises in the leather sector is a priority in policy towards the industry. Table 3.4 shows that almost 50% of credit outstanding to scheduled commercial banks consisted of Packing Credit and Export Trade Bills purchased, which is indicative of the fact that a large proportion of credit goes to exporters. An RBI report on sickness in the leather industry showed that in 1993, total bank credit provided to the leather industry amounted only to about Rs.1000 crores, a paltry sum given the size of the industry, of which more than 50% went to enterprises in Tamil Nadu and less than a tenth to enterprises in West Bengal. Within this, more than half of credit disbursed to units in Tamil Nadu went to non-SSI units, whereas about 70% of credit disbursed to West Bengal went to small units.

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31 The policy of reservation set maximum limits on the size of plant and machinery in small-scale units which was revised from time to time to allow for inflation as well as a realistic assessment of what constitutes small size.
32 Reserve Bank of India (1994).
It can generally be inferred from the above that credit provision to the leather sector has not been a major aspect of policy towards the sector. It may also be true that whatever credit was available was monopolised by exporters, given by the predominance of packing credit and trade credit, as well as the largest share going to Tamil Nadu, which has a larger proportion of exporting units. This can be verified only by field information, as no micro-level information is available from published sources.

Coming finally to incentives for small-scale production, the major incentives have been for export production and this will become clear in the next sub-section.

Table 3.4: Classification of outstanding credit of scheduled commercial banks to the leather industry (Rs. crores).

<table>
<thead>
<tr>
<th></th>
<th>June 1995</th>
<th>March 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of accounts</td>
<td>Amount outstanding</td>
</tr>
<tr>
<td>Cash credit</td>
<td>2218</td>
<td>75.61</td>
</tr>
<tr>
<td>Overdrafts</td>
<td>521</td>
<td>19.80</td>
</tr>
<tr>
<td>Demand loans</td>
<td>364</td>
<td>6.61</td>
</tr>
<tr>
<td>Medium term loans</td>
<td>815</td>
<td>36.06</td>
</tr>
<tr>
<td>Long Term loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Packing credit</td>
<td>649</td>
<td>7.54</td>
</tr>
<tr>
<td>Export trade bills purchased</td>
<td>681</td>
<td>76.08</td>
</tr>
<tr>
<td>Export trade bills discounted</td>
<td>Na</td>
<td>Na</td>
</tr>
<tr>
<td>Total</td>
<td>5675</td>
<td>310.72</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India, Banking Statistics, various issues.
3.5.2 Export Policy.

The period since 1973-74 has seen significant changes in the policy regime for leather and leather product exports. It has been marked by the progressive emphasis on the exports of value added products over time, in order to promote the development of the domestic leather industry, as well as to keep in line with overall international trends in leather industry exports. This period has also been characterised by important developments on the international front. Apart from the fact that international trade has come to be dominated by increasingly value added products, there was a relocation of several processes in leather and leather product production from advanced countries to developing countries. Relocation took place over time in both polluting activities such as tanning as well as in processes where labour cost saving became a major objective. In keeping with these developments, therefore, policy has been oriented towards more and more value addition in production and export in India.

In 1972, a government committee appointed to look into the export potential of the leather industry (known as the Seetharamiah Committee) made large scale recommendations for encouraging exports of finished leather. It made 18 recommendations, of which all but one were accepted by the government. With its two primary aims being to increase the export potential of the industry and to make it earn foreign exchange for the country, it recommended, among other things, a ban on exports of raw hides and skins, quota restrictions on export of semi-finished leather, a simultaneous increase in finished leather production capacity, and incentives for increasing finished leather exports. The quota restrictions on semi-finished leather exports were such that over the next eight to ten years, exports would reduce to ¼ of the 1971-72 level. In addition to the quota restrictions, semi-finished leather was subject to an export duty of 25%. Soon after, semi-finished leather became a canalised item to be exported through the State Trading Corporation. (Exports were decanalised much later, in 1988-89.) A large number of incentives were given to exports, following the recommendations of the committee. Cash Compensatory Support for exports was extended to leather exports in 1973, and Duty Drawback was also

