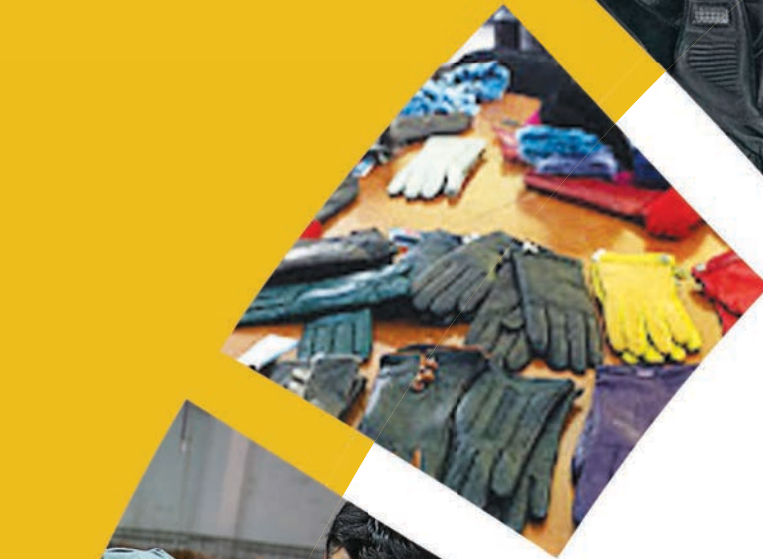




Trade Development Authority Of Pakistan

Sectoral Competitiveness and Value Chain Analysis



Leather Gloves

Ministry of Commerce
Government of Pakistan



Disclaimer:

This report was jointly prepared by the Trade Development Authority of Pakistan (TDAP) and European Union (EU) funded Trade Related Technical Assistance (TRTA II) Programme, implemented by UNIDO in association with ITC and WIPO.

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This study was carried out under EU funded TRTA II Programme which is implemented by UNIDO in association with ITC and WIPO



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April 2016

Acknowledgements

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Message from Trade Development Authority of Pakistan (TDAP)



The era of import substitution is in the past. Today's world is shaped by trade integration--the ability of countries to be part of an ever-expanding Global Value Chain (GVCs). These GVCs are governing features of global trade linking developing, emerging, and developed economies. Through GVCs, industrial nations connect as part of a huge economic chain focusing on specialization and high value addition in order to ensure maximum economic benefit.

Firms take advantage of this specialization and try to optimize production processes by locating various stages of their business across different sites. They manufacture goods wherever the necessary skills and materials are available at competitive costs and quality. The past decades have witnessed a strong trend towards this international dispersion of value chain activities such as design, production, marketing, distribution, etc. The result is a chain of production crossing borders throughout the globe.

GVCs make a strong contribution to international development. The level of participation in GVCs is associated with stronger levels of GDP per capita growth. They have a direct impact on the economy and employment as well as create opportunities for national development. Global Value Chains are also an important mechanism to enhance productive capacity by increasing the rate of adoption of technology and through workforce skill development they can help build the foundations for long-term industrial upgrading. Pakistan's trade policies need to be formulated to ensure that our country is strategically placed within this global chain. The higher the placement, the higher the value addition provided and, so too, the higher the amount of revenue generated. Such interconnectivity however necessitates an open, predictable, transparent trade and investment regime. It is also necessary to highlight complementary policy agendas that leverage engagement in Global Value Chains into more inclusive growth and employment strategies.

To keep abreast of market trends and to motivate companies to restructure their operations internationally through outsourcing of activities involves developing a Global Value Chain Analysis for almost every product. Sadly, there is a dearth of good research in Pakistan, especially in this increasingly important area. And although Pakistan does have the expertise and ability to be firmly integrated in several fast growing sectors, data and focus is lacking.

Keeping this point in mind, the Trade Development Authority, in collaboration with UNIDO, under the EU funded Trade Related Technical Assistance (TRTA) program, has developed value chain analysis for four products that have the ability to raise Pakistan's exports at a fast rate. They are: Gems and Jewellery, Leather Gloves, Rice and Readymade Garments.

Leather gloves are one of the most important products in the value chain of the leather sector. Their share in total leather products is around 22%. Pakistan is the 3rd largest exporters of leather gloves after China and India. Prior to 2013, Pakistan was the second largest exporter of this item; however, India has now crossed Pakistan and is leading with marginal difference. Pakistan's share in the world supply of leather gloves is 12%, which has been constant for the last 5 years.

This report on the value chain of leather gloves shows Pakistan's impressive performance in manufacturing leather sports and non-sports items and advises on a way forward to increase Pakistan's market share. By taking into consideration standardization, environmental issues and specialized industrial gloves, we can move forward.

TDAP's report is the beginning of a series of research studies focused towards export enhancement. It is time that Pakistan becomes an important sector in Global Value Chains. It is time that we maximize national profit through highest value addition in the resources that our country is blessed with!

Rabiya Javeri Agha
Secretary, TDAP

Foreword



The Global Value Chain (GVC) initiative was launched under the EU funded Trade Related Technical Assistance (TRTA II) Programme in collaboration with Trade Development Authority of Pakistan (TDAP) with the aim to assess the sectoral competitiveness and value chain analysis of the four selected sectors: Rice, Gems and Jewellery, Readymade Garments and Leather Gloves.

The TRTA II Programme is funded by the European Union (EU), implemented by United Nations Industrial Development Organization (UNIDO) in collaboration with International Trade Centre (ITC) and the World Intellectual Property Organization (WIPO). This programme aims at strengthening the capacities of Pakistan to participate in the international trade. The overall objective of the Programme is to support economic integration of Pakistan into the global and regional economy.

A two weeks training on 'Sectoral Competitiveness and Value Chain Analysis' was held in Vienna, Austria. The training was attended by officials from Trade Development Authority of Pakistan (TDAP) and United Nations Industrial Development Organization (UNIDO). The central objective of the training was to guide professionals to independently carry out value chain analysis in different sectors.

TDAP selected four sectors: Rice, Gems & Jewellery, Leather Gloves and Readymade Garments to conduct value chain analysis. These export sectors are vital for the economy of Pakistan. They contribute around 20% to the export of the country. In recent years, exports share of Pakistan in the global markets has registered a decline, which can be attributed to quality and production constraints in the domestic production value chain. High prices, production constraints and quality constraints have led to reduced market share for Pakistan's exports products. It is imperative for Pakistan to take steps to strengthen the local production value chain to boost its exports and remain competitive in the international market.

This has been possible with the continued support of the European Union that has funded the TRTA II Programme.

S. M. Muneer
Chief Executive
TDAP

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List of Acronyms

ASEAN - Association of South East Asian Nations

EU - European Union

FTA - Free Trade Agreement

GSP - Generalized System of Preferences

HS - Harmonized System

LIPD - Leather Product Development Institute

MFN - Most Favoured Nation

NAFTA - North American Free Trade Association

NILT - National Institute of Leather Technology

PGMEA - Pakistan Gloves Manufacturers and Exporters Association

R&D - Research and Development

TBT - Technical Barriers to Trade

TDAP - Trade Development Authority of Pakistan

TRTA - Trade Related Technical Assistance Programme

UNIDO - United Nations Industrial Development Organization

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Executive Summary

Over the past few years, the demand for leather products in the global market has registered a rapid increase. The estimated worth of the leather industry increased from US\$80 billion in 2010 to US\$200 billion in 2014 (UNIDO, 2010). Pakistan's exports represent 7.39% of world exports for the 'articles of apparel and clothing accessories of leather'¹(International Trade Center). Among the products included in this category, sports and non-sports gloves have the highest export value, followed closely by leather apparels. In 2014 Pakistan's export value of sports and non-sports gloves accumulated to a grand total of US\$0.5 billion. This study found that Pakistan is involved in the high value addition activities of the leather value chain.

The leather garment sector contributes 5% to the manufacturing GDP of Pakistan. Between 2014 and 2015, the leather industry grew at an impressive rate of 9.62% (Economic Survey of Pakistan) and contributed \$724 million to the country's export earnings (International Trade Center). Moreover, this sector is a labour-intensive industry and provides employment to more than 500,000 people. There is potential for further growth in the output of this industry, which is functioning below its maximum capacity at present.

This report analyses the leather gloves value chain in Pakistan with the aim to identify the value capture opportunities in the sector; attractive international markets; the key constraints in the leather value chain and possible solutions to

¹ HS Chapter 4203

address them. Leather sports gloves and leather non-sports gloves have been selected for the analysis. The tools used in the analysis include: value chain mapping, value distribution analysis, world and regional dynamism analysis, value chain performance evaluation, and attractive markets identification.

Value chain mapping of the leather gloves sector in Pakistan revealed that Pakistan participates in the high value addition activity of manufacturing. The leather value chain in Pakistan is well integrated. Most of the tanneries and leather-manufacturing units are located in close proximity to each other, which ensures reliable and consistent supply of raw materials to the leather manufacturers. Due to the buyer driven nature of the industry, the leather gloves' manufacturers have a weak bargaining power with the major retailers and brands.

The value distribution analysis for the selected products revealed that as the level of processing increases the profit margin increases. Manufactured products such as leather apparels, leather gloves and other leather accessories have the highest return on investment. Within the global value chain of leather products, marketing activities such as retailing and branding are the most profitable activities.

The global and regional dynamism analysis of the leather gloves sector indicates that between 2008 and 2014, the demand for sports gloves witnessed remarkable growth. Sports gloves have an impressive annual average growth rate; rendering the product as highly dynamic product i.e. its world demand is increasing rapidly through time. On the other hand, the demand for non-sports gloves remained

static between 2008 and 2014, and the product's growth rate remained below the average growth rate of the leather sector.

The regional market share and regional growth rate analysis identified the major importing and exporting regions for sports and non-sports gloves. East Asian and South Asian countries such as China, Vietnam, Pakistan and India are the main suppliers of sports gloves in the global market. United States is the largest importer of sports gloves, followed by the European Union. For non-sports gloves, European Union was identified as the main supplying region, followed by East Asia. South Asian countries such as Pakistan and India are small players in the non-sports gloves industry. The main markets identified for non-sports gloves are the USA, Canada and the European Union.

The value chain performance indicated that Pakistan is one of the most competitive countries in the world to export leather gloves. In order to gauge the performance of the selected country, it is imperative to compare the export performance with other selected countries. Pakistan's export competitive performance for sports gloves is compared to its regional neighbours India and China.

Pakistan exports sports gloves to United States, Germany, United Kingdom, France, Canada and Australia. The attractive markets analysis revealed that United States is the only country that falls in the category of big market and high price for sports gloves; Japan, Belgium and Canada fall in the category of small market and high price. For non-sports gloves, the top 5 importing countries for

Pakistan are USA, Germany, Canada, Sweden and United Kingdom. The data reveals that Pakistan supplies non-sports gloves to countries that fall in the big market high price category and the small market high price category.

There are several key factors affecting the competitiveness level of the leather gloves sector in Pakistan; the leather industry is facing an erratic supply of raw materials, shortage of skilled labour, technology constraints, marketing constraints, and product mix and working capital issues. It is necessary for Pakistan to upgrade its processes and products in order to maintain its competitive edge in the existing markets. A well-integrated leather industry is likely to resolve the constraints faced by the manufacturer at each level of production.

Appropriate policy measures and institutional change can help resolve the bottlenecks that affect the competitiveness of the sector and lead to exports growth. Pakistan should increase export restrictions on livestock, and raw hides and skins, to ensure a steady supply of raw material for the local leather industry. Well-equipped training institutes need to be established near Sialkot to ensure the availability of skilled labour for the industry. Industry leaders should adopt aggressive marketing techniques such as branding and retailing to capture high price for their products. The government should assist the industry leaders to create bilateral Free-Trade Agreements with the major importing countries. Research and development activities ought to be incentivized for the industry leaders.

