

## A STUDY ON FACTORS AFFECTING EXPORTS OF LEATHER FOOTWEAR AS A STRONG INITIATIVE OF MAKE IN INDIA: OPPORTUNITIES AND CHALLENGES

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### ABSTRACT

*India has ample of opportunities in Make in India campaign in the leather footwear sector. Availability of skilled manpower in this sector has motivated investors to manufacture at large scale. Government listed this sector in Make in India campaign which has capacity to contribute in industry turnover from current \$12 billion to \$27 billion by 2020. This sector also has potential to produce an approximate six million jobs. Indian leather industry is one of the principal producers of leather footwear globally. The major manufacturing centers in India are Tamil Nadu, Andhra Pradesh, Karnataka, Punjab, Delhi, West Bengal, Uttar Pradesh and Maharashtra. The key objective of this paper is to explore opportunities and challenges in Make in India, different factors affecting exports of leather footwear in the leather footwear sector, the initiatives by the government to boost growth in this sector and emerging trends in this industry. It also focuses on different challenges that this industry faces. Based on secondary data and reports available a conceptual overview will be understood.*

*The observations will help in understanding the scope, improvement areas and challenges to be circumvented to boost this industry and strengthen our Economy.*

**Keywords-** *Leather industry, Footwear, Economic growth.*

### INTRODUCTION

The Indian leather industry is as an eminent industry both in national as well as in the international market. India is the ninth largest exporter of leather and leather products and the second largest producer of footwear and leather garments, with annual revenue of USD 8,500 million for 2011-12 with exports of USD 4,868.71 million. This sector is among the top foreign currency earning sectors of Indian economy and approx. 2.5 million people gets employment in this sector. Ample raw material, skilled manpower, conformity with environmental standards and growth of the accompanying industries has helped the Indian leather industry to grow manifolds. Small and household units contribute almost 80% of the total production.

The units involved in manufacturing of footwear are, generally, tanneries or either big companies. Majority of the manufacturing units faces many challenges

as they belong to the unorganized sector of the industry. Timely availability of raw materials, high labor cost, Poor product innovation and lack of existence in global fashion market are few of them. The government of India has taken many initiatives to support the sector like - decontrolling the sector, permitting 100% FDI and duty free imports, provision for financial support to the manufacturing units, promotion through industrial parks, execution of various programs for the development of leather industry. Keeping in mind the past performance, strength of the sector and backing from the government, the Indian leather industry is self-assured to grow manifolds.

The Indian leather industry has a high potential for exports, growth and employment. It employs approx. 2.5 million people directly or indirectly. Almost 50% of the workers are skilled/ semi-skilled and women constitute 30% of the total workforce.

Emerging Indian market needs business-friendly policies and strategic initiatives. The youth of India has dreams to live in a country that has development and

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infrastructure at par with international standards. To achieve economic development on global standards, Indian government must establish definite and realistic goals that are achievable through systematic planning and execution.

Modi government has given a new direction to Indian economy and started a journey of inclusive development, where every Indian citizen would be able to achieve his or her hopes and ambitions. However, the Indian government has numerous social and economic challenges to overcome in a country which is high with ambitions and opportunities. The government has taken several strategic steps and policy initiatives, most of which are praised by the industry and general public.

The 'Make in India' campaign is one of the promising policy initiative of Modi government. The principal aim of 'Make in India' campaign is to develop India as a manufacturing hub by welcoming global manufacturers to invest in India and upturn the country's Gross Domestic Product (GDP).

To realise the drive of achieving maximum growth, by 'Make in India' campaign, the government has been focusing on eradication of superfluous regulations, to abbreviate bureaucratic processes, upgrade infrastructure, open up sectors to foreign direct investment (FDI), and most prominently, government wants to be seen as a true business partner. These initiatives could essentially fulfil the 'ease-of-doing' business philosophy and helps in answering the problems of the leather industry.

