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Panel IV Global trade liberalization: Implications for industrial restructuring



Background Paper

Sectoral impact of the Uruguay Round Agreements on developing countries: Leather industry

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IMPACT OF URUGUAY ROUND AGREEMENT ON LEATHER INDUSTRY

The Uruguay round agreement marks a watershed, and for the first time, multilateral trade negotiations under GATT encompass not only the traditional goods sector but also extend to three new areas, namely investment, intellectual property rights, and services.

One of the achievements of the Uruguay Round in respect of market access was the significant reduction of the levels of tariffs. These targets included inter alia, the average reduction of all tariffs on industrial products by one third on a trade weighted basis and, with regard to agricultural products, the tariffication of all non tariff measures and the reduction of all tariffs, including those resulting from the tariffication process, by an average of 36%, with a minimum cut of 15% for each tariff line. For developing countries, the average tariff reduction was set at 24%, with minimum reductions by line of 10%.

Developing countries will benefit from these tariff reductions, which should improve their market access, in particular with regard to products and countries excluded from preferential import schemes of developed countries. Among the developed countries the largest percentage reductions in tariffs on industrial products are those by Japan and New Zealand, at 56 and 53 percent respectively. The tariff changes among the 27 developing economy participants vary considerably. Eleven countries have offered tariff reductions and no ceiling bindings. Among them India, Korea and Singapore will reduce their tariffs on industrial goods by more than half from 71.4% to 32.4%. In the case of India, from 18 to 8.3% in the case of Korea, and from 12.4% to 5.1% in Singapore's case.

Tariff Reductions

The UNCTAD secretariat has calculated what would have been (other things being equal) the structure of Quad markets' (i.e. Canada, the European Union, Japan and the United States) imports from developing countries (in terms of tariff levels) on the assumption that the reduced tariff levels agreed in the Uruguay Round were in force at that time (i.e. 1988). The results are shown in Table 1. It can be seen that, on this basis, duty-free access for developing countries for all products will increase, once the concessions are implemented, from 12 per cent to 37 per cent of United States imports (excluding fuels), and from 24 per cent to 36 per cent in European Union, 26 per cent to 43 per cent in Canada and 25 per cent to 48 per cent in Japan.

Table 1

**QUAD COUNTRIES: DISTRIBUTION OF IMPORTS IN 1988 BY
LEVEL OF MFN DUTY (AT PRE-AND POST-URUGUAY ROUND RATES)**

(Percentage)

	Leather and Footwear					All Products				
	Value (\$mill)	Duty free		10% and above		Value (\$ mill.)	Duty Free		10% and above	
		A	B	A	B		A	B	A	B
Canada	417	-	-	99	78	10162	26	43	45	20
European Union	3583	8	8	24	24	106626	24	36	33	26
Japan	1007	10	13	84	28	53675	25	48	22	11
United States	6789	1	6	42	41	132937	12	37	18	15

Source : Calculations by the UNCTAD, based on data in its Trade Control Measures Information System.

Note : A = Pre-Uruguay Round, B = Post-Uruguay Round.

However, these increased shares for developing countries remain in general lower than the post-Uruguay Round shares of imports from all sources, although, except for imports by the European Union, the increase in the developing countries' share is relatively greater. These figures mainly reflect the increase in the proportion of duty-free imports of "other industrial products", which include products for which Quad countries agreed to eliminate tariffs. While the proportion of MFN duty-free imports by Quad countries in 1988, from developing countries, of products included in most of the sectors shown was already substantial, and will be further increased (often more than for imports from all sources), the proportion of duty-free imports of textiles, clothing, leather and footwear into these markets remains very low.

The agreed concessions on tariffs will lead to a general reduction of the share of imports facing tariffs of 10 per cent or more. Nevertheless, while developing countries benefit from liberalization in all sectors, the proportion of imports attracting duties of 10 per cent or above remains relatively high, in particular for imports from developing countries in product sectors of export interest to them, such as agricultural products (non-tropical), textiles and clothing, and leather and footwear. Moreover, while higher tariffs have been reduced, there are several instances where significant proportions of imports from developing countries would still be subject to MFN tariffs in the high-tariff range, especially for the sectors mentioned above.

