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## Trend Analysis of India's Leather and Leather Product Exports - Lessons and Recommendations

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### ABSTRACT

Indian leather occupies a prominent place in the world market, exporting approximately US\$4.72 billion during the period 2016-17. However, while analysing the trend of India's leather export over more than two decades, we observed that in the post global crisis era, Indian leather industry experienced a significant decline in the world's share of leather and leather goods, especially in the European markets. This entails a deeper product-wise analysis of the sector in comparison with its major competitors in the world market. We used revealed comparative advantage index to examine India's advantage relative to China in the world market of leather and leather goods. The paper also examines major challenges faced by the domestic leather industry of India. It is true that skill upgradation of the sector through implementation of various training programmes is giving an edge to the sector but expansion of employment capacity along with technological upgradation needs attention.

### Introduction

The leather industry occupies a prominent position in the Indian economy owing to its high potential for employment and export earnings. It is one of the traditional sectors of India which has undergone dramatic structural changes in terms of a mere exporters of raw material to exporter of value-added leather products like saddlery and harness, leather apparel, handbags and briefcases etc. Recently, India has also excelled in the footwear production. The domestic production of Indian footwear accounts for 9% of the global annual production

(Business Wire, 2017). Several initiatives have been taken by Government of India over the period to boost India's leather exports. Special attention was given to this traditional sector for its revival in terms of employment, skill upgradation and export boost under the Make in India Scheme, 2014. Foreign direct investment upto 100% has been allowed into the sector followed by a reduction in the excise duty from 12% to 6% (Council of Leather 2016). Under the Make in India scheme, 3 million unemployed youth were provided training and were employed into the sector (MoC, 2018). Despite, these initiatives, India's leather exports remained stagnant, over more than a half decade (Maity 2013). In the last two years the sector even registered a negative growth (Desikan 2017). However, the export growth of India's competitors in the world leather market like China, Vietnam, Korea, Malaysia, Indonesia show a positive growth (Economic Survey 2016-17). In this context, the present study analyses India's export trend in leather exports over a period of 20 years (1988-2016). The paper also examined India's comparative advantage in contrast to China, thereby

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identifying potential products in which India enjoys a comparative advantage in the world market.

Some of the major destinations of India's leather exports are European region, US, Hong Kong, and China. However, from our analysis we observed that India has been losing its share in these markets. In the post global economic crisis era, declining world demand, presence of low price competitors, instability in the European markets, escalation of tariff followed by increased environmental stringency are some of the major challenges faced by India in the global market of leather (Desikan 2017). Apart from the external factors, the paper also analyses the domestic challenges faced by the Indian leather manufacturing industry. We observed that inadequate capital formation, declining domestic production, are some of the major challenges of the Indian leather sector. However, several initiatives of the government for skill upgradation has a significant impact on the labour productivity of the sector. This may further enhance the export potential of the sector in future.

### Review of Literature

Tracing back to the Hecksher-Ohlin theory of international trade we know that the export of a country depends on its factor abundance (Jones 1956). A country endowed with abundant labour ends up exporting labour-intensive goods in the global market. While analysing the export trend of capital-abundant developed countries vs. labour-abundant developing countries, we observed that some of the developing countries like China, India, Bangladesh, Pakistan have achieved visibility in the global market based on the export of labour-intensive goods (Sugihara 2007, Brett and Martin 2011). It is true that export of labour-intensive goods by developing countries has defined their path of economic growth. However, the surge of trade liberalisation and free flow of the capital across countries has also scaled up export of capital-intensive goods from developing countries (UNIDO 2010, Brett and Martin 2011).

Brett and Martin (2011) examined the reasons for the sudden rise in China's exports to the world for the years 2000-2007 at HS 8-digit level. The paper strived to study the relationship between Chinese exports and global manufacturing and in particular US manufacturing and employment. Some of the factors that contributed to China's success include, export growth being concentrated in select industries which involved high technology, while an undervalued exchange rate boosted trade surplus. China also had a natural comparative advantage in labour intensive industries which further benefitted the country after its ascension into the WTO. The industrial policy of science parks encouraged exports and explosion of global demand in the high-tech products such as cell phones, LCD displays, laptops, integrated electronic circuits. The paper identifies that the crucial factor that enabled a boost in Chinese exports which was faster than the growth in the GDP of the country can be attributed to China scaling up investment heavily at a time when there was a burgeoning global demand for these high-tech products while there was a sharp fall in USA's high tech fixed investment.

Tanning of leather and manufacturing of leather goods is one of the traditional labour-intensive industries across the globe (UNIDO, 2010). China being a labour-intensive country is a dominant player in the global market (Maity, 2013). Other developing countries like India, Brazil also supplies a significant share in the world market of raw leather and leather related products (UNIDO, 2010; Maity, 2013). Pakistan, Vietnam, Ethiopia, Cambodia are some of the emerging markets in this sector (Ghafoor and Rasool, 2012) (Thi et al., 2016). In this context, it is pertinent to examine the existing literature on export growth of leather sector of the developing countries and different factors driving their export growth.

Ghafoor et al. (2012) examined the impact of major variables affecting export performance of leather goods from Pakistan using primary data source. They concluded that to improve the export performance of Pakistan's leather industry, it needs to develop sustainable supply of raw material and promote quality standards according to the requirements of importing countries. Consistent supply of electricity at fair prices should also be a priority of the government.