Indian government has recognised 25 sectors to be a part of the 'Make in India' campaign. The leather industry is a key sector of the 'Make in India' campaign and the growth of this sector is essential to speed up India's GDP growth. To augment the revenue of leather industry from the current \$12 billion to \$27 billion by 2020 is one of the key objectives of this initiative. The successful execution of campaign in

leather industry will generate employment for six million people.

India, with 10% contribution in world's total leather production, has become the second largest producer of leather footwear and garments in the world. The SMEs is a key segment of Indian leather industry contributes 80% of the total business done in this sector. Manufacturing is a central function of the Indian leather industry, with a turnover of \$11 billion (nearly Rs 72,776 crore) and has a noteworthy share in the overall exports of the country. The exports of Indian leather goods' are estimated to grow 24% per annum over the next five years.

Moreover, leather industry is known for its labour intensive manufacturing practices. The footwear sector primarily employs women and has the prospective for substantial expansion. If 'Make in India' campaign is executed magnificently, it will empower women from economically backward sections of the society.

The Indian leather industry employs almost 2.5 million people in the country and 55% of the workforce is below 35 years of age. Powering up manufacturing will lead to an upswing in demand for more skilled hands on the deck. Thus, the leather sector is one of the key industries that can help in solving India's unemployment problem. Though in general, things look good for the industry, there are a number of challenges that still need to be tackled.

## **OBJECTIVES OF STUDY**

The paper consists of both conceptual and empirical objectives.

- a) To understand the emerging trends in Indian Leather Industry and Government Initiatives
- b) To understand factors affecting exports of leather footwear in and around Agra
- c) To understand various challenges in leather footwear industry

## **RESEARCH DESIGN**

Data was collected from 42 exporters from in and around Agra with a self-

administered questionnaire and different variables like years of export experience average marketing cost of raw materials, technical manufacturing expertise and focusing personal design collections were considered as independent variables and export value of leather footwear was considered as dependent variable. The response was measured on Likert scale and different test to check multi co linearity, Variable Inflation factor were applied and relationship is determined by multiple regression analysis. Type of research is descriptive and convenience sampling was used.

## RESULTS AND DISCUSSION

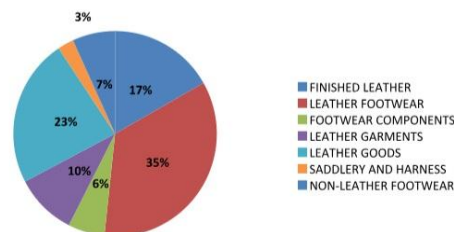
### Emerging Trends in Indian Leather Industry and Government Initiatives

The first objective aimed at understanding the scope and relevance of export industry. The following conceptual description helps in understanding the inevitable role that this industry plays in economic growth.

Export of leather sector has touched the mark of USD 4,868.71 million in year 2011-12 against the USD 3,968.54 million for the period 2010-11, with a substantial growth of 23%. Global sales from leather shoes exports by country in 2017 totaled US\$52 billion. Industry has observed a decline of 6% in dollar amount from leather footwear exported in 2013 when international sales equaled \$55.3 billion. Year over year, leather shoes exports depreciated by -6% from 2016 to 2017.

India is the second largest producer of footwear after China, accounting for 13% of overall global footwear production of 16 billion pairs. India produces 2065 million pairs of different categories of footwear which includes leather footwear of 909 million pairs, leather shoe uppers of 100 million pairs and non-leather footwear of 1056 million pairs. India exports about 115 million pairs. Hence, nearly 95% of its production goes to meet its own national demand. Out of the total exports of USD 4,868.71 million 42.67% constitutes of footwear followed by leather goods, which constitutes 22.35% and is far below the

footwear segment. The Footwear Segment is driving the growth, the chart below shows the percentage wise contribution of each product segment in India's export of leather and leather products for April-June 2018(Fig:1)-



**Fig: 1-Leather exports for April - June 2018, Product-wise share**

Source: <http://leatherindia.org>

Latest developments during the last 25 to 30 years, the leather goods industry has experienced major changes due to factors such as:

- The upswing of living standards and labor costs in most countries that produce leather goods;
- The exposure of marketing and brand strategies at national and international level, primarily due to new advertising instruments (e.g., television)
- The breaking down of activities through production outsourcing and transfer of knowledge to developing countries; 86 Leather goods and other leather products
- The growth of tourism and air travel;
- Substantial development in process technology;
- Expansions in productivity;
- The progress of the automotive industry.

