The Pakistan Business Council
FOSTERING ECONOMIC GROWTH

Enhancing the Competitiveness of Pakistan's Footwear Industry

PFMA
Pakistan Footwear Manufacturers Association

Make-in-Pakistan Series

January 2021

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The Pakistan Business Council (PBC)

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The Pakistan Business Council: An Overview

The Pakistan Business Council (PBC) is a business policy advocacy platform, established in 2005 by 14 (now 83) of Pakistan's largest private-sector businesses and conglomerates, including multinationals. PBC businesses cover nearly all sectors of the formal economy. It is a professionally-run organization headed by a full-time chief executive officer.

The PBC is a not-for-profit entity, registered under Section 42 of the Companies Ordinance 1984. Though it is not required under the law to do so, the PBC follows to the greatest extent possible, the Code of Corporate Governance as applicable to listed companies.

The PBC is a pan-industry advocacy group. It is not a trade body nor does it advocate for any specific business sector. Rather, its key advocacy thrust is on easing barriers to allow Pakistani businesses to compete in regional and global arenas. The PBC conducts research and holds conferences and seminars to facilitate the flow of relevant information to all stakeholders in order to help create an informed view on the major issues faced by Pakistan.

The PBC works closely with relevant government departments, ministries, regulators and institutions, as well as other stakeholders including professional bodies, to develop consensus on major issues which impact the conduct of business in and from Pakistan. The PBC has submitted key position papers and recommendations to the government on legislation and other government policies affecting businesses. It also serves on various taskforces and committees of the Government of Pakistan as well as those of the State Bank, the SECP and other regulators with the objective to provide policy assistance on new initiatives and reforms.

The PBC's Founding Objectives

- To provide for the formation and exchange of views on any question connected with the conduct of business in and from Pakistan.
- To conduct, organize, set up, administer and manage campaigns, surveys, focus groups, workshops, seminars and fieldwork for carrying out research and raising awareness in regard to matters affecting businesses in Pakistan.
- To acquire, collect, compile, analyze, publish and provide statistics, data analysis and other information relating to businesses of any kind, nature or description and on opportunities for such businesses within and outside Pakistan.
- To promote and facilitate the integration of businesses in Pakistan into the World economy and to encourage in the development and growth of Pakistani multinationals.
- To interact with governments in the economic development of Pakistan and to facilitate, foster and further the economic, social and human resource development of Pakistan.

The PBC's Member Companies


KE
Energy That Moves Life


KSB


LOTTE


LUCKY CEMENT


MAHMOOD GROUP


Martin Dow
Creating Distinction for Life


mayfair
The little joys of life


MEGA
MEGA CONGLOMERATE


MTL
MILLAT TRACTORS LIMITED


National
FOODS
SINCE 1970


NAVEENA
GROUP


Nestlé


NIMIR


NISHAT MILLS LTD


ORIX


Packages Limited


pakarab
FERTILIZERS LIMITED


PAKISTAN TOBACCO
COMPANY


PEPSICO


PHILIP MORRIS INTERNATIONAL


PSL
PAKISTAN SERVICES LTD.


PSX
PAKISTAN
STOCK EXCHANGE
LIMITED


ptcl


Reckitt Benckiser


SAIF GROUP


Sapphire


Servis


Shan


SICPA


siddiqsons LIMITED

SIEMENS


Soneri Bank


SOORTY
World Of Denim


SPEL
Synthetic Products
Enterprises Limited


Standard
Chartered


TAPAL


TCS
WE MOVE YOU


PROTECTS
Tetra Pak
WHAT'S GOOD


TPLHoldings
Tomorrow Delivered Today


Tufail
Chemical Industries Ltd.


UBL
where you come first


Unilever

Acronyms

ADB	Asian Development Bank
CAGR	Compound Annual Growth Rate
CDC	Cambodia Development Council
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CIT	Corporate Income Tax
EAP	East Asia and the Pacific
EBA	Everything but Arms
EFS	Export Finance Scheme
EPI	Export Potential Indicator
EU	European Union
FDRA	Footwear Distributors & Retailers of America
EVFTA	EU-Vietnam Free Trade Agreement
FDI	Foreign Direct Investment
FIA	Foreign Investment Agency
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GILT	Gujranwala Institute of Leather Technology
GoP	Government of Pakistan
GSP	Generalized System of Preferences
GTF	Garment, Textile and Footwear
HS	Harmonized System of tariff nomenclature
ILO	International Labor Organization
ITP	Import Trade Price
LDC	Least Developed Country
LFMEAB	Leathergoods and Footwear Manufacturers and Exporters of Bangladesh
LEFASO	Leather and Footwear Association

