

Is January 2004 a new direction or just a blip?

After decades of straight-line growth—and an assumption that the only foreseeable route for the indefinite future was further expansion—the January 2004 figures published by the China Leather Industry Association (CLIA) came as a rude shock.

Figures 1 and 2 show the growth of leather exports and imports over the last four years. Normally a one-month decline would be put aside as a blip, a consequence of the Chinese New Year or a seasonal aberration. Certainly no statistician would accept drawing too many conclusions from one month's figures.

What is interesting here is that the CLIA does believe that the January 2004 figures signal an inflection point for the industry. Certainly it is interesting to study the figures (Tables 1-5) in the light of some newer thoughts.

In most categories we are seeing the unit value of goods rising. The quality of goods being made in China is improving, and this is reflected in both the import and export figures.

At the same time the export of raw hides and skins was down, which implies greater usage for the home market, especially when taken with the slowing of the export growth in all categories of finished product.

Improving quality has a number of aspects. What is clearly happening is that the Chinese consumer is rapidly growing wealthier, better educated, and more discriminating in all purchasing decisions. Consumers want good quality products.

At the same time the Chinese leather industry is improving its level of education and technology. Some of this comes from what might be called local knowledge spill-over as technological knowledge brought in by foreign investors slides over into the domestic sector. China has been expert at this in many industries, sometimes even too enthusiastic and getting itself into legal problems over the alleged theft of

intellectual property, as in the automobile industry. Certainly the value of education is well understood by the Chinese and the

Shanghai-to-London flights are greatly supported by Chinese students studying at UK Universities.

Figure 1: Export of Chinese leather and leather products 2000-03

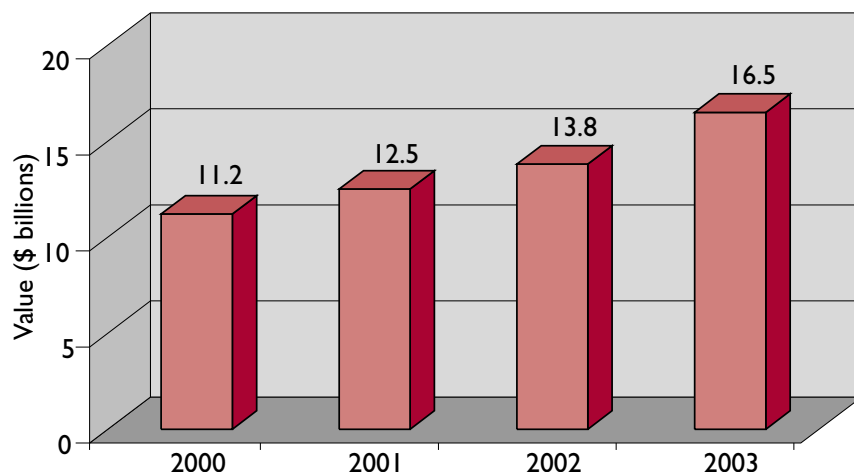
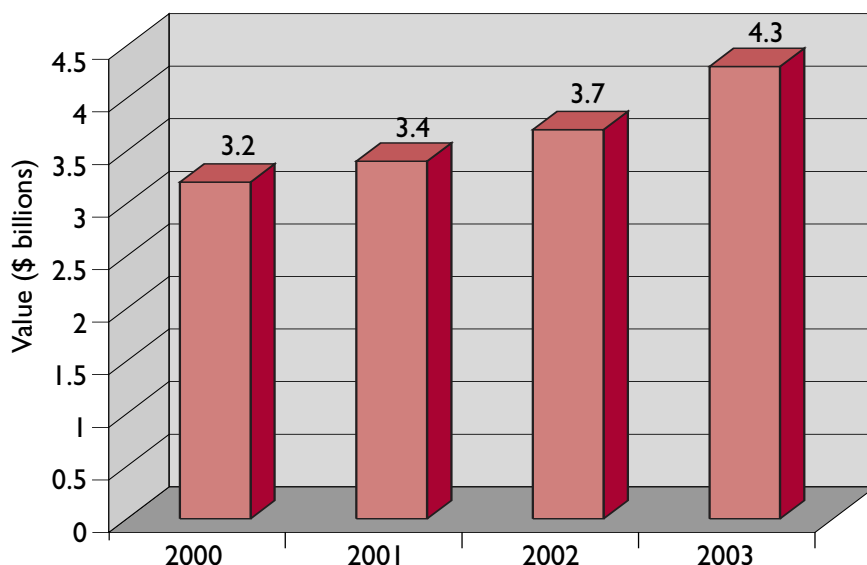
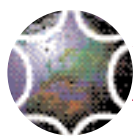


