



Commentary: The Middle East

New leaders & economies, new jobs, new life

A younger generation of political and business leaders across the Middle East—Egypt, Jordan, Syria, Iraq, Iran, Saudi Arabia, the United Arab Emirates and the other countries in the Gulf Co-operation Council—is beginning to emerge. The countries in this part of the world and their economies are on the brink of enormous change, and the opportunities for makers, buyers and sellers of leather and leather goods are certain to increase.

There is an accepted target that the Middle East must create 100 million new jobs by 2020, and the fossil fuel sector will no longer be such a dominant source of this new employment. An experienced commentator on regional affairs, Egypt's Trade Minister, Rachid M. Rachid, said recently: "The future of this region will not be oil. Oil will be the curse of [the Middle East]. The future of this region will be its people."

Younger public figures who have come to prominence this decade, such as Queen Rania of Jordan (who worked in banking and information technology before her marriage to King Abdullah), are in the vanguard of change. In the coming decades, Middle East economies will have to be much more diverse, with greater scope for small companies, individual entrepreneurs and traders from all parts of the world to open up for business there, and to thrive.

The oil boom has lasted decades, creating high levels of wealth. But regional leaders, including Queen Rania and Mr. Rachid, who spoke at the recent World Economic Forum on the Middle East in May, have concluded that there is now an urgent need to invest oil-wealth in the future of the young people of the region. This will bring about "a business-led transformation", in which services (including the hugely important tourism sector) and new manufacturing initiatives will, gradually, replace oil as the pillars of economic development. During the meeting, which took place in Jordan, Sheikh Mohammed bin Rashid Al Maktoum, Prime Minister of the United Arab Emirates (UAE), announced that he



Jumeirah Emirates Towers

will create a new \$10 billion fund to invest in education and the development of knowledge in the region.

The UAE may itself offer the best example of how quickly business culture can change; it has one of the fastest growing economies in the world, with a breathtaking multi-billion dollar construction boom taking place at the moment, a growing manufacturing base and a strong services sector, with places such as Dubai—which now depends on fossil fuels for only 3% of its wealth—leading the way. Dubai is now a fixture on the world tourist and business conference map, as well as one of the most important trading hubs in the world.

With new hotels, offices and houses rising out of the desert right across the UAE, the furniture industry—including leather furniture—is also enjoying a period of strong growth. At the moment, because of the volume and type of leather the furniture sector needs, even local

manufacturers have to rely on imported leather, rather than material produced in the UAE itself. However, with the strong desire that now exists to encourage new, high-tech production jobs, this situation could change in future.

The market for luxury goods, including leather goods, is healthy, and growing quickly. The same is true of Saudi Arabia, the wealthiest country of all in this part of the world, but one that is some way behind Dubai in shaking off its dependence on oil, still relying on it for at least 75% of revenues. Nevertheless, the picture is changing there too and the government is trying to help other industries to grow. As a result, Saudi Arabia's leather industry is becoming bigger.

Elsewhere in the Middle East, in countries such as Iran, the emphasis still seems to be on more traditional leather production and footwear manufacturing activities, almost entirely, it would appear, for the domestic market.



Effluent treatment at Al-Dagal tannery



Saudi Arabia oils the wheels of industry

As the largest country in the Middle East, the Kingdom of Saudi Arabia makes up almost four-fifths of the Arabian Peninsula, an area approximately one-third the size of the continental United States. Situated on a plateau in the south-western part of Asia, it spans from the great Nafud desert in the north across the Arabian Gulf to the world's largest sand desert, the Rub Al-Khali (Empty Quarter) in the south. It is also the richest country in the region and, as the kingdom's 22 million-strong population spends a reported 75% of its disposable income on personal goods, the market for apparel, footwear, leather goods and luxury items is thriving.

Although the economy is predominantly petroleum-oriented Saudi Arabia's industrial base has expanded significantly since the country's first oil boom in the 1970s, with the number of factories increasing from fewer than 500 in 1975 to 3,792 by 2005. The capital invested in manufacturing has also grown in line with this expansion, rising from \$2.6 billion to \$74 billion in the same period, and it now provides employment for some 365,000 people.

Whilst the country still imports large quantities of food, fruit, machinery, vehicles, textiles, and raw materials, the government is actively encouraging industrialisation and the development of Saudi Arabia's non-oil resources and exports, through the Export Development Authority (EDA)—established under the country's Five Year Plan for 2005-09—which aims to improve such exports by 8.5% per annum.

