

COVID-19 OUTBREAK AND ITS IMPACT ON THE LEATHER AND FOOTWEAR EXPORT IN INDIA

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ABSTRACT

COVID 19 is a major health crisis not only in India but all over the world. The world economy was affected by this pandemic. The leather industry which is among the top ten foreign exchange earning industry was also hard hit by this health crisis. As the lockdown was imposed not only in India but also in many foreign countries that hit the export very badly. All sectors of the economy have suffered due to the pandemic. The leather and footwear industry not only earns foreign exchange but also employs about 4.42 million people. In view of the importance of the industry in the economy, the paper focuses on the impact of the pandemic on the export of leather and footwear in India.

Keywords: COVID19, Leather and Footwear, Export, Employment, Health Crisis.

Introduction

COVID-19 outbreak is a major health crisis not only in India but worldwide also. India's countrywide lockdown was declared on March 23, 2020 and was prolonged to May 30, 2020. Economic activity came to a halt as a result of the lockout. The global economy has been severely disrupted as a result. Due to the impact of the epidemic, India's GDP growth rate fell to 23.9 percent in the first quarter of the financial year 2020-21. All sectors of the economy have suffered major setbacks as a result of the unexpected lockdown, except those considered essential services. This epidemic has a negative impact particularly on export-oriented businesses including leather, textiles, and apparel. The leather industry is already facing many challenges and the COVID-19 outbreak has brought once again the new challenges in the path of recovery. The leather and footwear industry has been significantly affected by the pandemic since March 2020 and lost exports order to the tune of \$1 Billion because India's major markets Europe and the U.S.A. which accounts for 70% of India exports, were severely affected by the disease and the market was closed. Most leather clusters in the countries were closed and the migrant workers had departed therefore finding laborers is difficult.

Impact on Demand

Due to the impact of COVID-19 on major markets such as the U.K, European Union, and the U.S. most sales in the overseas markets are conducted through e-commerce, resulting in a significant shift in customer needs, as shops and malls in the international markets were closed, and customers do not want to store up inventory. Buyers are now depressed as a result of the changing market situation and demanding faster product delivery. The sudden lockdown has created such a situation in which the firms are out of order and employees are out of work. Many buyers are filing bankruptcies, which is a huge concern leading to the cancellation of orders. The footwear industry is also out of track due to lockdown. This is due to several reasons, including low consumer sentiment, store closures, dwindling consumer income, and resulting revenue declines. On the other hand, the difficulty in procuring raw materials as a result of the import restrictions has hampered the output. The COVID-19 pandemic has exacerbated demand and supply issues that have harmed the sector's performance. The order has been cancelled or placed on hold by importers from Germany, the United States, Spain, the United Kingdom, and Italy. Some of them are also deferring payments. The cost of the damage is believed to be around US\$ 1.5 billion, and no one knows when it will be paid back. In the domestic market, footwear sales are also down.

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Impact on Supply Chain

The industry is not only facing the demand side crisis but also the supply side too particularly its strong reliance on China for raw material imports (about 30-40%). These include several components such as fam and packing material, ornaments, shoe lining, cellulose board, shank board, outsoles, buckles, insoles, and laces. The virus's outbreak in China, (the virus's first epicentre) resulted in the supply chain drying up. China is also a main raw material and component supplier. The supply chain has been disrupted by the closure of factories and production procedures in China, resulting in price increases across the items. Indian suppliers were harmed by the lockdown in major leather and footwear importing countries including Europe and the United States, which contribute to 70-75 percent of India's total leather exports, as early as February, well before the nationwide lockdown was imposed. There has been a minor decline in the Average Selling Price (ASP) to clear unsold stocks due to projected discounts associated with the companies' tendency to convert the limited footfall to shore up their cash flows while disposing of their inventory. The situation of raw hides in these firms has resulted in a further drop in sales. Leather exporters have adequate orders on hand, but a shortfall of sea containers and a skeleton staff threatens to delay shipments to international clients. There is a shortage of workers, they have gone back home due to fear of getting infected by the virus.

