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Original Research Article

Growth Catalysts and Critical Issues in the Indian Leather Value Chain

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Abstract: The study provides a comprehensive analysis of the catalysts of growth and challenges confronting the leather industry across several key economic parameters. The radical transformation in the leather industry has been driven by rising incomes, growing fashion awareness, supportive government policies, and easy access to raw materials. The study reveals that the biggest challenge is notably low fixed investment per factory in the leather industry relative to the overall manufacturing sector, indicating a slow pace of technological progress. The study further finds that the leather industry has lower labour productivity than the overall manufacturing sector, undermining the industry's competitiveness in the global market. Additionally, the anticipated inflows of foreign investment into the leather industry have not materialised, further limiting the industry's potential to adopt cleaner technologies. The industry also faces environmental and marketing challenges, further hindering its robust growth. The study highlights the need for making substantial and strategic investments in advanced and sustainable technologies, which will further boost labour productivity in the leather industry. The study emphasises the need to diversify the international markets. It advocates for relocating all tanning units into clusters to make the finished leather process more cost-effective and environmentally friendly. By fostering innovation and adopting cleaner technologies, the industry can strengthen its position in the global landscape.

Keywords: Labour Productivity, Capital Intensity, Foreign Direct Investment, Leather Industry. Overall Manufacturing
JEL Classification: J24, L67, F21, P28.

1. INTRODUCTION

The leather industry, a witness to human civilisation, has undergone mammoth changes in its processes, technology, and craftsmanship over the past few decades. Rising incomes, heightened fashion consciousness, and expanding retail opportunities have led to a substantial increase in global production and trade. China, Brazil, Italy, Russia, India, South Korea, Argentina, and the USA are the major global players in leather production. Italy and the USA are well known for producing high-end luxury leather products, whereas other countries are recognised for their high volumes. The growing awareness of environmental concerns has prompted the relocation of the leather industry to developing countries, making the Asia Pacific region a hub for leather manufacturing. (United Nations and Asian Development Bank, 2015; United Nations Industrial Development Organisation, 2010).

The Indian leather industry has transitioned from a primary exporter of raw materials to a leading exporter of finished goods The industry's transition is driven by its rich raw material base, skilled manpower, and innovative design capabilities and supportive Government policies India's standing as the second-largest producer of footwear, the second-largest exporter of leather garments, the third-largest exporter of saddlery and harness, and the fourth-largest exporter of leather goods globally (National Investment Promotion & Facilitation Agency, 2024) highlights its competitive advantages.

The leather industry is a prominent labour-intensive industry in India, employing a diverse spectrum of people from highly skilled artisans to unskilled workers and flayers. The industry generates socio-economic benefits by providing employment to people from backward and lower-caste communities, including flayers and traditional shoemakers. The Indian leather industry employs 4.42 million people, of whom nearly 40 per cent are women (Council for Leather Exports, 2024). The significant participation of women in the production of leather products and footwear empowers them to attain economic independence and improve their standard of living.

The leather industry has immense export potential. Government policies and initiatives have played a tailor-made role in diversifying the leather and leather products export market, with a special focus on value-added products. Leather products are well known in the international market for their traditional craftsmanship, exquisite design and competitive pricing. The share of finished and semi-finished leather exports in total leather and leather products exports was 66 per cent in 1981-82, decreased to just 8 per cent in 2023-24, indicating a marked transformation in the export structure. The USA and the European Union are the major export markets for leather products (Council for Leather Exports, 2024)

The Indian leather industry encompasses the entire value chain from tanning and dressing of leather to the production of footwear and leather products. The footwear segment accounts for a lion's share of leather production. Figure 1 shows the share of the different segments in gross value added.

