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Global Agricultural Information Network

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Guangdong market for leather weathers the storm, spells demand for American hides and finished leather

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Market Development Reports

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Report Highlights:

Every industry and every continent felt the recession chill during the past year and a half. China is certainly not immune, but shows signs of weathering the storm better than many. South China's Guangdong province accounts for 90 percent of production, the largest producer in China for leather and related products. The city of Shenzhen produces high-end footwear and leather products. Dongguan exports OEM shoes. Huidong is known for women's footwear while Huadu is best-known for manufacturing luggage and handbags. Since the province does not have supplies of raw materials, and its tanning techniques are not yet topnotch, there is high demand for finished bovine leather while finished exotic hides are tested out by selected open-minded manufacturers. With increasing brand building, marketing and educational efforts, Guangdong's potential remains vast for American leather exporters.

General Information:

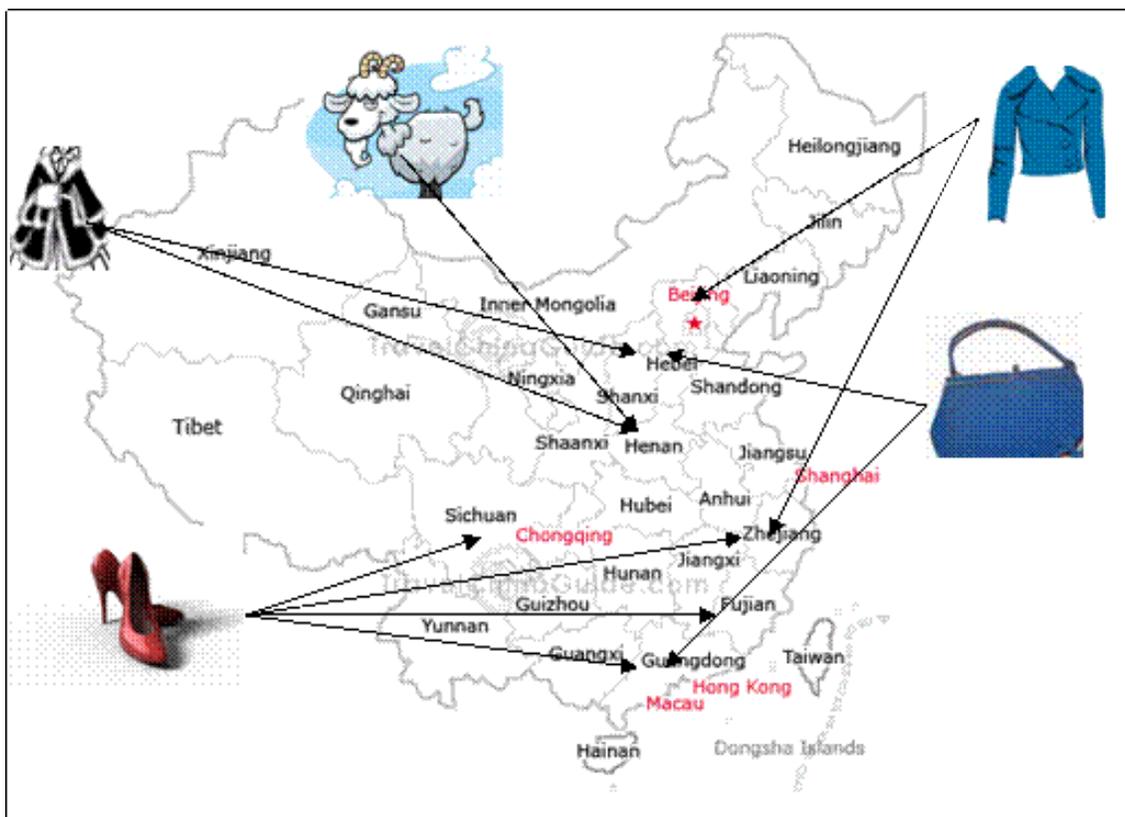
Overview

The *International Council of Tanners* reported that world trade in the finished leather sector represents US\$46 billion a year, ranking among the most important internationally traded commodities. China ranked number one in terms of export and production volume of footwear, luggage, handbags and leather accessories.

