

# Shoemakers Looking to Step Into a New Niche

by Daniel Ten Kate **The Cambodia Daily**

Because the shoe industry cannot compete on cost with China and Vietnam, it must develop a niche market to keep factories here, a UN official told industry leaders and government officials at the Sunway Hotel this week.

"Let's have no illusions," said Ulrich Hoffmann, a Geneva-based official with the UN Conference on Trade and Development. Domestic shoe manufacturers "have to find other virtues that distinguish themselves from their competitors, or factories will close shop and move across the border."

Shoe factories, mostly Taiwanese investments, came to Cambodia starting in 1995 - the majority arrived in 1998 - to take advantage of its status as a least developed country, which gives it duty-free access to the European Union and Japan.

But in response to China's accession to the World Trade Organization in 2001, the EU is gradually reducing tariffs on Chinese-produced shoes - slowly eroding Cambodia's competitive advantage.

"This is globalization," Hoffmann said. "The possibility that Cambodia could lose its footwear factories cannot be ruled out"

The number of footwear factories has declined from 16 to 10 in the past few years, and industry officials fear that more could leave soon. Cambodia exported nearly \$32 million of footwear in 2002; Vietnam, second only to China in global footwear production, exported \$708 million.

Moreover, a UN study showed that it takes from three to four months from the time shoes are ordered here to reach the EU market. Shoes ordered from Vietnam take two months to reach Europe. Shoes from China take even less time to hit the market.

"It will be a long time before due vertical integration is possible in Cambodia, and the question remains as per how long the industry [can] survive through intense competition from the region," said David Van, who serves as deputy secretary-general of the Garment Manufacturers Association of Cambodia and as a consultant to the Commerce Ministry.

He suggested, along with Hoffmann, that shoe manufacturers focus on upgrading their shoes to meet the stringent environmental standards of EU consumers. Footwear products, David Van said, should meet the voluntary requirements for the EU's environmental friendly label "The Flower."

The Flower label bans substances harmful to the environment, including chemicals used in certain glues and dyes. It also limits the amount of metals like chromium, arsenic, cadmium and lead in the final product.

Factories here already comply with minimum environmental standards required to export to the EU, but experts recommended that the industry go beyond its competitors to carve out a niche market and keep jobs here.

A UN report on the relationship between environmental requirements and international trade found that developing countries face an uphill battle in doing that. Developed countries, to protect their own industries, often will set high environmental standards that most developing countries cannot comply with.

"The ability of developing countries to implement certain standards set by foreign markets may be limited by financial and technical restraints," the report said. "Moreover, governments in developing countries may find it difficult to subsidize the development of environmentally sound production because of competing claims."

As of now, there is not much evidence that The Flower label translates into increased sales. But, Hoffmann said, the European Commission is expected to soon pass a directive that will "breathe new life" into the eco-label.

Yet even if shoe factories here become compliant with the latest environmental standards and European or Japanese customers prove willing to buy them, Cambodia's niche may not last long.

"The problem is that [environmental standards] are a constantly moving target," Hoffmann said. "The current requirements today may be the minimum requirements tomorrow. ....And other

countries will soon follow. Its a temporary ..advantage."

At the end of the day, experts said, keeping factories here comes down to operating costs. And they agreed that Cambodia cannot compete on cost with China or Vietnam.

While the Commerce Ministry has reduced documentation processing times in the past few years, a recent World Bank analysis said that substantial hidden costs exist in transporting and importing goods. Like the garment industry, the footwear sector needs to import its raw materials.

The World Bank report found that the costs involved to transport and import a 12-eter container of goods into Cambodia is \$858. In Hong Kong, it costs \$555. In Madagascar, it costs \$367.

"It is well-known that worldwide garment and footwear industries are 'footloose' people who can easily pack and go to any place offering better production cost and incentives," David Van said.

StiR Sok Siphana, secretary of state at the Commerce Ministry, said Thursday that he was confident shoe exports would improve next year.

"Cambodia is not a big country," he said. "We don't need to grab the biggest market share. We can still keep the footwear industry up and running."

"In addition, Sok Siphana said, the Commerce Ministry is developing a strategy with the World Bank to lower operating costs.

"All of these things are done incrementally," he said. "Six or seven years ago, costs were much higher."

"Some shoe manufacturers said this week that corruption costs are bleeding their profits.

"If you want to talk about costs, the big cost is corruption," said an official at the Cambodia Shoes Industry Association, adding that one or two more shoe factories may soon close. "The problem is just getting worse. Everybody knows about it, but nothing is changing."