

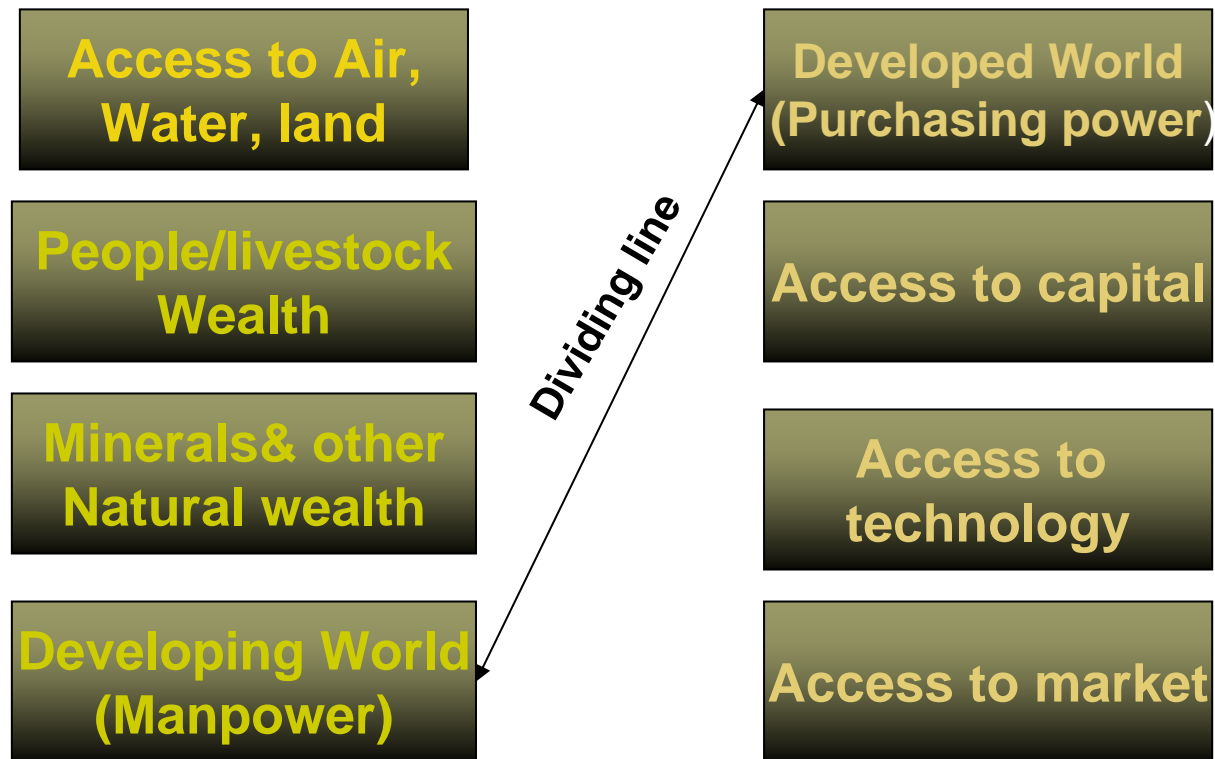
Innovation for Growth in Asia Pacific Region

A Case study of Leather

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Global Divides among Developing and Developed Economies

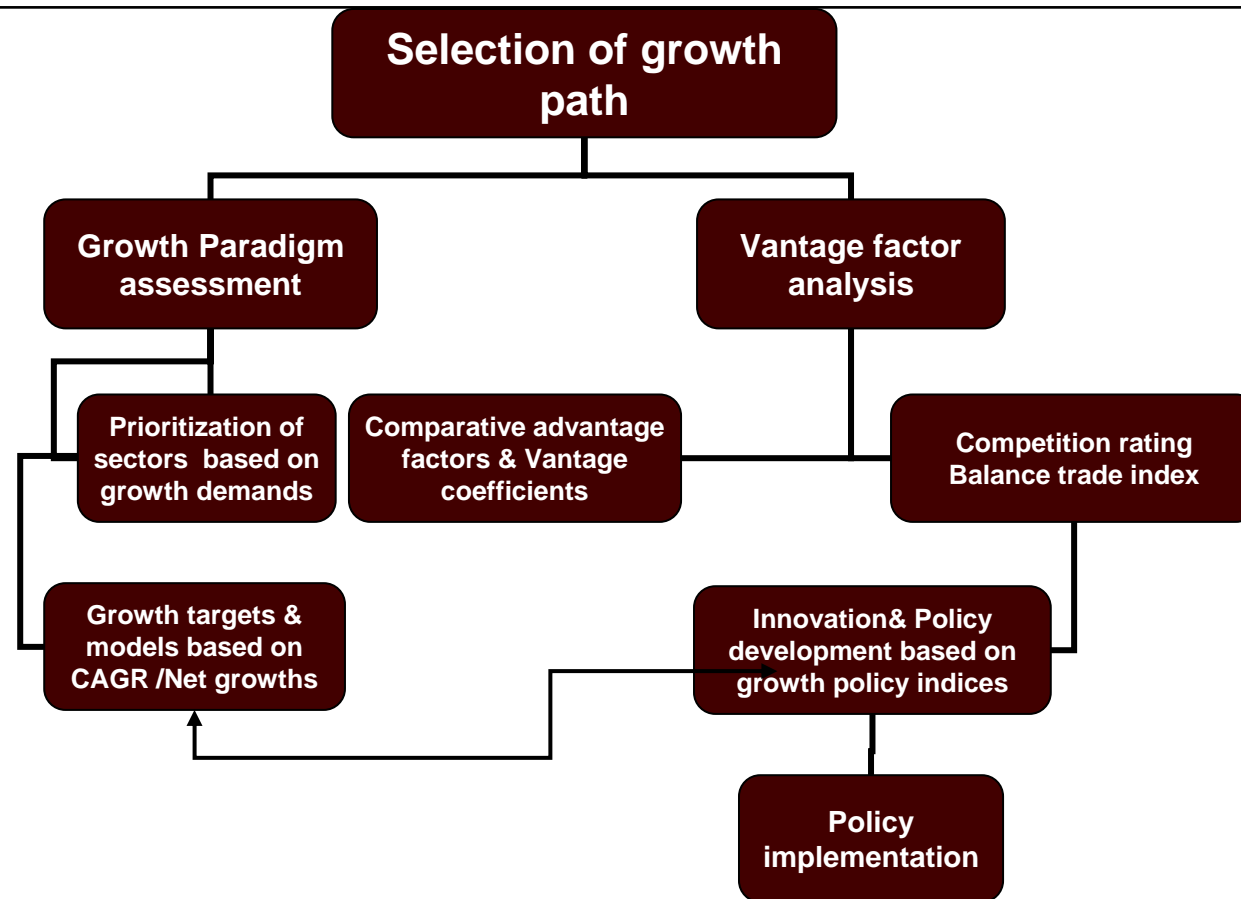


Innovation in policy for growth rests in linking manpower to purchasing power of the world

Steps in Planning a Growth policy in Market Economy

- Assessing market Demands: Identification based on Growth rates of consumer needs
- Selection of goods for manufacturing based on
 - Potential Growth Demands
 - Balance of trade (in favor of type of National economies)
- Prioritization of manufacturing Activity based on
 - natural endowment and comparative advantages for production in the framework of the country of choice
- Evolving a policy frame work for positioning of the product in the right market segment and
- Development and commissioning of suitable national missions for implementation of the selected growth path in the targeted time frame.

Innovation Steps in Policy Buildup



Computing Annual Growth Rate Indices for Manufactured Products

- Parameters needed for Computation of Net Growth for manufactured goods
 - Population growth
 - Growth in Per capita consumption
- Cumulative Annual Growth Rate Index: To be assessed over some immediate part periods
- Net Demand Growth for any consumer product is computed as in
 - Net Demand Growth (NDG) = $P_1 e^{X(t_2-t_1)} (1+S)$
where