Xuan et al. (2016) examined the competitive advantage of Vietnam's footwear industry by conducting a primary survey. From the survey of 500 enterprises under the leather sector, authors have identified the strength and the weakness of the footwear sector of Vietnam. Several parameters have been incorporated under the strength and weakness of the study by using the Kaiser-Meyer-Olkin factor analysis test. This study concluded that the Government of Vietnam has actively signed FTAs with countries characterised by high demand for footwear like European countries. The study also identified that Vietnam's footwear industry will face stiff competition from the ASEAN countries in the world market. The authors have expressed concern that the unavailability of raw material to produce footwear in Vietnam may act as a deterrent to achieve sustainable export growth in the sector.

Among the developing countries, Indian leather sector has undergone a structural shift from raw hides to leather-based products. This makes the Indian story more interesting compared to other developing countries. However, in the post global economic crisis era India's leather sector has been facing crisis in terms of declining import demand especially from the European markets (Damodaran and Mansingh, 2008; Maity, 2013). Moreover, escalation of environmental stringency across developed nations has affected the leather export of India adversely (Maity, 2013).

Sinha and Sinha (1991), analysed export performance of the Indian leather industry by examining the constraints that could hamper the future growth of the industry while keeping in mind the policy measures that were introduced to facilitate leather exports. The study reveals that despite the recommendations of various committees during the 1980s, the sector continues to suffer from inadequate mechanisation, unscientific management and production confined to small and cottage industries, poor quality leather, absence of quality assurance

and while there is increase in the quantum of exports the unit value realisation is low.

Maity (2013) examined the export growth dynamics of the Indian leather industry in relation with India's decision of becoming the member of WTO. While analysing the export growth of the leather industry, the paper divided the entire period of analysis into pre-WTO (1987-1988 to 1995-96) and post-WTO phase (1996-97 to 2006-07). The paper has also used Cuddy Della Valle Index to measure the instability in the export market. It was observed that in the post WTO period the export of leather products increased from the pre-WTO period. However, paradoxically it was observed that India's export of leather and leather manufactured products to developed countries like USA, Germany and UK registered a declining trend in the post-WTO era. The major partner of India's export of leather products has been Spain over the entire period of analysis of the study. The paper also discusses several problems faced by the leather industry of India. Indian leather industry is characterized by small-scale and medium-scale manufacturing units which are financially highly vulnerable. These units also face problems of hygiene, pollution and fails to meet the international quality standards of the products. To maintain the international standards, the small-scale firms need large investments. Lack of capital in the sector leads to adulteration of products and this damages India's brand image in the international market. Indian leather products have faced non-technical barriers which have resulted in the rejection of many consignments especially from the developed countries. Non-trade barriers from European countries will have further adverse impact on the export of India.

### Objective of the Study

On the basis of the literature review, we have found that existing studies have examined the reasons behind India's low growth in leather exports, however there is no study that reveals the trend in India's leather exports using specific product categories of leather. In addition, the current study attempts to examine India's trend in leather exports for a period of 28 years which includes pre and post-liberalization.

Therefore, the objectives of the present study are:

1. To analyze the trend in India's leather and leather product exports from 1988-2016
2. To examine India's structural shift in leather exports and identify the products that have a major contribution in world exports of leather
3. To examine India's comparative advantage in contrast with China, the global leader of leather exports
4. To identify India's potential and challenges when competing with global leaders

### Data and Methodology

The methodology to examine the above-mentioned objectives is by means of the concept of Revealed Comparative

Advantage (RCA) (Balassa 1965), which has been used to measure India's comparative advantage in the production of raw leather and articles of leather in the world. We have used this index to analyse India's advantage in articles of leather in comparison with the world's major competitor, viz. China. As discussed in the earlier section comparative advantage of a country can be explained by Hecksher-Ohlin theory which relies on the factor endowment of a country. However, empirically testing HO theorem involves certain limitations - the prices under autarky are not observable across country. Balassa (1965) suggested that comparative advantage of a country can be empirically analysed by observed trade pattern of that country. Therefore, the index is named as revealed comparative advantage. The index simply measures the comparative advantage of a country and not the underlying sources of that advantage.

The revealed comparative advantage index (RCA) is given by,

$$RCA_{iw}^k = \left( \frac{x_{iw}^k}{X_{iw}} \right) / \left( \frac{x_{ww}^k}{X_{ww}} \right)$$

Where,  $x_{iw}^k$  represents export of commodity i by country k to the world.  $X_{iw}$  represents total export of commodity i in the world.  $x_{ww}^k$  represents the total export of all commodities by country k to the world.  $X_{ww}$  is the total export in the world. A country k is said to have a comparative advantage in product i if  $RCA > 1$ . The country k is said to have a comparative disadvantage in commodity i if the value of RCA index is less than 1.

The entire analysis of the paper has been conducted based on the trade data obtained from the Trade map Database by International trade Centre; supplemented by the WITS database. While analyzing the domestic characteristics of the leather sector we have used Annual Survey of Industries database.

### Scope of the Study

1. The study examines the trend in India's exports of raw leather, articles of leather and footwear from 1988-2016, at the two-digit level of product disaggregation using the harmonised product coding system of 1988.
2. The study further uses the four-digit level of disaggregation to examine India's comparative advantage in raw leather, articles of leather and footwear with China using the RCA index. The product categories selected were based on the share in India's exports and rank in world exports. The RCA index is calculated and examined for a period of five years from 2012-2016.