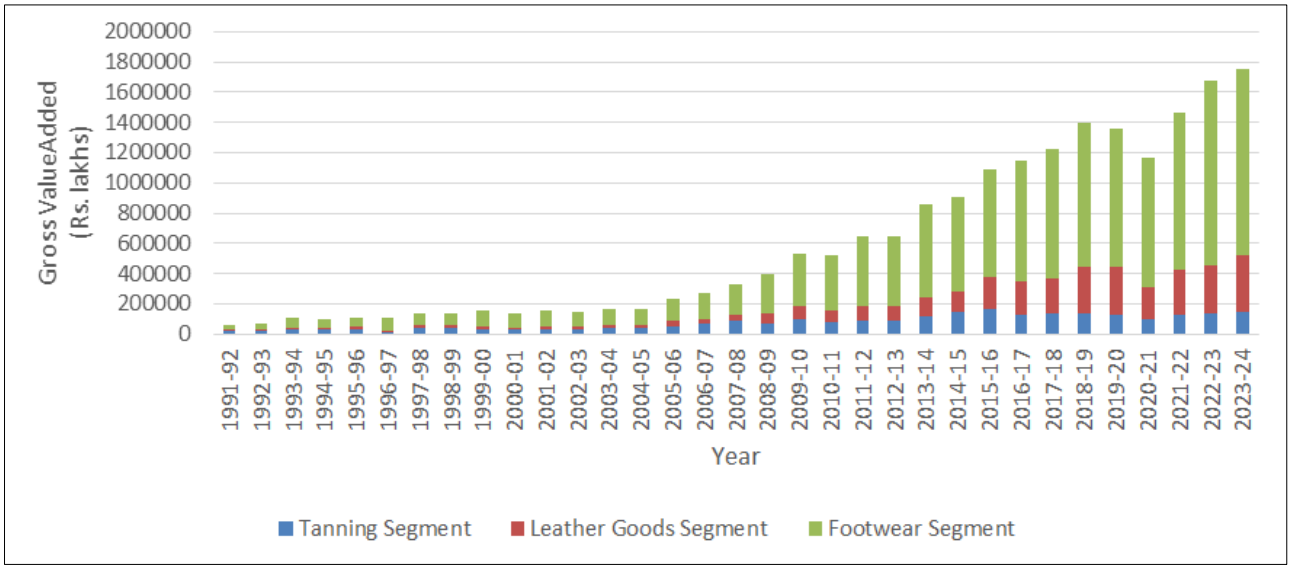

Figure 1: Gross Value Added in the Leather Industry and Share of its Different Segments from 1991-92 to 2023-24

Source: Various Issues of Annual Survey of Industries, 1991-92 to 2023-24

Figure 1 shows that the gross value added in the leather industry increased from Rs. 59881 lakhs in 1991-92 to Rs . 1751023 lakhs in 2023-24, registering an average annual growth rate of 10.31 per cent. The leather goods segment registered the highest growth rate of 16.51 per cent, whereas the tanning segment registered the lowest growth rate of 6.09 per cent. The footwear industry recorded an average annual growth rate of 10.44 per cent in gross value added, increasing from Rs. 30730 lakhs to Rs. 1230621 lakhs in 2023-24.

The Indian leather industry has significant growth potential. It is regarded as one of the key sectors in the 'Make in India' initiative and one of the focus sectors under foreign trade policies. Despite its immense potential, the industry faces numerous challenges. This paper aims to address the research gap by examining the opportunities and challenges facing the leather industry in the changing global landscape.

The objective of this paper is to examine the growth drivers that have led to a significant transformation of the leather industry and to identify the challenges that constrain the industry from garnering a larger share of global trade.

The paper is organised into five sections. Section 1 provides a brief introduction to the leather industry. Section 2 reviews the existing literature related to the study. Section 3 explains the methodology and data sources. Section 4 empirically examines the growth drivers and challenges facing the leather industry. Section 5 summarises the main findings and policy implications.

2. REVIEW OF LITERATURE

It reviews various studies highlighting the opportunities and challenges of the leather industry. Council for Leather Exports (2024) highlighted the major strengths of the leather industry, including access to a wide variety of finished leather, eco-friendly technology, support from the chemical industry, and institutional backing for design, all of which are expected to boost the industry's growth and strengthen its position in the global landscape. National Investment Promotion & Facilitation Agency (2024) outlined the opportunities driving the industry's growth, including strong institutional support, a solid raw material base, and a broad market. These strengths have helped the industry to scale up its production and modernise.

The Indian leather industry has immense growth potential, but it still encounters numerous challenges that adversely impact its productivity and efficiency. Department of Scientific and Industrial Research (2019) highlighted specific challenges faced by the Indian leather industry, comparing them with those faced by China and Vietnam. The report highlighted that in India, the lack of teamwork and collaboration among units within clusters limited their ability to meet large orders within the stipulated timeframe. While in China, all units work together to ensure the timely supply of big orders. China and Vietnam offered industry-specific incentives to exporters and foreign investors, which proved successful in enhancing exports and attracting foreign direct investment. The large-scale incentives provided to the leather industry in China and Vietnam have significantly boosted exports and foreign direct investment; however, industry-specific incentives are lacking in India. The report further noted that regional trade agreements and strict adherence to environmental norms can enhance exports and improve the industry’s global competitiveness.

