



Regional Consultation on Strengthening Competitiveness of South Asia in LEATHER & LEATHER PRODUCTS



3 - 4 September 2012,
Chennai, India

REGIONAL CONSULTATION ON STRENGTHENING COMPETITIVENESS OF SOUTH ASIA IN LEATHER AND LEATHER PRODUCTS, 3-4 September 2012, Chennai a REPORT



PREAMBLE

The Regional Consultation on “Strengthening Competitiveness of South Asia in Leather and Leather products” under the project of United Nations Conference on Trade and Development (UNCTAD) on “Development-Oriented Integration in South Asia”, funded by Asian Development Bank and Commonwealth Secretariat was jointly organized by UNCTAD (Geneva), Asian Development Bank (India) and the Commonwealth Secretariat (London) in collaboration with the Council for Leather Exports (CLE), Chennai, and the Federation of Indian Micro and Small and Medium Enterprises (FISME), New Delhi, on 3rd-4th September, 2012 at Hotel Le Royal Meridien, in Chennai, India.

Leather industry has traditionally occupied a place of prominence in South Asia, given its huge potential for generating employment and exports for the developing and least developed countries of the region. But in spite of being one of the major foreign exchange earners for most of the countries, this industry is slowly losing its global competitiveness. Exports of South Asia in Leather and Leather Products declined from \$3.5 billion in 2007 to \$3.2 billion in 2011, while global exports rose from \$69 billion to \$82 billion and exports from China increased from \$16 billion to \$29 billion in this period. To arrest and reverse this trend of losing share of the region in global exports, there was an urgent need to explore the possibility of regional integration.

In this backdrop, the consultation facilitated intense discussions on whether countries in South Asia can build their global competitiveness in Leather and Leather Products by integrating with the region through trade, investments and technology sharing. The consultation also provided a platform to explore the possibility of forming regional supply chains in this sector.

The programme was attended by leading policy makers, industry, academia and other stakeholders from India, Pakistan, Bangladesh and Sri Lanka, including Dr Richard Kozul-Wright, Director, Unit of Economic Cooperation and Integration among Developing Countries, UNCTAD ; Shri Rajeev Kher, Additional Secretary, Ministry of Commerce and Industry, India ; Mr. M. Rafeeqe Ahmed, Chairman, Council for Leather Exports ; Shri Abhijit Das, Professor & Head, Centre for WTO Studies, New Delhi ; Mr. Anil Bhardwaj, Secretary General , Federation of Indian Micro and Small & Medium Enterprises (FISME); Mr. S.M. Naseem, Chairman, Pakistan Tanners Association; Dr. Selim Raihan, Associate Professor, Department of Economics, University of Dhaka, Bangladesh, Mr. Syed Nasim Manzur, Managing Director, Apex Adelchi Footwear Ltd., Bangladesh and Dr Saman Kelegama, Executive Director, Institute of Policy Studies, Sri Lanka.

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The events during the two day conclave as they unfolded are recapitulated below:

PRE-EVENT DINNER on 2nd September 2012

An informal pre-event dinner was arranged on 2nd September 2012 at Hotel Le Meridien, for all the participants to get acquainted with each other.

Mr Md Sadiq, CSIR-CLRI set the ball rolling and gave a captivating description of the City of Chennai, the season and Welcomed the delegates. He referred to the Festivity in the air, Come September and the line-up of festivals like the Ganapathi, Durga Pooja and Diwali – the festival of lights.



Mr Saalai Maraan, Executive Director, Council for Leather Exports, in his Welcome address, gave a brief background of the Leather Industry of the region. He also recounted the Statistics of the Leather Export performance of the region.

Mr M Rafeeqe Ahmed, Chairman, Council for Leather Exports heartily welcomed the delegates to the city of Chennai. He underlined the need for such a regional consultation to express the views from all countries of the region and find out a way ensure that business from the region can be improved in the area of Leather and Leather Products. He expressed optimism that at the end of the conclave some concrete decisions would emanate which would result in the prospects of increase in business from the South Asian region.

INAUGURAL SESSION



Mr M Rafeeqe Ahmed, Chairman, Council for Leather Exports welcomed the distinguished gathering. He extended a warm welcome to all the participants at the conclave to the city of Chennai which had recently celebrated 376 years of its existence. He pointed out the city was famous for its long Beach, Automobile Industry, Software Industry and its Leather industry. He also thanked UNCTAD, ADB, Commonwealth Secretariat and FISME for providing the platform to the industrialists, institutions and policy makers to discuss about ways and means for development of the leather industry in the South Asian region, through organization of this consultation event in Chennai.

He said that South Asian region comprising India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan and Maldives covers a huge area of about 4.4 million km² which is 10% of the Asian continent. Overall, South Asia accounts for about 34% of Asia's population (or over 16.5% of the world's population). Considering the need to promote co-operation among countries in the region, the South Asian Association for Regional Cooperation (SAARC) was established in 1985, he pointed out and since then, several initiatives have been launched for promotion of commerce and trade which includes agreement on South Asian Free Trade Agreement (SAFTA) in 2004, agreement on mutual administrative assistance in Customs matters in Nov. 2005, agreement on avoidance of double taxation in Nov. 2005, agreement for establishment of SAARC Arbitration Council in Nov. 2005 etc.,. Implementation of these agreements has resulted in reduction of duties and removal of trade restrictions, thereby leading to significant increase in trade among SAARC countries, he reflected.

Talking about the Leather Industry, he said that the Global import of Leather and Leather Products including non-leather footwear had increased from US\$ 80.62 billion in 2001 to US\$ 137.96 billion in 2010, growing at a CAGR of 6.15%. The Leather industry in general has a good future, he opined. Presenting statistics from the International Trade Centre, Geneva, he said that the export of leather sectors of major exporting countries in SAARC region namely India, Pakistan, Bangladesh and Sri Lanka had increased from USD 4.57 billion in 2006 to USD 5.36 million in 2008 and then to USD 5.65 billion in 2010,

though the exports declined to USD 4.79 billion in 2009 due to the global economic slowdown. Thus, on the whole, exports from the region were picking-up.

However, he cautioned that when we consider our global share in imports, India, Pakistan, Bangladesh and Sri Lanka together account for only about 3.52%, as against China's share of about 29% (when Hong Kong is also added, this share goes up to 37.5%), Italy's share of about 13% and Vietnam's share of 6.22%. Thus, the leather industry in the region should explore ways and means of enhancing its share in global market through adopting measures like market diversification and product diversification strategies, reducing transaction costs, improving design efficiency and moving-up the value chain, he added.

Besides exports, Mr Rafeeqe Ahmed said, one has to also consider the fact that the South Asian region itself is a huge market for Leather and Leather Products. In fact, the import of leather and leather products in the region had increased from USD 672 million in 2006 to USD 1059 million in 2010, indicating the growing market, he added.

Mr Rafeeqe Ahmed highlighted that India had a domestic leather industry market size of USD 3500 million at present but this would double in the next five years. Besides leathers, there is huge potential for export of footwear and leather goods as well to India, he said. He also pointed out that the entire leather sector in India was now de-licensed and de-reserved, paving way for expansion on modern lines with state-of-the-art machinery and equipment. 100% Foreign Direct Investment (FDI) and Joint Ventures were already permitted through the automatic route for setting up units in India. Also, 100% FDI was permitted in single brand retailing and 100% repatriation of profit and dividends is allowed if investment made in convertible foreign currency, he added. The Indian retail industry is the fifth largest in the world and was expected to grow at a pace of 25-30% annually, he said. He also pointed out that the growth of the number of malls in the country to 280 in 2011-12 from the level of 190 during 2010, indicates the fast growing retail market in India.

The Government of India has taken a number of measures to increase the competitiveness of the industry in general, Mr Rafeeqe Ahmed said and added that the Task Force on Transaction Costs of the Ministry of Commerce and Industry had identified a number of areas for reducing competitiveness which includes improving infrastructure at production centres, ports/airports; liberalizing customs procedures and upgrading production technology. Besides, from September 2012 onwards the Government of India has announced providing 24 x 7 customs clearance facility at identified 8 ports/airports, he said. On the whole, India is a favourable destination not only for sourcing Leather and Leather Products but also for selling value-added Leather Products to the domestic market and hence there is good potential for other countries in SAARC region to expand their trade ties in leather industry with India, he added.

Mr Rafeeqe Ahmed also said that the Government of India was promoting capacity expansion of the Leather industry through establishment of Mega Leather Clusters (MLC) in different parts across India. Each MLC would have world class infrastructure and support services, he said. The entrepreneurs from SAARC countries can also consider either establishing their production units in the MLCs or entering into Joint Ventures with their Indian counterparts, he advised.

Mr Rafeeqe Ahmed described the support received by the Leather Industry in the country through Institutions like Central Leather Research Institute (CLRI), Footwear Design and Development Institute (FDDI), National Institute of Design (NID), National Institute of Fashion Technology (NIFT) as a major strength of the industry and offered that they could also provide technical services and training to the leather industries in other SAARC countries which can be explored.

