

Guangzhou has long been at the heart of the Chinese footwear manufacturing industry, but the number of producers there has almost halved in the last 12 months. This article offers an explanation and explains why the Chinese government thinks the development will be a positive one in the end.



As quality has risen, the number of footwear manufacturers in the Pearl River Delta earning more than \$100 million from exports has increased from two to eight in one year.

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Natural selection makes shoe manufacturers move on

One of the most interesting effects of the changes taking place in the Chinese footwear industry is happening in the Pearl River Delta (PRD), the area of Guangdong province centring on the third busiest metropolitan area on the mainland after Beijing and Shanghai, the city of Guangzhou.

This region has been the footwear capital of China for more than a decade and hosts huge factories that employ tens of thousands of people who make shoes on behalf of some of the biggest names in the industry. This time last year, the total number of footwear producing companies registered with the authorities in the PRD was 4,759. Now, however, the total stands at 2,428.

The authorities in the region issued a press statement in the summer confirming these figures and emphasising that the footwear industry there is still in a strong position. They quoted statistics showing that, although the volume of shoe exports from the PRD in the period spanning January to May this year had fallen by 25.7% to 940 million pairs, the value of the shoes these southern companies sent abroad had grown by 8%, bringing in \$3.46 billion.

The official explanation of this at the time was the most of the firms that had ceased production or moved to lower-cost parts of China, and even into neighbouring countries such as Vietnam, Myanmar and Thailand, served the lower end of the market. Those

that remain in the PRD, the authorities said, were still growing and developing well, with eight companies now bringing in more than \$100 million a year in footwear exports, compared to only two last year.

Madam Zhang Shu Hua, chairman of the China Leather Industry Association (CLIA), offers this explanation of what is going on: "It's only natural that footwear factories should move on, either inland or to countries in south-east Asia. This is a labour-intensive industry, and it's entirely to be expected that producers will move to less expensive places. This is exactly what happened when European companies began to move their production to Asia."

She insists that this rush to relocate is no negative thing for the industry in the PRD; it will make the region, and the whole of China, "better in the long run".

Her association's secretary general, Su Chaoying, takes the argument further.

Labour costs are increasing in the PRD, he says. At the start of this year, Nike took the unprecedented step of funding a huge pay-rise of workers in a factory in the region making shoes on its behalf. Naturally, this has put pressure on competitors to increase their own rates of pay. A stronger local currency is also having an effect: if the dollars shoes can earn in export markets buy less energy, fewer workers, fewer raw materials and a smaller proportion of your property rent price, you either have to sell more, put your sales price up or throw in the towel.

Putting your prices up is a tricky option to put into effect, Mr Su says, because of the downturn in the US



Madam Zhang Shu Hua, chairman of the China Leather Industry Association (CLIA), says it's only natural for footwear manufacturing companies to keep moving around the world to keep their production costs as low as possible.

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and other western economies. It's a brave Chinese company that thinks the second half of 2008 is a good time to call Wal-Mart and try to negotiate its prices upwards. "Of course Chinese footwear manufacturers have been affected by that," he continues, "and some smaller operators have been unable to cope, making closures inevitable."

But he, too, insists that this phenomenon is "healthy" for the footwear industry in and around Guangzhou, principally because the footwear the region is producing is increasing in value, if not in volume. And he says this is essential. The pressures Chinese manufacturers are under to meet higher costs are no less severe than the ones their counterparts in other parts of the world are facing up to. The pressure is so severe, in fact, that fierce competitors in the area are now discussing among themselves possible unified actions they might take to tackle it together.

"Labour costs have gone up by 15% on average," he explains. "Some very big companies have embraced this positively; it gives a good picture of their brands to our society. Society in China now is putting pressure on companies to be socially responsible, and the money they pay their workers is an important part of that. If companies want to present a good picture of themselves, they have to increase their rates of pay. So, right now, there is pressure, and we are seeing the effects of it. But in the future, we will look on what is happening right now as a good thing for the footwear industry here." 🌐



CLIA secretary general, Su Chaoying believes the pressure is on for Guangzhou-based manufacturers at the moment, but that the readjustments of 2008 will prove positive in the long run.

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