

Problems faced by leather sector in pakistan economics essay



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Leather industry, including leather products, is the second largest export-earning sector after textiles. Currently, this sector is contributing around \$800 million a year but has the potential to multiply volume of exports with the improvement of quality and diversification in different range of products, specially garments and footwear. The exports are also carried out in un-tanned raw leather due to the quality and amount of livestock available in Pakistan.

It is a job-oriented sector providing employment to a very large segment of the society besides earning foreign exchange for the country. The leather finishing and made ups industries represent an important sector in Pakistan, contributing almost more than half a billion US dollars in foreign exchange earnings to the national exchequer. The leather industry consists of six sub-sectors namely, tanning, leather, footwear, leather garments, leather gloves, leather shoe uppers, and leather Goods. The Tanning industry plays a vital role in the progress of these sub-sectors by providing the basic material i. e. leather. Today, Pakistanis, are among the leading countries in the production of Leather Garments and Gloves. The leather and leather made-ups industry plays a significant role in the economy of Pakistan and its share in GDP is 4%. Ten years ago, it was the fifth most important export industry in the manufacturing sector, and now it is the second. (Leather analysis report leather mag, 2009)

At the time of independence there were only a few tanneries producing sole leather and that too at a very small scale. However, since then this industry has been flourishing. During 1950s, some well-equipped tanneries were set up at Karachi and Lahore, while during 60s and 70s more units were

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established at Hyderabad Kasur, Sialkot, Multan, Sahiwal and Gujranwala.

Starting with the production of picked and vegetable tanned hides and skins, the tanneries, today, are producing not only wet blue and crust, but also fully finished leather.

The entire production of hides and skins were being exported in a raw form.

Thereafter the local tanning industry making at first semi-finished leather made rapid progress due to favorable raw material situation, cheap labor and the existence of growing demand and foreign market.

Problems Faced By Leather Sector in Pakistan

Challenges and Issues

Leather and leather garment industry of Pakistan is confronted with various challenges to survive in international market such as:

Absence of advanced technology, shortage of human power

Absence of high tech quality products and the shortage of skilled manpower to cater to the needs of the world market. There is a growing need to prepare labor force having capacity to produce leather garments on scientific lines and comply with the demands of international market to compete.

High Cost of production

Cost of production is also very high in Pakistan as compared to competitors like China and India. The high cost of various inputs, especially utilities and taxes make Pakistan's products - finished and unfinished - uncompetitive in international market and with no subsidy provided by the government, it just adds to the hurdle.

Environmental Impacts of leather industries in Pakistan

Leather tanning tends to be very polluting as compared to other manufacturing industries. Numerous measures are suggested to take care of the environmental hazard it causes but it is not implemented due to lack of funds. At every unit of output, the level of toxicity is high due to the heavy hides-leather converting process.

Chrome issue

Chromium III salts are used extensively in the tanning process.

Approximately 90% of the leather manufactured is tanned using chromium III, but misconception and ignorant decision makers, end up using chromium VI which is quite contrary to Chromium III

Relocation of industries:

Local leather industry may have to face stiff competition in the WTO scenario as export prices can reduce significantly due to relocation of industry from the developed countries to Asia. The leather industry is the second largest export industry of the country. During the last fiscal year, leather exports stood at \$744 million, exceeding the annual target of \$715 million set by the Export Promotion Bureau, (EPB) (Gulf News Focus, 2007)

Flood impact:

Tanveer Sher in his article in Daily Times on 25 August, 2010 said that because the livestock took a massive hit in the devastating 2010 floods in different provinces, the leather industry was sure to bear the brunt.

The huge devastations unfolded by the massive floods are feared to take leather industry worth one billion dollars in their lap, BNA reported Monday in Times of Pakistan. Pakistan Leather Garments Manufacturers And Exporters Association's Chairman Chaudhry Zulfiqar said a huge number of livestock were destroyed by the flooding, to the effect that hides acquisition would drop by 15 to 20 percent. This would lead a 30 percent slump in exports. Zulfiqar Chaudhry said the already expensive leather products would soar higher beyond people's purchasing power. (The times of Pakistan Monday, August 23, 2010)

Government Policies Regarding Leather Export

Government revised its trade policy for the leather sector from 2009 - 2012, to stem the decline in leather exports. Federal minister for commerce announced these steps, on July 26, 2009:

Facilities from Export Investment Support (EIS) Fund for procurement of expert advisory services, matching grant to establish design studios/centers and establishment of research and development centers in Karachi and Sialkot.

