

The Impact of Decline in Leather Exports on Leather Industry

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Abstract

In this research paper we are going to highlight the major factors that are responsible for the decline in leather exports of Pakistan. This research paper attempt to observe the contact of most important variables disturbing export of leather and leather products in Pakistan From past many years this sector is constantly suffering and could not able to improve its exports. We notice every aspect which is involved in the decline of leather exports and tried to reach the root cause of this problem of leather industry. For this research we use primary data source. The exports from Karachi are taken as the sampling frame. A representative sample of 35 leather exporters is selected from over all leather exporters in Karachi. To find out the impact of major variables cost of production, raw material, smuggling of livestock, advance technology on export of leather goods we use Correlation and Regression Analysis. And the relationship between these variables shows significant relationship. Conclusion on the bases of our research and Recommendations for the enhancement of leather exports is to improve the availability of raw material. Smuggling of livestock has to stop. Leather products needs promotion in all over the world. And also The present system of taxation needs to improve and the government should minimize the tax rate for the leather industry. It will be in the benefit for our country if the leather industry improves its exports and our research paper is for the betterment of leather industry.

Keywords: Leather exports, Tax rate, cost of production, smuggling of livestock

OBJECTIVE

The objective of this study is to describe the leather industry of Pakistan. It is a fact that the leather finishing and leather made-ups represent industry is an important sector in Pakistan and contributing a huge amount in foreign exchange. This research highlights the difficulties facing by the leather industry and certain challenges due to which the industry does not continue its stability and to recognize instant action taken will improve the performance of the industry.

INTRODUCTION

Leather industry is the most important export oriented sector of Pakistan. This sector is contributing around \$ 874 million a year but the industry has the prospective to improve its development. Leather industry has 800 tanneries in the country which are producing good quality finished leather of cow, buffalos, sheep and goat skins. The sub sector of leather industry is; tanning, leather, footwear, garments, leather gloves, leather shoe uppers etc. The products which are made by leather in Pakistan are leather garments, gloves, tanned leather and footwear. There are 364 companies related to leather and tanneries, registered with Securities and Exchange Commission of Pakistan (SECP)

For the economy of Pakistan leather and leather made-up industry is playing a vital role and its share in GDP is around 6%. The history of Pakistan leather industry shows that at the time of independence there are few tanneries working in large cities such as Karachi, Lahore, and New Delhi etc. In 1950s more tanneries starts in the big cities of Pakistan. 1960s better equipped tanneries started in other cities like Multan, Sahiwal, Kasur, Gujranwala and Sialkot. Sialkot sector of leather is contributing around USD 457 million in 2013. The leather industry also provides employment to more than 200,000 workers.

Pakistan import 25% of raw material from other countries like Saudi Arabia, China, Kenya Sudan, and Tanzania. 75% of its need of raw material is completed by its own provinces. More over leather industry have the potential from which they can boost its export but from past few years this industry also facing problems. For example raw material issues most of the livestock have been smuggling in to different countries. The tax rate for

this industry is high. Increasing cost, lack of government support and also the industry needs advancement to overcome its issues and to make its product better than its competitors. Current energy crisis is also hitting the industrial sector in Pakistan including the leather industry. This scenario provides us the prospect to examine the existing issues of leather exports.

LITERATURE REVIEW

While studying about the leather industry of Pakistan. We found that this sector is suffering from many years in its exports. This industry is the second major export earning sector and need concentration to deal with its problems.

As we review the whole scenario. We originate that cost of production of leather products is very high. Main elements like energy, power, gas and water are not available according to the need of leather industry. Due to which Pakistan is not capable to compete its regional and international competitors. And also high taxes make our products uncompetitive in international markets.

Unavailability of raw material creates many issues. Hides and skins of livestock are the basic factors from which the leather products manufactured. Pakistan fulfills its demand of 70-75 percent from its local livestock. Diseases and floods are the factors that create necessary reduction in the availability of raw material.

