

## Impact and Mitigation for Leather Export Industry: A Research Study of Karachi, Pakistan

Zareesha Sheikh, Tahir Ali

Karachi University Business School, Pakistan

zareeshasheikh@gmail.com, tahirali@uok.edu.pk, ali2122@gmail.com

### ABSTRACT

*This paper examines the impact of major variables affecting the export performance of leather goods from Pakistan using a primary data source. The exporters and traders from Sindh province were taken as sampling frames. In Karachi, leather production and export facilities are primarily located in Korangi Industrial Area. A representative sample of 51, including leather exporters and traders, were selected purposively from the total population of leather exporters. The leather sector is facing a number of challenges including a low technological base, lack of research and development, lack of trained manpower, low quality standards and, in that case, Pakistan is losing its share in the international market as compared to regional countries in the leather sector because of overpriced or high cost of production.*

**Key Words:** Leather Exports, Cost of Production, Modern Technology, Smuggling of Livestock

### 1. INTRODUCTION

Pakistan is losing its share in the international market as compared to regional countries in the leather sector because of overpriced or high cost of production. It has been declining from 1.2 Billion dollars to 900 Million. But still it is showing some positivity because of the 900 Million earned in 9 months. (Rana, 2016) Gulzar Firoz Chairman

stated that the export of leather jackets reduced by 19%, gloves by 16.5%, footwear by 31% during the first five months of 2015-16 and leather industry contributes 2.6% to GDP and only 5% to country's total exports and providing jobs over one million skilled and semi-skilled workers. Pakistan's share is 0.5% in the international market for leather and leather products as compared to China's 19%, Italy 9%, Vietnam 4% and India 2.5%. Chairman Gulzar Feroz mentioned "The industry imports raw skin and leather, it has to pay 3% custom duty. In the past, the duty was at 1% then increased to 2%". The country produces the best quality of raw material (raw skin and leather) of cow, buffalo, goat and sheep, but stocks were not increasing due to very slow or stagnant growth in livestock. Currently, tanners are operating under-capacity and have to import raw material. Pakistan imports raw material and related products from the developing countries and exports value-added products to developed countries like USA and Germany. (Rafiq, 2015) Raw leather is imported from Saudi Arabia, China, Kenya, Sudan and Tanzania. To meet the need of 2.5% of their total demand. Whereas, it is highly recommended that the import duty on leather raw-material must be exempted. The objective of the study is to describe the leather industry of Pakistan. It is a fact that leather finishing and leather made-ups represent industry. It is an important sector in Pakistan and contributes a huge amount in foreign exchange. This research highlights the difficulty facing the leather industry and certain challenges due to which the industry does not continue its stability.

The study focuses on leather export potential of Pakistan, Leather industry is the second largest export earning sector after textile<sup>1</sup> in Pakistan. The leather industry consists of six sub-sectors, namely, Tanning, Leather, Footwear, Leather, Garments, Leather Gloves, Leather Shoe Uppers, and Leather Goods. The Tanning industry has been

playing a vital role in the progress of these sub-sectors by providing the basic material, i.e., leather. Pakistan is among the leading countries in the production of Leather Garments and Gloves. The leather industry has been playing a significant role in the economics of Pakistan, and its share in GDP is 4% (Bashar, A. 2003).

### **1.1 Research Aims**

The report aims to discuss the factors on the export potential of Pakistan's leather industry by conducting a survey through questionnaire and applying the quantitative research methodology.

## **2. AN OVERVIEW OF LITERATURE**

Review of the available studies on exports of leather commodities in particular revealed that limited and scanty literature is available which delineates the effect of major variables affecting leather exports in Pakistan.