On average, China produces 7.75 billion square feet of leather each year and accounts for 20 percent of the world's total, according to *China Leather Industry Association (CLIA)* Director, Mr. Xu Yong. It can also manufacture 10 billion pairs of footwear and 70 million pieces of leather apparel each year. Half of China's leather products are export-bound. The three major leather producing provinces in China are Guangdong, Fujian and Zhejiang. Guangdong has a long history in leather making, footwear, luggage and handbag manufacturing.

In this fast growing industry, Wenzhou (Zhejiang province), Guangzhou (Guangdong province), Quanzhou (Fujian) and Chengdu (Sichuan province) represent shoemaking centers while Haining (Zhejiang province) and Xinji (Hebei province) are bases for leather apparel production. Sanpo in Mengzhou of Henan and Suning in Changzhou of Hebei are home to fur skin production. Huadu (Guangdong) and Baigou (Hebei) are known for leather product manufacturing. Henan is the largest goat leather production province and houses the largest goat leather production factories in China. Each year, 80-90 percent of inner shoe leather was produced in Henan. Goat leather was used in cushions and auto upholstery as well.

The following shows where the major leather production provinces are by type:



In 2008, *CLIA* stated that the export volume of leather, fur and their products was US\$42.5 billion, up 10.4 percent from the previous year. Total imports were US\$5.45 billion, down 0.3 percent. The principal export markets are the United States, the European Union, Japan and Russia. Principal suppliers for China's leather products are Italy, Vietnam, Indonesia and Thailand.

Due to the global economy recession, exports of finished leather was 29,000 tons (down 64.5 percent), valued at US\$370 million (down by 66.6 percent). Importation of finished leather reached 232,000 tons (down 20.5 percent), valued at US\$2.67 billion (down by 13.7 percent), because of weak international market demand.

Exports of leather footwear reached 1.13 billion pairs (a drop of 14.1 percent) at US\$9.8 billion (a growth of 2.6 percent in value). Thanks to demand from the domestic middle-class, China imported 178.9 million pairs of leather footwear (up 58.1 percent), valued at US\$510 million (up 65 percent). Most imports were from Italy for high-end male and female leather shoes and boots.

Exports of leather garments was 22.32 million pieces (down 34.7 percent), at US\$990 million (down 23.1 percent in value), the result of weak demand from the global market. However, more domestic demand drove imports of leather garments up by 3.3 percent (106,000 pieces), valued at US\$41.4 million (up by 54.1 percent)

Exports of luggage and handbags increased by 28.9 percent at US\$13.94 billion while imports were up by 54 percent at US\$540 million. European and Middle Eastern markets supported the growth of China's exports of these items in 2008. Meanwhile, greater numbers of high income Chinese consumers preferred to use luxury brands, keeping this importing market active.

2008 Statistics for China Leather Industry

Products	Exports (US\$)	% Change from 2007	Imports (US\$)	% Change from 2007
Leather, fur and products	42.5 billion	↑ 10.4	5.5 billion	↓ 0.3
Finished leather	370.0 million	↓ 66.6	2.7 billion	↓ 13.7
Leather footwear	9.8 billion	↑ 2.6	510.0 million	↑ 65.0
Leather apparel	990.0 million	↓ 23.1	41.4 million	↑ 54.1
Luggage & handbags	13.9 billion	↑ 28.9	540.0 million	↑ 54.0

(Source: China Leather Industry Association)

State Policies/Taxes

To help develop its economy, China's policies on hides, leather and related products reflected needs at different points. At the very beginning, the country did not impose any restrictions on importing hides or exporting leather products. After many years of high development in various parts of China, it started to reexamine its policies. Tanning of raw hides is considered a high polluting and high energy consumption industry. Therefore, State policy discourages expand of the sector. However, it is also a labor intensive production line, which can provide ample job opportunities for less developed regions.

Effective January 1, 2006, China forbid importing raw hides for the processing trade, because the government didn't want low value added processing to be completed in China, leaving a damaged environment in its wake. As a result, many factories shut down, as they had relied on importing raw hides, than processing into wet blue or other forms of leather for export. In addition, the government also abolished export tax rebates for leather, dry or wet.

In September 2006, the government continued to ban importing raw hides for processing. But it allowed processing of raw imported hides for exporting finished products that were made of leather. Therefore, factories will import raw materials and process them into sofas for overseas markets.

In order to ease increasing trade frictions, Chinese government revised its export rebate policies in July 1, 2007. Rebate for leather apparel was lowered from 13 percent to 5 percent. For footwear, the tax rebate was slashed from 13 percent to 9 percent. Many leather businesses complained that profit margins were only around 4 percent and had to rely on the tax rebate for survival. They said the new policy drove them into bankruptcy.