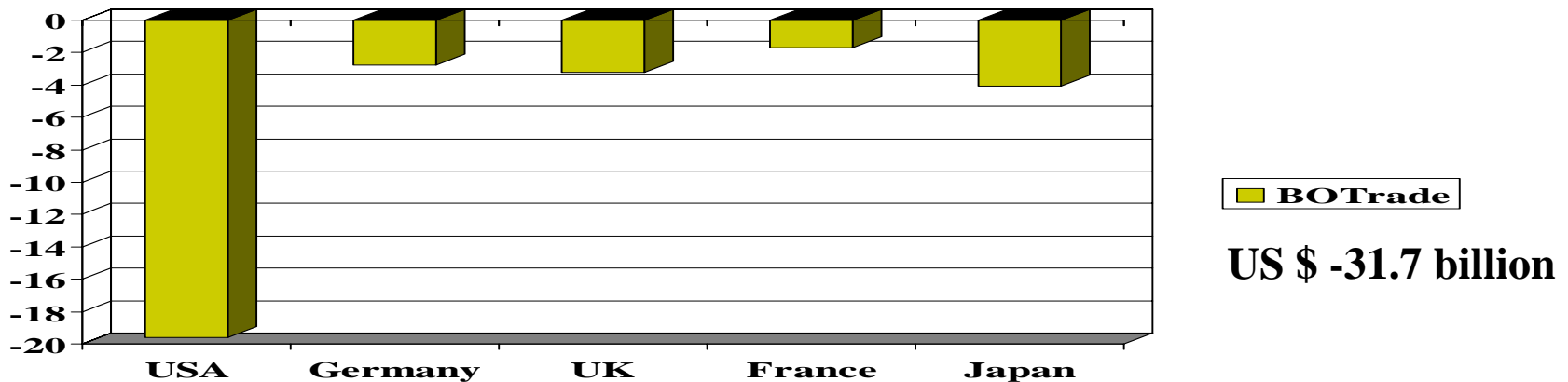
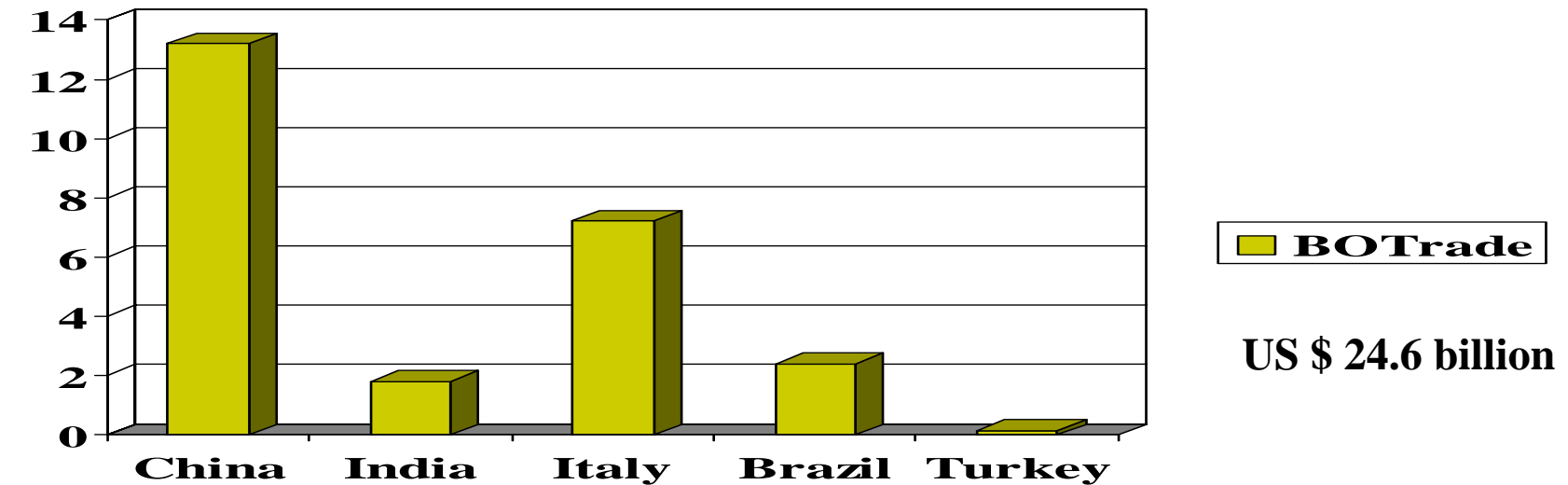
P1 is population at time t1, t1 and t2 are time periods, X is population growth rate and S is net per capita growth rate

CAGR of Some Consumer Products

Countries	Computer	Mobiles	Telephone	Television
USA	3.2	18.5	0.6	0.15
Germany	0	8.6	2.8	0.10
Japan	5.3	12.9	3.4	0
S. Korea	14.9	3.6	1.3	0.27
Taiwan	0	36.0	2.5	0

CAGR of Footwear in global trade varies in the range of 3-9%


Balance of Trade in Global Leather Sector in US\$ Billion (2002-03)





Assessing Competitive Edges of Countries in Market Environment

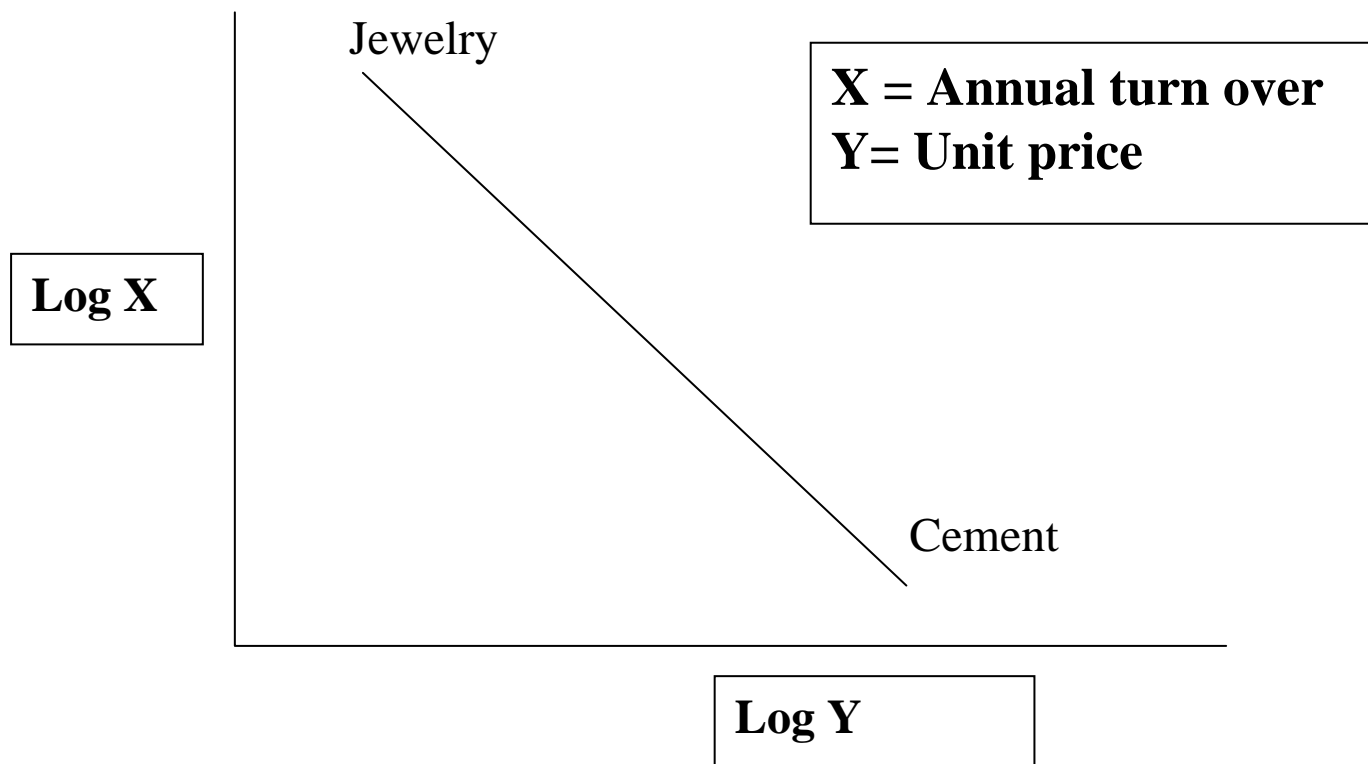
- Global market for any manufactured good is influenced by
 - Level of essentiality
 - Status of global economy
 - Value for money (perceived consumer value to price of the product)
 - Level of market protection through policy interventions
- Competitive Edges in WTO regimes
 - Comparative advantages in manufacturing
 - Scales of production and consequent cost of production
 - Brand building and market perception



Markets for Consumer Products: Their Dependence on Status of Economies

- Essential Products
 - For example food: related to purchasing power and weaker coupling factor to global economies, exhibit steady market demands
- Personal care Products
 - For example jewelry: Related to personal purchasing power and stringer coupling to global economies and social habits, exhibit seasonality

Hypothetical Correlations of Price and Turnover



Competitive Rating of Nations in Global Trade in Cost Leadership Markets

- Cost leadership markets are driven by low price and high volume segments
- Competitive rating R can be computed in labor intensive production for volume market as in

- $R = W/H \times E.T / MTV - MMC$

(Where W/H in wages in US \$ per hour, ET is employee time needed for manufacture of a product, MTV is Maximum Trade Value in US \$ and MMC is Minimum Manufacturing Cost in US\$).

For labor intensive production of any manufactured good, Nations can define values of 'R' where they remain competitive globally in WTO regime

Footwear

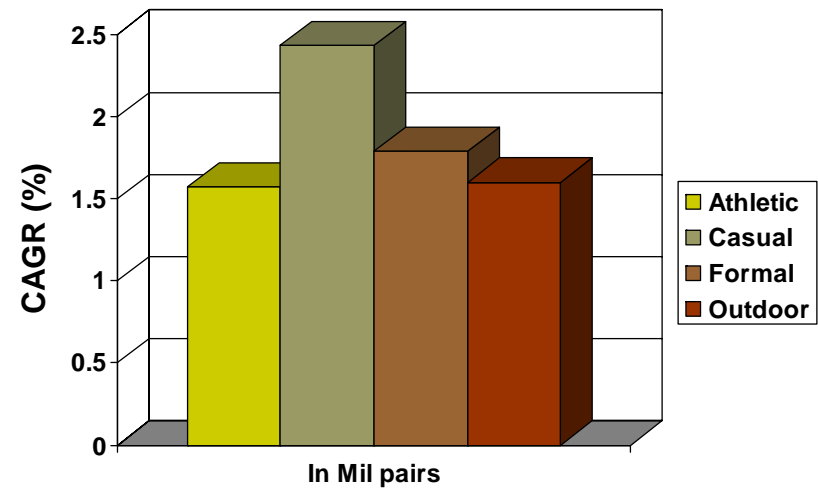
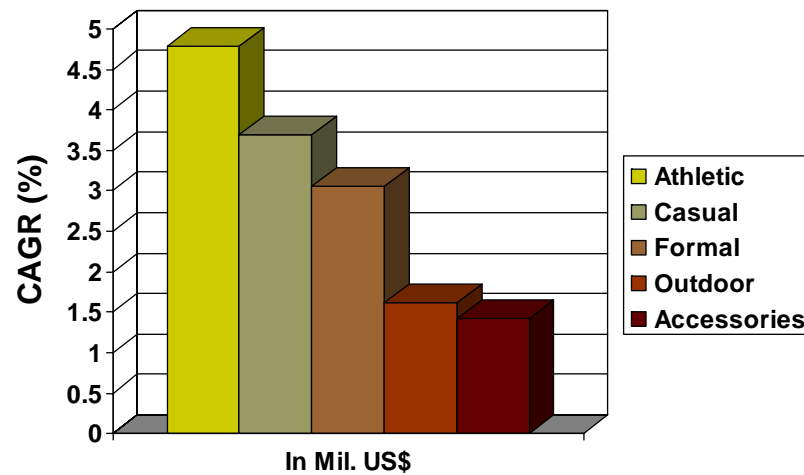
An Example Sector