Figure 2: Chinese leather imports 2000-03, ranging from raw materials to leather products





Country Commentary: China

Table 1: Export of leather related products January 2004

	Units	Quantity	Value \$1000	% change to same period of 2003	
				Quantity	Value \$1000
Shoes (Leather Upper)	10,000 pairs	9,417	458,543	+0.1	+3.3
Suitcase & Travel Accessories	n/a	n/a	433,445	n/a	+9
Leather Garments	10,000	310	113,222	-30.2	-23.3
Fur Garments	Tonnes	227	22,242	+100.9	+161.8
Leather Gloves	10,000 pairs	4,669	62,721	-40.4	-38
Sports Balls*	10,000 pcs.	809	10,754	+6.4	+15.1
Raw Hides	1000 Tonnes	n/a	6	-99.3	-99.1
Partly Tanned or Tanned Leather	1000 Tonnes	12	73,598	-16	+4.9
Component & Decorative Parts	Tonnes	9210	34,095	+4.3	-4.4
Total			1,208,626		-0.5

*Football, Volley Ball, Basket Ball

Table 2: Import of leather related products January 2004

	Units	Quantity	Value \$1000	% change to same period of 2003	
				Quantity	Value \$1000
Shoes (Leather Upper)	10,000 pairs	10	3,205	-43.1	-23.9
Suitcase & Travel Accessories	n/a	n/a	5,585	n/a	+62.2
Leather Garments	1,000	1	176	-6.4	+31
Fur Garments	Kilos	187	5	-47	-94.6
Leather Gloves	1,000 pairs	13	8	+530.5	-69.9
Sports Balls*	1,000 pcs.	7	83	-90.3	-19.5
Raw Hides	1,000 Tonnes	47	72,959	-15	+2.4
Partly Tanned or Tanned Leather	1,000 Tonnes	62	170,101	-19.9	-17.3
Component & Decorative Parts	1,000 Tonnes	2	18,147	-18.2	-12.5
Tanning and Shoe Machinery	Units	1004	7843	-31.3	-21.5
Total			278,027		-11.9

*Football, Volley Ball, Basket Ball

The shoe industry exporters have been trying to move from the "white" athletic market to supply a greater proportion of "brown" casual footwear, and the rise in the unit value of exports is probably indicative of success.

We do not yet have production figures for the month of January 2004, but the figures do allow us to surmise that what is happening is that export growth is slowing while domestic demand is growing. In both the home and export markets, quality

and unit price is rising.

Another element which also has to be borne in mind, is that the export rebate policy changed on January 1 2004 for both leather garments and footwear. For garments, the export rebate on VAT has dropped from 17 to 13% and for shoes from 15 to 13%. Industry experts had warned that these reductions would impact the export figures.

Table 3: Exports January-November 2003 vs. January-November 2002

Item	2003		2002		%age variation	
	Quantity x1,000 pairs	Value (x\$1,000)	Quantity (x1,000 pairs)	Value (x\$1,000)	Quantity	Value
Leather Shoes	93,791	4,838,764	86,917	4,382,709	+7.9	+10.4
Rubber & Plastic Shoes	243,283	4,301,448	208,169	3,676,419	+16.9	+17.0
Textile Shoes	73,336	1,426,492	66,122	1,270,153	+10.9	+12.3
Other Shoes	40,760	665,144	30,653	370,552	+33.0	+79.5
Totals	451,170	11,231,848	391,861	9,699,833	+15.1	+15.8

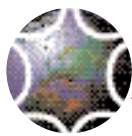
Table 4: Top 10 export destinations for Chinese raw materials and finished leather January-November 2003

Country/Region	Export value (x\$1,000)	% age of all exports	% age variation
Hong Kong	639,725	61.0	+24.8
South Korea	86,367	8.2	-3.4
Italy	67,747	6.5	+10.7
Taiwan	66,351	6.3	+83.4
Spain	39,854	3.8	+3.2
Vietnam	29,024	2.8	+62.2
USA	27,975	2.7	+14.1
Thailand	14,962	1.4	-9.3
Indonesia	12,094	1.2	-36.7
Singapore	8,856	0.8	+20.3
Totals	992,955	94.7	+20.6