During 2008 there was the overwhelming world recession. The government was faced with waves of shutdowns in manufacturing. To rescue its GDP, in October and November of 2008, the government raised tax rebates for leather apparel up to 11 percent and resumed the 13 percent rebate for footwear, luggage and leather seating device.

On April 1, 2009, the export tax rebate on leather apparel (except for wild animal leather) was raised from 11 percent to 13 percent. So after two years of lowering, the rebate returned to pre-July 2007 levels.



Shopping for leather samples
(Source: ATO Guangzhou)

Leather Industry in Guangdong

In China, 90 percent of leather products were made in Guangdong. Shenzhen produces high end footwear and leather products, Dongguan export OEM shoes, Huidong is known for women's footwear while Huadu is best-known for manufacturing luggage and handbags. Because the cost of living and production in Guangdong is higher than in inland China, products manufactured in the province positioned their products at high prices that reflect high quality.



Leather jewelry
(Source: ATO Guangzhou)

During good times for the leather making industry, between 2000 and 2007, there were around 20 tanneries in Longgang of Shenzhen. On an average working day, their collective production volume reached 15,000 feet for small scale producers and 100,000 feet for big tanners. Now, only six remained with monthly production volume under 100,000 feet. Seventy percent of leather products made in Shenzhen are bound for export. On the domestic front, over 300 brands were produced by Shenzhen and distributed through some 3,700 franchised, licensed or self-operated stores

There are over 5,000 leather product factories in Huadu, hiring a workforce of 252,000 people. Each year, it manufactured 600 million pieces of leather products, accounting for one-third of the country's total output, valued over US\$2.2 billion. It is one of the largest leather materials and production bases in China. It was reported that 50 percent of European's medium and low-end leather luggage and handbags were supplied by Huadu. Many of the manufacturers in Huadu have their own brands. When asked about the impact of the financial crisis, many said they didn't feel much impact. As these are not OEM producers, they have their own brands and designers. Some even operate retail stores in overseas markets. In 2008, leather products exports of Huadu spiked 30 percent. In addition to its traditional European and South East Asian customers, Huadu businessmen are breaking in on Latin American market.

Although it is big on leather product manufacturing, Guangdong does not have its own leather source. Because of the government's strict policy on environmental protection, Guangdong is not where tanneries can thrive. Therefore, manufacturers in the province chose to produce leather products, and purchase leather supplies from other provinces, such as Hebei, Henan and Shangdong.

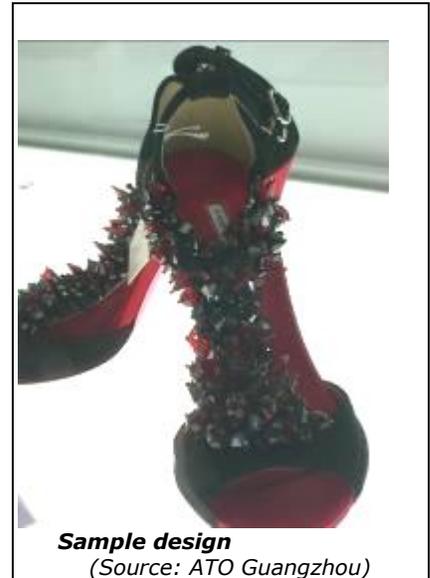


Leather bracelets
(Source: ATO Guangzhou)

Footwear

In 2007, *China Leather Industry Association (CLIA)* reported 52 percent of the world's footwear was made in China. Guangdong is one of the world's largest suppliers of footwear. Exports of footwear from Guangdong accounted for 25 percent of the world's total. Customs data indicated that average export prices for leather footwear fell under US\$7.00 in 2007.

Nearly all international brands source footwear from the province. Dongguan, Shenzhen, and Huizhou are homes to some of the world's biggest shoe factories. Most of them operate according to the OEM business model. Brands provide designs and instructions on type leather to use on products. With a quick tour of the *Pearl River Delta*, it is easy to run into a manufacturer that produces for high- end brands.



On the other hand, Jinjiang of Fujian is known for producing sports shoes. It has been competing directly with Guangdong on securing international orders during this recession. *Adidas* and *Reebok* stated they would consider transferring some of their orders to Fujian after high level field visits.

