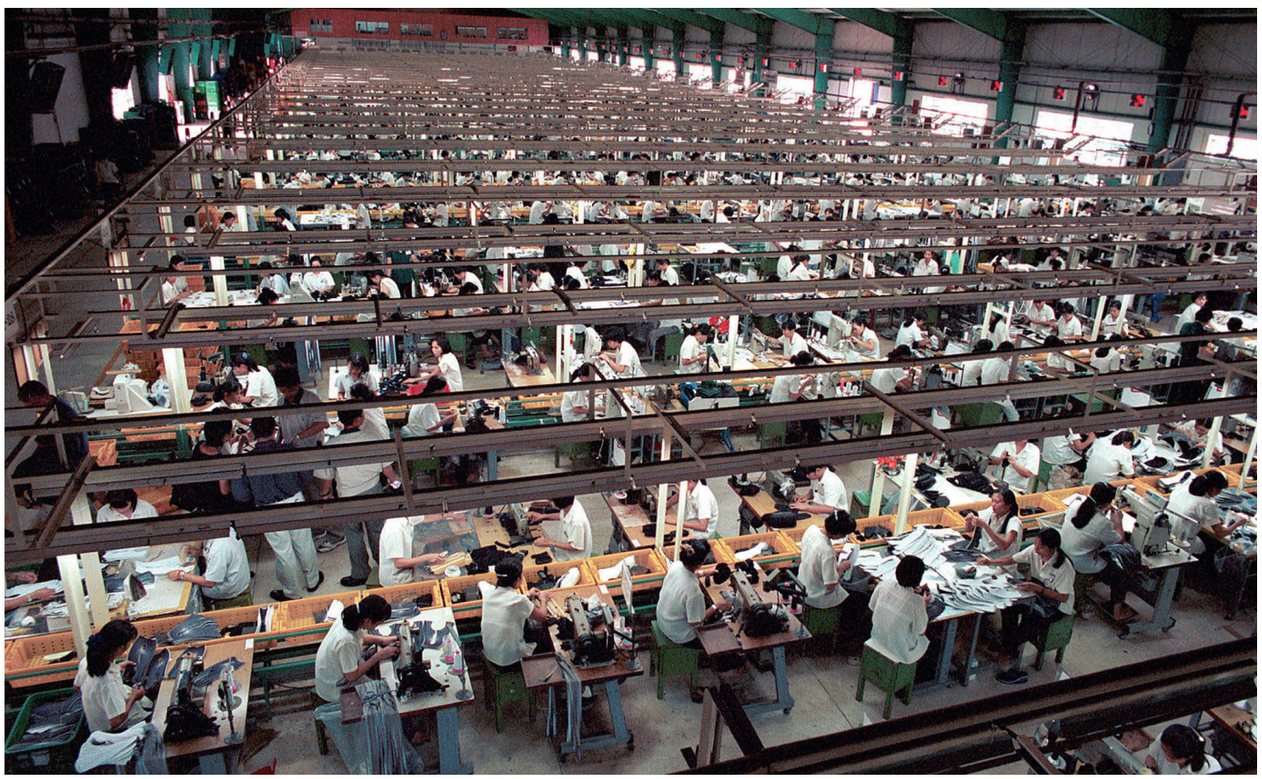
Vietnam.qxd 2/10/08 1:43 pm Page 1



Workers making shoes on behalf of Nike. The sports brand sources 30% of its total footwear stock in Vietnam.

CREDIT: AP

The advantages of a focus on footwear

Vietnam's leather sector has had a very mixed year, with the upholstery sector almost struggling to survive, while the leathergoods and footwear segments continue their rapid ascent. Fortunately for the industry in Vietnam, its focus is firmly slanted towards the last of these, footwear. And in spite of the ongoing debate about European Union (EU) anti-dumping measures against imports of leather shoes from Vietnam, the signs are positive.

Each month the country's general statistics office records a significant rise in exports for leather shoes and related products, while exports for other leather segments appear to be declining at a similar rate.

