

WORLDFOOTWEAR

China — adapting to change

China dominates the world in terms of footwear production; no one disputes this. The Chinese government has also come to realise the importance of the footwear industry to the development of China's new economy and opportunities it has provided for thousands of people from poor rural backgrounds to enjoy a standard of living they never previously thought possible.

The Chinese leadership has also recognised that such phenomenal growth cannot be sustained purely on the back of cheap labour and is now actively encouraging the industry to adopt new attitudes in order to strengthen its position and to overcome the many potential problems that are now beginning to appear.

Jinjiang makes a challenge

Jinjiang in Fujian Province has more 3,000 footwear factories and over 2,000 material and component suppliers. It is also home to 19 well-known domestic Chinese footwear brands, nine with a top domestic brand name and no less than 54 inspection-free (NPE) products. Although this is quite an accomplishment in less than 20 years, the local industry has set itself new targets.

In recent years, the industry has started to pay more attention to investment in new and better technologies, materials and skills. However, despite these initiatives, the level of technological innovation remains relatively low.

Research and development is still rather weak and there remains a lack of good higher-level expertise and good IT practice. In addition, there is insufficient production capacity for top quality footwear and very little attention paid to function and comfort in the development of new products.

The Italians succeeded by flair and innovation. China has grown on the back of low-cost labour and its technology has stagnated because it was cheaper to employ more people than invest in better technology. But, life is changing as the breakneck speed of economic expansion drives up labour costs far faster than Chinese manufacturers could have imagined. So, something needed to change.

The port of Shanghai. One of the problems China has with moving footwear production inland is that transporting finished goods to its major seaports for export to the global market is time-consuming and expensive.

Pressures of globalisation

And change it has. To begin with, consumers in developed countries had accepted the basic footwear imported from China simply because it was cheap and they could afford to buy more pairs. This novelty soon wore off and they began to demand better styling, materials and more variety. Globalisation has in this sense proved to be a two-edged sword, as while it has provided cheaper consumer products in the West, it is now forcing Asian

BRAZILIANS WORKING IN CHINA

The Brazilian footwear industry has made loud protests against Chinese imports. What it does not shout about is the large number of Brazilians who have gone to work in the Chinese footwear industry. According to Brazilian financial newspaper Valor Econômico, around 1,700 live and work in Dongguan, in Guangdong province, accounting for half of all Brazilians living in the People's Republic of China.

Almost all are from the state of Rio Grande do Sul which has two specialist footwear schools that are part of the National Industrial Learning Service (Senai); the leather tanning school at Estancia Velha and the footwear school in Nova Hamburgo. They began to arrive in 1995 when the Real Plan, indexing Brazil's currency to the dollar, caused footwear exports to fall and US importers to transfer offices to China, taking the Brazilian professionals with them to work as designers, modellers, leather finishing technicians or in other specialised fields.

They will no doubt stay as the city now has shops, childcare, restaurants and other services specifically for its Brazilian community. There are also few prospects in Brazil's footwear industry plus and they are earning twice the salary they would receive back home.

GOVERNMENT SETS THE STANDARD

Government-run agency for promoting the footwear industry, China Shoe, has announced a new standard that will cover footwear production across the country. The vice-president of an affiliated research body, the China Leather and Footwear Industry Institute, Yan Huai Dao, travelled to the GDS event in Düsseldorf in September to present the new directive to the global industry.

The standard, QB/T 1002-2005, governs ten areas. These include familiar subjects such as abrasion resistance, flexing resistance and low-temperature flexibility of vamp materials. Other issues it covers are heel bond strength, upper pull-off strength and peeling strength, which, for men's shoes, must be greater than 70 newtons per centimetre and, for women and children's shoes, 50 newtons per centimetre.

The remaining four areas the standard looks at are unit sole heel hardness, insole fibre board flexibility, the physical mechanism properties of steel shanks in leather shoes and, finally, what Mr. Yan refers to as the 'sensational quality' of leather shoes made in China. Rather than a marketing message, this last item refers to the way all the components in a shoe will feel to the wearer. "We should have standards no matter what we do," said Mr. Yan at the Düsseldorf event, "so it's only natural to want to have standards for the leather shoes we produce."

While insisting that China's introduction of QB/T 1002-2005 was partly an attempt to boost communication, cooperation and mutual progress with trading partners throughout the global footwear industry, he also made the point that there was something different about this standard that lent it extra weight.

He claimed that the central government's role in imposing the new measures on China's footwear manufacturers gave them extra importance. He said: "In other countries, governments don't impose footwear standards. It's only manufacturers or industry associations that do that. So you can see how seriously the Chinese government is taking this." He went on to say that the new standard also aimed to encourage manufacturers in China to improve the quality of what they produce, although he acknowledged that it's the market that makes the final decision on quality.

