CHAPTER I

INTRODUCTION

1.1 Introduction

World is fast becoming a global village. Now a days, one of the most remarkable aspects of economic is the manner in which all countries increasingly find themselves an intrinsic part of the global economy. The markets have become inherently international and the new economic forces of international competition, trading blocs and globalization is forcing firms towards a “new reality” which demands a global marketing imperative. Czinkota et al. (1995) describe this scenario as follows:

“The global imperative is upon us! No longer merely inspiring exhortation! Thinking and acting globally is the key principal for business success. Both the willing and the unwilling are becoming participants in global business affairs. No matter how large or small your business, ready or not, here comes the world.”

New technologies in communications, transportation, computing, financial services have drastically reduced the cost of moving goods, funds and information around the world. These technologies have lowered the cost of transactions associated with conducting commerce across international boundaries and have had a major impact on the structure of global economy. Moreover the General Agreement on Tariffs and Trade (GATT) and World Trade Organisation (WTO) regimes have reduced the protection for manufacturing industries, theoretically at least, in both the developing and developed countries. Therefore, globalization is impacting everyone be it Multi National Enterprise’s (MNE) or Small and Medium Enterprise’s (SME) and where
ever they are, in developing countries or in developed countries. The currency of this global village is economic strength, which for all purposes now, is deeply intertwined with international competitiveness.

1.2. Exporting in the Internationalization Process

Export plays a vital role in contributing to a nation’s economic prosperity. India’s share in the Global Leather market has come down from 20 percent in 1950s to 3 percent in 2011-12 and Tamil Nadu’s share in Indian leather market has come down from 70 percent in 1950s to 45 percent in 2011-12. Increased exports can result directly or indirectly in an increase of domestic production, economic growth, a decrease in the unemployment rate, and the generation of foreign currencies to meet import costs. A country’s ability to compete successfully in world markets, maintain a favourable balance of trade and control its external payments situation reflects its economy strength and marginal competence over other nations.

The literature on the internationalization process makes clear that firms pass through a number of stages while entering a foreign market. According to the evidence available, the first step is irregular export activities, in which the firm is not especially interested in exporting but only responds to unsolicited orders as a way to deal with excess production output. As the firm’s international experience increases, it might take the next step and engage in indirect exporting via independent representatives (agents), but usually only to markets that are similar in terms of psychic distance. In the next stage, the firm has become an experienced exporter that exports to more psychically distant markets, in many cases through its own overseas sales subsidiaries. After this, the theory posits that the firm moves on to the final stage, where it becomes a Multi National Corporation (MNC) by establishing overseas production units. There is a general
agreement that the first step in the internationalization route taken by most companies is exporting.

1.2.1. The Pros and Cons of Exporting

Aside from the purely macroeconomic effects gained from exporting, there are many incentives for individual companies to engage in exporting; in fact, the literature cites a number of advantages connected to exporting. In addition to being the most popular means of market entry for firms venturing abroad for the first time, exporting is also the most favored entry strategy for Small and Medium-sized Enterprises (SMEs) for the natural reasons of allowed flexibility and relatively small risk. Cavusgil et al. (2008) also explain that beyond the initial entry, most international firms commonly use exporting to some extent, regardless of their size and scope. A more detailed overview of the advantages of internationalization and exporting in general is provided below. In other words, internationalization and exporting allow firms to:

- Increase overall sales volume, improve market share, and generate profit margins that are often more favorable than in the home market.
- Increase production volume and achieve economies of scale, which reduces the cost per unit of manufacturing.
- Diversify the customer base and reduce dependency on the home market.
- Stabilize fluctuations in sales associated with economic cycles and seasonality of demand by spreading the number of active markets.
- Leverage the skills and capabilities of foreign distributors and other business partners located abroad, and gain invaluable international experience.
Beyond these more general advantages, exporting in particular, compared to other international entry strategies, will enable firms to:

- Minimize risk and maximize flexibility, as it is easier to withdraw from an export commitment than from any other foreign market entry mode.
- Lower the cost of foreign market entry, since an exporting company does not need to invest directly in the target market and maintain a physical presence.

Naturally, exporting is not accompanied solely by advantages. The fact that exporting is an entry mode with low risk and a limited degree of resource commitment also implies that the possibilities for return are limited as opposed to more committed entry modes where the profit potential is high. Moreover, although it might be kept at a minimum, exporting is still a step towards internationalization, which requires the firm to acquire new capabilities and devote company resources to the export venture, which might strain limited corporate funds. Furthermore, because export does not require physical presence in the foreign market, management has fewer opportunities to learn about the characteristics of the foreign market, meaning it will be slower to detect foreign market threats and opportunities. The loss of control of the product in combination with exporting might also lead to higher dissemination risk (i.e. that firm-specific advantages and know-how will be expropriated) than with, for instance, Foreign Direct Investment (FDI), where the firm’s will have more control in its offerings. In addition, exporting is much more sensitive to tariffs, non-tariff trade barriers, and exchange rate fluctuations than other entry modes, due to the fact that the production is accomplished in a market other than the host market. In some cases, relatively high production costs in the home location combined with transportation costs will also make exporting uneconomical, since the
final selling price will be too high in the foreign market. Consequently, there are both advantages and disadvantages that firms need to consider before venturing into exporting operations.

