



Industries that migrate don't come back

These are not easy times for South Korea's tanneries. Like every other advanced economy, Korea faces intense competition from low-cost production platforms. Unfortunately for Korea it shares a border with the giant of low-cost producers – China.

The process is not new. Indeed, initially, the migration of domestic manufacturing was not to China but elsewhere in south-east Asia, with Indonesia as a prime destination. According to Jo Jong-kook, who operates the Korea Leather Industry Information Centre (KLIIC), the process began when brand name customers in north America suggested to their Korean suppliers that they should open up in lower cost countries. These were essentially manufacturing operations for finished goods – mainly sports shoes and leather garments. They were often joint-venture operations with local partners too, says Mr Jo. Supplies of finished leather continued to be supplied primarily from tanneries in Korea.

But, for a variety of reasons (political instability being one, and cultural variations another in many instances) the move into southeast Asia was not a great success generally. China, by contrast, offered both political and economic stability – and it was, literally, next door. On top of which, Korea's competitors in the field, such as Taiwan and Hong Kong,

were moving rapidly into China. China allows another significant advantage to many overseas investors: namely the ability to wholly-own (or, at least, own a controlling stake) in a foreign-funded investment.

The by now familiar process of 'hollowing out' continued remorselessly. Although the movement began with labour intensive finished goods manufacturing, soon enough it affected also the production of finished leather.

The numbers speak for themselves. Mr Jo of KLIIC says that just 10 years ago he could compile a directory of Korean tanneries of around 500. Today that figure is down to 150, and falling. S J Lee, managing director of the Shinwoo tannery, says that business in Korea is "Very difficult...maybe getting worse. There's less business, and fewer factories. The big competitor is China".

Shinwoo though, like many others in the industry, is itself an investor in China: the group's substantial garment manufacturing plant now operates from there. The good news is that the tannery plans to stay put, but... Mr Lee concedes that plans to move to China are always being reviewed, even if the answer is 'no' – for the time being. Although Shinwoo manufactures around three million square feet a month, for Korean tanners Mr Lee remarks: "It's quality, not quantity, that matters."

In one area, at least, Korean leather manufacturers have built themselves a market: the production of upholstery leather for the automotive industry. To an outside observer it has to be noted that some of this success might be due to the very strong tendency of local manufacturers to buy from domestic suppliers whenever possible, combined with the somewhat closed nature of Korea's car market. That aside, the fact remains that there is a healthy demand for upper-end vehicles that generates a demand for leather upholstery. Unless there is another economic collapse, such as occurred in 1997 when the Korean economy almost evaporated, demand in this field could remain reasonably good. Whether it can be profitable too is another question.

As always in fast changing environments, those that can adapt survive. There are successes amongst Korea's suppliers of tanning machinery. All began by supplying the local market: those that have gone out and sold overseas have carved out new markets. Sure, some of those exports are to Korean-owned tanneries in China, but most are not. Y S Kang of one such company, Rotopia, explains that when the business started it was totally dependent upon the local market: today it sells to places as diverse as China, India, Brazil, Vietnam, and Thailand. Mr Kang will go wherever a customer expresses an interest.



T W and Y S Kang of Rotopia, right, the factory floor





"Ten years ago," he says, "50% of our business was domestic: now it's about 10% and falling".

The Good Old Days – if they ever were that good – will not return. Industries that migrate across the border don't come back. And even if they did – what then? It is no longer a case of Chinese workers (or Indonesian, or Vietnamese) taking the jobs of eager Koreans. "Young people today don't want these jobs," says Mr Jo, referring to the low-skilled employment offered by the leather industry. "It's not a question of not wanting the jobs at these prices – they don't want them at any price. What they want is to work in the electronics industry in a clean environment." The tanneries that remain must look to labour from the Philippines, Vietnam and elsewhere to fill what vacancies they have.

Hi-Rotopia hits the spot

The recently launched Hi-Rotopia model is a big machine, and designed to sell in a global market. Of course, the beginnings were more humble.

The business was founded in 1982, by T W Kang, but it was not originally in the leather field. Yurim Machinery was formed four years later, in 1986, located in Bucheon City, South Korea, to meet a demand from smaller Korean tanneries looking for locally made machinery. It was not just a case of 'buying the flag'. At that time these smaller tanneries simply could not open Letters of Credit – so importing machinery was not an option. The tanners gave Mr Kang the specifications they

required and, by April of 1987, the first continuous ironing and embossing machine was launched under the Rotopia name.

Many Rotopia machines have been sold since then. Initial success can be judged by the fact that the company moved premises three more times, practically every year, until arriving at their present location in Ansan City (just outside Seoul) in 1990. They underwent a name change as well in 1992, to Yurim Machinery Manufacturing. In that first year the company produced 10 machines – not a bad beginning – but, as Y S Kang, (T W's son) says, they grew with 20 machines in the second year and 30 in the third. The present annual production rate runs to between 60-70.

Today Yurim have an annual turnover of some \$2.1 million, and sell to a variety of markets that include China, India, Thailand, Indonesia, Taiwan, Vietnam, Japan, Pakistan and Brazil. T W Kang, at 76, is still involved in the business although it's his son who is most involved with customers. It's a very rapidly changing market too, because as Y S Kang explains, the local market now accounts for less than 10% of sales. "Just five years ago it was fifty-fifty," he says.