Introduction

The leather sector in Pakistan is growing at an impressive rate and is the third biggest contributor of export earnings and Gross Domestic Product(GDP) for the country².Between 2014 and 2015, it witnessed a growth rate of 9.62% (Economic Survey of Pakistan), while contributing 5% to the manufacturing GDP of Pakistan. Pakistan's exports constitute 7.39% of world exports for the 'articles of apparel and clothing accessories of leather³' (International Trade Center). Among the products included in this category, sports and non-sports gloves have the highest export value, followed closely by leather apparels. In 2014 Pakistan's export value of sports and non-sports gloves accumulated to a grand total of USD 0.5 billion.

This report aims to analyse the leather gloves value chain in Pakistan. Leather gloves value chain consists of a full range of activities, stages and actors that are directly or indirectly involved in the production process of leather gloves(Morris & Kaplansky, 2002). Leather Gloves Value Chain Analysis will provide a holistic view of the global and local industry, by examining the significance and performance of all relevant actors, technologies, standards, regulations, products, processes, and markets (Gireff & Stark). This analysis will also identify the key constraints in the leather gloves value chain in Pakistan and make recommendations to address these constraints by introducing measures such as policy reform, infrastructural investment and institutional change.

The first section of the report presents and analysesthe information with respect to leather gloves manufacturing in Pakistan. The second section maps the main

² After the textile and rice sectors

³ HS 4203

characteristics of the leather gloves value chain, such as the processes and products involved, the main actors in the value chain, governance in the value chain, and the value distribution of the value chain in Pakistan. The third section of the report assesses the global and regional trends of the value chain. The fourth section evaluates the performance of the value chain by identifying and examining the opportunities and the constraints within the mapped value chain. The final section of the report will identify the policy and institutional constraints affecting the competitiveness of the leather gloves value chain and provide recommendations to address these issues.

Scope and Methodology:

The global economy is increasingly structured around Global Value Chains (GVCs), whereby the production of goods and services takes place in a global setting, divided in a number of stages spread across different countries. Each firm, producer, and worker is integrated in the global economy and global value chain, and is most likely to be affected by global events.

Value chain analysis is a tool that enables industrialists and policy makers to identify industrial value capture opportunities. It also helps public and private sector stakeholders to devise strategies for business growth, such as improvement in the quality of product, process up-gradation, engagement in new activities, or participation in new value chains. This methodology is particularly useful for policy makers to identify the priority sectors where government efforts such as policy regulation, direct intervention, provision of information and budgets ought to focus. The identification of value added products and the market analysis is

beneficial for the private sector, as it identifies the potential attractive markets, the gaps local firms face, and possible solutions to overcome them. Most importantly it points out the winners and losers in the chain therefore signalling towards lucrative investment opportunities. In order to understand global industries, many institutions and governments have used this methodology to help formulate new programs and policies. Thus countries have been able to insert themselves in the most strategic component of the value chain and so achieve economic growth.

This report has adopted the UNIDO value chain methodological approach. This methodology maps the leather gloves value chain to identify the processes, actors and linkages in the value chain. The value distribution analysis for the selected products reveals the export unit value and identifies the product that generates the highest revenue. The global and regional analysis employs two tools to assess dynamism; annual average growth rates and global demand. The Export Competitiveness Index (ECI) is calculated to assess the performance of Pakistan and benchmark its performance with other countries. The Import Dependency Index (IDI) calculated, identifies the attractive markets according to the market size and the prices. The results of the quantitative analysis are complemented by industry insight obtained through published reports, surveys and group discussions carried out with exporters, associations and industrialists.

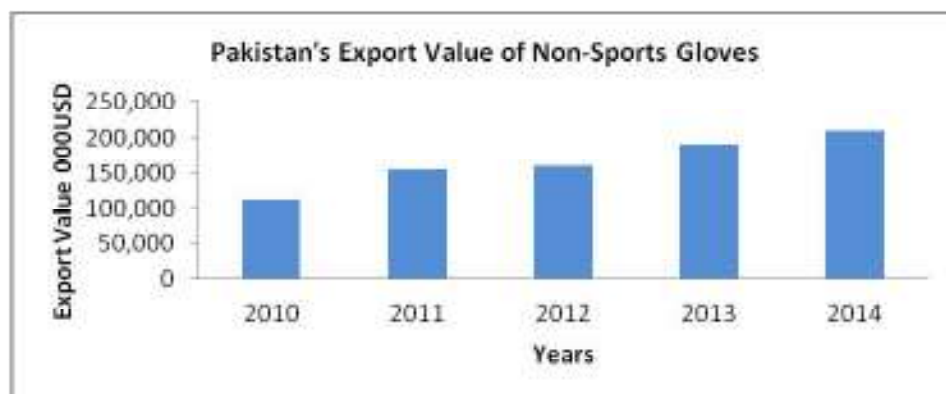
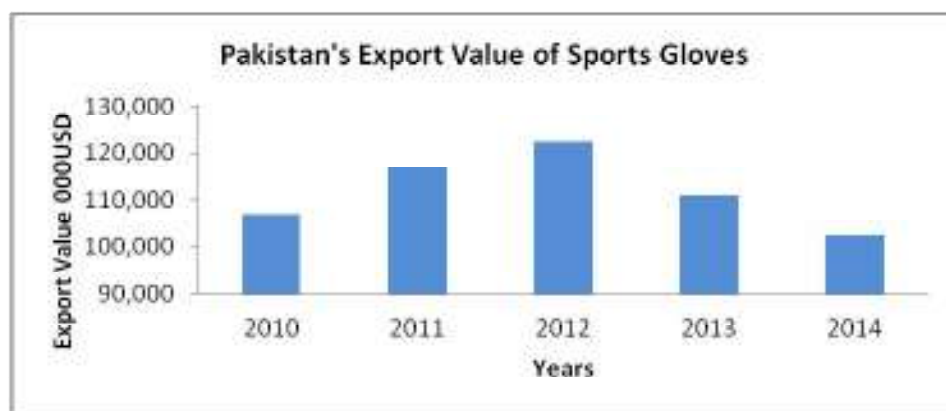
Overview of the Sector

Leather and leather products are among the most traded commodities in the global market, and the leather industry is one of the industries with the highest value addition. As a result, leather products fetch a premium price in the international market. International trade of leather and leather products is estimated to be around \$200 billion and it is forecasted to grow exponentially.

The leather industry in Pakistan is largely export oriented. Pakistan is well known in the international market for its high quality and wide variety of finished leather, leather garments and leather gloves. However, at present, the country's leather industry is functioning below its existing capacity. It has the potential to produce high-quality leather products at a competitive price but it is not utilizing its capacity to the fullest resulting in low output and high costs of production. It is essential for Pakistan to enter and maintain its competitiveness in high value added activities such as manufacturing.

The leather industry in Pakistan consists of six sub-sectors namely tanning, leather garments, leather footwear, leather shoe uppers, leather goods and leather gloves. In 2014, Pakistan's leather exports fetched US\$0.7 billion in the international market (International Trade Center). Of these earnings, leather sports gloves and non-sports gloves generated US\$0.3 billion, the highest export earnings amongst the aforementioned six sub-sectors.

Pakistan's exports of sports gloves (HS 420321) represent 18.44% of the total world exports of sports gloves and it's ranking in terms of export value for this product in the global market is 1. Pakistan's exports of Non-Sports Gloves (HS 420329) represent 10.07% of world exports and its ranking in terms of export value is 3 (International Trade Center). The graphs below show the value of sports gloves and non-sports gloves exported by Pakistan between 2010 and 2014. It is evident that Pakistan's exports of sports gloves have decreased over the years, whereas the export value of non-sports gloves has consistently increased between 2010 and 2014.



Data Source: UN Comtrade

The leather industry in Pakistan is located in the cities of Sialkot, Lahore, Multan, Faisalabad, Gujranwala, Sahiwal, Peshawar, Karachi and Kasur. The main hub of manufacturing leather gloves is in the city of Sialkot. According to market sources, there are around 150-200 glove manufacturing units in Sialkot alone. The glove manufacturing industry is categorized as family owned small-medium enterprises. The leather sector is a labour-intensive industry and provides employment to more than 500,000 people.

Leather is basically a by-product of the livestock sector. The raw hides and skin of the livestock pass through various stages of production to produce finished leather sheets. In the first stage, the raw hides and skins are processed to make wet blue leather that is further processed to produce finished leather sheets. Finished leather sheets are then manufactured into leather products such as apparels, accessories etc. The table below indicates the classifications of each product in the relevant stage of production:

Table 1: Products at Different Stage of Processing

Primary	Semi-processed	Processed	Processed
Raw hides/skins	Wet Blue Leather	Leather Sheets	Leather Products

Within the leather value chain, the processed products such as leather apparels, leather bags, leather gloves and leather accessories are the highest value added products. With respect to export value, leather garments fetch the highest premium, followed by leather gloves and leather accessories. This study aims to analyse the performance of the leather gloves sector in Pakistan. Leather gloves can be broadly classified into two categories; sports gloves which include gloves,

mittens and mitts, and non-sports gloves which include fashion/industrial and working gloves. The following table indicates the HS code product description and total export value of the selected products in 2014.

Table 2: Selected Products for Value Chain

HS Code	Product Description	Export Value in USD Thousand
420321	Sports Gloves	102,492
420329	Non-Sports Gloves	210,557

Value Chain Mapping

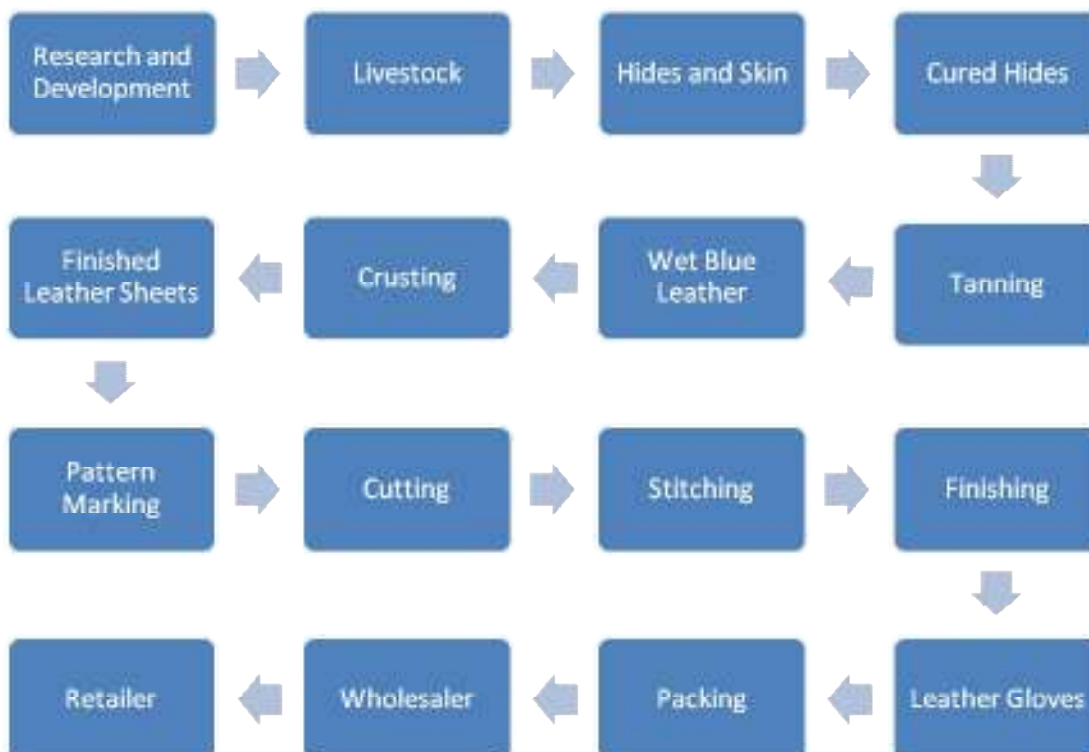
Research and Development has been identified as an overarching process in the leather industry mainly because R&D takes place throughout the value chain. It takes place in the livestock section, the tanning section and the leather manufacturing.

The leather industry is directly related to the livestock industry, since leather is essentially a by-product of livestock. The first stage of leather manufacturing involves obtaining the raw animalhides from the slaughter industry. Raw hides and skins are preserved using different techniques such as salting, chilling, and freezing and the use of biocides. The cured hides go through a number of preparatory processes such as un-hairing, fleshing, splitting, bating, degreasing, frizzing, bleaching, pickling and de-pickling. This stage involves research and development with respect to the rearing of livestock and the processes which allow preserving the raw hides and skins. R&D is crucial at this stage as it determines the quality of leather being produced.