Smuggling of livestock to other countries can suffer the leather manufacturing industries of Pakistan. The meet prices in Iran and Afghanistan are higher than Pakistan, is main reason of smuggling of livestock.

Leather industry needs advance technology. It means the knowledge about product design, training of operators, quality management and control on waste.

As a matter of fact we cannot ignore the importance of leather export product. The industry also needs support of Government. And issues like improper marketing strategies, infrastructure, law and order situation of Pakistan, low quality products, need to solve straight away.

After reviewing every accepts we understands the main reasons which causes decline in leather exports and we highlight them in to this literature review.

THEORETICAL FRAMEWORK

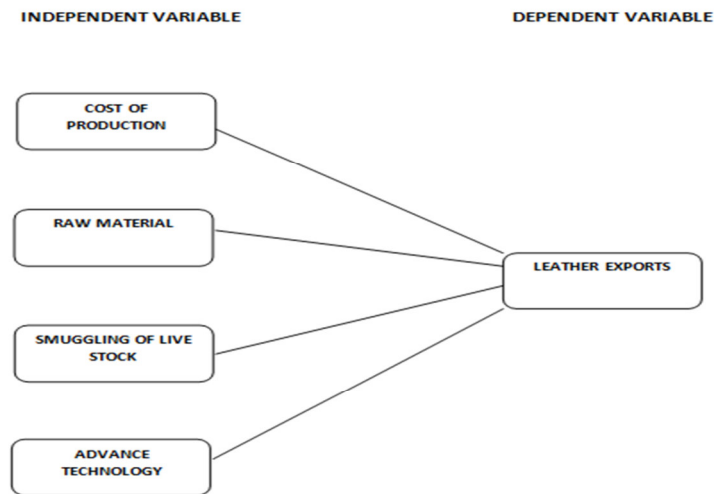
The dependent variable is 'leather exports'. We try to clarify the change in this dependent variable by the four independent variables of 1) cost of production. 2) Raw material. 3) Smuggling of livestock. 4) Advanced technology. The leather industry having obstacles of high cost of production of necessary inputs like utilities and taxes. And due to which Pakistan's products could not be able to compete its international competitors. The relationship between leather export and cost of production is negative. Demand of leather industry from the government is to reduce taxes. So that they can improve their exports.

Shortage of raw material in Pakistan declines the leather exports and it is a positive relationship between raw material and leather exports. The hide and skin are by-products of the meat business for leather sector. For raw material, the basic sources for the tanning industry are hides and skins from animals slaughtered for daily consumption. Leather industry of Pakistan facing supply related problems with regards of availability of raw skin. Around 80% of hide and skin are available in the country while 20% of raw hide and skin are importing from regional countries.

The main source of raw material for leather is livestock. And smuggling of livestock is a very important factor which causes decline in leather exports. The relationship between smuggling of livestock and leather exports is negative. If the availability of raw material is not fulfilling the demand of leather industry. Then it is hard for them to make their product. Demand of leather industry from government is to stop this illegal way of export.

Lack of high tech quality products and shortage of skilled worker cannot compete with the demand of international market and it is a positive relationship between lack of advanced technology and leather exports. technology in leather industry relate to a variety of knowledge, products, process, tools, methods and systems used in the formation of leather and leather related product. Leather sector needs to train labor force that having the capacity of formation of leather and leather goods in a scientific way.

SCHMATIC DIAGRAM



SCOPE

The scope of this report to examine the leather exports of Pakistan against other competitor. This report helps Leather industry, students, researchers and public and private sector stakeholder to develop strategy for the growth of their business like upgrade the process, producing a quality product, commitment with new activities or involvement in new value chain. This research is also helpful for policy makers to find right sector where government support and bring more revenues.