LTLD	Local Taxes and Levies Drawback
MIP	Make in Pakistan
OTRI	Overall Trade Restrictiveness Index
PFMA	Pakistan Footwear Manufacturers Association
PSDF	Punjab Skills Development Fund
PTA	Pakistan Tanners Association
REER	Real Effective Exchange Rate
SME	Small and Medium-sized Enterprises
TDAP	Trade and Development Authority of Pakistan
TPI	Trade Performance Index
UNDP	United Nations Development Programme
UNCTAD	United Nations Conference on Trade and Development
US	United States of America
USD	United States Dollar
WTO	World Trade Organization

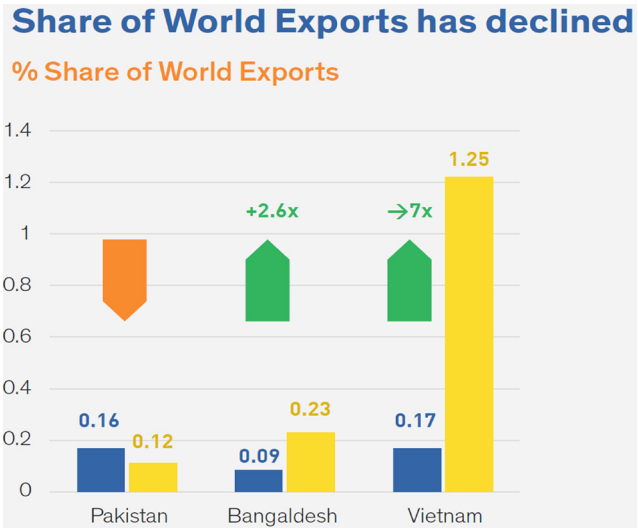
Executive Summary

Introduction

Pakistan is deindustrializing at an alarming rate. The contribution of large-scale manufacturing in Pakistan's GDP decreased from a high of 14.8 percent in 2008 to 13.2 percent in 2019. This has led to the country lagging behind its regional peers such as Bangladesh, India, Vietnam, and Cambodia. Ideally, the share of manufacturing in the GDP of a developing country like Pakistan should reach 28.0 to 30.0 percent before its contribution begins to decline.

As Pakistan has deindustrialized, its share of global exports has also come down.

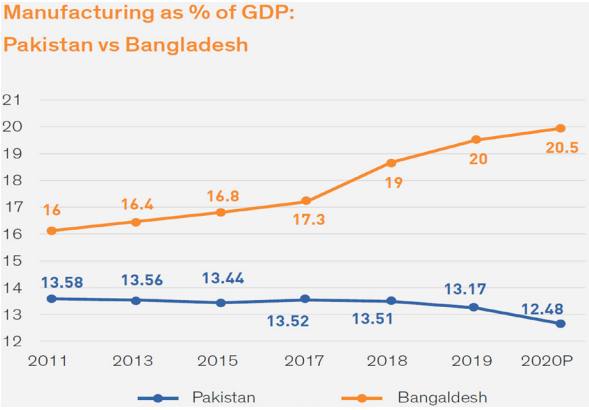
FIGURE 1: % share of world exports – Pakistan, Bangladesh and Vietnam



Source: Charter of Economy, The Pakistan Business Council

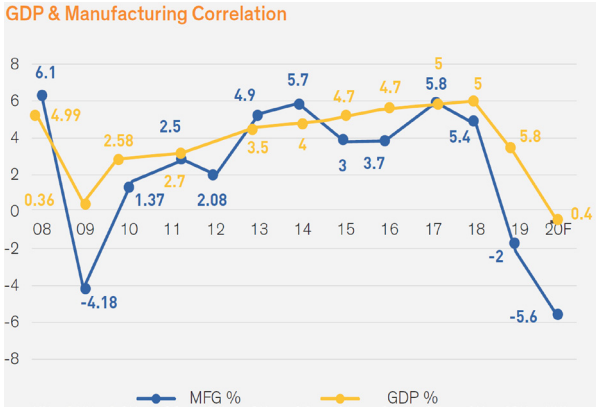
The failure to increase exports has led to a chronic trade deficit. In addition, deindustrialization has led to the share of exports in GDP going down from 13.0 percent in 2006 to 8.7 percent in 2019.