### Global Export Trend of the Leather and Leather Based Products

Leather owing to its diversified usage and durability, is one of the widely traded commodities across the globe with an average trade value of more than US\$100 billion per year. While distinguishing between raw hides and value-added

leather products, we observed that the global supply of raw leather and hides have failed to meet the rising demand for the same. From the Table No.1 we can observe that the world supply of raw hides is growing at the rate 0.91% over the period 2008-2016. However, the world demand for the same has been rising at the rate 1.05%. In contrast, the global supply of value-added leather products like saddlery and harness, leather

apparel, foot wear etc. has been growing at a faster rate compared to the global demand for these products. This indicates that the world market of leather products has undergone a structural shift from raw leather to value-added leather products. The structural shift is prominent especially over the last two decades i.e. 1998-2008 and 2008-16 (Table no.1).

**Table-1: Decadal Growth in World Import vs. World Export in Leather and Leather products**

Products (HS code)	1988-1998		1998-2008		2008-2016	
	World Export	World Import	World Export	World Import	World Export	World Import
Raw hides and skin (41)	0.18%	0.27%	0.69%	0.69%	0.91%	1.05%
Articles of leathers (42)	0.27%	0.19%	0.41%	0.47%	1.48%	0.81%
Footwear (64)	0.20%	0.14%	0.49%	0.54%	1.42%	0.80%

Source: Based on author's calculation using Trade map, ITC

### Major players in the Leather Exports: Developed vs. Developing countries

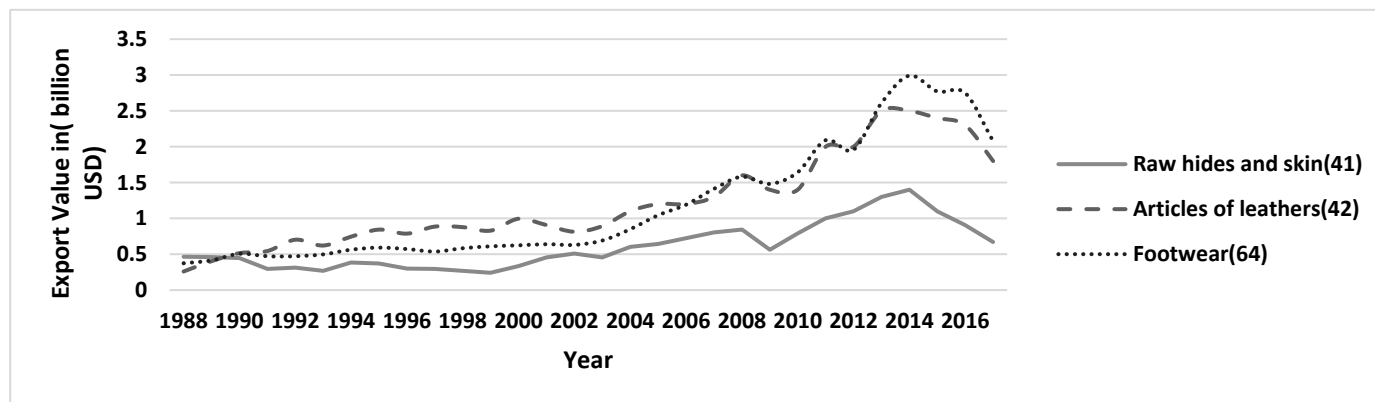
The major suppliers of raw hides and skin in the global market are Italy, US and Germany with an average annual share of 16%, 10% and 4% respectively in the total world export of raw hides. Over the past two decades it has been observed that among the developing countries Brazil, Hong Kong, China and India are some of the major players in the world leather market with an annual share of 6%, 9%, 3% and 2 % respectively. However, over the last five years (2013-2017) these global players have experienced a negative growth in the supply of raw hides. Among these global players, India's share has been declining significantly over the last five years with an average decline rate of more than 15 % annually. Some of the developing countries like Vietnam, Thailand, some of the African countries like Ethiopia, Mali, Nigeria, and Algeria are emerging suppliers of raw leather. It seems like global supply of raw hides has been shifting to small developing countries. While in value added leather product exports the countries and their share include, Italy (11.1%), France (9.3%), Hong Kong China, China (6.5%), Germany (3.5%), China (37.9%), and India (3.2%) who remained the top exporters. Recently,

countries like Vietnam, Pakistan and Cambodia have had significant growth in the export of value-added leather products making them contenders in the emerging markets category.

### Trend in India's Leather and Leather Product Exports (1988-2016)

It is true that India is among the top ten exporters in value added leather products in the world with an estimated average export value of US\$ 2.3 billion per year. However, it has been observed that India's share in the world total export remained stagnant at 3-2% over more than a decade. In comparison with other developing countries like China (38%), Hong, Kong China (7%) India's share has been lower in the world total export. In this context, we analysed India's export performance in leather industry, distinguishing between raw hides vs. value-added leather products and tried to identify the challenges faced by India in the international markets as well as in domestic markets. We compared India's export performance with its major competitor China. We used revealed comparative advantage index to analyse product-wise changing comparative advantage of India at a four-digit level of product classification over the period 2012-2017.

**Fig.-1: India's Export Trend in Raw vs. Value-added leather products (1988-2016)**



Source: Trade map, ITC

While analysing India's export growth we observed that India has been growing at a lesser rate compared to the world growth in export supply. Over the period 2008-2016, the world supply has increased by 1.48% whereas India's leather export grew by 0.72% only over the same period. In the beginning of the liberalization era, India experienced a structural shift in the leather industry. It shifted from the export of mere raw hides to value added leather products. From figure1 we can observe that post 2002 there has been a sharp rise in the export of footwear. It surpassed the export of other leather products like saddlery and harness and articles of leather. However, post 2014, we observed that India's export of leather products has been declining sharply.