While studying about the leather industry of Pakistan, I found that this sector has suffered for many years from its exports. This industry is the second major export earning sector and needs concentration to deal with the problems. As I reviewed the whole scenario, I found that the cost of production of leather products is very high. The main elements like energy, power, gas and water are not available according to the need of the leather industry. Due to which, Pakistan is not proficient in competing with its regional and international competitors. And also, high taxes make Pakistan's products uncompetitive in international markets. Unavailability of raw material creates many issues (Siddiqui, S. 2001). Hides and skins of livestock are the basic factors from which the leather products are manufactured. Pakistan fulfills its demand of 70-75 percent from its local livestock. Diseases and floods are the factors that create necessary reduction in the availability of raw material. Livestock's smuggling to other countries

can suffer the leather manufacturing industries of Pakistan. Leather industry needs modern technology. Means the knowledge about product design, training of operators, quality management and control on waste.

While reviewing the export of leather in particular, limited and barely sufficient availability of literature delineate the effect of major variables affecting leather exports in Pakistan. There is however some relevant literature available regarding leather exporting countries. There is a continuous shift of leather and leather goods production from developed to developing countries mainly due to price competitiveness which creates an opportunity for these countries (Sharif and Mainuddin, 2003). As such, developing countries are trying to increase their capacity in the production and export of leather goods. Pakistan is no exception to the changing trends at the international level, and, consequently, the leather industry in the country has flourished in response to handsome earnings from the international market (Siddiqui, 2001).

Bashar (2003) pinpoints a problem with leather industry in Pakistan, viz. the country exports high quality leather instead of high value-added leather products. Leather garments in Pakistan are made mostly from low quality and low-grade leather. These garments face tough competition from Chinese and Indian leather products as the cost of production is relatively high in Pakistan.

Massood (2009) suggested a few measures for the revival of leather industry in Pakistan including supply of raw material, the establishment of modern manufacturing facilities and promotion of leather exports in the international market. As a matter of fact, it may be concluded that leather is an important export industry in Pakistan. It has over the time flourished but still facing challenges which include, a shortage and low quality of raw material, improper marketing strategies, volatile international prices etc.

(Siddique, 2001) stated that the leather and leather products' industry was mainly located in Karachi, Gujranwala, Multan, Peshawar, Lahore, Kasur and Sialkot. The major clusters of leather products were located at Korangi (Karachi), Sialkot, Lahore and Kasur. There were 784 units, 461 leather garments manufacturing units, 348 gloves manufacturing units and over 524 footwear manufacturing units in the country. The leather sector was mainly an export-oriented sector of our country. The major countries to which Pakistan was exported leather and leather products were Italy, Portugal, Germany, France, USA, Dubai and Singapore etc. The leather sector during the last decade had shown remarkable progress in exports of value-added products.

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

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

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

(Saif, 2012) explained that Pakistan has a comparative advantage over India in the fields of Leather Gloves, Garments and Finished Leather products: whereas, India has a comparative advantage over Pakistan in leather goods for industrial and consumer use. Leather footwear is a sector where both countries have no advantage over each other. On the other hand, India has modernism in the slaughter house, whereas in Pakistan 20 to 25 percent hides and skins are getting affected by cuts on them because of unskilled labor, and old techniques are still being used in slaughter houses.

Most of the research work exploring performance of leather industry in Pakistan is qualitative in nature, and almost none of the studies is available that empirically evaluates the leather industry as a case study.

### **3. THEORETICAL FRAMEWORK**

The dependent variable is leather exports. I tried to clarify the change in this dependent variable by the three independent variables of

1) Cost of Production. 2) Smuggling of Livestock. 3) Modern Technology

The leather industry is facing the problem of high cost of production of necessary inputs due to which Pakistan's products have not been able to compete with the international market. The relationship between Leather Export and the Cost of Production is negative. Shortage of raw material in Pakistan declines leather exports and has a positive relationship between raw material and leather exports. For raw material, the basic sources for the tanning industry are hides and skins from animals slaughtered for daily consumption. Leather industry of Pakistan is facing supply related problems with regards to the availability of raw skin and utilities, i.e., Power Supply and Gas. Around 80% of hide and skin are available in the country while 20% of raw hide and skin are imported from regional countries. The main source of raw material for leather is livestock. Smuggling of livestock is the crucial factor that causes a decline in leather exports. If the raw material is not fulfilling the demand of the leather industry, then it is difficult to make the product.