Once all the necessary procedures are carried out, the hide is then ready for the tanning process. This process stabilizes the protein of the raw hide, making it suitable for a variety of applications. The hides are tanned using different methods and materials;chrome tanning and vegetable tanning are the two most common methods. The hides are soaked in large drums which contain the tanning liquor; this is a highly capital intensive procedure. Wet blue leather is the product of the tanning process.

The wet blue leather goes through crusting, a process that thins, re-tans and lubricates the leather. This process also includes dyeing the leather, which is the highest value addition procedure. Dyeing the leather in a wide variety of colours plays a significant role in meeting the ever-changing fashion requirements. The finished leather is further processed to make different leather products such as apparels, gloves, handbags and accessories. R&D in the tanning process takes place for technological up-gradation to use machinery that reduces energy consumption and minimizes wastage. R&D is also being carried out to ensure minimal damage to the environment, as tanning is a highly polluting activity.

Figure 1: Value Chain Process Map



In Pakistan, the glove manufacturing process begins with the receipt of glove specifications, such as quality, colour, accessories, design, and stitching style, from the customer or the company's design department. Aggressive R&D is carried out by design departments of all leather-manufacturing units. The R&D is carried out for new product development and for improving the existing product lines. Once the sample is approved, the pattern-making master prepares the patterns on a chart paper and copies them on a straw board sheet, which is then used for cutting the leather. Skilled cutters and specific machines are used to cut out the patterns for the gloves. Employing skilled labour and using appropriate leather cutting machinery minimize wastage at this stage. During the stitching process, accessories such as lining, zips, hooks, clips, and labels are attached. After the stitching, each pair of gloves goes through rigorous quality inspection to ensure that the product meets all the requirements specified by the customer. Another quality inspection round happens before the manufactured gloves are packed and shipped to the customer.

The final stage of the global leather gloves value chain is marketing the product. This includes activities such as product placement, branding and packaging. However, the domestic leather gloves value chain does not participate in marketing activities. The leather gloves exporters and manufacturers in Pakistan supply the product to either agents or retailers who then market the product accordingly. Figure 1 shows the process of making leather gloves.

Value Chain Actors:

In order to analyse the existing leather gloves value chain in Pakistan, the flowing agents and actors were identified that influence the way in which value is produced and captured along the chain.

Livestock:

The dynamic livestock industry in Pakistan provides easy access to raw materials required by the leather industry. Some individual herdsmen and a few major market players dominate the livestock industry. Due to local herdsmen's lack of knowledge regarding the feed and methods of rearing livestock, the quality of hides and skins is compromised.

Hides and skins traders:

The main role of hides and skins traders is to collect, preserve and store the hides before selling them to leather tanneries. In Pakistan, the hides and skin traders mostly belong to social groups such as the Edhi Centre and Shaukat Khanum Hospital.

Leather Tanneries:

There are around 2,500 registered and unregistered tanneries in Pakistan. Most of these tanneries are located in Karachi, Sialkot, Hyderabad, Multan and Kasur. The main function of the tanneries is to buy the raw hides and skins, and process them into semi or finished leather sheets. Tanneries are the main source of wet-blue

leather and crust leather. They also provide finished leather sheets to leather manufacturers and wholesalers. The tanneries in Pakistan are actively involved in exporting finished leather sheets to developed countries and China.

Leather Gloves Manufacturers:

According to market sources, there are around 150-200 leather gloves manufacturers in Pakistan, most of which are located in Sialkot. These manufacturers are largely export oriented and besides leather gloves, they also manufacture and export other leather products such as leather apparels and leather accessories. These leather units are small to medium scale, and majority of them are run by families. The main function of this sector is to process finished leather sheets into sports gloves.

Research and Development Organizations:

Organizations or institutes specializing in high quality research and development (R&D) in the leather industry are non-existent in Pakistan. Institutes such as the University of Veterinary and Animal Sciences initiate research that is often limited to tanning procedures. R&D for manufacturing leather products is limited. A few companies have independently developed their research departments to ensure constant innovation and use of modern technology. Moreover, some leather-manufacturing units, along with private investors, are taking significant measures to import and manufacture machines that assist in the process of stitching and cutting. However, most of the leather gloves manufacturing units rely on the R&D carried out by the customer for the designs, patterns and stitching of the gloves.

Associations:

The Pakistan Gloves Manufacturer Exporters Association (PGMEA) plays a significant role in providing certifications required for exports. Moreover, it encourages local gloves manufacturers to participate in the trade fairs that take place across the world. A major shortcoming of the association is its lack of capacity to carry out research to identify potential markets and to encourage technological advancements.

Training Institutes:

There are two main training institutes, namely The National Institute of Leather Technology (NILT) in Karachi, and the Leather Products Development Institute (LPDI) in Sialkot that are dedicated to providing skilled labour to the industry. However, due to their limited capacity and inability to introduce professional training courses, they have been unable to provide the leather manufacturers with a steady supply of skilled labour. The industry largely depends on the teacher/student model of transferring skills and knowledge.

Linkages:

The leather value chain in Pakistan is well integrated. Most of the tanneries and leather-manufacturing units are located in close proximity, which ensures uninterrupted supply of raw material for the leather manufacturers. Both these actors are in direct contact with each other.

There are two types of forward linkages that are operational in the leather gloves industry: direct and indirect. In the direct forward linkage, the manufacturers are directly connected to the customers (wholesalers or retailers). Since the leather industry is mostly demand driven, this form of forward linkage works best, as the manufacturers are able to respond to the requirements of each customer. In the indirect linkage, the middleman is an important focal person for the manufacturers and the customer. The middleman does not indulge in any production activities. A significant number of former leather manufacturers have taken the role of a middleman and this role is becoming predominant in the leather industry.

Governance:

The global value chain for leather products witnesses a clear divide between the developed and developing countries. Developing countries such as China, Vietnam, India and Pakistan are mostly involved in mass production of low to medium value added products. These countries supply raw hides and skins to the global leather market and recently expanded their operations into the tanning and manufacturing of leather as well. This has largely been attributed to the availability of cheap labour, leniency in environmental regulations, and reduced production costs due to economies of scale. On the other hand, developed countries have diverted their resources to produce and market high value, high-end, quality leather goods that require large investments in excellent technology, design, and quality control procedures (Trade Information Brief - Leather Industry, 2010).

Pakistan is involved in leather tanning and leather manufacturing activities. The demand for leather gloves in Pakistan is mostly buyer driven, with the production mainly taking place according to the specifications and demand of the customers located in developed countries. Customers also determine the quality and price of leather gloves. Consequently, the leather gloves manufacturers in Pakistan have a weak bargaining power and few opportunities for innovation. Most of the local companies are selling to wholesalers and retailers located in the United States and the European Union. The aggressive competition between local gloves manufacturers in Sialkot leads to low prices, which attracts more companies. Moreover, the leather gloves industry has been adversely affected due to the rising cost of production and energy crisis in Pakistan.

Value Chain Distribution

Value chain distribution analysis of the value chain identifies the level of revenues and profits captured by the different products in the value chain. This part of the value chain analysis helps to identify the segment of the chain that is able to maximize its revenue and identify the 'winners' and 'losers' in the chain.

Globally, the most profitable segment in the leather value chain is retailing. Retailers, which are mostly located in developed countries, obtain the highest profit margins. On the other hand, raw hides and skins capture the lowest value. The leather value chain in Pakistan is limited to manufacturing activities. Manufacturers have typically sold their products directly to the customer, but recently the industry has seen the advent of agents and wholesalers.

The export unit value gives insights into the increase in monetary value as the product goes through different stages of processing. The graph below has categorized the leather value chain in Pakistan in three stages, namely primary product, semi processed, and processed. As shown in the graph, the primary product i.e. raw hides and skins generate the lowest revenues. Post-tanning and crusting activities generate 30% to 40% profit margin for the leather manufacturers. Manufactured products such as leather apparels, leather gloves and leather accessories have the highest return on investment. Over the years, a significant number of tanneries have expanded their operations to manufacturing activities to capture greater value in the leather value chain.

Figure 2: Unit Value Leather Sector



Having established that finished leather products have the highest return on investment, it is imperative to analyse the unit value of different finished products to identify the ones that are the most profitable. The graph below indicates and compares the global export unit value for leather gloves and other leather products being manufactured.

Figure 3: Unit Value Leather Products



Figure 3 indicates that amongst the selected products, 'articles of apparel of leather' priced at around USD102 per kg, have the highest export unit value. This is followed by the export unit value of sports gloves, which stands at around USD56 per kg. The export unit value of belts and bandoliers, and clothing accessories is around USD 30-35 per kg. The lowest unit export value is that of non-sports gloves, which is around USD 10 per kg.

According to market sources, the leather gloves industry in Pakistan employs around 300,000 skilled and unskilled labour. The majority of the labour employed is skilled, as it requires specific knowledge and expertise to handle hides and operate the machinery used to treat and process raw and semi processed leather. Leather cutting, pattern making and leather stitching are also highly skilled jobs. Furthermore, it takes skilled labour to keep up with the constantly changing product mix, with customers from diverse markets demanding varying designs, products and processes. However, due to the lack of formal training institutes in the country, most of the labour is trained through informal apprentice systems within the family or the community.

The leather gloves sector in Pakistan benefits from the local availability of hides and skins. Buffalo hides, cow hides, goat skins, and sheep skins are the primary source of raw material for the tanning industry. According to the Pakistan Tanneries Association, around 75% of the raw material is obtained from the local sources and the remaining 25% is imported from countries such as Saudi Arabia, Iran, China, Sudan, Kenya and Italy. The machinery required for processing raw hides and skins is mostly imported from Italy and France. The dyes and chemicals

required for tanning leather are imported from Germany, Spain and Italy. A few multinationals such as Sandoz and Clarinet, which manufacture dyes and chemicals, have established their manufacturing units in Pakistan (Pakistan Tanneries Association).

Global and Regional Dynamics

The global leather industry is estimated to be worth US\$200 billion. Leather manufacturing activities have shifted to developing countries; this has allowed China to emerge as one of the largest global producers of leather products. China has specialized in mass production of low-value added leather products, and the recent trends indicate that it is slowly diverting its resources towards the production of high-value added leather products. Due to this particular shift India, Pakistan, Vietnam and Bangladesh emerged as the major suppliers of leather products. Developing countries have become net exporters of finished leather sheets and manufactured leather products. Leather products are classified as luxury goods; therefore, countries that have a higher disposable income have a greater demand for the product. As a result, regions such as the European Union (EU) and North American Free Trade Association (NAFTA) are the largest importers of manufactured leather products.

Each year, about 50 billion pairs of gloves are produced globally. There are two major types of gloves that are demanded in the global market; industrial gloves and fashion gloves. Industrial gloves are used for military and protective purposes. Their market is huge and is continuously growing since 1990. The demand for military gloves is most likely to increase in the near future. While this is a micro-niche in the world leather sector, it is a significant sector for the glove industry. Protective leather gloves are also highly demanded in industries that are exposed to ultra-violet rays, fire, water and chemicals. On the other hand, the market for fashion gloves is much smaller and has been declining since 1990. The

use of non-sports gloves is limited to a few occasions; therefore its demand has significantly reduced over the years (UNIDO, 2010).

Global trends:

This methodology employs two tools to assess world dynamism: global demand, and global and regional growth rates. These indicators identify if the sector has an impressive growth rate and its products are highly demanded in the global market.