1.3. Background to the Research

Leather is as old as mankind. It is the most versatile of substances, which has been used by man from time immemorial. It provided the material for the first few primitive articles that the prehistoric man probably used. The primitive tribe used leather to make wrappers to cover his lions, fashion equipments for travel, containers for storing liquids, agricultural appliances, musical drums, shields, coats of arms, bow string and several other accoutrements of use in his daily life. The archaeological investigation of ancient civilization in northern Germany has proved the existence of leather and of leather tanning dating back to 10,000 years B.C., Egyptian carvings belonging to 3000 B.C also depicts leather dressers at work. Leather market was highly developed in ancient Chinese, Indian and Mediterranean civilizations. Hence, all historical and archaeological evidence point to pre-existence of leather production preceding even the metal weapons and tools.

Leather is a unique product, which is not easily or completely duplicated in other material, leather is animal hide or skin that has been converted by chemical treatment and processing, known as tanning, to a stable and putrescible state. Tanning is an intermediate stage dependent on the suppliers of skins and hides and on the manufactures of leather products. Whereas hides and skins are liable to decay in a short while, especially when wet, leather is resistant to such decompositions. Tanning process gives leather certain properties for specialized uses. The objectives of tanning are to render hides and skins resistant to decomposition or bacterial decay,
to improve certain physical properties such as tensile strength, flexibility, resistance, abrasion, resistance and permeability to water vapour\textsuperscript{11} and to impact chemical properties of non-solubility in water at relatively high temperatures. In addition, the attractive appearance of its grains gives leather an important aesthetic quality.

After a preliminary preparation, hides and skins are ready for chemical conversion\textsuperscript{12} to leather by a process known as Tanning. The vegetable tanning\textsuperscript{13} is the oldest system of tanning process, which relied on the action of vegetable material containing tannin or tannic acid, but modern technology has developed a large range of chemical agents and processes to produce leather. Chrome Tanning\textsuperscript{14}, refers to the mineral tanning. It is the process which uses mineral salts, primarily sodium, potassium, and bichromate has replaced the use of vegetables extract for the bulk of all light hides and skins. The first chrome tanning process was attempted by F.L.Knapp in 1858 and patented by Heinzerling in 1879. The advancement in the practice in the chrome tanning was made by Augustus Schulz in 1884. The chrome compounds emerged to the most important method of production although vegetable tanning remained basic for certain kinds of leather. The processes following tanning are:

a. drying  
b. fat –lacquering  
c. curing and stuffing  
d. dyeing  

A major series of final operations in the tannery can be broadly described as finishing. This term ranges in meaning from the rolling and polishing of sole leather to the buffering which produces the fine, napped surface of suede.
In Indian history, the origin of leather use is lost in obscurity. But the Rig Veda, the oldest literature of India, mentions several names of leather articles from which one can deduce that the art of leather manufacture was known in this land from very ancient times, not less than 3000 years before Christ. Literary evidences are available from the great epics – the Ramayana, the Mahabharata, Kautilya’s Arthasastra, from the works of Kalidas, Bhavabhuti, Banabhatta and also many more old and authentic writings and documents.

The Leather industry is enjoying the status of a major foreign exchange earner in India nearly over last thirty years. Source of this comparative advantage lies in large raw material base, cheap labour and rich craftsmanship. The leather industry is enjoying the status of a priority sector in India since the early seventies. Following the oil crisis it was realized that industry like leather deserved special attention because of its strong potential of foreign exchange earning without making any compromise with the employment generation objective. Over the years this industry has evolved from being exporter of raw materials in the sixties to that of high value added finished products by the turn of the century. It has passed through different policy regimes both at the national and international levels and is claimed to maintain its relatively strong position in the international market all throughout. However, Indian leather is yet to establish a brand reputation in the international market and the relative share of India in the World leather trade is gradually declining.

1.4. The Global Scenario

Comparative Advantages in terms of factor conditions such as raw material availability and low labour cost, coupled with environmental considerations have contributed to a shift in the processing segment of leather sector value chains towards Developing Countries and National
Industrial Classifications. Global import of leather and leather products (including non-leather footwear) amounted to a total of USD 115.58 billion by 2010. The major global exporters are China, Italy, India, Brazil, Indonesia, Spain, Korea, and Vietnam.