In addition, this sector would be able to avail EIS Fund facilities that include sharing 25 per cent financial cost of setting up laboratories and matching grant for setting up of effluent treatment plants.

To ensure predictability of electricity supply, commerce minister said, the ministry of water and power and electricity distribution companies will enter into agreements with cluster of industries whereby electricity will be supplied at mutually agreed times. The 15 agreements would have punitive and <https://assignbuster.com/problems-faced-by-leather-sector-in-pakistan-economics-essay/>

compensation clauses and the compensation could be in the form of electricity charges credit.

The following reactions arose to the policies adopted:

Chairman, leather exporters association, commended the government decision to release funds for hiring experts for research and product development. He said, this will considerably help in improving exports. However, the target of six per cent increase in exports this year is low as the country has much more potential and the government should have aimed for a higher target.

Chairman tanners association, termed the new trade policy to be “hopeless for the leather sector.” He said: our foremost demand was to provide rebate on exports, which other regional countries enjoy, for instance most of our regional countries get up to 15 per cent rebate on all leather product exports. What we get is less than one per cent rebate from the government.”

“There is an immediate need for establishment of a Leather Board in Pakistan which should operate as an independent body and funded by the government from export development fund. A person exporting value-added leather products should head the board.

Leather Export Associations of Pakistan

There is no specific association that looks after overall leather sector, except for SMEDA, the Small and Medium Enterprise Development Association, which focuses on developing more industries, but has its hands tied due to

lack of funds. The most prominent association is PLGMEA (Pakistan Leather Garments Manufacturers and Exporter's Association).

The following are the active associations catering to different parts of the leather industry in Pakistan.

A. E. S. I. L. T.

Anjuman Ex-Students of I. L. T., Gujranwala,

A. S. A. I. F.

Asian sports and allied industries federation

FPCCI

Federation Pakistan Chambers of Commerce and Industry

LIDO

Leather Industry Development Organization Ministry of Industries and Production (Industries WING)

Pakistan Footwear Manufacturers Association

Pakistan Tanners Association (Indian Leather Portal)

World Trade Organization's Role

There was a case concerning Pakistan's export measures affecting hides and skins on 7 November 1997, in which the European Communities (EC) were the complainant. Hence, EC requested consultation with Pakistan at the WTO regarding their decision to prohibit the export of hides and skins. This case, although old, highlights the role of WTO in Pakistan and the involvement in the exports and imports of commodities to and from Pakistan.

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Under the WTO regime, member countries can impose penalties or restrict imports from exporting countries whose industries do not observe environmental/labor concerns or social compliance, thus signifying their role in Pakistan's exports in not only Pakistan's exports not only in the leather sector but overall exports.

WTO also ensure protection of trade rights as per the agreement on trade related aspects of intellectual property rights (TRIPS) of WTO, Pakistan through Trade Marks Ordinance, 2001, provides effective protection and rights to the owner of trade marks.

As WTO sets standards regarding labor and other issues, hence the industry needs to tackle all the labor issues to which the consumers in the importing countries are sensitive to. It needs to be ensured that the leather industry in Pakistan adheres to the working condition requirements that have been developed by certain international bodies, particularly, the associations of leather industries in the importing countries of the west. (iin. com. pk)

Export History of Leather Sector

The years considered in the report are 2005 – 2009.(SBP Export Receipts)

Analysis of Export History 2005-2009

Leather export in 2009 witnessed a drop of 20%, which was expected to rise to 25% by the end of the fiscal year. It was because the leather sector needed an immediate rescue package from the government and was facing a capital crisis. Another major reason for the fall in export was because the

transport prices had risen, which was an indicator of further shut down of industries (Chinese Leather, 2010).

Industry leaders say that leather sector`s exports have suffered partly due to a lower demand amid global recession and partly because leather industries in China, India and Bangladesh have become more competitive on the back of incentives. Leather garments exporters in China, for example, receive 13-15 per cent duty drawback while their Pakistani counterparts get 2.4 per cent.

For past many years, leather industries have been importing finished leather to supplement local purchases. According to a recent report of International Trade Organization-an affiliate of the UN and WTO-Pakistan spent \$76 million in 2006 on imports of animals` hides and skins.