FIGURE 2: Manufacturing as a percentage of GDP



Source: Charter of Economy, The Pakistan Business Council

FIGURE 3: GDP and manufacturing correlation



Source: Charter of Economy, The Pakistan Business Council

To help create awareness and address issues related to premature deindustrialization, the Pakistan Business Council (PBC) has initiated its Make-in-Pakistan (MiP) initiative. The MiP initiative aims to develop a policy framework that will help revive the manufacturing sector in Pakistan, lead to the creation of jobs, increase value-added exports, promote import substitution, and help raise government revenues.

As part of the Make-in-Pakistan initiative, the PBC has initiated a series of sector studies to identify impediments to increasing global competitiveness of those sectors in which Pakistan has international presence. So far, the PBC has conducted sector studies on the "Knitted Apparel Sector, the "Denim Apparel Sector," the "Towel Sector," and "Pakistan's Refrigerator Industry."

This report titled "***Enhancing the Competitiveness of Pakistan's Footwear Industry***" is part of the PBC's Make-in-Pakistan series and relies on existing secondary research supplemented with field interviews of firms in the footwear manufacturing sector.

Study Objectives

- Document the current state of Pakistan's footwear industry.
- Provide an overview of the global trade in footwear including an analysis behind the success of major players in the global footwear supply chain.
- Compare Pakistan's performance with that of its competitors in the footwear industry such as China, India, Bangladesh and Vietnam.
- Identify key factors impacting the export competitiveness of Pakistan's footwear exports.
- Provide a set of policy recommendation to improve sector and firm-level competitiveness of Pakistan's footwear industry.

Study Methodology

This study's findings and recommendations are based on one-on-one interviews with owners/senior managers of firms in Pakistan's footwear industry. The purpose of the interviews was to get a better understanding of the current state of Pakistan's footwear sector, trends in the global footwear industry, major international competitors and their strategies, impediments to the development of Pakistan as a major player in the global footwear market and to formulate policy recommendations to increase the export competitiveness of Pakistan's footwear sector.

The Pakistan Business Council would like to appreciate the cooperation extended to it by the Pakistan Footwear Manufacturers Association (PFMA), its office bearers and especially its Secretary General Lt. Col Ahmed Fawad Farooq (R). The interviews were supplemented with secondary research of past studies, and other printed material to better understand the domestic, regional and global footwear industry.

This study is authored by the Pakistan Business Council's research team, consisting of **Samir S. Amir** and **Ramsha Hameed**.

Analysis and Findings

Trends in the Global Footwear Industry

- Global footwear production has increased by 21.2 percent since 2010 at an average yearly growth rate of 2.2% to establish a new production record of 24.3 billion pairs in 2019. The footwear industry is mainly concentrated in Asia, where almost 9 out of every 10 pairs are produced.

- China is the world's largest footwear manufacturer and the biggest footwear exporter in the global market, followed by India, Vietnam and Indonesia. Turkey continues to rise on the list of the main footwear producing countries and in 2019 it reached 6th position, up from the 13th place it occupied in 2010. Italy is the only European country that still makes it into the list of the world's top 10 producers of footwear.

- Asia is the largest footwear-consuming continent, with a 54.0 percent share in consumption against its 60.0 percent share in the world's population. This is followed by Europe and North America that each represent 15 percent of world consumption. China is the largest footwear market in the world with a stable consumption share of 18.7%. Three other Asian countries, India, Indonesia and Japan, are also among the top 10 footwear consumers. Global per capita footwear consumption varies between 1.6 pairs in Africa to 5.6 pairs in North America.

- The value of global footwear exports increased in 2019 to reach $153.3 billion – a growth of 5.6 percent over 2018. This growth was mainly driven by Asian countries, which increased exports by 3.3 percent. The average export price worldwide was almost $10.0 in 2019.

- More than 15 billion pairs were exported in 2019, mainly by Asian manufacturers leading to Asia having a share of 83.9 percent in world exports.

- China was the source for 2 out of every 3 pairs of shoes exported in 2019. However, China has been seeing a steady decline in its exports of footwear, losing 7 percentage points since 2010 due to high labor costs, more stringent government policies and attractive policies introduced by other competitors such as Cambodia, Vietnam and Bangladesh.

- The US is the largest importer of footwear, importing one in every five pairs of shoes. In 2019, Europe accounted for more than one-third of total footwear imported and accounted for about half of the money spent on imports worldwide. Africa's share in world imports is also on the rise, and in 2019 the continent represented more than 10.0 percent by volume of footwear imports.