For promoting trade in leather industries, Mr Rafeeqe Ahmed suggested that the focus should be on providing greater market access by way of reducing import duties on reciprocal basis and in removing non-tariff barriers like negative list of imports etc., with greater emphasis to be given for promoting trade through land route along Wagah and Kashmir among India and Pakistan and Petrapole among India and Bangladesh by increasing the number of tradable products, so as to reduce the transaction costs. He also added that it was necessary to ensure a liberal visa regime for businessmen to facilitate frequent bilateral visits by businessmen. He also said that the Leather industries in all regions should

actively take part in the SAARC Trade Fair as this provides a forum for exchange of ideas and business tie-ups.

He concluded by evincing optimism that this Regional Consultation Meeting in Chennai would be an opportunity for all to discuss about the present situation of leather industries in the SAARC region and about the potential for increasing exports and bilateral trade.



Mr Anil Bharadwaj, Secretary General, FISME in his opening address offered his words of welcome to the delegates and other participants for the regional Consultation meeting. Giving an example of the Columbian Tanners who always laid the blame of poor quality of leathers developed by them on various extraneous factors, he said that as part of a Research Study group he had commissioned a Young Mentors Group to study the Leather Industry in Columbia and they postulated that the problems arose from Poor Inter-firm co-operation; Paternalistic attitude of the Government with respect to the problems of the Leather industry and Defensiveness of all stake-holders.

In view of this, he said that this seminar would be of great relevance in collectively finding a solution and thanked UNCTAD, ADB, Commonwealth Secretariat and CLE for hosting this regional consultation meeting.

Dr Richard Kozul-Wright, Director, ECIDC, UNCTAD began by thanking CLE and FISME for agreeing to host this meeting and warmly welcomed all to the meeting. He said that UNCTAD was established in 1964 to address challenges faced by developing countries and raising concerns vis-à-vis the symmetries in the world's economies especially with respect to hindrance in International Trade.

He said that opportunities and potential of Developing countries need to be harnessed and said that UNCTAD had the following three pillars in addressing them namely, Research and Analysis pillar; Technical Assistance Pillar and the Consensus Building Pillar. He also added that UNCTAD brought a more integrated approach between Trade and other Development Areas like Finance, Technology etc.



He highlighted that one of the key issues raised by UNCTAD was the Potential for Co-operation between Developing countries to ensure a more conducive environment and greater inclusiveness for the growth of Trade in these countries. The Value of Strong Regional co-operation was the basis for sustained regional growth, he emphasized.

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Dr Wright also pointed out that Diversification was a critical ingredient for the rapid and sustained growth of the industry. Additionally, he said that Intra-Regional co-operation has been found to be poor and needed to be increased and UNCTAD was currently implementing programmes and projects to increase this regional co-operation. Leather Sector was one of the sectors being considered, he added.

Tapping of regional potential, he pointed out, had improved the Regional Supply Chains and this was markedly significant in the Leather Sector. While there are Genuine Cost and Efficiency Gains to be had from linking Supply Chains, he cautioned that there are also pitfalls which need to be avoided.

He said that UNCTAD was happy to be associated in the facilitation of the Intra Regional Consultation meeting and hoped that the deliberations at the conclave would focus on challenges faced by the manufacturers in the region. He wished all success to the seminar and said that he looked forward to fruitful and insightful discussions and assured that the outcome of the conclave would be reached out to the policy makers.

Mr Rajendra Kumar Jalan, Vice Chairman, Council for Leather Exports, in his opening remarks underlined the fact that this forum would give an opportunity to go over issues to foster Intra-regional co-operation between South Asian countries. He lauded this as a very good initiative and said that if we co-operated then we could leverage our strengths in the world markets while at the same time do well in the domestic markets as well. He welcomed all the participants and expressed his optimism at constructive deliberations at the conclave.

KEYNOTE ADDRESS

The **KEYNOTE ADDRESS** was delivered by **Mr Rajeev Kher, Additional Secretary, Ministry of Commerce and Industry, Government of India**. He said that the Conference is of great interest to him because co-operation is of utmost importance to do well in Business and Trade. He thanked the organizers for giving him the opportunity to participate in this conference.

He said that while constructive and positive initiatives were being carried out in South Asia in the area of Trading, 'Integration' in this region was extremely deficient especially Economic integration through trade and he was glad that the Leather industry had understood this lacuna and was keen in addressing this issue through this conclave.

He said that the Leather industry had a very strong traditional link in all the countries of the region and all it required was a re-orientation of our mindsets to come together and unitedly put their best foot forward. Elaborating, he said, globally, sectoral growth in various industries needed market integration and in South Asia there was one huge market in India and two sizable markets in Pakistan and Sri Lanka and these three markets can run a sustained domestic leather Sector but the Strength derived from Integrating can create a Unique Selling Proposition (USP) to sell as 'Brand South Asia.'

He lauded the Leather Sector for building up the psyche of being collaborators instead of being competitors and this, he said was a positive sign in the politico-economic climate of the region. He also pointed out that the SAFTA agreement was the most significant to track developments in the region but it had a restrained coverage and at the 14th SAARC Summit in 2008, India had agreed to take the asymmetrical responsibility which was much larger than other partner countries because it is the larger economy which would drive the economy of the region.

Mr Kher also pointed out that India had considerably reduced its negative list for intra SAARC trade and other nations in the region needed to reciprocate so that we can all move to a completely SAFTA Aligned System. He showered praise on the Leather Sector of the region for making the effort to re-orient their mindset and their decision to move on was a very significant step for the growth of leather related trade in the region. He said that this was akin to Track II approach of normalizing relationships between neighbouring countries and the countries had recognized the value of integration in South Asia. This, he said, would develop production networks and ensure sustained growth.



Mr Kher also pointed out that the demand for integration has to be engineered by the industry and they need not wait for the government. The sector must build up its competitive strength vis-à-vis competition and lessons need to be learnt from the experience of China, Vietnam etc., he added. He also pointed out that the Institutional and organizational dimensions as well as Investment profiles have to be outlined clearly and there was a good reason to recognize the segmental strengths of each region in the Leather Sector so that Investments could be made and ensured that all countries have a niche for themselves without being competitors.

Creation of a South Asian value chain to take on the global demand should be the Mantra and Driving force, he opined. The inefficiencies in the area of collection of Hides and Skins needed to be tackled, he said and added that more organizational and Legal development in this area is required. He also emphasized the need for strengthening the Lateral Connect between countries in the region and gave the example of sourcing Chemicals for Leather Processing which could be leveraged on account of the combined strength of the industries of the region and global quality could be sourced at bargain prices which would benefit all manufactures in the region.

Elaborating on the Technology and Standards regime required by the markets he said that there may be inherent costs but long term gains are assured. He therefore advocated strongly the establishment of South Asian Standards on par with Global Standards and said that Building up of Laboratory capabilities, Building up of Standards and Building Up of Supply Chains for components are all very essential for integrating the sector and these complementarities have to be built up quickly.

Mr Kher also advised a relook at the Tariffs and said that they need to be addressed for long term sustainability of the Leather industry in the region. He also advocated substantive value addition through Marketing efforts, designing etc. and also lauded the role of Institutes in India which had supported the industry's growth and said that their scope outside India also needed to be expanded.

Mr Kher concluded by thanking the organizers for the opportunity given to him and envisaged that this would be a significant step for developing a framework for co-operation between South Asian countries in the area of leather.

SESSION ON POTENTIAL INTRA REGIONAL TRADE IN LEATHER



This session commenced with a presentation by **Dr Rashmi Banga, UNCTAD** on “**Potential Intra Regional Trade in leather: Need for Regional Integration**” which was titled ‘Intra-Regional Trade in Leather and Leather Products in South Asia: Identification of Potential Regional Supply Chains.’

Highlighting the Importance of Leather Industry for South Asia, she said that it was a traditional export-oriented industry which employs large number of people from weaker section of the society in both formal and informal sectors with a large proportion of women and that the growth in the industry can have wide-spread development implications. She also said that there were Rising Opportunities due to shifting out of processing of leather from developed countries due to stringent environmental norms and rising labour costs and due to Global slowdown which had increased demand for low cost leather products.

She cautioned that South Asia was losing its share in global market and highlighted that China's exports to South Asia in Leather and Leather Products had increased from mere \$3 million in 1992 to \$590 million in 2011, a rise of 25% every year. However, the encouraging trend was that all major economies were climbing the value chain and exports of finished leather products was rising and she cited that in 2000s, exports of Leather Products increased four times for Bangladesh and doubled for India, while exports from Pakistan increased by 30%.

Elaborating on the strengths of South Asia, she said that availability of raw material of leather industry - 26% of total world's cattle, sheep, buffalo and goats were from this region. Also Exports far exceeds import i.e. out of \$ 6.5 billion per annum trade, exports average \$ 5.5 billion, comprising 85% of total trade and the Exports are highest in the category of finished leather products (74%) followed by processed leather (tanned hides and skins) (25%).

Analysing the availability of Demand and Supply in the region, she pointed out that Afghanistan and Bangladesh were important sources for primary leather, while Bangladesh, Pakistan and India were important sources for processed leather in the region. The Global exports and imports of processed leather and finished leather products were rising indicating growing demand and supply of inputs and

outputs of leather industry in the region, she pointed out and also opined that this provided the rationale for intra-regional trade which according to her had remained low and between 2009-11 averaged only at around 1.1% of total region's global exports.