For leather and footwear duty free imports from developing countries increased from 10 per cent to 13 per cent for Japan and from 1 to 6 per cent for the United States. The agreed concessions on tariffs will lead to a general reduction of the share of imports facing tariff of 10 per cent or more. It can be seen from Table 1 that the decline in proportion under duty free access and under 10 per cent or more tariff level is much less for leather products than it is for

all products.

Calculations by the UNCTAD secretariat show that, for imports from developing countries, overall MFN tariffs will be reduced on a trade-weighted basis, as a result of the tariff concessions, by 37 per cent in Japan, 28 per cent in the United States, 30 per cent in the European Union and 41 per cent in Canada. The reductions vary considerably among sectors and markets, ranging from 6 per cent for leather and footwear in the United States to 59 per cent for non-agricultural tropical products in Japan. In many instances, particularly in sectors of export interest to developing countries (such as agricultural products, textiles and clothing, leather and footwear), MFN tariff averages will be considerably higher than the average for all products after the implementation of the agreed reductions. Even if allowance is made for preferential imports from developing countries under the GSP, which considerably lowers the averages for developing countries for the sectors just mentioned, post-Uruguay Round tariffs remain higher than the overall tariff in each Quad market for imports from all sources. The same generally holds true at a higher level of product disaggregation. For instance, within the tropical agricultural products, it is the case for dairy produce (in all four markets) and meat, cereals and fruit and vegetables (particularly in Japan and the European Union). For natural resource-based products it holds especially for fish and fishery products in the European Union. As for manufactures, while in this sector on the whole tariff reductions are greater than for other sectors, some products of particular export interest to developing countries will still face relatively high tariff barriers in Quad markets - not only textiles, clothing and footwear, as already mentioned, but also products such as travel goods (EU and North America), cork and wood products (Japan), automotive products (EU) and sanitary, plumbing, and heating appliances (United States). It can be seen that

the reduction in trade weighted tariff averages for imports is much lower for leather and footwear (ranging from 5.2 per cent to 24.3 per cent for the Quad countries) than for all products (ranging from 28.3 per cent to 40.5 per cent for Quad countries) see Table 2.

Table 2
Reduction in Trade Weighted Tariff Averages for Imports by Quad Countries in 1988
(Percentage)

	Imports from developing countries							
	Value (\$mill)	MFN tariff average		Reduction ^b (%)	Value (\$ mill.)	MFN tariff average		Reduction ^b (%)
		A	B			A	B	
	Leather and Footwear				All Imports			
Canada	417	19.8	15.0	24.3	10162	12.4	7.4	40.5
European Union	3583	9.1	7.8	14.7	106626	9.8	6.9	29.8
Japan	1007	13.3	11.5	13.3	53675	7.4	4.7	36.5
United States	6789	9.6	9.1	5.2	132937	7.6	5.5	28.3

Source : As for table 1.

Note : A = Pre-Uruguay round; B = Post-Uruguay Round.

a Including duty-free imports.

b for reasons of statistical significance, average reductions from pre-uruguay round tariffs that were below 1 per cent ad valorem have not been calculated.

The trade-weighted average tariff reduction in Quad markets is often smaller when this average is calculated using imports from developing countries as weights than when using imports from all sources. This is because most of the products which developing countries successfully

export face relatively high tariffs in developed country markets, and these tariffs consequently are given a relatively greater weight. This is true not only for their exports as a whole (except to Japan) but also within most of the major product groups. What implications do these tariff reductions have on world trade in Leather? While reduction would certainly stimulate trade, each developing country would benefit differently. For instance USA is India's largest trading partner in leather items, but the tariff reductions are the least in the United States.