SIGNIFICANCE

The purpose of this report to recognize new challenges and opportunities that Pakistan leather industry faced during trade liberalization from other countries. The leather industry takes a place of status in the Pakistan economy, in sight of its huge potentials for growth, exports and employment. There has been an increasing importance on its advanced progress, directed at maximum usage of existing raw materials for maximum profits, generally from exports. Pakistan leather industry now reached well rated appreciation in global markets also taken a well-known place among the topmost foreign exchange earners of the country. The leather industry has experience a strong revolution from typical exports of raw materials to value added finished goods. Policy initiatives taken by the Government of Pakistan have involved to such a change. The industry is moving for further development to attain greater share in the international trade.

METHODOLOGY

The exports from Karachi are taken as the sampling frame. A representative sample of 35 leather exporters were selected from over all leather exporters in Karachi To find out the impact of our four variables on exports of leather goods we use Correlation and Regression Analysis. The equation given below shows the relation between dependent and independent variables.

EQUATION

$$Y = b_0 + b_{x1} + b_{x2} + b_{x3} + b_{x4} + \mu$$

y= Dependent variable (leather exports)

b_1 =Independent variable Cost of production x_1

b_2 = Independent variable Raw material x_2

b_3 = Independent variable Smuggling of livestock x_3

b_4 = Independent variable Advance technology x_4

HYPOTHESIS

DEPENDENT VARIABLE:

Leather exports

INDEPENDENT VARIABLE:

1. COST OF PRODUCTION.

H_0 =there is no relationship between cost of production and leather exports.

H_A =there is a significant relationship between cost of production and leather exports.

2. RAW MATERIAL.

H_0 = there is no relationship between raw material and leather exports.

H_A =there is a significant relationship between raw material and leather exports.

3. SMUGGLING OF LIVE STOCK:

H_0 = there is no relationship between smuggling of livestock and leather exports.

H_A =there is a significant relationship between smuggling of livestock and leather exports.

4. ADVANCED TECHNOLOGY:

H_0 = there is no relationship between advanced technology and leather exports.

H_A =there is a significant relationship between advanced technology and leather exports.

DATA ANALYSIS

Analysis of the data indicates the relationship between dependent variable and independent variables. (Leather exports) has an inverse relationship with cost of production x_1 and positive relationship with raw material x_2 , smuggling of livestock x_3 has an inverse relationship. Advance technology x_4 has a positive relationship. Also the result of correlation and regression shows that H_a is accepted and dependent and independent variables have significant relationship.

CONCLUSION

After examine every variable the result indicates that Leather exports increase when the cost of production x_1 decreases. For the industry cost of production is very high. (Leather exports) also increase if the availability of raw material x_2 increase and fulfill the demand of the industry. If the smuggling of livestock x_3 decreases the (Leather exports) increases. Livestock is the basic factor of raw material for leather industry. Advance technology x_4 increases and the impact will shows the increases in (Leather exports) advancement in product design, machines and control on waste so on is very important for leather industry.

RECCOMANDATION

- To recover the leather exports it's very important to improve the availability of raw material. Smuggling of livestock has to stop because it is the most important source of raw material for leather industry.
- The quality of products which are exported should be improved and the style of products must be according to the need of a customer.
- Consistent supply of water and electricity. And the price should be low for the industry.
- Leather products needs promotion. In all over the world.
- The present system of taxation needs to improve and the government should minimize the tax rate for the leather industry.

LIMITATIONS

Although the research is cautiously prepared. But we have faced some limitations in the preparation of this report. While collecting the actual facts and figures about the smuggling of livestock we found that there are some political factors involved in it. As a student we are reluctant in collecting the data to go by our self and visit the leather industry because of the unusual law and order situation of Karachi.

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RESULTS

1. DEPENDENT VARIABLE: Presence in global fashion market.

INDEPENDENT VARIABLE: Cost of production, infrastructure and warehouse, water supply

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	water_supply, cost_of_production, infrastructure_and_warehousing ^b	.	Enter

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.204	3	4.068	7.786	.001 ^b
	Residual	16.196	31	.522		
	Total	28.400	34			

a. Dependent Variable: presence_in_the_global_fashion_market

b. Predictors: (Constant), water_supply, cost_of_production, infrastructure_and_warehousing

DECISION: Reject H₀, Accept H_A because sig. value is less than alpha (0.001<0.05)

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.863	.531		1.624	.114
	cost_of_production	-.372	.264	-.199	-1.410	.169
	infrastructure_and_warehousing	.403	.225	.261	1.797	.082
	water_supply	.710	.187	.551	3.795	.001

a. Dependent Variable: presence_in_the_global_fashion_market

INTERPRETATION OF COEFFICIENT TABLE:

Coefficient table shows the relationship between dependent and independent variable whereas infrastructure and warehouse and water supply has positive relationship while cost of production has negative relationship with dependent variable presences in global fashion market.