Giving figures of the Intra-Regional export she said that India is the major importer in the region contributing 48%, followed by Bangladesh (20%) and Sri Lanka (16%) and with respect to finished leather products, India contributed 43% of region's imports, followed by Sri Lanka with 20%. In processed leather, India is the major player in region's imports with a share of 54% and In primary leather most of the exports are from Afghanistan to Pakistan (67%).

Explaining the Dynamic gravity model which estimates the potential intra-regional trade, she said that the actual total trade in the region has been much lower than the potential trade in leather sector and in the period 2000-2010, actual intra-regional trade in this sector had been on an average \$31 mn pa and the potential trade estimated with existing tariffs was \$ 117mn pa, which was almost four times higher than the actual trade. She postulated that if tariffs were removed, based on only gravity, potential trade was estimated to be \$ 374 million per annum, which is more than ten times the existing trade. In 2010, actual intraregional trade amounted to \$63 million, while the potential was around \$205 million, she surmised.

She also suggested that the Intra-Regional Trade provided higher Opportunity for Export Diversification and there was a need to diversify exports of leather industry. Potential Regional and Global Export Baskets were identified, she said and cited the following examples namely Bangladesh has the potential for exporting sports footwear to the region. It was exporting around \$ 5 mn to the world, and the region's share is 0.2% and the region's global imports are \$10 mn. Similarly, India can export preserved raw hides to the region where it exports \$ 5 mn to the world but region's share is 0.02% with global imports of \$11 mn and Pakistan, in turn, can export tanned or crust hides and skins of bovine origin with its global exports being \$55 mn and the region's share being 6% and it imports \$85mn from the world.

Dr Banga said that with the rising trend in exports of finished leather products in all countries should gain further momentum and an attempt had been made to identify regional and global potential regional supply chain for leather products. She said that three lists had been identified for each country and they comprised, Potential outputs for exports i.e., finished Leather Products for exports to the region, where the country List 1 which had the export potential and region's demand exists and for global exports, if the demand does not exist; List 2 which had Potential inputs for imports of Leather industry, namely primary and processed leather, which a country can import from the region at a lower cost and the region has the supply capacity; List 3a which had Products for potential inward FDI where the country has export competitiveness and the region has high demand but the country is losing its export competitiveness over time and List 3b which had identified products, where the country is most competitive and largest exporter in the region and therefore can undertake intra-regional investments.

Dr Banga also presented three case scenarios if Tariffs were removed. Commenting on the policy directions emerging from the study she said that there is a huge potential for intra-regional trade in leather and leather products and it needs to be tapped as all countries in the region will benefit. She also added that Exports need to be diversified and regional markets can be explored for export diversification and finally suggested that the region provided a fertile ground for intra-regional investments.

She also felt that Collaboration and cooperation in the region in leather industry is essential and a Regional Leather Association can play a catalyst role and added that Technology up-gradation and technology sharing, especially in tanning of leather, can be resource saving and may build the required competitiveness. Dr Banga suggested that it's time to explore a 'regional investment agreement' in South Asia. ASEAN Comprehensive Investment Agreement, which covers both FDI and Portfolio investment provides a good learning for this and the Regional response to stringent pollution control norms needs to be discussed and concluded that Intra regional investments in tanneries can be a win-win situation. Dr Banga further suggested that a Common label for South Asia leather products can be promoted for branding the regional products with the setting up of Common Design studios for the region. She also underlined the need for technology sharing with innovative projects to be launched to bring synergy and undertake joint R&D.

Dr Banga also suggested accelerating customs and logistics procedures, upgrading ports and information technology infrastructure and continued reforms in customs clearance procedures and regulatory harmonization. She advocated robust dispute settlement mechanisms that needed to be put in place to enforce decisions within SAFTA and suggested that for Resource Mobilization, another source of finance which can be tapped and is yet to be tried, but potentially feasible for supply chains, is intra-firm trade credit and concluded by saying that the use of development banks can be leveraged for developing regional supply chains.

Consequent to the presentation by Dr Rashmi Banga, UNCTAD there was a PANEL DISCUSSION on the “Potential Intra Regional trade in Leather” and the Panelists also responded to some of the points raised by her in her presentation.

Mr SM Naseem, Chairman of the Pakistan Tanners Association complimented the UNCTAD study and said that it would help a lot in formulating policies. Turning his attention to the Pakistan leather industry and the need for Regional Co-operation, he said that their industry had been working to utilize the raw materials for greater value addition and the situation there was that they had a greater capacity for products but were hampered by the non-availability of raw materials. To overcome this, he said that they were importing raw materials from Africa but were now facing a problem because Africa was also developing its product industry and was therefore decreasing its raw material export. This had hit the raw material availability in Pakistan and had resulted in idle capacity.

Mr Naseem mentioned that Pakistan had a very liberalised export policy with respect to leather and was also working on reducing the negative list to India. He pointed out that the bottleneck was the

lack of regional import of raw material due to the restrictive policies and suggested that the raw materials must move freely within the region and that the products can be made anywhere in the



region where the appropriate Technology was available and the product could then be marketed. He also suggested that import of chemicals and machinery in the region needed to be encouraged.

He also pointed out that the government Policies were important and said that we must have a regional association or forum and through this we could collectively bargain with the Government to frame trade-friendly policies. Mr Naseem also pointed out that Domestic Consumption was increasing rapidly and needed to be addressed adequately. He said the situation might well turn out to be that the products could be entirely consumed within the region and exports outside the region may not be required at all.

Mr Naseem concluded by advocating the establishment of a Regional Fair from the marketing point of view and suggested that they could be held at different countries by turn.

Mr Syed Nasim Manzur, Managing Director, Apex Adelchi Footwear Ltd., Bangladesh complimented the UNCTAD for its study and said that we need to learn lessons from it and gave example of how Vietnam exports 6% of the world's requirements without having a raw material base and we are unable to do so despite a good raw material base.

He also stated that we were not aligned with respect to the market potential and said that we cannot hope to become global players without having a significant presence in the US markets where not any country from the region is among the top 5 suppliers. This he said needed to be addressed in tune with the market realities.

Mr Manzur also pointed out that our capability was limited to a few product lines and gave the example of Ladies Footwear where we do not have any presence. He also stated that Bangladesh would be having the world's largest athletic footwear factory through a Korean company and said that it was like Apple in China where the value addition was only 20% but employment generation and Image building was enormous. So was the case with the athletic footwear factory in Bangladesh.

The movement of raw material needs to be addressed within the region and gave the hypothetical scenario of Bangladesh importing raw material from Pakistan, components from India, make the shoe in Bangladesh and sell it in Japan. This is how the movement should happen in the region, he said.

He also said that FDI as a source for technology was very important. He also warned that the window of opportunity for the region to capitalize on a united front and move forward was only the next 5 to 7 years or so because the Taiwanese giant investors were looking at Myanmar and Indonesia and we must get them interested in our region in South Asia.

Mr Manzur stated that we must create an argument for the regional movement of materials to the Government and convince them to allow it. Touching on the scale of operations in the region he said that most factories are too small and by regional co-operation we can join together and our scale would grow and then we can compete more effectively globally.

He concluded by saying that the faster India opened up the better it would be for the region

Mr M Rafeeqe Ahmed, Chairman, CLE said that customers for all countries in the region are the same and if we have better information exchange amongst ourselves then we can be stronger and customers would not exploit us by pitting one against the other.

He also welcomed the idea of a Regional Fair and said that it should be made as a South Asian Fair on the lines of the Garma Fair and can be held alternatively in Pakistan, Sri Lanka, Bangladesh and India. As regards the movement of raw materials, he said that the benefits should be between the parties concerned because without benefit they cannot proceed further. Elaborating, he said that the agreement between all South Asian manufacturers should be there on what constitutes these raw materials that require freedom of movement and as an example cited that if all the Tanners agree then its free movement can be there.

Mr Rafeeqe Ahmed also urged the regional leaders to come out with a Tariff regime for various items / components which would help them to compete globally. He also urged the industry leaders to sit down and address the common interests of all concerned and work closely with the Government to remove the Tariff barriers.

He said that once the movement starts the Trade deficit reduces and Trade would flourish for all countries in the region. He concluded by saying that identifying the right item for zero tariff is important.

Mr R K Jalan, Vice Chairman, CLE thanked Dr Banga for her presentation and said that as regards over capacity in some countries in the region we must look at improving livestock for better raw material availability and suggested that a possible solution to this problem could be organized farming and scientific rearing of animals which needed to be looked into seriously. Citing an example, he said that about 20% of raw material is being wasted in the Indo-Gangetic plains or the cow belt in India and we need better technology to minimize this wastage.

He also warned that the world economies are looking at South Asian manufacturers for environmentally polluting jobs and therefore it is important for us to make products with better value addition and it is here that co-operation regionally would stand us in good stead. He said that no geographical boundaries exist in Trade and Commerce and cited the example of raw hide prices across the region which was almost at the same level and therefore it is imperative that we should complement and supplement our capacities within the region. He advocated more information flow and free raw material flow in the region for better value addition.