- Over the last ten years, the increasing popularity of textile footwear has been the most important feature of the global footwear trade. This category now represents a quarter of the footwear trade, up from 14.6 percent (value) in 2010. China exported more than 2.8 billion footwear pairs made of textile in 2019. China and Vietnam, represent 74.6 percent of all exports of textile footwear.

- The value of textile footwear exports during 2010-19 increased by 244.0 percent. The average export price of this category almost doubled from $5.05 to $9.68 between 2010 and 2019.

- Rubber and plastic (HS-6402) represent 47.5 percent of the volume of all footwear exported globally while the leather footwear category represents over 38.0 percent in value terms of the value of total footwear exports.

Pakistan's Footwear Industry

- In 2010, Pakistan exported $92.6 million worth of footwear, whereas it exported $135.3 million in 2019 – a growth of 45.9 percent. However, this figure is still very small when compared to Pakistan's total exports of $23.8 billion.

- The shoe manufacturing industry in Pakistan is predominantly located in and around the city of Lahore, where almost 80 percent of the documented sector of the footwear industry is located. The sector is majorly comprised of the unorganized sector, where craft manufacturers/cobblers represent the majority of footwear manufacturers. Only 20 percent of the sector is organized which includes capital intensive factories or mechanized manufacturing units.

- Footwear contributes less than one percent to Pakistan's global exports. Despite the low contribution to the international footwear market, Pakistan is the seventh largest producer of footwear, manufacturing more than 2.0 percent of all footwear produced worldwide. It is also the seventh largest consumer of footwear, accounting for 2.2 percent of global consumption.

- Pakistan's footwear exports mainly comprise of leather footwear which represents 84.2 percent of Pakistan's footwear exports. Footwear made of rubber and plastic was the second largest export category, with exports of $15.4 million in 2019, up from $11.4 million in 2018.

- Exports from Pakistan under the leather footwear category include: HS-640399 *'Footwear with outer soles of rubber, plastics or composition leather with uppers of leather …'* and HS-640391 *'Footwear with outer soles of rubber or plastics, with uppers other than rubber, plastics, leather…'*. Major share of Pakistan's footwear exports is destined for high-income countries, such as Germany, Italy, the United States and the United Kingdom.

- Foreign investment in the leather industry represents less than 1.0 percent of total FDI inflows. Since footwear is categorized under the leather industry, FDI has played an insignificant role in the development of Pakistan's footwear sector.

- Low FDI in the leather and footwear sector has led to limited access to new markets and inputs that could help facilitate product diversification. A lack of FDI has also resulted in poor vertical integration of footwear units in the organized sector. The absence of start-up capital required to specialize in a particular process leading to a fragmented production process, has resulted in low-quality footwear articles that fetch low export prices.

- Pakistan's footwear exports are highly concentrated and limited to a few countries. In 2019, Pakistan exported more than 69.0 percent of its footwear to Europe. The US has a 9.3 percent share only even though it has the greatest export potential. The remaining 12.7 percent of exports were destined to markets such as Yemen, Afghanistan and Australia where Pakistan has very low footwear export shares. This lack of market diversification is associated with increased vulnerability to macroeconomic shocks in the destination markets and decreased growth in the export country.

- About 90.0 percent of total footwear exported from Pakistan is under the leather footwear category, namely under HS-640399 *'Footwear with outer soles of rubber, plastics or composition leather with uppers of leather …'* and HS-640391 *'Footwear with outer soles of rubber or plastics, with uppers other than rubber, plastics, leather…'*. Majority of these exports are destined for high-income countries, such as Germany, Italy, the United States and the United Kingdom.

- According to the Export Potential Indicator (EPI), the market with the highest potential for Pakistan's footwear exports is the US, with the capacity to absorb additional exports of $34.6 million. Following close behind are China, the UK and Belgium. Reasons identified for untapped potential include lack of market knowledge, consumer preferences, lack of knowledge about trade regulations and a mismatch between demand and the ability to supply the required quantities.

- Pakistan's footwear exports have grown 3.7 percent annually since 2015, marginally higher than the world average of 3.5 percent. However, this growth is well short of the growth rates of its regional competitors such as Cambodia (18.7 percent), Bangladesh (14.0 percent) and Vietnam (11.6 percent).