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33 These developments and their implications on exports from India have been discussed in detail in Chapter 6.
34 Government of India (1972).
Generous airfreight subsidies were provided to overcome disadvantages in long-distance transportation. The recommendation that was not accepted by the government, which may be said to have affected the industry profoundly, was one to provide a cash subsidy up to 15% against exports of leather and leather manufactures for the setting up of infrastructure for modernisation by producers. This was a production-oriented recommendation that targeted producers and left out pure traders who did not have manufacturing facilities. In its place, the CCS scheme was introduced, which is aimed at encouraging trade, not necessarily by manufacturers.

Sinha and Sinha (1992) have argued that the committee's recommendations did not take into account the conditions on the ground as they existed. For example, the air freight subsidy was given, but most foreign airlines refused to carry the high-volume low weight cargo at subsidised rates. Air India did not augment its carrying capacity in order to be able to take up the extra load that this meant. Indian exporters were very often unable to meet delivery schedules as a result. They have also argued that the incentives provided essentially benefited traders against producers and thus production conditions did not improve significantly.

The second major policy thrust came in the form of the adoption of recommendations made by a second committee (known as the Kaul Committee) in 1979. Its major emphasis was on making available the capital goods needed in the production of leather and leather manufactures through imports. Accordingly, the import duty on tanning, finishing, footwear and leather goods machinery was reduced to a uniform rate of 25%. This facilitated the import of machinery by manufacturers, but also generated some lopsided effects. For example, manufacturers went in for indiscriminate purchase of machinery without several complementary conditions for successful adoption of new machinery coming into existence, such as the existence of adequate demand, sufficient working capital, etc. India also became a dumping

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35 Cash Compensatory Support was a fiscal incentive provided primarily with the objective of compensating them for the disadvantages that they face in the production process, such as unrefunded taxes and duties paid on inputs in export production. Duty Drawback was meant to pay back the excise and customs duty which had to be paid on inputs.
36 A large proportion of all categories of leather industry exports are air-freighted on the basis of volume.
ground for obsolete machinery from abroad.\textsuperscript{38} The industry in general, and the tanning and finishing industry in particular generated capacities much in excess of what was feasible, given demand. This is an aspect that has been the root of many problems in the industry and reflects the lack of an integrated approach to the whole industry, focusing on clusters of enterprises.\textsuperscript{39} In addition, machinery was imported in fully assembled form, and not in knocked-down condition, because this was permitted, and the development of knowledge to assemble according to need, or the development of repair and maintenance facilities was hindered.

A more integrated view of the problems faced by the industry was adopted in the mid-eighties when the need for producing value added leather products was recognised and given utmost priority. A third committee (known as the Pande Committee)\textsuperscript{40} that published its report in 1985 concentrated on evolving measures to augment raw material availability, further the modernisation process and promote footwear as the most important item of export. It recognised the lack of a consistent database on availability of raw hides and skins in India and following its recommendations, a study was conducted by the CLRI to make available this database.\textsuperscript{41} The study looked at availability of raw hides and skins at the time as well as prospects for later and recommended measures to improve the quality and availability of raw material. The committee also recommended that imports of finished leather be permitted to compensate for the shortage of raw material and imports of raw hides and skins, wet blue leather and crust leather were also put on OGL. Apart from ensuring supply of raw material through imports, it was also assumed that the finished leather produced in the country was not all of the required quality and available in sufficient quantities for high quality shoe manufacture and that finished leather imports should be permitted to ensure high quality of leather products.

\textsuperscript{38} Sinha and Sinha (1992)
\textsuperscript{39} The question of the need for modernisation as well as what constitutes modernisation in the industry, as well as the policies that have been introduced to deal with it have been mainly individual enterprise oriented and have concentrated essentially only on the acquisition of machinery at any cost. This is an aspect that will be discussed subsequently.
\textsuperscript{40} Government of India (1985).
\textsuperscript{41} CLRI (1987)
In order to promote footwear exports in keeping with world trends, it recommended the production of footwear on large scales as well as the development of manpower in footwear engineering, design, pattern making, etc.