Lack of high-tech quality products and shortage of skilled workers cannot compete with the demand of the international market and has a positive relationship with the lack of modern technology and leather exports.

Modern Technology in the leather industry relates to a variety of knowledge, products, tools, methods or systems used in the formation of leather and leather related products. There is an urge in the leather sector to train a labor force that has the capability of producing leather and leather goods in a scientific way.

#### **4. SIGNIFICANCE**

The purpose of this research paper is to recognize the challenges and opportunities that the Pakistan leather industry faced during trade liberalization from other countries. The leather industry takes a higher place of status in the Pakistan economy, in sight of its huge potentials for export, growth and employment. Pakistan leather industry has reached well-rated appreciation in global markets and has also taken a well-known place among the top most foreign exchange earners of the country. The leather industry has experienced a strong revolution from typical exports of raw materials to value-added finished goods. The industry is moving for further development to attain a greater share in the international trade.

#### **5. RESEARCH METHODOLOGY**

The leather exporters and traders from Karachi are taken as the sampling frames. A representative sample of 51 leather exporters and traders were selected from over all leather exporters in Karachi to find out the impact of three variables on exports of leather goods. We use Convenient Method. The equation given shows the relation between dependent and independent variables.

##### ***5.1. Research Strategy***

Qualitative approach has been adopted to understand the exporters or traders' perception regarding the downfall of leather industry and to identify the most critical factors that are creating a hurdle in the progress of leather industry; a tool of interviews and back ground of leather industry has been studied. On the basis of study and data collected through interviews, the most critical problems were highlighted, and their recommendations have been given accordingly, which is followed by a brief conclusion of the leather industry.



## ***5.2. Research Hypothesis***

In the current study on the basis of discussion and literature, the set of variables consists of the following variables: cost of production, smuggling of livestock, modern technology.

Through these hypotheses, it is possible to ferret out whether chosen independent variables: cost of production, smuggling of livestock, modern technology has a noticeable impact on the dependent variable which is leather export. Moreover, it is also to find out whether the relations between the variables are direct or indirect. On the basis of the above discussion, the following hypothesis was developed.

### **Dependent Variable:**

Leather Export

### **Independent Variable:**

#### ***1. Cost of Production***

H1: Pakistan is losing its share in international market as compare to regional countries in leather sector because of overpriced or high cost of production.

#### ***2. Smuggling of Livestock***

H2: Pakistan is losing its share in international market as compare to regional countries in leather sector because of smuggling of livestock.

#### ***3. Modern Technology***

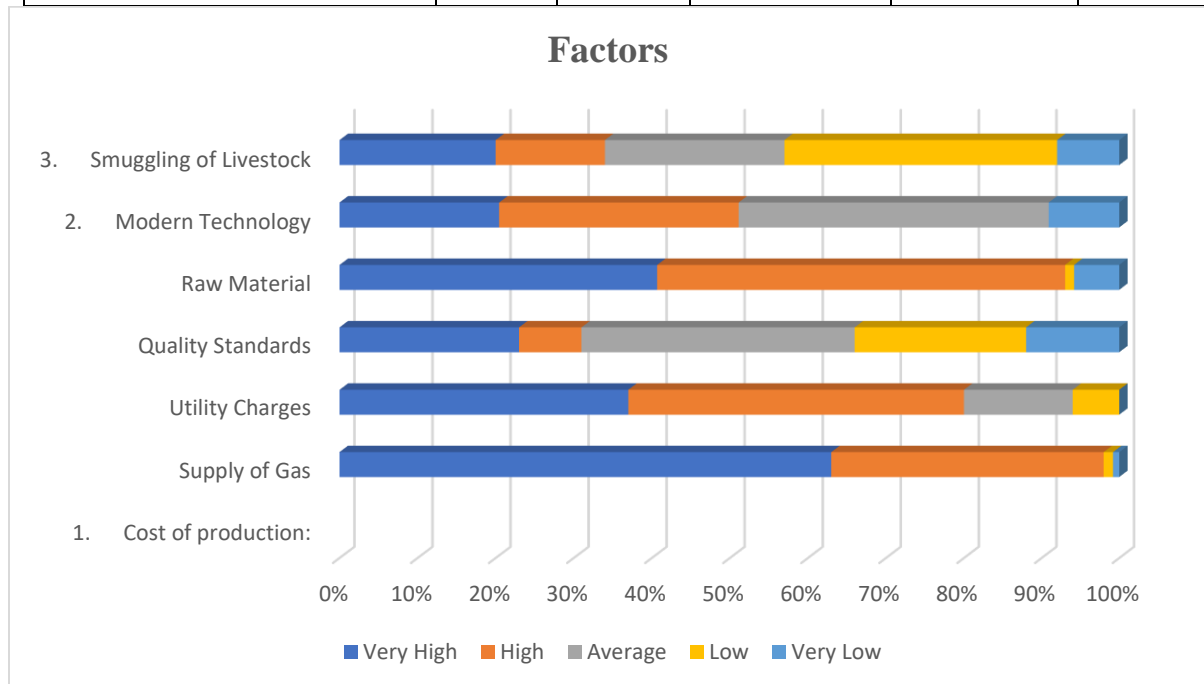
H3: Pakistan is losing its share in international market as compare to regional countries in leather sector because of Modern Technology.