- Pakistan is a beneficiary of the EU GSP+ program since 2014, a program that allows Pakistan to export footwear articles duty-free to the EU. Despite the zero-tariff benefit, Pakistan's footwear export share fell from 73.2 percent in 2014 to just over 68.0 percent in 2019 – a five percent decline since the GSP Plus came into effect which indicates that acquiring the GSP Plus has not benefited Pakistan's footwear export growth.

- A comparison of Pakistan's export performance relative to regional competitors in the EU indicates a sub-par performance in footwear exports. Even though China and India face high tariffs, yet they have managed to increase their share in EU's world imports. Of all regional competitors, Pakistan has the lowest share in the EU footwear imports.

- Mauritius, Malaysia and Sri Lanka all offer Pakistan zero-duty access on most footwear articles at the HS-04 level, however, Pakistan has not taken advantage of the favorable tariff structure as shown by its lackluster exports to these three countries.

Major Competitors in the Global Footwear Industry

- In the case of Cambodia, the social and economic importance of the footwear sector has grown significantly in recent years. Combined, the Garment, Textile and Footwear (GTF) sector generates employment for around one million workers. Between 2010 and 2019, the footwear sector's share in Cambodia's total exports has grown by 5.3 percent – compared to 2009, the share in exports have more than doubled from 3.1 percent to 8.5 percent. The rapid growth in Cambodia's footwear sector is partly a reflection of favorable government policies especially related to macroeconomic management and openness.

- Bangladesh is attracting increasing interest from international investors as an emerging preferred low-cost manufacturing hub in Asia with a steadily growing economy, an abundant easy to train and affordable young labor force, preferential market access and strategic geo-economic location. Bangladesh produced 407.0 million pairs of shoes (all types of footwear along with leather is included) in 2019. The country stands at the 8th position in the global footwear market in terms of production volume. The industry directly and indirectly employs 850,000 workers. The footwear industry contributes just over 2.4 percent to Bangladesh's exports. Moreover, the country's ability to utilize tariff-free access to the European Union (through EU's Generalized System of Preferences, GSP), Canada, Australia and Japan have made Bangladesh a sourcing hub for leather and footwear goods.

- Vietnam is the 3rd largest producer of footwear with a share of 5.8%, behind India (10.7%) and China (55.5%). The footwear industry in Vietnam is responsible for more than 1.5 million jobs. Foreign direct investment (FDI) is the main factor contributing to the growth of the industry in recent years. In 2018, FDI covered almost 80.0% of Vietnam's footwear exports. Vietnamese footwear exports have more than doubled in the last 10 years and the local industry is benefiting from various FTAs and the shift from China of basic manufacturing. A young population, a stable foreign exchange rate, low minimum wage rates, and labor productivity comparable with other competitor countries are some of the key advantages of Vietnam's footwear industry.

- The Chinese footwear industry has long been the world's number one supplier. Although fierce competition from regional competitors has reduced the output of footwear products in China in recent years, the country is still expected to be the world's top footwear supplier over the next few years. Total revenue from China's footwear industry for 2019 was $64.7 billion. Overall, the global market is expected to continue to grow at an average annual rate of 5.8 percent through to 2025. In China's case however, rising labor costs, a move towards high-tech goods, more stringent enforcement of environmental and labor laws, and competitive prices offered by neighboring Asian countries has led to many manufacturers relocating to other Southeast Asian countries.

Impact of the US-China Trade War on Footwear Exports

- When President Trump announced the third tranche of tariffs on more than $300 billion worth of Chinese goods, this significantly hit footwear manufacturers based in China. Higher tariffs have increased the cost of goods sold for all U.S. companies that import footwear articles made in China. In 2009, about 88.0 percent of U.S. footwear was manufactured in Chinese factories. Ten years later, that number had fallen to 67.0 percent. Tariffs are not the only reason behind this shift, other variables like rising labor costs, energy, and raw material costs are also prompting companies to reevaluate their partnerships with Chinese suppliers.

- The impact of the trade war has had a positive effect on Vietnam, which is considered a low-cost alternate to China. Vietnam's free-trade agreements include one with the 28 nations of the EU, others include FTAs with Australia, Canada, Japan, Mexico, New Zealand, and Singapore. Moreover, workers are skilled, and though wages are relatively high for the region (at US$216 a month), they are less than half that of China. Infrastructure is reasonable, and, unlike in some countries in the area, electricity remains reasonably cheap due to substantial government subsidies. This makes Vietnam an excellent sourcing country for high-value goods – a market that could potentially benefit from the U.S. – China trade war.

