

WORLD FOOTWEAR

The Pacific Rim encompasses a very diverse group of countries and cultures, including the extremes of West Coast USA and Japan, and Australia and the Philippines. All four have leather and footwear industries but again show tremendous differences in both size and structure. They also have very different stories to tell.



Four traders of the Pacific Rim

This tour of the Pacific Rim starts in Japan—a country of contrasts and contradictions. It is one of the most advanced and urbanised societies in the world yet it still holds on to many ancient traditions and social customs. It also has the most powerful economy in the region with a history of aggressive exporting across the world and, until quite recently, has tended to be very protectionist in regard to many industries—including leather and footwear.

Leather production is falling

While Kobe beef is famous for its succulent texture and taste, Japanese leather has never enjoyed such a reputation. Indeed, it was not traditionally important as up until the middle of the last century, everyday footwear usually took the form of wooden soled sandals with two simple straps and a toe post. Demand for leather was therefore not great. The leather and footwear industries have suffered from this legacy ever since as they were bypassed by more modern technologies during Japan's post World War II industrial revolution.

Japan is not a great consumer of meat either, preferring fish and vegetarian dishes. The availability of local hides is therefore restricted and the tanning industry has always depended on imports. However, as the importation of leather footwear increased, so the demand for finished leather declined due to the downturn in footwear manufacturing. During the 25 years from 1980 to 2004, domestic hide consumption remained relatively stable, while imports fell by almost 78%. As a result, the number of tanneries fell by 40% and the number of people working in the sector by 60%. The figures for 2005 show further decline.

Japan hide consumption (million pieces)

	1980	1995	2000	2004	2005
Imports	8.59	5.07	2.71	1.92	1.39
Domestic	1.19	1.46	1.25	1.25	1.22
Total	9.78	6.53	3.96	3.17	2.61

Source: Japan Leather Industry

Footwear imports are rising

Imports of leather footwear have steadily increased on a volume basis.

Much of this has been fuelled by the transfer of production to China by Japanese manufacturers such as sports brand Mizuno. Starting in 2000, companies have also moved production to Cambodia, Bangladesh and Myanmar (Burma).

Japan footwear imports (million pairs)

2000	2001	2002	2003	2004
422.7	467.2	471.2	494.0*	519.4

Source: SATRA

*Estimate

Italy was the main exporter to Japan up until the mid 1990s and the move to China. Since 1990, Cambodia has moved rapidly to second place in the ratings. Bangladesh has also done well. The big surprise is Myanmar, which is not generally known as a major producer of footwear. It has now actually overtaken Cambodia as far as some lines of men's shoes are concerned.

Italy and other EU exporters have found the high value of the euro a major problem over the past few years and the average value of Italian footwear is now

REGIONAL COMMENTARY: THE PACIFIC RIM



Himeji's traditional white leather used for a souvenir cardholder

four-times that of Chinese. So, as China's volume increases and Italy's falls, the value of Italian footwear in 2003 represented 39.1% of Japanese imports against China's 20.4%.

Imports of leather footwear have nevertheless risen from just over 31 million pairs in 1999 to 36.6 million in 2005, valued at ¥112.35 million. Exports of leather footwear have marginally declined, from 463,832 pairs in 1999 down to 458,069 in 2005.

Import conditions

Doing business with Japan is not always easy due to the various regulations and requirements.

Tariff quotas — these are set annually at a relatively low primary rate and, once exceeded, a higher fixed percentage or price per pair is imposed. (A strict control is also exercised against counterfeit merchandise.)

Labelling — while leather footwear does not require specific labelling, the packaging does in order to facilitate disposal.

Customs duties — footwear imports are subject to annually reviewed quotas. Imports within quota attract a relatively low tariff rate. Once exceeded, a secondary tariff rate is applied which varies depending on the exporter's classification. The general tariff is set at 60% or ¥4,800 per pair whichever is the greater, that for WTO 30% (same provisos) or zero under Preferential classification. The system is complex and is the main source of complaint from exporters to Japan.