### India's Major Export Markets in Leather and Leather Based Products – Share and Growth (2013-17)

During the period (2013-17), India lost its share in some of its major export destination markets like Germany, France,

Italy, and UK especially in articles of leather (HS code-42). India has been losing its share of footwear (HS code-64) exports in markets like UK, France, Spain, Italy and Netherlands. *Instability in the European markets, presence of stiff competition from other developing countries, fall in overall world demand, escalating import tariff and rising environmental stringencies* are some of the factors behind India's declining export trend. India's needs to diversify its international leather markets and reduce its dependence on EU-focused markets in order to overcome the region's market specific vulnerabilities. (Desikan, 2017).

It is interesting to observe from table 2 the markets in which India has been losing its share, while China's performance in those markets is quite impressive. Especially in UK, across all product-categories China has been experiencing growth. China being a major competitor of India in the export destination markets of India.

**Table-2: Average Annual Growth Rate of India Vs. It's Competitor in Major Export Markets**

Product code	Major Export Destinations (% in total export of India)	Average annual growth rate (in %) of export value (2013-2017) of India	Average annual growth rate (in %) of export value (2013-2017) of China
Raw hides (41)	Hong Kong China (26), Italy (13), China (12), Vietnam (9.8)	Hong Kong China (-23), Italy (-16), China (-9), Vietnam (-2)	Hong Kong China (-1.75), Italy (-5.75), Vietnam (48)
Articles of Leather (42)	US (19.8), Germany (15.1), UK (10.6), Spain (8.8)	US (-2.25), Germany (-10), UK (-10), Spain (-2)	US (-0.75), Germany (-3.25), UK (2), Spain (0.75)
Footwear (64)	US (16.7), UK (15.5), Germany (11.8), France (5.9)	US (2), UK (-8), Germany (-6), France (-8)	US (-2.25), UK (6.75), Germany (-3.25), France (-4)

Source: Trade map, ITC

In the following section, we conduct a product-wise comparative analysis of India vs. China to examine India's global position in the world leather market relative to China. The selection of the product category has been done based on their high share and rank in India's total leather export to the

world market. The share of the product category and their rank in world exports is shown in Table 3. (At HS 4-digit level of disaggregation) for the year 2016. The product categories chosen are under:

- |                                       |  |
|---------------------------------------|--|
| a. Raw Leather (41):                  | i. Leather Further prepared after tanning (4107)                 |
| b. Articles of leather products (42): | i. Saddlery and harness for any animal (4201)                    |
|                                       | ii. Trunks, suitcases, vanity cases, executive-cases (4202)      |
|                                       | iii. Articles of apparel and clothing accessories (4203)         |
| c. Footwear (64):                     | i. Footwear with outer soles of rubber, plastics, leather (6403) |

**Table-3: Share and Rank of India's Top 4 Leather and Leather Product Exports**

Category	Product Description (HS codes)	Share in Total export of the category by India to world (2016)	India's Rank in the World Market (2016)
Raw Hides (41)	Leather Further prepared after tanning (4107)	63.30%	8th
Articles of leather products (42)	Saddlery and harness for any animal (4201)	6%	3rd
	Trunks, suitcases, vanity cases, executive-cases (4202)	53%	8th
	Articles of apparel and clothing accessories (4203)	37%	3rd
Footwear (64)	Footwear with outer soles of rubber, plastics, leather (6403)	68%	12th

Source: Trade map, ITC

## Results and Findings

In this section we analyse India's competitiveness in comparison with China in the world market of leather across different product categories defined at the four-digit level of harmonised code. We calculated revealed comparative advantage index thereby identifying potential products in which India has a comparative advantage (increasing value of the RCA index) in the world market.

### RCA Analysis of Leather and Leather Products: India vs. China

**Leather Further prepared after tanning (4107):** This product is used as a raw material for preparing leather based products. Table 4 shows that India and China together constitute approximately 7% of the total export of this product in the world market. Over the period 2012-2017, India's export share declined from 4.85% to 3.85%, while China's share grew from 2.43% to 4.18%. In the year 2012, China's position was below India in the world market. However, in 2017 China outpaced India and captured the sixth position in the world market by replacing India.

**Table-4: Trend in World Exports of (HS – 4107) in US\$ and Share in %: India vs. China**

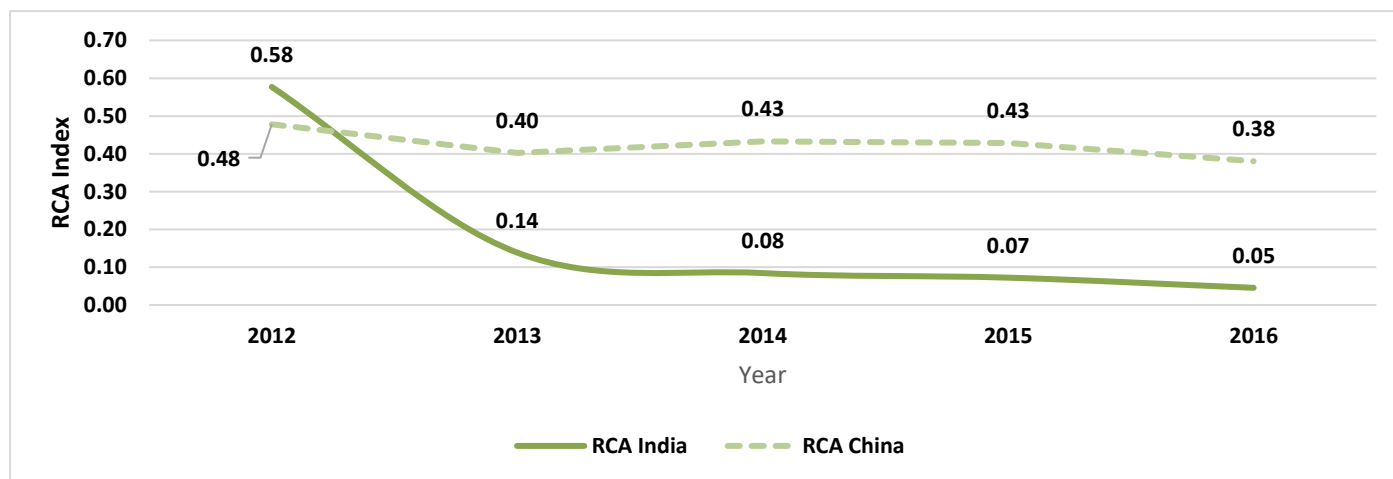
	2012		2013		2014		2015		2016		2017	
	Export value US\$ bn	Share (%)	Export value US\$ bn	Share (%)	Export value US\$ bn	Share (%)	Export value US\$ bn	Share (%)	Export value US\$ bn	Share (%)	Export value US\$ bn	Share (%)
World	12.21	100	13.55	100	14.39	100	12.56	100	11.52	100	11.12	100
China	0.30	2.43	0.33	2.40	0.38	2.62	0.47	3.74	0.47	4.06	0.47	4.18
India	0.59	4.85	0.83	6.15	0.89	6.17	0.71	5.64	0.58	5.00	0.43	3.85
Rest of the World	11.32	92.72	12.39	91.45	13.12	91.20	11.38	90.61	10.48	90.94	10.23	91.96