### 5.3. RESULTS

Based on the questionnaire response data has been sort out on the percentage basis.

**Table 01:**

<b>Factors</b>	<b>V. High</b>	<b>High</b>	<b>Average</b>	<b>Low</b>	<b>V. Low</b>
<b>1. Cost of production:</b>					
<b>Supply of Gas</b>	63 %	35 %	-	1.2 %	0.8 %
<b>Utility Charges</b>	37 %	43 %	14 %	6 %	-
<b>Quality Standards</b>	23 %	8 %	35 %	22 %	12 %
<b>Raw Material</b>	35 %	45 %	1 %	1 %	5 %
<b>2. Smuggling of Livestock</b>	20 %	14 %	23 %	35 %	8 %
<b>3. Modern Technology</b>	18 %	27 %	35 %	12 %	8 %



#### **5.4.Hypothesis Assessment Summary**

The analysis of the data shows the relationship between dependent variables and independent variables. After examining every variable, the result indicates that leather exports increase when the cost of production decreases. For the industry, the cost of production is very high. If the smuggling of livestock decreases, the Leather exports increases. Livestock is the basic factor of raw material for the leather industry. Modern technology increases, and the impact will show the increases in Leather exports. Advances in product design, machines and control on waste so on is very important for the leather industry.

<b>SN</b>	<b>Hypothesis</b>	<b>Evaluation</b>
<b>1.</b>	Pakistan is losing its share in the international market in the leather sector because of overpriced or high cost of production.	Accepted
<b>2.</b>	Pakistan is losing its share in the international market in the leather sector because of Smuggling of Livestock.	Rejected
<b>3.</b>	Pakistan is losing its share in the international market in the leather sector because of Modern Technology.	Rejected

**Table 2:** *Hypothesis Assessment Summary*

## **6. Recommendation**

- To convalesce the leather export industry, it's very crucial to boost the availability of raw material.
- Livestock smuggling has to stop as it is the most important source of raw material for the leather industry.
- The products' quality which are being exported to other countries should be refined and must meet the need of the shopper.
- Constant supply of water and electricity is a necessity.
- Pakistan's leather products need to be promoted by good marketing agencies to promote all over the world.
- The tax rate needs to be reevaluated and should minimize for the leather industry.

## **7. Limitations of The Study**

The research is prepared by being considerate, but I have faced exiguous limitations in the formation of the report. As a student, I was reluctant in collecting the facts and figures to go by myself and visit the leather industry due to the prevailing situation because of Covid-19. Besides, the report can be extended from city-based to countries in order to achieve standard ends which would then be able to be generalized with the assistance of quantitative examination.

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