The Chinese official avoided the subject of the anti-dumping measures that the European Union has in place for imports of leather footwear from China and Vietnam at the moment, and clearly wanted to look forward to a time when leather shoes from his country would again be welcome in the European market.

To that end, he encouraged buyers from the European Union and elsewhere to use the new standard to help them build strong relationships with their footwear suppliers in China. "In any procurement exercise, you can pay attention to the standard and use it to understand your manufacturing partner better," he said. "Too many overseas buyers make do with looking at samples, but you need to have a much more detailed discussion about quality and testing."

The Chinese government hopes the new standard will help boost understanding with trading partners throughout the global footwear industry



producers to invest more in order to survive increased competition.

Ding Zhizhong, President of Jinjiang Shoemaking Industry Association, has been reported as saying that against a background of globalisation, the development of the footwear industry in China has already entered a new phase in terms of technological upgrading. Chinese footwear exporters faced all kinds of technical barriers abroad, so if the industry in Jinjiang wanted to become stronger, it would have to introduce more science, improve the technical content in its products and pursue more quality-benefit type development supported by new technologies.

A recent example of this new approach has been the opening earlier this year of the Sport Equipment Research and

Development Base of China Institute of Sport Science (CISS) in Fujian and Sidelong Sporting Goods Co., Ltd. in Jinjiang. It is the second cooperation between Jinjiang and General Administration of Sport of China since the Chinese Badminton Team set up its training base there in 2003. The programme will collect data on foot shapes nationwide which will then be used to create the first national foot shape database and 'standard' for sports shoes. Sports shoe manufacturers will then be able to produce shoes that are suitable for the foot shapes of Chinese people.

If Jinjiang is to realise its ambition to become the world's shoemaking capital, it will also need the talent to make all this technology work and, in all fairness, this has received more attention since the

Millenium. The Recreational Centre for Experts and an Overseas Students Pioneer Park have been set up in succession after the first post-doctoral workstation at local level was set up in 2000. Anta (China) Co., Ltd. appears to have done a good job here and has introduced some well-qualified people into the industry through its research and development bases in Shanghai, Guangdong and Jinjiang.

Improved capitalisation

This push for greater investment calls for more capital and the more progressive companies are seeking stock exchange listings in order to attract investors. In November 2005, Hongxingerke Group was listed at Singapore Main Board at a price seven times its price/earnings ratio and raised about RMB200 million yuan. ►

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This started the ball rolling and other companies expressed an interest, so the municipal government set up a steering group to encourage more companies to make the change from asset to capital management. At present, there are six listed companies in Jinjiang and it is estimated that there will be 20 by 2010.

The government has also offered incentives for listing and a company can expect a fiscal subsidy of RMB 4 million yuan (\$532,000) from the government once it has become listed. In addition, assistance is available in regard to qualifications and procedures for becoming listed, risk evaluation and economic investigations. Listing is seen as not only a way of raising more capital but also as a way of changing the traditional family management culture into one that is more professional and better able to guide a large company in a global industry.

Exports via Macau

The import restrictions applied by the EU in 2006 have caused much consternation in China's footwear industry. A few companies have decided to fight them in court while others have merely changed their product or targetted alternative markets. There is a further number who have allegedly adopted other strategies.

The European Commission believes some are routing exports to Europe via Macau to avoid the extra 16.5% import charges imposed last year on leather footwear. The EU's executive arm has said that it has found signs that Chinese companies are trying to skirt these fees by either shipping completed footwear via Macau or by carrying out final assembly there.

This enables them to sell to European importers for even less than the prices of the original Chinese-made shoes that led it to introduce the extra charges in the first place. It also undermines its efforts to find a solution to the flood of cheap imports that sparked a bitter dispute between European producers and retailers.

China in turn accuses Europe of protectionism and Chinese shoe producers said last year they would file a legal challenge with the EU courts. The EU began the investigation on its own initiative without receiving a formal complaint from the European industry. If it uncovers firm evidence that Macau is

also selling below-cost shoes to Europe contrary to global trade rules, the import duties could also be extended to shoes coming from that source.

In a notice published in the EU's Official Journal, the Commission said it had seen a significant change in the pattern of trade involving exports from mainland China and Macau to Europe. It went on say, "There is insufficient due cause or justification other than the imposition of the (antidumping) duty for such a change.

"Significant volumes of imports of the product under investigation appear to have replaced imports of the product concerned. In addition, there is sufficient evidence that this increase in imports is made at prices well below the non-injurious price established in the investigation that led to the existing measures."