The Indo-Italian Chamber of Commerce and Industry (2008) identified several challenges that hinder industry growth, including low capacity utilization in tanneries, poor product design and quality in footwear, and a reliance on subcontracting in most footwear industries. EXIM Bank (2015), in the working paper on the Indian Leather Industry, pointed out some key challenges that limit the industry’s potential to expand, such as raw material shortages, low labor productivity, limited FDI inflow, higher logistics costs, lack of branding, and reliance on traditional European markets for exports. Assocham (2020) highlighted specific industry challenges that have slowed its exponential growth, including slow technology upgrades, insufficient infrastructure for effluent treatment, and landlocked clusters. The report also noted an unbalanced tariff structure, which makes importing raw materials more expensive than importing finished goods. Additionally, the report discussed several cross-industry challenges, including regulatory issues in the labour market, difficulties in acquiring land, and the dominance of MSMEs, which complicate efforts to increase production.

3. DATA SOURCES AND METHODOLOGY

The study primarily relies on secondary data. The data for the study were collected from various reliable, well-recognised published sources, including the Annual Survey of Industries, World Population Review, the Council for Leather Exports, and the Department for Promotion of Industry and Trade. The data have also been extracted from various reports of other agencies, newspapers, magazines, and journals.

The study examines several factors that drive the industry’s exponential expansion. It also evaluates various parameters that hinder its growth. Fixed investment per factory is calculated by dividing total fixed investment by the number of factories, indicating scale, technological level, and production capacity. To measure labour productivity, gross value added is divided by the total number of employees, reflecting the efficiency of labour. The study also analyses the data collected by other agencies to derive the results.

4. RESEARCH FINDINGS AND DISCUSSIONS

Industry output growth is largely driven by input growth, technological development, skilled labour, and robust institutional support. The key growth drivers are as follows:

Rich Raw Material Base

The strength of the leather industry stems from its diverse, abundant raw material base of hides and skins. India has the largest livestock population in the world, accounting for 32.62 per cent of the global cattle population, 5.99 per cent of the world's sheep population, and 13.39 per cent of the world's goat population (World Population Review, 2024). The leather industry is a by-product of the meat industry, mainly utilising the hides and skins of slaughtered animals. The meat production has been consistently rising, increased from 7.39 million tonnes in 2016-17 to 10.25 million tonnes in 2023-24. Cattle, buffalo, sheep, goats and pigs contribute to 51 per cent of the meat production, enabling the leather industry to produce a wide variety of goods made of light and heavy leather (Department of Animal Husbandry and Dairying, 2025)

Robust Institutional Support

The leather industry has been identified as one of the focus sectors under the foreign trade policies, entitling it to various incentives and concessions to support its continued expansion. The industry has thrived owing to robust government initiatives and steadfast institutional support. The Council for Leather Exports has played a pivotal role in

enhancing the industry's export capabilities since its establishment in 1986. Through strategic marketing initiatives, capacity-building programs, and international partnerships, the Council has effectively positioned Indian leather products in global markets (Council for Leather Exports, 2024). With a keen focus on sustainability, the Centre for Leather Research Institute has made remarkable strides in developing cleaner, more environmentally friendly production processes, thereby increasing the competitiveness of Indian leather goods by meeting stringent global standards. Financial support provided through various initiatives, such as the Integrated Leather Development Program (ILDP) and the Indian Footwear and Leather Development Program (IFLDP), from 2017 to 2022, has contributed significantly to infrastructure development, skill enhancement, and technology upgradation and modernisation. Under IFLDP, Rs. 308 crores of financial support were provided for modernisation and technology upgradation to the 714 units. Additionally, Rs. 132 crores were allocated for the upgrading of 10 common effluent plants across various locations. Moreover, the approval of 100% foreign direct investment (FDI) in this industry has significantly increased investment in the sector.

Rising incomes and Fashion Consciousness

Over the past four decades, India's per capita income has surged from $ 305 in 1991 to $2481 in 2023 (World Bank, 2024), marking a nearly ninefold increase. This significant income growth has greatly enhanced Indians' purchasing power, particularly for luxury items. Leather goods are valued for their durability, strength and flexibility. The leather shoes are known for their breathability and remarkable longevity. With the surge in income, the demand for high-end vehicles has increased tremendously. These automobiles, which are often equipped with exquisite leather interiors, seamlessly blend elegance with durability, making them a preferred choice for discerning buyers. Consequently, there has been a notable surge in demand for leather shoes and various other leather products, reflecting a broader trend among consumers to invest in durable, high-quality materials that enhance both style and functionality.

Strong Support for Ancillary Industries

The solid and sturdy support of the chemical industry, from transforming hides and skins to crafting a wide range of high-quality leather products, enables the industry to thrive and evolve. The chemical industry has evolved over time, producing biodegradable and less-toxic chemicals that meet international standards. Moreover, the strong network of ancillary industries supplying decorative elements, such as laces, buckles, and embellishments, allows the industry to produce the finest and most exclusive leather products. This vibrant synergy between ancillary industries and the leather industry drives it to quality enhancement and sustainability through continuous innovation and excellence.

