

# **Impact of New Economic Reforms on Leather Industry in Uttar Pradesh**

## **ABSTRACT**

**SUBMITTED TO  
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## *Abstract*

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Indian economy has undoubtedly emerged as a force to reckon with and is being lauded by the economists across the Globe for being one of the most resilient and consistently improving economies in the world at present [*The International Economic Resilience Ranking- 2022*]. However, the current optimism in the Indian economy's growth or the possible potential growth trajectory has its moorings in several decisive and pioneering policy centric interventions that were taken to restructure the Indian economy.

India inherited the tag of underdeveloped economic stature at the time of independence in 1947. In their efforts to contain poverty and low per capita income, the Indian economists and the Government policymakers set out to forge a mixed economy that envisaged the contribution of both the public and private sector to set the economy on the path of development. This commitment became the genesis of various policies with the intent of ushering in the era of industrial development in the country.

In this league, the Government of India adopted the first Industrial Policy Resolution in 1948. The policy enunciated that the industries of national importance would be reserved for public sector, and the others would be opened for the private sector. For instance, while the coal, iron, steel, atomic energy, rail & road infrastructure and few other strategic sectors such as arms and ammunition became the sole prerogative of the Central and the state Governments; industries such as chemicals, sugar, cotton textile industry, cement, paper, salt, machine tools, fertilizer, rubber, air and sea transport, motor, tractor, electricity, etc., were opened to private partnership.

Interestingly, and more relevantly in the context of the present Thesis, the Industrial Policy of 1948 declared its intent and commitment to protect and offer patronage to the cottage & small scale industries and bracketed them under the highest priority category.

Such reforms became a major cornerstone in mapping the new era for Indian economy. In fact, this set the premise for the Industrial Policy Resolution in 1956. The IPR- 1956 can be perceived as a seminal leap in the context of economic reforms as it categorized the Indian industries into 3 core schedules with the intent of accelerating the pace of economic development in the country and reaping in a more equitable economic ecosystem that would be all inclusive for the Indian citizens. With this aim, in the first category- the Schedule A, industries such as Arms and ammunition and allied items of defense equipment, Atomic energy, Iron and Steel, Heavy castings and forging of iron and steel were given space, and these were to be driven by the whole sole involvement of the GoI. Schedule B comprised the industries that were State- owned but would invite the involvement of private enterprises as scaffolds. Schedule C enlisted those industries that were open to the private sector.

One of the significant high points of this IPR was also to promote and provide patronage to the small scale industries in terms of direct subsidy and taxation relief.

The advent of the Industrial Policy Statement in 1977 furthered this commitment as the Policy mainly focused on the small scale industries. The Policy saw the induction and recognition of “Tiny Units” concept as a measure to incentivize business enterprises by investing in machinery up to Rs. 1 Lakh. With the intent to foster a more participative cult in the economic representation, the Policy underlined the need to establish one District Industries’ Centre in each district of the country to cater to

the small scale industries in the district. Moreover, financial inclusivity was offered to the owners and the workers in the small scale industry sector by creating a specific cell in the Industrial Development Bank of India to meet the needs of the stakeholders.

The Industrial Policy of 1980 focused on the effective management of public sector, redefining of the small industries and revival of sick industry. The Policy proposed to revise the limit of investment in the tiny units from 1 Lakh to 2 Lakh, and gave particular boost to the rural industries with more focus on handloom, khadi, and other cottage industry produce.

However, the most revolutionary and what can justly be regarded as the groundbreaking turn in the Indian economic canvas came in 1991 with the introduction of the New Industrial Reforms, also known as the New Economic Policy. The key objective was to liberalize the Indian economy and enable more Foreign Direct Investment (FDI) as a mechanism to fuel the economic development in the country with less dependency on the Public sector and more proactive involvement of the private sector. Yet another landmark of these Reforms was the policymakers' judiciousness in understanding the need to tweak the onerous bureaucratic hurdles that were blocking the zeal of the investors and the business groups in investing and manufacturing in India. Hence, the policy removed the necessity of prior consent of the Central Government for the establishment of new undertakings, expansion or merger plans, etc. Significantly, Liberalization, Privatization and Globalization (LPG) not only became the most identifiable tenets of this Policy but also saw the emergence of the Export Oriented Units (EOU), Export Processing Zones (EPZ), Agri-Export Zones (AEZ), etc., to promote Indian economic interests at global level. The much

needed economic reforms of 1991 also sought to address the issues such as the balance of payment crises, depleting foreign reserves, debt crisis, devaluation of the Indian Rupee and high inflation. Moreover, the World Bank (WB) and the International Monetary Fund (IMF) were not sanctioning loan to India and Reserve Bank of India (RBI) had to trade gold for availing loan. The IMF and World Bank also called for policy reforms in the Indian economy and the country outlined the neo-liberal policy under the Prime Minister Narsimah Rao, and the then Finance Minister, Manmohan Singh.