“ So there is a strong case for developing livestock sector and improving the system for collecting, preserving and finishing hides and skins as raw materials for leather industry,” an official commented

Makers of leather products say since Vietnam`s export of footwear to the US has become duty free this too is hurting Pakistan. To take advantage of this, many Chinese leather industries have relocated into Vietnam. “ This has made it even more difficult for us to compete with Vietnam, as Vietnam is exporting very cheap footwear to the US taking advantage of the economies of scale introduced by Chinese companies,” says Sheikh Javed Ilyas, a former chairman of Pakistan China Business Council. Since Vietnam is part of ASEAN and its exports to ASEAN countries are tariff-free, this also frustrates

Pakistan`s attempts to penetrate into ASEAN markets.

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Moreover, from Yiwu city in Chinese province of Zhejiang, containers of cheap footwear are dumped daily into Pakistani market and that too hurts our footwear industry. This has compelled manufacturers of joggers and at least one producer of a leading brand of sleepers to outsource production to Yiwu and take advantage of the low cost of doing business there. (Dawn Archives e-paper, 2009)

The Ministry of Industries has funded a study to help the Pakistan leather garment exports to reach \$5 billion by the year. Pakistan's leather exports witnessed a decline of 29 per cent in the fiscal year 2008-09, after a decade of constant growth. The sharp decline in the exports of highly value added and labor intensive leather sector, which is Pakistan's second top foreign exchange earner after textiles and employs some 500, 000 workers, is a matter of serious concern, calling for immediate remedial steps to improve the industry.

Before 2008-09, the country's leather sector has been witnessing an upsurge in its export earnings, which increased from \$271 million in fiscal year 1990-91 to \$349 million in 1994-95, to \$643 million in 1996-97, to \$938 million in 2004-05 and to \$943. 788 million last year.

Meanwhile, the export of leather garments moved from \$736 million in fiscal year 1996-97 to \$1, 088 million in 2004-05. Although the total export earnings of the leather sector increased till 2007-08, the percentage share of this sector in the total exports of Pakistan has decreased from 10. 41 per cent in 1989-90 to 7. 73 per cent in 1996-97, to about 7 per cent in 2007-08,

and to 5.33 per cent last year. In the global leather trade of \$98 billion, Pakistan's share accounted for 1.29 per cent.

The export dropped from \$19.1 billion in 2007-08 to \$17.8 billion in 2008-09. (Analysis leather industry, leather mag 2009)

The ratio of cow/bull slaughter in Pakistan is higher than goat/sheep during the Eid sacrifice. The percentage of slaughter of cows/bulls is approx 60-70% as compared to 30-40% goat/sheep. Presently the supply of hides from Brazil and South America has increased. The skins procured from Middle Eastern and African countries, especially from Saudi Arabia and Ethiopia, are of medium quality.

Leather Industry: SWOT Analysis

STRENGTH

WEAKNESSES:

1. Easy availability of raw material
2. Management skills learned through experience
3. Easy availability of labor
4. Presence of institutional supports for technical, services, designing, human power, and marketing
5. Export market in Europe and

USA and far East

6. Export friendly government

policies

1. Insufficient level of modernization and technology up gradation

2. Low labor productivity

3. Lack of confidence among SMEs for further growth

4. Lack of skilled labor

5. Environmental problems

6. Lack of market information(for SMEs)

OPPORTUNITIES:

THREATS:

1. Room for capacities utilization

2. Scope for bulk supply of finished leather to big Units.

3. Product diversification & new

markets

1. Competition from regional players such as china, India, Turkey, Thailand, Indonesia etc.

2. New regulations of environmental and social compliance

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3. WTO regulations

Conclusion

There is no doubt that the leather industry needs a major pull out from the slums if it is to compete in the international trade scenario and the standards set by the World Trade Organization. It needs to overcome its weaknesses, but it will only be possible once the government realizes the importance of the leather sector to the economy, there is a transparency of funds injected into the sector by the government and brand names need to be introduced on an international scale.

An association should be set up which should focus on every individual product type and tanning process of leather, to fulfill the communication gap.

Leather manufacturing sector in Pakistan can also suffer because of massive smuggling of livestock to other countries, shortage of raw material and absence of the organized dairy farming in the country. Moreover, diseases in the livestock in Pakistan can prove hurdle in the manufacturing and exports of finished products of leather. As a result the live animals are suffering from different diseases that damage the quality of the leather and tarnish the image of products at international level.

The duties on the import of tanneries related machinery need to be further reduced. The machinery made locally is technologically inferior which not only increases the cost of production but restrains from developing at par with the international market.