- **Impact on the Leather and Footwear Industry Workers**

COVID-19 induced locked down has a massive effect on the labor engaged in the leather industry. The industry provides employment to 4.42 million workers. The tanneries and shoe factories were closed during the lockdown, putting people out of work, and forcing labourers to return to their hometowns. On June 1, 2020, the lockdown was lifted, with particular arrangements for containment zones. With the opening of tanneries and shoe factories, the workers felt relieved that their jobs would be resumed. Due to the decline in demand and cancellation of fresh contracts, many tanneries and shoe production units found it difficult to stay operational for more than a few weeks after starting operations to finish the pending orders. Many tanneries and manufacturers, especially those that operate on a small scale, are forced to close permanently as a result of this pandemic. Some migrants returned after the lockdown was lifted. However, due to the earlier reverse migration, there were still reports of a labour shortage. At the same time, manufacturers were operating at a reduced capacity, lowering worker demand. Aside from that, the firms were not allowing elderly workers to work in the factories because they are more sensitive to the coronavirus. Due to a reduction in production targets, several staff were still unable to return to work. Thus, leather and shoe workers were struggling to secure their job even many of them are working on reduced salaries. The pandemic has also affected the home-based workers very badly. This part of the workforce in the leather sector remains largely hidden in the supply chain and mostly these are women. Home-based workers are paid on a piece-rate basis, resulting in earnings below the leather industry's legal minimum wage. Subcontractors and intermediaries representing supplier factories did not pay commissions to these home employees. As a result of the Pandemic, the vulnerability of informal women workers has grown, and they are now at the whim of agents with no bargaining power in the leather business, where piece rates are exceedingly low.

Effect of COVID -19 on the Leather and Leather Goods Exports (2019-20 vis-à-vis 2020-21)

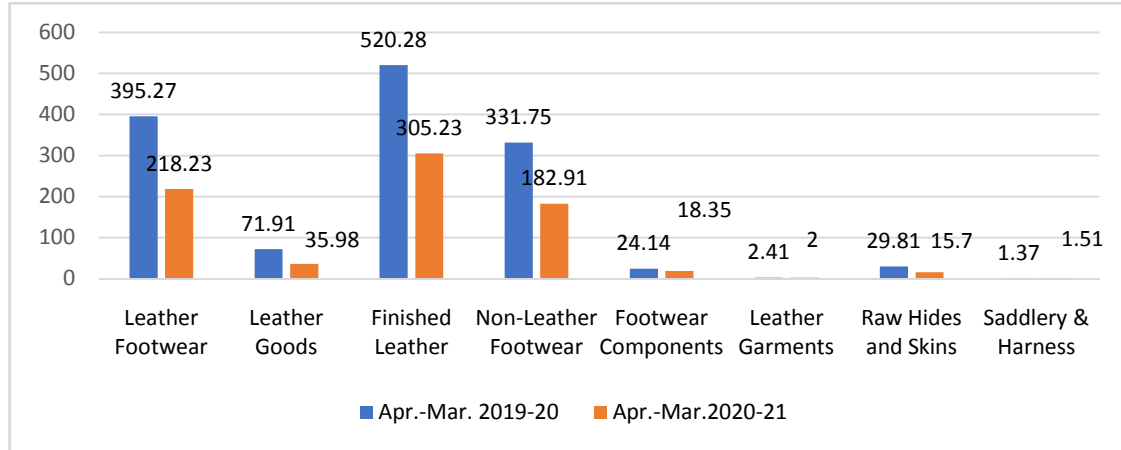
(Value in US\$ Mn.)