This strategy appears to be proving a success as, according to the latest available figures from the Saudi Export Development Centre, in the first year

alone (2005), non-oil exports increased to \$16 billion from \$12.8 billion in the previous year, and are expected to exceed \$20 billion in 2007. The petrochemical industry in Jubail and Yanbu still accounts for some two thirds of the non-crude oil exports, but sectors such as metal, electrical goods, machinery and industrial equipment, construction materials, wood products, textiles and garments, and food and beverages are growing in importance.

Saudi Arabia is also currently enjoying a great deal of interest from foreign investors and, according to an economic survey prepared by the Council of Arab Economic Unity (CAEU), it attracted 16.5% (\$4.6 billion) of the total \$27.9 billion worth of foreign direct investment received by 14 Arab countries in 2005.

Opening up new fields

As the country has continued to expand into different fields of manufacturing, and in view of the large domestic demand for high-end products, the leather and textile industries have also witnessed expansion in

recent years. Of the 3,792 industrial units now registered in the kingdom, some 181 are involved in the production of textiles, garments, leather and leather goods, compared with a mere 12 in 1975 and this number is set to increase further through continued investment and expansion and an increase in the availability of high quality raw materials.

Livestock production in Saudi Arabia is a growth area and the national herd, including camels, sheep, goats and cows, had reached in excess of 11.6 million head (excluding animals in nomadic areas and outside farms) by 2005. This compared with 11.04 million head in 2004, 10.02 million in 2003, 9.78 million in 2002 and 9.76 million in 2001.

Livestock Population 2001-2005
'000 heads

Products	2001	2002	2003	2004	2005
Camels	255	252	254	283	272
Sheep	7005	7009	7225	8047	8500
Goats	2194	2213	2228	2372	2478
Cows	306	306	315	346	337
Total	9,760	9,780	10,022	11,048	11,587

The majority of Saudi Arabia's tanneries and footwear manufacturing facilities are located in Riyadh, Makkah, Jeddah and Madinah, with some smaller clusters in other cities. The major players in the domestic industry are Al-Dagal Leather Factory, Al-Ahli Leather Factory, Modern Tannery-Riyadh, Al-Jabreen Leather Factory and Al Ganoub Tannery in the south of the country which have found success in both the domestic and foreign markets.

Saudi exports of raw hides, skins, finished leather and leather goods increased an ➤



Wet blue at Al-Dagal tannery



Commentary: The Middle East

impressive 16.31% between 2004 and 2005 to reach SAR328 million (\$87.5 million) from SAR282 million in 2004.

India remains the major buyer of Saudi leather, importing approximately \$26 million of finished leather in fiscal 2005-06 and \$3.36 million of raw hides and skins and those involved in the industry only see this increasing still further in the future.

Speaking to *World Leather*, Saud Al Dagal, marketing director at Al-Dagal (P) Ltd., which produces wet blue, salted sheep skins, finished leather, and finished footwear and leather goods, said that his company exported some two million wet blue goat and sheep skins last year to countries including India, Pakistan, China, Italy, Spain, Mexico, Brazil and Türkiye, stating, "We have become a part of the growing global leather industry."

He is equally optimistic about the domestic market. According to Mr. Al Dagal, the Saudi footwear and leather industry is a huge market and is progressing well, but 70% of the footwear consumed in the estimated \$600 million domestic market is still imported from around the globe, from countries such as Brazil, China, Egypt, France, Greece, Italy, Lebanon, Thailand, Korea, Türkiye and the USA. Therefore there is still potential for enormous expansion for the 15 domestic footwear producers that are already working at full capacity.

Al-Dagal produced four million sq.ft. of goat, sheep, bovine and camel last year that was used at the company's own manufacturing plants to produce some

300,000 pairs of shoes and sandals and 30,000 garments, with the remainder sold to local buyers. And the company has ambitious plans to raise its production by at least 50% as well as increase the number of showrooms it operates from 40 to 60 in the near future in order to exploit the burgeoning market.

With demand so high the company has some unusual means of fulfilling its orders. It currently runs workshops in prisons, where it trains prisoners to produce chappals (sandals) and ladies' bags. And it even turns by-products into profit, shipping wool to England and sheep casings to the Lebanon and Egypt.