Mr Jalan said that we need to develop our own pollution control norms and need not follow European norms and this would be possible if we have a good industry co-operation in the South Asian region and we can also collectively fight non-tariff barriers against any country in the region and cited the example of buyers insisting on testing in European Labs only which is a sort of trade barrier. He also requested the Government to involve the industry before framing policies.

Mr Jalan underlined the fact that the formation of a regional association was a must and suggested that we must be transparent with each other and carry out a SWOT analysis to better understand our strengths and weaknesses.

Concluding, he said that whatever China is today in Leather is because of FDI's and we must to analyze the reasons as to why America invested so heavily in China and then we have to create a similar atmosphere in our region for attracting FDI's.

Dr Simon Kelegama, Executive Director, Institute of Policy Studies, Sri Lanka said that the weakness in the regional structure needs to be addressed and SAFTA needed to be strengthened. He also said that the Trade facilitation measures need to be improved then we must have a time bound commitment for improving them. He also urged that the sectoral integration needed to be improved.

Dr Kelegama pointed out that Investment from foreign sources is a must to help the industry promote Joint Ventures and have productive results. Citing an example of the Rubber industry in Sri Lanka, he said that by itself the industry had a poor value addition but through a joint agreement with India (through CEAT) there has been great value addition which goes to show that dormant supply chains could be developed.

He also stressed that the need for an association in the region was critical and had ramification vis-à-vis networking, sensitizing the Government as well as the industry. He emphasized that for the best results the association should be linked to the SAARC Chamber of Commerce and Industry and an officer representing the private sector should be there in the SAARC Chamber of commerce and industry.

In conclusion, he said that this was another second track module for enhancing regional integration and this could act as a pressure group to influence the Governments.



Mr PR Aqeel Ahmed, Regional Chairman (SR), CLE said that it was very interesting to hear from all the representatives across the various nations. He said he was very proud that the Indian Leather industry grew by 30% this year and the 'Made in India' product occupies a pride of place in the retail stores of

Europe and America. He also pointed out that India had the benefit of excellent Institutional support from CSIR-CLRI, FDDI and NIFT and they could support the Industry in the region as well. He also opined that component suppliers from India could supply to all the countries in the region.

He also expressed pride at the Zero Liquid Discharge technology being implemented by the Indian tanneries and said that almost all factories in the south of India had completed its installation. He also pointed out that comparisons with China were not accurate as they followed very different policies.

Mr Aqeel Ahmed also backed the idea of having a Regional Exhibition and said that by being friendly and supportive of each other we could benefit tremendously in Business. Rounding off, he thanked the Government for letting the industry grow to this level today and said that he was looking forward to a successful co-operation between all countries in the region.

Following the Panel Discussion, there was a **presentation on “General Difficulties faced in intra-trade among SAARC Countries” by Mr Ajay Sahai, Director General and CEO, FIEO** in a talk titled “Challenges of Intra-trade amongst SAARC countries.” He began by highlighting RTA's as a tool for intra trade and said that it was just 5% in SAFTA and presented India's trade with SAARC as showing a growth rate of 11.7% in Exports in the year 2011-12 with a value of US\$ 13.03 billion and a growth rate of 15 % in Imports with a value of US \$ 2.49 billion. He also presented the export and import statistics on a country to country basis.



Mr Sahai then dwelt on the Challenges to Intra SAARC trade and said that due to similar trade baskets, the SAARC countries were competing with each other in 15 out of top 20 export items and said that India, Bangladesh, Pakistan and Sri Lanka compete in almost all textile items with other SAARC countries. He added that India competes with Pakistan, Bangladesh and Sri Lanka in rice in semi-wholly-milled form and in the category of diamonds, India and Sri Lanka compete with each other.

Continuing, he said that Political issues amongst largest partners were a hindrance and there were lack of enabling policy issues. He also said that approval for proposals take long time at grass-root level

and the recommendations and proposals endorsed by summit leaders go through agonizing and sterile processing and plodding at working levels for years. Mr Sahai also stressed that Non Tariff Barriers (NTB) were the bane of intra trade NTBs and emerge as major barrier to trade. He added that with the Most Favoured Nation (MFN) status reducing, NTBs were becoming the main instrument of protectionism. He added that SAFTA was making headway in reducing duty on tradable goods but NTBs removal was less addressed and for Regional co-operation through vertical integration, NTBs need to be addressed effectively, he pointed out.

Mr Sahai then presented some interesting Statistics about the time taken for Exports and Imports of the various countries in the region and said that it was inordinately long. He also listed out the various NTB's as being Price Control, Para tariff, surcharge, Regulated import of items or the quantity of imports of a particular item, Regulating Access to foreign exchange, terms of payment, Testing, Packaging, labeling, marking, TBT, SPS and lack of Trade Facilitation at borders. Elaborating, he said that there was traffic congestion and delay in handling cargo with an increase in the storage dwell time due to inadequate port storage, lack of thorough transport movement and added that formidable transport inefficiency existed at the borders. He emphasized that with a 50% reduction in time of export consignment it could generate benefit equivalent to 0.4% of GDP of the Least Developed Countries (LDCs).

He listed out the specific trade related problem of the various countries and then suggested the mechanism for removal of NTB's with the members to inform all non –tariffs and para tariff imposed on their exports on annual basis with these measures to be reviewed to examine the compatibility with WTO provision based on which the COE would recommend elimination or implementation of the measure in least trade restrictive way in order to facilitate intra SAARC trade and a majority of complaints to be dealt through bilateral negotiation, he added.

In conclusion, Mr Sahai suggested the Way Forward by ensuring not country specific but of general nature and not beyond international standard. He also suggested to strengthen National Standards to meet compliance requirement and have accredited Technical laboratories for certificate authentication and inspection. Signing of MRA and strengthening of SARSO was also suggested. He also suggested a targeted programme to facilitate cross border trade through development of border infrastructure, harmonization of Customs rules and regulation, valuation and Customs procedure and building of capacities for most prevalent SPS –TBT related NTBs at a particular border point. He also advocated the presence of Banks across borders to ensure adequate banking facility, honouring of LC and LC margins, strengthening COE in terms of data generation and settlement of dispute and periodic meetings of COE and the country to resort to WTO DSM to settle NTBs which cannot be appropriately addressed in COE.

The session was then opened to the floor for comments and discussion.

Mr Anil Bharadwaj, Secretary General, FISME complimented Dr Rashmi Banga, UNCTAD for an excellent presentation and enquired as to whether the model chosen to analyze was accurate to which she replied that there was no contradiction.

Mr Mubeen from Vaniyambadi Tanners Association wanted to know about the reasons for China's growth and dominance and **Dr Banga, in her reply** said that the reasons for their phenomenal growth was due to the large FDI's in the Leather Sector and the huge Government subsidies for this sector.

Mr N Shafeeq Ahmed, Chairman, Indian Finished Leather Manufacturers and Exporters Association (IFLMEA) made some interesting observations. He said that 'borderless business' is the way forward. He added that in China investments in Technology and Training were enormous and if we as a region were to effectively compete then we must put into place Immediate and Long Term plans with respect to investments.

Mr T Rafeeq Ahmed, Chairman, T Abdul Wahid & CO., India in his observations remarked that this region had excellent Raw Material but we have not created the capacity to convert these into value added finished products and we must introspect on this. He also suggested that since the products are seasonal in nature the investors are not ready to take the risk especially during lean periods while the leather business was perennial and continuous and thus had more takers. He also suggested that the

Labour Laws needed a relook and suggested that during lean periods manufacturers could concentrate on the domestic markets but even here the Tax issues needed to be sorted out, he concluded.

Dr Zackria Sait, Vice President, Indian Shoe Federation welcomed the overseas delegates and said that India, Pakistan, Bangladesh and Sri Lanka were carved out of the same cake and culturally and ethnically we were the same. He said that our strengths and weaknesses are also the same and we also compete in the same way with the same end customer and with the similar products. He therefore suggested that we need to complement each other and must co-operate and suggested that Leather components should be made tariff free globally and not only for SAARC countries.

Mr Syed Nasim Manzur, Managing Director, Apex Adelchi Footwear Ltd., Bangladesh responded and remarked that we cannot duplicate China and need to focus on what we can do. He said that competitiveness would come from lowering of 'Transaction Costs' like cost of land, cost of bank finance, cost of doing business etc. He also advocated to try to attract FDI's from big players and said that we have to look beyond families for sharing ownership.

Mr SM Naseem, Chairman of the Pakistan Tanners Association in his intervention said that we must look at regional realities and not at China. He said that we might be competitors but we need to co-operate and recognize bottlenecks, recognize opportunities and work with an open mind to remove the impediments. He also suggested that why cannot we look at FDI investments within the region rather than looking at it from outside the region.

Mr Muhammad Naseem, Managing Director, Shafi Tanneries, Pakistan commented that while integration has a role to play in the development of the industry in the region, we must look at reasons beyond integration. He also suggested that we must improve the quality of entrepreneurship and said that the development in our industry has thus far been supply led and not demand led which requires to be addressed while at the same time he suggested that improvement of productivity in our industry also requires to be addressed.