The Government of India (GoI) has taken numerous initiatives to upkeep the growth of the domestic leather industry-

- The leather industry is de-licensed and de-reserved
- 100% Foreign Direct Investment (FDI) and Joint Ventures (JVs) are allowed through the automatic route. 100% repatriation of profit and dividends, if investments are made in convertible foreign currency.

- Duty free import of raw materials (namely raw skins, hides, semi- finished leather and finished leather) and of embellishments and parts under specific scheme. Concessional duty on import of listed machinery for use in leather sector Duty neutralization / remission scheme in enactment of Leather footwear initiatives in India.
- The domestic leather and footwear industry has undertaken a substantial renovation due to the continuous support of the Government. Identifying the opportunities for Indian leather industry from globalization, the government over the last decade and a half has started numerous initiatives in the areas of investment, taxation, research and cluster initiatives. The erstwhile restrictions on capacity expansion by way of reservation for SMEs has been done away with as the government has de-reserved the manufacture of various types of leather including semi-finished leather, harness leather, leather shoes, etc. from small scale sector.
- As a measure of the liberalization processes, most of the articles manufactured in the leather sector have been de-licensed. Further, 100% Foreign Direct Investment and Joint Ventures are allowed through the automatic route. 100% repatriation of profit and dividends is also allowed, if investments are made in convertible foreign currency. Only a declaration to this effect to the Reserve Bank is necessary. The production capacity in the leather & leather product industry has not improved even after the de-reservation of the entire leather sector from small scale sector.
- Lack of huge capacities to cater to volume markets like USA, which account for nearly 1/4th of total world imports of leather & leather products, is one of the factors shackling the growth of this sector. Huge investments are required to make the industry technologically and environmentally sound and viable. However, the industry has not been able to charm high investments to address these issues. In spite of having a liberal FDI policy, the domestic leather industry has managed to attract mere Rs 2.68 billion since 2000. This constitutes a tiny 0.04 per cent of the total FDI inflows received by India. Trade processes Introduction of Foreign Trade Policy (2004-2009) has provided numerous incentives to exporters to lift the export prospects of the industry.
- It has also intended at procedural simplification and trade facilitation measures. Existing procedures like the Focus Product Scheme (FPS) and the Duty Entitlement Passbook Scheme (DEPB) have been stretched in the new Foreign Trade Policy (2009-14). Various other benefits available to exporters of leather products include: Duty neutralisation/remission scheme in place like DEPB and Duty Drawback; Duty free import of certain raw materials like raw & finished leather, fur skins, etc.; Concessional duty on import of listed machinery for use in Leather Sector; and low import tariff - Peak Rate 10%. Specific schemes for Sector Development the government has been making efforts to develop the prospects of the domestic leather industry and its swift expansion through the Indian Leather Development Program (ILDLP).
- This is in extension with the National Leather Development Program (NLDP) executed in the nineties. High land cost, delay in environmental clearance and funding restrictions are the key causes cited for the underachievement in goals. Infrastructure development the insufficient infrastructure has been a major block in the growth of the Indian leather industry.
- Much of growth in the leather sector in noticeable traditional centers of Agra, Kanpur, Jalandhar, Ambur, Ranipet, Vaniyambadi and Kolkata was unplanned and was almost only due to

private sector initiative. The current infrastructure in various leather clusters i.e. integrated supply chain infrastructure (material markets, tanneries), production infrastructure (water supply, drainage facilities, power supply, effluent treatment plants, factories for ancillary products) and support facilities (design and product development studios, testing laboratory, training institutes, buyer interaction showrooms etc.) is not up to the mark and needs a major restructuring to make the industry internationally competitive. The above picture highlights and makes clear the role and wide scope that this industry holds.