Iran's rich history

As the second largest country in the Middle East, Iran is also endowed with huge deposits of oil, gas and other mineral resources and petroleum exports account more than 85% of the country's total exports. Furthermore, if the planned \$7 billion gas pipeline between Iran, Pakistan and India actually comes to fruition, it will also become the first Middle Eastern country to export gas to South East Asia.

It also boasts the longest tradition of leather and footwear manufacturing in the region, a sector that is extremely well-organised and continues to expand thanks to the country's abundant supply of livestock including a large number of high quality sheepskins, a good number of goat skins and a reasonable number of cow hides as well as some buffalo hides. It also has a strong chemical and petrochemical

base, indigenous leather machinery technology and a tradition of tanning and shoemaking. According to the most recent government statistics available there are 274 manufacturing facilities involved in tanning and dressing leather, and the manufacture of luggage, handbags, saddlery, harnesses and footwear. Some 270 of these units are privately run with only four state-owned enterprises. 27 of the factories are said to be modern facilities employing a large workforce.

A well-organised industry

Leather production is centred in the four major regions of Tabriz in the north-west, Tehran, the capital city, Mashad, north-east of Tehran, and Hamadan to the south-west of the capital, all of which boast their own 'leather cities'.

Located around 300km from the Turkish border Tabriz is well-known for the production of bovine hides and a small amount of sheep. With around 300 small- and medium-sized tanneries all located in the tannery zone of Tabriz Charmshahr (Tabriz Leather City), the area manufactures all types of shoe upper, splits and upholstery leather which are mainly consumed by local manufacturers in Tabriz—which is a well-known production hub for handmade shoes and, more recently, machine-made shoes—and Tehran, with a small amount exported to neighbouring countries.

Tehran also boasts a Charmshahr (leather city), located around 90km south of the city near Varamin, where around 80 tanneries currently operate producing a wide variety of leather such as cow, sheep and goat, pickle and wet blue sheep skins, cow crust and goat crust as well as finished sheep, goat and cow leather for the garment, shoe upper, shoe lining, and upholstery markets. The goods are also mainly consumed locally although some product is exported to Asia and Europe.

The small Charmshahr in Mashad, which houses around 20 tanneries and is located around 30km north-east of the city, specialises in the production of sheep and goat leather and is renowned for producing some of the world's best quality Persian sheepskins. The region exports wet blue sheepskins and goat crust in large quantities. And finally, Hamadan, which has fewer tanneries, specialises in sheep and goat leather for both local consumption and export.

However, despite the fact that a large proportion of the leather produced in Iran is consumed by the domestic market, exports are steadily increasing. The



Toggling at Leather Industry City in Tehran

Commentary: The Middle East



An organised approach to expansion

Whilst Iran may not boast the largest leather and footwear industry in the world, it must rank highly in terms of how well-represented it is as a sector, with numerous organisations dotted around the country. And although two organisations—the Iran Tanners' Association (ITA) and the Association of Managers and Exporters of the Iranian Shoe Industry—are the major representative bodies there are many more that work on a provincial basis.

There are 32 provinces in Iran and, according to industry sources, most of them have their own leather associations with those located in Tabriz, Tehran, Mashhad and Hamadan the most active:

- The Isfahan Shoemakers' Union has an impressive 3,000 members engaged in various areas of business ranging from the production and supply of leather and footwear through leather and shoe accessories to footwear repair.
- The Mashhad Shoemakers' Union, based in the holy city of Mashhad, is at the centre of the Khorasan Razavi province in north-eastern Iran and currently has 1,200 official and 1,500 unofficial members.
- The Union of Tabriz Leather District in north-western Iran covers producers in various categories such as heavy cow hides, light sheep and goat skin, soles and other industry services.
- The Tehran Union of Handmade Footwear Producers, founded in 1945, is the oldest guild institution in Tehran and currently has about 3,460 official members holding permanent licences and 800 holding temporary permits. Of these members, 35% are producers of handmade shoes.
- The Kerman Shoemakers' Union is a smaller organisation. Launched in 1973 it currently has 200 members.
- The Zanjan Shoe Suppliers' Union started operating in 1980 and currently has 183 active and 30 inactive members.
- The Union of Footwear Producers and Suppliers of Shiraz, founded in 1972, is located in the centre of Iran's southern Fars province and currently has 10 members.

country posted an impressive 27.3% rise in leather goods, footwear and slipper exports during the first ten months of fiscal 2006-2007, to reach \$75.9 million, with exports of leather bags and shoes alone improving an impressive 36% at \$13.1 million.