Most of the developed economies reflect positive association between industrial development and economic development, in the past decades. Noticeably, the Industrial development is important in many ways such as: 1- Generation of employment opportunities, 2- Maximum utilization of Resources, 3- Foreign exchange earnings, 4- Source of income, 5- Modernization of agriculture, 6- Favorable balance of payment. More specifically, in the Indian context, the industrial development has and continues to occupy a prominent role in the growth of Indian economy. India is an agrarian economy and most of population depends on agriculture for their livelihood. Hence, the industrial development in India is largely intertwined with the development of agriculture, because agriculture provides the basic inputs for industry like land and raw materials. India needs higher industrialization to achieve higher growth of national income, reduce poverty and minimize income inequality. To trace the economic trajectory that the country has marked through the years, it is significant to note that the share of industry in the total GDP was 16.69 per cent and growth rate of industry was 5.5 per cent in 1951-52. In 1990-91, the share of industry increased to 27.63 per cent of GDP, and the growth of industry was 7.33 per cent. After 1990, the share of industry in GDP became stagnant

and was around 27 per cent and it was 27.3 per cent in 2012-13. After 1990, there is a marked variation in the growth of industries in different time periods. For instance, in 1991-92, the growth rate was 0.34 per cent; in 1995-96, the growth rate was 11.29 per cent, and in 2012-13, the growth rate became 3.12 per cent. In recent years, the growth of industries declined from 8.8 per cent to 5.6 per cent in 2015-16 and..... 2016-17, respectively. Share of industry sector was 29.73 per cent in GVA in 2018-19, while it was 14.6 per cent in 1950-51 at the current price. India's merchandise export declined from USD 306 billion in 2011-12 to USD 275.9 billion in 2016-17. The share of industry sector in gross capital formation was 48, 55 and 48 per cent in 2004-05, 2007-08 and 2010-11, respectively, at the constant price of 2004-05. The share of industry sector in export was 61.82 per cent and earning from merchandise export was USD 331.02 billion in 2018-19, which was an increase from USD 303.53 billion in 2017-18; registering 9.06 per cent growth. The growth in export has declined since 1996 (*Nagesh Kumar, 2000*).

In 1951, the industry sector absorbed about 3.0 million workers, (*George Rosen, August 3, 1957*). The Industry sector provided 9.7 per cent of total employment in the country from 2013 to 2015. The Growth rate of employment in the industrial sector has been declining continuously since 2009. This is evident from the fact that the growth rate of employment which was 12.8 per cent in 2009 plummeted to a dismal figure of 1.35 per cent in 2015. In this backdrop, it is significant to underline that the share of leather industry in the industrial employment is 0.33 per cent. The growth rate of employment in the leather industry was a negative graph of -0.25 per cent, 0.44 per cent and -0.8 per cent in 2009, 2013 and 2015, respectively. As of the current scenario, the leather industry is providing employment to 4.42 million people (*CLE, 2022*).

The New Economic Reforms, introduced in 1991, proved to be a major catalyst in empowering all these segments through Liberalization, Privatization and Globalization in India. Liberalization saw a slew of measures taken by the Government of India and the state governments to lift the restrictions on some private activities, thus enabling a more robust and encompasses participation in setting up industries in the country. Privatization led to helping the private sector to set up industries for the product or the service lines that were previously reserved for the public sector. This included the sales of Public Sector Units (PSUs), disinvestment in PSUs, and minimization of public sector (number of industries reserved for public sector was reduced from 17 to 3). Globalization led to the integration of domestic market with the investors and business associates across the globe with respect to foreign investment, trade, production, besides reducing tariffs, effecting long term trade policies, open competition, partial convertibility of Indian currency and increase in the equity limit of foreign investment.

The Indian economic landscape, post the economic reforms, gave rapid strides to Industrialization which in turn generated mass scale employment, thus increasing the per capita income of people and reducing poverty. The growth of industrial sector during 1991 to 2016 was 7 to 8 per cent (*R. Nagraj*), and the share of industry sector in GDP remained constant between 26 to 27 per cent. The returns reaped through the free market economy brought in by the new economic reforms in 1991 are now more evident than ever as the World Bank's Ease of Doing Business Index ranks India at the 63 position in 2022 (*The World Bank Report*). However, several milestones are yet to be created because even now India's expenditure on research and development is low in comparison to China. Improved Research and Development impetus in India

will bring in more self-reliance in the hitherto unexplored inventive zones such as manufacturing microchips and semiconductors.