Source: Trade map, ITC

While analysing the trend in revealed comparative advantage, we observed from fig. no.2 that China's RCA is increasing stands at 0.38 while India's comparative advantage (0.05) has been steadily declining in the world market. One of the reasons can be attributed to China's price competitiveness.

The export price of China's tanned leather is 16733US\$/ton when compared to India's price of 17410 US\$/ton in the world market. The price difference of more than \$500 could be driving China's comparative advantage.

**Figure-2: RCA analysis of (HS – 4107): India vs. China**



Source: Trade map, ITC

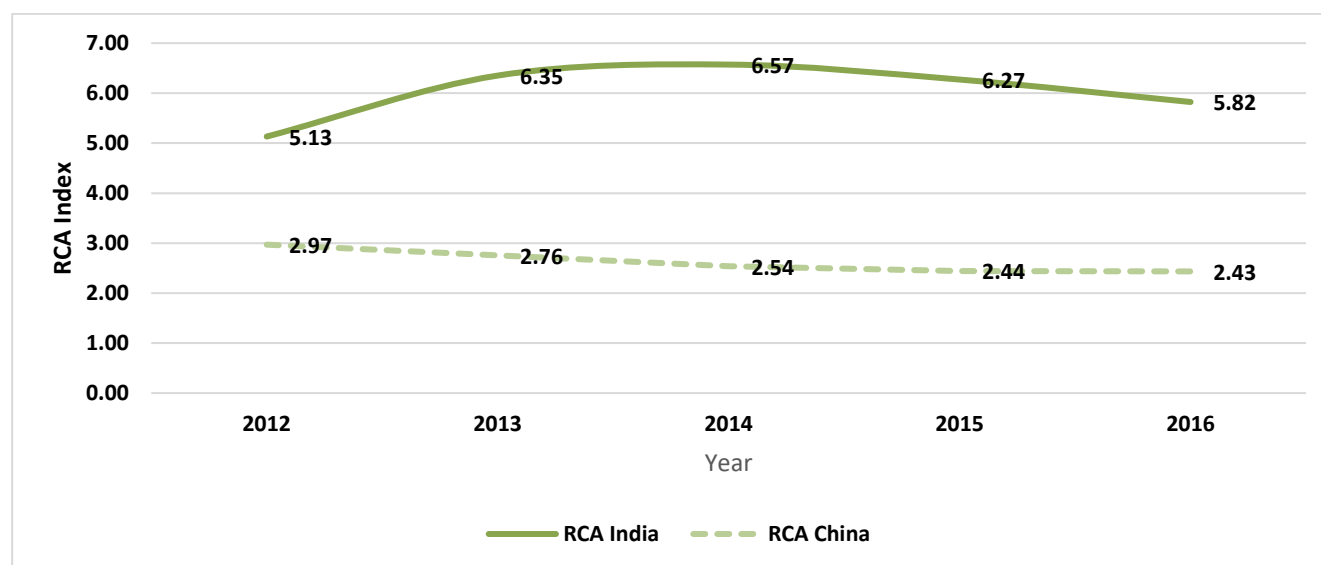
**Saddlery and harness for any animal (4201):** India and China together constitute more than 60% (table no.5) of the total world supply of saddlery and harness, with China being the dominant supplier in the world market. India ranks third in the world exports of saddlery and harness with an increasing trend in the export share. Despite being the largest supplier, fig no. 3 shows that China has a comparative disadvantage in the world market relative to India. China's export price

(10362US\$/ton) in the world market is lesser than India (11788US\$/ton). This indicates that it is not the price difference that dictates India's comparative advantage in the world market. It is the quality or brand that gives India an edge in the world market and it is one of the potential articles of leather in which India has a scope for improvement to become the leading exporter in the world (Exim Bank 2015).