Sizing — Japan has its own system whereby sizes are expressed in centimetres. Japanese feet are also generally broader than European or American, so the girth measurement also needs to be proportionally different.

Market conditions — the retail market for footwear is at saturation

point and has in fact been falling ever since its 1991 peak at the end of the economic boom. Total retail sales for 2002 were ¥718.7 billion, down 31% from then. While there has been some pick-up, low pricing from Asian suppliers makes it difficult for Western countries to compete except at the top end of the market where volume is much smaller.

Footwear production

Against this background, it is not surprising that domestic production reduced considerably and, in the five years up to the end of 2004, overall production fell by almost 30%. In the case of leather footwear, it was even worse, at 39%. It is therefore not surprising that the level of hide consumption is now so low.

Japan footwear output (million pairs)

	2000	2001	2002	2003	2004
Leather	40.5	50.4*	41.8	42.0*	37.0
Non-leather	77.8*	84.9	74.5	65.0*	65.2
Total	145.0	135.3*	116.3	107.8*	102.2

Source: SATRA

*Estimate

A tough market therefore, particularly if you are a non-Asian manufacturer. However, top quality Italian women's shoes still have a cachet, as do the best British made men's welted shoes and, of course, the leading international sports and brown shoe brands.

Moving 'down-under'

Australian sales and service income for the textile, clothing and footwear (TCF) industry—but excluding early stage leather tanning and wool scouring—for the fiscal year 2003-04 (latest available figures) was A\$9.4 billion, with an added value factor of A\$3.0 billion. This represents more than three per cent of

the country's total manufacturing industry, value added. Exports for the sector were A\$0.9 billion and imports A\$1.0 billion, with the export of raw and processed leather off-setting the import of leather clothing and footwear.

Australia	2004 exports (A\$ million)	2004 imports (A\$ million)
Hides & skins	504.789	1.529
Processed leathers	326.589	81.579
Leather clothing	26.161	240.686
Footwear	32.355	706.678

Decline

Australia's cattle business is in decline, with the kill having fallen from over 8 million in 2003 to 7.5 million in 2006. The 2003 drought brought excess cattle to the market and falsely inflated the kill. The national herd is now rebuilding. Cow slaughters are down from over 50% to 44% and still falling. Some of the bigger export abattoirs are only operating a four-day week due to the lack of supply. Despite this, however, prices have come back into line with world parity compared with the overpricing of 2005 and early 2006 brought about by fierce domestic competition for hides.



The country's place in the world leather industry is increasingly that of a supplier of raw material. The wet blue boom of the 70s and 80s has been replaced by contraction, with four of the 11 wet blue plants closed and one running at a reduced level. The five plants owned by meat companies, however, have experienced significant capital and equipment investment.

Italy, traditionally the largest customer, has now fallen behind China. Several Chinese tanners have set up offices in Australia purely to source hides and skins direct from abattoirs or dealers. ➤

WORLD FOOTWEAR

Although the majority of cattle hides are exported to China in salt, significant numbers also go as wet blue where the demand is for higher quality for shoe leather. Italy, on the other hand, still takes lower grades for upholstery leather. Japan and Korea are also buyers of Australian wet blue.

The footwear industry

Around 3% of women's and up to 10% of men's footwear retailed in Australia is made locally. About 65% is imported from China. The local men's industry has a solid base of industrial and safety footwear as we will see later. The women's side is still dominated by the Ritchie Group, which produces some 60% of the women's fashion footwear made in Australia. It has managed to remain competitive with China through investment in technology, systems and people, and by developing short lead times through a tight supply chain made possible by using locally-made leathers.

The pause in import tariff reduction on footwear, which has levelled out at 10% from 2005 to 2010 but will drop to 5% in 2010, has caused further restructuring of domestic manufacturing. However, it has been falling over the past ten years and the industry has been able to adapt through a mixture of controlled exits, manufacturing offshore and productivity improvements for those who choose to remain.

With a few exceptions, such as Ritchie and the industrial boot makers, almost all manufacturers are now small producers of specialised footwear that uses specific Australian raw materials such as sheepskin for Ugg boots and slippers and kangaroo for specialist sports shoes.