Dr Richard Kozul – Wright, Director, ECIDC, UNCTAD observed that the leather industry was a bipolarized industry and cited the example of Japan where he said that FDI was not important but engagement with foreign firms was important and the Government played a great role in facilitating the growth of the industry in Japan. He said that the trade policies were friendly and opening up of markets was given importance and said that South Asia needs to follow a similar strategy.

In his **Summary of the session, Mr Rajeev Kher, Additional Secretary, Ministry of Commerce and Industry** complimented Dr Banga for an excellent study. He said that it was a tribute to the study that it had raised questions and thanked the participants for their excellent observations and for bringing out pertinent points which needed to be looked into.

Mr Kher observed that this region and the Leather industry were intertwined with the socio-economic lives of the people. He pointed out that addressing 'how to improve productivity in the back-end is important as it would help in improving our efficiencies in the front end. He also said that policy paradigms should look at how to ensure the raw material supply flow to help the industry in the region to move forward in a sustainable manner.

He also said that technology Dimensions needs to be addressed and Governments would have to play a role. The Government had to identify the winners and these sectors must have a policy evolution accordingly as we are resource starved and not all sectors can be looked at equally. He also said that we cannot connect only with the existing markets but must look at emerging markets also and develop them and not put all our eggs in one basket.

Mr Kher also suggested that the Quality dimension and lateral policy diffusion across other sectors also needed to be looked into to improve the Leather Sector as this sector works across many sectors. Therefore, he said that the entire value chain must be equally nurtured. He also suggested that we must look at what we are missing in our product profile that needs to be incubated. He concluded by saying that we must look at what is coming in the next 10 to 15 years and plan accordingly. He thanked all the participants for a very interesting panel discussion.

The **Post Lunch session on Day 1** saw a presentation by the country experts in a session titled **“Potential and Constraints in Leather Trade: Regional and Country Level Assessments.”**

The first presentation in this session was by **Mr. Syed Nasim Manzur, President, Leathergoods & Footwear Manufacturers & Exporters Association of Bangladesh (LFMEAB) & Managing Director, Apex Adelchi Footwear Limited, Bangladesh.** He said that the global leather industry and its principal sub-sector leather footwear had been globalized and footloose, even before the term globalization was coined. Leather and Leather products are some of the most traded commodity in the world, he said and pointed out that Hides and Skins are byproduct of the meat industry and Leather is an intermediate product while Finished leather goods are consumer products and increasing luxury as well as consumer products.



Mr Manzur presented statistics showing the Top ten consuming countries and who buys the most shoes. He also gave figures of the global state of manufacturing and listed out the leading footwear exporters while cautioning that big producers are not necessarily big exporters. Mr Manzur then presented an interesting SWOT analysis of the Leather industry in India, Pakistan, Bangladesh, Sri Lanka and Nepal and spelt out the value chain for the region. He stated that Intra regional exports of leather and leather products was only 1.1% of global exports, South Asia has 34% of total worlds cattle, sheep, buffalo, goats and yet it has been steadily losing global and regional market share. He also said that more than 95% of total trade in leather and leather products is conducted by Bangladesh, India & Pakistan and almost 50% of exports from Bangladesh, India & Pakistan go to only 5 destinations. Intra regional export is dominated by processed leather (65%), followed by leather products 28%, he said. Interestingly, he pointed out that there was still low value addition and South Asia added 18% value to total output of leather industry versus 29% value addition in China. Rising global imports of the region, of finished products (almost 6 times in 2003 – 10) and rising global imports of the region of primary & processed leather (almost 3 times in 2003 – 10) were issues that needed a look in and said that Pakistan was the biggest exporter and had highest potential to increase intra-regional trade while India was the biggest importer and was the only one with more than 10 exportables that constitute more than 80% of exports.

He queried us as to why do we need Value Chain Analysis and replied that it was needed to better understand how economic incentives can be passed on through the chain to all relevant stakeholders that should improve the quality of that commodity, maximize their profits or maximize their export competitiveness. Also because globalization had changed the rules of the game which implied that previously protected businesses no longer just have to compete with domestic producers but from all over the world and because the single largest cost across value chains is the primary raw material input which generally exceeds 50% of the value in the industry chain and these quality and cost factors are subsequently carried downstream to the final product.

Mr Manzur also added that supply is the leading constraint in the global leather commodity chain today and there exists a general shortage of hides both globally and locally which has a direct impact on costs. He said that Quality globally was declining and Raw material costs are the main restraints on future growth. He also added that Hides are a global commodity so prices are determined and influenced by global market conditions for hides. He also pointed out that leather value chain in south has wider benefits because of its role in Job Creation, Value Addition, Linkages to Agro and Rural Economy, Poverty Alleviation and the fact that it was MSME Driven.

Elaborating, he said that by nature the leather commodity chain was buyer driven and Footwear and general leather goods were labour intensive and low technology and therefore also "buyer driven" rather than "producer driven" which tend to be capital intensive and high technology. Quoting Gereffi, he said that "Profits in buyer driven chains derive not from scale, volume and technological advances as in producer driven chains, but rather from unique combination of high value research, design, sales, manufacturing and financial services that allow the retailers, branded marketers and branded manufacturers to act as strategic brokers in linking overseas factories with evolving product niches in the main consumer markets."

He pointed out that while traditional wisdom stated that for Value Chain Analysis cheap labour is a "lower-order, dead end basis for competition" yet the South Asian narrative so far had focused almost exclusively on "cheap" labour. He also gave an indication of the state of the industry in South Asia and highlighted the reality checks. He said that the reality is globalization has not been a positive force for upward mobility and we are caught in the manufacturing trap. In the case of footwear a fundamental clash comes when it comes to upgrading of the value chain and the buyers would not be interested to help producers acquire own design capability, develop their own brand names or own marketing channels, he said and opined that the manufacturer gets locked into low margin production and cannot move into higher stages of the value chain as they would compete with their existing buyers.

Mr Manzur flagged the point that the rise of the Sourcing Companies had created further divisions and these have gained more power and influence over the design and specification of the product, especially as big buyers shrink, as well as on the manufacturing, marketing and even quality systems. He added that sourcing companies will partner with key suppliers and share on a more exclusive basis, on process, quality and specifications. He added that even then exports were seen as the way forward and where it was hoped that exports could provide the steep learning curve which would lead to higher competitiveness and productivity which would lead to improved chances of competing locally.

He said that the world had changed and the drivers for change in the footwear industry were Costs, Speed to market, Product Development and Sustainability. He emphasized that without quality and customer satisfaction there is no business and that the global supply chain had replaced the traditional pattern of integrated shoe making meaning countries with efficient infrastructure, ability to absorb know-how and know-how and ability to respond fast to changing market needs and these would determine success.

Mr Manzur then showcased the constraints of the leather value chain in South Asia as having very high primary input costs that often distort prices, being a buyer driven Value Chain Characterized by labour intensive, low tech where buyers reap mostly organization rents and the producers are unable to reap technology rents. He also added that it is characterized especially in India and Pakistan as clusters and districts but these are often not industrial clusters but agglomeration of independent artisan firms that

lack cohesion, good quality and sufficient premises, infrastructure, training and business services and pointed out that unlike China, the collaboration and division of labour among the companies is largely absent in India, Bangladesh & Pakistan. He also said that these companies are particular about their buyers information and reluctant to share information and there is not much visible coordination among the players resulting in supply chain imbalances, high inventory & wastage across the supply chain. They also had outdated infrastructure and logistics and leading buyers and sourcing companies had become bigger and stronger and dominated the design and specification of the product as well as marketing and almost always owned the brand and the marketing channels. He added that there was an Image deficit with respect to reliability, quality and on time delivery with the interests of the tanners and product makers often blurred and often presented as conflicting. He opined that the industries and firms within the industry differ widely in their ability to negotiate and interact with other stakeholders and economic agents and suffered from a lack of scale and integration.

He pointed out that there was still a window of opportunity for leather industry in South Asia because of the changing demographic profile of China had led to worker shortages, government policy and market forces were driving up wages, overvalued currency was squeezing export margins and there was a changing government policy deterring investments in China. He also asked the question as to how real is regional integration and concluded that South Asia was the least integrated region in the world where integration was measured by intra-regional trade in goods, capital and idea. There is not much evidence on agglomeration benefits from regional integration in South Asia , at least not in the manufacturing sector. Yet South Asia is the fastest growing region in the export of services, he said.

Mr Manzur also pointed out Potential areas for Regional Integration and said that If regional artisan clusters are to evolve into proper industrial manufacturing hubs, following 3 condition need to be met namely Division of tasks between firms and supply of specialized components, Need to consolidate the clusters as a centre of knowledge creation, inventiveness, entrepreneurial capability within a given product line and a collection of institutions of different types interacting within the cluster, that provide required services to their members / clients and facilitate trust in collective representation of the industrial group. He also highlighted the role of Business Associations and cited that actual regression analysis by Nadri in 1999 showed that in Guadalajara, Mexico cooperation through the association was the most significant factor associated with firm level performance and added that Governments would play at national and local levels to facilitate development of activities of local associations, provide support when required and create mechanisms to improve coordination between association and added that cross border joint research on similar problems like skills or compliance and joint collaboration to tackle similar issues like standards and pollution controls needed to be pursued. He also suggested a name for the regional association as Leather Industries Association of South Asia(LIASA).