Indisputably and evidently, the New Economic Reforms brought in changes in several aspects of economic development and bolstered productivity of the industrial sector in our country. This Thesis will examine the impact of the same on the leather industry while closely dissecting the present business avenues and the possible potentials in the forthcoming future in the light of the free market economy. India accounts for the world's 13 per cent of leather production (*CLE*), and is the world's second largest exporter of leather footwear, and leather products. The annual income from the leather export was graphed at Rs. 397930.43 million in 2018-19. The export of leather and leather products recorded a positive growth of 0.79 per cent in 2017-18. The share of leather and leather products was recorded at 1.88 per cent in total export merchandise in 2017-18 (*The Annual Report of the Ministry of Commerce and Industry*). India has about 2200 tanneries, and Tamil Nadu, West Bengal, Uttar Pradesh, Maharashtra, Karnataka, Andhra Pradesh, Punjab, Haryana are slated to be the major leather producing states in the country. More particularly, in Uttar Pradesh, the area of this study, the leather producing centers are in Kanpur Nagar, Agra, Unnao and Gautam Buddha Nagar districts. The Indian leather industry accounts for about 12.93 per cent of the world's production of finished hides. The Leather industry contributes to around 3 per cent to India's total GDP. The Central government approved the Central Sector scheme for the development of leather industry, Indian Footwear, Leather & Accessories Development programme (IFLADP). This scheme is a subset of seven sub schemes which are: 1- Human Resource development (HRD), 2- Integrated Development of Leather Sector, 3- Establishment of Institutional Facilities 4- Mega Leather, Footwear & Accessories Cluster (MLFAC), 5- Leather

Technology, Innovation and Environmental sub scheme, 6- Promotion of Indian Brand in Leather, Footwear and Accessories, 7- Additional Employment Incentive for Leather, Footwear and Accessories sector scheme.

The Leather industry started in Uttar Pradesh with the hereditary trade of tanning and manufacturing by the “*chamar*” community when they settled in Kanpur. Trade was conducted in primitive fashion by using the rudimentary technique and the community elementally catered to the needs of the British who used leather for the purpose of their armed forces in the 19<sup>th</sup> and 20<sup>th</sup> Century (*Monica Sharma, 1998*). However, the 21<sup>st</sup> Century Indian Leather Industry registered a total number of 15357 factories, out of which 819 are in Uttar Pradesh (*Uttar Pradesh ASI, 2015-16*). The Secondary sector and the Manufacturing sector of Uttar Pradesh contributed 26.8 per cent and 12.1 per cent to the State GVA, and mapped a negative growth rate of -0.5 per cent and -2.7 per cent in 2019 & 2020, respectively, (*UP Arthik Samiksha, 2020-21*). The share of the leather industry in the total value of industrial production was 8.9 per cent in 2015-16. The share of leather industry in industrial GVA was 6.5 per cent in U.P. in 2015-16. Uttar Pradesh is the second largest state in terms of export of leather and leather products. Uttar Pradesh is exporting leather and leather products to more than 100 countries. However around 80 per cent export of leather and leather products are concentrated in 10 countries that include: the UK, Germany, USA, France, Netherland, Spain, Poland, Italy, Australia and Denmark. Saddlery of Kanpur is identified as the Geographical Indication (G. I.) (*Niryat Patrika, UP Export Promotion Council March, 2022*). Kanpur Nagar and Agra districts are identified as ODOP districts for leather products.

Uttar Pradesh was accorded the 2<sup>nd</sup> Rank in the “*Ease of Doing Business*” in 2020. The Industrial sector of U.P. provides employment to 10, 31,737 people (including the workers, supervisors). The leather industry provides employment to 12.9 per cent workers out of the total number of industrial workers. Leather industry is the second largest employment providing sector after food product industry. The Leather industry of U.P. is incurring losses at present and battling with the multifold challenges of global competition, technical, economic, and social barriers, besides several environmental centric rules and regulations (*Shivam Gupta, 2007*). However, the scenario is not entirely bleak as the manufacturing of footwear is earning profit. For instance, the Leather industry of Kanpur Nagar, Kanpur Dehat and Unnao are contending with losses, but the manufacturing of footwear is bringing in profits.

### **Challenges for the Leather Industry**

Although high in demand, the Indian Leather and Leather products confront several debacles in making a niche for their brands. The key challenges include:

- **Intense International Competition:** The Indian leather industry has to contend with the international Leather brands that find more buyers because of their trendy aesthetics and sustainable designs. This is evident in the growth rate of exports of leather and leather products which declined in 2014-15 and has been in a negative spinning ever since.
- **Strict Environmental Laws:** Environmental regulations continue to cap the productivity of the factories producing Leather. Due to poor management and monitoring of water treatment plants, the leather industry has emerged as one of the major sources for polluting rivers by not complying with the treatment of the toxic waste. In fact the inflow of effluents into the river water by the

tanneries is such that the leather firms of Kanpur are closed for three to four months during the Kumbh fair so as to enable clean river water for the pilgrims to take a holy dip in.