Luggage/handbags

Guangdong is also an important export base for luggage and handbags. Shenzhen, Dongguan and Guangzhou are the main production cities. In the first quarter of 2009, Guangdong exported luggage and handbags valued at US\$1.1 billion, up 10.1 percent from same time last year, accounting for 40 percent of the country's total export. It was also reported that this was first time for normal trade to exceed processing trade, meaning Guangdong's branding efforts saw tangible results.

The fastest growing destination for Guangdong's products is Southeast Asian countries, up 170 percent from last year, because it is a new market for manufacturers to start with. Export to EU and American markets didn't encounter big changes. In the first quarter, sales to Europe were up 6.4 percent, and down 2.3 percent to American market.



Huadu is an important leather producing town in Guangdong. In 2008, Huadu manufactured over 500 million pieces of leather handbags and luggage. Annual production value exceeded US\$1.6 billion. Huadu does not produce leather, but it has built a leather products making industry. Despite the global economic downturn, it managed to secure a 30.1 percent increase in exports in 2008. In addition, the first two months of 2009, Huadu's export witnessed 22.9 percent of growth. Industry analysts say the slowdown of the world economy impacts luxury leather products, but since Huadu products are low priced, their market was not affected much.

Genuine leather logo

To help consumers distinguish between real and fake leather, *the China Leather Industry Association (CLIA)* introduced the genuine leather logo program for products made with real leather. In January 2007, *CLIA* launched the English version of the logo and certification. According to the Association, it entails good quality genuine leather and mid- to high-end product with good after sales service. The logo is promoted among Chinese leather product manufacturers with an image of environmental friendly, honest business, good quality and fashionable.



Current Issues

Just like other manufacturing sectors, the leather production industry faces similar challenges in China. Rising production costs (up 40-50 percent), revaluation of the RMB, climbing labor costs (wages, benefits, training costs was up 20 percent) and narrowing profit margins pressed industry practitioners to find innovative solutions for surviving.

Before the world recession, raw materials were high priced. However, a big drop was seen in international raw hide supplies

last year. Most of the declines for various materials were over 50 percent. As a result, both American exporters and Chinese importers suffered from leather trading. The lost was then transferred to their buyers or wholesalers. Many shutdowns were reported in the past full year. When prices of raw materials plunged by half, some factories chose to ignore purchase orders and chose instead to relinquish deposits rather than receive shipments from the United States.

On the other hand, the Chinese government has repeatedly emphasized eliminating high pollutant and high energy consumption businesses. In many provinces, costs for water and waste water treatment hiked. Since the leather industry is big on water consumption, water treatment is essential operations. Many provincial governments along the Chinese coastal line ask leather manufacturers to move to a designated industrial park to centralize waste water treatment facilities and supervision. Large footwear manufacturers have already set up factories in interior China, but some of them said, from a long term point of view, it is better to move to Southeast Asia or Central America. In that scenario, China can ship its half processed products over and assemble in overseas factories for export, avoiding rising trade barriers.

Industry Outlook

Under the shadow of the global financial crisis, demands in shoes, cars, furniture or leather apparel dropped significantly. Many manufacturers reported not getting any overseas purchase orders, or they did not want to receive international orders as unit prices were too low



In the first two months of 2009, China's export of leather, fur and related products was reported at US\$8.63 billion, a decline of 7.1 percent, down for the first time in 10 years, due to financial turmoil around the world. This past April, *China Leather Industry Association (CLIA)* stated 2009 could be the most difficult year for the leather industry, and it is expected the market would recover in 2011. *CLIA* estimated there would still be some 20 years of high development for the industry in China.

The most distinctive characteristics of the China leather market is its lack of supply for raw hides. Many tanneries said they had to "battle" with each other to secure high quality supplies. As the biggest hide and leather production country, China has large demands for imported raw materials and high-end leather. Although it has many tanneries in different parts of the country, industry experts said they cannot produce or tan high-end hides yet.

Meanwhile, new trends emerged when strong players sought to survive the downturn. In addition to importing large volumes of goat and bovine leather, Henan reported importing 9,946 pieces of kangaroo hides valued US\$19,892 in July 2009. Purchase of this kind of exotic product in such volumes was unprecedented. Such leather will be used in footballs, golf gloves, and sports shoes.

Bovine Leather

As South China continues to be the biggest manufacturer for footwear and leather products, imported bovine leather remains in high demand.