Other than some EU countries like Italy and Spain, most European countries serve as final export destinations. In addition, key customers as well as consumer categories in the global value chain of leather and leather products are located in the USA, Australia, and Japan. Progressively, Hong Kong/China are also large global importers of semi-finished and finished leather for value addition and export.

In recent years India have been accounting for about 2.5-3 per cent of global trade\textsuperscript{20} and Brazil about 3.5 per cent. China accounts for over 22 per cent, Italy 16 per cent, and Romania, Republic of Korea, Indonesia and Taiwan between 1.5 - 2.5 per cent each\textsuperscript{21}. China, Vietnam, Indonesia and Thailand’s growth in the sector is also ascribed to thrust on footwear, mainly due to facilitation of Foreign Direct Investment (FDI) and Joint Ventures (J.V.s). Pakistan is an emerging and rapidly-growing competitor in this segment. China’s exports grew by 8 per cent particularly in the travel goods, handbags, wallets segment in 2010-11. India trends at the rate of 6.8 per cent over the same period\textsuperscript{22}.

India has also reflected the global recessionary trends in recent years. Currently, both production and export orders are believed to be decreasing drastically. The “precarious” position of the sector is reflected in the Index of Industrial Production, December, 2009 wherein industry’s production output has grown on an yearly basis by -2 per cent in December, 2008, and the leather sector recorded amongst the largest sectoral decline of -11.4 per cent\textsuperscript{23}.
1.5. **Leather Industry in India**

The Leather Industry holds a prominent place in the Indian economy. Over the years the leather industry has undergone drastic change from the being a mere exporter of raw materials in the early 60’s and 70’s to an exporter of finished, value added leather products. The main reason behind this good transformation is the several policy initiatives taken by the Government of India. Indian proactive government initiatives have yielded quick and improved results. Today the Indian leather industry has attained a prominent place in the Indian export and has made the industry one of the top seven industries that earn foreign exchange for the country.

The post liberalization era has opened up a great plethora of opportunities for the Indian Leather Industry. As the global players looking for new sourcing options while in addition to China, India stands to gain a bigger share of the global market. Leading brands from the US and Europe have plans to source leather and leather products from India.

In the year 2010-11, leather industry is one among the top 8 industries for export revenue generation in India, holding 21% of the world’s cattle and buffalo and 11% of the world’s goat and sheep population. India has become biggest livestock producer in the world, with 2 billion square feet of leather production annually. Added to this are the strengths of skilled manpower, innovative technology, increasing industry compliance to international environmental standards, and dedicated support of the allied industries.
The leather industry is an employment intensive sector, providing job to about 2.5 million people, mostly from the weaker section of the society. Women employment is predominant in leather products sector with about 30 percent share. 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 historical aspects of the industry, 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 eight distinct locations in the country, with each cluster containing a wide variety of enterprise forms and organisational structure. To be more specific, the major production centers of leather and leather products are located at Chennai, Ambur, Ranipet, Vaniyambadi, Trichy, Dindigul in Tamil Nadu, Kolkata in West Bengal, Kanpur and Agra in U.P., Jallandhar in Punjab, Delhi, Hyderabad in Andhra Pradesh, Bangalore in Karnataka and Mumbai in Maharashtra as shown in the figure 1.1.
Figure 1.1
Production clusters in the Indian Leather Industry

1. Delhi
2. Kanpur, Agra and Nodia in Uttar Pradesh
3. Jallandhar in Punjab and Haryana
4. Bangalore in Karnataka
5. Mumbai in Maharashtra
6. Kolkata in West Bengal
7. Chennai, Ambur, Ranipet, Vaniyambadi, Tiruchi and Dindigul in Tamil Nadu
8. Hyderabad in Andhra Pradesh

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The major markets for Indian leather products are Germany with a share of 14.12%, Italy 12.82%, UK 11.48%, USA 9.98%, Hong Kong 6.61%, Spain 6.09%, France 6.14%, Netherlands 4.13%, UAE 2.38% and Australia 1.55%. These 10 countries together account for nearly 75.30% of India’s total leather products exports. Tamil Nadu is the biggest leather exporter (40%) of the country and its share in India’s output on leather products is 70%.

The industry has production capacity across all key sectors, as shown in the below table no 1.2. Production estimates built on the NAS consumption data have assumed that leather footwear would account for nearly 80 per cent of total footwear consumption and share of leather footwear in consumption of total leather goods would be around 66 per cent. Exports are added to the domestic consumption of leather so arrived to get the overall leather goods production.

