



Overview

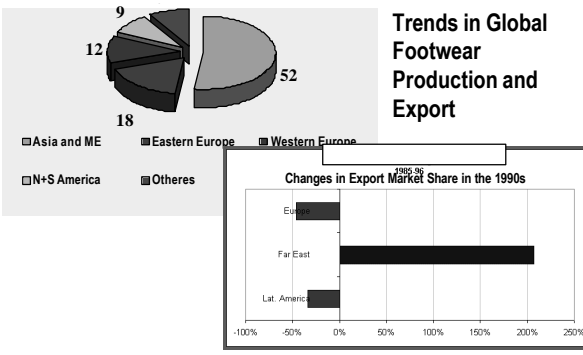
Key Findings of the Country-case Studies

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 Bangkok, Thailand, 19 to 21 November 2003
 Presented by Ulrich HOFFMANN (PhD), UNCTAD secretariat

Some General Background Information on the Supply Chain Management in Leather/Footwear Industry

Some of the Main Findings of the Country-case Studies on Awareness, Info-management and Adjustment Strategies

Changing Global Production Patterns



Implications of Globalization

Recent UNIDO studies on the global leather and footwear industry indicate that in the economy of globalization, the comparative advantages of nations are exploited and integrated with the main objective of seeking cost efficiency and value added productivity. A dominant characteristic of the economy of globalization is a continuous drive for performance competitiveness among countries and companies and even among units inside the company. The factors of production in this economy are very flexible and can be shifted easily from one place to another (i.e. leading to a foot-loose character of the industry).

Labour Costs

Labour Costs in Selected Footwear Producing Countries, 1999-2001

Country	US \$/hr
South Korea	7.2
Taiwan, Province of China	5.9
Hong Kong	5.4
Portugal	5.3
Brazil	1.5
Indonesia	0.7
Romania	0.7
China	0.6
Vietnam	0.6
Thailand	0.5
Pakistan	0.2
India	0.2

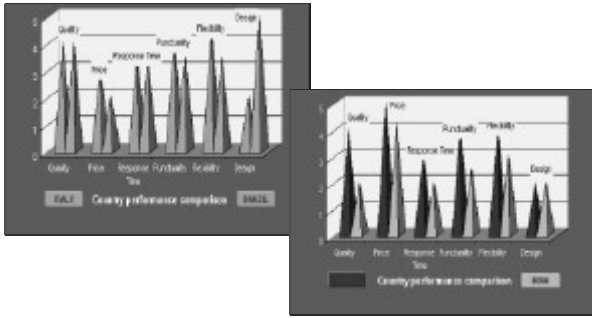
Labour versus Material Costs

Country/Region	Labour Costs	Total Production Costs
	US \$/hr	Per Pair of Oxford Shoes
India	0.2	12.8-17.3
China	0.6	12.8-17.3
Romania	0.7	12.8-17.3
Philippines	4	12.8-17.3
Italy	14.3	23.3
France	20.7	30.5

The high proportion of material costs in total costs in footwear manufacturing and low labour costs in developing countries and economies in transition are two key reasons for preference for job sub-contracting in the production of shoes. While in Italy labour costs correspond to 38% of the total production costs, in Hungary 10% and in Zimbabwe 4%. Materials costs have a much larger influence on total production cost, they represent 54% the total cost in Hungary and 76% in Zimbabwe and 45% in Italy. SOURCE - UNIDO

Competitive Performance Comparison [1]

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Competitive Performance Comparison [2]

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Country	Competitive Advantages	Suitable Markets
China	<ul style="list-style-type: none"> - Cheap source of footwear - Reliable product quality - Strong in coping with massive standardized orders 	Huge price-driven orders from US discount retail chains
Brazil	Capable of supplying substantial volumes of quality branded products, not requiring particularly innovative design	Middle class retail chains
India	Capable of responding to small to medium size orders of leather shoes which sell on price rather than quality	Price-driven medium size markets
Italy	Innovative design, high quality fashion	Small and high fashion orders from boutiques

Source: Interviews with US and European buyers, undertaken by H. Schmitz included in IDS Working Paper 100

Leather Industry – A Multi-material Business

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Utilization of Soling Materials in Indian Footwear Production