**Table-5: Trend in World Exports of (HS – 4201) in US\$ and Share in %: India vs. China**

	2012		2013		2014		2015		2016		2017	
	Export value US\$	Share (%)	Export value US\$	Share (%)	Export value US\$	Share (%)	Export value US\$	Share (%)	Export value US\$	Share (%)	Export value US\$	Share (%)
World	1.21	100	1.30	100	1.43	100	1.40	100	1.44	100	1.57	100
China	0.42	43.51	0.44	45.70	0.47	49.10	0.49	51.40	0.48	50.44	0.56	59.02
India	0.10	10.63	0.15	16.05	0.16	17.25	0.15	15.37	0.14	14.97	0.11	11.99
Rest of the world	0.69	72.28	0.71	74.83	0.80	83.54	0.76	79.76	0.81	84.94	0.89	56.76

Source: Trade map, ITC

**Figure-3: RCA analysis of (HS – 4201): India vs. China**

Source: Trade map, ITC

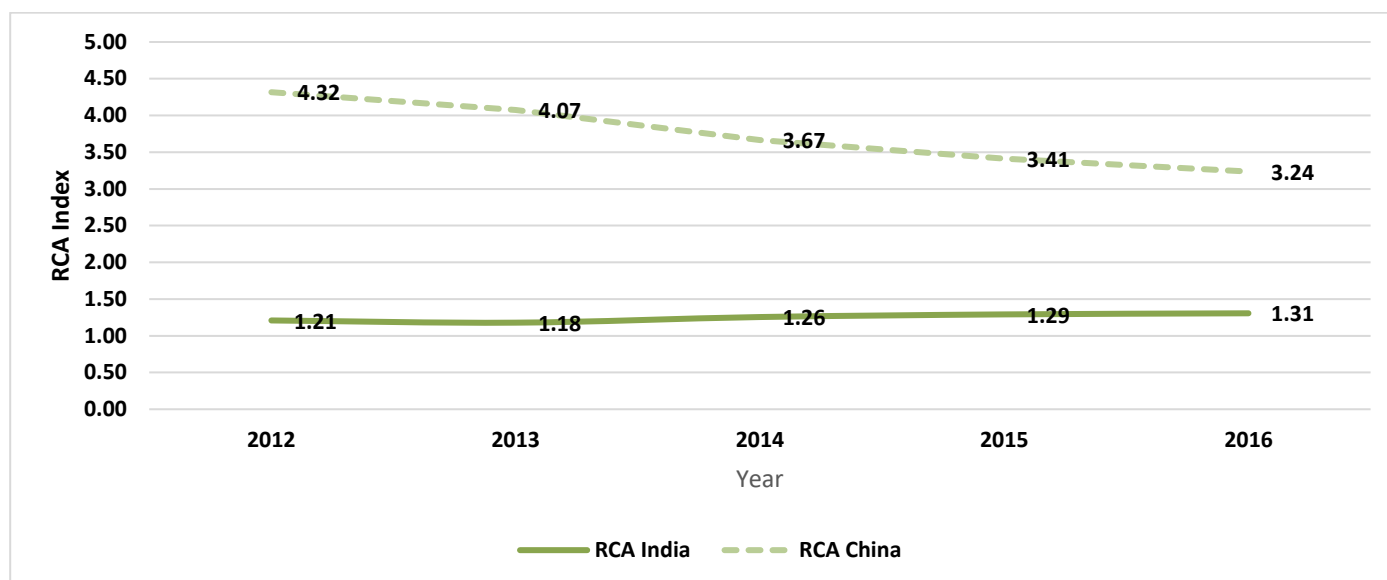
**Trunks, suitcases, vanity cases, executive-cases (4202):** India ranks 8<sup>th</sup> in the world exports of this product, and contributes only 2% of the total world export. In contrast to this, China who is a leader in the exports of this product occupies 41% of the world market share. India's share in this product remained stagnant around 1.5% over the past five years.

However, the table no. 6 reveals China's share dropping by about 4% between 2015 and 2017. The trend of the revealed comparative advantage graph of India vs. China shows a converging trend which indicates that India may have an advantage in this product category in future.

**Table-6: Trend in World Exports of (HS – 4202) in US\$ and Share in %: India vs. China**

Particulars	2012		2013		2014		2015		2016		2017	
	Export value US\$ bn	Share (%)	Export value US\$ bn	Share (%)	Export value US\$ bn	Share (%)	Export value US\$ bn	Share (%)	Export value US\$ bn	Share (%)	Export value US\$ bn	Share (%)
World	55.93	100	61.02	100	62.12	100	61.48	100	59.56	100	65.50	100
India	1.00	1.79	1.22	1.99	1.26	2.03	1.24	2.02	1.25	2.10	1.00	1.52
China	25.31	45.26	27.59	45.21	27.12	43.66	28.20	45.87	24.92	41.85	26.88	41.04
Rest of the World	29.61	52.95	32.22	52.80	33.74	54.31	32.04	52.11	33.39	56.06	37.62	57.44