The country is probably best known internationally these days for its production of industrial and safety footwear and this is the mainstay for companies like Bata, Steel Blue Australia, Blundstone and Comfortwear. The latter two are old established businesses, Blundstone having started in 1870 and Comfortwear in 1907. Blundstone is also something of an exception in having its own tannery.

Probably the best known manufacturer outside of Australia is RM Williams, which produces the eponymous 'stockman's boot'. More than 70 years ago, Reginald Murray Williams began to

make bush saddlery and boots while camped in South Australia's remote Gammon Ranges. Here, he met 'Dollar Mick' Smith an itinerant saddler and, after much trial and error, made his first pair of stockman's riding boots. The company now makes a range of boots using a variety of Australian sourced leathers to suit each application. The traditional oil-impregnated and elastic-sided riding boot, however, remains the core product.

While the Goodyear welted sole construction is used on many of the boots, RM Williams is one of only a handful of manufacturers in the world that still use brass screws in sole construction. Traditionally used for most work boots before rubber and polyurethane soling took over, it attaches the sole with threaded brass wire that 'screws' at high speed through the sole and insole. It not only makes a boot more solid but also stronger as, unlike stitching, the wire only wears down at the same rate as the sole. It also helps to keep the product distinctively unique and, while it still makes what are essentially work boots, RM Williams has become an iconic Australian brand as much sought after for the name as for the footwear itself.

Poor performance in the Philippines

The Philippines should have become a major centre for footwear manufacture in the same way that its near-neighbour Indonesia has. Instead, its leather and footwear sector has under-performed in the same way as the economy in general. Why is this? Much blame has been laid at the door of successive presidents and corrupt governments, and the lack of a stable political system. It is this basic instability that has made foreign investors shy away, leaving the Philippines in an economically backward situation.



The jeepney—still a typical sight in the Philippines

Footwear manufacture

DTI estimates in 2004 suggest there are around 2,148 footwear firms nationwide employing over 25,000 people. Production is concentrated in the National Capital Region (NCR), where about 43% of manufacturing is based. Over 75% of local footwear requirements are produced here, with the city of Marikina the main centre. The industry is comprised mostly of micro-, small- and medium-size enterprises. Most micro and small producers are sub-contractors or assemblers for larger factories. The majority use manual or semi-automated processes and, indeed, most employees are engaged solely in production. Products include leather and non-leather footwear, slippers, sandals, sports shoes, components and materials.

The sourcing of raw materials is also a major problem as local leather continues to be scarce and, while quality has improved over the last few years, local tanners are mostly still unable to supply the industry's needs with regard to both quality and price due to raw material and processing problems. As a result, the sector is reliant on imported hides. Other production-related problems, besides outdated technology, include a lack of skilled workers and low productivity.

Most manufacturers prefer to concentrate on the local market which is estimated to be upwards of 50 million pairs per year. The biggest proportion of this is ladies shoes as—depending on income—they may buy two to three pairs per year. It is also divided by quality, with the higher end using good upper leather and the lower end synthetics. Globalisation has meant that affordable imported shoes have now appeared on the local market, with China and other neighbouring countries such as Malaysia becoming a real threat. Retail prices vary from \$75 to \$350 for top imported brands, through \$12 to \$30 for comfortable and quite good quality locally-made shoes sold in boutiques, down to the mass market which operates below \$8. The bulk of the latter, however, is casual footwear selling at around \$2.50 per pair.

Exports amounted to about \$46 million in 2003 (last available figure), a 3% decline from the previous year. Sports shoes comprised almost half of this, with the Netherlands the biggest importer, followed by Japan and the UK. Exports in

REGIONAL COMMENTARY: THE PACIFIC RIM

fact declined at an average rate of 13% post 1999 with the biggest downturn in 2002, when they fell by 36% over a 12-month period. The decline in exports clearly demonstrates how the 'traditional' Philippine footwear industry has been unable to move forward in order to meet today's global competition.