The first five months of 2009, Fujian saw a surge in importing wet-salted bovine hides. According to the *Fujian Entry-Exit Inspection and Quarantine Bureau*, the province bought 32,600 tons of wet-salted bovine hides 9 (up 110 percent from the same period last year), valued US\$44.18 million (up 26.7 percent). It is said 70-80 percent of supplies were from the States, and prices dropped US\$931.6 per ton compared to last year.

Leather producers were said to increase purchases and expand stocks to lower overall production costs. Due to economic uncertainty, producers reduced production of leather products and deferred orders of raw materials in the last quarter of 2008. Midway through 2009, many traders and manufacturers ran out of stock of last year's leather. Therefore, they started to import large volumes when international prices were still low. Normally, a producer would have to stock up leather supplies for two months use. On the other hand, many industry practitioners expect prices on raw hides to be up again.

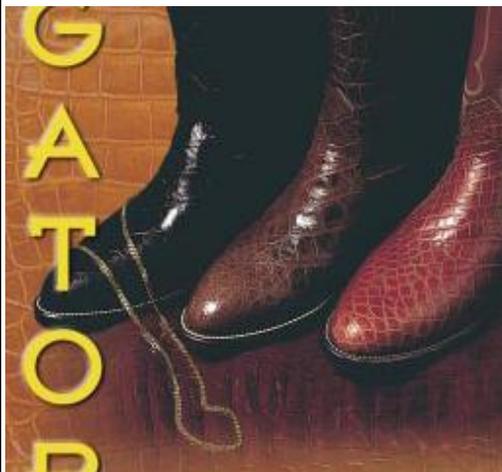


Drying bovine leather
(Source: ATO Guangzhou)

At the Guangzhou port, the import of bovine hides in the first quarter was recorded at 4,600 ton (up 712 percent) at US\$7 million (up 406 percent). This jump was a result of high demand in domestic footwear manufacturing.

As Guangdong remains the biggest shoe supplier in the country, its demands for leather will still be high. American leather is considered strong and top quality so the shoe-making industry is expected to continue using it.

Alligator Leather



Alligator boots
(Source: USDA literature)

According to *Southwick Associates*, consultants for alligator suppliers belonging to *Southern United States Trade Association (SUSTA)*, a non-profit agricultural export trade development association comprised of the Departments of Agriculture of 15 southern states and the Commonwealth of Puerto Rico. Since 1973, its programs and services have assisted exporters of high-value food and agricultural products.

SUSTA is funded by the U.S. Department of Agriculture's [Foreign Agricultural Service](#) (FAS), its member states and private companies.

The United States is the only source of raw alligator hides, and half of the alligator tanneries are owned by major fashion houses. As a result, outsiders' access to top quality hides is limited. These suppliers are not looking to ship raw alligator hides to China but plan to sell tanned hides directly to manufacturers.

For first-time alligator manufacturers, it is easier to make belts, wallets, outwear and furniture. Top grade hides, known as "grade 1" hides, sell fast at top prices. However, producers have a hard time promoting grade 2-5 hides which can sell for 60 percent of the price of a grade one hide. The damage or scar on hides of these lower graded hides can be skillfully avoided by smart cutting. Without question, a leather product made of alligator skin is considered high quality and sold at high prices. As indicated in a trip report by the *Southwick Associates*, luxury items are sold at much higher prices in China.

The main competitors of alligator hide are crocodile hides. To unfamiliar consumers, these two are almost identical. In most high end stores in China, shop keepers and customers mistakenly identify alligator products as crocodile products. To make things worse, the Chinese names for both are the same, unless people are willing to say its Chinese scientific name, which is "short nose crocodile". There were some manufacturers who produced leather products using crocodile hides that were raised in China or Southeast Asia. However, local tanneries do not possess the technology to produce high end exotic leather.

Alligator leather will have a market when more consumers are aware of it. Some manufacturers are hesitant about producing alligator products because they are not familiar with the designing, cutting, stitching, and assembling technology involved.

Many wealthy Chinese would like to buy luxury products to differentiate themselves from the crowd. Post has applied for a program to conduct a technical seminar for alligator applications in South China. It is recommended that *SUSTA* put aside some resources and organize more branding, marketing and technical activities in the manufacturing center of China.