<table>
<thead>
<tr>
<th>Products</th>
<th>Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hides</td>
<td>65 million pieces</td>
</tr>
<tr>
<td>Skins</td>
<td>170 million pieces</td>
</tr>
<tr>
<td>Leather Footwear</td>
<td>909 million pairs</td>
</tr>
<tr>
<td>Leather Shoe Uppers</td>
<td>100 million pairs</td>
</tr>
<tr>
<td>Leather Garments</td>
<td>16 million pieces</td>
</tr>
<tr>
<td>Leather Goods</td>
<td>63 million pieces</td>
</tr>
<tr>
<td>Industrial Gloves</td>
<td>52 million pairs</td>
</tr>
<tr>
<td>Saddlery</td>
<td>12.50 million pieces</td>
</tr>
</tbody>
</table>

*Source: CLRI, Annual Report 2010 - 11*
While it was expected that with the ban on exports of semi-finished leather in 1990-91, and a structural shift in favour of the organized sector, the leather industry would move up in the value addition ladder. The organized factory sector data, however, reveal that resource intensity in the organized leather manufacturing has actually increased. The ratio of value added to output declined from 22.8 per cent in 1993-94 to 13.6 per cent in 2007-08. The value of inputs consumed in the production process increased to close to 84 per cent in 2007-08. The share of value added in output in leather sector was also lower than the share in the overall organized manufacturing. Four factors, lack indigenous development and acquisition of technology, adoption of the acquired technology through research, brand building and inadequate emphasis on human resource (skill) development may have contributed to this stable (increased) material resource intensity in leather manufacturing. Resource intensity of leather industry was also observed by the ICRA study which based on Capitaline data observed that in footwear sector raw
material accounted for 65 per cent of the cost followed by selling and administrative expenses (14 per cent) and expenditure on employees (7 per cent)\textsuperscript{27}.

\textbf{Chart No: 1.2}

\textbf{Gross value added, persons engaged and emoluments in organized leather sector}

A decline in the share of value added to output becomes apparent from 1999-2000 onwards\textsuperscript{28}. The decline in share of value added was largely on account of a decline in the share of profits.
Contrary to the general perception, the overall employment in the leather sector seems to have declined in the last five years. The NSSO 61st and 66th Rounds\textsuperscript{29} indicate that overall employment in manufacturing and leather sector (covering both the organized and unorganized sector) has declined not only in absolute terms but also relative to total employment. In 2009-10, the leather sector (manufacturing segment) employed 2.2 per cent of total persons (usual principal and subsidiary status basis) engaged in manufacturing. The employment in organized leather sector, however, witnessed an increase. But the organized sector employed only about 20 per cent of the persons engaged in the entire sector.
Table No: 1.2

Employment in Manufacturing and leather sector (persons in millions)

<table>
<thead>
<tr>
<th>Employment</th>
<th>Leather</th>
<th>Total Manufacturing</th>
<th>Total Employment</th>
<th>Share of the Leather sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>1.4</td>
<td>53.6</td>
<td>457.9</td>
<td>2.6</td>
</tr>
<tr>
<td>2009-10</td>
<td>1.1</td>
<td>50.5</td>
<td>459.0</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Leather industry, however, is of the view that both the production and employment numbers are grossly underestimated. Direct employment in leather sector is expected to be over 2 million persons\textsuperscript{30}. The share of total persons engaged in leather sector in organized manufacturing, however, increased from 1.3 per cent in 1990-91 to 2.1 per cent in 2007-08, though its share in output declined from over 1 per cent to 0.86 per cent during this period.

Chart No: 1.4

Share in output and employment of the leather sector
Leather industry is amongst the top ten foreign exchange earners for the country. Indian Leather Sector has registered consistent growth in exports during the six year period from 2003-04 to 2008-09 with exports increasing from US$ 2.22 billion in 2003-04 to US$ 3.60 billion in 2008-09. The Leather sector has shown positive export performance even during 2007-08 when the Indian Rupee appreciated significantly. The sector surpassed the set export targets in the five year period from 2003-04 to 2007-08. However, during 2009-10 the exports from Leather Sector have declined by 5.51 per cent in Dollar Terms due to continued impact of global financial crisis. Growth in export segment is returning in 2010-11 and 2011-12.

1.6. Historical Background of Tamil Nadu Leather Industry

Leather industry in Tamil Nadu is considered to be very ancient and more than two centuries old. While India was a traditional producer of leather, export trade in raw hides and skins and leather began in the 1830s. It began to be recognized that India, with the largest cattle population in the world, could become a potential supplier on the world market. Initially, India exported only raw and cured hides and skins, but by 1850, began exporting tanned hides and skins as well. This was due to a significant technical improvement introduced in the Madras Presidency.

