

Current Trends and Identification of Critical Factors that are Hindrance in the Progress of Leather Industry in Pakistan

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Abstract

Pakistan is losing its share in international market as compare to regional countries in leather sector due to high cost of production. It is declining from 1.2 Billion dollar to 900 Million. But still it is showing some positivity as because the 900 Million earned in 9 months. (Rana, 2016) Chairman Gulzar Feroz mentioned that the export of leather jackets declined by 19%, gloves by 16.5%, footwear by 31% during the first five months of 2015-16 and leather industry contributes 2.6% to GDP and only 5% to country's total exports and providing jobs over one million skilled and semi-skilled workers. Pakistan's share is 0.5% in world market for leather and leather products in inconsequential as compared to China's 19%, Italy 9%, Vietnam 4% and India 2.5%. Furthermore, a decline of 20.5% has been observed in the recent export figures. Gulzar Feroz said "The industry imports raw skin and leather, it has to pay 3% custom duty, in the past duty was at 1% then increased to 2%". The country produces best quality of raw material (raw skin and leather) of cow, buffalo, goat and sheep, but stocks, were not increasing due to very slow or stagnant growth in livestock. Currently, tanners are operating under-capacity and had to imports raw material. Pakistan imports raw material and related products from the developing countries and exports value added products to developed countries like USA and Germany. (Rafiq, 2015) Raw leather is imported from Saudi Arabia, China, Kenya, Sudan and Tanzania. To meet the need of 2.5% of their total demand. Whereas, it is highly recommended that the import duty on leather raw-material must be exempted, once the raw-material has been value added and exported again. Made in Pakistan 'label', Supply of Gas, diversification in leather portfolio, trainings to have well trained labor should be provided timely, fully equipped laboratories; the availability of flaying machines possibilities must be covered up and identification of potential markets and the role of Government in the war against terror are the few highlighted recommendations.

Keywords: Leather, Raw Material, Leather Products, Hides and Skin

1. Introduction

Pakistan's leather industry mostly related to the exports as 90 percent of the leather produced in country exported abroad, either in the form of finished leather and leather products. This sector has developed well overtime. The policy adopted by the Government consequently impact this industry more badly and losing the foreign exchange. 12 percent rise is recorded in leather exports during July 2013 to April 2014 in Pakistan but, there is a consistently downward trend in Pakistan as compare to India, China and Bangladesh.

Provisions of leather majorly rely upon the number of livestock in the country. Luckily Pakistan has sufficient quantity of livestock, although there was a stagnant and less growth in the year of 2010, because of floods and smuggling. Good quality raw hides and low wages providing Pakistan a competitive edge in global market of skins. Cow hides, buffalo hides, goat skins and sheep skins

are the basic raw material sources for leather industry. The skin of young animal always better than the elder animal, it may be goat, sheep, calf, cow, buffalo.

This paper has some portions that belong to the structure and current export trends of the leather industry. Whereas, problems of this industry has been identified along with the Governments initiatives that has been adopted, on the basis of this the recommendations and conclusion have been drawn.

1.1 Structure and Trends

Pakistan is famous for high quality and wide range of finished leather, garments; sports jackets and gloves; working and industrial. However Pakistan's contribution of leather goods; Suitcases, Hand Bags, Purses, Belts, key chains and footwear does not possesses greater demand in international market, it is just because of two main reasons that the sub sector is less developed and the

other, local market is demand oriented. Leather garments ranked highest among exports of leather industry in Pakistan, this sector constituting 52.9 percent of total value of leather export. Whereas, finished leather constituting 35.8 percent of total export earnings.

According to Trade Development Authority Pakistan is at 21st position in world markets of finished leather, with 0.99% contribution. Further segregation of Leather industry possesses the following sub-sectors with their percentages share in world market. Raw Hides and Skin 1.12%, Leather Gloves 10.76%, Leather Garments 6.17%, Leather Footwear 0.28% and Leather Goods 0.21%. Share of total exports of leather from Pakistan, countries like China, USA, U.K, Germany and Italy are importing leather and leather products with the respective share of 7.1%, 10.69%, 7.35%, 9.33% and 6.54% respectively.