Category	Apr.-Mar. 2019-20	Apr.-Mar. 2020-21	%Variation	% Share
Leather Footwear	2081.67	1485.55	-28.64	40.35
Non-Leather Footwear	281.97	194.16	-31.14	5.27
Leather Goods	1353.74	944.31	-30.24	25.65
Finished Leather	524.15	378.23	-27.84	10.27
Leather Garments	429.11	295.56	-31.12	8.03
Footwear Components	261.67	197.59	-24.49	5.37
Saddlery & Harness	151.44	186.18	22.94	5.06
Total	5083.76	3681.58	-27.58	100.00

Source: Council for Leather Exports (2020-21)

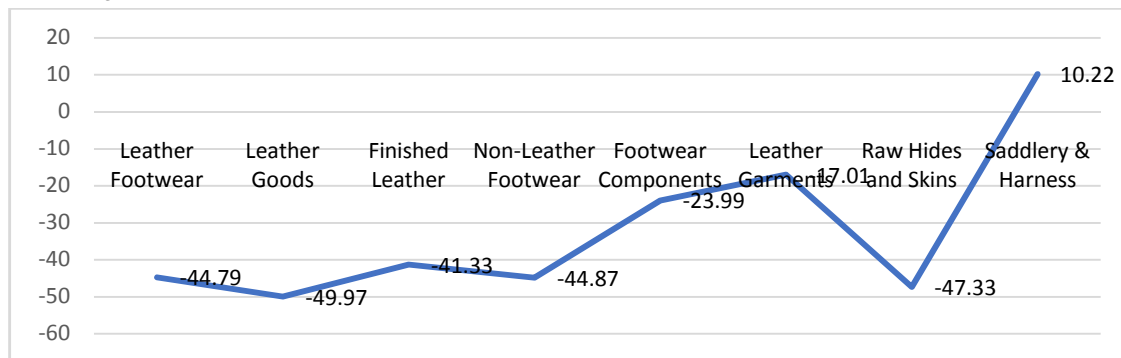
According to the aforesaid data, the leather, and leather products exports for the period Apr.-Mar. 2020-21 totalled US\$ 3681.58mn, has gone down 27.58% from US \$ 5083.76 n in Apr.-Mar.2019-20. Except for the saddler & harness, all the components of leather are showing negative growth in Apr.-Mar. 2020-21 due to lockdown in the country.

Import Performance of India's Leather and Leather Products during Apr.-Mar. 2019-20 VIS-A-VIS Apr.-Mar. 2020-21 (Value in US\$ Mn.)



Source: CLE 2020-21

Percentage Variation in the Import



Source: CLE 2021

The import of raw hides and skins, leather, and leather products for the period April-Mar. 2020-21 totalled US \$ 779.91 million, which has decrease to 43.36% from the US \$ 1376.94 million in April-Mar. 2019-20. The percentage variation can be seen in the graph that shows negative growth of all the components of leather except saddlery and harness in 2020-21. This is because of the COVID19 outbreak, which has slowed economic growth.

Conclusion

The nationwide lockdown has led to the temporary shutdown of factories and redundancies of low-wage unskilled laborers. Consumer demand for leather products has been restricted by quarantine measures, retail outlet closures, illness, and income reductions. Aside from low demand, manufacturers are dealing with major supply-side interruptions as workers are being ordered to stay at home to prevent the spread of the pandemic. More problem has been created for those workers whose age is above 60 years as they are having more risk of the virus. In this way, the supply of labour has got shrunk in the market. The major concern is the filing of bankruptcies resulting in the cancellation of the orders. The insurance offered by the Export Credit Guarantee Corporation (ECGC) did not extend to pre-shipments as a result, exporters faced difficulties due to order cancellations. An ECGC policy must be developed to cover pre-shipment losses caused by pandemics and natural disasters. Despite the recent setback, the sector still has a great deal of potential since India had become a favoured sourcing site for key US and European markets. The virtual exhibitions are continuously held by CLE with Russia, Peru, and many other potential buyers to boost the industry. The footwear industry is also slowing down due to imminent pandemic control measures like lockdown and night curfew. These uncertainties should be ended as the industry is facing difficulty in completing the orders. The government should come forward to boost the industry.

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