Reduction in Tariff Escalation

A major concern of developing countries has been tariff escalation in the developed countries. This occurs when the tariff applied on a product chain rises as the level of processing increases. The result is that high rate of effective protection are provided to a country's processing sector. The increase in the domestic production of the processed good, and the consequent reduction in its imports is thus likely to be greater than it would be if the nominal tariff on the processed good was the same but tariffs were not subject to escalation. A consequence of tariff escalation is that the development of processing industries in developing countries and thus their efforts to industrialize may be inhibited.

In Table 3, the change in tariff escalation as a result of the Uruguay Round is measured by the change in the tariff wedge, that is by the change in the absolute difference between the tariffs at the higher and lower stages of processing. According to this definition, tariff escalation is reduced when the tariff wedge declines, that is, when the absolute decline in the tariff on the more processed version exceeds the absolute decline in the tariff on the less processed version.

Table 3

**Changes in tariff escalation on industrial products
imported by developed countries from developing economies
(Billions of US dollars and percentage)**

	Imports	Share of each Stage	Tariff		
			Pre- U.R.	Post U.R.	Absolute reduction
All industrial Products¹					
Raw materials	36.7	22	2.1	0.8	1.3
Semi-manufactures	36.5	21	5.4	2.8	2.6
Finished products	96.5	57	9.1	6.2	2.9
All tropical industrial products					
Raw materials	5.1	35	0.1	0.0	0.1
Semi-manufactures	4.3	30	6.3	3.4	2.9
Finished products	4.9	34	6.6	2.4	4.2
Natural resource-based products					
Raw materials	14.6	44	3.1	2.0	1.1
Semi-manufactures	13.3	40	3.5	2.0	1.5
Finished products	5.5	17	7.9	5.9	2.0
Hides, Skins and Leather					
Raw Materials	0.02	3	0.0	0.0	0.0
Semi-manufactures	0.36	49	2.9	2.9	0.9
Finished Products	0.36	48	6.1	5.2	0.9

Table 3 presents summary picture of the situation facing developing country exports of selected industrial products to the developed countries. Two features are evident at this level of aggregation: first, developed country tariffs, averaged over all industrial products, were subject to escalation before the Uruguay Round tariff cuts, and in most (but not all) instances will remain so after the cuts; second, there have been greater absolute reductions in average tariffs at more

advanced stages of production than t earlier stages of production, both for all industrial products and for the two sub-groups shown in the Table, which suggests that the overall degree of escalation has been reduced or eliminated. For natural resource-based products, for example, the average tariff applied to semi-manufactures has been reduced to the same level as raw materials (2 per cent), the new average tariff applied to semi-manufactures has been reduced to the same level as raw materials (2 per cent), and while the new average tariff applied to finished natural resource-based products remains above that on semi-manufactures (5.9 compared with 2.0 per cent), the tariff wedge is smaller (3.9 per cent compared to 4.4 per cent).

The figures in Table 3 are useful, up to a point, as broad indicators of the general direction of change in tariff escalation. But it is necessary to be cautious in drawing conclusions since the concept of tariff escalation refers to precisely defined manufacturing "chains" involving particular products, and not to whole economic sectors.

However, at a disaggregated level in the case of a few products, the decline in intermediate good tariffs has been larger than the decline in final good tariffs, implying an increase in tariff escalation at the final stage. These include : rubber in the EU, Japan and the United States; jute in canada, the EU and the United States; lead in Japan and the United States, zinc in Canada; and hides, skins and leather in Japan.

If we look at the country-wise changes in tariff escalation on leather products imported by developed economies for four major countries i.e. the European Union, Canada, Japan and the United States, we find a wide variation in total absolute reduction in tariffs. The reduction is highest for Canada at 6 per cent and the least for the United States at 0.8 per cent. See Table 4.