In conclusion, he emphasized that we must identify areas and products for collaboration or focus, based on analytical calculation of competitiveness, have a shared platform for Production Innovation & Development, accelerate customs and logistics rationalization, ensure visa regime simplification for more people to people contact, build SAARC & regional brands, carry out Infrastructure upgradation & logistics with regional road, air, rail and sea agreements, have a mindset shift in India, have a Targeted Inward FDI Approach with Investment rates needing to rise substantially and with Rationalization & Reduction of Tariff rates.

Mr SM Naseem, Chairman of the Pakistan Tanners Association gave a brief account of the Pakistan Leather industry. He said that discussion with the Trade authorities in Pakistan had reduced the negative list for leather and in the near future there will be no item in the negative list. He said that Pakistan had very liberal policies and the industry apart from using its own raw material also imported them and the leather produced in Pakistan was of extremely good quality, he said. He also pointed out that since China was concentrating on its domestic market there was an opportunity for us in the region to capitalize on.

Mr Naseem pointed out that the footwear industry in Pakistan was developing and still needed hand holding. He opined that raw material can be sourced from Pakistan and the products could be manufactured elsewhere in the region and suggested that even manufacturers from India could invest in Pakistan and vice -versa. He shared the information that in Pakistan organized rearing of animals

was underway and this would only increase in the future. He also said that Pakistan's exports had been steadily growing and the unit value realization was increasing year on year.



He concluded by saying that regional Markets need to be looked into also instead of just concentrating on markets in Europe and America.

Mr M Rafeeqe Ahmed, Chairman, CLE gave an overview of the Indian leather industry and said that ever since implementation of economic liberalization programme in 1991, the Indian leather industry had witnessed significant growth, with exports increasing from US \$ 1.96 billion in 2000-01 to an all time high value US \$ 4.86 billion in 2011-12, showing a growth of 22.68% over 2010-11. Value added leather products and footwear now constitute about 80% of exports from the Indian Leather Sector. The Indian Leather Sector currently exports to about 70 countries, he said Leather was a prominent sector in Indian economy in terms of employment generation and export earnings with a strong production base and an annual production about US \$ 8.5 Billion. He said that the annual export 2011-12 – US \$ 4.86 billion with a 3.00% share in global leather trade of US\$ 137.96 billion and the Value-added finished products presently constitute 80% from a mere 7% in 1956-57. He added that nearly 70% production takes place in Small and Medium Enterprises (SMEs)- About 42000 units registered under SSI with about 2.5 million workforce in Rural & semi-urban areas and that women constitute 30% of the work force in the organized units and the industry showed an increasing importance to occupational safety and work environment.

He also presented a Country -wise export performance of Indian Leather Industry and pointed out that the target for the leather industry for XII Plan was USD 14 billion and to achieve this target, the industry had to achieve a Cumulative Annual Growth Rate of 24.03%, from the estimated CAGR of 8.22% for XI Plan. Dwelling on India's export performance to SAARC countries, he said that during 2011-12, finished leather (USD 12.20 million) was the major export item from India to SAARC countries (particularly Bangladesh and Sri Lanka) constituting a share of 53.5% of total export of leather and leather products to these countries. Leather Footwear (USD 3.36 million) was the next major item of export (particularly to Nepal and Sri Lanka), he added. He also said that India's import of hides, skins and leathers from



SAARC countries had increased from USD 23.60 million in 2008-09 to USD 29.61 million in 2010-11. However, India's annual import of these items is about USD 473 million and this will increase further, he added. As the import share of SAARC countries is only about 0.06%, there is good potential for further increase of imports., he opined.

He added that India's import of leather products from SAARC countries had increased from USD 0.11 million in 2008-09 to USD 0.18 million in 2010-11 and the import was mostly from Pakistan. However, India's total import of leather products had increased from USD 74.05 million in 2008-09 to USD 132.02 million in 2010-11 while Import of leather products from SAARC has a share of only about 0.14% and hence there is potential to increase imports, he added. He also highlighted that under SAFTA/Indo-Sri Lankan FTA, India has offered duty free status to Bangladesh & Sri Lanka while a concessional duty of 6% is offered to Pakistan.

India's import of footwear from SAARC countries had increased from USD 4.78 million in 2008-09 to USD 8.94 million in 2010-11, he said. However, India's total import of footwear had increased from USD 159.32 million in 2008-09 to USD 243.71 million in 2010-11, he added and that import of footwear from SAARC has a share of 15.89% . However, considering the huge population base of India, there is tremendous scope for export of footwear to India, he opined. He also emphasized that under SAFTA/Indo-Sri Lankan FTA, India had offered duty free status to Bangladesh & Sri Lanka while a concessional duty of 6% is applicable for Pakistan for Leather Footwear & Footwear Components & 10% for other footwear.

Mr Rafeeqe Ahmed also presented the details of India's trade with the various countries in the region and spoke of the reciprocation of tariff concessions offered by India by the other regional countries.

Post these presentations there were discussions and the general consensus was that we should not only concentrate on duties and tariffs but should focus on product development.

The POST TEA session on DAY 1 featured the session on **“Regional Integration: Implications and Policy Constraints.”**



The opening presentation in this session was by **Dr Selim Raihan, Associate Professor, Department of Economics, University of Dhaka, Bangladesh** who spoke on **“Lowering of Leather tariffs in the region: Implications”** with an emphasis on Liberalisation of Leather Trade in South Asia.

He gave an insight into the Market Access, Regional Integration and Promotion of Supply Chain issues and presented Average Tariff Rates on Leather and Leather Products for the different countries in the region. He then presented the Import Orientation of Leather and Leather Products of these countries. He then spoke about the different Liberalization Scenarios he had modelled and gave a brief about them as Simulation 1 where India gives DF market access to South Asian LDCs on all products, Simulation 2 where South Asian Countries fully liberalize leather trade among themselves and Simulation 3 where South Asian Countries fully liberalize all trade among themselves. These simulations were carried out using the GTAP model with Version 8 of the database and he then presented his results and analysis.

The second presentation in this session was by **Prof. Abhijit Das, Professor and Head, Centre for WTO Studies, New Delhi**. He spoke on **“Intra-Regional Trade in Leather Sector in South Asia: Policy Issues from India’s perspective.”** He gave statistics of India’s WTO bound rate and talked of the Progressive Liberalization whereby restrictions on exports of raw hides and skin were eliminated in 2000 and MFN duty gradually reduced. He then spoke on the Leather Sector in India’s Free Trade Agreements and showed that India’s Negative List under SAFTA (as in 2006) included almost all products of Leather Footwear and were then Progressively liberalized resulting in Tariffs eliminated for LDC imports and only 6 products in Negative List for NLDCs with Tariff concessions extended on most leather and leather products in India- Korea, India – Singapore.

Citing Trade data, he said that Exports of Raw Hides and Skin picked up after removal of export ban but export duty remains in place with declining trend in global exports of Raw Hides and Skin, but surge in exports destined for South Asia increased mainly to Bangladesh and Nepal and questioned its



sustainability. He also said that South Asia's share in India's imports of Raw Hides and Skin and Leather was low. Prof Das also gave a list of Anti-Dumping on Leather and Leather Products from China among various countries globally and spoke of the Deepening integration through Regional Co-operation.

He suggested that there should be Skill upgradation through training of technicians and operators in the entire leather chain, Generation and sharing of technology for hides and skin improvement, leather manufacturing, leather finishing, chemicals, machinery, effluent treatment, quality control, better Information sharing to market developments and fashion trends and Creating inventory of regional innovations.

In conclusion, Prof Das suggested the way forward and opined that there was considerable scope for "soft" cooperation and that India offers a vibrant and dynamic market for South Asia which should serve as a magnet for regional supply chains.

He also said that linking with global supply chains through sub-contracts and the Scope for Brand South Asia as well as a Common approach to private standards need to be looked into more carefully.



The next presentation by **Dr Saman Kelegama, Executive Director, Institute of Policy Studies, Sri Lanka** was on '**South Asia Regional Integration: Policy Implications and Constraints.**' He spoke on Growing Trade, Investments and Global Integration and said that recent developments in South Asian Countries (SACs) – the re-emergence of democratic governments, new growth momentum despite the global economic downturn and greater openness – warrant a fresh look at the region's prospects for further liberalization.

He added that SA is currently the 2nd fastest-growing region in the world – GDP in SACs has grown strongly at about 6% since the 1990s, and almost 7% in the last five years, starting in 2002–03. This higher growth trend is directly attributable to the opening up of the economies, he said and that Trade and investment reforms implemented since the 1980s & 1990s have increased the region's level of global integration: trade and FDI have grown consistently since then and since opening up, trade

dependence ratio of all SACs have increased and shown an increasing trend over the years, & all SACs have shown high growth of exports and imports.