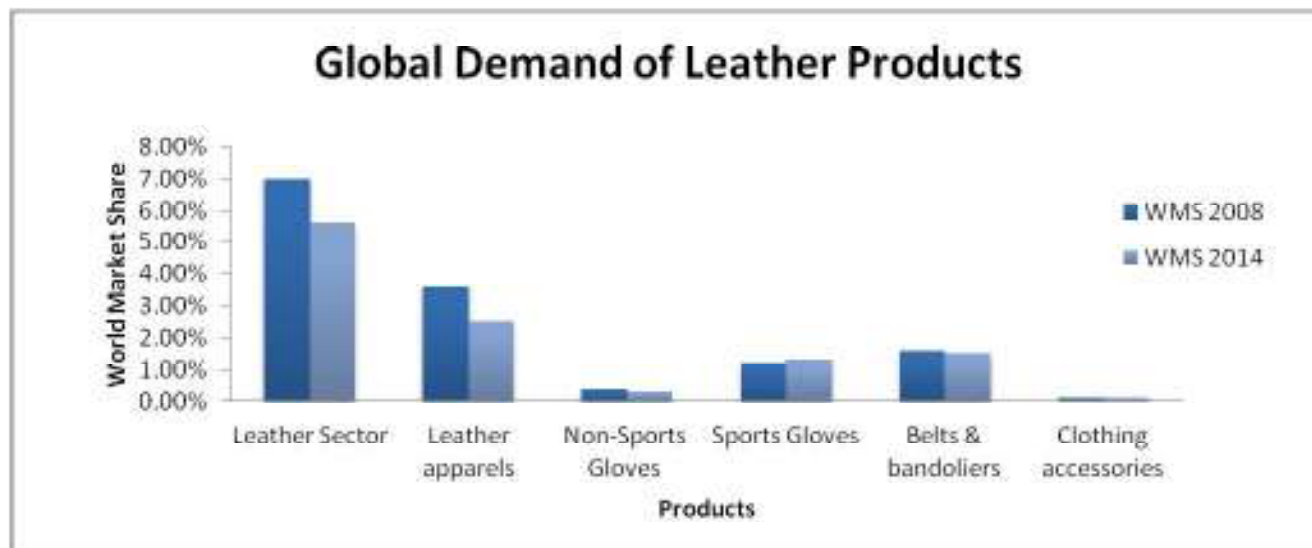
The world market share of the product measures the importance of the product in world total trade⁴. By comparing the demand trends over a few years, it is possible to determine if the product has gained or lost relevance over time. For the purpose of this study, we will assess the market share of leather products in world total trade.

The graph below shows the share of the leather sector⁵ in world total exports in 2008 and 2014; in 2008, it stands at around 6.9% and in 2014 at around 5.8%. In both years, leather apparels category has the highest world market share, followed by belts and bandoliers, and sports gloves. The world market share for sports gloves has remained stable between the years 2008 and 2014. On the contrary, the world market share of non-sports gloves fell from 0.4% in 2008 to 0.3% in 2014. The graph indicates that the demand of leather products has declined over the years.

⁴ World Total Trade includes trade in agricultural and manufactured products.

⁵ Leather sector includes raw hides and skins, finished leather sheets and leather manufactured products

Figure 4: Global Demand for Leather Products

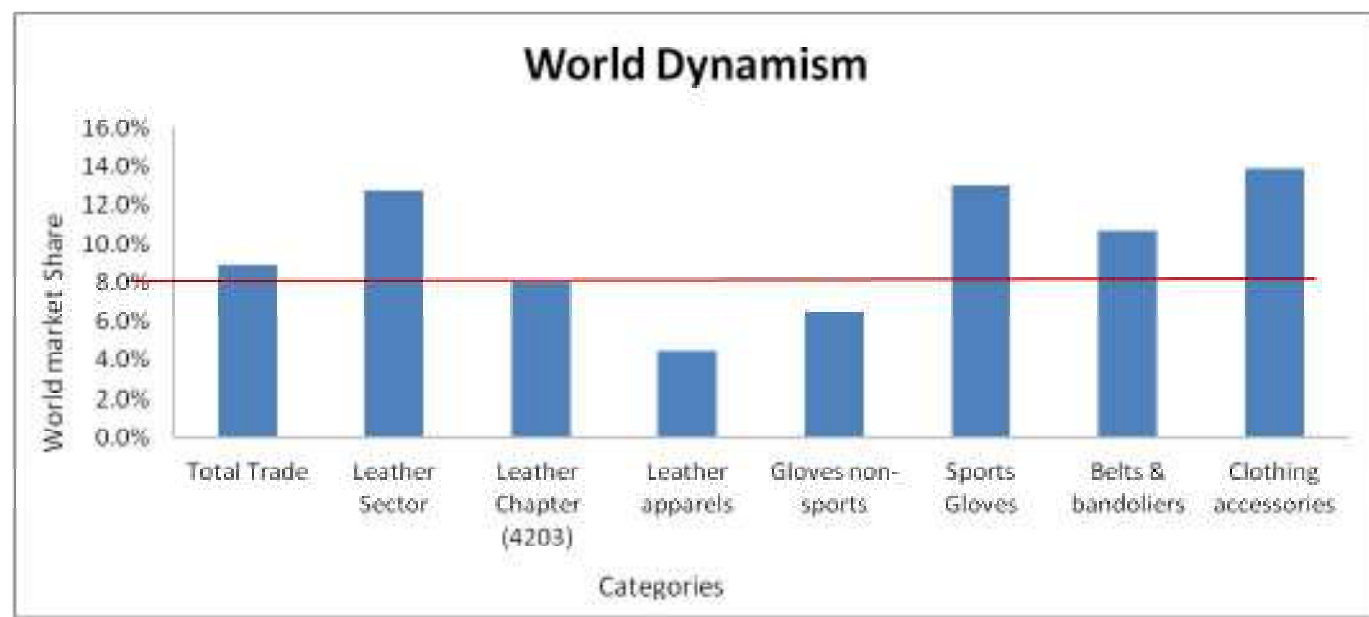


The annual average growth rates(AAGR) of various leather products have been analysed over a period of time. The graph below shows the annual average growth of the world total trade and trade in leather sector, leather chapter⁶, and leather products⁷ between 2008 and 2014. The graph indicates that the leather sector (AAGR 12.2%) is growing well above the average growth rate of the world total trade (AAGR 9%), deeming the leather sector to be a dynamic sector in global trade. The performance of the selected leather products has been benchmarked with Chapter 4203. It is evident that within the leather chapter the demand for sports gloves, belts and bandoliers, and clothing accessories is increasing rapidly through time. Amongst all the selected products, the AAGR of non-sports gloves and leather apparels is the lowest.

Figure 5: World Dynamism

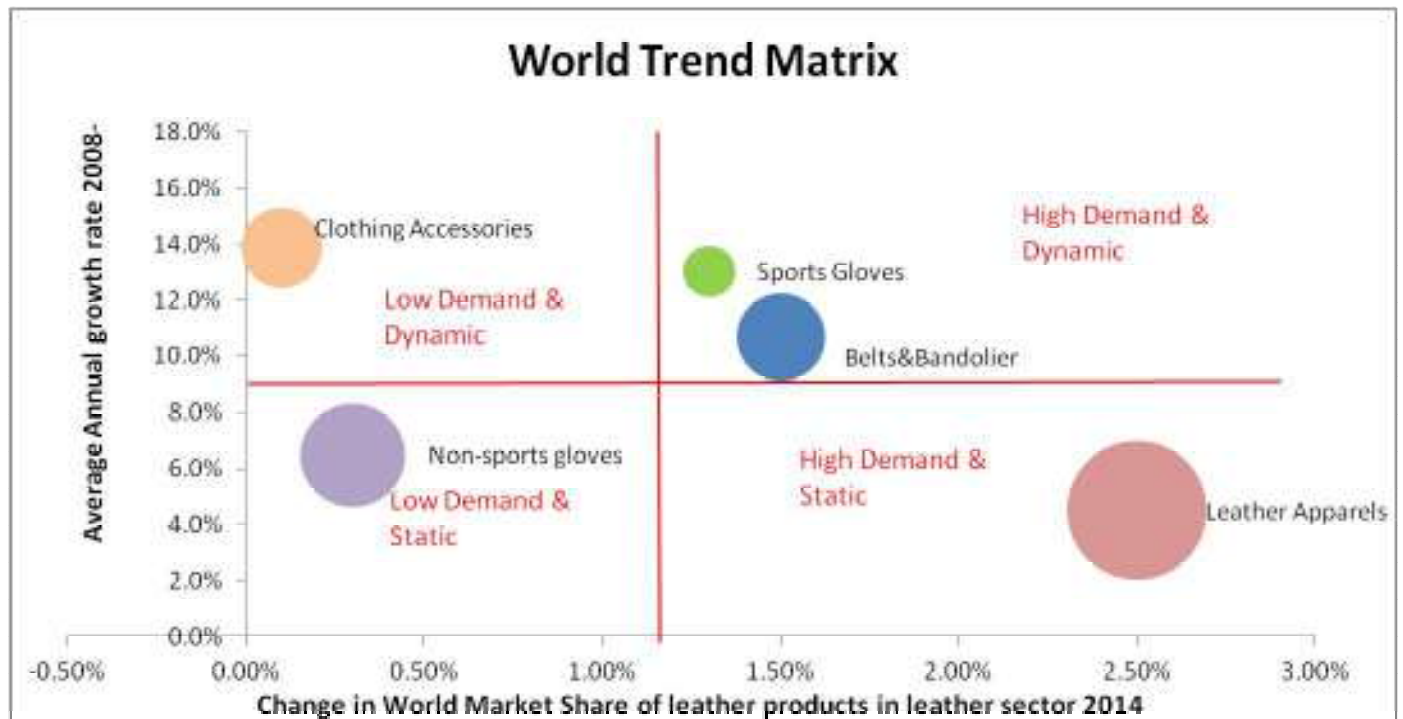
⁶ Chapter HS 4203 Articles of apparel and clothing accessories of leather or leather composition

⁷ Leather apparels, sports gloves, non-sports gloves, belts and bandoliers and clothing accessories.



The world trend matrix for leather classifies the export products in four categories according to their dynamism and world market share. The size of the bubble represents the unit value of the product. It is evident from the graph that the sports gloves, and belts and bandoliers categories have the highest world market share and their growth rate exceeds the annual average growth rate of the leather sector. Therefore, these two products fall in the champion category i.e. they are dynamic sectors and are gaining world market share. Even though the world market share for clothing accessories is not significant, it was found to be a dynamic category due to its impressive growth rate. The world trend matrix indicates that despite high demand of leather apparels in the international market, the sector is static because of its stagnant growth rate. The non-sports gloves sector is also a static sector with an insignificant world market share and low product demand. It is essential that participating countries like Pakistan divert their resources in the production of sports gloves and belts and bandoliers. These products have a high demand and an impressive growth rate.

Figure 6: World Trend Matrix



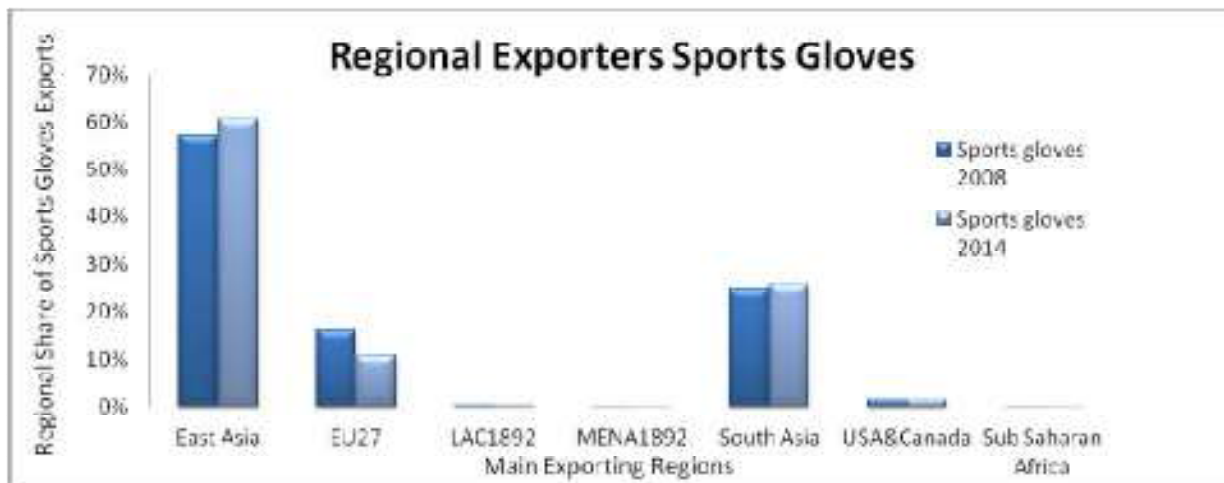
Regional Trends:

Regional trends indicate the geographical concentration of the imports, exports and the demand for a product. Regional trends can be measured using two indicators: the regional market share and the regional growth rate. The market share identifies the major importing and exporting regions of each product and the regional growth rate indicates growth patterns in each region.