Table 4

**Country-wise Changes in Tariff escalation on
Leather Products imported by developed economies**

(Millions of US dollars and percentages)

	Imports	Share of each stage	Tariff		
			Pre-UR	Post-UR	Abs. reduc.
European Union					
Raw	237	12.6	0.0	0.0	0.0
Semi-manufactures	1062	56.3	4.2	3.6	0.6
Finished products	586	31.1	7.5	5.2	2.3
Total	1886	100.0	4.7	3.7	1.0
Canada					
Raw	1	0.3	0.0	0.0	0.0
Semi-manufactures	67	35.3	9.9	6.5	3.4
Finished products	122	64.4	19.7	12.2	7.5
Total	189	100.0	16.2	10.2	6.0
Japan					
Raw	50	5.6	0.3	0.1	0.2
Semi-manufactures	93	10.4	10.5	6.2	4.3
Finished products	744	84.0	15.4	13.9	1.5
Total	886	100.0	14.0	12.3	1.7
United States					
Raw	19	2.7	0.0	0.0	0.0
Semi-manufactures	358	48.9	3.8	2.9	0.9
Finished products	355	48.4	6.1	5.2	0.9
Total	732	100.0	4.8	4.0	0.8

World Trade in Leather

Leather goods comprise of raw hides and skins, finished leather, footwear and components, and clothing accessories. Exports of leather grew from \$ 37.2 billion in 1988 to \$ 48.6 billion in 1992 registering a compound growth rate of 6.9% per annum. Amongst the different categories of leather products, footwear components was the fastest growing segment. see table 5.

Table 5

World Exports of Leather and Leather Products

Description	1988	1989	1990	1991	1992	Compounded Annual growth Rate %
Raw hides and skins	6,292	5,711	5,937	4,593	4,370	-8.7
Finished Leather Leather etc.	7,751	8,114	9,393	8,965	9,859	6.2
Manufactures	708	477	570	633	673	-1.3
Footwear components	1,636	1,720	2,276	2,574	3,013	16.5
Clothing accessories	4,376	5,425	5,905	5,690	6,097	8.6
Footwear Leather	16,418	17,854	22,081	22,957	24,596	10.6
Total	37,181	39,301	46,162	45,412	48,608	6.9

Source : International Trade Statistics Year Book, 1992, UN.

The major exporters of leather items from the developing countries are Hong Kong, China, Thailand, India, Taiwan and South Korea. Chinese exports have registered a remarkable growth from US \$ 987 million to US \$ 3927 million representing an annual growth rate of 41.2%. The growth rate of Hong Kong's exports comes next at 33.32%. Thailand also achieved a high growth rate of 25.6%. As against these, India's growth rate was meager 5.8% and that of Korea was negative. Taiwan's exports also showed a decline. In terms of absolute amounts, Korea's exports were the highest followed by Hong Kong and by China. Considering the fact that more than 90% of Hong Kong's exports were re-exports mostly from China, China's total

exports exceeded that of any country. At a disaggregated product level, in each of the product categories except finished leather, china's growth rate is the highest of all the countries. South Korea is losing ground and its exports are declining except in finished leather. Similarly, Taiwan's exports of leather footwear also have been experiencing difficulties and have declined. Of all the countries China has emerged as the most competitive even though as a percentage of its total exports, its leather and leather products exports are less than those of other countries except Taiwan.

If we look at the relative share of exporting countries in world exports of leather products, we find that during 1988 to 1992 China's growth in the world exports of leather has been spectacular, increasing from 2.7% in 1988 to 8.1% in 1992. Hong Kong comes next with its share increasing from 3.6% in 1988 to 8.6% in 1992. India's share has been more or less stagnant around 2.8% while that of Korea's has shown a sharp decline from 17.3% in 1988 to 12.2% in 1992.

Relative Competitive Advantage (RCA)

Many books on international trade and industrial economics talk about the concept "Revealed comparative advantage". According to the theory of international trade, goods flow from one country to another if the price prevailing in the second country is more than the international price. Of course this hypothesis assumes that there are no barriers whatsoever to international trade either in the form of tariff or in the form of export import ban or quota restriction. However, in actual life this is never the case. If the assumptions were correct the first country is said to be enjoying a relative advantage in trade. This trade advantage can be

expressed in the form of a ratio indicated by the price prevailing in the country to the international price.