1.2 Government Policies

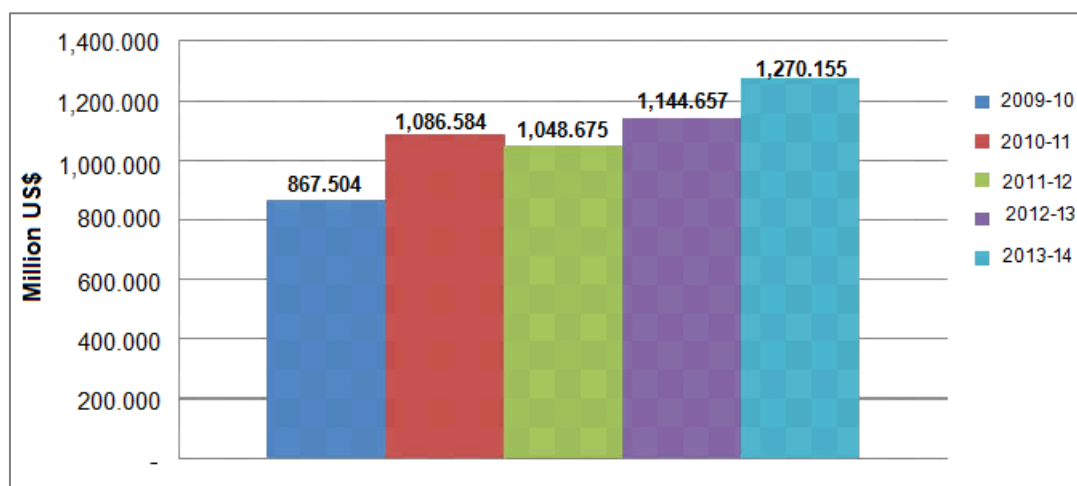
Government has announced various steps to re-arise the leather industry, which includes.

- Establishment of research and development centers in Karachi and Sialkot.
- Leather Sector would be able to avail EIS Fund facilities.
- Mark-up support of 2% on prevailing Long Term Financing Facility for future import/purchase of machinery.
- Establishment of Leather Export Promotion Council and import of accessories for Leather Garments Industry is 2%.

Table 1: Export Figures for Leather and Leather Products (2005-06 to 2009-10)

S/No.	Commodities	Unit QTY	July-June 2005-2006		July-June 2006-2007		July-June 2007-2008		July-June 2008-2009		July-June 2009-2010	
			Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
01.	Leather Tanned A.U.P per Sq.M	'000' SQM	17,376	292,395 16.83	19,225	356,884 18.56	24,257	415,263 17.12	19,532	299,494 15.33	24,335	341,800 14.05
02.	Apparel & Clothing of Leather A.U.P per Pcs.	'000' Pcs.	12,576	501,787 39.90	10,176	388,115 38.14	13,452	528,154 39.26	10,596	392,536 37.05	10,620	342,659 32.27
03.	Leather Gloves A.U.P per Pair	'000' Pairs	26,976	151,461 5.61	23,604	132,589 5.62	25,548	161,169 6.31	25,980	152,258 5.86	20,976	101,893 4.86
04.	Leather Footwear A.U.P per Pair	'000' Pairs	11,587	114,688 9.90	9,979	97,089 9.73	9,809	105,358 10.74	9,584	102,884 10.73	6,405	67,072 10.47
05.	Leather Manufactures N.S. A.U.P per Kg	'000' 'Kgs'	2,853	69,307 24.29	1,360	33,477 24.62	521	10,177 19.53	576	11,974 20.79	703	14,080 20.03
TOTAL :				1,129,638		1,008,154		1,220,121		959,146		867,504

Source: Federal Bureau of Statistics



Source: Pakistan Bureau of Statistics

Figure 1: Export Figures for Leather and Leather products 2009-2010 to 2013-2014

Table 2: Export Figures for Leather and Leather Products (July-March 2014-15 to July-March 2015-16)

Commodities	Unit	July-March 2014-15		July-March 2015-16		% Change	
		QTY	VALUE	QTY	VALUE	QTY	VALUE
Leather	'000' SQM	16,284	367,010	12,064	267,354	-25.92%	-27.15%
	AUP/Sq.M		22.54		22.16		-1.67%
Leather apparel & clothing	'000' DOZ	747	282,065	637	242,749	-14.73%	-13.94%
	AUP/Pcs		31.47		31.76		0.92%
Leather gloves	'000' DOZ	5,567	168,203	3,748	141,012	-32.67%	-16.17%
	AUP/Pair		5.04		6.27		24.52%
Leather footwear	'000' Pairs	5,299	84,527	4,605	64,656	-13.10%	-23.51%
	AUP/Pair		15.95		14.04		-11.98%
Other leather manufactures	'000' KGS	812	10,517		9,490		-9.77%
	AUP/Kg		12.95				
Total :			912,322		725,261		-20.50%

Source: Pakistan Bureau of Statistics, Note: Export figures for the months from February to March'2016 are Provisional

In the year 2005-06 the export value of leather industry was 1,129,638,000/- which was decreased by 100,000/- in 2006-07. The year 2007-2008 was very good year for Pakistan leather industry because the export value was 1,220,121,000/-. Irrespective of this year the time period of 2008 to 2010 was a very bad patch for leather industry, because there was a continuous decreasing trend in export of leather.

