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As quality has risen, the number of footwear manufacturers in the Pearl River Delta earning more than $100 million from exports has increased from two to eight in one year.

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Picture changes in China

Tanneries and footwear factories have closed in high numbers in China over the course of the last 12 months. In some cases, companies have been unable to keep up with the government's demands for better environmental or workforce management. In others, the pressures have been purely economic. In any case, the China Leather Industry Association argues here that the development will be a positive one in the end, a classic case of less being more.

One of the most interesting effects of the many changes taking place on the Chinese manufacturing landscape is happening in the Pearl River Delta (PRD), the area of Guangdong province centring on the city of Guangzhou the third busiest metropolitan area on the mainland after Beijing and Shanghai-.

This region has been the footwear capital of China for more than a decade and hosts huge factories that consume millions of square-metres of leather and employ tens of thousands of people to make shoes on behalf of some of the biggest names in the industry. This time last year, the total number of footwear producing companies registered with the authorities in the PRD was 4,759. Now, however, the total stands at around 2,400.

The authorities in the region issued a press statement in the summer confirming these figures and emphasising that the footwear industry there is still in a strong position. They quoted statistics showing that, although the volume of shoe exports from the PRD in the period spanning January to May this year had fallen by 25.7% to 940 million pairs, the value of the shoes these southern companies sent abroad had grown by 8%, bringing in $3.46 billion.

The official explanation of this at the time was that most of the firms that had ceased production or moved to lower-cost parts of China—and even into neighbouring countries such as Vietnam, Myanmar and Thailand—served the lower end of the market. Those that remain in the PRD, the authorities said, were still growing and developing well, with eight companies now bringing in more than $100 million a year in footwear exports, compared to only two last year. The emphasis for these companies is on higher end shoes made from the best leather local tanneries can supply.

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Volumes of shoe exports from the Pearl River Delta are going down, but the value of the footwear local companies are exporting has gone up.

One of these companies, the Aokang Group, was named in mid-September as one of the country's 30 most innovative companies.

Aokang was the only company in the leather sector to feature on the list. The judges said it was one of China's best known brands, and one of the most likely to have an influence on the lives of the country's citizens. They highlighted Aokang's commitment to innovation, marketing, brand development, technology and corporate philanthropy as the main reasons for its success.

Only natural

Madam Zhang Shu Hua, chairman of the China Leather Industry Association (CLIA), offers this explanation of what is going on: "It's only natural that some factories should move on, either inland or to countries in south-east Asia. This is a labour-intensive industry, and it's entirely to be expected that producers will move to less expensive places. This is exactly what happened when European companies began to move their production to Asia."

She insists that this rush to relocate is no negative thing for the industry in the PRD; it will make the region, and the whole of China, "better in the long run".

Her association's secretary general, Su Chaoying, takes the argument further.

Labour costs are increasing in the PRD, he says. At the start of this year, Nike took the unprecedented step of funding a huge pay-rise of workers in a factory in the region making shoes on its behalf. Naturally, this has put pressure on competitors to increase their own rates of pay. A stronger local currency for the most part of 2008 has also had an effect: if the dollars shoes can earn in export markets buy less energy, fewer workers, fewer raw materials and a smaller proportion of your property rent price, you either have to sell more, put your sales price up or throw in the towel.

Putting your prices up is a tricky option to put into effect, Mr Su says, because of the downturn in the US and other western economies. It's a brave Chinese company that thinks the second half of 2008 was a good time to call Wal-Mart and try to negotiate its prices upwards. "Of course Chinese footwear manufacturers have been affected by that," he continues, "and some smaller operators have been unable to cope, making closures inevitable."

But he, too, insists that this phenomenon is "healthy" for the footwear and leather industry in and around Guangzhou, principally because the footwear the region is producing is increasing in value, if not in volume. And he says this is essential. The pressures Chinese manufacturers are under to meet higher costs are no less severe than the ones their counterparts in other parts of the world are facing up to. The pressure is so severe, in fact, that fierce competitors in the area are now discussing among themselves possible unified actions they might take to tackle it together.