### Factors Affecting the Exports in Leather Footwear Industry

The second objective of study was to understand different factors that affect exports in leather footwear industry. In order to ensure reliability of the variables selected different tests were applied which are being discussed as under.

**Table-1: Test of Normality - Shapiro Wiki**

Statistics	Df	Sig
0.935	42	0.899

The sig value of Shapiro Wilk test is 0.899 which assures that the data set is normal and the studied characteristics are normally distributed among the whole population.

### Regression Analysis

A multiple regression analysis is applied to measure dependent variable footwear export. The independent variables are years of qualification, years of export experience, energy crisis, ISO certification, average raw material cost per pair, participation in international trade exhibitions, average marketing cost per pair, technical manufacturing expertise and focusing personal design collections.

The relationship between dependent and independent variable is given in a model as;

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \beta_1D_1 + \mu$$

Where; Y = Export value of footwear X1= Years of qualification X2= Years of export experience, X3= Average raw material cost per pair X4= Participation in international trade exhibitions X5= Average marketing cost per pair X6= Technical manufacturing expertise X7= Focusing personal design collections

**Table 2: Multi-collinearity Statistics of Variables**

Variables	Tolerance	Variance Inflation Factor
Qualification	0.801	1.249
Years of experience in Exports	0.819	1.221
Average raw material cost	0.768	1.302
Participation in International trade exhibition	0.735	1.360
Average marketing cost	0.932	1.073
Technical manufacturing expertise	0.786	1.272
Focusing personal design collection	0.917	1.091

Multicollinearity is considered undesirable in any regression analysis. We calculated variance inflation factor (VIF) to test the multicollinearity of our data set whereas tolerance statistic is used to analyze the extent that how much independent variables are linearly related to one another. The absolute value of VIF for no multicollinearity is 0. Thus the value of VIF below 10 is ignorable. Applying this criterion to our results in table 2 we found that there is no multicollinearity exists in our data set.

**Table 3: Summary of Regression Results**

Model	R	R Square	Adjusted R Square	Std. error of estimate
1	0.9254	0.865	0.862	0.480

The value of R square 0.899 is suggesting that this is a reliable model. The expansibility power of the model is very strong and this model is explaining almost

90 percent to the dependent variable. The sig value of ANOVA is 0.000 it means that this is a significant model.

**Table 4: Summary of Regression Results**

Variables	Coefficients	Standard Error	t-value	Significance
Constant	1.567	0.534	2.635	.009
Qualification	.321	.121	3.26	.003*
Years of experience in Exports	.407	.052	5.114	.000*
Average raw material cost	-.248	.048	-4.26	.000*
Participation in International trade exhibition	.324	.089	3.14	.001*
Average marketing cost	-.128	.078	-.117	.138 (NS)
Technical manufacturing expertise	.168	.067	1.854	.021*
Focusing personal design collections	-.147	.068	-2.068	.038*

Significant 5% level NS –Not significant

The above table (Table-4) shows the regression results. From the table it is clear that the coefficient shows how strong and important are the independent variables and significance shows that how much the variables are statistically relevant. It is clear that almost all the independent variables are significant and important except few like average raw material cost and marketing cost. It is quite evident that for every one percent increase in the cost of raw material and marketing cost the value of export reduces by .248 and .128 percent respectively. The same holds true for personal design collection which shows negative relation that every one percent increase in personal design reduces the export value by .147 percent. Similarly, for every one percent increase in qualification, years of experience in exports participation in international trade exhibitions and technical manufacturing expertise every one percentage increase in the above variable leads to increase in exports value.

Thus, enough emphasis should be given on the above variable to ensure increase in exports largely. Thus, from the above study and conceptual framework the scope, relevance, importance and areas that require urgent attention in order to enhance exports has been discussed. The findings can help exporters in the relevant area to understand and develop strategies accordingly.

### **Opportunities and challenges in implementation of Leather footwear initiatives in India**

The third objective of the study was to determine the varied opportunities and challenges that this industry faces, it talks of problem in work force, technological, innovation, international quality standards, lack of presence in global fashion market and infrastructure issues.