The graph in Figure 7 identifies the main suppliers of sports gloves in the international market. East Asia supplies 60% of sports gloves to the global market followed by South Asia, which holds a market share of 25%. Between 2008 and 2014, both regions were able to increase their exports share in the world market for

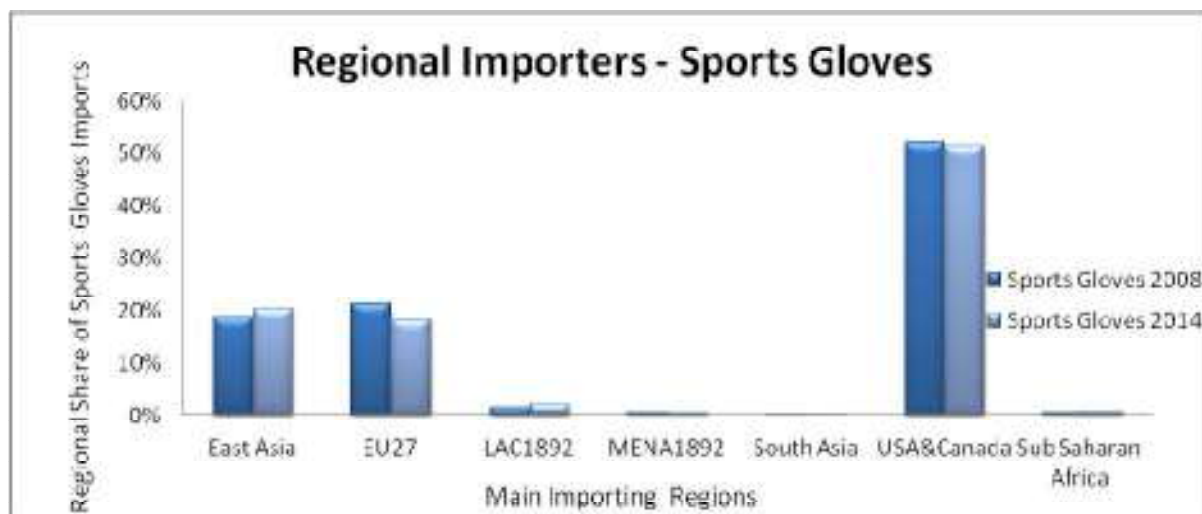
sports leather gloves. The graph also shows that between 2008 and 2014, the European Union decreased its export of sports leather gloves in the world market.

Figure 7: Regional Exporters of Sports Gloves



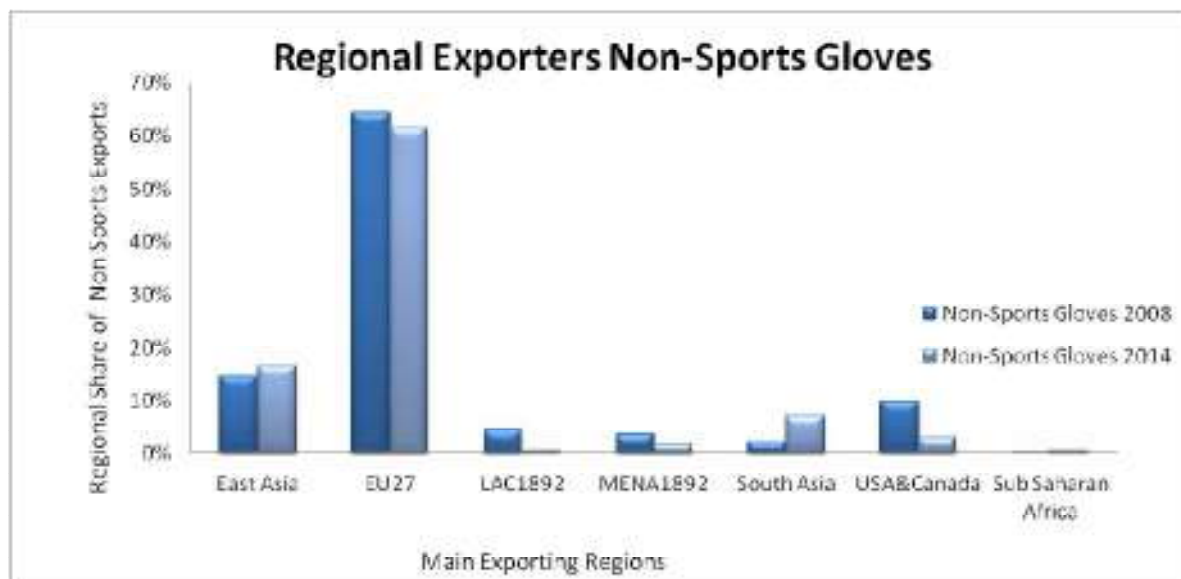
The graph in Figure 8 identifies the major importing regions for leather sports gloves. USA and Canada is the biggest importing region followed by the European Union and East Asia. The graph indicates that between 2008 and 2014, the imports of sports gloves by the EU, and USA and Canada declined.

Figure 8: Regional Importers of Sports Gloves



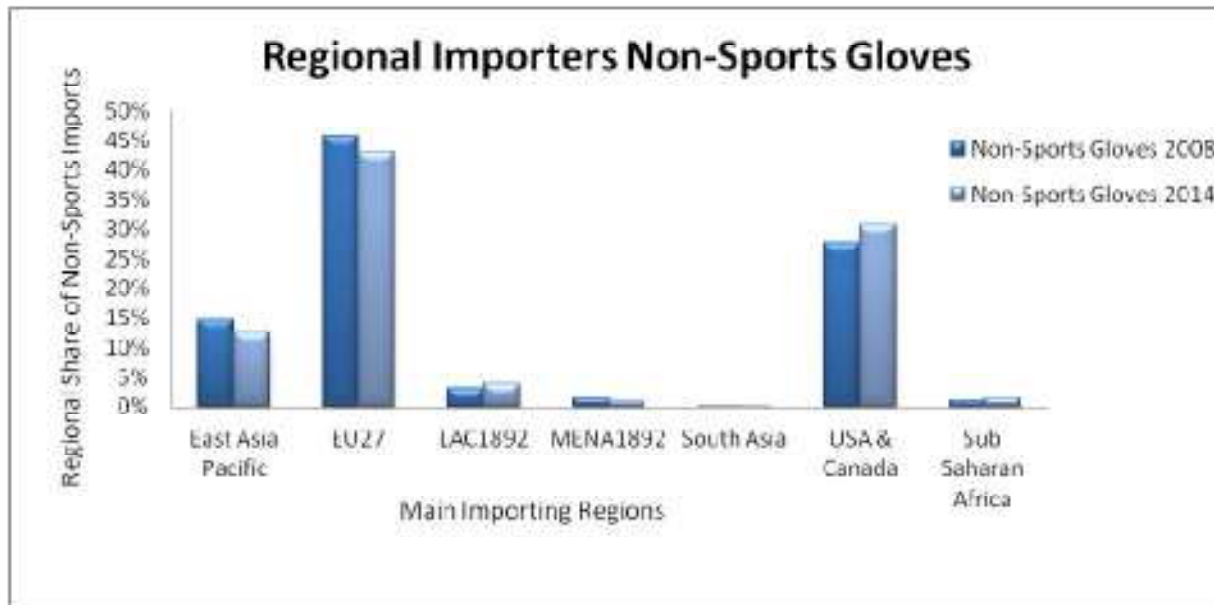
The graph in Figure 9 indicates the main exporting regions of non-sports gloves. European Union supplies 60% of the non-sports gloves to the global market and East Asia is the second biggest supplier of these gloves. However, the share of East Asia is much smaller as compared to that of the European Union. South Asia and USA and Canada are small players in this sector.

Figure 9: Regional Exporters of Non-sports Gloves



The graph in Figure 10 indicates the main markets for non-sport gloves. The main importing regions of this category are the European Union (EU), USA, Canada and East Asia. In 2014, the EU imported 43% of the non-gloves traded in the international market, which is a slight decrease from 46% in 2008. The second biggest regional market is the USA and Canada which captures 25-30% of the market share.

Figure 10: Regional Importers of Non-Sports Gloves



Annual average growth rate measures the growth rate of exports or imports. The growth trends are instrumental in deciphering the demand trends in the international market and to make future sales projections.

The graph in Figure 11 shows that South Asia and East Asia have the highest export growth rates for sports and non-sports gloves. The countries in these regions, namely China, Vietnam, Pakistan and India, are the major suppliers of leather gloves and therefore have high growth rates for sports and non-sports gloves. The European Union has a negative export growth rate for sports gloves but a positive export growth rate for non-sports gloves. In USA and Canada, the export growth rate of non-sports gloves is higher than that of sports gloves.

Figure 11: Annual Average Growth Rate of Exports

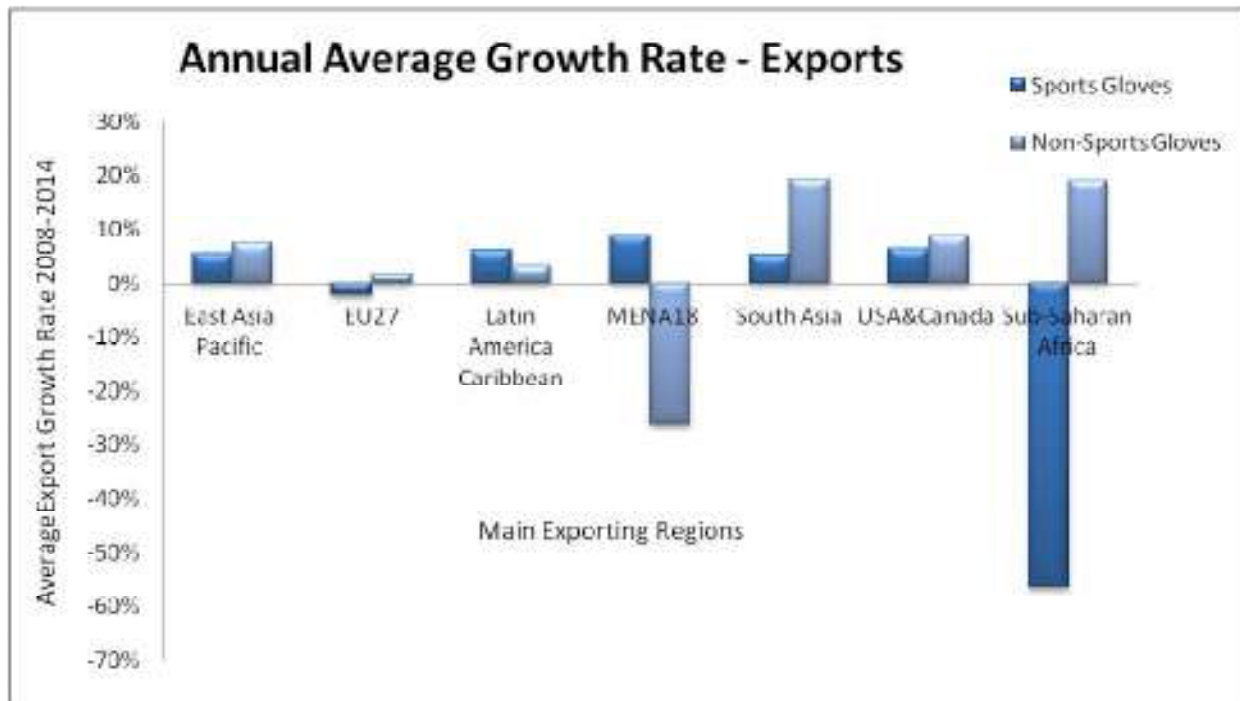
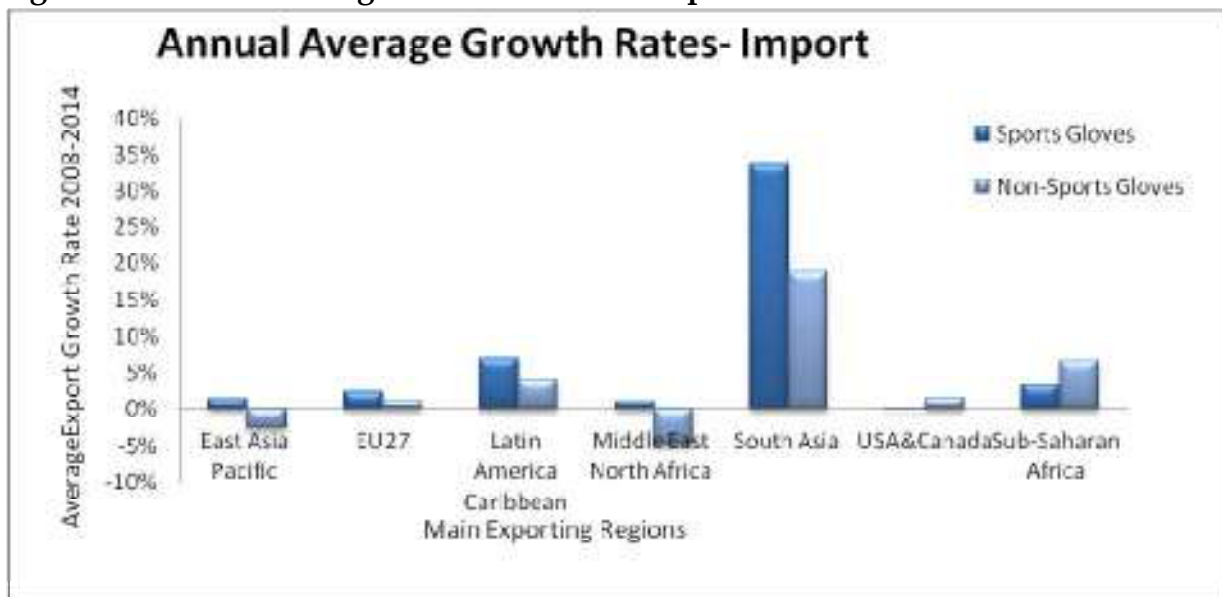