- **Technological Backwardness:** Most of the tanneries in the country continue to use the conventional methods of tanning. Moreover, there is a huge gap between the international guidelines stipulated for the production of leather products and due to lack of compliance to these guidelines, the leather exports from our country are rejected sometimes. Although the Government of India and Uttar Pradesh has taken initiatives and provided the necessary infrastructural support for the upgradation of leather processing technology, the implementation of the same is point of concern. Besides adapting the state-of-the-art production techniques and machinery will the tanneries also need to comply with the labour laws so as to ensure.
- **Policy Interventions:** Policy decisions such as GST (Goods and Service Tax) and demonetization that were introduced by the Government of India in the recent years also affected the Leather industry adversely as the management and the administrative aspects needed to be recalibrated in response to the policy revisions on trade and currency. As a result, the leather output growth declined since 2016-17 in Uttar Pradesh as well as at national level.

### **Research Gap**

The previous research studies in this context have mostly focused on the exports, technology, economic analysis, regional disparities, industrial policy evaluation, legal framework, small scale industries, and liberalization, etc. The present Study is a unique venture of its kind as it seeks to examine an aspect that hasn't received much

attention from the point of research investigation. This Study will undertake an empirical quest on the “**Impact of New Economic Reforms on Leather Industry in Uttar Pradesh**”. This study is explore the current growth statistics of Leather industry in Uttar Pradesh, in terms of production, promotion, market outreach of the leather products at the national and international levels and gauge the changes that have furthered the possible expansion of the industry in Uttar Pradesh in the backdrop of the New Economic Reforms of 1991. The study is also analyzing the bottlenecks that are choking the success of tanneries in Uttar Pradesh, including the employment or the lack of it in the industry. The study is map insightful discussion for the policymakers as well as the academicians to understand the core issues and challenges of leather industry in Uttar Pradesh and posit workable recommendations to remedy the situation. With this as its guiding premise, the Objectives of the Study are chronicled below.

### **Objectives of the study are**

- 1- To analyse trends and changes in the industrial development in India during 1991-2020.
- 2- To study the changes in industrial policies during 1991 -2020.
- 3- To study the performance of leather industry in U.P.
- 4- To suggest measures for development of leather industry.

### **Hypothesis of Study**

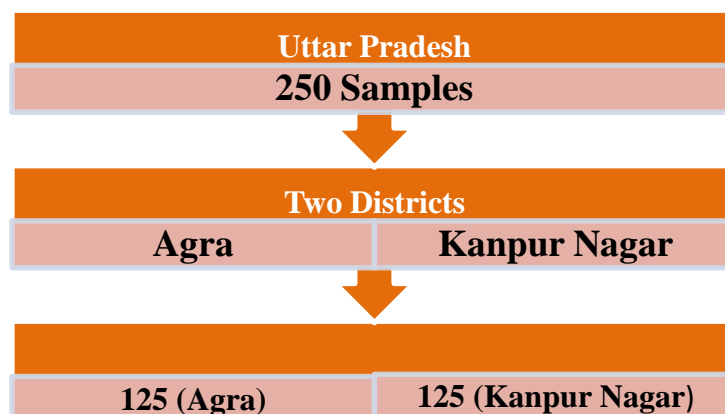
**H<sub>01</sub>** - Performance of the leather industry is not impressive.

**H<sub>02</sub>** - The New Economic Reforms have had no any impact on the development of leather industry.

### **Methodology of the Study**

Present study is based on the primary and secondary data. The main purpose of the study is to analyse the impact of new economic reforms on the development of leather industry in U.P. The study is confined to Uttar Pradesh as the state ranks as the second largest exporter of leather products in the country. For primary survey, two districts of the state namely Kanpur Nagar and Agra have been selected for the field survey and data collection. The two districts have been home to several tanneries and manufacturing of footwear for a long time in Uttar Pradesh. The present study uses multi-stage purposive sampling method. In the first step, Uttar Pradesh state was purposively selected. In the second step, the two districts, namely Agra and Kanpur Nagar were purposively selected. Moreover, the substantial production and relative share in the State's Gross Domestic Product (GDP) of the leather products was the main reason for the selection of these two districts. In third step, 250 leather units were surveyed by using the proportionate sampling method in the months of October and November 2020. Further, 125 samples from each district were collected. The primary Data has been collected mainly on the indices of output, cost, export, employment, education, skill and wages. The secondary data study has been collected from the World Bank reports, the annual reports of the Central Leather Research Institute, ASI (Annual Survey of Industries), CSO (Central Statistical Organization), the RBI (Reserve Bank of India), U.P. Economic Census, Statistical diary U.P., the Journal of Industrial statistics, Arthik Samiksha of U.P., government reports, and various government websites. Statistical tools used for processing the data include the average mean, multiple regression analysis, and correlation analysis. Software package STATA has been used for analysis of data.