The right chemistry

As mentioned, Iran's success in the leather industry is largely attributable to its long history, the supply of raw materials and the well-established infrastructure for leather chemicals and machinery.

The manufacture of leather chemicals was started some 20 years ago and now, although Iran imports some chemicals, domestic producers manufacture all of the major products required including sodium sulphide flakes (which are high quality and reasonably priced), tanning agents, retanning agents, oils and finishing products to meet the demands of the domestic industry.

The country also produces a wide array of tanning machinery including machined

gear drums, small and large fleshing machines, shaving machines, throughfeed samming machines, throughfeed setting out machines, overhead conveyors, multi-table vacuum dryers, toggle dryers, rewetters, stakers, milling drums, spraying machines, ironing and embossing machines, roller coaters and measuring machinery.

The leather machinery manufacturing industry was established about 25 years ago and has gone from strength to strength, with most tanners now sourcing their machinery locally, although some is still imported to meet a shortfall in the latest technology.

Speaking to *World Leather* M. M. Kardan of Kardan Machine Manufacturing Co., one of Iran's leading machinery manufacturers—which produces cast iron drum gears, toggling machines, aluminium toggles, overhead conveyor dryers, rotary spraying machines, hot air generators for drying chambers, conveyor and roller type measuring machines, and roller coating

machines—said that his company is not only meeting local demand for leather machinery but now also exports to neighbouring countries.

Finding a foothold

The footwear industry is also thought to be thriving and although there is no official data available for the number of footwear units in Iran, industry insiders believe that there are over 10,000 large and small manufacturing units scattered in the Iranian provinces of Tehran, Karaj, Qom, West Azerbaijan, East Azerbaijan, Isfahan, Mashhad and Yazd. According to Amir Houshang Vatandoost, editor-in-chief of an Iranian leather magazine, "There are no official figures available in Iran concerning the volume of footwear production; however, experts estimate that over 190 million pairs of footwear are produced in Iran annually." Other estimates place production levels at closer to 40 million pairs of shoes, half of which are said to be manufactured in 15 major factories, whilst the rest are produced in small units.

In spite of this, the domestic footwear industry is facing tough competition from Chinese imports and this problem is being compounded by illegal imports. The increased prices of raw materials, a lack of finance or capital, high leather prices and the increased cost of footwear components are also said to be negatively affecting the industry.

Opportunities for exporters

It's an amazing phenomenon: towering buildings are sprouting out of the desert in every part of the United Arab Emirates, a federation of seven small Middle East monarchies. They are going through a building boom that, probably, only developments in urban China and India can match. And where numbers of new homes and offices grow quickly, demand for furniture increases, too, which ought to be good news for the leather industry.

The boom is resounding most loudly of all in Dubai. Recent figures from the Chamber of Commerce there suggest 40,000 new homes will be needed by 2010 to accommodate a growing population. Visitor numbers have risen steeply, too, with people coming from all parts of the world for business and tourism. In the first half of this decade, hotel occupancy increased by an average of 13% a year.

However, Dubai aims to double the ►



Commentary: The Middle East

number of tourists visiting the emirate to 15 million a year between now and 2015 and new luxury hotels—to add to existing sites such as the 7-star (according to its own management team, at least) Burj Al Arab—are part of the plan. Germany's Bavaria Group hopes to open its new 5-star offering, with 2,700 rooms, in the central district this autumn. The Bavaria will be Dubai's twenty-fourth hotel with five stars or more.

By 2010, new complexes such as Dubailand, comprising golf courses, shopping malls, theme parks, luxury apartments and, of course, hotels, will be complete. Another project announced last year, the Bawadi development, will include a hotel that, with 6,000 rooms, will claim to be the largest in the world.

Business property developments complete the picture. Among the most recent announcements is one from Korean group D'Seco. It will build a 19-storey block called Oval Tower on the Business Bay site, with March 2009 as the target completion date.

When all the construction contractors down tools there for the last time, Business Bay will contain more than 200 office blocks. Developers are confident; commercial property specialist Colliers International has estimated that there is a shortage at the moment of more than 370,000 square-metres of office space in Dubai.

Positive correlation

Offices, homes and hotels require chairs and sofas. And at the upper end of the market, leather upholstered seats are in high demand, so the prospects for leather

suppliers to the furniture market in Dubai has to be rosy.