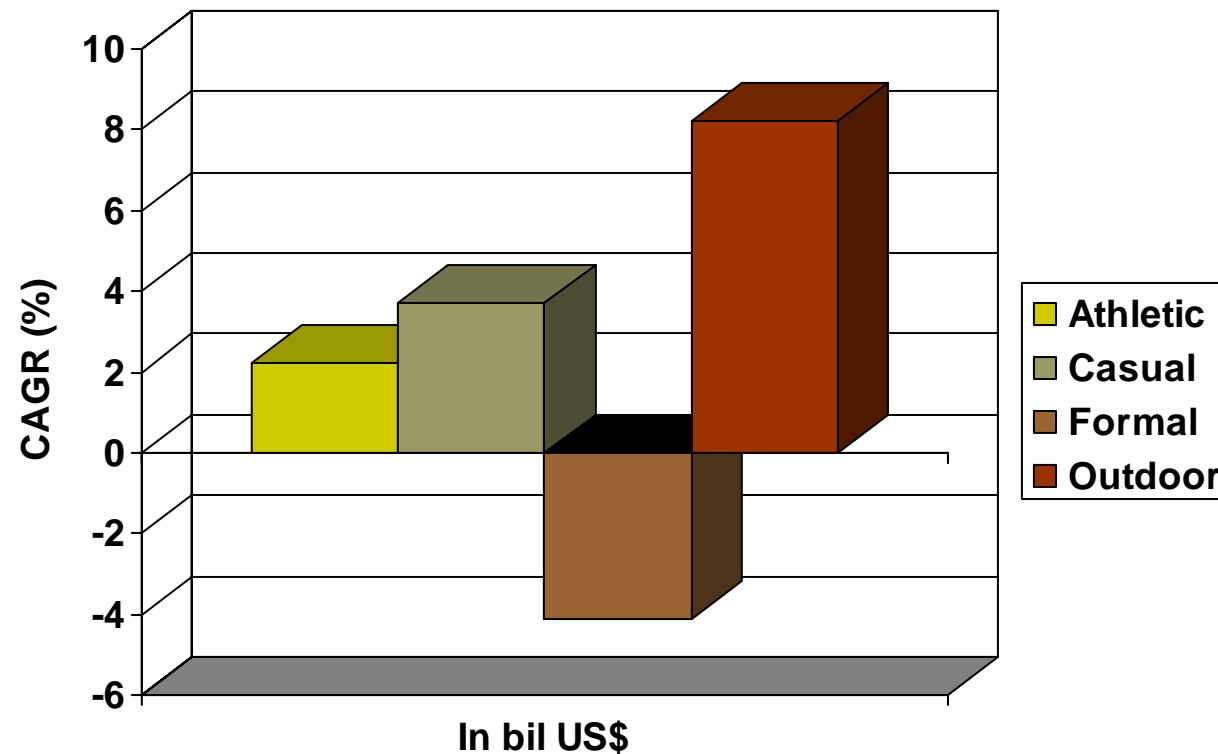
Assessing Footwear Growth Demands

- Average per capita footwear use is estimated at 2.25 pair per year
- For a Global human population of say 6.5 billion, footwear requirements are estimated at $6.5 \times 2.25 = 14.625$ billion pairs per year
- Assuming current growth rates of population and increase in per capita consumption of footwear, it is possible to predict the demand growths of footwear requirements for say 2015.

Cumulative Annual Growth Rates of Different Types of Footwear in World



Cumulative Annual Growth Rates of Different Types of Footwear in USA

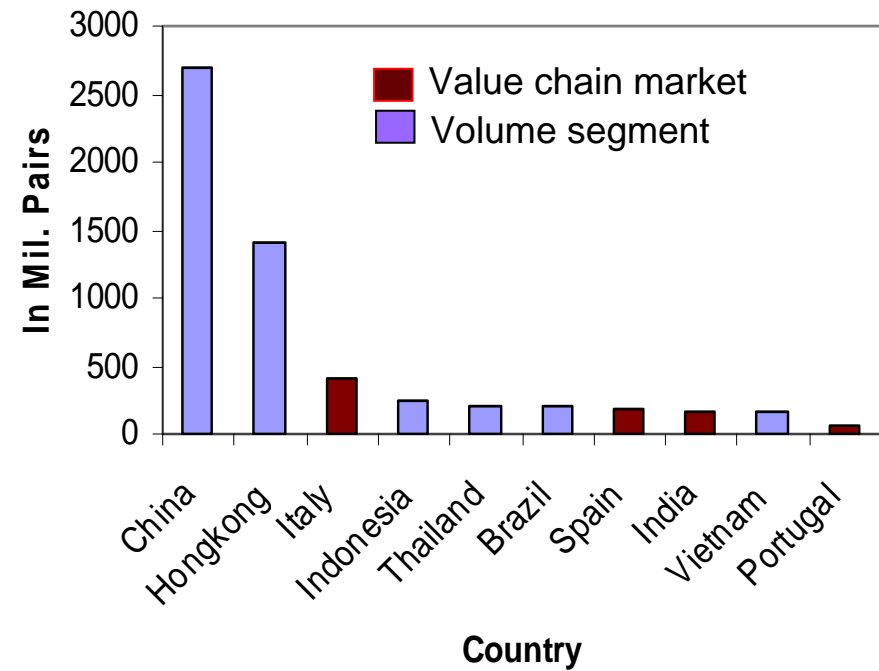
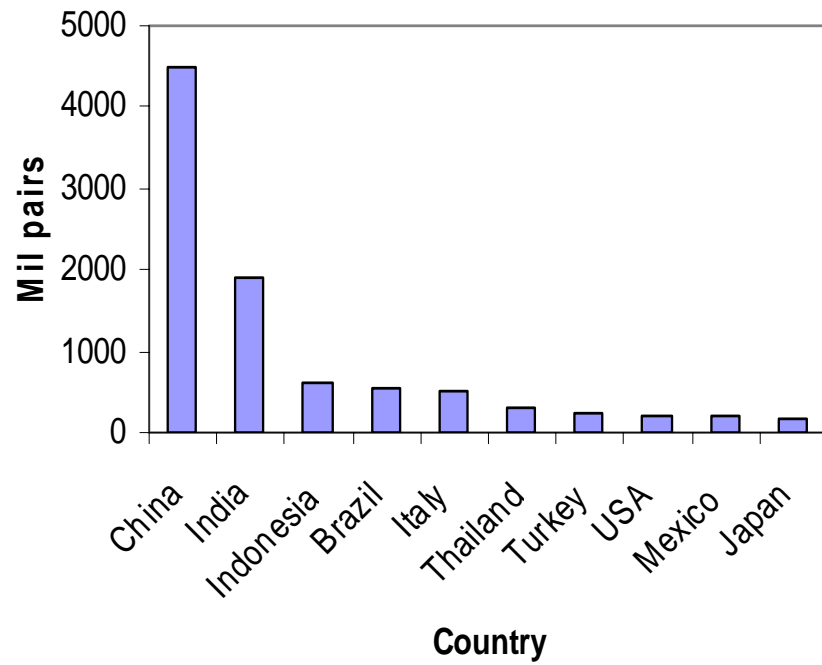