Figure 1.1 Flow Chart of Sample Collection



### Significance of the study

Leather industry is performing in Uttar Pradesh since before independence. Leather industry is a labour intensive industry. Leather work is performing by marginalized community of Uttar Pradesh. Leather industry is securing livelihood of this community, contributing to national income and state GDP. Government has taken decision for structural changes in 1991. LPG policy effected to domestic leather industry. Due to new economic policy domestic leather industry facing competition from multinational leather industry, domestic leather industry is shutting down because these industries are getting losses. Domestic leather industry is not able get market for their product; hence present study is try to highlight the issues related to impact of LPG policy on domestic leather industry. Study will try to suggest some measures to enhance the demand of domestic leather industry.

### Plan of the study

The Thesis envisaged six core chapters to collate, compile and elaborate upon the intended target. The **First Chapter**, the ‘*Introduction*’ outlined the statement of problem, review of literature, research gap, objectives and hypothesis of the study,

methodology. The **Second Chapter**, ‘*Conceptual and Theoretical Framework of Industrial Development*’ explained the concepts, views and theories related to industrial development. The **Third Chapter**, ‘*Development of Leather firms in Uttar Pradesh*’ analyzed the pattern of growth and development that the leather industry, in India and Uttar Pradesh, witnessed in the post-reforms period. The **Fourth Chapter** on the ‘*Socioeconomic Profile of Entrepreneurs of Leather Firms*’ mapped the primary survey data pertaining to the social and economic profile of entrepreneurs. The **Fifth Chapter** on the ‘*Economic Analysis of leather firms in Uttar Pradesh*’ analyzed the economic viability of leather industry in Uttar Pradesh. The, present Chapter, i.e., the **Sixth Chapter**, ‘*Summary and Conclusions*’ enunciates the major findings and recommendations of the study. The summation of the focal aspects of each Chapter is scribed in the ensuing paragraphs.

The study explains status and significance of leather industry. The literature review referred to in this context is categorized on the basis of theme and arranged chronologically; the first segment of literature is based on the theme of economic reforms and industrial development and the studies pertinent to this theme cite that after the introduction of new economic reforms, the inequalities between rich and poor as well as the regional disparities increased. A dismal trend of jobless growth emerged in the economy. Although the opening of the economy improved technological inputs, the labour intensive products declined after the new economic reforms. The second category of studies in the literature review iterated that the units spending more on research and development were getting more lucrative business. Technical efficiency was affected by the firm’s size and location of firm. Moreover, the states that have better investment climate are growing at a faster rate and eradicating poverty. Several research endeavors pointed out that the factors affecting

the industrial development of Uttar Pradesh are inadequate infrastructure, poor governance and unskilled human capital. Reforms have failed to fulfill their objectives due to ignorance of demand side factors. High tech industries are unable to generate employment. Last segment of the literature brings in studies related to the development of leather industry. Traditional leather industry declined due to the alienation of the *chamar* community that contributed to the workmanship in the leather firms, and the introduction of chrome technology and lack of credit. Moreover, the export of leather and leather products is ridden with the challenges such as perception of poor quality, high competition and lack of interest in the leather exports. In the course of perusing these studies, it was understood that there is no specific literature to address the impact of new economic reforms on the leather industry, more so in the context of Uttar Pradesh. Thus, emerged the research gap that inspired the genesis of this thesis. Furthermore, this also traces the objectives, hypothesis, methodology and significance of the study.

The study provides theoretical background for industrial development. Conventionally incepted as one of the flourishing handicrafts, and confined to cottage based initiatives, the leather sector is now a mechanized and large scale enterprise in India. Many policies have been instituted to further industrial development since independence. New Economic Reform is the big reform and big platform for industrial development. Hoffmann had given the idea that industrial development takes place in a unique way, at initial stage of development consumer goods industry take place, with the industrial development ratio of consumer goods industries declines and ratio of capital goods industries increase. Chenery explained the pattern of industrial growth on the basis of demand and supply. He identified that demand and supply are affected by the factors such as similar technological knowledge,

capital accumulation, market for external trade and skill. The economist divided industrial output into three groups as investment and related products, consumer goods and other intermediate goods. It was noted that when the share of investment and related goods increased, the share of other intermediate goods stagnated and the share of consumer goods declined with the rise in per capita income. Great spurt theory also stresses on the investment in the capital goods and development of technology and skill.