Alligator leather
(Source: ATO Guangzhou)

Trade shows

Asian Pacific Leather Fair (APLF)

(<http://www.aplf.com/>)

The *Asian Pacific Leather Fair (APLF)* is one of the most important trade shows in the Asian leather industry. It covers hides and skins, semi-finished leather, finished leather, synthetic materials, process chemicals, equipment and machinery. The Fair was held in Hong Kong from March 31 to April 2 in 2009, and some 20 American exporters marketed their products and services at the fair. International pavilions included enterprises from Italy, Germany, Spain, France, Turkey, Korea, India, Pakistan and Thailand. Various American tanners and leather exporters have exhibited on the show for over 20 years and reported substantial successes continuously. In the past April fair, the number of exhibiting companies was 1,039 from 55 countries and regions. 16,851 visitors from 93 countries and regions attended. *APLF* celebrated its 25th anniversary in 2009. The fair offers a platform for industry people to network and catch up with friends, colleagues and competitors.



All China Leather Exhibition (ACLE)

(http://www.aplf.com/content.asp?site_id=3)

The *All China Leather Exhibition (ACLE)* was a similar event organized by *China Leather Industry Association* and *APLF* in Shanghai, China. It was reported that in September 2008, there were 1,120 exhibitors from 38 countries and regions exhibited on the show. Against the background of world recession, organizers said 90 percent of the exhibiting floors on the upcoming September session had been sold, and it was expecting about the same amount of exhibitors of last year. Many American exporters reported strong on-site sales and acquiring new agents at the show. The *ACLE* will be recommended if an exporter seeks to enter the China market. Lots of media reports have picked up China's strong domestic consumption amid the global financial turmoil. For example, when *American General Motors* applied for bankruptcy, its Shanghai Company reported 50 percent sales growth over last year. Its sales in May of 2009 were 56,000 units, representing new leather upholstery opportunities in China. For leather exporters, China market is too important to be overlooked.

American Cooperators

U.S. Hide, Skin and Leather Association (USHSLA)

(<http://www.ushsla.org/>)

The *United States Hide, Skin and Leather Association (USHSLA)* represents the hide and skin industry in the U.S. As China is the biggest buyer for hides and it accounts for half of all American hide exports globally, USHSLA and many of its members exhibit both at the *Asian Pacific Leather Fair* in April and the *All China Leather Exhibition* in September. USHSLA stated the high demand in China and the amount of leather products produced make China the most attractive market for the U.S. leather industry to pursue. To maintain and promote trade relations with China, USHSLA would organize some trade servicing missions to China. Post would provide support in gathering information about trends and buying habits of the local market.



Leather Industries of America

(<http://www.leatherusa.com/>)

The other active cooperator in the region is the *Leather Industries of America (LIA)*. LIA has represented American tanners and suppliers since 1917. In the past 92 years, LIA provided environmental, technical, education, statistical and marketing services to the benefit of the America leather industry. Like most leather marketing associations, LIA is aware of the opportunity China represents. For over 20 years, LIA has been participating in the *Asian Pacific Leather Fair* in Hong Kong. The results were positive and growing for American leather export. As LIA stated, there are many opportunities for innovation in exporting leather to China. It is recommended that LIA becomes more visible in the China market and use Post's resources in expanding the leather market for American exporters.



Conclusion

Every industry and every continent felt the recession chill during the past year and a half. China is certainly not immune, but shows signs of weathering the storm better than many. Guangdong produces 90 percent of production, the largest producer in China for leather and related products and will continue to be in the near future. Since the province does not have supplies of raw materials, and its tanning techniques are not yet topnotch, there is high demand for finished bovine leather while finished exotic hides are tested out by selected open-minded manufacturers. With increasing brand building, marketing and educational efforts, Guangdong's potential remains vast for American leather exporters.

Websites

Trade Shows

Asian Pacific Leather Fair (APLF)

(<http://www.aplf.com/>)

All China Leather Exhibition (ACLE)

(http://www.aplf.com/content.asp?site_id=3)

Associations

U.S. Hide, Skin and Leather Association (USHSLA)

(<http://www.ushsla.org/>)

Leather Industries of America

(<http://www.leatherusa.com/>)

Southern United States Trade Association

(<http://www.susta.org>)

China Leather Industry Association

(<http://www.china-leather.com>)

Other related GAIN reports

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|-----------|---|----------|
| 1. CH6098 | China partially renews re-export policies for hides and skins | 11/07/06 |
| 2. CH7623 | China, where American hides get shine | 12/12/07 |
| 3. CH7607 | China, where American mink gets glamour | 05/16/07 |

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