Skilled Manpower and Low Labour Cost

The labour-intensive leather industry takes colossal strides owing to the availability of a large pool of skilled manpower at competitive wage levels. The demographic dividend, the establishment of a wide range of training institutes and the generation of artisans collectively contribute to the creation of a substantial skilled workforce. Some Indian leather products have garnered international acclaim for their exceptional craftsmanship, passed down through generations. Artisans in India utilise both traditional techniques and modern innovations to create high-quality leather goods that stand out in international markets. Furthermore, India's comparative advantage in low labour costs enhances its competitiveness globally.

The government has established numerous institutions equipped with state-of-the-art infrastructure to impart training and develop the latest designs. The Central Leather Research Institute (CLRI) has played a constructive role in providing skilled manpower to the leather industry since its inception, offering a range of short- and long-term academic courses. It also runs multiple training programs to upgrade workers' skills. FDDI and other design institutes also play a crucial role in providing training to young workers, enabling them to develop innovative footwear designs using low-cost technologies. These institutions are instrumental in developing an eco-friendly and sustainable tanning base.

Under IFLDP,2017-21, 3.24 lakh people got primary skill development training under Human Resource Development Sub-Scheme, of which 80 per cent got placed, and 0.13 lakh got skill upgradation training (Council for Leather Exports, 2024)

Challenges to the Leather Industry

The Indian leather industry has experienced robust growth, driven by a strong raw material base and the availability of a skilled labour force at competitive costs. Despite this vigorous growth, the industry faces numerous challenges and constraints.

Relatively Low Labour Productivity:

The leather industry faces a major challenge of low labour productivity, which undermines its competitiveness in the global market by increasing production costs. Low productivity also results in lower wages, which deter skilled workers from entering the leather industry, thereby further reducing productivity.

The average annual labour productivity, as reflected by gross value added per employee, in the leather industry was Rs. 4.07 lakhs in 2022-23, which was significantly lower than the overall manufacturing sector's labour productivity of Rs. 12.57 lakhs. Among segments of the leather industry, the tanning segment recorded the lowest labour productivity at 3.83 lakhs, and the footwear segment recorded the highest at 4.09 lakhs. The leather goods segment experienced the same productivity as the overall leather industry (Annual Survey of Industries, 2023-24).

Heavy Reliance on the USA and the European Union:

The USA is the largest buyer of leather and leather products. Total leather exports to the USA increased from $896.63 million in 2023-24 to $1045.27 million in 2024-25, accounting for 21.65 per cent of India's total leather exports in 2024-25. The next major buyers for the Indian leather products are Germany, accounting for 11.24 per cent, the UK for 9.07 per cent, Italy for 6.24 per cent, France for 4.83 per cent, Spain for 5.08 per cent, and the Netherlands for 5.12 per cent of the total exports of $4828.97 million in 2024-25. Overdependence on these economies can create barriers to export expansion (Council for Leather Exports, 2025)

The recent trade war between India and the USA is adversely affecting the leather industry. The recent tariff structure has rendered leather products less competitive compared to Indonesian and Vietnamese products, particularly footwear ("US-India Trade", 2025). It has also wiped out India's cost advantage (Sarkar, 2025), leading to the partial closure of certain industrial units. This trade war emphasises the need to diversify markets and plan strategically, as shoe sizes and design preferences vary across regions.

Underinvestment in Fixed Capital:

The leather industry faces a significant challenge of low fixed capital investment, which severely limits its potential for modernisation and expansion. The fixed investment per factory in the leather industry was Rs. 403.44 lakhs in 2023-24, compared with Rs. 2,171.04 lakhs in the overall manufacturing sector. Among segments, the tanning segment had the lowest fixed capital per factory at Rs. 214.62 lakhs, whereas the footwear segment had the highest at Rs. 503.17 lakhs. This diminutive fixed investment hampers productivity, thereby reducing the industry's competitiveness in international markets. (Annual Survey of Industries, 2023-24)

Slow FDI Inflow:

The leather industry is crippled by another challenge of sluggish inflow of FDI. The influx of foreign direct investment brings in advanced technology and best operational practices that help enhance productivity and efficiency. The total foreign direct investment (FDI) inflow in the leather industry from April 2000 to March 2025 was $ 346.61 million, accounting for nearly 0.05 per cent of the total FDI inflow in the overall manufacturing(Department for Promotion of Industry and Internal Trade, 2025)

Department of Scientific and Industrial Research (2019) highlighted that the pace of FDI remained slow in the leather industry, partly due to controls and regulations and partly to operational bottlenecks, including poor infrastructure and rigidity in labour markets. EXIM Bank (2015) noted that the poor ranking in ease of doing business, power shortages, and lack of adherence to quality standards further limited the flow of FDI in the Indian leather industry.