Thus understanding these challenges will help in minimizing the barriers in exports and will help in effective exports.

A major proportion (around 80%) of the industry is unorganized and has limited scope of mobilizing funds through private equity and bank loans

- Although India has abundant supply raw material for leather and leather products, timely availability of raw materials remains a constraint.
- High labor charges for skilled workforce
- Lack of strong presence in the global fashion market
- Unawareness of international quality standards by many players
- Lack of product innovation: most of the units work on sub-contract basis where all the design and other specification of the product are provided by the buyer

In order to become the 'Make in India' scheme a success in Leather industry, there is an urgent need to overcome multiple issues and challenges that the companies in Leather industry are facing.

One of the basic operation in Leather manufacturing sector is Tanning. The

process of Tanning faces number of problems, especially in small tanneries, like use of inefficient processes result in increased cost of production per unit area of finished leather. Also the locations which produce forty percent of India's exports and have got around sixty percent of the tanning capacity do not have dedicated industrial areas for manufacturing and processing of leather. The available capacity is poorly utilized which culminates in greater financial cost and liabilities. Therefore it now becomes imperative for the government to resolve these longstanding issues with some creative initiatives.

There are some other hurdles that are slowing down the pace of progress of the leather footwear sector. These include difference in the levels of technology utilised in different factories that result in production of low quality products.

Majority of companies in Indian Leather industry function on subcontract basis. It means that the design, component choice and production methods are dictated by the buyers and therefore these do not provide own collections. This problem has a special significance in women's segment footwear, which holds sixty three percent share in overall footwear market across the world. However, this share does not reflect in Indian footwear exports in women's segment which hovers around at only thirty four percent.

The other challenges that the industry is facing includes-

### **Uncertainty in Exports**

Exporters of leather and related products are finding themselves in troubled waters due to reducing exports and unexpected policy reforms. Leather exports from India have been on the trajectory of decline to the tune of 7% in the time period of April-August 2015. However, the leather sector has been the 'focus sector' under Indian government's 'Make in India' initiative.

### **The European Slowdown**

Europe holds a majority share receipt of Indian leather exports. However, the

unexpected reduction in demand from Europe has resulted in leather industry facing the unexpected crisis and Agra's footwear industry is no exception to it. Though the footwear industry in Agra has grown at a Compounded Annual Growth Rate of 15% during preceding decade, there has been a negative growth of 14% during the first half of financial year of 2016.

### **Infrastructural issues**

The infrastructural impediments as well as apathy from the government are hurting the leather industry's growth prospects. For example, leather products from city of Kanpur have immense potential for exports and growth. However the high labor costs as well as scarcity of trained and skilled human resource are hurting the leather industry severely. At the same time the infrastructural factors like roads and power supply are also have hit the operations hard. The increasing competition from neighbouring countries like China, Pakistan and Bangladesh and cheap imports are also the hindrances in the way of prospects of leather industry.

### **The Beef Ban**

The beef ban has aggravated the problem and this has even resulted in delaying the manufacturing process and time as it has led to shortage of raw material. The significant issue with the leather and footwear industry towards new Foreign Trade Policy 2015-20, is diminishing of duty credit under the modified Merchandise Exports from India Scheme (MEIS).

### **Policy issues**

The major policy issue which has been bothering the industry for long time is the 'actual user' condition put forth by the government in the name of DFIA scheme. Para 4.29 (viii) of FTP 2015-2020 states that "No Duty Free Import Authorisation shall be issued for an export product where SION prescribes 'Actual User' condition for any input." Earlier, the condition was limited to just that particular input [para 4.2.7(b) of FTP 2009-2014 stated that "wherever SIONs prescribe actual user condition, DFIA shall be issued with actual

user condition for these inputs and no transferability shall be allowed for these inputs even after fulfilment of export obligation". This difference made has worked as large obstacle for exporters who have been working on very low margins.