He also pointed out that substantial challenges still remain and while the advent of globalization has ushered in a new era of economic growth and development in SA, the region remains mired in highly uneven and polarized growth patterns and Poverty remains a big challenge for the region – the incidence of poverty is still very high and the absolute number of people living below the poverty line has actually increased. He also said that Low intra-regional trade between SACs has been a constant concern at less than 6% of SA's total trade with the world, compared to 52% in East Asia and the Pacific, 17% in Latin America and Caribbean and 11% in Sub-Saharan Africa (ADB 2009) with Cross-border investment being negligible with none being permitted between India and Pakistan and opined that in the context of the current economic slowdown in industrialized countries, the case for stronger regional ties becomes all the more important.

Highlighting the Exceptional Growth of Trade in Services he said that Trade in services and investment flows have been the key drivers of many economies in recent decades – services have become the single largest sector in many economies. He opined that the emergence of India as a major hub for exports of software and BPO services generates opportunities for other SACs in expanding their exports of these services and therefore a strategy of regional economic integration and enterprise cooperation across SA may assist the other SACs to benefit from a 'flying geese' model from the success story of India in IT services.

He also cautioned that despite reductions in tariff rates, nontariff barriers (NTBs) are still significant, and are currently increasing their shares in total trade costs in the region and that Trade facilitation has become the leading NTB that reduces intraregional trade in SA: and cited that according to a World Bank study (2006) the costs of trading across borders in SA are among the highest in the world. He added that SA is also characterized by inefficient and complicated administrative procedures and lack of transparency in inspection and documentation requirements and thus slow progress of SAFTA.

He added that Domestic regulation is a critical issue for developing countries and SA has historically been plagued by over-regulation and what is required for liberalization is an effective but un-cumbersome regulatory regime. SAARC is characterized by an extreme imbalance of power among member states and India enjoys more than a 3-fold advantage over other members combined in terms of GDP & population.

In order for trade and investments to develop, countries need an appropriate infrastructure, including education, telecommunication, aviation & connectivity Infrastructure development also important in creating supply capacities in relatively lesser developed members, leading to more balanced regional development, he emphasized.

Dr Kelegama then spelt out that the way forward as a region calls for making the best use of opportunities to overcome challenges and we need to harness the SA's trade, investment, and growth opportunities, which to date remains untapped, Promote greater regionalism in addressing challenges, as this creates opportunities to harness the spillover benefits of India's growth success,

Regional trade agreements are more viable as economies are on a level-playing field and are more likely to have economic complementarity. He also urged that given its economic power, India will have to take on a disproportionately larger responsibility for promoting regional cooperation in SA and yet, regional integration will not be achieved by India's unilateral actions alone and other SACs will have to respond positively to Indian initiatives for successful regional integration.

The presentations were followed by discussions where the salient points that emerged were that Co-ordination is required in the area of export taxes as a common policy in South Asia for leather. Private standards are an area of concern and the solution lies in sensitizing the Trade Policy practioners as to how compliance with standards would lead to advantages in trade negotiations and it is in this context that negotiators at WTO fora should demand that regional standards be formulated and followed.



CULTURAL EVENING



After a long day of deliberations the delegates to the conclave unwound themselves at an evening of mellifluous and soulful renditioning of the choicest of Hindi songs of the era gone by. Legendary Indian singers like Mohamed Rafi, Kishore Kumar and Mukesh were brought alive by the Musical troupe members who regaled the audience with the lilting songs of yesteryear. The audience was spell bound and thoroughly enjoyed the evening's programme.

The organizers also presented mementoes to all the delegates as a token of remembrance for their presence at the conclave.



DAY 2, 4th September 2012

Day 2 dawned with the presentations in the session titled **“Intra regional Investments in Leather and role of regional Association of Leather.”**



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The first presentation was by **Dr Rashmi Banga, UNCTAD** who spoke on “**Intra-Regional and Extra-Regional FDI in Leather and Leather Products in South Asia.**” She started by saying that South Asia is losing its share in global market and China was way ahead in global market with its share in global exports of finished leather being 42%, in leather products-50% and in leather footwear-34%. She also cautioned that competition had come to domestic market. She also said that China's exports to South Asia in leather and leather products increased from mere \$3 million in 1992 to \$590 million in 2011, a rise of 25% every year.

Analyzing the growth of China's Leather industry she said that it could be attributed to the second wave of reforms since 1991 which led to a large inflow of FDI into the leather industry and the reforms which envisaged two year tax exemption, 50% income tax in third year, single window clearance for all approvals and delegation of approvals for FDI to local authorities. Citing other factors she said that It has been argued that China's traditional labour intensive industries are not as efficient as comparative advantage theory may imply that Government has played a major role. Moreover, over investment in production capacity; favorable bank loans; and local protectionism and subsidies on imported equipment have all led to increasing cost efficiency of Chinese firms.

Presenting the current status in South Asia, Dr Banga said that FDI in leather industry in South Asia has remained very low, in spite of all the efforts undertaken by different countries- less than 1% of total FDI into the region. She added that the FDI inflows in India from April 2000 to January 2012 amounted to only \$59 million, which is 0.04% of total FDI inflows; Bangladesh attracted 0.11% of total FDI in 2010. Between 1991 to 2005, Pakistan attracted \$52 million of FDI which is 0.1% of total FDI stock in this period. Sri Lanka records FDI in textiles and leather together.

Tracing the important policy changes in the region, she said that In India ,100% FDI in leather through automatic route without license from 2012; In Pakistan, leather industry has been granted "Priority industry" status and 100% foreign investments have been allowed in leather industry while in Bangladesh they have created a separate Leather Zone, relocating the existing crowded industrial sites to a well-organized environment to encourage FDI in this industry. Talking of Labour Productivity, she said that according to NMCC (2009), in the key segment of footwear, the labour cost per item in India was cheaper by 41% over China although the productivity of Chinese employees was higher by 33%. Over the years, China was facing rising labour costs in leather industry. Labour cost in leather industry increased from 0.39\$/hr in 2003 to 1.1\$/hr in 2008.

Dr Banga also enumerated the reasons for the rising labour costs in China Growth of the economy as due to the New Labour Contract Law (LCL), which mandates transparent employment and empowers workers to bring legal action against employers who do not pay proper wages, insurance etc., the relatively inflexible labour markets have further led to labour shortage in the centres of manufacturing. She also added that since several years, the increase in real wages has exceeded the growth of real GDP in China and the investors may relocate to low cost economies. Citing the factors unfavourable for attracting FDI in Leather Industry in South Asia, she said that it was due to low labour productivity, low level of technology, low quality of trade related infrastructure and low regional integration and high costs of intra-regional trading.

Talking of intra regional investments, she stressed that low cost labour is available in almost all countries of the region along with the availability of livestock and domestic markets in most of the countries are small, except for India. She added that Intra-regional FDI, therefore needs to be more vertical in nature and efficiency seeking as compared to market seeking FDI but cautioned that the region has high tariffs and other trade barriers. She also cited other studies on the impact FTAs can have on intra-regional and extra-regional FDI and mentioned that in the context of Korea-U.S. FTA, Kang and Park (2004) found that FTA increased FDI by 14-35% from member countries and by 28-35% from non-member countries, Baltagi et al. (2005) found that an RTA increased FDI up to 78% among European countries and a UNCTAD-ADB(2008) study estimated that full SAFTA can lead to an increase in 30% of FDI, which will be more vertical in nature raising the probability of forming regional supply chains.

In other areas of intervention, she said that the Regional Investment Agreement needed to be followed up based on the ASEAN Comprehensive Investment Agreement (ACIA).As regards the Regional response needed to improve region's competitiveness, she said that they must improve trade facilitation measures, formulate favorable Policies to attract extra-regional and intra-regional FDI, lower

intra-regional trading costs by lowering tariff and non-tariff barriers and encourage Regional investment agreement.

She concluded by saying that Regional investment agreement in South Asia can go a long way in building confidence and filling the huge trust deficit between the countries and that Economic interests (i.e. the potential of increasing trade and investment) and strategic interests (i.e. better positioning to have a say in global governance) can lead to increased integration of the region and the Region's industry can play a pivotal role in this.

The presentation was then followed by **comments from the representatives from the various countries** in the region.

Mr M Rafeeqe Ahmed, Chairman, CLE opined that a detailed analysis was required to be carried out to find out why a large investment should not come to South Asia.

Mr. Syed Nasim Manzur, President, Leathersgoods & Footwear Manufacturers & Exporters Association of Bangladesh (LFMEAB) & Managing Director, Apex Adelchi Footwear Limited, Bangladesh gave insights as to why the FDI's shy away from South Asia. He gave the major reasons as Access to land and fear that Government Policy is unpredictable. He also cautioned that major Taiwanese investors are looking seriously at Myanmar and we must be concerned about it. He also suggested that using regional FTA's to springboard Indian investments needs to be seriously pursued.

Prof. Abhijit Das, Professor and Head, Centre for WTO Studies, New Delhi said that US and Korean FTA's would need to be studied for lessons to be learnt.

Mr SM Naseem, Chairman of the Pakistan Tanners Association commented that a study may be required to find out as to why American and European investments in China are moving to Africa and East Europe.

Mr RK Jalan, Vice Chairman, CLE commented that "Skill Development" was also an area that needs to be seriously looked into.



