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China, Where U.S. Hides Get Their Shine

By Vivian Xian

China's position as the world's largest leather products manufacturer, robust economy, and growing middle class are fueling the country's demand for and manufacturing of quality leather products. According to the World Trade Atlas (from which the data in this article are taken), China exported \$14.2 billion worth of leather products in calendar year 2007, 14.7 percent more than the previous year.

China produces more than half of the world's shoes, and leads in the production of various leather garments and fashion accessories. Although domestic leather production is significant, it often is in poor condition, so China must import half of its raw hide and skin needs to meet its industry's requirements for quantity and quality.

China needs hides in a big way, and the United States is its biggest supplier.

Chinese demand for U.S. hides (which account for nearly all U.S. hide and skin exports to China) is growing along with its general demand. In 2007, Chinese imports of U.S. hides reached \$1.16 billion, up 10 percent from the previous year and more than half the total value of U.S. hide exports. Driving this trend is strong demand for luxury leather products, such as leather bags, jackets, shoes, gloves, and wallets for China's export and domestic markets.

Evolution of the Chinese Leather Industry

According to the China Leather Industry Association, in 2006 (the latest full year for which data are available), China's 2,900 manufacturers produced 7.5 billion square feet of leather, 20 percent of the world total.

China's major leather products manufacturing bases are Guangzhou, Dongguan, and Nanhai in Guangdong Province; Jinjiang, in Fujian Province; Wenzhou, in Zhejiang Province; and Xinji, in Hebei Province. Wenzhou (near Shanghai) and Haining (a smaller manufacturing center) focus on shoe uppers. South China produces leather for handbags, belts, and furniture. Guangdong manufacturers concentrate on leather shoe and handbag production.

With more than 20 years of development, Guangdong leather manufacturers have acquired experience and a reputation for producing export-quality products. They



Leather made from top-quality U.S. hides
Photos courtesy of the FAS Agricultural Trade Office, Guangzhou, China



A leather tanning drum

keep a sharp eye on international fashion trends and use modern production technology and management, practices that give them the edge over their local rivals in export markets.

Costs of Doing Business Challenge China's Leather Industry

However, rising concerns about the environmental impacts of tanneries, particularly discharged waste water, limit development of the industry. Waste-water treatment facilities require substantial capital investment and adherence to strict regulatory practices, adding to costs and reducing profit margins. Bigger tanneries can afford their own facilities, but smaller tanneries cannot, thereby contributing to industry consolidation.

Some cities and developed areas have curtailed or prohibited tanneries. In response, the industry has started relocating tanning facilities to less developed areas, where centralized tanning industry production zones have been established, such as Qingyuan and Huizhou in Guangdong, Zhaoyuan in Heilongjiang, Baicheng in Jilin, and Quanzhou in Fujian. Tanneries once located in Shenzhen have moved to Dongguan in Guangdong or Huidong in Guangxi.

Some manufacturers have begun importing semi-processed skins. One Guangdong-based leather shoe manufacturer moved his tanning factory to Vietnam and brings in the finished leather to Guangdong for shoe production.

The Chinese leather industry also faces keener competition from other countries, such as Vietnam and India. Industry insiders say that while India has not picked up any Chinese tanneries, it is looking into expanding its leather production.

Meanwhile, prices for raw hides have risen because of increased demand. In 2004, a U.S. branded-steer hide cost \$55; by the end of 2007, it cost \$59. For manufacturers, labor costs are also rising rapidly, further squeezing operating margins. Skilled worker

salaries doubled in the past two years, from \$100 to \$200 per month.

Another issue impacting the Chinese leather industry is the latest VAT (value-added tax) policy. In March 2007, the central government in Beijing announced that tariffs for wet blues (a type of semi-processed skin) are subject to a 7-percent regular import duty and an additional 17-percent VAT, if they are converted into finished leather and re-exported. However, if the imported skins are used in value-added products (such as footwear or other finished goods) and re-exported, the tariff and VAT do not apply.

In June 2007, bowing to international pressure to lower governmental support, and to spur the shift from processing raw materials to value-added products, China reduced manufacturers' tax rebates for certain leather products. The rebate for footwear and bags was lowered from 13 to 11 percent, that for leather apparel from 13 to 5 percent, and that for exported finished leather from 13 to zero percent.

Further challenges for manufacturers include the appreciation of the Chinese yuan, European trade barriers, anti-dumping taxes, and strict quota systems imposed by many countries against Chinese exports.



A local exhibitor's innovative display at the All China Leather Exhibition

U.S. Hides Have Advantages, But Also Face Challenges

U.S. hides are well-known for their superior quality because of their thickness, strength, larger usable area, consistent quality, and smoothness, properties that help to ensure higher-quality leather products. Prices for U.S. hides therefore tend to be higher than those of their competitors. However, U.S. hides will help manufacturers of top-quality leather goods achieve premium prices. One major importer of U.S. hides noted that consistent and sufficient supplies keep him coming back for more.

U.S. exports could be impacted by contraction in the Chinese tanning industry. Some 20 percent of U.S. hide exports could shift from China to other countries in five years as tanneries relocate. U.S. industry representatives are therefore assessing markets in India, Turkey, and Vietnam.

U.S. Industry Associations Boost Demand for U.S. Hides

The United States Hide, Skin & Leather Association helps to explore market opportunities and expand market share for U.S. suppliers. The association regularly organizes industry events such as the All China Leather Exhibition in Shanghai and the Asia Pacific Leather Fair in Hong Kong, which enable exporters to meet prospective buyers and maintain existing business relationships.

The association recently translated its manual, *Standards Governing the Export of North American Cattle Hides*, into Chinese. This initiative helps manufacturers and traders better understand U.S. standards, thereby mitigating misunderstandings that can lead to trade difficulties.

The Leather Industries of America provides various services for the U.S. industry, including environmental, technical, and marketing support. However, Chinese demand for finished U.S. leather is limited by its comparatively higher price. Both the United States Hide, Skin & Leather Association and the Leather Industries of America are cooperators in the Foreign Market Development Program, administered by FAS.

More trade seminars organized by the associations would help further educate the Chinese industry about the merits of using U.S. leather. Initiatives that promote U.S. leather's image would help to cultivate consumer preference for products made from U.S. hides. By approaching the Chinese leather industry in a unified way, associations and producers build a solid platform for promoting U.S. hides as the product of choice.

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