China is now the largest single market. It accounts for almost one third of the business, Kang says. When they first sold into China customers were mostly big tanneries, often foreign owned by parties from Korea, Taiwan, Japan and New Zealand. For example, the largest single customer in China is Prime Tanning which purchased 10 Rotopia machines in 2001

Alrim-Cobiz

Based just outside Seoul, Alrim Industrial has been producing machines for buffing, leather polishing, air dust removal and collection for some 15 years. Initially reliant upon the domestic market in Korea, David Lee, who started the company, began exporting 10 years ago. Now, of the 40-50 machines a year Mr Lee says Alrim produces, half are destined for China. India accounts for around 20% while the rest are sold to markets ranging from Brazil to Spain, Thailand, the Philippines and Japan.

Alrim Industrial sells under the Cobiz brand. The recently introduced new wide buffing machine comes in working widths of from 1500–3200 mm, with working speeds of 5–25 m/min for the 1500 model to 4–20 for the 3200. Other models are the 1800 and 2400 with working widths of 1800 mm and 2400 mm respectively. One to two operators are sufficient for all machines.

The associated dust removal units have a working speed ranging from 7–35 for the 1500 model, and 6–30 for the 3200.

alone, and another last year.

But the China market itself is rapidly evolving. Last year Yurim opened a factory in Shanghai for assembly. Interestingly, the main reason for opening the plant was to meet the growing demand from smaller Chinese tanneries who want a high quality machine but have difficulty opening Letters of Credit: which is pretty much a repeat of how things developed in Korea originally.

The China plant remains very much an assembly operation. Kang points out that several key components of its machines are carefully sourced overseas, that locally made parts do not meet its specifications, and that locally made components are not necessarily cheaper either. Korean steel costs less than Chinese steel, he says, and it's better quality too. One day they might start producing original parts in China – but there are no such plans right now.

Yet there are good reasons for opening the China plant. Local tanneries like to personally check out the manufacturer before buying, so it helps to be in the country. And then there's the important consideration of after-sales service. Being local increases buyer confidence. Reliable after-sales support is not something taken for granted in China, as those doing business there can attest. Finally, despite import duties on imported components, it



is still cheaper to assemble in China for delivery into the China market.

Although some way behind in terms of numbers – around 10% of sales – comes India. The company has an office with three full-time staff in Madras.

Thailand is proving good, too. In recent years the domestic Korean leather industry has gradually moved into China. A few large tanneries remain in Korea, as do a few small specialist producers. The larger ones have become increasingly involved in the manufacture of upholstery leather, mostly for vehicles. That is what led to the development of Rotopia's latest offering, the Hi-Super Throughfeed Embossing and Ironing machine. One look at the unit explains the 'Hi'. It's a tall machine, with a



strong body and rollers designed to cope with the pressures associated with upholstery leather production.

The connection with Thailand? Well, many of the larger tanneries there have also

moved into automotive leather production, offering a ready market for the new range. In the current year the company has sold 10 machines there.

All Rotopia's engraving rollers come from a related company – a joint-venture in which Yurim are involved. Kang claims that in Korea 100% of engraving rollers are supplied by this company. He promises a substantial new development from this company at the end of this year.

It's never going to be easy selling machinery into the leather manufacturing industry. But, over the years, the Rotopia name has become established. "It could always be better," he says, "but today customers know our products – they can compare our quality, and our prices." 🍎

Profile:

Shinwoo - a typical Korean tannery?

Shinwoo is a big operation. Its tannery in Ansan City, just outside Seoul, manufactures 2 million square feet of automotive upholstery leather every month, and a further 1 million square feet of shoe leather. It employs about 300 people.

What makes it fairly typical of the larger tanneries remaining in Korea is the degree of dependence upon the automotive industry, and local vehicle manufacturers at that.

It's typical too in that the more labour intensive activities it once handled locally have been moved overseas. In this case its garment manufacturing factory has decamped to China.

So it's fortunate that domestic demand for upper-end vehicles remains strong. And it is. South Korean roads, like those in Japan, are noteworthy by just how few foreign vehicles make it on to their roads. It's not the result of official policy, at least, not any more, but it's the way things work there. However you view it, the end result is a buoyant market for the big leathers used in upholstery production.

That reliance upon the automotive industry is underscored by Shinwoo's managing director, S J Lee, who explains that the Korean car manufacturer, Kia, has recently introduced a new high end model, the Opirus and Kia will be using 100% Korean leather. The Opirus was actually designed in Europe and its front end, and





the headlamp clusters in particular, bear a striking resemblance to a certain highly regarded, and much sought after, German car. No matter – Kia is currently manufacturing 4,000 of the Opirus every month, and that takes fully 800,000 square feet of Shinwoo's monthly automotive leather production. Later this year the Opirus will go on sale in the US and Europe: the demand for leather upholstery will doubtless increase too.

Shinwoo is not totally dependent upon the automotive industry though because a third of its production is still in shoe leather. As with the upholstery leathers, the shoe leathers are sourced "100% from US hides," says Mr Lee. He admits they have studied the possibility of moving this part of the operation to China but, at the moment, it remains just a study. Reebok is its biggest single customer, but it sells to many other big name brands. However, unlike the upholstery leathers, the shoe leathers are shipped overseas – to China, Thailand, Indonesia and elsewhere.

Although Shinwoo certainly appears well



positioned, the Korean market remains "very difficult", according to Mr Lee. "There's less business, and fewer tanneries."

On top of which there's China: it offers enormous possibilities, but increasingly entire businesses move there. ⚙