After 2010 and till the end of 2014 there is a positive sign for leather industry in Pakistan. As because, the year 2014 showed high progress and export value amounting to 1,270,155,000/- which was the highest among all the ten years. On the other hand raw material of leather sector (animals) is increasing in last 10 years but at a slow growth rate, which is becoming the one of the hurdle and compelling the manufacturers to import from other countries.

Recently If we compare, 2014-15 and 2015-16, we will come to know that the closing of 2015 and starting of 2016 is not beneficial for the overall Leather industry, there is a negative change in quantity of leather as well as the value of exports falls. And a decline of 20.5% has been observed.

2. Literature Review

Review of the available studies on exports of leather in revealed that limited literature is available which portray the effect of major factors affecting leather exports in Pakistan. There is however some relevant literature from other countries is discussed too

(Siddique, 2001) Stated that the leather and leather products industry was mainly located at Karachi, Gujranwala, Multan, Peshawar, Lahore, Kasur and Sialkot. The major clusters of leather products were located at Korangi, Sialkot, Lahore and Kasur. There were 784 units, 461 leather garments manufacturing units, 348 gloves manufacturing units and over 524 footwear

manufacturing units in the country. The leather sector was mainly an export oriented sector of our country. The major countries to which Pakistan was exported leather and leather Products were Italy, Portugal, Germany, France, USA, Dubai and Singapore etc. The leather sector during the last decade had shown remarkable progress in exports of value added products.

(Ghafoor, Aslam, & Rasool, Determinants of Leather Goods Exports a Case of Pakistan, 2012) explained the impact of major determinants of exports performances of leather goods from Pakistan, this needs the sustainable supply of raw material and the quality of product must be according to the requirement of international market, supply of electricity at fair rates would help in the betterment of this industry in Pakistan, whereas, Punjab is exporting 90 percent of total leather exports to other countries in Pakistan.

(Ghafoor & Zafar, Determinants of Leather Exports from Pakistan a Time Series Analysis, 2014) this study actually investigates the factors affecting the performance of leather industry and the most critical factor found is the exchange rate that has negative affect on export of value added goods, therefore, a one percent increase in exchange rate will decrease the finished leather to 5.2 percent in long run.

(Massood, 2009) Has stated some remedies as how a revival can be caused in leather industry of Pakistan, a sustainable supply of raw material, establishment of modern manufacturing facilities and promotion of leather exports in the international market can help in the betterment of Leather Industry.

(Saif, 2012) Explained that Pakistan has a comparative advantage over India in the fields of Leather Gloves, Garments and Finished Leather products whereas, India has a comparative advantage over Pakistan in leather goods for industrial and consumer use. Leather footwear is the sector where both countries have no advantage

over each other. On the other hand, India has modernism in slaughter house, whereas in Pakistan 20 to 25 percent hides and skins are getting affected by cuts on them, because of unskilled labor and old techniques are still being used in slaughter houses.

(UNIDO, 2010) Depicts that the leather is the most traded commodity in the world with 100 Billion U.S. Dollars per year. Increased cost in China have created opportunities for the rest of Asian countries like, Bangladesh, India, Indonesia, Viet Naam, As the population of world increasing and the demand for raw material of leather hides and skin automatically going upward, the importance of the hides of camel, deer and Kangaroo will go ahead in the few next years.

(Kausar, 2013) China, Hong Kong, France and Italy have captured larger share of Leather and Leather products in the International market and USA, Japan and France are the larger consumers of Leather garments. Whereas in Pakistan this sector contributing 5 percent to GDP and 7 percent to total exports. But the outdated infrastructure, high tariffs and custom issues are the main obstacles in Pakistan. Involvement of government is needed, if the progress of Leather industry is required.

3. Methodology

3.1 Research Strategy

Qualitative approach has been adopted to understand the people's perception regarding the downfall of leather industry and to identify the most critical factors that are creating obstacles in the progress of leather industry; a tools of Interviews and back ground of leather industry has been studied, which are based on professionals opinion as well.

On the basis of study and data collected through interviews, the most critical problems highlighted and their recommendations have been given accordingly, which is followed by a brief conclusion of leather industry.

3.2 Problems of Leather Industry

Under discussed are the factors which had great impact on the growth of leather industry of Pakistan.

3.2.1 Energy Crisis

An energy crisis has hit Pakistan with a lot of troubles not to this sector particularly, but to other industry as well.

3.2.2 Animal Trading

Smuggling of animals to Afghanistan and Iran creating shortages, in the leather industry for raw material as the hides and skin are used for the leather.