Until 1847, locally tanned hides and skins in Madras, using the avaram bark, produced a pale yellow, flexible leather, which was defective in that when exposed to sunlight, oxidization resulted in it turning an ugly red colour and patchy. The Madras tanners received complaints from overseas buyers on account of this. In 1847, Charles De Sousa, a French Eurasian technologist treated this avaram tanned leather with a tan liquor from myrabulan, which came to
be known as the myrabulan bath. Subsequently, the leathers tanned in the Madras Presidency were found to be of acceptable quality internationally. Exports from Madras thus surged and both U.K and Germany became significant importers of tanned leather as well as raw hides and skins from India. This technical development marked the beginning of the development of the leather industry in Tamil Nadu. Another factor that expanded trade and stimulated growth in the industry was a second major technical improvement that took place in the first decade of the twentieth century, i.e., the development of chrome tanning.

Although this was introduced in the USA and Europe as early as the 1890s, in India it was started on an experimental basis in a factory set up by the Government of Madras only in 1904. This was done at the initiative of A.Chatterton, one of the officials of the provincial government in the Madras Presidency as one of his attempts to foster economic development in the provinces by demonstrating the success of different lines of business with state patronage.

The industry in Tamil Nadu developed primarily in response to high raw material availability. The Madras industry specialised in skins. In addition, in terms of livestock availability, the south’s advantage lay in goats and sheep, rather than cattle. The railways connected Madras to a wide area that supplies skins, from the Tamil Nadu. Added to these advantages was the growth of Madras city as a destination for migrant labour. From the time that de Susa’s factory was at work in Pondicherry, a tanning industry had developed near Madras. In 1857, experimental tanneries were set up in Madras and Bangalore to develop tanning methods. By 1880-81, India was exporting Rs.3.5 million worth of tanned leather and most of this was from the province of Madras. By 1905-06, this had grown to Rs. 41.1 million. While other parts of India traded in
raw hides and skins, Madras exported tanned skins from very early on. The tanning industry, therefore, was fairly well developed in India by the 1920s and Tamil Nadu became one of its main centres. Small, unorganised tanneries were very large in number, with a provincial survey of unregistered factories conducted by the Royal Commission for Labour in 1931 showing that in Madras, 776 tanneries employed about 10000 workers.

Further, in Tamil Nadu, the leather industry, from the very beginning, grew to cater to the export market and production units were more on a factory basis than on a cottage basis. The Tamil Nadu clusters are exclusively export oriented, with units either exporting directly, or fabricating for exporters, or doing job work for export production, or selling to exporters. The development of tanning in Tamil Nadu was because of military demand for tanned leather primarily for boot production. Pallavaram, a suburb of Madras, and Ambur, situated about 110 miles west, saw a spectacular growth of factories during and before World War I and subsequently the industry spread to cover a large area of the North Arcot district.

Ambur, a well known centre for leather, there are quite a large number of tanneries where E.I. tanned goat and sheep skins, semi-chrome and full-chrome finished leather etc. are produced. Some of the tanneries are very big and modern with all necessary machinery and infrastructure where high class finished leathers meant for shoes, garments and goods are produced and exported. Importers in different countries have close links with Ambur based tanners and exporters and do big contracts as goat and cow leathers are available in plenty here with international standards. There are very few sheep tanners here. This town has also made a name for its well equipped and well infrastructured modern shoe factories where high standard world
class foot wears are made and exported to many countries including the U.S.A, U.K, Italy, Germany, Portugal, Switzerland and Spain.

Another centre famous for the leather industry is Vaniyambadi. Here again there are quite a large number of tanneries where items such as E.I. tanned goat and sheep skins, semi-chrome and full-chrome finished leathers are made, locally supplied and exported. There are also innumerable job tanners here. It is the best place for dealing in sheep items. We can say that it is the leather tanning centre with the largest number of tanneries in Tamil Nadu. No other centre has as many tanneries as Vaniyambadi does.

Vaniyambadi is just about 30 minutes drive from Ambur. While there are more tanneries in Vaniyambadi, there are more shoe units in Ambur which are supplying to the best shoe companies abroad. These two neighbouring centres are playing an important role in the development of the leather industry in the country.

Ranipet has a large concentration of tanneries like Ambur, Vaniyambadi and Chennai processing hides and skins from raw to finished leathers. Various descriptions of leather such as lining, upper and suede leathers are made here for supply to national and international customers. There are also some job tanneries here. Besides these, there are many highly sophisticated and modern units where world class shoes, garments and leather goods are made and exported. SIPCOT industrial complex is also here. It is yet another well known place for leather and leather products in the world market.

While the early leather businesses in Tamil Nadu were in the hands of the Eurasians, the main indigenous group that became prominent was the Muslims who accumulated large surpluses through trade in timber, seeds, wool, bark, etc in addition to leather. Some of these merchants had migrated from Kutch in the 1860s and continue to be in control of some of the largest leather
businesses in Tamil Nadu even today. Because of their dispersed trading interests in raw products of various kinds, they had established networks for the collection and trade in these different raw products, including leather, and could ultimately exercise a greater control over the production chain. These entrepreneurs could set up factories on larger scales than in other parts of the country because of the finance available to them and did not need a local market for tanned hides and skins that was necessary for the tanneries in Calcutta or Kanpur run by the non-Europeans. Madras and adjoining areas also did not have an important enough leather product making industry traditionally that could provide a local market for tanned hides and skins. Only a minority of the Madras firms were European. The largest Madras leather tannery, called the Chrome Leather Company, was set up near Pallavaram near Madras by a young European who was an assistant in a Madras tannery and this firm supplied chrome leather for upholstery to a coach making firm called Simpsons. The area around this firm came to be subsequently known as Chromepet and is today distinct from Pallavaram.