Since there are all kinds of trade barriers, the price of a particular commodity within a country cannot be equated to the international price. In order to get an indication of the measure of the advantage that the exporting country has economists use the price prevailing before the exports in the exporting country to the international price. Even ascertainment of this price precisely is difficult and therefore a proxy is used to assess the advantage. This proxy is the ratio of the exports of a particular commodity from a country to its total exports in relation to the ratio of the total world exports of the commodity to total world exports of all goods. Any index of more than 1 indicates a positive advantage and any index of less than 1 indicates a negative advantage. This is what is often referred to as "Revealed comparative advantage". In a recent study conducted by the Administrative Staff College, Hyderabad, on International Competitiveness of Leather industry in selected Asian countries, a cross country comparison of estimates on relative competitive advantage has been made.

For the purpose of our cross country comparison a similar approach is used here but instead of taking the total world exports of leather and leather products and the total world exports of all goods in the denominator, the total leather and leather exports only of the major countries is used. These countries are Hong Kong, China, Taiwan, South Korea, Thailand and India. This will also give a better comparative perspective. This index has been called "Relative competitive advantage" (RCA) instead of "Revealed comparative advantage". Table 6 shows the RCAs for the countries in 1988, 1990, 1992.

where e_{ij} = Total exports of leather and leather products for the country

$$RCA = \frac{e_{il}}{e_{it}} \times \frac{ET}{EL}$$

e_{it} = Total exports of all goods for the country

ET = Total exports of leather goods for all the six countries

EL = Total exports of all goods for all the six countries

Table 6

Index of Relative Competitive Advantage for Leather and Leather Products

Country	1988	1990	1992
India	1.453	1.612	1.512
China	0.453	0.612	1.07
Thailand	0.66	0.959	0.977
South Korea	2.038	2.306	1.791
Hong Kong	0.396	0.612	0.814
Taiwan	n.a.	0.429	0.279*

Source : Leather and Leather Products (1995) Administrative Staff College of India.

* Estimate

Note : The figure for 1988 does not include Taiwan.

Table 6 shows the relative competitive advantage for each of the countries covered by the study. This ratio has been calculated for the years 1988, 1990 and 1992. The fact that South Korea's RCA is the highest of all means that the total leather and leather products exports from Korea constitutes a higher percentage on its total exports than the weighted average to just above average. For Thailand and Hong Kong leather and leather products exports constitute a lesser

percentage.

The RCA index by itself may not be very significant but its trend is. For China, Thailand and Hong Kong it has been increasing, the amount of increase being about 50% for all of them. For India after an initial increase in 1990 it has slipped back in 1992. This phenomenon is mainly due to the devaluation of the rupee. For both South Korea and Taiwan the index shows a declining trend.

The World Leather Industry

In the initial stages of development of the leather industry i.e. in the early 1970s, tanneries and footwear manufacturing units flourished in the developed countries, namely, USA, UK, France, Germany and Canada. However with rising incomes in these countries, the wage rates increased to a level where the units in these countries could not compete with other countries. The second phase of the development of the footwear industry was therefore their establishment and expansion in countries like Italy, Japan, Portugal, South Africa, Eastern Europe and Turkey. Some of the units from the high cost developed countries also either established units in these countries or moved their production facilities to these countries.

It should also be mentioned that footwear manufacture out of leather was also a traditional industry carried on by skilled craftsmen and later by family managed units in countries such as India, China, Pakistan and Brazil. The footwear units in these countries in the initial stages served the domestic market and were gradually exposed to the international forces of leather processing and footwear manufacturing.

With an increase in wage rates in the second level countries too, countries in the far east,

such as Hong Kong, Korea, Taiwan and Thailand established tanneries for processing leather as well as footwear manufacturing units. With thin low wages they could offer intense competition to the tanneries and footwear units in Europe, South Africa, etc. However, the process of tanning is highly capital intensive and its technology is also complex. Therefore, the tanneries in the European countries were able to withstand the competition from the developing countries for some time for which the improvement and sophistication in technology helped them. Nevertheless, the developing countries in the far-east offered very stiff competition in footwear. The result was that a large number of footwear manufacturing units moved their manufacturing units to the countries in the far east. Footwear manufacturing unlike leather processing is labour intensive. Simultaneously the manufacturing units in the European countries moved up market and started producing higher quality products.