http://www.shoesonthenet.com/shoe_alert.html

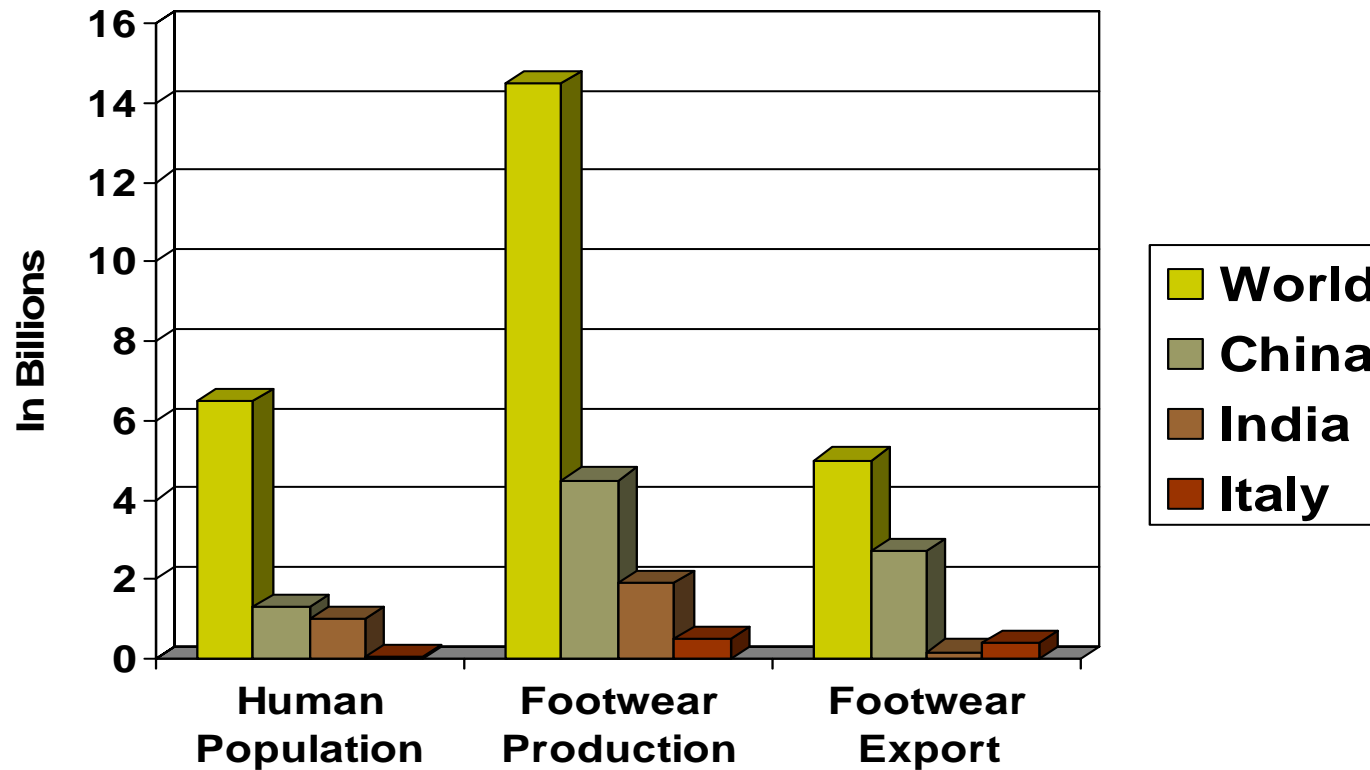
Relative Merits in World Footwear Trade

Rank order	Name of Country	Cost of Production in US\$
1	China	6.8
2	Italy	22
3	Indonesia	7.5
4	Thailand	8.0
5	Vietnam	8.5
6	Brazil	10
7	Spain	17
8	India	10.5
9	Portugal	15

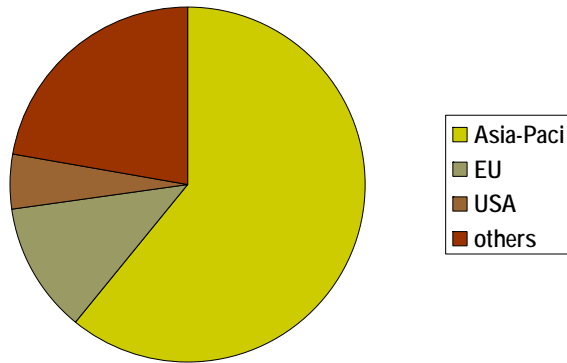
Production and Export Competitiveness of Nations in Footwear Sector



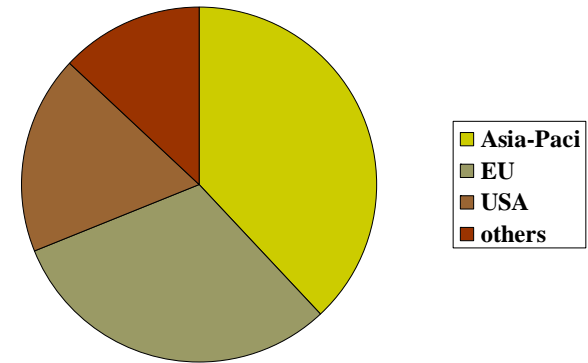
Benefiting from Global Footwear Trade



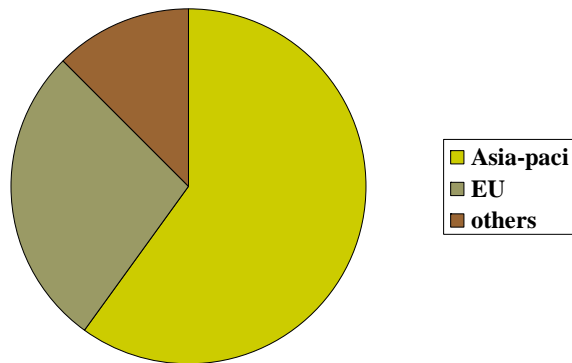
Asia Pacific Region in Footwear World



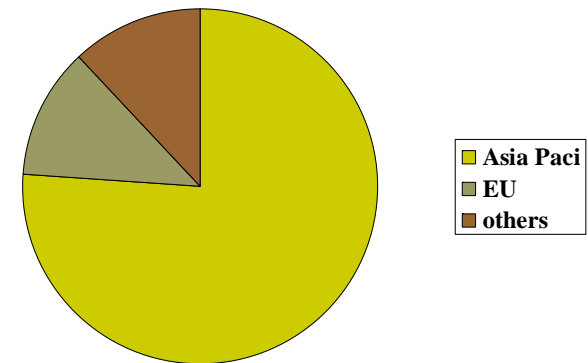
Human Population



Footwear Use pattern

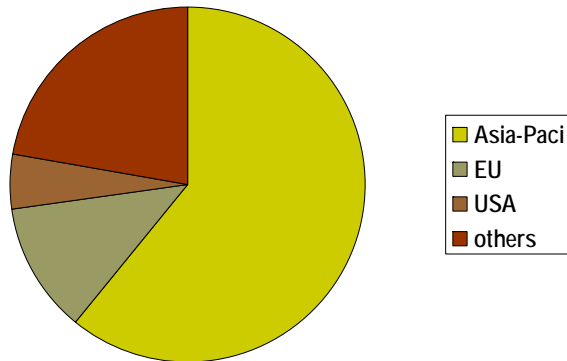


In Footwear Production

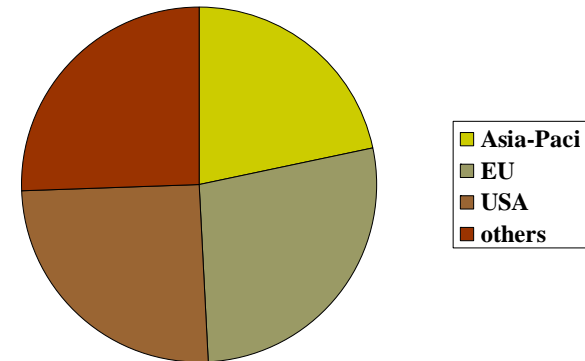


In Footwear Export trade in volume terms

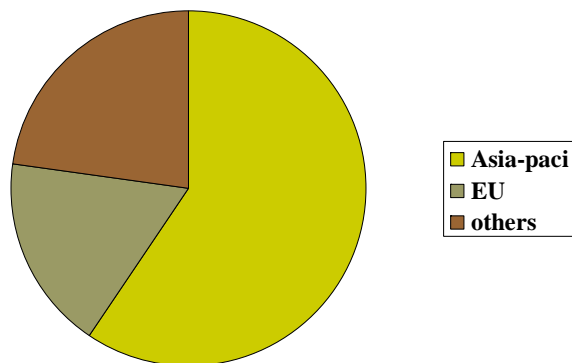
Asia Pacific Region in Leather Footwear World



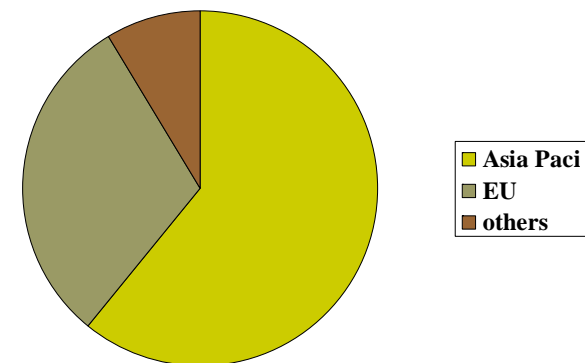
Human Population



Footwear Use pattern



In Footwear Production



In Footwear Export trade in volume terms

Innovations in Growth in Asia – Pacific Region

Case of Leather

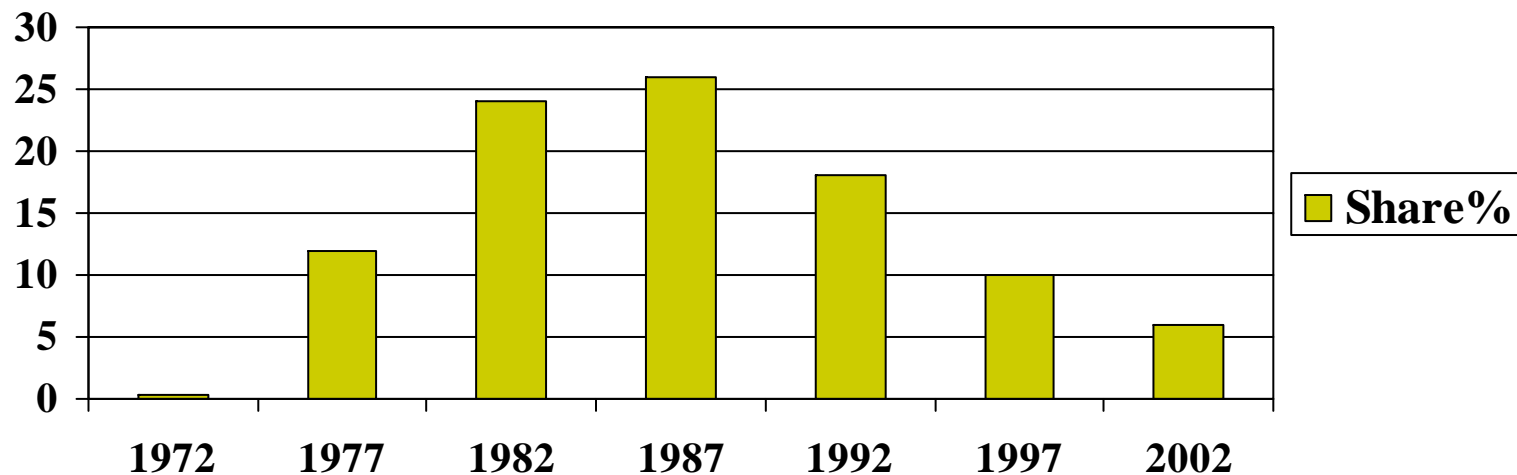


Global Leather Trade: Some Highlights

- World supply of raw hides and skins is finite and mobile
- World demand for footwear and leather products is increasing steadily
- Demand-supply gaps for leather ware are not matched and non-leather products bridge the demand gaps.
- In case of several leather products, the average price in global trade is determined by non-leather supplements. Typically global average price of leather footwear is limited to about US \$ 7 on account of the lower prices of non-leather supplements.
- Nations with per-capita income less than US\$ 1500 per year are more successful in manufacture of leather products.