Macau, a peninsula and two islands about 60 kilometers west of Hong Kong, is a former Portuguese enclave that returned to Chinese rule in 1999. Like Hong Kong, it is also governed by different laws to mainland China. The tariffs currently affect 11% of all shoes sold in Europe, including children's. The European Commission said last year that this would add €1.40 (\$1.79) to the average retail price of Chinese shoes selling for €35 (\$44.83) in Europe if importers and retailers chose to pass the full cost on to customers.

Price pressures

The All China Leather Exhibition in Shanghai, which took place in the first week of September, traditionally marks the end of the summer season and is a good indicator of where the leather industry is heading. Attendance this year was good and quite busy on the first two days. The overall outcome suggested that the leather business in general remains quite steady and should be able to maintain the high levels it has reached over the past year.

However, the situation was not the same for everyone. While handbag and accessory leather producers were busy, those producing upholstery and even shoe leather are facing an increasing number of problems. The main issue is not demand—which remains good—but, falling prices. Consequently, the demand for lower-cost raw materials is outstripping supply and there is a real possibility of shortages. At the same time, demand for medium- and higher-priced

raw material is declining.

The clear indicator here is that despite all the talk of Chinese manufacturers seeking to upgrade, markets in developed countries are resisting any price increases. The toughening stance on bank and credit card borrowing in these markets resulting from the sub-prime mortgage fiasco in the US is likely to make this a longer- rather than shorter-term problem for Chinese shoemakers.

Sustainability and change

One of the signals that perhaps confirms Asia's status as the most important footwear manufacturing hub is that the Dow Chemical Company now has the headquarters of its footwear division there. It's an investment that the parent company believes can pay important dividends. Dow Footwear Solutions is in a prime position to help brands and manufacturers try out new ideas and materials.

One of the best recent examples is the new Voralast soling system that brands, including Mion and Timberland, have introduced into their manufacturing processes in China. Voralast has been what Tony Frencham, managing director of Dow Footwear Solutions, refers to as a '20-year journey'. These two brands, and others he prefers not to name, approached his company and asked what it could do to help them. Voralast appealed to them because it's a soling system that uses polyurethane (PU) that has plant-grown oil as its source.



Mion

This goes to the heart of one of the big challenges facing footwear manufacturers in China today. They are coming under increased pressure to improve their performance in the area of sustainability

REGIONAL SURVEY: CHINA

and it was here that Dow Footwear Solutions felt it could help. "We looked at the renewable content of their footwear," Frencham explains, "and decided Voralast could help them. It takes much less resource to make the PU we use than to make it in the traditional way."

The new way to make soles is proving popular, he says; demand is high. This, perhaps, proves the point about sustainability, which is affecting not just footwear brands and manufacturers, but also the entire raw materials world. Frencham's objective is to help brands find the best way to achieve this. "It's not an insignificant challenge," he continues. "The brands we're working with want material that performs, that supports their sustainability efforts and is still economically viable." If sustainability seems to be a bigger issue for the industry in Asia, Dow Footwear Solutions argues that it is, at least in part, because it currently produces significantly more than 80% of the world's shoes.

The organisation's managing director has some sympathy with an argument that the central government of China, in particular, has often put forward to counter criticism that its pollution levels are simply too high. If we look back over history, even recent history, all industrialised countries have been heavy polluters.

Frencham says: "What China is pulling off is an economic miracle, moving from an agrarian system to an open society. At a certain point, it will have to come fully to grips with its environmental issues, and it knows that. But it has been moving people from farms to basic manufacturing and to more advanced manufacturing on a scale we've never seen before and will probably never see again."

He insists that China is serious about changing, but that it's not something it can achieve just by flicking a switch. Making the point once more that all societies are, or have been, guilty of environmental degradation, he claims that some countries are guilty now of making constant reference to the environmental issue in order to hold China back.

There are other issues. What he terms 'the limitless pool of cheap labour' in China is beginning to run out and, hand in hand with the drying up of the labour pool, upward pressure on wages.



His observation is that Chinese companies are good at the supply chain, at making shoes, including high-quality ones, in large volumes. To move footwear manufacture away from its traditional centres in the south and east of the country, towards the interior, would lead to the problem of shipping shoes back to sea ports for export—an expensive business.

There is a difficulty in finding the next source of cheap labour, which is why

Chinese footwear companies have become increasingly active in other parts of Asia, Africa and, more recently, even Russia. For those who remain in China, Frencham urges them to keep finding ways to add value, but he believes that comments he hears fairly often that China cannot 'do design or brands' are already wide of the mark. No one should write off China's desire to improve its footwear industry, or its ability to use low-cost raw materials and, still, affordable labour-force to take further strides forward. 



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