Official figures show that, in the first six months of 2008, exports of leather, leather footwear and leather goods grew 20.1% year-on-year. These exports, which were worth $2.7 billion, accounted for a significant portion of Vietnam's total exports for the January to July period, which stood at $29.7 billion. Meanwhile, statistics for July alone show that footwear exports for the month rose to $480 million compared with $390 million in July 2007. Leathergoods exports rose dramatically to $80 million from $60 million in the same month last year.

The dumping debate

It appears that the European Union's anti-dumping measures are doing little to halt the relentless growth of Vietnamese leather shoe exports. With a review of the duties approaching as we go to press, it still appears possible that the EU will decide to withdraw the measures, which are designed to prevent overseas markets being flooded with allegedly falsely cheap

Vietnam.qxd 2/10/08 1:43 pm Page 2

Vietnamese and Chinese shoes. The duties, in place initially until October 6 after a two-year run, may stay as fears that 'dumping'—the practice of selling shoes at a lower price overseas than domestically, often as the result of state subsidies that allow manufacturers to lower their export prices—is far from over.

The measures, which were introduced in 2006, were met with some opposition, and not just from Vietnamese and Chinese footwear producers. Some EU governments claimed the duties would be counterproductive and just 13 of the then 25 member states were in favour of imposing them. Moreover, a number of big international shoe companies that had moved some or all of their production facilities to the Far East condemned the ruling and have been lobbying hard to prevent an extension.

At a now-famous meeting on September 17 of representatives of the current 27 EU member states on a special committee, a majority of 15–12 voted against continuing the anti-dumping measures. According to the Italian national footwear manufacturers' association, ANCI, the vote looked like being 15–12 in favour of keeping the special tariffs, but that lobbying by the UK swung the votes of Malta and Cyprus, and similar pressure from Germany changed Austria's mind.

Regardless of what happens next, Vietnam's Leather and Footwear Association, Lefaso, says the impact so far on local businesses has been critical. It claims that the number of leather shoes exported from Vietnam to the EU fell quite dramatically last year. "About 20%–25% of footwear manufacturers were hard hit by the anti-dumping measures and 40,000 workers lost their jobs in the last two years," says a statement from the association.

The government of Vietnam has consistently denied any anti-competitive practice that keeps export prices of leather shoes falsely low. "We are not dumping leather shoes on the EU market," said the deputy industry and trade minister, Le Danh Vinh, on a visit to Brussels in September. "The proposed extension of these duties is unjust, runs against the spirit of trade liberalisation, is contrary to the objectives of alleviating hunger and harms competition."

The duties on Vietnamese shoe exports to the EU currently stand at 10%, while Chinese shoes are subject to 16.5% duties.



Feminine touch. Vietnam has around 600,000 workers in 163 footwear factories, and 80% of them are women.

CREDIT: ALFREDBOC/WIKIPEDIA

Importance in the global market

If, in spite of the restrictions on exporting to the European market, Vietnam has been able to keep growing its leather footwear exports, it must be the case that the global footwear market is strong and that demand must be increasing in other parts of the world.

Some of the Taiwanese and Korean owners of footwear factories in Vietnam have complained of the difficulties of operating there owing to "labour management issues", a polite name for strikes. Strikes have taken place throughout 2008, affecting even the biggest footwear brands. About 17,000 workers at a Vietnamese factory that makes footwear for Nike, for example, went on strike for three days in April, demanding higher salaries and better working conditions (including better food on site) local trade union officials said.

The factory, in Long An province, owned by Vietnam Ching Luh Shoes, pays workers a basic wage of $58 a month, but workers have asked for a 22% increase.

The factory is one of 50 that Nike uses in Vietnam and accounts for 12% of its output in the country, where the brand makes about 30% of its global supply of shoes.

It's worth mentioning this example to give an impression of how important Vietnam is in the current global footwear landscape—Nike would feature on any list as one of the most important brands in the world, and we can see from this snippet how important a part Vietnam plays in its strategy.

Even the great Chinese footwear stronghold of Guangzhou is looking to Vietnam for growth and expansion. In September, Vietnam's chamber of commerce and industry (VCCI) signed a cooperative deal specifically with the province of Guangdong. Deputy prime minister and minister of foreign affairs, Pham Gia Khiem, said Vietnam wanted to strengthen ties with the southern province and boost trade with it.