Case Study of S Korea

- South Korea was a major player in global leather trade during 1972-84, when the per capita income was lower; but currently the leather product sector has migrated out of South Korea, when the per capita income increased





Models of Success in Global leather Sector

- Abundant supply of aligned labor to leather manufacturing is a critical need. Strength of China is an indicator of the importance of this factor.
- Strength in manufacturing of footwear is a decided advantage. It needs an integrated development of non-leather footwear component industry. Development of China in leather sector during 1984-2004 is an indicator of the relevance of this factor.
- Delivery schedules in value markets are tight and demanding. This would call for a well developed port and trading infrastructure.
- FDIs and JVs in Asian-Pacific region in leather have played an important role in the development of the industry in any specific country. Examples of south Korea during 1972-84 and China during 1984-2004 are based on such large investments arising out relocation of industries.



Lessons from Success Stories in Leather for Policy Innovations

- Overseas investments are closely related to perceived domestic market demands as well.
- Technology advantages have not resulted in major share of global leather trade..
- Market connectivity and design images have been a major factor in influencing the share in global trade; however, in recent times, brand equity based strength is not able to compete effectively with comparative price advantages as strength. Italy has registered consistently negative growth in global leather trade .
- Soft ware inputs like designs, technology and expertise are mobile and have become amenable for outsourcing in recent times.
- Cost of capital and the cost fractionals of taxes and duties seem to influence the competitive ability of countries in global leather trade.
- National policy framework for attraction of large domestic and overseas investments and opening of domestic market for global merchandizing has formed an important aspect of development of leather sector in different countries.

National Growth Policy Framework Indices

- **Policy frame work of Nations seems to play a critical role in the global footwear trade. South Korea with a share of only 0.26% in global trade in leather in 1972 was able to increase its share to nearly 26% in 12 years on account of a planned and National policy frame work. Such a policy framework supported the relocation of manufacturing base from other countries. However, when the average wage levels in South Korea increased, flight of footwear industry out of Korea and into china led to a dramatic drop of share of Korea in global footwear trade. On the other hand, china adopted proactive national policies for prioritizing footwear as one of the thrust sectors of activities and provided an enabling policy framework for attraction of large FDIs into the trade. Economy of scale model of China has gained higher successes over the economy of scope models of Italy, Spain and India in recent times.**



National Missions and Concerted Actions

- Technology-policy interfaces assume high relevance in building competitive strength for countries in global market for any product. In areas like food security, dairy sector, connectivity, strategic areas like space, the experience of India has demonstrated the roles of National missions as well as concerted and supporting actions. The success of China and many other countries in Asian-Pacific region in leather demonstrate also the benefits of missions and strategic actions.**



Innovations and Regional Cooperation with Policy Back up

- **Comparative advantages of nations to industrial manufacturing can be classified as**
 - **access to material,**
 - **command in market space,**
 - **self reliance in technology or access to an evolving technology support and**
 - **ability to innovate continuously and out compete in a dynamic competition.**

- **Ability to innovate has emerged a major factor in global trade environment. Countries in Asia-Pacific region need to identify sectors where the regional strength in manufacturing activity and ability to innovate can be gainfully leveraged.**



Way forward

- ❑ **Formation of a Structured institutional Mechanism for Policy studies to serve the Countries in the Region**
- ❑ **National Policies aligned with Regional Aspirations through Trade agreements**
- ❑ **Sharing of Resources, Expertise and Best Practices Systems and R&D outputs**
- ❑ **Consortium Marketing**
- ❑ **Brand Building for the region**
- ❑ **Regional Policy Frame work to Suit WTO World**
- ❑ **Institutionalization of Policy Studies and Development Planning**

Thank you

Innovation for Growth in Asian-Pacific Region: A Success Story of Leather Sector

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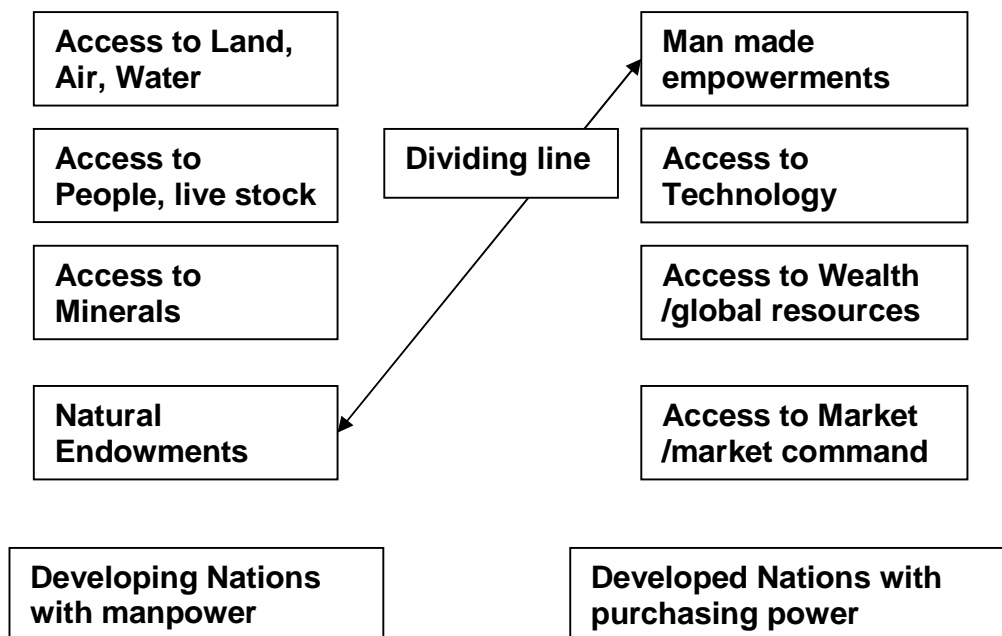
There awaits an interesting opportunity to innovate and implement policies for growth in several countries in Asian-Pacific Region. A concerted effort of all stakeholders is required to relate innovation to industrial and National Growth. Some efforts have been initiated in Asian-Pacific region in select sectors with success. A successful case is leather ware sector.

Nearly 60% of the global needs of leather wares of the world are met through the manufacture in Asian-Pacific Region. Innovative policies for growth have been implemented in leather sector in the region during the last two decades. Effects of such efforts are felt already. China and India, along with many other countries in Asian-Pacific region have developed innovative policies for leather sector. In India, Central Leather Research Institute has played a role of a change agent for leather sector. A real life story of innovations in mind to market chain in leather sector in India will be described. A platform for regional cooperation for growth in critically strong sectors is targeted.

Introduction

Economic growth of the people has formed the major geo-political issue in modern human civilization. Industrial revolution has brought about a paradigm change in the wealth generation and distribution pattern of the World. Some countries have gained in wealth and are able to provide their people better standards of living while many others are not able to provide a balanced development of their people. In some sense, the dividing line between developing and developed countries presented in *Figure 1* differentiates Nations based on access to capital, technology and market.

Figure 1: Global Divides among Developing and Developed Economies



Nations, which are rich in manpower resources without a matching access to capital, technology and market, form a major part of developing group of Nations. Several countries in Asian Pacific region form a group of developing economies.

Economies which are developing enjoy also an opportunity to plan the development process in the emerging World trade practices with long term strategies which are drawn from inherent strengths of developing Nations. An innovative planning and policy frame work is required for developing countries to benefit from the globalizing market economy. Such innovations should identify suitable sectors with comparative advantages and link National growth and

improvement of standard of living of citizens of the country to a market driven approach to industrial manufacture.

Innovation is required to link manpower of the developing world with purchasing power of the industrially developed world. A general approach to developing policies and linking innovations to national growth of countries in Asian-Pacific region is presented in this work with leather sector as an illustrative example.

Market Driven Approaches to Manufacturing Policies of Developing Countries

World economic order is changing fast and significantly. Outsourcing of services and products from countries with comparative advantages for low cost manufacturing has become the order in modern world. Raw materials for manufactured goods may be globally mobile, but the human resource and skill base are not freely mobile. Demand for consumer goods is increasing globally and is increasing more sharply in countries with higher purchasing power. World demand for consumer goods is registering a measurable growth rate. An innovative approach in planning will require

- a) the identification of growing market demands and needs for consumer products
- b) selection of manufactured goods from among the lists of products with high demand growth rates and balance of trade in favor of developing economies
- c) prioritization of manufactured products which enjoy greater natural endowment and comparative advantages for production in the framework of the country of choice
- d) evolve policy frame work for positioning of the product in the right market segment and
- e) develop and commission suitable national missions to implement the selected growth path in the targeted time frame.