Material type	Share in Recent Production in %
PU	9%
PVC	19%
Rubber	35%
TPR	20%
Leather	15%
Other	6%

Thailand's Recent Use of Leather in Global Leather Goods Manufacture

Product Group	Products	Leather Share in %
Hand bags	Handbags with and without shoulder strap	27
Small leather goods	Wallets, purses, billfolds, key pouches, cigarette cases, tobacco pouches	30
Briefcases	Briefcases, attaché cases, portfolios, school bags	20
Gloves	Fashionable and special sports gloves	100
Belts	Waist belts, shoulder belts.	70
Travel goods	Bags, rucksacks, sports bags, toilet and body bags	2
Suitcases	Suitcases, trunks, vanity or beauty cases	4
Others	Shopping bags, tool bags, jewelry or cutlery boxes, map cases, binocular computer, camera, musical instrument phone holster cases.	6

About 35% of footwear in OECD is made of non-leather materials; this figure is about 85% in DCs

Major Exporters of Footwear to the EU

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Imports of Footwear into EU	1996	1997	1998	1999	share of imports
World	6,909,606	6,035,419	6,989,383	6,835,342	100.0%
China	1,151,262	282,483	261,782	380,557	17.6%
Vietnam	544,295	874,444	966,688	283,023	16.4%
Romania	371,426	437,004	565,124	661,004	8.4%
Indonesia	688,356	761,276	586,151	580,784	7.4%
India	345,897	391,258	376,691	428,500	5.3%
Thailand	262,945	304,999	321,359	297,604	3.8%
Hungary	238,193	280,524	275,244	293,265	3.7%
Tunisia	186,779	213,761	230,104	263,249	3.4%
Taiwan	156,260	231,945	210,617	233,345	3.0%
Hong Kong	59,191	91,958	114,249	218,051	2.8%

Cambodian Exports

Footwear - 2002	Value in Mill. \$	Percentage
Total Export	31.7	
Total EU Export	19.2	97%
Germany	11.0	86% of EU
France	3.3	18% of EU
Netherlands	1.3	7% of EU
Japan	10.8	34%

General Constraints for DC Producers

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- Lack of market information in developing countries new in the international markets
- Lack of English-speaking staff at manufacturers from developing countries
- Poor communication infrastructure available to developing countries manufacturers
- Poor physical infrastructure to reach factories located in marginal areas
- Lack of experience in negotiating the contracts required by multinational corporations
- Low or imperfect knowledge of environmental requirements in key export markets
- Lack of skilled staff and regular training facilities

Green Consumerism

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Several Factors are Important:

- Aging of population – higher quality requirements/higher expenditures per unit;
- Desire of consumers to know more about PPMs under which products were made and how environmental friendly the products are.

Waste Water Treatment of Tanneries

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- Waste water treatment of tanneries remains an acute problem in Bangladesh and the Philippines. The issue is being addressed in Vietnam and resolved in China and Thailand.
- Recently, Bangladesh has taken a decision to relocate the tannery industry and create a collective waste water treatment plant.
- There is general apathy on the issue in the Philippines.
- Weak vertical integration between leather and leather goods industries – no environmental leverage

Level of Awareness

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- Awareness is highest among large companies and lowest among SMEs.
- International organizations and national industry associations are playing an important role in this regard.

Information Management

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- Information management is most effective in China and Thailand.
- There is very little follow-up on alert messages.
- An early warning system only exists in China through the Association of Leather Industry.
- There is no info gathering and dissemination on pre-standard-setting stakeholder consultations in key export markets.
- With the exception of China, there is very little or no co-operation between public and private bodies on info gathering and dissemination.

Synchronization of Requirements

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- Synchronization between environmental requirements in key export markets and national requirements only exists in China. China set limits for certain residues; it also has the "Genuine Leather and Eco-leather Products Mark".
- There are no legally binding regulations on leather and footwear in the other countries; regulation is mostly confined to wastewater management.
- Several countries require mandatory EIA for tanneries; implementation/enforcement is however very weak.

Useful On-line Reference

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AccessGuide of CBI in the Netherlands
(Bureau for the Promotion of Imports from DCs)

www.cbi.nl/accessguide

www.194.247.99.13/accessguide