2. DEPENDENT VARIABLE: Presence in global fashion market.

INDEPENDENT VARIABLE: Marketing, advanced technology, styling and modernization.

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	marketing, advanced_techonology, styling_and_modernization ^b	.	Enter

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.308	3	5.769	16.125	.000 ^b
	Residual	11.092	31	.358		
	Total	28.400	34			

a. Dependent Variable: leather exports

b. Predictors: (Constant), marketing, advanced_techonology, styling_and_modernization

DECISION: Reject H₀, Accept H_A because sig. value is less than alpha (0.000<0.05)

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.096	.393		-.244	.809
	advanced_techonology	-.008	.185	-.005	-.042	.967
	styling_and_modernization	.583	.167	.473	3.499	.001
	marketing	.474	.143	.432	3.305	.002

INTERPRETATION OF COEFFICIENT TABLE:

Coefficient table shows the relationship between dependent and independent variable whereas styling and modernization, marketing has positive relationship while advanced technology has negative relationship with dependent variable presences in global fashion market.

3. DEPENDENT VARIABLE: Presence in global fashion market.

INDEPENDENT VARIABLE: Skilled manpower, raw material prices and availability, government Polices

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	skilled_manpower, raw_material_price_and_availability, government_polices ^b		Enter

a. Dependent Variable: presence_in_the_global_fashion_market

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.803	3	2.934	4.642	.009 ^b
	Residual	19.597	31	.632		
	Total	28.400	34			

a. Dependent Variable: presence_in_the_global_fashion_market

b. Predictors: (Constant), skilled_manpower, raw_material_price_and_availability, government_polices

DECISION: Reject H₀, Accept H_A because sig. value is less than alpha (0.009 < 0.05)

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.864	.491		1.759	.088
	raw_material_price_and_availability	.233	.240	.155	.972	.339
	government_polices	-.062	.248	-.044	-.250	.804
	skilled_manpower	1.044	.372	.507	2.807	.009

a. Dependent Variable: presence_in_the_global_fashion_market

INTERPRETATION OF COEFFICIENT TABLE:

Coefficient table shows the relationship between dependent and independent variable whereas raw material prices and availability and skilled manpower has positive relationship while government polices has negative relationship with dependent variable presences in global fashion market.

4. **DEPENDENT VARIABLE:** Presence in global fashion market.

INDEPENDENT VARIABLE: Inflation, smuggling of livestock, political issues

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	infalation, smuggling_of_livestock, political_issues ^b		Enter

a. Dependent Variable: presence_in_the_global_fashion_market

b. All requested variables entered.

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.838	3	2.613	3.939	.017 ^b
	Residual	20.562	31	.663		
	Total	28.400	34			

a. Dependent Variable: presence_in_the_global_fashion_market

b. Predictors: (Constant), inflation, smuggling_of_livestock, political_issues

DECISION: Reject H₀, Accept H_A because sig. value is less than alpha (0.009 < 0.05)

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.051	.417		2.521	.017
smuggling_of_livestock	.058	.242	.047	.238	.813
political_issues	.301	.241	.250	1.247	.222
infalation	.435	.273	.310	1.593	.121

a. Dependent Variable: presence_in_the_global_fashion_market

INTERPRETATION OF COEFFICIENT TABLE:

Coefficient table shows the relationship between dependent and independent variable whereas smuggling of livestock, political issues and inflation has positive relationship with dependent variable presence in global fashion market.