Disruptions in Supply Chain

The quality of raw leather is an indispensable pillar of the leather footwear and goods industry, which relies on the rich texture and aesthetics of premium hides and skins. The pressing challenge is that many slaughterhouses are inadequately equipped to consistently produce high-quality leather, limiting the industry's ability to meet international standards and hindering its competitiveness globally. Additionally, the net recovery rate of hides is very low. The average leather weight per animal in India is very low at 10 kg, compared to the world average of 18 Kg (EPWRF, 2009).

The industry also grapples with the volatility of raw leather prices, which are heavily influenced by supply chain disruptions. The ban on cattle trade in 2017 caused severe disruption to the supply of raw leather, resulting in higher prices due to a shortage of raw hides and an increased reliance on imported raw materials **("Slaughter Ban", 2017).** The closure of illegal slaughterhouses in 2017 led to a rise in the prices of leather goods, owing to production cuts in raw leather.

Facing Fierce Global Competition

The Indian leather industry is competing with formidable competitors such as China, Brazil, Vietnam, and Italy. These nations have not only advanced their production capabilities but also integrated environmentally friendly technologies into their production processes. This strategic shift enhances their operational efficiency, enabling them to reduce costs significantly and, in turn, make their products more competitive in the global market. Su *et al*., (2023) noted that innovation and strict adherence to environmental norms led to the growth of the leather industry in China. In India, small enterprises in non-cluster areas find it difficult to comply with stringent environmental regulations.

Environmental Challenges

The leather industry faces significant environmental challenges, especially regarding water pollution and waste management. The tanning process, which utilises the large volume of water and harsh chemicals to transform rawhide into finished leather, significantly contributes to these challenges. Singh *et al*., (2013) observed that slaughterhouses had an adverse impact on the health of nearby residents due to the heavy discharge of chemicals into water and soil. Small units often struggle to adopt eco-friendly technologies due to limited access to credit and limited knowledge. However, units operating in clusters can afford cleaner technologies owing to shared costs for effluent treatment plants and logistics. Some effluent treatment plants in leather clusters are not functioning properly. Further, many leather clusters are located in landlocked areas, resulting in high logistical costs that make the leather industry uncompetitive (Assocham, 2000).

Marketing Challenges

Most Indian leather firms lack strong brand recognition in the competitive international market. Despite their exquisite craftsmanship and high-quality leather products, these firms are often limited to supplying larger companies that do not fairly compensate them for their hard work and artistry. Howale (2025), while discussing the Prada Controversy, highlighted several challenges, including the shortage of raw materials due to the closure of slaughterhouses and tanneries in Maharashtra since 2015, limited financial resources, and a lack of education and awareness about certification among local artisans. These issues have allowed large companies to take advantage of traditional Indian craftsmanship.

Synthetic Leather

Many social organisations have raised concerns about animal cruelty in the leather industry and called for the use of synthetic leather. The vegan leather has gained popularity due to its cost-effectiveness, stylish appearance, and eco-friendly manufacturing processes, posing a significant threat to genuine leather. The ban on cattle trade has caused a shift towards synthetic leather since 2017.

Addressing these challenges requires strong institutional support, which the Indian Government is providing through the mega program, IFALDP, paving the way for a more sustainable future in leather production. With the collective efforts of all stakeholders, the leather industry can be poised for growth.

5. CONCLUSIONS AND RESOLUTIONS

The diverse livestock base and a large pool of artisans at competitive wages drive the growth of the leather industry. The support of robust institutions has transformed the traditional industry into a technology-driven industry. The most significant challenge is low fixed investment, which, in turn, has led to low labour productivity. Additionally, the slow inflow of foreign direct investment hinders technological advancements. The industry also faces environmental and marketing challenges, limiting its potential to capture a larger share in the global landscape.

The study highlights the need for making substantial and strategic investments in advanced and sustainable technologies, which will further boost labour productivity in the leather industry. It advocates for relocating all tanning units into clusters to make the finished leather process more cost-effective and environmentally friendly. Furthermore, the capacity of common effluent treatment plants to treat waste must be enhanced without restricting tannery production scale. The study also emphasises the need to invest in design capabilities and human skills. By fostering innovation and adopting cleaner technologies, the industry can strengthen its position in the global landscape.

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