



L&Y Shoes from Guangdong province in China exhibiting at Expo Riva Schuh in Italy. If export markets are becoming tougher for producers in China, there is better news, for those who work hard, in the domestic arena.

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Domestic growth beyond dispute in China and India

Ongoing economic growth in China and India should be good news for the footwear industry, at least domestically, in both countries.

Good news about the Chinese footwear industry has been difficult to find in recent months. Exports of leather shoes from China fell in volume by 20% in the first seven months of 2016 compared with the same period last year. In terms of value, the year-on-year decline was almost 22%. Between January and July this year, Chinese shoe manufacturers exported just under 395 million pairs of leather footwear, compared with 493 million pairs over the same period in 2015. Export revenues from these volumes were \$5.5 billion in 2016 and just over \$7 billion in 2015, giving an average price per pair in the January-July period this year of \$13.92, compared with \$14.20 for the same months in 2015.

Over the same period, Chinese traders and retail groups also imported fewer pairs of leather shoes, bringing in a total for the seven months of 16.7 million pairs with a combined value of \$693.1 million. Compared to the same months in 2015, these figures represent a decline in volume of 14.4% and a fall in value of 12.5%. Imported leather shoes had an average price per pair of \$41.50. In view of these results, it is hardly surprising that big footwear retail groups have embarked on store-closure programmes.

Factories have been closing, especially in well established footwear manufacturing regions such as the provinces of Guangdong and Fujian. In some instances, the manufacturers have decided to rely less on these relatively expensive areas and more on recently set up production facilities in China's interior, but in others they have moved production to cheaper countries, especially Vietnam. China produced just under 60% of global shoe output last year, according to figures released by footwear automation and machinery provider Desma at its 2016 supplier exhibition in September.

Joint managing director, Christian Decker, said that, after almost 40 years of year-on-year increases, he expects China's footwear production to decrease in 2016. Last year, according to Desma's figures, China produced 13.53 billion pairs out of a global total of 22.57 billion. According to Mr Decker, China's figure for this year will be 13.25 billion, registering the country's first decline in shoe production in decades. He said China's total footwear output will continue to drop in years to come, with Vietnam one of the principal countries to gain.



Not all bad news

Nevertheless, it would be categorically untrue to suggest that the news from the Chinese footwear market at the moment is all bad. In spite of factory and shoe shop closures, the domestic market is a source of solace, mostly because China's domestic market is enormous and growing; online sales to Chinese consumers are increasingly popular and are compensating in some ways for declines in in-store sales. According to the China Leather Industry Association (CLIA), sales revenues from shoes produced by -medium and large-sized manufacturers in China were \$55.6 billion, which the association said represents a year-on-year rise of more than 6.5%.

In one of the most recent reports on a Chinese leather producer for the Tannery of the Year awards programme, Haining-based Dazhong Leather said shoe upper is still its core business, accounting for 50% of its output from around 3,000 bovine hides a day. Company president Xu Jian Xin explains that there are still four main production regions for leather footwear in the country: the clusters in the provinces of Guangdong and Fujian, and those around the cities of Chengdu and Wenzhou. Chengdu manufacturers in particular have experienced a downturn of more than 40% in their output of finished shoes in the last year or so, he says, but it's a decline in exports, owing to a lack of demand from customers in Russia and other parts of eastern Europe that takes the blame. Mr Xu makes it clear that increasing consumption rates in the vast domestic market are making up for this.

Domestic consumption up

"Across China, women are now consuming between four and six pairs of shoes and boots each per year," Mr Xu says. "For men it's two pairs. These are national averages, not just for the urban population." The CIA World Factbook's figure for the population of China in July 2015 was 1.367 billion, with



William Wong, speaking at the 2016 UITIC Congress in Chennai.

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slightly more men than women (a ratio of 1.06:1). Mr Xu's figures, therefore, suggest there are roughly 705 million Chinese citizens buying two pairs of shoes a year each and 660 million buying five pairs. This puts domestic shoe consumption in China at the astonishing figure of over 4.7 billion pairs per year. The last time a tanner in China shared information on this subject in a Tannery of the Year report was in April 2011 and the figure for overall footwear consumption in the domestic market then was



India's Council for Leather Exports chairman describes the market potential of the countries domestic footwear market as "huge".