West Coast USA

The West Coast of the USA is no longer home to major tanners or footwear manufacturers but nevertheless it has enormous influence over the fortunes of the global leather and footwear industries. One needs to look no further than Portland, Oregon, to appreciate this power. Beaverton, one of Portland's suburbs, is home to Nike. Portland is also home to adidas USA, as well as Columbia Sportswear, another major contender. It is, too, the operational base for a host of other, less well known brand names. Down the coast, California is home to Patagonia, yet another sportswear company with very decided views on the quality of leather it is prepared to use in its range.

The undisputed leader, however, is Nike, the largest footwear brand in the world. Its total revenues for the fiscal year ending May 31, 2006 were \$15 billion of which 60% was from sales of footwear. It directly employs some 26,000 people and approximately a further 650,000 indirectly through Nike contracted factories around the globe. It has also been the inspiration for the advance of globalisation within the footwear industry.

The Pacific Rim has played an important part in Nike's history ever since the company's inception. The idea of a specific athletic shoe brand came to founder Phil Knight while at the University of Oregon, where his co-founder Bill Bowerman coached athletics. They both felt that the performance of the athletic shoes available in the early 1960s left much to be desired and began to produce their own designs. Nike has been at the leading edge of athletic shoe development ever since.

Nike's roots also run deep in the Asia Pacific region, as Knight first began importing shoes from Japan in 1963. Nike Asia Pacific has been in operation since 1977, when it began to sell footwear in the region and subcontract the production to factories in Taiwan



Nike's World Campus is handsome, its office blocks bearing names like Alberto Salazar, Mike Schmidt, John McEnroe and Tiger Woods. A photograph from the mid-90s.

and Korea. Nike Japan was established in 1981. In 1997, two major customer service centres were opened in the region, one outside Seoul and the other in Tokyo. The next few years saw China become both a major production source and a vital long term market.

The Asia Pacific region is now Nike's third largest in terms of revenue and by far the biggest in terms of manufacturing. It employs some 3,282 people in the region directly and has 252 contract factories in North and 238 in South Asia, employing over 550,000 workers between them. It has 13 branch offices and subsidiaries all over the region, including Australia, China, Hong Kong, India, Indonesia, Japan, Korea, New Zealand, Singapore, Malaysia, the Philippines, Thailand, Sri Lanka, Taiwan and Vietnam. The phenomenon that is Nike just keeps on going and its importance to the region cannot be overstressed.

Specialist producers

There is also a number of small companies producing specialist products. Crary Shoes—also in Portland—is the total opposite of Nike. It is a custom shoemaker that specialises in people with medical problems due to degenerative foot conditions or accidents. It also caters for workers' compensation injury victims, diabetics and professional athletes who have all become aware of the need to protect their feet from daily abuse. This is still a small market but is growing rapidly in the USA as consumers become increasingly aware of the problems often brought on by ill-fitting cheap footwear.

In complete contrast is the West Coast

Shoe Company (Wesco's) based in Scappoose, Oregon. This is a fourth generation family-run business that has been making specialist boots for workers in the local timber industry since 1918. The abuse these boots suffer is immense, so they have to be strongly made from special materials.

Wesco boots are custom built around several basic formats to suit specific worker needs. The company's marketing is also honest and, although it says that a full-length steel plate protects the foot, it also says that it does not provide additional support and may well squeak as it rubs between the midsole and outsole. Other shoemakers take note.

D.W. Frommer II of Redmond, Oregon, concentrates on boots for the working cowboy, much as Wesco does for the logger, and produces rugged boots that will take the abuse of an active lifestyle. A variety of traditional styles are made with a wide range of heel heights depending on the final use. Upper leathers are generally heavier than usual and often impregnated with oil to resist water and barnyard acids.

California is home to some of the very best Western Boot makers. Most are very small but they uphold a tradition for making one of the most comfortable forms of footwear ever devised. Their secret is careful fitting, special lasts, the very best materials and attention to detail. This involves time and costs money. A pair of basic boots can take 50 hours to make by hand and can cost over \$2,000. Special boots in exotic materials may be over \$7,000. Two names to look out for are Custom Boots in Sebastopol and Slickfort Boots in Descanso. 