Dr. Ambedkar and Nehru discussed and supported that industrial development in the pattern of mixed economy. They stressed upon the installation of Large and heavy industry for self-reliance. As per their dictums, the Large and key industries were to be owned and managed by state whereas the small and tiny industries had to be managed by private entrepreneurs. Mahatma Gandhi emphasized more on the development of small and cottage industry.

Thesis, further, chronicles different theories on the expansion and growth of firms that includes the promulgations offered by the iconic economists. Since the main objective of the firms is to maximize on profit, the management of the firms must work on strategies to achieve higher profit and target product diversification, merger, more investment, expansion and research and development. Hirschman discussed that a firm tries to locate at the point where it gets more external economies. *Trickling down effect and polarization effect* determine the location of the firm. According to Losch, the firm is located at point where maximum revenue can be generated. Harrod and Domar emphasized on the investment in capital goods sector to increase income and productive capacity of economy. It details the industrial policies that became the basis for the economic growth and industrial development in India after independence. The

First attempt of economic reforms was initiated in the regime of Prime Minister Indira Gandhi, consisting of devaluation combined with selective import tariff reductions and domestic investment liberalization in 1966. Second attempt was made during the regime of Prime Minister Rajiv Gandhi; liberalize domestic investment along with external trade during the 1985-87. Wide Ranging and systematic nature of Reforms were introduced in 1991 in the following domains:

1. External sector
2. Fiscal consolidation with reform on revenue and expenditure side, monetary and financial sector.
3. Industrial sector.
4. Infrastructure, partial/full privatization of public sector commercial enterprises and so on.

In the same row, this chapter also entails the policies and initiatives that were taken for the leather industry. 100 per cent FDI was allowed through automatic route for manufacturing of leather products. 100 per cent FDI was allowed in single-brand retailing in India, with a clause of 30 per cent mandatory local sourcing. License was not mandatory for leather industry for the expansion and adaptation of modern techniques, machinery and equipment. To boost the manufacturing in the leather footwear segment, the excise duty was reduced from 12 per cent to 6 per cent for footwear costing between INR 500 and INR 1000. Kanpur and Agra district were recognized under the *one district one product programme* (ODOP) of UP government for leather products. Saddlery of Kanpur was credited with the geographical indication (G.I.).

It explains the entrepreneurs of leather industry at national level and Uttar Pradesh. Pre-reform period is defined as 1981-82 to 1990-91, and the post economic reform period is defined as 1991-92 to 2016-17 and 2017-18. A close scrutiny of the data revealed that the share of leather exports declined from 7.10 per cent in 1991-92 to 1.74 per cent in 2017-18. Leather exports growth declined from 16.86 in 1991-92 to -1.66 per cent in 201-18. Export performance of leather industry was far from satisfactory. India's export is centered more on the developed western countries. Although the Share of leather units has increased to 1.94 per cent in 2017-18 from 1.38 per cent in 1991-92, the share of leather output in total industrial output during post-reform period declined by 0.66 per cent in 2017-18 from 1.06 per cent in 1991-92.

Examining the data relevant to the leather industry in Uttar Pradesh evidently established that the share of leather firms in total no. of registered firms in Uttar Pradesh increased to 5.62 per cent in 2016-17 from 1.5 per cent 1991-92. Input share of leather industry increased 2.61 per cent from 1.75 per cent in 2016-17 from 1991-92 in Uttar Pradesh. Share of leather output to output of all industries increased 2.94 per cent in 2016-17 from 1.63 per cent in 1991-92 in Uttar Pradesh. Employment Share of leather industry to all industries increased 8.02 per cent in 2016-17 from 2.28 per cent 1991-92 in Uttar Pradesh.

Annual growth performance of leather firms was less, during the post – reform than the pre-reform period even the large number of leather firms established in India. Annual growth of leather firms was more during the post reform than the pre-reform period in Uttar Pradesh. Annual growth of total output of leather and leather products

remained less during the post reform period than the pre-reform period in Uttar Pradesh.

Compound Annual growth rate of total output, input, invested capital and net value added in post reform era remained less than the pre-reform era at national level and Uttar Pradesh. It means that the average annual growth rate of total output, input, invested capital and net value added during post reform period was less than the pre-reform period in India and Uttar Pradesh. The economists cite that cut down of public investment, slowdown of infrastructure, lack of demand particularly in rural areas, competition from multinational companies, and slowdown in exports and absurdity in import tariff structure, are the reasons that underline the travails being faced by the leather industry in UP.