With the development of the footwear industry, Korea and Hong Kong established large sophisticated tanneries through imports from other parts of the world. With the economic development in Hong Kong, Korea and Taiwan, the wage rates in these countries have risen. In recent years manufacturing units have moved to Thailand, Indonesia, China, the Philippines and Bangladesh. Thus we find today that footwear units are moving to places where wages are low but the same shift did not take place in the case of tanneries. Only those countries which had sophisticated tanneries continued to operate them by importing hides and skins and exporting finished leather. In recent years tanneries the world over are facing the problem of greater pollution control. In order to conform to the very rigid environment protection regulations, these tanneries will have to install costly equipment. Faced with this situation and also with the prospect of having to procure raw material supply from the international market, some of the

tanneries of Europe are in the process of relocating to the Asian and South-East Asian countries.

Investment Policies

Leather is a labour intensive industry and with rise in wage levels in the industrialized world, production is shifting rapidly to the developing countries. The developed countries have not lowered their tariffs on the leather industry as much as in some of the other industries in order to protect their leather industry. However, developing countries are seeing this industry as a potential for exports and are pursuing policies that would attract investment into their countries. For instance China welcomes foreign investment and there is a condition that the foreign investor should contribute at least 25 per cent of the equity in joint ventures. China allows 100 per cent foreign holding. Hong Kong does not discriminate between foreign and local enterprises. In India, 51 per cent foreign investment is allowed in Indian units. The entire profits made from export businesses are tax free uniformly for all business units irrespective of their ownership. Taiwan allows 100 per cent foreign holding and in Thailand there are no restrictions on foreign ownership in export oriented firms.

Some countries have established special economic zones and economic and technology development zones specifically to attract export oriented foreign investment. In China, foreign ventures located in special economic zones enjoy a preferential tax rate of 15 per cent. In South Korea units located in the free export zones are eligible for reduction in corporate tax, import tariff and value added tax for a period of five years. They are also given 50 per cent reduction in acquisition tax, property tax, aggregate land taxes, import tariff and value added taxes. In Taiwan export promotion incentives include accelerated depreciation of fixed capital assets, tax

deduction for expenses incurred for cultivating new foreign markets and tariff exemptions for equipment and raw materials used for export manufacture. Exporting units are given automatic access to subsidised working capital.

All policies of the developing countries that are geared towards attracting foreign investment and promoting exports will give a boost to the world trade from the developing countries. The leather industry is poised to gain from such policies.

Tariff Policy of Developing Countries

It would be interesting to examine what kind of tariff reductions the developing countries are conforming to in the leather industry. The tariffs could be compared for raw hides and skins, semi-finished leather and finished leather.

- i. **Raw Hides and Skins :** In almost all the important leather exporting countries, import duties on raw hides and skins are either absent or are minuscule. For instance, in Hong Kong India and Thailand there are no import duties on raw hides and skins. In South Korea and Taiwan the tariffs are 3 per cent and 10 per cent respectively. In China the import duty is the highest at 20 per cent for the MFN category and 30 per cent for the general category.
- ii. **Finished Leather:** There is no import duty on finished leather in Hong Kong and India. Tariffs are below 10 per cent in South Korea, Taiwan and Thailand. In China import duty on finished leather varies from 25 per cent to 40 per cent for the MFN category and 35 per cent to 50 per cent for the general category.
- iii. **Leather Machinery :** In India the import duty on leather machinery is 20 per cent. In

- Thailand import duty exemption on machinery is allowed for export units. In China duty free import of capital equipment, raw material and components is allowed for units located in the special economic zones and economic and technology development zones.
- iv. Chemicals and Components : Hong Kong has no duties on any of these items. In India inputs such as Chemicals and components for footwear and other leather goods are subject to a duty of 44 per cent. In Thailand raw material or essential materials used in export manufacture are exempted from import duty.
- v. Footwear : In India import duty on footwear is 65 per cent, in South Korea it is 8 per cent, in Thailand it varies between 30 per cent and 60 per cent. The import duties are high on finished items in these countries in order to boost exports.