This development comes on the back of anecdotal evidence that many footwear firms based in Guangdong are now looking to Vietnam as an alternative manufacturing platform or as the best place for them to carry out expansion plans. In the area around the Pearl River Delta, centring on Guangzhou, there are approximately 2,400 footwear exporters with their own production facilities; this is almost half the figure for 2007 and one of the reasons, according to official sources, is that some manufacturers have left for Vietnam.

Vietnam.qxd 2/10/08 1:43 pm Page 3

Japanese sporting goods brands Mizuno and Asics, which both produced 80-90% of their sports footwear in China until recently, made moves into Vietnam at the end of last year.

Mizuno launched a full-scale production facility at a partner factory in Ho Chi Minh City, from which it was hoping to produce approximately one million pairs of footwear before the end of March 2008.

The company said at the time that it was hoping to double shoe sales to 15 million pairs by 2010, and, like Nike, it expects output from Vietnam to account for approximately 30% of this quota. Its Chinese shoe production will account for the remaining 70%. For its part, Asics also aims to produce around 30% of its shoes in Vietnam by 2010, with China accounting for 50% and other Asian countries the base for the remaining 20%.

The tanning sector in Vietnam

For these reasons, it's inevitable that almost all of Vietnam's leather production these days should be aimed at the footwear industry.

"Oh, it's all about footwear in Vietnam," says one seasoned leather sector expert. "Most of the tanners there are on contract, working directly for big footwear producers. They import finished leather directly into the footwear production set-up or wet blue, which they then finish in Vietnam. Footwear is the good news story in the leather industry at the moment; just as upholstery is suffering so much, footwear is expanding."

He believes that no matter what happens in the anti-dumping debate, leather consumption and footwear production in Vietnam will continue to grow. There's no sense in the global economy of 2008 in focusing all the attention on western economies, he adds. Just because things are slower in the US, Germany or the UK, it doesn't mean the huge growth in global footwear consumption will cease, as domestic markets in China, India, Russia, Brazil and Africa keep getting bigger.

Tanning machinery provider Turato has a regional base in Malaysia, run by Paolo Turato, from the family that founded the firm in Italy in 1968. He refers to the leather sector in Vietnam as a good place in which to sell products such as his company's spare parts and vacuum-drying equipment.

"I love the country; the people are cold, but I don't mind that," he explains. "They are serious people, people you can do business with easily. They don't have the mentality of keeping spare parts for their tanning machinery, so we do get new business from there quite often. They pay on time—there is a bit of negotiation on price, but that's just what you would expect, and they don't try to take it too far."



Pham Gia Khiem, Vietnam's deputy prime minister and minister of foreign affairs, says his country can benefit from closer ties with the Chinese footwear manufacturing province of Guangdong.

CREDIT: IISD

Another experienced observer, Ian Scher of Casino Hide Traders in Australia, says the move of footwear manufacturers from southern China into Vietnam has brought about similar moves by tanners, and he thinks more growth in the global footwear sector will result in further examples of this in the months ahead.

He makes the point that the Vietnam International Shoes & Leather Exhibition in Ho Chi Minh City, which celebrated its tenth edition in September, is small—115 exhibiting companies this year—because tanners in Vietnam feel they have little need to attract new customers. Some of them complain of finding it difficult enough to meet the production demands of the customers they have already. It's a different kind of problem from the ones their counterparts in many other areas of the world are facing at the moment.

Why Vietnam needs a thriving leather industry

- A 450-labourer footwear factory in Vietnam can make 500,000 pairs of shoes a year. This is a low productivity figure compared to factories in other parts of south-east Asia and could grow.
- At the end of 2007, Vietnam's footwear industry had 600,000 workers.
- Of the total number of workers in the footwear industry, around 80% are women.
- In 2007, Vietnam earned $3.99 billion from footwear exports, a 10% rise on the previous year. The figure is expected to reach $4.5 billion this year. Vietnam exported leather footwear worth $2.3 billion during the first six months of the year, compared with $1.9 billion 12 months earlier.
- For the first six months of 2008, total Vietnamese exports were worth $29.7 billion.
- Tanning operations in Vietnam—12
- Footwear manufacturing firms in Vietnam—163.