

A Perfect Fit: Vietnam's Leather Industry and U.S. Hides

By Henry Schmick and Craig Thomas

If you live in the European Union, United States or Japan, it is quite possible that you own a pair of shoes made in Vietnam. Footwear exports from Vietnam have skyrocketed from modest totals in the early 1990s, to a place among the country's top five revenue generating exports—and this growth is an opportunity for U.S. hides.

In 1999, Vietnam produced roughly 230 million pairs of shoes and sandals, resulting in \$1.3 billion in sales. That is an increase of 25 percent against 1998's figure. And 80 percent were sold to consumers outside of Vietnam.

The big question now is: where is Vietnam's shoe industry going to find enough leather to keep making that many shoes?

Vietnam's domestic cattle industry—the logical source of hides—finds itself dwarfed by such demand. Vietnam is without large-scale cattle farms; most domestic raw leather is purchased from slaughterhouses and rural households.

This scant supply means that Vietnam has to import some of the raw and semi-processed hides and skins used in its tanneries.

Corresponding to the outflow of shoes, hides are shipped in, mainly from Taiwan, Korea, Hong Kong and the United States, to the tune of \$92 million in 1999. Sales growth is expected to increase over the next 5-10 years as Vietnam's demand for leather continues to rise and domestic production remains static.

Hunting High and Low for Hides

Despite the significant demand for leather, Vietnam's tanning industry is hampered by outdated equipment and a lack of investment capital.

Domestic tanneries are currently unable to produce leather in any quantity approaching those required by shoe manufacturers.

As a result, when Vietnam consumed approximately 80 million square feet of leather in 1999, some 65 to 70 million square feet—more than 80 percent—were imported. There are ample opportunities for processed hides as well.

U.S. Hides Are a Shoe Thing

Opportunities abound for the United States—in fact, the value of U.S. exports of hides and skins to Vietnam reached more than \$8 million in 1999, an increase of 40 percent over 1998.

Estimates were for continued growth in the year 2000 with production targets set at 265 million pairs of shoes and sandals, and 30 million leather bags.

Moreover, these numbers account for only direct shipments. Much of the tanned leather coming from Korea and Taiwan originated on ranches in the United States and Australia.

In many cases, such tanned leather is imported into Vietnam under

a footwear production contract that stipulates use of designated leather, supplied by the purchasing firm.

Of the semi-processed leather imported for further tanning in Vietnam, leading suppliers are Australia, India, Thailand and New Zealand.

Trade Changes in Vietnam

Vietnam's exporters are eagerly awaiting the implementation of the recently signed bilateral trade agreement between the United States and Vietnam; they believe it will offer significant opportunities to export footwear to the U.S. market.

Continued growth in Vietnam's footwear production sector is likely to translate into even greater demand for imported hides and skins—as both finished leather and semi-processed products. ■

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