Another major committee that submitted its report in 1992 (this being the last committee set up exclusively for the leather industry) explicitly considered measures that were necessary to achieve a 10% share for India in the global market for leather and leather products by the year 2010, an objective that was subsequently adopted by the government and the industry bodies. The committee has argued that while employment generation is a major objective for a traditional industry like leather, this can be achieved best if export growth is accelerated and India’s share is improved. Accordingly, the committee’s recommendations concentrated on promoting exports of the leather industry. Several different aspects, which form the backbone of the current policy for the industry, were discussed.

Underlying the recommendations of the committee, as well as that of several other documents that have been published on the industry are several assumptions: that the domestic market should not act as a barrier in the expansion of exports; that expansion of scales in a big way is the only way to tap the international market effectively, especially in the footwear segment; that low labour costs are something that will give India a competitive edge over other countries that have higher labour costs and an export structure that takes advantage of this is a preferred strategy for India; that employment and livelihoods that are provided by a labour-intensive sector like leather will continue to be provided by the expansion of the small scale sector through subcontracting, ancillarisation, etc. The various recommendations of the committee followed from these assumptions.

First, it recommended that reservation of specific products for production in the small-scale sector be abolished. This is based on the understanding discussed earlier that increasing export share involves the enhancement of capital availability for the industry and the need to generate substantial additional investment from within and outside the country into the industry. This enhanced capital availability has been

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hindered, according to the committee, by forcing large scale units to either get licenses for enhancing capacity or by keeping an export obligation on these units. It was assumed that larger Indian and foreign concerns did not enter production in any major way in the leather industry because of the conditions attached to large scale production. It was further argued that dereservation would not harm the interests of the small scale sector if a package of supportive policies was enacted, with increased export growth generating direct and indirect employment in many ways such as successful ancillarisation, subcontracting, etc.

Second, it was recommended that licensing requirements for the industry be dispensed with, that foreign collaborations be cleared quickly and routinely and that Indian firms be permitted to enter into joint ventures in order to gain access to raw material abroad.

Third, it was recommended that a variety of educational institutions and training centres be set up and developed to train manpower for the industry. Fourth, the main tenets of a technological package to modernise the industry were identified.

Subsequently, there have been major changes in the regulatory framework for the leather industry, with the major aspects being delicensing, dereservation and import liberalisation. Over the years, there has been liberalisation of the industrial licensing policy to allow large-scale industry to enter into the production of leather products of various kinds, including full footwear, although a large number of labour-intensive intermediate processes continued to be reserved for the small-scale sector until February 2003, where the Annual Budget announced dereservation of a large number of items which had not been notified till the time of completion of this study. There has also been continuous liberalisation of imports of all inputs for the leather sector over the years.

To summarise, policy towards promoting exports from the leather industry has over the years had multiple objectives: the development of the indigenous leather industry through export controls and successive quota restrictions on exports of less value added items such as raw hides and skins and semi-finished leather initially and on finished leather later, combined with successive development of value-added products; an initial emphasis on the protection of small scale production through reservation in order to ensure employment generation and artisanal production while also encouraging exports,
followed by dereservation later; liberalisation of trade policy to enhance import availability of machinery and raw material; developing the industry on the lines of what is demanded on the international market. Policy for the industry has mostly tried to cater to the idea that India should take advantage of trends in international demand, while keeping other objectives such as generation of employment, the quality of employment and the resilient development of the indigenous industry secondary. At the same time, cluster based programs that target the competitive abilities of clusters taken as a whole have been lacking.

Given the background information on the leather and leather products industry as presented in this chapter, Chapters 4 to 7 look in detail at the actual structure, performance and organisation of the industry from colonial times until the recent period, and in particular at the nature and implications of “clusters” in this industry.