Figure 12: Annual Average Growth Rates of Imports



The import growth rates of sports and non-sports gloves represent the rate at which the demand of the product has increased in different regions. Between 2008 and 2014, the demand for sports gloves and non-sports gloves was growing at a rate of around 2% in the EU and the USA. The slow import growth rates of the

markets in EU and USA are an indication for suppliers to diversify their markets. Latin America and the Caribbean have shown impressive import growth rate for sports gloves and non-sports gloves. The graph shows a significant increase in the demand for the gloves manufactured in South Asia; the graph represents average annual growth rates and not the volume of imports. The imports of South Asia region imports are insignificant and a marginal increase resulted in higher change.

Value Chain Performance

This section of the report analyses the performance of the Pakistan leather gloves value chain in comparison to the top exporters in the leather gloves global market. The export competitiveness index analyses the international dynamics of the value chain to evaluate the export competitiveness of the country at each stage and benchmark its performance with other countries.

The table below lists 15 countries that ranked the highest on the Export Competitiveness Index (ECI) of leather sports gloves in 2014. South Asian and East Asian countries are the most competent suppliers of sports leather gloves in the global market, confirming the claim that developing countries are leading the exports of manufactured leather products. The ECI also indicates that Pakistan is the most competitive country in the world to export leather gloves, and has maintained this position over the years. East Asian countries such as Hong Kong,

China, Thailand, and Indonesia, which are the top 5 exporters of leather sports gloves, also ranked high on the competitiveness index in 2014. European countries such as Italy, Belgium and France are also significant suppliers of leather gloves.

Table 3: Export Competitive Index - Sports Gloves

The	Leather Sports Gloves				
	Countries	ECI08	ECI14	RANK08	RANK14
	Pakistan	0.78	0.626	1	1
	Hong Kong	0.135	0.578	9	2
	Indonesia	0.51	0.45	10	3
	Thailand	0.75	0.436	2	4
	China	0.55	0.432	3	5
	Vietnam	0.438	0.36	5	6
	Italy	0.315	0.144	6	7
	India	0.111	0.1	12	8
	Austria	0.138	0.097	8	9
	Belgium	0.5	0.094	4	10
	Finland	0.039	0.068	19	11
	Singapore	0.102	0.062	13	12
	United Kingdom	0.039	0.057	21	13
	Netherlands	0.182	0.052	15	14
Andorra	.07	0.048	14	15	

graph below illustrates the export competitive performance of Pakistan, India and Thailand for sports gloves. China has been selected as a country for comparison due to its competitive performance in terms of quality, quantity and technological advancements. India has been selected as competitor due to its geographical proximity and similar accessibility to raw material.

The graph shows that between the years 2008 and 2014, the percentage share of sports gloves in Pakistan's total trade in terms of export earnings shrunk considerably, which implies that the country has reduced its dependence on the export of sports gloves. Moreover, the exports of leather sports gloves as a percentage of all leather exports are significantly high (around 8%) which essentially means that the bulk of country's leather exports comprise of high value added products. The export per capita, which is indicated by the bubble size, has remained constant between the period 2008 and 2014. The export performance of Italy, China and India follows a similar pattern; the percentage share of sports leather gloves in the leather sector of Italy, China and India is significantly low and it has remained stagnant between 2008 and 2014. Moreover, the percentage share of sports gloves in total trade has also declined for these selected countries. The similar shift in the position of the selected countries is attributed to the decline in prices of leather products over the five-year period.

Figure 13: Value Chain Performance for Sports Gloves

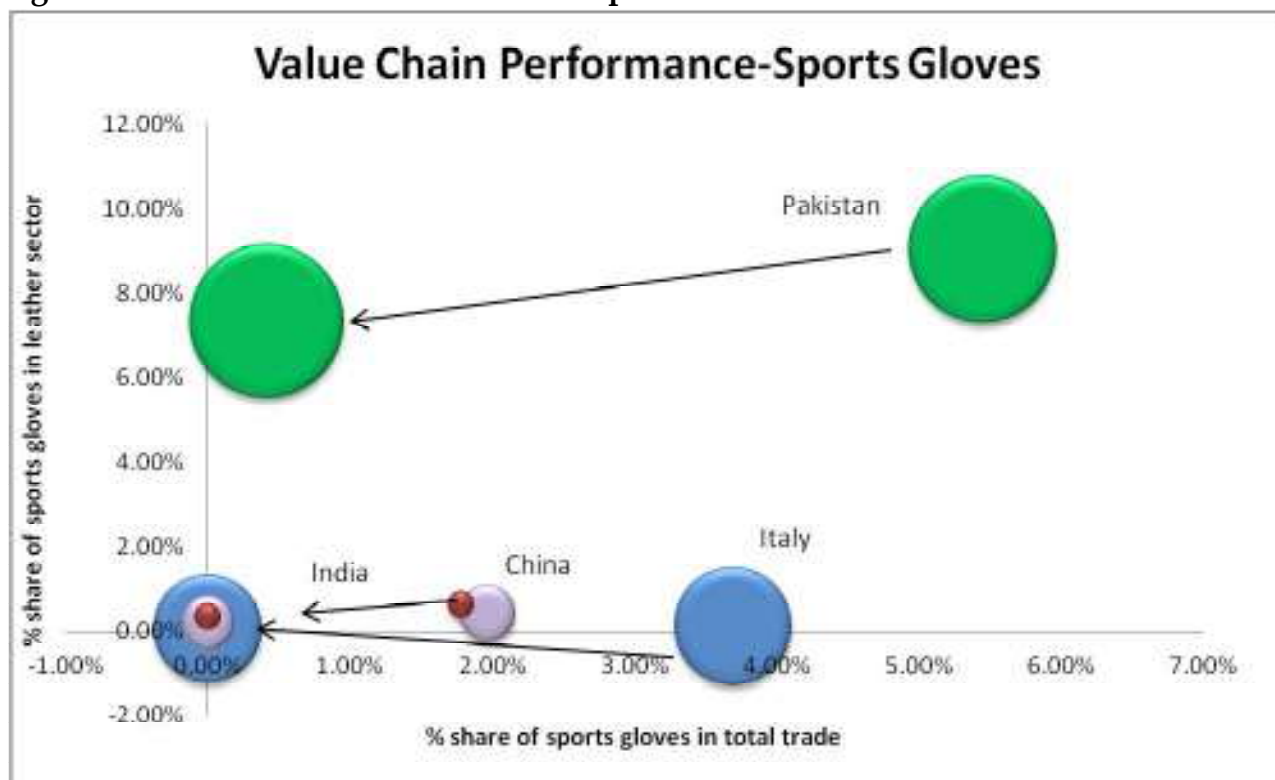


Table 4 lists 15 countries with the highest export competitive index for exports of non-sports leather gloves between the years 2009 and 2014. It is evident that Hong Kong and China are the most competitive countries to export non-sports gloves followed by India and Pakistan. The top five positions are secured by East Asian and South Asian countries. However, the remaining 10 countries belong to the European Union, indicating that countries such as Sweden, Belgium, Italy and Austria are significant players in the world market for non-sports gloves. Non-sports gloves include fashion gloves that are highly demanded in the European countries, which has led to the high rate of participation in the production of non-sports gloves.

Table 4: Export Competitive Index- Non-Sports Gloves

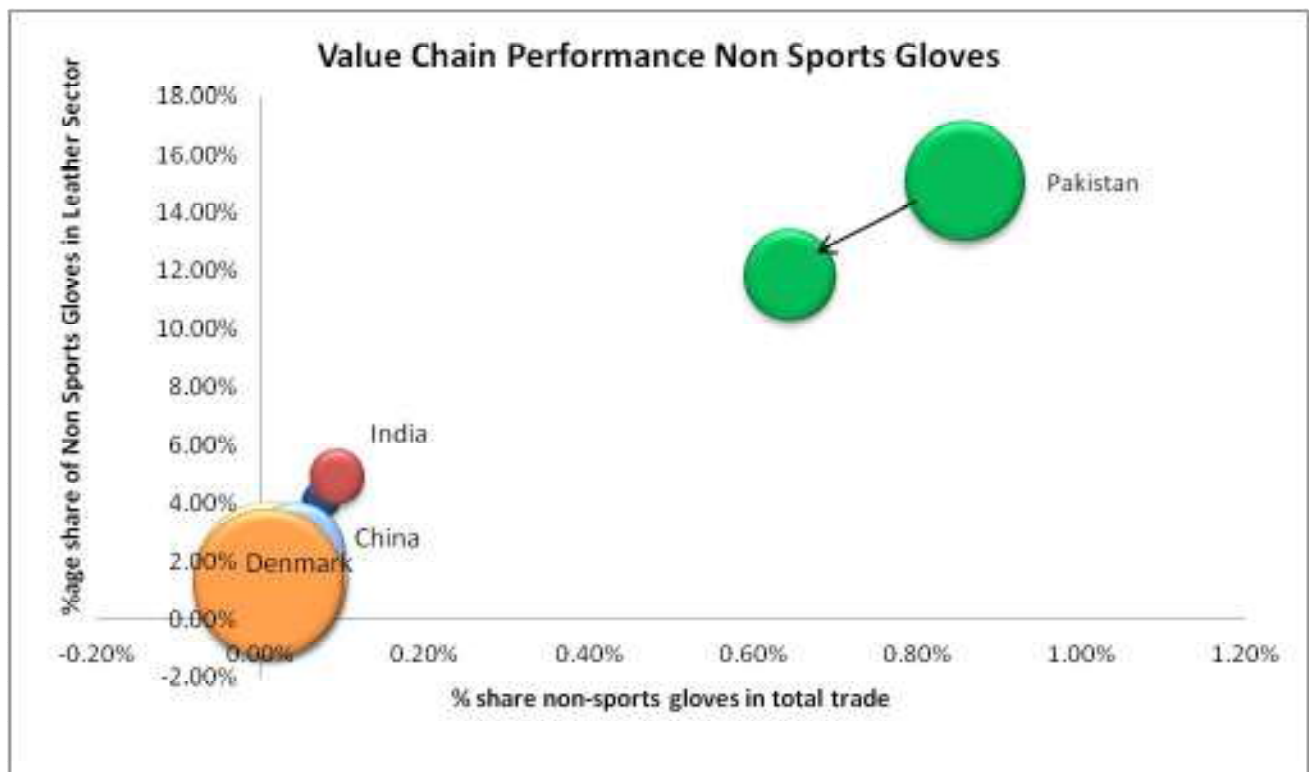
Non-Sports Leather Gloves				
Countries	ECI09	ECI14	RNK09	RNK14
Hong Kong	0.555	0.553	2	1
China	0.576	0.525	1	2
India	0.13	0.155	11	3
Pakistan	0.212	0.143	7	4
Sweden	0.387	0.134	3	5
Belgium	0.319	0.088	5	6
Netherlands	0.286	0.088	6	7
Estonia	0.081	0.065	17	8
Denmark	0.335	0.064	4	9
Germany	0.129	0.063	12	10
Luxembourg	0.137	0.057	9	11
Czech	0.121	0.052	14	12
Austria	0.132	0.042	10	13
Italy	0.124	0.042	13	14
France	0.104	0.039	15	15