Source: Trade map, ITC

**Figure-4: RCA analysis of (HS – 4202): India vs. China**

Source: Trade map, ITC

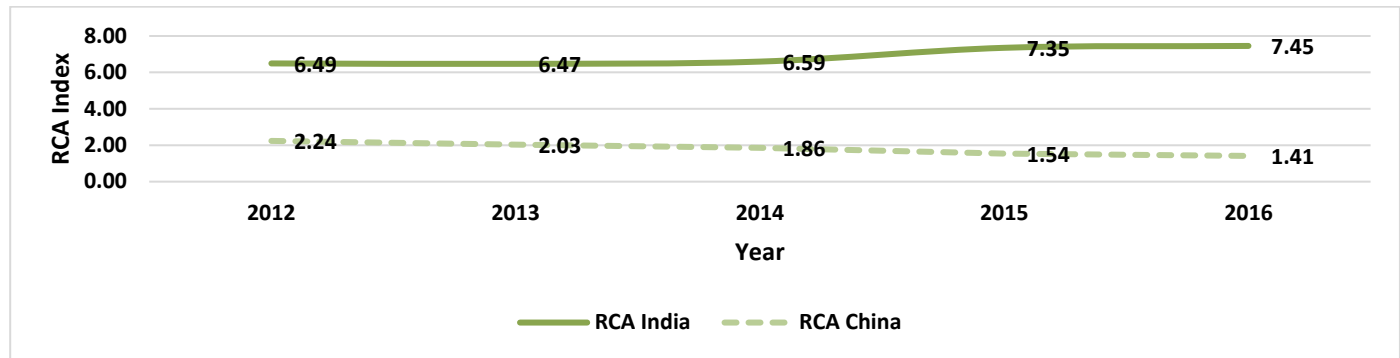
**Articles of apparel and clothing accessories (4203):** India and China together constitute more than 30% of the total world supply of articles of apparel and clothing accessories. With China in first position, India occupies the third position in the world market, preceded by Italy. From table no. 7 we can observe that India's share has been consistently increasing except for a slight drop in the year 2017. The fig. no. 5 shows that India has a revealed comparative advantage of (7.45) over China (1.41) in the world market. Despite China's lower export price (15,338US\$/ton) in the world market, India (21047US\$/ton) has an advantage. This indicates that quality of India's leather apparel in the world market has a unique

recognition. This is an outcome of the recent branding campaign organized by the Council of Leather Export (CLE) to promote India's brand of leather products in the global arena (Mathai 2017). Given the increasing comparative advantage India has the potential to capture the global market in this product. However, in the year 2017, India has experienced a sharp decline in export share over the period 2013-2017 in some of its major export destination markets like Germany (-4%) France (-3%) and Italy (-2%). Market specific vulnerabilities seem to affect India's export share in the world market in the year 2017. These vulnerabilities can be reduced by export market diversification

**Table-7: Trend in World Exports of (HS – 4203) in US\$ and Share in %: India vs. China**

Particulars	2012		2013		2014		2015		2016		2017	
	Export value US\$ bn	Share (%)	Export value US\$ bn	Share (%)	Export value US\$ bn	Share (%)	Export value US\$ bn	Share (%)	Export value US\$ bn	Share (%)	Export value US\$ bn	Share (%)
World Export	8.77	100	9.42	100	9.52	100	8.27	100	7.30	100	7.21	100
China	2.14	24.42	2.19	23.30	2.17	22.81	1.74	21.07	1.36	18.59	1.26	17.48
India	0.88	10.01	1.07	11.33	1.05	10.98	0.97	11.72	0.89	12.16	0.66	9.14
Rest of the World	5.75	65.56	6.16	65.37	6.30	66.21	5.55	67.20	5.05	69.24	5.29	73.38

Source: Trade map, ITC

**Figure-5: RCA analysis of (HS – 4203): India vs. China**

Source: Trade map, ITC

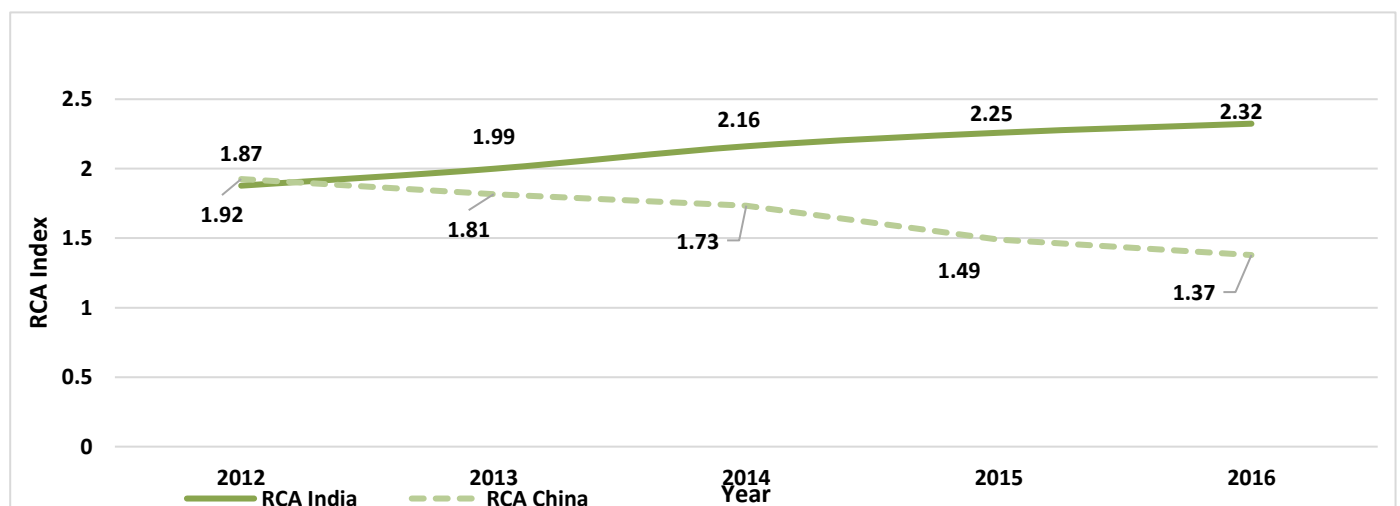
**Footwear with outer soles of rubber, plastics, leather (6403):** As seen in table no. 8, India and China together constitute more than 20% of the total world supply of footwear with a decreasing trend in China's export share. India's ranks twelve in the world market with an average export share of approximately 2.5 % over the period 2012-2017. Despite a stagnant export share over the period at 2%, India enjoys an increasing comparative advantage as evident from the fig. no. 6 relative to China in the world market. China is the leader in the

world market of leather footwear with an export price of 16883US\$/ton which is much lesser than that of India (52439US\$). The price difference of more than 35,000 US\$/ton is a not the factor that is driving India's competitive advantage in the world market compared to China. The revolution in footwear designing in India, is giving the sector an edge in the world market with a high potential of export earnings in future (Basheer 2014).