- Many Chinese factories are also transferring their assemblies to Bangladesh for apparel and footwear due to availability of cheap labor and favorable government policies. Leather footwear exports from Bangladesh to the US registered a 17.5 percent rise to $150.9 million in 2019. Experts attribute the ongoing US-China trade war to the rising exports to the US market. Bangladesh's exports are estimated to increase by an additional $400 million along with a 0.19 percent rise in the country's GDP over the next two years if the trade war escalates.

- The U.S. is the largest destination for Cambodian footwear exports, taking a share of 6.0 percent in 2018 and 6.8 percent in 2019. The trade war has benefitted Cambodia as well. After the additional 15 percent tariff on Chinese footwear, Cambodia appears to be the latest beneficiary of the US-China trade war. "Companies are really pulling back from China and footwear is much more exposed than apparel so far from the tariffs," said Nate Herman, Senior Vice President of supply chain at the American Apparel & Footwear Association. He added, "Everyone is trying to get out of China as quickly as they can."

- Data analysis of 91 footwear articles on which China faces an additional 7.5 percent tariff indicates that US imports of footwear increased in 2019 for all regional players, including Bangladesh, Vietnam, Cambodia, Indonesia and Pakistan. Vietnam was the most significant beneficiary of the trade war, as its exports to the US for footwear rose by $752.4 million. Pakistan benefited the least from the trade war as its exports in the 91 categories increased by $3.7 million only.

Industry View on Enhancing the Export Competitiveness of Pakistan's Footwear Industry

- **Labor productivity constraints**

  - The footwear industry is labor-intensive. Labor quality is not up to the standards required for producing high-end footwear. Productivity is low, on an average the daily production of a Pakistani laborer is 4-5 pairs per day, whereas global productivity ranges from 10-12 pairs of shoes per worker per day.

  - Due to a lack of training institutes and skill-development, factory workers produce basic low-quality shoes, which fetch a low price in the international market. Most skills are learnt on the job and can be costly for firms due to high worker turnover in the garment, textile and footwear (GTF) industry.

  - Apart from skilled workers, there is also shortage of skilled human resource for important support functions like designing, merchandising and product development.

  - There is a severe shortage of frontline supervisors, middle and upper-level managers and is a major handicap in investments and expansion in the footwear industry.

Recommendations:

- *Pakistan's existing vocational and technical training ecosystem is not sufficient to meet the present and incoming labor force's needs. The initiative needs to be taken by the government and the association to design and develop training programs. In collaboration with the private sector, the government should develop undergraduate specialty training programs in footwear and accessory design, including associate's and bachelor's degrees. The program should also focus on developing critical managerial skills.*

- *Foreign creative designers and technicians should be appointed to ensure the quality of training and keep up with international footwear design trends and techniques.*

- *Minimum wages are one effective way to address gender pay gaps, and Pakistan's government, labor unions and industrial manufacturers should work together to address issues of gender inequality and disparity in wages.*

- **Ancillary / Support Industry is Mostly Absent**

  - Although the footwear industry is developed in Pakistan, the supporting ancillary sector is mostly absent. Production inputs such as molds and lasts[1] are imported by footwear manufacturers, and this increases production costs and there are also time delays which impact delivery of export orders. There are only a handful of mold makers in Pakistan and only two last makers. Large investments are required to set up mold units and low demand, due to a small manufacturing base, hinders domestic and foreign investment. This significantly affects footwear exporters, as buyers (foreign customers) value quick response time. Due to the nonavailability of inputs pertinent to footwear production, exporters lose out on potential orders to competing countries such as India and Bangladesh.

  - Pakistan's downstream supplier/vendor support is inadequate. The footwear industry has neither big suppliers nor a wide range and variety of accessory makers to support them. Moreover, the lack of innovation has limited the availability of significant accessories/ components used to style fashionable footwear articles. Thus, all these items need to be imported which impacts profitability and timelines. The lack of an ancillary industry has forced the organized shoemakers to 'vertically' structure their facilities. The vertical structuring of manufacturing not only hampers expansion but also affects productivity.

  - There is a shortage of proper R&D infrastructure in the country. While Pakistan's organized sector has gradually upgraded their quality standards, and employed sophisticated machinery, SMEs in the footwear industry operate well below capacity, using outdated and obsolete machinery due to high import cost of new machinery. This translates into low-quality final products that fetch a low price in the international market. Pakistan has only been able to produce shoes which are generally sold in the international market for $40-$50 – a range considered to be at the low end of the price spectrum for footwear articles.