In addition to the Madras area, consisting of Chromepet-Pallavaram and adjoining areas, the leather industry in Tamil Nadu was located in the Palar Valley in Vellore district, consisting of the clusters of Vaniyambadi, Ambur, Pernambut, Melvisharam and Ranipet and the clusters of Erode, Trichy and Dindigul in the other parts of Tamil Nadu. All these clusters have existed since the colonial period and their present level of development is a result of conscious government policy to develop leather clusters in particular ways. Particularly in Tamil Nadu, the degree of state intervention in the industry has been high and a variety of institutions have come into existence to take care of the needs of the industry.
Between 1946 and 1954, two committees were appointed to look into the problems faced by the leather industry, particularly in Tamil Nadu. In 1957, the Central Government established an Export Promotion Council for leather in Madras, in order to seek new markets and to promote the exports of finished leather and leather goods. Another landmark during this period was the setting up of the Central Leather Research Institute (CLRI) in 1953 under the auspices of the Council for Scientific and Industrial Research (CSIR). From an All-India point of view, Tamil Nadu, and within this the city of Madras, became a major centre of focus for the industry, with the state and its capital getting identified with the modern segment of the leather industry in India, something that the rest of the country needs to emulate.

On the eve of Indian independence there were more than 400 tanneries in the composite Madras province which included parts which were merged with Andhra Pradesh, later of these tanneries nearly 300 tanneries, both small and large, were situated in the parts which later come to be known as Tamil Nadu. More than 200 tanneries were situated in the North Arcot district alone employing a labour force, more than 10,000. Most of the tanneries North Arcot manufactured Wet-blue, chrome, oil chrome and EI varieties. All the products were for export. Only a small portion of the export comprised half tanned leather which was in great demand abroad for making finished product of their country’s specific requirement. Semi-processed leather like East India tanned, besides Wet blue, chrome hides and skins constituted nearly 64% of the total exports.
1.7. Importance of the study

Exporting has traditionally been seen as a tool for national economic growth and international competitiveness\(^{37}\). Export plays a very important role in contributing to a nation’s economic prosperity. Increased exports can result directly or indirectly in an increase of domestic production, economic growth, a decrease in the unemployment rate, and the generation of foreign currencies to meet import costs. A country’s ability to compete successfully in world markets, maintain favourable balance of trade and control its external payments situation reflects its economic strength and marginal competence over other nations. Given the role exports play in constituting the wealth of a nation, export development is certainly an aspect of economic development to which responsible governments must pay attention.

Export performance of the leather units in Tamil Nadu prior to 1996 showed sustained growth. At that time, no attempts were made to understand the influence of various internal and external factors affecting the export performance.

After 1996, pollution by tanning industries became severe and was an important environmental problem. To mitigate this important problem the Government authorities started imposing environmental regulations on leather units. The primary regulation was to have effluent treatment facility to control the pollution problem. However, majority of the leather units were not able to have these facilities due to huge cost burden. Thus, nearly 450 leather units were ordered to be closed down by the supreme court of India in 1996, which caused significant
decline in leather exports. So this is a perennial threat factor to Tamil Nadu leather export performance.

Apart from this environmental problems, there were other internal and external factors started to have effect on the export performance of the industry like, Raw materials, Technological factors, Research and Development, Human Resources, Organizational commitment, Government rules, Finance, Global marketing, Export environment etc.

Tamil Nadu is the major contributor in the export of leather and leather products in India since 1880 and the value of the leather exported was Rs.3.5 million. Tamil Nadu was contributing around 70 percent in the whole of the India Leather exports, it started to decline after 1996. Now in 2010-2011 Tamil Nadu contributes 37.48 % i.e., Rs. 65658.18 million in India’s leather export basket. Table 1.1 shows the important export promotion measures undertaken by the Government of India during the post-reform period.