The tariffs mentioned on inputs for leather manufacturing are the current tariffs, and are substantially lower than they were earlier. The tariffs on finished products are high to help exports.

Impact on the Indian Leather Industry

Since 1991, India has embarked on a reform programme to gear the economy towards freer trade. There has been a considerable liberalisation in licencing; the trade policy has also been liberalised with incentives for foreign investment. Technology transfers and foreign collaborations have been made easier. The devaluation of the rupee has led to a short term advantage in exports. Some of the large firms can now raise finance abroad on favourable terms of interest.

The leather industry in India has benefitted to some extent from the ongoing policies.

Indian leather exports comprise mostly of leather garments. Except for India, all countries export basically footwear, the proportion varying from 45% to 80%. India exports only 14 per cent of its leather items, as footwear. What is striking is that India's composition of leather item exports differs from the other exporting countries. The reason is to be found in its industrial policy whereby footwear manufacture is reserved for the small scale sector. Even though the leather industry does not require a licence footwear enterprises have to get a special licence provided they export 75 per cent of their production. This deters new units both domestic and foreign from entering the footwear industry. Thus because of our Government policy, our very composition of leather items is against world trends. Leather products comprise of raw hides and skins, finished leather, footwear components, leather manufactures, clothing accessories and footwear. The fastest growing segment in world exports during 1988-92 was footwear components followed by footwear. Indian exports did not follow these trends for the above mentioned reasons. In the post 1991 period a more synergistic set of government policies began to emerge, addressing simultaneously to different areas like trade licencing, credit, industry structure etc. Allowing larger firms to take equity in small scale industries (in 1992-93) for instance is expected to change the de facto structure of the industry through evidence on this is not yet available. The liberalisation of licencing has reduced entry barriers and has led to a keener rivalry among domestic firms. The removal of restrictions on locating industries means industries can now locate in places more economically viable.

The reservation policy is probably responsible for the low numbers of joint ventures, tie-ups and buy back agreements. The import duty structure on leather inputs seems more favourable than the other countries but input costs are relatively high in India because of excise and custom

duties on the non-leather inputs. This affects the cost competitiveness of shoes and leather goods manufacturing industry. India can strengthen its position by improving its collection and processing of raw hides and skins, and increasing its pool of semi skilled labour.

India's strength in leather garments is incidental. With a constraint on footwear exports, leather garments have done well but in the coming years China is likely to be a potential threat in this segment. South Korea also, continues to retain its competitive edge in leather garments unlike as in footwear. A price war is likely in the near future, because of China's increased presence. The only way Indian exporters can combat this is by increasing their scale of operation, otherwise a scenario akin to the footwear trade is likely to emerge, where Chinese prices have forced Indian exporters to lower their prices.

Even with liberalisation on the trade and industry front, the leather sector has not gained because of a) reservation b) no specific measures by the government as have been taken in China. Some of these measures include, industrial parks, allowing a business practice called CMT (i.e. cut make and trim) whereby the entire footwear kit is shipped from Europe and Turkey, and Chinese manufacturers simply produce finished products and ship them back. The government does not impose any duty for such manufacturing activities.

It can be seen that Indian leather exports stand to gain by the tariff reductions in the developed countries and by reductions in import duties on leather inputs. However, maximum gains for trade could be achieved by appropriate changes in the domestic industrial policy.

Conclusion

With reductions in absolute tariffs on all products for both developed and developing

countries, trade is likely to expand in the coming years. Developing countries will benefit from these tariff reductions, which should improve their market access. However, in response to the Uruguay Round Agreements the developing countries have lowered their import tariffs considerably. In addition some countries e.g. India are modifying their industrial policies considerably. Changes in tariffs in all these spheres will give a boost to leather trade in the coming years.