The countries selected to compare Pakistan's export performance of non-sports gloves are China, India and Denmark. The graph shows that Pakistan has reduced the percentage share of non-sports gloves exports in its total trade. Pakistan's dependency on non-sports gloves has decreased to 0.6%. The percentage share of non-sports gloves within the leather industry has also declined between 2008 and 2014. The export per capita, which is represented by the size of the bubble, has also decreased between 2008 and 2014.

Pakistan's dependence on the exports of non-sports gloves in the total trade and the leather sector is the highest amongst all the selected countries. India, China and Denmark showed a similar export performance for non-sports gloves. The percentage share of non-sports gloves in the total trade of each country ranges

between 0.01% - 0.09%. Moreover, the percentage share of non-sports gloves within the leather sector ranges between 1% and 5%. These countries do not rely heavily on the exports of non-sports gloves.

Figure 14: Value Chain Performance of Non-Sports Gloves



Pakistan is an important supplier of leather gloves and leather goods. Pakistan's value chain export performance indicates that the country is mostly involved in the production of high-value added manufactured products.

The leather sector is a major source of employment and foreign exchange earnings for Pakistan. The development of the industry has been attributed to the availability of raw material, favourable government policies, and well-established

linkages between actors. The Government of Pakistan has a number of favourable policies in place to promote the exports of leather products. It provides tax holidays, duty-free imports, tariff concessions on raw materials, tariff refunds, and tax remission for leather exports. Pakistan has imposed a 25% regulatory duty on the export of raw hides and wet blue leather so the industry has benefited from the availability of raw material required for manufacturing leather products.

Although Pakistan has been able to establish itself as one of the leading suppliers of leather products in the international market, it is imperative to analyse and examine the industry structure and policies in the countries such as China and India who enjoy a competitive edge vis-a-vis Pakistan.

The Chinese leather sector employs 5.5 million skilled and unskilled labour. There are over 20,000 local and foreign companies that are actively involved in the tanning and manufacturing of leather in China (UNIDO, 2010). The country's exports of leather garments and leather accessories represent about 22% of the world's total exports (International Trade Center). China has been able to create its competitive advantage in the leather industry due to a number of factors; its government policies, technological innovation, well-integrated industry, compliance to environmental and social standards, mass production and cheap cost of labour have all helped China establish itself as a leading supplier of leather gloves and other leather products.

The Chinese government has introduced and implemented favourable policies that have allowed the leather industry to grow exponentially. One of the initial measures it took was to introduce restrictive measures on the export of raw or semi-processed products of leather for consistent availability of raw material to the leather industry. It also encouraged foreign direct investment, attracting a large number of foreign enterprises. At present, there are about 6,000 foreign enterprises operating in China, accounting for 25% of the total number of leather manufacturing units in China. This has been able to increase the output of the industry and contribute to foreign exchange earnings for China. Furthermore, the Chinese government was able to quickly react to the increasing demand for eco-friendly leather products. It introduced measures and policies to reduce the environmental load from the leather industry by encouraging a slow-down in raw material processing. In addition to the aforementioned support mechanisms, China also offers its exporters full rebate of excise duties, high rebate rates for value added tax, exemption of import tariffs and refund of local income tax (Leather and Footwear: Regulatory Benchmarking Policy, 2012).

The Chinese Government's 12th Five Year Plan compelled the leather enterprises to adopt and maintain production standards and upgrade their products with environmentally friendly materials and technologies (Leather and Footwear: Regulatory Benchmarking Policy, 2012). Moreover, the strict compliance of Chinese enterprises to various labour and environmental standards gives the Chinese products a better standing in the global market.

The Chinese leather industry is well integrated, which essentially means that all the actors and institutions involved in the leather value chain work closely with each other. This particular characteristic allows the industry to operate in an efficient manner. The tanneries are well integrated with the leather manufacturers, which ensures the supply of raw materials as per requirement, enabling the manufacturers to execute a timely response to the ever-changing product mix of the leather industry.

China was able to create its competitive advantage in this sector by producing leather gloves in bulk and pricing them economically. However, due to the rising labour and production costs, it is likely that China might lose its competitive edge of pricing in the manufacturing of leather products (TDAP, 2011). This does not mean that China's dominance of the industry will end. It is expected that the Chinese industry will continue to grow, but at a slower pace and in a different way. The increased costs of production in China have already created new opportunities for further development of the industry in Vietnam, Indonesia, Bangladesh and India. No country has the size or capability to replace China as the industry leader, but these shifts have given a boost to many other aspiring nations (UNIDO, 2010).

India has been selected as a competitor for this analysis due to its improved export performance in the leather industry, similar business environment and geographical proximity. India's exports of leather apparels and other leather accessories represent about 10% of the world's exports. The Indian leather industry has an annual growth rate of about 14.77%. India has a strong domestic raw

material base and easy access to this has allowed the country to establish its industry and increase its productivity.

The Government of India has extended support to the development of the leather industry. Government intervention in the form of financial and technical support for technology up-gradation, awareness programmes for cost reduction, development initiatives and export promotion have allowed the leather industry to grow. The Indian Government has also developed mechanisms that encourage strong integration between the leather tanneries and the leather manufacturers. Moreover, the government has also established a number of training institutes and training programmes to ensure the provision of skilled labour in the leather industry. Most importantly, initiatives such as developing 'Leather Parks' have allowed for the development of leather clusters in India and have attracted foreign investment from Chinese and American companies (Leather and Footwear: Regulatory Benchmarking Policy, 2012).

The Indian leather industry is heavily investing in new forms of technology. The new manufacturing units are taking measures to make the leather industry capital intensive. They are increasingly investing in the latest equipment that reduces energy consumption and environmental damage. The emergence of fully automated plants with cutting-edge technology and large-scale capacities has allowed the Indian leather industry to produce high quality products and enter the global competition. Growing pressure from brand manufacturers and retailers around the world for the entire supply chain to behave responsibly has encouraged India to adopt social and environmental standards. The Indian

Government has set up strict environmental regulations for all tanneries, following which it has also become a prerequisite for sustainable exports (Leather and Footwear: Regulatory Benchmarking Policy, 2012).

Value Capture Opportunities

The rationale for identifying attractive markets is to incentivize enterprises to improve their productivity and guide their production to the external market. The import dependency index identifies the attractive markets according to the market size and the prices.

The graphs titled 'Attractive Markets Sports Gloves' and 'Attractive Markets Non-Sports Gloves' indicate the potential export markets for each product. The graphs identify four categories of markets; big market high price, big market low price, small market high price and small market low price. Markets which import a quantity above the average import quantity of the world economies are considered big markets, while countries where the unit value is above the average unit price are considered high price markets and countries where the unit price is below the average price are considered low price markets.

Table 5: Attractive Markets for Sports Gloves

Attractive Markets for Sports Gloves				
Sr. No	Countries	Import Value 000US\$	Unit Price	Net Weight 000 Tonnes
1	Australia	11079	14.68196	0.754618
2	Belgium	4752	49.19606	0.096583
3	Canada	21238	49.19319	0.431718
4	France	9904	41.62735	0.23791
5	Germany	8346	34.23741	0.243757
6	Japan	44376	83.16779	0.53357
7	Korea, Rep.	27947	51.6942	0.540626
8	Netherlands	4526	22.37606	0.20226

9	Norway	3936	61.9928	0.063487
10	Spain	5621	29.45372	0.190842
11	Sweden	3954	33.34125	0.118591
12	United Kingdom	17095	25.82982	0.66184
13	United States	213733	49.19583	4.344541

Table 5 shows the most attractive markets for sports gloves. The index combines two indicators: trade balance and the world market share. On the basis of this calculation, the countries listed in Table 5 have been identified as attractive markets of leather gloves. In terms of import value, Japan is the biggest market, followed by USA, Canada and Belgium. In terms of the quantity imported, USA is the world's largest market for leather sports gloves.

Figure 15: Attractive Markets for Sports Gloves

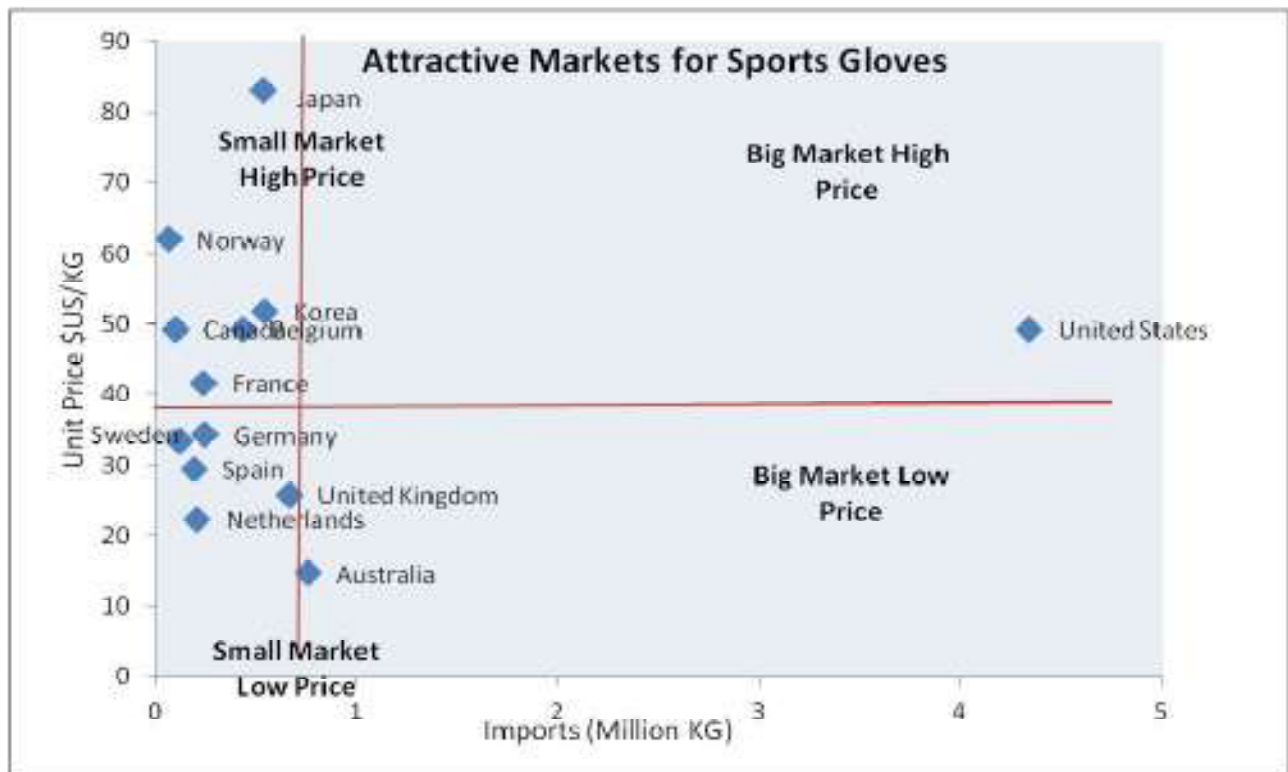


Figure 15 shows USA is the only country that falls in the category of big market and high price. Japan, Belgium and Canada fall in the category of small market and high price. The largest importer of leather sports gloves made in Pakistan is United States followed by Germany, United Kingdom, France, Canada and Australia. The data reveals that Pakistan has been able to capture most of the attractive markets.