Table 1.3

Steps taken to promote Foreign Trade in India Post Reform Period

<table>
<thead>
<tr>
<th>Year</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>The rupee was devalued twice in July, 1991. The 1991, liberalization moves allowed export houses and trading houses to import a wide range of items. The government also permitted the setting up of trading houses with 51% foreign equity for the purpose of promoting exports.</td>
</tr>
<tr>
<td>1992-93</td>
<td>Export Oriented Units (EOU) - Export Processing Zone (EPZ) system was expanded to agricultural and allied exports.</td>
</tr>
<tr>
<td>1993-94</td>
<td>Partial convertibility of rupee on the trade account was introduced, subsequently followed by full convertibility on current account.</td>
</tr>
<tr>
<td>Date</td>
<td>Description</td>
</tr>
<tr>
<td>-----------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>1994-95</td>
<td>An electronic hardware technology park scheme was introduced on par with the EPZ. The 1994-95 policy introduced a new category of trading houses called super star trading houses.</td>
</tr>
<tr>
<td>1999-2000</td>
<td>The concept of a Free Trade Zone (FTZ) without custom intervention and with greater operational freedom in export activity was accepted.</td>
</tr>
<tr>
<td>March 31, 2000</td>
<td>A scheme for setting up Special Economic zones (SEZs) in the country to promote exports was announced by the government. The SEZ were established to provide an internationally competitive and hassle free environment for exports and are expected to give a boost to the country’s exports.</td>
</tr>
<tr>
<td>June 1, 2000</td>
<td>Foreign Exchange Management Act (FEMA) was introduced.</td>
</tr>
<tr>
<td>2000</td>
<td>The EXIM policy 2001 introduced the concept of Agricultural Export Zones (AEZs) to promote of agricultural exports.</td>
</tr>
</tbody>
</table>
| Export – Import policy 2004 – 09 | - A new scheme to accelerate growth of exports called ‘Target Plus’ was introduced.  
  - A new scheme called ‘Vishesh Krishi Upaj Yojana’ has been introduced to boost the exports.  
  - To accelerate the export of services a scheme called ‘Served from India’ has been launched.  
  - To create trade related infrastructure and to facilitate the import and export of goods and services free trade and ware housing zone scheme introduced with an aim to make India to a global trading hub.  
  - For the leather and footwear sector, the specific policy initiatives are mainly in the form of reduction in the incidence of customs duties on the inputs and plants and machinery. These include:-  
    - Increase in the limit for duty free entitlements of import trimmings, embellishments and footwear components for leather industry to 3 per cent of Free On Board (f.o.b) value of exports and that for duty free import of specified items for leather sector to 5 per cent of f.o.b value of exports;  
    - Import of machinery and equipment for Effluent Treatment Plants for leather industry exempted from customs duty;  
    - Re-export of unsuitable imported materials (such as raw hides and skin and wet blue leathers) has been permitted. |
Announcements for Leather Exports

- On the payment of 50% applicable export duty, Leather sector shall be allowed re-export of unsold imported raw hides and skins and semi-finished leather from public bonded ware houses. Re-exportation can be used to avoid sanctions by other nations.

- To encourage Value Added Manufactured export, a minimum 15% value addition on imported inputs under Advance Authorization Scheme (The Duty Exemption Scheme enables duty free import of inputs required for export production.)

From the brief review of literature on different aspects of leather industry, it is observed that a large number of studies have been pursued on the pattern of growth and various problems faced by the industry separately. These aspects are intermingled and inter related and hence, requires an in-depth study on performance, issues and problems of the industry. The present study makes a humble attempt to provide a complete up to date picture while highlighting important aspects like growth trends of the export performance, major constraints and limitations, eco-friendly aspects, government’s policies and incentive schemes.

1.8 Scope of the Study

- Only leather manufacturers cum exporters registered in Council for Leather exports in the year 2010 were considered for the research study.

- The study is confined to the export performance in Tamil Nadu state only.

- Only Major production centre’s in Tamil Nadu (Chennai, Ambur and Vaniyambadi) were surveyed for their business conditions, experience, constraints and expectations.
1.9 **Research Question and Objective of the Study**

The central question which will be pursued through the thesis and the specific objectives and hypothesis of the study are framed.

*To analyse the export performance of Tamil Nadu leather industry and forecast the trend and with a view to understand the various internal and external factors which influence the export performance of the firms.*

1.9.1 **Broad Objective:**

The primary objective of this research was to study the export performance of the Leather industry in Tamil Nadu during the post reform period i.e. from 1991 – 2011.

1.9.2 **Specific Objectives:**

The integration of studying the export performance leads to the formulation of the following objectives:

1. To examine the growth trends and the importance of the leather units in Tamil Nadu.
2. To study the trends in export of leather and leather products from Tamil Nadu during the period from 1991 -2011.
3. To identify and analyse the internal constraints that inhibit the growth process of the leather industry.
4. To identify and analyse the external constraints that inhibit the growth process of the leather industry.
5. To study the impact of environmental factors on the performance of leather industry in Tamil Nadu.
6. To appraise the Government policies and incentive schemes in relation to the growth and performance of the industry in various fonts.
7. To offer suggestion to promote the Export performance of the leather industry.
1.10 Hypotheses of the Study

Based on the objectives developed for the research study several hypotheses have been formulated. The following are the important hypotheses which were tested using standard statistical tools:

1. Export performance of the Tamil Nadu leather industry is not positively associated with the India’s Export performance.

