



India forges ahead

India is a huge country with a vast population, so one might think it would be a shoemaker's heaven. This is not entirely true. Consumption in 2003 averaged 1.5 pairs per capita in line with other Asian countries to give a domestic market of 1.687 billion pairs. But, while general clothing accounted for 4.9% of household expenditure, footwear was 0.7% of this, clearly reflecting the low consumption rate of the poorest 60% of the population. On the other hand, middle and upper income groups buy 200 million pairs per year and are very brand-conscious. However, only some 25 million Indians can afford to buy imports due to the still very high customs duties on imported luxury items.

Only some 42 million pairs (2.4%) of the 1.736 billion made per year are exported, and of the 112 million uppers, 40 million (36%) are exported. Imports of footwear and components have reached four million pairs a year, valued at \$26 million. Italy is the principal supplier, followed by China and Germany. Other

SE Asian countries such as Thailand and Vietnam account for 36% of imported footwear. Since January 2004, the duty on imported footwear and components has been 39.2% compared with the previous level of 49.8%. Preferential customs duties are 3.5% for countries with a favoured nation status and this tends to encourage exports to the EU.

India's economy is booming

India's economy grew at around 8%

India's economy in 2004

Population	1.062 billion
GDP	\$572.7 billion
GDP per capita	\$539.26
GDP growth	8.5%
Inflation	3.8%
Budget deficit	4.8% of GDP
Current account	0.4% of GDP
External debt	19.6% of GDP
Exports	\$53.2 billion
Imports	\$68.8 billion
Deficit	\$15.6 billion

in the fiscal twelve months ending March 2005. While this was mostly due to strong performances by the manufacturing and service sectors, a good monsoon helped to boost farm output and create greater demand in the rural areas that are home to 60% of India's population. The country is now Asia's third-largest economy and becoming stronger each year. Industrial output accounts for a quarter of Gross Domestic Product (GDP) and has seen escalating demand for cars, televisions and other consumer goods from an affluent younger generation working in IT and back-office services. The services sector as a whole supplies just over 50% of GDP and is also expanding rapidly. In the first six months of 2004-05 it grew more than 9%.

Many authorities suggest that India needs to grow at a double-digit rate in order to cut the mass poverty that still remains in much of the country. Until quite recently India was slow in adopting serious economic reform, but that has ➤

Top ten Indian footwear export markets (\$ million)

	2000-1	2001-2	2002-3	2003-4	2004-5
USA	342.78	286.89	246.44	251.58	279.70
Germany	307.17	304.46	272.53	329.82	336.69
UK	270.09	248.89	240.96	250.65	299.21
Italy	241.07	263.11	255.92	285.02	242.60
Spain	100.75	101.30	110.56	161.23	169.21
Hong Kong	98.32	121.43	165.70	226.97	236.52
France	90.68	89.72	88.43	109.82	132.73
Netherlands	55.56	60.50	50.95	57.75	63.32
Portugal	37.44	37.00	34.75	34.07	36.23
Russia	31.53	16.09	11.09	11.33	7.61

Source : DGCI & S

all changed and there is a genuine will to become the leading country in SE Asia. If there is a cloud on the horizon, it is that of high global oil prices. India imports 70% of its oil needs and this may well act as a brake on industrial growth.

A major player

The increased activity and impact of India in world markets shows just how far its leather industry has come in the last thirty years. Although it is quite some way behind China in terms of output, India is the second largest footwear producer in the world. It has an excellent domestic supply of good quality leather and a skilled workforce at relatively low wage levels. And, as with China, it has a vast domestic market to underpin exports.

When India gained independence in 1947, the government imposed high excise and sales taxes on factory units. This encouraged the development of small companies as component suppliers to a relatively few large manufacturing groups. It was also a major factor in holding back full modernisation in the industry. In 1970, it recognised the potential that lay within the footwear sector and granted manufacturing licences to medium and large factories on the condition that they exported 95% of output. Although it was reduced to 50% in 1990, this strict government control discouraged foreign investors and caused India to fall behind other Asian countries.

In 1991, the government began to encourage foreign investment and removed many licences and export quotas. This encouraged greater imports of sophisticated foreign machinery and the modernisation of shoe factories. The entire industry is now 'de-licensed' and 'de-reserved'. 100% Foreign Direct Investment (FDI) and joint ventures are permitted, as is 100% repatriation of

profits and dividends provided the original investment was made in convertible foreign currency. Progress since then has been phenomenal, to the extent that the leather industry as a

Total footwear exports (\$ billion)

2000-1	2001-2	2002-3	2003-4	2004-5
1.96	1.94	1.88	2.2	2.4

whole is now the country's eighth largest exporter.