An illustration is made to describe this principle using footwear as an example. A decision logic for selection of footwear manufacturing as a thrust sector by China and India is illustrated in *Figure 2*.

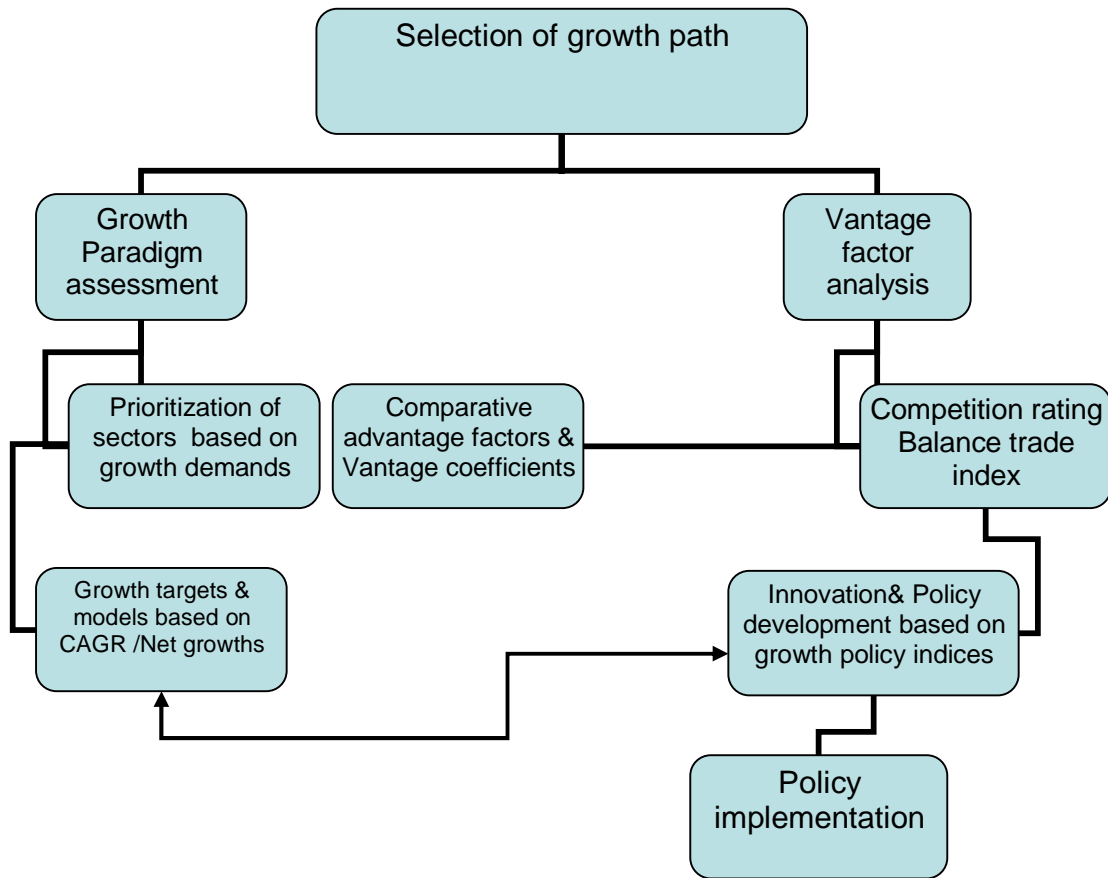


Figure 2 Decision logic chart

Identification of Products Based on Demand Growths: A National policy framework for development of a manufacturing base needs to be based on expected potentials for long term growth of market demands. Net demand growth for consumer products is best estimated from the net population growth and changes in per capita use pattern of the desired product based on projections based on a five year period.

Cumulative Annual Growth Rate Index: Cumulative Annual Growth Rate (CAGR) of some consumer products in the global market is presented in *Table 1*. Net Demand Growth for any consumer product is expected to vary as in equation 1

$$\text{Net Demand Growth (NDG)} = P_1 e^{X(t_2-t_1)} (1+S) \quad \text{eq.1}$$

Where P_1 is human population at any time t_1 , X is the population growth rate, t_1 and t_2 represent two different times and S is the growth in per capita use of the

consumer product. It is possible to calculate CAGR for each product from the values of NDG.

World demand for footwear is increasing at rates higher than the rate of growth of human population. Footwear has emerged an important consumer product world over. With increasing human population demand for footwear is expected to increase further.

Selection of Goods for Creation of Manufacturing Base: It is necessary to select carefully the nature and size of the manufacturing base for the planned development of a policy framework of country. Since some lagging between the policy interventions and the effect of such policy inputs on the economic base of a country can be expected, it is necessary for the policy planners to take into account various factors involved in the creation of manufacturing base. In current global trade, access to raw materials is no longer a comparative advantage. Raw materials for several consumer products are mobile. On the other hand, outsourcing of services and manufactured goods is becoming the order of the day. Therefore, in the selection of sectors for the planned promotion of manufacturing bases through National policy interventions, it is necessary to take into account the correlations between the balance of trade in global market with comparative advantage factors.

Balance of Trade Index: The balance of trade of five industrialized countries (USA, Germany, UK, France, Japan) with a combined Gross Domestic Product of US\$ 18785 billion on leather sector is negative to the tune of US\$ 31 billion (Table 2). The balance of trade of five major producers of leather sector in the world with a combined Gross Domestic Product of US\$ 3373 billion is positive to the tune of US\$ 25 billion annually (Table 3). Top five footwear importing countries are Hong kong, USA, Japan, Germany, UK, France. All these countries show a negative balance or trade on leather. The balance of trades on leather and footwear has been correlated with per-capita income and access to raw hides and skins of some select countries. It may be seen that leather and footwear sector is lending itself generally to outsourcing mode of transactions.

Comparative Advantage Coefficients of Nations in Manufacturing of Skill based goods: Nations with vast human capital enjoy a natural advantage in the manufacture of products, which employ manufacturing technologies based on high human skills and substantial human labor. In other words, the consumer products which do not lend themselves to process automation are not in the select priority list of developed economies. Access to capital and technology is the most critical element for manufacture of goods, which demand high process automation and large investments per employment created. On the other hand, for manufacture of consumer goods which demand large inputs of human labor and skill, balance of

trade seems to correlate negatively with the per capita income of the country. An objective criterion for selection can be drawn from the cost fractional of wage hour needed to convert raw materials into product per dollar gained in the market as given in Equation 2.

$$R = W/H \times E.T / MTV - MMC \quad \text{eq.2}$$

(Where W/H in wages in US \$ per hour, ET is employee time needed for manufacture of a product, MTV is Maximum Trade Value in US \$ and MMC is Minimum Manufacturing Cost in US\$).

The values of “R” can be quantitatively computed for each country for various products with potentials for global market in a competitive marketing environment for various values of MTV of a product. The value of “R” can be employed as means to assess the comparative advantage of Nations in global trade for products which demand lower access to capital and higher access to skill and large human capital base.

Selection of Product and Market Segmentation: Consumer product segments vary in unit value realizations. The consumer market is mixed. Price sensitivities of consumer products are known to vary based on cost-benefit perception of the user communities. Negative correlations between the log(price) to log(turn over in global trade) are known to exist for a wide range of products, as shown in an indicative chart in **Figure 3**. Global trade on footwear and leather products appears to show bi-modal pattern of market segmentations.

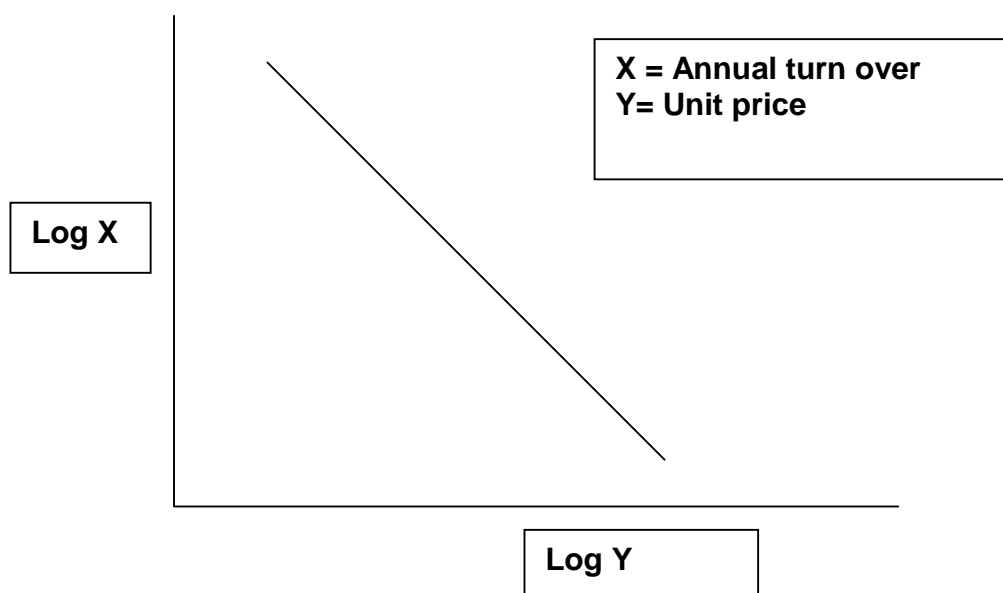


Figure 3: Negative Correlation

Comparative advantages in the current global trade appear to originate from the availability of vast human capital and large domestic demand in the mass volume market with an average price realization of about US \$ 7 per pair for leather footwear. Top five producers of footwear are China, India, Indonesia, Brazil and Italy. Top eight footwear exporting countries in global trade are China, Hong Kong, Italy, Indonesia, Thailand, Brazil, Spain and India. Among the major exporters, Hong Kong depends primarily on trading and Italy is engaged in both manufacturing and trading.