Recommendations:

- *Pakistan needs to develop its industry for accessories to reduce import reliance. The local footwear industry will have to be restructured horizontally by developing an ancillary/supporting industry, mechanization of the cottage industry, investment in technology and skills development.*

- *Pakistan needs to increase the base of allied industry and encourage more players to enter this market. It is recommended that the government provide financial support to manufacturers and exporters who invest in setting up assembly units for the production of footwear components/ accessories.*

- *Since value addition requires technological upgradation, there is a need to make considerable investment in upgrading Pakistan's footwear assembly process to compete internationally. Pakistani*

1 A last is a mechanical form shaped like a human foot. It is used by shoemakers and cordwainers in the manufacture and repair of shoes.

manufacturers must keep themselves updated of latest trends, designs of the international market, and continuously assess their capabilities to update their processes and machinery and manage their profitability accordingly. By installing modern processing machinery, it is possible to achieve a high average unit price for Pakistani footwear articles globally. Better machines and know-how of advanced production techniques will ensure consistent quality, which cannot be expected from existing resources.

- *A similar scheme to the Technology Upgradation Fund (TUF), formulated for the textile sector, needs to be introduced to facilitate the leather and footwear sector. This scheme should support product and skill development, training, upgradation of information technology and help achieve compliance with international standards.*

- **Issues with Pakistan's Leather Industry**

  - Pakistan is one of the biggest markets of raw hides and skins in Asia, and over 30 to 40 percent of total production is generated on the occasion of *Eid-ul-Azha*. Over the last few years, Eid has occurred during the summer months. The leather industry has suffered more during recent years due to the lack of uninterrupted electricity and gas supply and hot and humid weather. Moreover, due to a lack of knowledge of preserving raw skins and hides, and unprofessional butchers damaging skins and hides by adding extra cuts, more than 10-20 percent of the total collection of hides and skins are damaged. This decline has also caused Pakistan's leather export figures to fall by approximately 22 percent (2015-19).

Recommendations:

- *The government in collaboration with the PTA should provide training and education to various stakeholders who are involved in the hides and skins value chains. This training should focus on improving production and preservation techniques of hides and skins. The main objective of this training should be to equip participants with knowledge and practical skills on different aspects of animal husbandry, animal slaughtering, bleeding, ripping, flaying and processing of hides and skins.*

- **Heavy Reliance on Imports**

  - Pakistan imports finished shoes on minimum Import Trade Price (ITP). Shoes which are usually priced at $8-$10 are under-invoiced and imported from China for less than $2 a pair. Even with the imposition of high duties, these imports are available at a lower price than footwear articles manufactured locally. High duties on imported raw materials also makes local footwear products uncompetitive with similar imports from competing nations as Pakistan Customs charges a higher tariff on imported components that go into making a shoe, than the taxes levied on finished goods.

Recommendations:

- *Tariffs on essential raw materials, intermediate goods and even machinery should be restructured and an initiative should be launched to implement cascading of tariffs with progressive stages of manufacturing. This would increase competitiveness of the industry by providing access to imported raw materials, intermediate goods and machinery at international prices while also protecting domestic manufacturing from cheap imports of the finished products.*

- **Need for Consistent Government Policies**

  - One of the fundamental issues with Pakistan's footwear industry is that policies meant for promoting the sector are not applied in the long-term. Regulations that impact business costs, such as DLTL rates, are defined for short-time periods. The same is the case with the rebates system, exporters are unsure if these incentives will continue in the coming years. All those interviewed expressed dissatisfaction with the current rebates system, stating that they cannot plan based on short-term policies that are initiated.

  - The complexity involved in completing the paperwork for claiming customs duties makes reimbursements time-consuming and costly.

  - Government policies offer higher rebates to raw leather exports than those offered to footwear exporters and these do not promote value-addition. Leather manufacturers do not see any incentive to forward integrate or sell locally to footwear manufacturers. Moreover, a high rebate on leather hides means that regional competitors such as Italy and China are able to procure leather at a cheaper rate.