The compound annual growth rate of employment of declined during post reform at national level and it was increased in Uttar Pradesh in comparison to pre-reform period. Here it is noticeable that employment growth is less than the growth of total output at national level and in Uttar Pradesh during pre and post reform period, it is worthwhile that employment growth of leather industry registered higher in comparison to entire industrial sector at national as well as in Uttar Pradesh during pre and post reform.

Manufacturing of leather and leather products is concentrated in six districts of Uttar Pradesh namely Kanpur Nagar, Agra, Unnao, Gautam Buddha Nagar, Ghaziabad and Kanpur Dehat that produce more than 95 per cent of leather and leather products. Kanpur Nagar leads in the production of leather goods followed by Agra and then Unnao. Kanpur Nagar produces more than 80 per cent, and Unnao more than 60 per cent, of the total output of manufacturing of finished leather, luggage handbags,

leather garments, saddlery and harness. Agra and Ghaziabad are producing around 85 per cent footwear of the total output of leather and products. Kanpur Dehat and Gautam Buddha Nagar are producing around 50 per cent footwear and around 50 per cent of luggage, handbags and the like, saddlery and harness.

Productivity of the entire industrial sector and leather industry increased during post reforms period in India but in the recent past, the growth spiraled downwards. Productivity of leather industry marked an upsurge during post reform period in Uttar Pradesh. Employment generation capacity of economy increased during post reform period at national level and Uttar Pradesh for entire industrial sector and leather industry. Employment elasticity of leather industry was more than the entire industrial sector during post reform period which indicates that employment generation capacity of leather industry increased during post reform period in Uttar Pradesh. However, for the past 6 to 7 years, the employment elasticity has declined for leather industry in Uttar Pradesh and India, while it increased for entire industrial sector. 92 per cent leather units are established after 1991 in surveyed districts.

The primary survey of study explains the socio economic characteristics of entrepreneurs. In Agra district, 78.40 per cent entrepreneurs belong to Hindu religion, and 87.20 per cent entrepreneurs belong from the schedule caste category. In Kanpur Nagar district, 82.80 per cent entrepreneurs belong to Muslin religion and 66.60 per cent entrepreneurs belong to the General category. In Agra district, the female entrepreneurs are more in comparison to Kanpur Nagar district. In Agra district more than 92 per cent leather firms are located in the unrecognized industrial areas. 66.80 per cent of leather firms are micro units. 93.6 per cent leather units are engaged in production of leather footwear in Agra district and 71.2 per cent leather units are

engaged in production tanning of hides. 60 per cent respondents accepted that the average profit has been increased in the sampled area. Only 13.6 per cent entrepreneurs have accepted that they have quality certification. 92.8 per cent entrepreneurs accepted that business competition is increasing and emerging as a formidable challenge. The average wage rate is INR 450 in Agra and INR 500 in Kanpur Nagar District. Awareness about the schemes stands at the core of drawing out benefits making such programmes successful. 29.6 per cent in Agra, 40.8 per cent in Kanpur Nagar, and 35.2 per cent out of subtotal of both districts entrepreneurs are aware about the Indian Leather Development Programme (ILDPA). Socioeconomic statistics reveal that entrepreneurs in both districts are well-educated and male-dominated. They are gaining profits and providing employment to unskilled and skilled workers. Though only 14 per cent of their budget is allocated for research and development, they are continuously diversifying their manufacturing system and adding a new variety of products on the assembly lines to survive in the highly competitive domestic and international market. Entrepreneurs are also eagerly participating in national and international seminars and workshops for understanding new fashion trends in the industry.

The study maps the economic analysis of leather industry. This segment underpins each of the factors that need to be taken into account for determining the total revenue and output. Around 60 percent of entrepreneurs who were the respondents are satisfied with the infrastructure in surveyed area. But in Kanpur Nagar there were poor roads and less hours of electricity at the time survey. Only 38 percent of the respondents were satisfied with the investment friendly environment. Most of the entrepreneurs responded that the level of corruption had increased in the last five years. Corruption was still rampant and hindered the access to government schemes

and policies. Out of the 250 leather units, the first major cost component was raw material, the second major cost component is wage, and the third major cost component is energy consumption. In Agra, the major share of cost expenditure is incurred on wages, and in Kanpur Nagar it was on raw materials. Caste, category of firm, quality accreditation, water treatment plant, Research and development significantly determine total revenue. All sampled firms were earning positive profit, output, cost and profit varies positively with the size of firm. In other words, as the size of the firm increases, so does its economic variability.