Footwear exports

Total exports for the five years between 2000 and 2005 (in \$ billion) showed solid growth following a difficult period earlier on.

This has been led by the top ten markets excluding Russia where the market collapsed from \$31.53 million to \$7.61 million.

State of the industry

There are approximately 500 major footwear factories in India plus a further 3,500 that make up the leather sector as a whole. Small-scale artisans still supply 65% of total output but only produce traditional shoes and sandals for the local market. The modern factories are mostly located in the north (Delhi, Kanpur, Haryana State and the Punjab) and the south (Chennai, Ambur, etc). They can manufacture to the highest standards for international brands. They have several production lines running side by side, as in China, with each making for a specific customer, allowing quality and production controls to be set to their particular standards.

A lack of a good component infrastructure has until recently been a major cause of concern to Indian shoemakers, with exports reliant on heavily taxed imported components. But

there has been a revolution in this area and now a variety of companies have sprung up that are able to supply components to the highest standards. Many of these have been formed through joint ventures with overseas partners seeking to replace failing European markets.

In addition to this, the industry has made strenuous efforts to train its own technicians so as not to be so dependent on foreign expertise. Training and technical centres such as the Footwear Design and Development Institute at Noida (just outside Delhi), the Central Footwear Training Institute located both at Agra and Chennai, and the Central Leather Research Institute in Chennai have well-structured training programmes and competent research facilities.

India, as we observed earlier, takes second place in the world footwear rankings in terms of production to China, which is out on its own. The export potential is considerable but where India still falls down is in the areas of style, colour and keeping abreast of fashion. Compared with Brazil, for example, it still has much to do in these areas. India has the technology but does it have the same flair?



International Leather Complex (ILC)

An indicator of the importance that is now placed on India's leather industry is the investment being made in purpose built 'Leather Parks'. \$25 million has already been allocated for strengthening the infrastructure of the leather industry by creating several dedicated parks in various parts of the country.

The ILC, located at Nellore in the central state of Andhra Pradesh, is due to open in March of next year. It will have

about 150 plots for tanneries, shoe factories and other leather units and will employ around 15,000. As Andhra Pradesh supplies 10% of the raw material used by India's leather industry, the location is logical. In addition, although situated close to Nellore, it is only 150km (90 miles) from Chennai, the footwear capital of southern India.

A number of inducements are on offer to investors from both at home and abroad:

- Exemption of export duty on finished leather
- Concession on import duty for tanning machinery
- No duty on the import of raw materials such as hides and skins
- 100% foreign Direct Investment on de-reserved items using the automatic route

Further projects are to be implemented by the Council of Leather Exports (CLE) in various parts of the country. These will include footwear component parks in Chennai and Agra, and a leather goods export park at Kolkata in West Bengal.

How the industry has changed

A clear example of how imported technology has assisted the Indian footwear industry, is that of Torielli SPA. Pietro Torielli ventured into India a little over 30 years ago in the belief that as India could now produce good quality leather, it could also make shoes. He was partially right. Indian tanners first added value to their leather by making uppers.

Around 1980, the US, Germany and UK encouraged their partners in India to make shoes. Then the use of machinery was only partial and many factories still had workers sitting on the floor and working in primitive conditions. Quality requirements and social audit quickly changed all that, with the introduction of modern European machinery. Torielli was one of the first suppliers to the new factories in Southern India. Both the Indian tanning and footwear industries have since gone from strength to strength.

As far as the former is concerned, strict control is now exercised over the question of effluent and it is no longer surprising to see the latest ETP plants in operation.

Ajit Singh, CEO of Torielli SPA in India, says that, "Three years ago, a tentative

step was taken by some factory owners to install equipment with a large element of microprocessor controlled systems. Sophistication is the new mantra that also reflects the burgeoning software companies doing business in India. The addition of CAD/CAM systems has added a new dimension, which, along with traditional skills, has attracted leading Western brands. This has also been helped by India's respect for intellectual property rights."

Imports of machines from non-

European countries are also increasing as the market is seen to be rapidly changing such that even artisans are turning to basic machines to make life easier. Furthermore, simple machines that were once imported are now being replaced with quite good ones made locally. Torielli sees India as a key market and itself, as a major supplier to the footwear industry with a range of sophisticated machines from a variety of sources, backed by many years of experience in the country. 



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