3.2.3 Floods

Floods are kept on hitting Pakistan since 2007 to 2011 in the different areas of Punjab, Baluchistan and Sindh.

3.2.4 Taxes and utility charges

Pakistani producers facing high costs of production as because of different taxes and utility charges that are being charged on Imports and exports of leather and leather products. This is the main reason why Pakistan is un-competitive internationally, with China, India and Bangladesh.

3.2.5 Export of Quality Hides

Pakistan Tanner Association believes that the shortage of leather garments and products is created by the export of good quality skin and hides, because once you are exporting your quality raw material you can't produce value added product to that level.

3.2.6 Establishment of Effluent Plants

Small scale tanneries operating in Pakistan can't establish effluent plant, but this is required by international buyers to maintain the quality standards, it is one of the vital important concerns.

3.3 Recommendation for the Betterment of Leather Industry

3.3.1 Fiscal Recommendations

3.3.1.1 Taxes

Low level of Taxes.

3.3.1.2 Subsidies

Subsidies always were the sign of increase exports.

3.3.1.3 Low Variation in Raw Material Rates

Raw Material rates must be of minimum variation else they should be constant.

3.3.1.4 Duties applied to Imported Machinery

Inefficient Local machinery should be replaced with modern and latest machinery but with the fewer amounts of duties applied to them.

3.3.1.5 Duties applied to leather product

Imported leather product samples must be excluded from duties.

3.3.2 New Trends to Adopt

3.3.2.1 Footwear Concerns

Footwear is one of the main product of leather, Pakistani leather industrialists must try to get partnership with

international brands, so that the export of leather footwear will generate more revenue overall at leather industry.

3.3.2.2 Explore New Markets

Potential local exporters who want to extend their market must get some help by Pakistan Government.

3.3.2.3 Exhibitions on international Level

Government of Pakistan can play a vital role in the enhancement of leather exports by conducting exhibitions at international level about Pakistani leather garments and leather products.

3.3.2.4 Official delegations

For the betterment of Leather industry, it is recommended that an official delegation must be sent abroad time to time, to disseminate the leather products of country

3.3.3 Technological Recommendations

3.3.3.1 Training to Workers

Small cuts on hides and skin can become the reason of low quality leather products; therefore, the labor should be given training.

3.3.3.2 Well Equipped Laboratories

Well-equipped laboratories are always been the sign of positivity, this would help in excelling in the new research and development field for leather industry.

3.3.4 Economic Recommendations

3.3.4.1 Diversification in the leather portfolio

Diversification in the leather portfolio will help to meet the vast range of global customers. This would prove beneficial in providing the leather products with different designs and shapes.

3.3.5 Policy Recommendations

3.3.5.1 Energy Crisis

Increase in cost of production is being caused by the energy crises, because of that Pakistan is losing her share at international level. Therefore, Government of Pakistan should resolve the energy crisis as soon as possible, even on priority basis.

3.3.5.2 Supply of Gas

During winter season, the supply of gas has been observed shut. Leather production requires a consecutive gas supply throughout the year. Therefore, this problem should be demolished and supply of gas should be done on priority basis.

3.3.5.3 "Made-in Pakistan" labels

There are lots of Pakistani products that are selling under the different manufacturer's name, steps to be taken to sell those items under the name of Pakistan.

4. Comments and Conclusion

The leather industry apparently is working under capacity in Pakistan because of some hurdles in the way of progress these hurdles include Energy Crisis smuggling of animals in neighbor countries, Floods in rainy season, high rates and different types of Taxes and utility charges, Export of Quality Hides abroad; which creates the shortage, high Cost of Production, Shortage of latest machines in slaughter houses and Establishment of Effluent Plants. Because of these problems this sector is facing a decline from 1.2 Billion export figure to 725 Million dollar exports. Along with this the present scenario depicts the export of leather jacket, gloves and footwear declined by 19%, 16.5% and 31% in the first five months of 2015-16, whereas, now it is contributing 2.6% to GDP and only 5% to total exports. Pakistan's share is 0.5% in world market for leather and leather products which is insignificant as compared to the neighbor countries, furthermore, a decline of 20.5% has been observed in the recent export figures.

To regain the lost share in the world's market is possible by adopting the low rates of taxes, greater rate of subsidies, low variation in raw material rates, duty free or least duties could be applied to imported machinery, pay attention to the footwear industry of leather, explore new markets in the world, training to workers must be given for proper working, smuggling should be taken care of. Once the well-equipped laboratories developed the leather industry would rise again, but the main attention should be paid towards the energy crises and livestock diseases as they ruined the beginning of leather. This would definitely help in getting back the lost share; that has been captured by the neighbor countries, once again.

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