Nations with production in Small and Medium Enterprises (such as in India, Italy and Spain) are able to compete in global footwear trade currently in the MTV range of US \$ >15 per pair only. Command size over markets by different Nations in leather and footwear trade are correlated with per unit investments on plant and equipment in terms of both value and volume terms. It is seen that the higher price segment is tilted in favor of Italy with the economy of scope, which lends itself to quick changes in production pattern and lower priced market is favored in terms of economy of scale which offers advantages in lowering of cost of production. China is the market leader in footwear trade on account of lowest Minimum Manufacturing Cost (MMC) gained out of large sizes of production and economy of scales.

Current Trends in Global Leather Trade

Manufacturing of leather and leather products has shifted to countries in Asian-Pacific region from America, Europe and other industrialized part of the world while USA and Germany remain the most important users of leather products. Global Annual Trade on leather is estimated at US \$ 72 billion and at US \$ 102 billion inclusive of non-leather footwear. Major importing and exporting Nations of raw hides and skins, leather and leather ware are presented in **Tables 4 & 5**. Some important observations in world leather trade are listed in below.

- a) World supply of raw hides and skins is finite and mobile
- b) World demand for footwear and leather products is increasing steadily
- c) Demand-supply gaps for leather ware are not matched and non-leather products bridge the demand gaps.
- d) In case of several leather products, the average price in global trade is determined by non-leather supplements. Typically global average price of leather footwear is limited to about US \$ 7 on account of the lower prices of non-leather supplements.
- e) Nations with per-capita income less than US\$ 1500 per year are more successful in manufacture of leather products. South Korea was a major player in global leather trade during 1972-84, when the per capita

income was lower; but currently the leather product sector has migrated out of South Korea, when the per capita income increased.

- f) Abundant supply of aligned labor to leather manufacturing is a critical need. Strength of China is an indicator of the importance of this factor.
- g) Strength in manufacturing of footwear is a decided advantage. It needs an integrated development of non-leather footwear component industry. Development of China in leather sector during 1984-2004 is an indicator of the relevance of this factor.
- h) Delivery schedules in value markets are tight and demanding. This would call for a well developed port and trading infrastructure.
- i) FDI's and JVs in Asian-Pacific region in leather have played an important role in the development of the industry in any specific country. Examples of south Korea during 1972-84 and China during 1984-2004 are based on such large investments arising out relocation of industries.
- j) Overseas investments are closely related to perceived domestic market demands as well.
- k) Technology advantages have not resulted in major share of global leather trade. India enjoys advantages in access to technology and yet this strength is yet to result in market strength.
- l) Market connectivity and design images have been a major factor in influencing the share in global trade; however, in recent times, brand equity based strength is not able to compete effectively with comparative price advantages as strength. Italy has registered consistently negative growth in global leather trade in spite of high brand images as fashion building country.
- m) Soft ware inputs like designs, technology and expertise are mobile and have become amenable for outsourcing in recent times.
- n) Cost of capital and the cost fractionals of taxes and duties seem to influence the competitive ability of countries in global leather trade.
- o) National policy framework for attraction of large domestic and overseas investments and opening of domestic market for global merchandizing has formed an important aspect of development of leather sector in different countries.

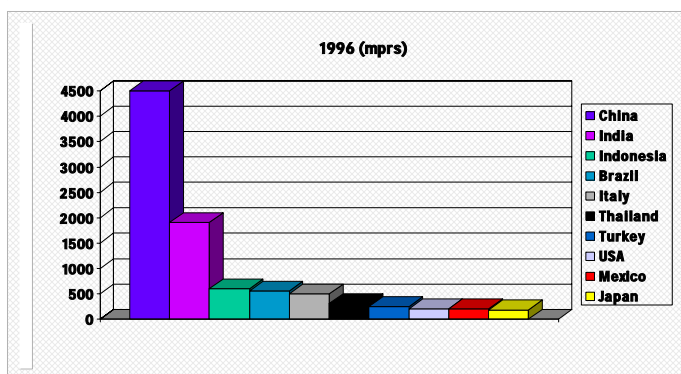
National Growth Policy Framework Indices

Policy frame work of Nations seems to play a critical role in the global footwear trade. South Korea with a share of only 0.26% in global trade in leather in 1972 was able to increase its share to nearly 26% in 12 years on account of a planned and National policy frame work. Such a policy framework supported the relocation of manufacturing base from other countries. However, when the average wage levels in South Korea increased, flight of footwear industry out of Korea and into china led to a dramatic drop of share of Korea in global footwear

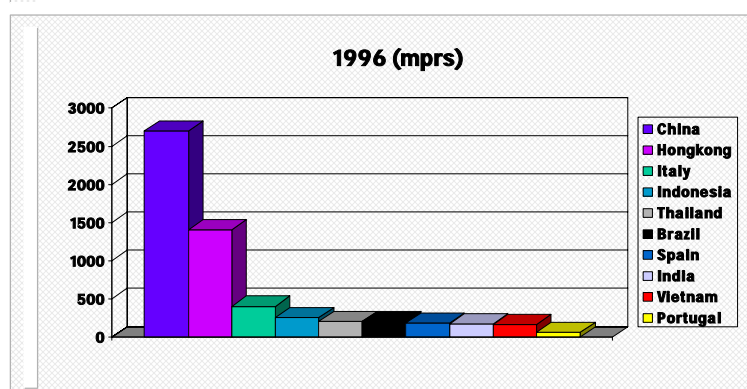
trade. On the other hand, china adopted proactive national policies for prioritizing footwear as one of the thrust sectors of activities and provided an enabling policy framework for attraction of large FDIs into the trade. Economy of scale model of China has gained higher successes over the economy of scope models of Italy, Spain and India in recent times.

It is appropriate to review the CAGR of global leather trade in value and corresponding parameters for a select list of countries with prominent position in world market. China has registered a substantial increase in CAGR relative to the world on leather and footwear. Some countries from Asian and South Pacific regions have developed national policies in favor of the leather and footwear trade. The command of countries in the Asian and Pacific region on leather and footwear trade is evident from the data presented in **Figure 4**.

Leading footwear producing Nations



Leading footwear exporting Nations



Advantage factors for various manufacturing industries differ. Advantages in terms of raw material, capital, technology, skill and expertise base, capital and transaction costs and market force induced changes as well as public policy support play a significant role in influencing the leap-frog growth of a manufacturing industry.

Since leather is employment intensive sector, labor policies and labor alignment form two critical elements. Countries in the Asian and Pacific region with a large population and labor base is emerging the most important manufacturing center of the world. Some countries in the region are able to make capital gains of the emerging opportunity ahead of others by providing a favorable industrial climate for competitive-manufacturing of leather ware through supporting policy inputs.

National Missions and Concerted Actions

Technology-policy interfaces assume high relevance in building competitive strength for countries in global market for any product. In areas like food security, dairy sector, connectivity, strategic areas like space, the experience of India has demonstrated the roles of National missions as well as concerted and supporting actions. The success of China and many other countries in Asian-Pacific region in leather demonstrate also the benefits of missions and strategic actions.

Innovations and Regional Cooperation with Policy Back up

Comparative advantages of nations to industrial manufacturing can be classified as a) access to material, b) command in market space, c) self reliance in technology or access to an evolving technology support and d) ability to innovate continuously and out compete in a dynamic competition. Ability to innovate has emerged a major factor in global trade environment. Countries in Asia-Pacific region need to identify sectors where the regional strength in manufacturing activity and ability to innovate can be gainfully leveraged.

In free market enterprise situations, access to raw materials and self reliance in technology support systems may not necessarily provide exclusivities. WTO guidelines preclude policy based protection of internal markets and subsidies for gaining market competitiveness. Ability to innovate strategies and policies for out-competing in dynamic global competition seems the preferred path. Among various manufactured consumer goods, textiles and apparels, leather and leather ware, jewelry, herbal formulations, electronics, toys and recreation and some other products, countries in Asia-Pacific Region enjoy special advantages.

Case Study of Leather Sector in India

India, soon after obtaining independence foresaw an opportunity to promote social empowerment in the country through a planned development of leather industry. In 1947, India was exporting raw hides and skins resource without value additions. Conversion of hides and skins into value added leather wares involves high intensity of human skill and effort. Therefore leather ware sector is an employment generator. At the time of independence about 5,00,000 people were estimated to make a living from leather sector. India recognized the need for technological self reliance and development of capacities to absorb technologies in a tradition bound industry like leather.

Central Leather Research Institute (CLRI) was established in 1948 as a part of a chain of national laboratories of Council of Scientific and Industrial Research. This CSIR body, has emerged the largest and most empowered of all leather research centers in the world today. CLRI right from the very beginning has been a part of the University imparting education in leather related technologies. As a consequence, 60% of the industry in India is manned by the alumni base of the academy-research partnership in the sector. This has resulted also in a strong and vibrant linkage among Academy-research and industry. The linkage is an outcome of a policy initiative of 1948. Leather sector has added 2 million jobs on account of planned, even it be incremental, growth over 50 years.