Table 5: Top 10 countries exporting finished leather and hides to China. January-November 2003

Country/Region	Value (x\$1,000)	% age of all imports	% age variation
Taiwan	562,235	16.4	+4.0
USA	558,964	16.3	+26.5
South Korea	537,974	15.7	-12.6
Italy	270,739	7.9	-13.5
Australia	230,326	6.7	+38.9
Brazil	163,340	4.8	+68.7
Canada	103,504	3.0	+28.8
Argentina	82,324	2.4	-6.2
New Zealand	76,716	2.2	+74.5
Thailand	72,861	2.1	+49.3
Sub total	2,658,983	77.5	+9.2

Western importers will balance this along with the likelihood of the Chinese currency floating upwards against the dollar in 2004, and with the great satisfaction of production out of Vietnam. Certainly the role of the domestic Chinese consumer will be increasingly important for the leather industry. ●



Businesses line up for new Shenzhen park

A trading centre dealing in leather and leather accessories is one of several that will comprise Shenzhen's forthcoming China South International Industrial Materials City (China South City). The outcome of a Y2.6 billion (\$314 million) investment, China South City is described by its developers as one of China's largest industrial materials trading centres. It will cover 1.5 square kilometres and include trading centres dealing in textiles and clothing materials, electronic accessories, paper products and printing and packaging materials, as well as metals and chemicals and plastics.

Located in the Pinghu logistics base in Longgang district, the concept has been designed to facilitate industrial materials trading as well as providing a platform for exhibitions, information-sharing, warehousing, distribution, transportation and deal settlements. The first phase, covering 500,000 square metres, is expected to be ready this October. Currently, markets supplying materials to Guangdong are seen as being scattered, small in scale and limited in their product range. High purchasing costs and inconvenience in purchasing are also a major issue for the 100,000 manufacturers in the Pearl River Delta. China South City is aimed at helping solve these problems. It is hoped that 30-50 per cent of its display units will be occupied by overseas industrial players.

Asia's largest tannery?

Urumchi Customs has predicted that Xinrong Leather Company, a division of the Zhejiang-based Kasen Industrial Group Co. Ltd., is likely to become Asia's largest tannery. The company plans to import and process up to one million cattle hides and 1.5 million sheepskins during 2004 for export to Asian countries.

Kasen Group is China's largest tannery and generated sales of Y1.45 billion (\$175.2 million) during 2003. The company produces high-end sofa and garment leathers for export to North America and Western Europe.

Trumpler in China

Leather chemicals manufacturer Trumpler GmbH with headquarters in Worms, Germany, has announced that it is to build a manufacturing facility in China. The new company, which will be named Trumpler Chemicals and Dyes (Jiaxing) Co. Ltd., will be located in Weitang, some 80 kms south west of Shanghai and is strategically situated to serve the tannery-based area in Zhejiang province.

The new company will be a Wholly Foreign Owned Enterprise (WFOE) with the shareholding split between Trumpler Worms and Trumpler Spain.

Group managing director Norbert Schuster explains: "Our business in China has expanded rapidly over the past five years and our philosophy has always been to support the trust our customers place in us by investing in countries where we

believe our expertise is needed."

When complete, the 15,000m² facility will produce a range of beamhouse and dyehouse products and include fully equipped technical service, development and quality control laboratories.

Managerial appointments have already been made with current Trumpler Asia sales manager Thomas Lui heading up the commercial team and Luis Ampuero the technical division.

Production capacity is planned to be 3,000 metric tons per annum with potential capacity to reach 5,000 tons. Trumpler views the investment as a positive move to augment its business not only in China but also in neighbouring countries such as Korea and Vietnam whilst at the same time freeing up manufacturing capacity in Worms to meet demand from Europe and America for the company's range of automobile leather fatliquors.

Skilled workers needed

A number of Chinese newspapers have reported that the country is suffering from a significant shortage of skilled footwear and apparel workers. Statistics from the Wenzhou Apparel and Footwear Association and the Guangdong Leather Industry Association show the two cities, have thousands of vacancies for experienced shoemakers.

To combat the problem, Guangzhou city plans to hold its first recruitment day to target potential employees. Around 50,000 graduates from 24 colleges are expected to attend the fair.