**Table-8: Trend in World Exports of (HS – 6403) in US\$ and Share in %: India vs. China**

	2012		2013		2014		2015		2016		2017	
	Export Value US\$ bn	Share (%)	Export Value US\$ bn	Share (%)	Export Value US\$ bn	Share (%)	Export Value US\$ bn	Share (%)	Export Value US\$ bn	Share (%)	Export Value US\$ Bn	Share (%)
World Export	50.99	100	55.31	100	58.38	100	52.23	100	48.77	100	52.02	100
China	10.82	21.22	11.71	21.18	12.58	21.55	10.91	20.89	9.01	18.48	9.05	17.40
India	1.49	2.93	1.96	3.55	2.13	3.64	1.92	3.68	1.89	3.87	1.40	2.69
Rest of the World	38.68	75.85	41.63	75.27	43.67	74.80	39.39	75.43	37.87	77.65	41.57	79.91

Source: Trade map, ITC

**Figure-6: RCA Analysis of (HS-6403): India vs. China**

Source: Trade map, ITC

Thus, from the above analysis, India has a comparative advantage in four out of five product categories examined despite the share in exports being lower than China. The categories include articles of leather and footwear thereby indicating India's potential in value added leather products. This suggests that Indian leather exporters need to harness the potential India commands in the world market by means of maintaining high quality standards, better branding and innovative designs which are prominent factors that can lead to increasing global market share.

### Overcoming India's Domestic Leather Industry Challenges

While analysing the characteristics of the Indian organised leather manufacturing industry, we observed that in the post global crisis scenario the production of leather has been adversely affected. Despite characterized by high potential of employment, there has been a negative growth in the number of workers employed in the leather sector of India. We can observe from the table no. 8 below that capital formation within the sector has been inadequate even before the global crisis. This indicates that lack of advanced machinery in the leather sector which adversely affects the productivity of the sector. However, we observed that the labor productivity of the sector is increasing. The table no. 9 reveals that the real wage and salaries of the sector has improved significantly. This indicates the share of skilled workers must have increased. The rising trend in labour productivity can be explained by the skill up gradation of the sector. Recently, there has been improvement in the investment of the leather sector especially with the Make in India initiatives of the Government of India (GoI). The GoI has allowed 100% FDI into the sector. Moreover, under the Make in India scheme several programmes have been initiated to upgrade the skill of the leather sector. More than Rs. One crore has been invested for building new campuses of Footwear Design and Development Institute (FDDI) training institutes in Gujarat and Haryana.

**Table-9: India's Domestic Leather Industry Characteristics**

Particulars	1989-1998	1998-2007	2007-2015
Growth in Gross Value of Output (%)	0.38	0.49	0.38
Growth in Employment (%)	0.81	0.72	0.57
Growth in capital formation (%)	0.60	0.45	0.44
Growth in real wages (%)	0.81	0.16	0.48

Source: Annual Survey of Industries, EPW research foundation time series database (data available till 2014-15)

### Limitations of the Study

The present study analyses India's leather and leather based products for three prominent categories at the 2-digit HS Code

and five product categories at 4-digit HS Code. The present study has compared India's comparative advantage with the global leader, China. However, there is further in-depth analysis that can be done keeping in mind emerging markets growth in exports and analysing the reason for their growing share, the product categories and markets that are explored by them. This can help reveal areas of potential which India can leverage as leather exports has been one of the most important sectors in India's manufacturing base.

### Conclusion and Recommendations

Leather is one of the traditional sectors in India which has undergone significant structural changes in the post liberalisation era from a mere exporter of raw leather to value-added leather products. However, in the post global crisis era the export growth of the sector remained stagnant at 2% level. This entails detailed examination of the export trend of the sector and thereby identifying possible factors behind this trend. While analysing the major export market destinations of India, we observed that over the past five years India has been losing its share significantly in the European markets. The instability in the European market and escalation of the environmental standards are some of the major causes behind India's loss in export share. This also indicates that India's export of leather is highly concentrated in specific markets. To reduce the market specific vulnerabilities India should diversify its leather exports to new markets.

We observed that China is one of the major competitors of India in the international market in leather products. We examined product-specific comparative advantage of India vs. China in the world market. We observed that there are some products in which India's absolute share is lower compared to China but the former has a competitive advantage in the world market. Some of the potential products of India where there is a potential to further diversify and capture a significant share in the world market owing to its competitive advantage are articles of apparel and clothing and footwear. Despite having competitive advantage, the sector is also subject to certain challenges pertaining to the domestic industrial characteristics. While analysing the characteristics of the domestic production we observed that despite improvement in skill formation (as evident from rising real wages), the sector has registered a declining trend in the capital formation. This indicates usage of obsolete technology which leads to the noncompliance with the environmental standards of the developed nations. Moreover, the employment generation of the sector also shows a decreasing trend. It is true that Government of India has taken several initiatives to upgrade the training and designing institutes of footwear and leather products but it is also necessary to improve the employment capacity of the sector. This will directly have a scale effect on the domestic production of the sector which in turn will help India to expand its export across different international markets thereby reducing its market-specific vulnerabilities.

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