### **Major Findings of the Study**

- The Export performance of leather industry deteriorated in India after new economic reforms period because the average growth rate (CAGR) declined to 9.62 percent in comparison to pre-reform period of 24.22 percent.
- Performance of leather industry improved after the introduction of new economic reforms in Uttar Pradesh because the compound annual growth rate (CAGR) of leather firms and employment in leather industry increased even the output growth declined during the post reform period in comparison to post reform period. CAGR of the leather firms increased to 6.27 per cent from 2.97 per cent, CAGR of leather employment increased to 6.63 per cent from 3.90 per cent and CAGR of leather output declined to 15.01 per cent from 19.99 per cent during the post reform period from pre reform period, respectively.
- Six districts of Uttar Pradesh namely Kanpur Nagar, Agra, Unnao, Gautam Buddha Nagar, Kanpur Dehat and Ghaziabad produce more than 95 per cent of leather output.

- Agra district provides more employment than the other district in leather industry around 50 per cent and Kanpur Nagar is 24.49 per cent than the other districts of Uttar Pradesh.
- Agra district is specialized in the manufacture of footwear and produces around 98 per cent share of leather and leather products. Kanpur Nagar district specializes in manufacturing luggage, handbags and the like, saddlery and harness and produces 82 per cent share of leather and leather products.
- Productivity of leather industry increased to 1.45 percent from 1.23 percent in 2016-17 from 1991-92 during post reform period in Uttar Pradesh.
- Most of the leather firms were established after the introduction of the new economic reforms in Uttar Pradesh.
- More than 65 per cent of the leather units are micro units in Uttar Pradesh.
- All the surveyed leather units are getting positive profits in Uttar Pradesh.
- Demand of leather and leather products declined in Uttar Pradesh.
- Cost of competition and factors of competition such as product design, quality of product, price war, delay in payment receiving, cost reduction techniques and personal behaviour, etc., increased after and during the new economic period in Uttar Pradesh.
- Most of the entrepreneurs, who were among the respondents in the surveyed districts, are still not aware of the leather schemes and programmes.
- Manufacturing of footwear is economically more profitable in comparison to the other leather and leather product.

## **Policy Recommendations**

- Only 29.60 per cent of the entrepreneurs accepted that there was indeed an increase in the demand of leather and leather products after the new economic reforms. The rest of the entrepreneurs emphasized upon the noticeable decrease or no change in the demand of leather and leather products. This low demand was attributed to the lack of competitive quality of products and most of units had no any international quality certification as ISO: 14000 of the leather and leather products. Thus, there is a need to improve leather based technology and develop institutes that would facilitate the leather units in acquiring quality certifications that may expand the demand for leather.
- Less than 40 per cent entrepreneurs are aware about the leather schemes and policies. So there is a need to focus on promotional campaigns to increase the accessibility of leather schemes and programmes.
- Only 32.80 per cent of the entrepreneurs were satisfied with the infrastructure in Kanpur Nagar district, so the study strongly recommends for building of accessible infrastructure and maintaining the
- More than 50 per cent of the entrepreneurs are satisfied with the investment friendly environment for leather industry. The study suggests that the investment climate for the leather industry can be reinforced with better fiscal schemes of providing credit on low interest rate, subsidies on loans, easily availability of land, relaxation on tax and tax holidays and easy permission for operation.
- Moreover, the stakeholders associated with the leather industry need to create their own geo tags, connect with ODOP mission of the UP Government, be a

proactive participant in the Economic and Global Trade Summits to garner enhanced visibility and global interest for their markets.

- The Study also recommends instituting a unique *Heritage Corridor* wherein Agra, Kanpur and Unnao are seen as a confluence of tourist sightseeing attractions, besides being homes to tanneries that can take pride in being a century old and adding to the State's cultural as well as commercial legacy.
- In the wake of the ongoing climate crisis it becomes incumbent on the industries across all sectors to adapt initially, the least, and at later date, the zero carbon emission targets in alignment with the Central Government's commitment to make India a carbon-zero zone by 2070. Hence, the study strongly recommends the state guided stipulations that insist on the hiring of chemical scientists and biodiversity engineers in the tanneries to assist the management in detoxifying the industrial waste.
- Mechanization of the tanneries is an inevitable process of growth, especially if the Indian leather exports want to corner a sizeable space in the global exports. However, employee-friendly policies must be adopted by the tanneries so as to provide inclusive benefits to all the stakeholders in the firms. In this row, the study recommends a balanced and judicious human resource policy for the labour intensive leather industry where downsizing mustn't become the norm to maximize on the firm's profit margins.

### **Limitation of the Study**

- This study is confined to the period 1991 to 2020. Hence, this Study was unable to analyse the impact of economic recession in the aftermath of COVID-19 and its effect on the leather industry.
- This study is confined to only leather industry of Utter Pradesh.
- Further empirical investigations can be conducted in this context to elicit the possible lacunae and cite recommendations to address the same.