Mr PR Aqeel Ahmed, Regional Chairman (SR), CLE said that our focus has to be within the South Asian region and see how we can make it an attractive destination for getting FDI's. He stressed that we must make a study and identify potential investors and we need to focus on how the Leather Industry would be in the next generation and how this industry would move forward.

Dr Richard Kozul-Wright, Director, ECIDC, UNCTAD cautioned that unless you are in the American market you are not considered to be a serious player in the business. He said that the Chinese had managed this well and we must keep track of any information about the impact of spill overs on the American economy due to the surplus Chinese Goods.

Responding to the comments made, **Dr Rashmi Banga, UNCTAD** first revealed the source of her data as being the World Development Indicator and the UNIDO Data Set.

- FDI Investments are country specific.
- Myanmar angle would be studied in detail.
- Tax concessions are available across the board for all industries.
- More studies would be carried out with respect to American Investments in Africa and East Europe.
- Joint ventures are more preferred than 100% foreign equity.
- Supplementary policies are required in the case of 100% FDI
- We need to look at the Development Impact of FDI's.

This was followed by the final presentation of the conclave by Mr Anil Bharadwaj, Secretary General, FISME on "Role of Regional Association." He started with an overview of the SAARC Leather sector and defined the Context of Regional Cooperation with the Proposed Sectors for Cooperation being

Research & Development comprising Raw material quality, Mandatory & Voluntary Standards and Cleaner production techniques; Advocacy comprising Institutional Linkages and Creating common grounds for MRAs' with testing labs in partner countries and Technology comprising Extraction/Processing/storage of raw hides & skins, Enhancing manufacturing Capabilities and Recycling/Waste Management/Effluent treatment.

On the R& D front, he said that Joint research to strengthen the bottom rung of the value chain i.e. the livestock, various diseases affecting its skin and the Sharing of learning on intervention types & related best practices need to be focussed on. In the realm of mandatory and voluntary standards, Mr Bharadwaj suggested the identification of capacity gaps of the member countries in conformation to various standards and the creation of a resource base for negotiation with inter-regional trading partners. In the realm of Cleaner Production techniques he said that Research on green manufacturing, non-conventional energy, waste management etc. and the scouting for international best practices and research on adaptation to SAARC environment was essential.

Mr Bharadwaj said that in the area of advocacy Institutional linkages need to be built and Identifying key areas of pain points for the SAARC leather sector and probe the advocacy for reforms; collective initiatives.. with policy makers, international agencies, associations etc. was a must. He also added that a review of export/import laws to determine clarity, relevance & conformity with international obligations and Common grounds with voluntary standard setting agencies needed to be worked upon. He also advocated to work towards recognition of SAARC labs in the partner countries through mutual recognition agreements.

In terms of Technology, he said that adoption of livestock welfare measures and sharing of best practices in abattoir; hide collection/ storage; rural units was required. He added that toward enhancing manufacturing capabilities we must promote innovative technologies for eco-friendly leather processing, higher per unit value realization, quality assurance, have Technology benchmarking of Tanneries, Footwear & Leather goods units and adopt/share best practices for increased productivity through creating a knowledge network. He also suggested that exploring & promoting solid waste utilization avenues, addressing environmental challenges and promoting

technology transfer and development of viable solutions towards zero water discharge, waste management, recycling were effective waste management practices to be followed.



He enunciated the role of the SAARC Development Forum as being:

- Enhancing SAARC Leather exports
- Addressing concerns relating to Market Access
- Prioritizing the Technological research
- Trade & Investment facilitation

Elaborating further, he said that easing the impediments exporters face chiefly in the area of mandatory and voluntary standards, Identifying gaps in compliance capacity and capability of the firms of the region and Conceiving and developing work programmes for bridging the gaps would enhance SAARC Leather Exports

Raising the market access concerns in the area of Technical standards and also push for specific Trade Facilitation measures with regards to leather sector at the regional or multilateral for a, should be followed he opined.

Prioritizing Technical research in the SAARC region, Enhancing technological capacities of the sector through promoting a network of research institutions in the SAARC countries and Promoting joint research and technology transfers should be vigorously pursued, he suggested.

Promotion of FDI, Capacity building of institutions(Associations', EPCs'), Collation & dissemination of trade information in SAARC countries, Advocacy for easing trade related documentation for intra-regional trade and Identifying and strengthening of trade related infrastructure & services for Facilitating intergovernmental collaboration of trade agencies and Facilitating Knowledge-sharing activities/workshops were areas of high importance, he stressed.

He concluded by giving the Institutional Mechanism for the initiation of SAARC Leather Development Forum, which he said should be a Hub and Spoke Model with a Central Secretariat with Country

specific chapters in each country and Public & Private institutions as members along with chapters to have Standing Committees in various domains. He also added that initially the forum can use the infrastructural support of the partner institutions; eventually a permanent secretariat (and a legal institutional framework) to coordinate various projects/initiatives can be sought. As regards funding, Mr Bharadwaj suggested that Partner contribution and donor funding could be used to to kick start and then the National agencies could come forward with national agenda.



The discussions after this presentation were very animated and the crux of the discussion was that everyone welcomed the idea of a regional association for leather. They all agreed that this should be private sector led and a clear horizon needed to be defined to create a momentum for the association.

CONCLUSIONS AND FEEDBACK

The first speaker in this concluding session was **Dr Richard Kozul-Wright, Director, ECIDC, UNCTAD** who said that it was a very fascinating workshop and at UNCTAD they look at challenges from a macro-economic point of view and they saw a huge potential for South Asian co-operation in Leather. He thanked the Chairman, CLE as well as other co-organizers and all the participants of the conclave.



Dr Rashmi Banga, UNCTAD said that the Leather industry in this region is very capable and will make fruitful interventions in putting co-operation over competition and would become global leaders. She also thanked CLE and FISME for the conclave.

Mr Syed Nasim Manzur, President, Leathergoods & Footwear Manufacturers & Exporters Association of Bangladesh (LFMEAB) & Managing Director, Apex Adelchi Footwear Limited, Bangladesh lauded the enlightening discussions over the last two days of the conclave and thanked CLE and other supporting organizations for the wonderful time had by all. He was very optimistic that the output of the conclave would be great.

Mr SM Naseem, Chairman of the Pakistan Tanners Association thanked the Chairman, CLE for his kind invitation and said that **“he came as a competitor and was going back as a PARTNER.”** This could well be the summary of the Regional Consultation meeting. Mr Naseem also opined that the deliberations of the summit were very useful for future co-operation and said that he had an excellent stay in India.

Mr M Rafeeqe Ahmed, Chairman, CLE in his wrap up talk said that he was glad that the objective for which the conclave was organized had been met. He said that the next five years would be very challenging for the leather Industry and Buying Power changes would take place. He opined that China would become a buying hub from being a manufacturing hub and India would emerge as a major global player. He also explained that if all **the nations in the region got together then we can do better business, with better bottom lines and better profit.**

He then read out the **FINAL CONCLUSIONS** drawn from the deliberations at the REGIONAL CONSULTATION ON STRENGTHENING COMPETITIVENESS OF SOUTH ASIA IN LEATHER AND LEATHER PRODUCTS, 3-4 September 2012, Chennai



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LIASA

“A landmark decision taken in the Consultation Meeting was to form a regional industry association called **Leather Industries Association of South Asia (LIASA)** which will be initially represented by India, Pakistan, Bangladesh and Sri Lanka. Nepal and Afghanistan will be inducted as members later on.

LIASA will be headed by Mr. M. Rafeeqe Ahmed, Chairman, Council for Leather Exports, India. LIASA will have separate panels for various product groups namely leather, footwear, leather garments, gloves/leather goods, components and leather chemicals and each panel will be represented by members of the respective National Associations of the member-countries. In case of countries which have various Regional Associations for a particular product segment, such Regional Associations will form a National Association to represent in LIASA. **The full-fledged LIASA comprising representatives of various product panels will be formed within December 31, 2012.**

The Consultation meeting also decided to form a **working Group of LIASA** comprising the following industry members for the purpose of holding frequent discussions and exchange of ideas and identify areas of co-operation.



1. Mr. M. Rafeeq Ahmed, Chairman, Council for Leather Exports
2. Mr. R.K.Jalan, Vice- Chairman, Council for Leather Exports
3. Mr. P.R.Aqeel Ahmed, Regional Chairman (South), Council for Leather Exports
4. Mr. N. Shafeeq Ahmed, President, Indian Finished Leather Manufacturers and Exporters Association (IFLMEA)
5. Mr. K.R.Vijayan, President, Indian Shoe Federation (ISF)
6. Mr. S.M.Naseem, Chairman, Pakistan Tanners Association
7. Mr. Mohammad Naseem, Senior Member, Pakistan Tanners Association
8. Mr. Syed Nasim Manzur, Managing Director, Apex Adelchi Footwear, Bangladesh

The formation of LIASA is seen as a first step in forging long term understanding and co-operation among leather industries in the South Asian region which are hitherto seen as competitors, so as to achieve the common objective of sustainable development and employment generation in the region. “

This indeed was a very positive and constructive end for the two day regional Consultation Meeting on strengthening competitiveness of South Asia in Leather and leather Products.

PHOTO-GALLERY





Conference Organizing Team @ CLE (with Team CSIR-CLRI)