Table 6: Attractive Markets for Non-Sports Gloves

Attractive Markets for Non-Sports Gloves				
Sr. No	Country	Import Value in 000 US\$	Unit Price	Net Weight 000 Tonnes
1	Australia	39876.55	14.44598	2.760391
2	Austria	28731.13	24.19802	1.187334
3	Belgium	36259.32	30.3777	0.119914
4	Canada	131679.8	15.81169	8.328
5	Chile	27681.13	15.7188	1.761021
6	Czech Republic	32346.25	8.254694	3.918528
7	Denmark	22689.38	23.48304	0.966203
8	Finland	31073.82	28.00067	1.109753
9	France	101199.1	23.62641	4.283303
10	Germany	171047.2	16.94176	10.09619
11	Italy	56818.74	17.1362	3.315715
12	Japan	117262.8	15.7763	7.432843
13	Korea, Rep.	26358.71	9.776931	2.696011
14	Mexico	18073.15	9.748194	1.854
15	Netherlands	48213.27	16.98949	2.837829
16	Norway	24402.52	29.46826	0.828095
17	Poland	37647.57	11.21224	3.357719
18	Russia	17759.1	20.32874	0.873596
19	South Africa	19396.89	7.598397	2.552761
20	Spain	48477.51	15.7517	3.077605
21	Sweden	64203.77	29.86778	2.1496
22	United Kingdom	73085.17	17.07651	4.279867
23	United States	445880.5	12.54623	3.5539

Table 6 indicates that the United States is the biggest importer for non-sports gloves in terms of value and volume. France, Germany and Netherlands are also significant markets for this particular category. Sweden is the biggest market in terms of quantity traded, but in terms of imported value USA, Canada and Germany are the big players.

Figure 16: Attractive Markets for Non-Sports Gloves

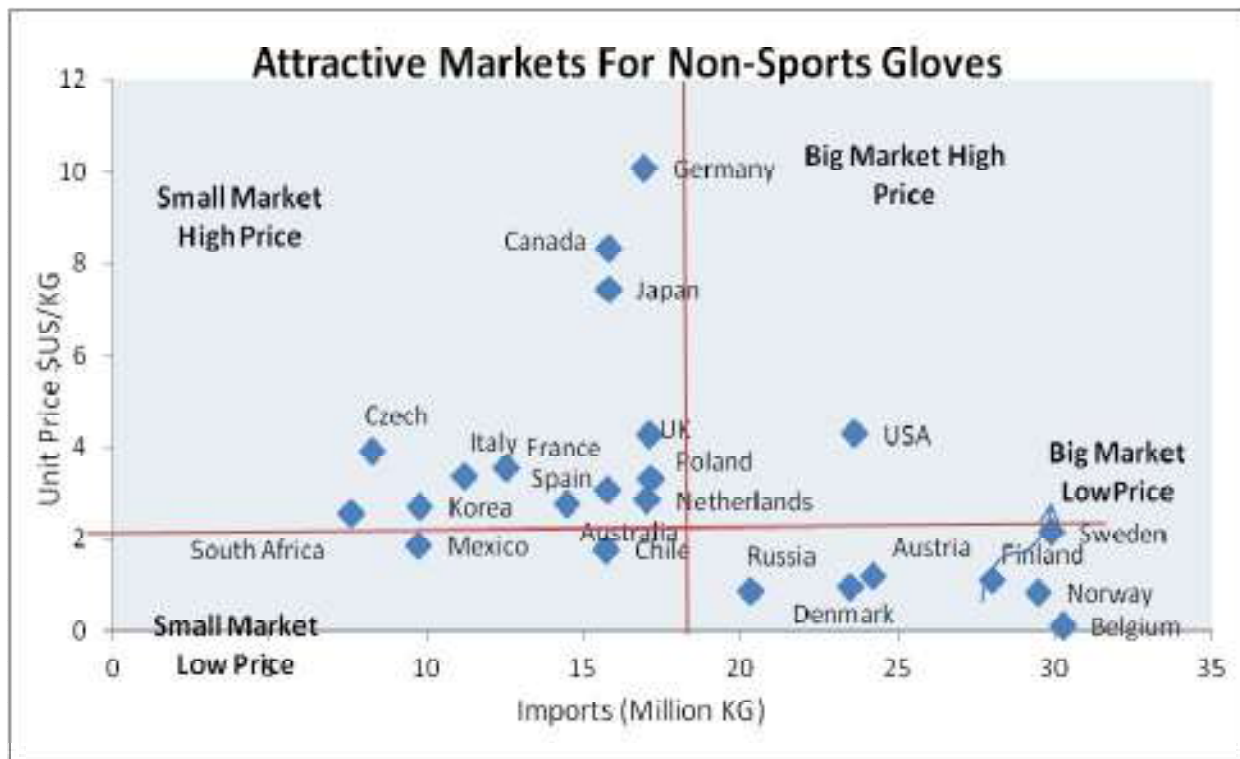


Figure 16 highlights the attractive markets for non-sports gloves. United States is the only country that falls in the big market and high price category. Germany,

Canada and Japan fall in the small market and high price category. The top 5 importing countries for non-sports gloves manufactured in Pakistan are USA, Germany, Canada, Sweden and United Kingdom. The data reveals that Pakistan supplies non-sports gloves to countries that fall in the big market high price category and the small market high price category.

The three main markets identified for the exports of sports and non-sports gloves are United States, European Union and Australia. The demand for sports gloves and non-sports gloves is the highest in the EU and the USA and Canada regions.

United States is one of the most attractive markets for sports gloves and non-sports gloves. 15.9% of Pakistan's total exports of sports gloves and 18.6% of total exports of non-sports gloves were sent to the United States in 2014. Most of the sports gloves and non-sports gloves items at 12-digit tariff line are duty free. A few products included in the sports gloves category have a duty rate between 3% and 4.5%. China, Vietnam, Indonesia and Thailand are the major suppliers of sports gloves; therefore, Pakistan faces a tough competition from these countries. Pakistan is the third major supplier of non-sports gloves in the United States.

Pakistan benefits from the zero-rated tariff in the European Union due to the GSP plus status given to Pakistan. However, most of the EU countries have levied up to 20% value added tax on the import of leather products. The rate varies for each country but on average it is around 20%. Pakistan is the top supplier of sports gloves to countries such as France, Germany, United Kingdom, Netherlands and

Spain. For non-sports gloves, Pakistan faces some competition from East Asian countries such as China and Vietnam, and EU countries such as Italy. The European market generally exhibits high intra-EU trade, with large export shares being held by the EU countries itself, primarily due to the cost advantage rendered by way of duty free market access, common currency trade and logistic cost savings due to geographical proximity (Leather and Footwear: Regulatory Benchmarking Policy, 2012).

Pakistan is a major supplier of sports gloves and non-sports gloves to Australia as well. Under the Most Favoured Nation (MFN) scheme, a reduced 2.5% import duty is levied on Pakistan's exports to Australia. The major competitors for Pakistan are the members of the Association of South East Asian Nation (ASEAN) as they have a Free-Trade Agreement (FTA) with Australia. Moreover, the transportation cost to Australia for ASEAN countries is significantly low due to the geographical proximity.

Non-tariff barriers such as standard certifications and social and labour compliance exist in all aforementioned markets. Certifications regarding the use of hazardous chemicals such as Azodyes and PCPin textile and leather products are required for the markets in EU, Australia and USA. The use of both these inputs has been banned due to their carcinogenic nature. Leather manufacturers are also required to produce environmentally friendly products.

Value Capture Constraints

The leather industry of Pakistan is facing some major problems regarding access to raw materials, availability of skilled labour, technology constraints, marketing constraints, product mix and working capital.

Access to raw material was identified as a major constraint for leather gloves manufacturers. The raw material suppliers, in this case the tanneries, have been criticized for the inappropriate treatment of raw hides and skins that compromises the quality of the input and leads to wastage. Moreover, the fluctuating price of the raw material also adversely affects the leather gloves manufacturers.

A second major constraint identified for leather manufacturers was the lack of skilled labour. Leather manufacturing is a highly skilled job; however, the city of Sialkot is currently facing an acute shortage of skilled labour. The city relies on old-age master-student tradition for leather manufacturing. Absence of professional training for leather goods manufacturing and compliance training has affected the leather industry in Pakistan.

The third major constraint identified by the leather manufacturers is the lack of technology up-gradation in the industry. The rate of technological innovation in Pakistan is much slower than that of countries like India and China. Most of the

leather manufacturing units are carrying out technological improvements on their own, with little or no government support. Lack of awareness and inaccessibility to specialized machines and lab facilities has restricted the leather industry in Pakistan.

The fourth major constraint holding back the leather industry in Pakistan from fully utilizing its capacity is a lack of marketing and branding activities. The leather manufacturers have been unable to launch promotional campaigns to attract new export markets. As a result, the industry has been unable to diversify and expand into new markets.

Lastly, the leather industry is facing severe financial constraints. Working capital is held-up due to the long credit duration from the buyer; therefore the leather manufacturer faces an acute shortage of finances.

Conclusion/Recommendations

Pakistan's performance in manufacturing leather sports and non-sports gloves has been impressive. The global demand for leather sports gloves and non-sports gloves is increasing. These products are mostly demanded in developed countries such as the USA, Canada and the European Union. Our analysis reveals that Pakistan has been able to capture most of these markets but it faces fierce competition from countries such as China, Vietnam, Thailand and India. Therefore, it is necessary for Pakistan to upgrade its processes and products in order to maintain its competitive edge in the existing markets. Pakistan should also focus on different marketing channels to increase its share in the existing markets and expand into new ones. To ensure its competitive performance in the leather sector it is essential for Pakistan to introduce and lead technological advancements in the leather industry. Pakistan should closely monitor the policies; incentives and innovations taking place in competitor countries such as India, China and Vietnam and strive to keep up with them to maintain its competitiveness in the international market. Based on its findings, this study proposes the following measures to improve the competitiveness of the leather gloves manufacturers in Pakistan:

- Increase export restrictions on raw hides and skins, wet-blue leather and finished leather sheets to encourage exports of finished products such as leather gloves and bags. Currently a 25% export duty is in place on the export of raw hides and skins; it is advised that this percentage be increased.

- Restrict the export of live animals to ensure the supply of raw hides and skins. The livestock industry is already faced with the issue of smuggling; in this scenario, it is necessary to restrict the legal export of livestock.
- The leather gloves industry has been adversely affected due to the unavailability of skilled labour. The existing training institutes need to improve their facilities and train labour to increase their productivity. Given the great export potential of leather gloves it is best to establish training institutes exclusively for leather gloves manufacturing.
- Products that cannot be further processed should be exempt from export surcharge. This will encourage the export of final products such as leather garments, leather gloves etc.
- Manufacturers should be facilitated to re-export temporarily imported goods such as accessories required for manufacturing.
- Government should facilitate the import of prototypes of machinery and encourage the industry members to produce the required machinery locally.
- Industry leaders should concentrate on marketing activities such as branding of leather products. This will allow the industry members to participate in activities that have the highest value addition.
- Pakistan needs to initiate bi-lateral Free-Trade Agreements for leather products with important markets such as USA, Canada and Australia.
- Incentives should be provided at par with competing countries such as India, China and Vietnam.

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Trade Related Technical Assistance (TRTA II) Programme

(TRTA II Programme is funded by the European Union)



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