Several policy initiatives were implemented in India since 1972. A policy to ban the export of raw hides and skins as well as semi-processed leathers and intermediates taken in 1972 caused a shift from trading to tanning. Incentivization of export of finished products in preference to finished leather in 1984, promoted the development of leather product sector. Within 5 years, jobs for 50,000 women were created in one district in India on account of technology diffusion in footwear industry. This led to gender and social empowerment as evidenced from the increased registration of children in schools in the district. In 1996, a landmark judgment of the Supreme Court to order the closure of nearly 400 tanneries on account of potential environmental threat led to the industry in Tamil Nadu gaining enhanced environmental preparedness in accelerated pace. The legal judgment of providing compensation of about 8 million US\$ to the farmers in a tannery cluster of India, demonstrated the will of the national policy to develop the leather sector without any environmental or social compromises. During the critical phase of development with environmental safeguards, CLRI played a pivotal role. CLRI led also the leather industry in India to gaining a lead position in fashion forecasting of leather colors and textures in Modeurop and generation of new knowledge based technologies. The National outcome of CLRI on the policy led development of leather industry has become more apparent during the last one decade.

The need for transiting from the incremental growth of less than 10% per year to more than 25% per year has come to be recognized. An intensive innovation led growth path of the Indian leather sector based on Strengthening, Augmentation, Modernization and Expansion (SAME) of the leather sector is desired.

Lessons from the Global Experience for Strategy Planning

There are several countries in the Asian-Pacific region, which have registered more than 25% growth in the leather sector since 1972. However, the growth and decline pattern of leadership status in leather sector in Asian-Pacific region shows that no country is able to rest the leadership status for more than 15-20 years. This trend calls for a balanced understanding of various factors which influence the growth and decline of the leather sector in the frame work of developing economies.

Need for Regional Cooperation among Asian-Pacific Countries in Leather and Leather product Sector

Meat production is world over. Therefore hides and skins needed for leather manufacture are also available globally. Conversion of such hides and skins into leather and leather products is primarily limited to countries in Asian-Pacific region. More than 60% of leather products like footwear, leather garments and other products are made in Asia-Pacific region. This is often attributed to the labor intensity of production of such products.

Countries like India and China, with large human populations, promote the development of leather and leather product industries as a strategic sector to generate employment and provide gender and social empowerment.

India has invested significantly in gaining self reliance in technology. Nearly 50% of the leather technologist's trained in university levels in the world is educated in India. World's largest leather research center, Central Leather Research Institute is in Chennai, India. CLRI commands currently leadership positions in generation of knowledge and intellectual products as well as in fashion forecasting of leather colors. An initiative to cause paradigm shifts in leather manufacturing from chemical to bio processing has been commissioned.

China is currently the market leader in global trade in leather and leather products. It has been estimated that annual global availability of hides and skins is in the range of 18±1 billion sq.ft. With the combined installed tanning capacities of 7-7.5 billion sq ft per year, China and India enjoy a strong position. Similarly in manufacturing of footwear and leather garments, combined installed capacities in China and India could meet more than 70% of the annual global requirements.

Further relocation of manufacturing activities of such leather related products to countries in Asia –Pacific region is expected.

The emerging situation may promote internal competition among countries in Asia-Pacific region for manufacturing and these may even cause downward revision of unit value realizations from leather and leather products. There has been relatively slower growth in unit value realizations from leather and leather products during the last five years related to an earlier corresponding period. Further, countries like Romania and Turkey in Europe enjoy some natural advantages like proximity to the market and ethnic similarities to consumers in Europe. The emerging monopoly of Asia-Pacific region in leather and leather products may face serious challenges both in manufacturing and in marketing. A regional cooperation and innovative policy supports will be essential for the balanced and continued growth of the sector in the Asia-Pacific countries.

Some Likely Areas and Promoting Measures for Regional Cooperation for Innovations for Growth

- 1. Formation of a Structured Mechanism for Policy studies to serve the Countries in the Region:** European commission is an example of inter country cooperation in the development of regional cooperation in trade related matters. Asia-Pacific region may also need such a framework for cooperation in manufacturing and trade related matters. A structured and institutional mechanism for undertaking market and policy studies for countries in the region will be gainful.
- 2. National Policies aligned with Regional Aspirations through Trade agreements:** Product and market segmentation for leather and leather wares may need to be matched with the comparative advantages of different countries in the Asia-Pacific region. National policies of the various countries may evolve suitable trade agreements such that product and market segments are matched with the comparative advantage sectors. For example, countries with comparative advantages for small and medium size production may focus on economy of scope models and fashion chain products while economy of scale models may focus on products with large volumes and large turn over.
- 3. Sharing of Resources, Expertise and Best Practices Systems:** In areas where the region has gained manufacturing advantages, formal arrangements for sharing expertise, technologies and best practice systems within the region may help to further consolidate the strength gained. Since leather sector offers scope for employment generation and social empowerment, countries in Asian-Pacific region may benefit significantly, if a regional approach for leather sector is adopted. In technology generation for leather sector, countries like India have gained considerable

strength and advantage while China has emerged the strongest manufacturing Nation. Regional cooperation in areas of technology exchange and strengthening of manufacturing systems will be gainful.

4. **Consortium Marketing:** Marketing of leather and leather products in global trade and building of brand equities for both country of origin and products form an important part of leveraging strengths of the region. This would call for regional cooperation in the development of aggressive marketing.
5. **Brand Building:** Brand equities in leather ware have been built by companies in Europe and USA. There is a need for building country as well as company images. Brand building demands large investments of both money and time. Buy-out of established brands is a feasible option, but it may require regional cooperation and emergence of trans-National companies from Asian-Pacific region.
6. **Regional Policy Frame work to Suit WTO World:** WTO regulations prescribe equal access to market and trade. Level playing in market driven economies is a trading paradigm. Leather and some other consumer commodities may involve different social segments which need the support of a planned economy model as well. This is particularly true of leather sector in a country like India, which has potentials to contribute to the social empowerment and stability of some weak economic segments of the population. Therefore a regional policy framework will be a gainful strategy for negotiations at the WTO guidelines. Such an approach would call for a careful assessment of the challenges and opportunities for the region in leather sector as well as development of a mutually acceptable draft policy for a regional cooperation and adoption.
7. **Institutionalization of Policy Studies and Development Planning:** An institutional mechanism and inter-Governmental understanding may be required for countries in Asian-Pacific region to identify and select sectors of growth based on comparative advantages and competitive strength in WTO regime. Regional cooperation for planned growth Regional Institute for Policy Research in Planned Industrial Growth of Advantage sector may well be in order.

Way Forward

World trade order is changing. Developmental processes in different countries need to take into account the essentiality to be competitive. Gross National Products of Nations are widely variant. Within one Nation, economic stratification of different social segments in high growth rate regime is an aspect of concern. A balanced developmental path which targets high growth rates towards economic prosperity with matching emphasis on social equity calls for techno-social innovations. Application of scientific principles and collectivity in strategy

planning are essential. Political will of Nations needs take into account the economic realities of competition among un-equals. It appears that a regional cooperation among countries in Asia-pacific region in some select developmental sectors of comparative advantage to the region is the way forward. There are some successes in the region to gain from. Those successes deserve to be multiplied and such a multiplication in itself is an innovation. There is a clarion call for innovative policy backed growth in Asia-Pacific Region.

TABLE – 1

CUMULATIVE ANNUAL GROWTH RATES OF CONSUMER PRODUCTS IN SELECTED COUNTRIES

Countries	Consumer products			
	Computers	Mobile Phones	Telephones	T.V
U.S.A	3.19	18.5	0.59	0.15
Japan	5.25	12.9	3.44	0
Germany	0	8.61	2.79	0.10
S.Korea	14.9	3.55	1.28	0.27
Taiwan	0	36.03	2.53	0

Source: The Economist 2002-04.

TABLE – 2

LEATHER SECTOR TRADE BALANCE – 2002

MAJOR IMPORTERS

Major Importers	Exports (US \$ Millions)	Imports (US \$ Millions)	Balance (US \$ Millions)
USA	1578	20930	-19,352
Germany	2916	5678	-2,762
U.K.	1223	4461	-3238
France	2777	4444	-1667
Japan	164	4252	-4088
Total			-31107

Source : Council for Leather Exports, Chennai

TABLE – 3

LEATHER SECTOR TRADE BALANCE – 2002

MAJOR EXPORTERS

Major Exporters	Exports (US \$ Millions)	Imports (US \$ Millions)	Balance (US \$ Millions)
China	16160	2923	+ 13237
India	1877	171	+ 1706
Italy	12942	5750	+ 7192
Brazil	2564	185	+ 2379
Turkey	461	322	+ 139
Total			+24653

Source : Council for Leather Exports, Chennai

TABLE – 4

MAJOR IMPORTING COUNTRIES OF LEATHER AND LEATHER PRODUCTS

(Value in Million US\$)

Importing Countries	2002
U S A	20930.4
Hong Kong	8517.8
Italy	5750.6
Germany	5678.4
UNTD Kingdom	4461.1
France	4444.5
Japan	4252.7
China	2923.0
Spain	1758.4
Belgium	1661.9

Source : Council for Leather Exports, Chennai

TABLE – 5

MAJOR EXPORTING COUNTRIES OF LEATHER AND LEATHER PRODUCTS

(Value in Million US\$)

Exporting Countries	2002
China	16160.7
Italy	12942.3
Spain	2806.0
Brazil	2564.0
India	1877.8
Korea Rep	1828.9
Portugal	1556.6
Indonesia	1310.0
Romania	1266.8
Argentina	740.8

Source : Council for Leather Exports, Chennai