"Labour costs have gone up by 15% on average," he explains. "Some very big companies have embraced this positively; it gives a good picture of their brands to our society. Society in China now is putting pressure on companies to be socially responsible, and the money they pay their workers is an important part of that. If companies want to present a good picture of themselves, they have to increase their rates of pay. So, right now, there is pressure, and we are seeing the effects of it. But in the future, we will look on what is happening right now as a good thing for the industry here."



Madam Zhang Shu Hua, chairman of the China Leather Industry Association (CLIA), says it's only natural for footwear and leathergoods manufacturing companies to keep moving around the world to keep their production costs as low as possible.



CLIA secretary general Su Chaoying believes the pressure is on for Guangzhou-based manufacturers at the moment, but that the readjustments of 2008 will prove positive in the long run.

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The dragon gets ready to roar. China's domestic footwear market is one of the most attractive anywhere in the world.

ALL CREDITS: WTP

The changing face of Chinese footwear

Anyone lucky enough to visit China regularly in recent years will have noticed the unrelenting pace of change there.

Hopes of recovery in the global economy are, to some extent, pinned on China being quick to pick up the pace of growth again, and this is why groups as diverse as advertising agencies and rail transport equipment manufacturers are falling over themselves to establish a presence there.

In terms of retail in general, and leathergoods and footwear retail in particular, many experts believe boom times lie ahead. Seasoned observer Michael Duck, Hong Kong-based managing director of APLF Limited, the organiser of the All China Leather Exhibition in Shanghai, says that in spite of the arrival of the Guccis and Pradas at one end of the market, and Tesco and Wal-Mart at the other, the retail industry in China has, so far, "only scratched the surface".

The opportunity is huge and there were plenty of people (the German Footwear Association, for example) who argued this autumn that Europe should forget about anti-dumping measures on imports into their home territories of leather shoes from China and concentrate instead on taking European luxury leathergoods and footwear to the Chinese market and winning a share of it.

Most recent figures

The most recent figures available from the CLIA cover January to August 2008 and make interesting reading.

Over this period, China's leather sector exports increased by 8.82% in value terms, $18.3 billion compared to $16.8 billion for the corresponding period last year, according to the official data. Leather footwear exports accounted for $6.62 billion of this.

But on the negative side, exports of a number of types of leather products fell: raw hides by 8.1%, skins by 63%, leather garments by 19.6%, fur garments by 4.9%, and leather gloves by 8.8%.

China imported $4.8 billion worth of varying leather articles between January and August 2008, showing a growth of 0.5% from the same period last year.

We can analyse the figures for the first six months of the year in a little more detail. After years of increases, a trend that began in 2007 of a decrease in export volumes has continued, registering a drop this time, compared to the first six months of last year, of 4.8% for the entire footwear sector. In spite of this, the overall value of China's footwear exports grew by 11.4% compared to the same period in 2007.

These are not rosiest times for the global athletic footwear market, but this category must account for much of the surge in export value from China. The reason for making this assertion is that the drop in exports of Chinese-made leather shoes was much more serious, 15.9%. The value of these leather shoes—560 million pairs—was also down on the amount achieved in the first half of last year, but only slightly, by 0.3%, with the total export earnings for this type of footwear reaching $4.48 billion for the half-year.

These are compelling statistics. If the Chinese leather footwear industry brought in almost the same amount of export revenue with substantially fewer shoes, the leather footwear it is producing must be securing a more handsome price in the international marketplace. The average was $6.91 per pair in the first six months of 2007, but rose to exactly $8 per pair in the early part of this year.

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Volume down

Why has the volume fallen so starkly? Yes, the European Union's anti-dumping measures against imports of leather shoes from China is a factor—the original two-year action ended on October 7, although a decision from Brussels to carry out a formal review means extra tariffs of 16.5% on leather shoes from China will continue for the time being—but it was a factor in 2007 too.

The comparative figures for this year and last may suggest that loopholes that were available to exporters in 2007 are tighter now, as the recent experience of Macau shows. There has been a sharp drop in footwear exports from China to Macau this year compared to last, after the EU complained that China was using the Special Administrative Region as a trans-shipment hub to by-pass the extra tariffs, and eventually applied the anti-dumping measures to Macau itself.