2. Internal constraints of the firm have no positive effect on the export performance.

3. External constraints of the firm have no positive effect on the export performance.

4. Environmental issues faced by the industry have not impacted the leather industry performance.

5. Government policies and Incentive Schemes have no positive impact on the export performance.

1.11 Limitations of the Study

There were some unavoidable limitations.

First, the quantitative analysis is based on the various sources of secondary data collected for the analysis of the export performance of the leather units of the Tamil Nadu. The quantitative analysis is limited to the period from 1991 to 2011. Second, the study is restricted only to the manufactures and exporter of the leather units in Tamil Nadu registered with Council for Leather Exports (CLE). Third, the geographical area of the study is limited to the important clusters of Tamil Nadu (Chennai, Ambur and Vaniyambadi).
1.12. Organization of the Thesis:

The thesis is structured into six main chapters as depicted in the Figure 1.2:

Figure 1.2

Organization of the Thesis

- Chapter 1: Introduction
  - Chapter 2: Review of Literature
  - Chapter 3: Materials and Methods
  - Chapter 4: Results and Discussion of Secondary Data
  - Chapter 5: Results and Discussion of Primary Data
  - Chapter 6: Major Findings, Recommendations and Conclusion

*Source: Developed for the Study*

The Brief description of the chapters are given below:

**Chapter 1 - Introduction**

Background to the research and introduced the research questions and objectives with a justification for the research has been discussed in this chapter. Next, the methodology was briefly outlined, followed by key terms and definitions and finally the delimitations of the research were considered.
Chapter 2 – Review of Literature
The literature related to the topic with a specific focus on the major concepts that impact this research has been reviewed in this chapter. The literature is classified into three streams (theoretical background, history of leather industry and empirical studies conducted on the export performance of the firms), which provide the theoretical framework within which the study fits and the platform on which the research question is developed.

Chapter 3- Materials and Methods
The research methodology which includes the research design (exploratory design, sampling and sample size, data sources, target population, unit of analysis, sampling frame and procedure), the design of the Schedule (measurement scales, operationalization of measures of constructs and variables, pre-testing, non- response bias, validity and reliability issues and its administration), and the method and tools of data analysis has been discussed in this chapter.

Chapter 4 - Results and Discussion (Secondary Data)
The findings of statistical analyses and interpretations of the results of the primary data has been presented in this chapter.

Chapter 5 - Results and Discussion (Primary Data)
The trend analyses of the Leather Industry export performance of Tamil Nadu has been presented and discussed in this chapter.

Chapter 6 - Findings, Suggestions and Conclusion
Major findings, suggestions and conclusion of the research work with an overview and an implication for management has been discussed. The strengths and limitations of the study are also discussed and recommendations for further research are presented in this chapter.
REFERENCES


8. The skin flayed from Small animals such as calves, sheep, goats, lambs, etc and all varieties of reptiles is called Skin. Encyclopaedia Britannica Junior (1983), Encyclopaedia Britannica Inc., vol 9, Chicago, p.93.


10. Encyclopaedia of the social sciences, (1963), op.cit, Pg.No 300.


13. This a process of by which the extracts of infusion derived from tannin-bearing plants, barks or growth are allowed to act on hides and Skins., A new survey universal Knowledge, vol.13, Encyclopedia Britannica,(1961), The Macmillan Co., Chicago, Pg no:848.


20. Only 1 per cent volume but 2.5 to 3 per cent value share, Journal of Leather; June 2011.


24. www.leatherindia.org

25. Leather industry estimates the leather sector to be around US$ 175-200 billion. Production as per NAS is less than half of the industry estimates. The alternate approach puts leather sector output at US$ 140 billion.

26. Based on the Annual Survey of Industries various issues

27. ICRA Study on Manufacturing Competitiveness Indices, page 81
28. Overall share of value added in output for the ASI sector also witnessed a decline, from 24.9 per cent in 1996-97 to 18.7 per cent in 2008-09.


30. The industry estimates of total employment in leather sector is 2.7 million, but comparison with NSSO needs to be made with employment in manufacturing sector.

31. As early as 1804, a prominent civil servant, H.T.Colebrooke, argued that England could replace her supplies of hides from Brazil with those from Bengal.

32. Ibid. This is because goats and sheep are adaptable to drier and drought prone lands, compared to cattle which thrive on grasslands.


35. After the war, the Government of Madras set up an ad-hoc committee to report on the state of the leather industry in Tamil Nadu. In 1954, a Committee for Leather Industry and Trade was appointed to look into the reasons why the Madras industry's exports collapsed in 1952. Government of Madras (1954).