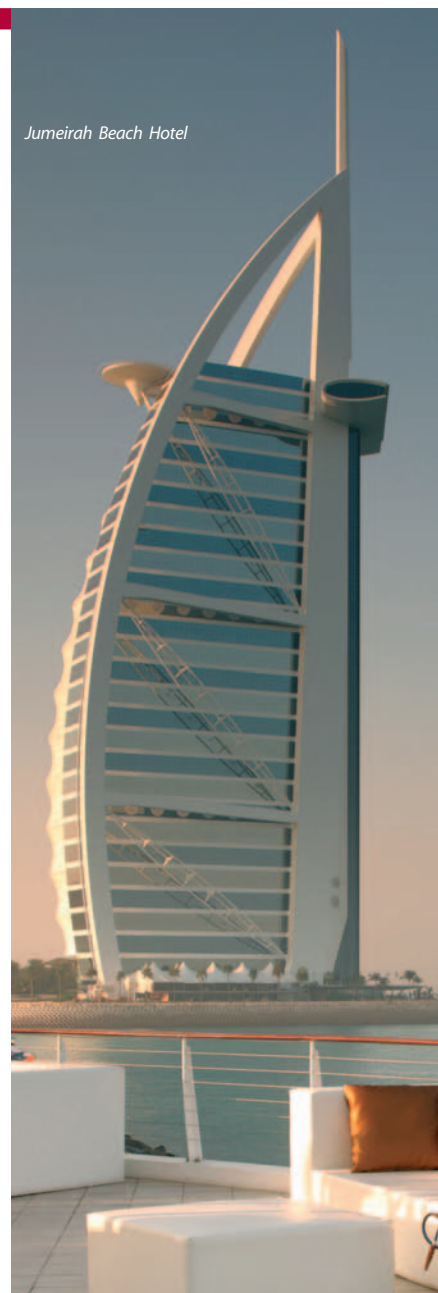
The Dubai chamber of commerce believes the planned construction projects across Dubai have a value of nearly \$150 billion. Its estimates for population growth and boosts to business and tourism are likely to push this value higher in the years ahead. "There is a positive correlation between real estate and furniture," it says. "As the former grows, the latter will follow. The furniture market [in Dubai] has great potential growth."

The same agency has almost 3,000 furniture companies on its lists, although 80% of these are traders. Three-quarters of the furniture these traders are bringing into Dubai are for the home (including hotels) and office markets, while only 59% of locally made furniture is for these segments. Kitchen units and specialist pieces for schools or hospitals—for which there is, unfortunately, likely to be little demand for leather—make up the rest of the furniture sector.

As far as leather furniture is concerned, Pan Emirates Home Furnishings is winning praise as a market-leader from customers and competitors across the region. It already has three outlets in Dubai, one in Sharjah (where its corporate headquarters and distribution centre are also located), and two more in Abu Dhabi, but the company's stated aim is to become the leading furniture retailer across the whole of the Gulf region. Leather features prominently in its collections, with dining chairs and sofas in a wide range of colours. The company has already supplied furniture to a number of leading hotels in the United Arab Emirates, including two of those that the Méréidien group runs in Abu Dhabi and Dubai. Office and apartment developments also feature on its client list.

The logistics manager for Pan Emirates, Simon Creasey, confirms that leather is in demand and that it's a material that works well in the hot climate of the region. He also believes that the Dubai Chamber of Commerce is correct to make the correlation between property developments and a growing demand for furniture. "What's going on here at the moment is just incredible," he adds.

Furniture imports have increased steadily every year of the decade so far, from \$215 million in 2001 to \$507 million in 2005. And, with so much of the market in the hands of traders, most of Dubai's furniture—leather or otherwise—is likely to continue to come from outside the emirate. An interesting fact is that of the



furniture that traders imported into Dubai in 2005—the last year for which complete figures are available—more than a third (by value) went for re-export. This emphasises Dubai's importance as a strategic trading hub, and this too is an area of the economy that is enjoying unprecedented growth at the moment.

40 kilometres away from the main business district, a new supply chain hub is preparing to begin operations at the end of 2007. The Dubai Logistics City project centres on an enormous facility being built in a customs bonded and Free Zone near the new Dubai World Central International Airport at Jebel Ali. There will also be access to the Jebel Ali seaport. This means manufacturers and buyers of furniture (and other leather goods) the world over may soon find the products they make and sell going to or coming from the Middle East. ☉

Dubai Furniture Trade 2001-2005
(Million \$)