At the situation's implausibly high peak, the territory, which has a population of 500,000 people, managed to import 5.1 million pairs of shoes from China. However, in China, the difference between the first-half totals of leather footwear exports in 2007 and 2008 is almost 90 million pairs of shoes, so unless there are many more Macau-like mysteries out there, the anti-dumping measures fail to offer a complete explanation of what is going on.

It's also the case that "currency re-adjustments" have affected the attraction of the export market for Chinese manufacturers, and this was intensified by a government decision to withdraw the rebate of export tax that Chinese manufacturers used to be able to look forward to, although this situation has changed again recently in favour of Chinese exporters.

Labour force challenge

Chris Collins, vice-president and general manager for the leather division of Dongguan Leeway Footwear, part of the Brown Shoe Company, is not convinced that export volumes have dropped quite as much as CLIA has said, but he confirms that manufacturers have been moving their production of cheaper shoes to far-away provinces. "Even now there is a tremendous movement away from Guangdong of the most labour-intensive parts of footwear production—cutting and stitching—to places that are as much as ten hours away from here by road," he explains, "so that in Guangdong what we are left with is the production of better grade shoes. So in that sense, I think the CLIA comments are accurate. These changes will weed out the bad players."

Bad, here, is a reference to more than the quality of the finished product. It's also a question of paying better wages and handing over taxes to the authorities on time. Dongguan Leeway Footwear has increased rates of pay for its workers by 20% two years running, which means levels are now 40% higher than in 2006. It's been a necessary step in the company's efforts to maintain a stable labour force, which Chris Collins says is now the footwear industry in China's greatest challenge. But he insists that companies such as his—one of the eight in Guangdong that is now bringing in more than $100 million a year in footwear exports—were already treating workers well, paying above the established minimum wage, and making sure local management teams were abiding by corporate codes of conduct on overtime, underage workers and so on.

There are other cost increases, mostly in the chemicals sector. In contrast, he says the price of leather, which he sources from 30 countries, has been steady and has, in fact, begun dropping in the last few months.



Bowie Lee of Guangzhou-based Red Dragonfly shows of some of her company's most recent designs.

His company's planning suggests that full-year results for 2008 will be slightly down, by perhaps 3% or 4%, and may be down again next year. But he insists that Chinese footwear is still cheap and that business results would improve substantially if retailers would only charge a fairer price for a pair of shoes. One big customer of his, a North American retailer, thought it was doing his company a huge favour earlier this year when it agreed to increase the retail prices of its shoes by between 4% and 6%, but, coming at a time when costs were going up by, he estimates, at least 10%, the outcome has been less positive.

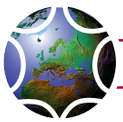
Health scare

Perhaps the last thing the Chinese leather and footwear industries needed as 2008 draws to a close was a health scandal, but this is precisely what happened in France in November.

Footwear imported from China has caused something of a consumer confidence crisis in France after several members of the public suffered irritation in their feet after wearing imported boots and ballet shoes.

The health authorities have traced the problem to anti-mould products in sachets added to packaging to protect leather

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Regional Commentary: China

Don't blame the leather—check your packaging!

Dimethyl fumarate is the methyl ester of fumaric acid and can be used to treat certain medical conditions. When administered orally, it does not survive long enough to enter the bloodstream. Externally, however, it has been found to be a sensitiser that even at very low concentrations is capable of producing extensive and pronounced eczema, which can prove difficult to treat. While not quite in the same 'hazardous' substance category as chrome VI, it nevertheless remains one of the most potent sensitisers around and it is for this reason that the EU classifies it as being 'harmful'. If used in the manufacture of a product, its presence should be indicated with the appropriate symbol, plus the word 'harmful'.

First it was furniture

It is also used as a mould inhibitor, particularly in Asia during the monsoon season and this is where the problems start. The risk of medical complications came to light two years ago with the widely publicised 'poison chair' incident. A Finnish retailer imported a consignment of two-seater leather sofas from China only to have 60 of his customers develop serious skin rashes. The cause was identified as being an allergic reaction to dimethyl fumarate, sachets of which had been placed inside the arms of the sofas to prevent mould developing during transport and storage.