### **Environmental Regulations**

The leather industry has been directed to follow the strict environmental regulations and factory compliance with pollution norms. The industry has been asked to adopt the newly introduced Zero Liquid Discharge (ZLD) system has been .However, the industry people feel that ZLD is not a sustainable option since the cost associated is on the higher side. Thus, the stringent pollution norms are hitting the leather industry.

For example, in the year of 2012 the then incumbent UP Chief Minister permitted the allotment of 900 acres of land for establishment of 2 leather parks at two different locations. Initially this action was seen as a strong measure for boosting up the leather production in Uttar Pradesh. However, since then no significant progress has been made. There have been similar other instances as well, wherein due to lack of facilitation and prevailing bottlenecks, major such projects could not see the light of the day.

### **Action Plan desired**

Thus from the above discussion it is evident that it is beyond any doubt that the leather industry has attained immense potential towards Forex earnings for our country. However, there exists need for some small initiatives from the end of policymakers in terms of proper policies and establishment of adequate infrastructure combating the competition. The Indian leather makers have created their own niche in the crowded international market in past amongst presence of foreign competitors and producers of luxury leather goods.

In order to enhance investments and increase the pace of job creation, the Indian government is working on fiscal and non-fiscal fronts for leather and non-leather footwear sector. The incentives announced

will largely be in the direction of recently declared incentives for textiles sector. 'Leather' is a typical focal point under the 'Make in India' initiative. This is a highly important sector backed by labor intensive activities. The Ministry of Industry & Commerce is working on these plans.

These incentives may come in form of deduction in excise duty, exemptions in labour law and training proposals skill enhancement for the sector. The proposal has been materialized by the ministry in terms of consultation with the Finance Ministry about the probable outcomes. The experts say that the leather industry holds immense employment potential. Currently excise duty on leather footwear's worth over Rs 1,000 is 6 per cent, whereas for non-leather it is 12.5 per cent. India is the only country of sufficient size, with a sufficiently large population, and with low labor costs that could eventually replace China as the leading global footwear supplier.

### **FINDINGS OF STUDY**

Thus from the above study it can be understood that leather footwear industry holds great potential in multidimensional avenues and similar are the impediments right from availability of skilled manpower to infrastructural issues. It is also noteworthy to observe that the government has taken several initiatives to support and strengthen this industry and the important areas/variables which obstruct the exports identified in the research needs to be understood and rectified.

Thus, clear policy measure, incentivisation, infrastructural, technological and expertise in this area will help in augmenting exports and bringing manifold benefits.

### **CONCLUSION**

Thus, from the above discussion it is understood that there is inevitably a significant role that leather footwear industry plays in the development and up surgence of many multiple opportunities in India and India being one of the largest exporters of leather & leather accessories, accounts for 2.2% of the worldwide export . The leather industry in India has been



forecasted to grow multifold which would result in generation of employment and foreign exchange at greater scale. At the same time, increasing demand of leather and related articles in Indian domestic market will certainly spur the growth.

There has been a highly rising role of government initiatives in this regard and several initiatives have been undertaken through various industrial development programs as well as promotion of export activities. One of such schemes is Mega Leather Cluster scheme under IDLP which is implemented by the government to enable the industry in development of infrastructure, research and human resource. In addition to it, there are the underlying strength of the industry including adequate availability of raw material, following up of environmental standards at global level, human resource skills and the estimated growth by the relevant industries that will further provide support to the industry.

Though, due to extreme unorganized scenario in the industry, procurement of financial facilities turns out to be a big challenge. The raw material availability on time, absence of innovation in product and costlier procurement of skilled human resource too are one of the challenging issues. Observing and acknowledging the contribution made by leather manufacturing SMEs in the areas of creation of employment and earnings in foreign exchange, the government should launch several initiatives and establish the policies having specific focus on SMEs

growth in leather industry which further will enable the scope to expand for this industry in larger perspectives.

'Make in India' initiative cannot be taken as a 'magical solution', rather it is a platform for industries and businesses to sustain and progress, specifically in hard economic phases. Undoubtedly if 'Make in India' campaign is exercised and managed properly, it carries the strong potential to enable a revolution in area of manufacturing, which the leather industry is in need of urgently.

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