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3.1 billion pairs, which was a much higher figure than influential industry reports were offering at the time. In five years, the total for annual consumption in China has gone up by more than 1.6 billion pairs.

Most of those 4.7 billion pairs of shoes are made in China. In the first six months of 2016, the total volume of imported shoes was 54.8 million pairs, according to CLIA figures. This shows an increase in volume of 19.1% compared to the first half of 2015, but it indicates that Chinese-made shoes' share of the overall Chinese market is around 97.7%.

Licence to sell

A halfway house between importing the shoes of major-name brands into China and working to increase the popularity of local brands is the phenomenon of Chinese-based manufacturers making locally, under licence, international brands' shoes for the Chinese market. This has been something of a saving grace for groups such as Belle International. In contrast to own-brand store closures mentioned above (400 closures planned for 2016), the group also runs stores in China for seven international brands (Bata, Mephisto, CAT, Hush Puppies, Fitflop, Clarks and Merrell) and has said this part of its business is growing. The group will add almost 100 new stores to the network it operates across China on behalf of these footwear brands this year.

Busy marketplace

In all, then, growth in the domestic market is good news for shoe manufacturers who are producing in China, although they will have to work hard to benefit. Vice-president of the Hong Kong Footwear Association, William Wong, has his own footwear manufacturing company in China and his views on the market there carry weight. He says it is often hard to interpret the figures, but confirms that there is good growth in the domestic market now. "It's worth noting that a large number of manufacturers seem to have decided to shift their focus to the domestic market all at the same time," he says. "That means it's busy and it's difficult to carve out a decent market share. In fact, China must be one of the most difficult markets in the world at the moment because of how much competition there is."

Ambitious target for Indian industry

On the other side of the Himalayas, a similar story has been developing in India. Strong growth in the domestic footwear market there may go some way towards helping the wider Indian leather sector meet an ambitious government target of expanding the industry's annual turnover from current levels of around \$12 billion to \$27 billion by 2020. And this at a time when official statistics show a decline in India's leather sector exports: in the last financial year (April 2015 to March 2016), leather footwear exports had a value of more than \$2.1 billion, a year-on-year decline of 5.7%.

India's domestic economy, however, is currently growing at around 7.6% per year and spending on shoes is likely to grow in step with this.

Double up

Naresh Bhasin, chairman for the western region of the country's Council for Leather Exports (CLE) and founder of Mumbai-based footwear producer RAM, says footwear consumption in India is "relatively low", estimating it to be 1.2



If women in India buy two extra pairs of shoes per year and men one extra pair, the domestic footwear market in India will double to more than four billion pairs per year.

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pairs per year for men and 2.3 pairs per year for women. This would give a national consumption volume of just over two billion pairs per year. The organisation's national chairman, Rafeeqe Ahmed, says the country's footwear industry has "huge market potential". Owner of one of the country's biggest leather and footwear manufacturers (and exporters), Farida Group, Mr Ahmed says India puts the domestic market size at 2.2 billion pairs at the moment with an annual value of around \$5 billion. But he says per capita consumption will increase to more than three pairs per person by 2020, taking the market size above four billion pairs.

Ahead of the 2016 India International Footwear Fair in New Delhi in August, the Indian government raised the bar even higher, saying that the country will need five billion pairs of shoes by 2020. This figure was quoted by a number of mainstream newspapers in India in the build-up to the event and attributed to the ministry of commerce and industry.

Make in India

RAM is a well established exporter of shoes but Mr. Bhasin says it is now experiencing stronger growth domestically than internationally. As in China, holding the licence to distribute shoes bearing a big brand's name is an area of particular growth and RAM is now an outsource manufacturing partner to a number of these licence holders. "Orders are going through the roof," Mr Bhasin says. "We are receiving orders for 70,000, even 90,000 pairs of shoes at a time for some big western brands for the Indian market." He also has word of a major North American footwear retail group that has plans to increase its network of stores in India from 40 to 300. He says the retail group is currently stocking its 40 Indian stores with product imported from other parts of Asia. "With 300 stores, the company knows that it will make much more sense to make the shoes here," he concludes. ●