The same thing then happened in the UK, when sofas sold by Argos, Land of Leather and Walmsley Furnishing containing sachets of the chemical allegedly caused over 100 injuries. Argos withdrew the sofas from its stores and collected those already sold. Land of Leather withdrew its without notifying customers, while Walmsley said it had removed the sachets from sofas sold once the danger was realised. Customer complaints cover both those sold with sachets and those where they were removed and the two companies now face a £10 million court action for not following Argos' example. An expensive mistake.

Now it's footwear

Now it's happened in France but, this time, it is Chinese-made footwear under the spotlight. In October, Véronique Homer, a shoe retailer in Ingrandes-sur-Loire (Maine-et-Loire) began to feel itching and burning sensations in her foot after wearing a pair of boots taken from a consignment she had ordered for her shop. As she explained to Agence France Presse: "After a few hours, my foot was swollen and very painful, almost as if it was on fire." This merely confirmed a more widespread problem it had been told of by the authorities in Paris.

Once again the cause was traced back to sachets of dimethyl fumarate which this time had been placed inside the shoe boxes to inhibit mould during transit. While Etam, the largest retailer involved so far, has hastily withdrawn all stocks from stores and sought out the 900 or so customers who have bought a variety of boots and shoes sourced from the one manufacturer concerned, Madame Homer has been forced to spend a week in hospital having her eczema cured.

Ask questions

So how could a chemical that was contained inside a sachet and which had no physical contact with the boots or shoes concerned cause such a serious problem? Quite easily if you take the trouble to find out how it works. Dimethyl fumarate is what is known as a 'sublime' material. In other words, it is one where a solid 'sublimates' or changes into a gas without passing through the normal intermediate aqueous stage. This is why it can be used as an inhibitor where, as it warms in the box, it gradually changes into the gas which prevents mould from developing.

Unfortunately, this gas is also absorbed into the upper and lining of the shoe from which it quickly transfers to infect the skin of a warm foot. It can be dangerous stuff. While European laboratories report a steady increase in testing for hazardous substances in materials used in the manufacture of footwear, mould inhibition is one area that appears to have slipped under the net. Fortunately, there are perfectly safe and well proven mould inhibitors freely available such as chloride strips and silica gel.

footwear during shipment. A spokesperson for the authorities told Agence France Presse that the sachets contained dimethyl fumarate, and that this was a banned substance in the European Union (see panel).

In some cases the products were traced back to the Etam retail group, which said it had sold almost 900 pairs of the boots and shoes. It said it would try to trace the customers who had bought them and was withdrawing the rest of the consignment from sale.

More than half of imported shoes in France in the first eight months of this year came from China. The customs authorities put the figures at 168 million out of 305 million pairs. In value terms, this corresponds to €677 million out of a total value of imported footwear for these eight months of €2.7 billion.

Home improvements

Whatever the explanation, it's quite clear that a smaller proportion of the output of China's leather sector is leaving the country, suggesting that demand from the domestic market is going up—a natural part of the broader economic development as mentioned. This must be good news for important domestic footwear brands such as Doublestar, Kangnai, Jierda, Spider King, Jinhou, Hengda and Dorkan, but also for overseas brands exporting into China. Something that strengthens this impression hugely is a look at China's footwear import figures for the first six months of 2008.

For a country of 1.3 billion people, the total volume of imports—7.82 million pairs—is small, but that represents an increase of 78.2% on the same period last year. CLIA has put the value of these imported shoes at $212 million, an increase of 80.7% on the value of shoe imports in the first half of 2007. This makes the average value of a pair of imported shoes $27.11, more than three times the value of a locally produced pair, which should give strong encouragement to footwear companies around the world who want to claim a share of this, probably the most attractive growth market in the world.

In spite of the recent impact of global economic difficulties, desire for quality footwear is growing, and so are the willingness and the ability of the Chinese people to pay for it.