Recommendations:

- *Pakistan's government should introduce policies that are stable and long-term. Incentives such as rebates, export credit, duty drawback, interest rates, etc. need to be valid for a minimum of 5 years. Frequent changes in policies should be avoided to allow for consistency to boost exports and investor confidence. Moreover, policies should also outline short-term and long-term goals.*

- *Value-addition should be promoted and policies should be made after consulting experts from value-added sectors. Incentives should include conditions where rebates are valid even if the leather is sold to local footwear manufacturers.*

- *As of February 2020, the government has repaid Rs 103 billion of Rs 250 billion outstanding pending claims related to sales tax and DLTL. Going forward, the government needs to ensure timely payment of rebates and refunds to reduce exporters' liquidity crunch.*

- **Enhancing the role of the Footwear Association**

  - As a representative of businesses, industry associations understand issues that are material to their members. Thus, these associations are well equipped to offer sector-specific advice and guidance on key sustainability issues, by developing tools and promoting best practices.

Recommendations:

- *Pakistan may consider enhancing the role of the Pakistan Footwear Manufacturers Association (PFMA) as it has an essential role in sharing best practices and developing standards. The representation of more than 100 footwear manufacturers in the association will provide policymakers a plethora of information to understand a range of external views to define sustainable targets and contribute towards good policy outcomes.*

- **Cluster Development**

  - One of the biggest challenges faced by the sector is the small size of production units and fragmented nature of manufacturing. This makes it difficult for the domestic industry to consolidate and offer common training programs. Moreover, due to the dispersion of the industry, there is lack of inter-firm coordination and innovation which hinders many small firms to benefit from flexible inter-firm alliances, supported by mutual information exchanges of both an informal and formal nature.

Recommendations:

- *The government needs to invest in special zones for export industries, with proper infrastructure, and a high level of security. The supply chain of the footwear industry is largely dispersed leading to longer lead times and higher costs when compared to other countries. This fragmented nature calls for consolidation of industry as a hub through clusterization, which would be a key to robust infrastructure development and the creation of an ecosystem for innovation within the country.*

- **Doing Business**

  - The cost of major inputs like, electricity and gas are much higher in Pakistan than in comparator countries. According to industry sources, Pakistan's gas rate per MMBTU is $2.3 higher than that of Vietnam and $1.9 higher than that of Bangladesh.

  - As of 2020, Pakistan was ranked 108 out of 137 countries in the World Bank's Doing Business 2020 study. Though this ranking has improved by 28 places over the previous year, except for Bangladesh, Pakistan has been performing poorly and is lagging well behind its competitors, such as China (77th place), India (45th place), and Vietnam (38th place).

- Pakistan suffers from low levels of human capital and labor market inefficiencies in which it ranks 16th and 21st from the bottom out of 141 countries, thus forming significant hurdles in Pakistan's ability to adapt to, and benefit from, changes in world demand for footwear articles.

- Apart from uncompetitive input costs, local exporters also face high tax rates. Pakistan's corporate tax rate is the highest amongst its competitors like Bangladesh, India, China and Vietnam. Multiple other taxes including sales tax, income tax, and other regulatory duties further raise the cost of doing business.

Recommendations:

- *The current concessionary rates of US cent 7.5/kwh for electricity, RLNG at $6.5 per MMBTU and gas at RS786 per MMBTU offered to registered manufacturers and exporters of five zero rated sectors should be continued for the foreseeable future as fuel oil and gas tariffs play a major role in the output costs.*

- **Limited Access to Finance**

  - Access to credit is another issue faced by footwear manufacturers, especially small- and medium-sized firms, that make up most of the footwear sector. As commercial loans are difficult to obtain due to collateral requirements by lending institutions, most SMEs use their own limited funds for business expansion. These SMEs are mostly unregistered, where there is no proper documentation or tax returns filed, and as a result they are unable to take advantage of the business-friendly credit schemes available. Large manufacturers have more working capital, but these are also tied up in export refunds.

  - Financing from commercial banks is also a problem as the government crowds out the private sector as it finances its own deficit using funds available with commercial banks.

  - An export bias exists where banks are less likely to lend to exporters without a good export track record. This lack of finance discourages firms from product and market diversification, preventing them from expanding into new, possibly higher value-added products.

Recommendations:

- *The government should reduce the cost of funds for non-participating and indirect exporters, some of whom are vendors for exporting manufacturers. For small-scale/informal manufacturers' the challenge is to take advantage of credit-friendly schemes that SME banks provide for small enterprises. Thus, to channel finance in these sectors, these small-scale firms need to become creditworthy; this in return would give them access to these loans and expand their business and product lines and decrease their dependency on the government for credit friendly loans.*

- **Security and Image-Building**

  - Though the security situation in Pakistan has improved in the last few years, this change has not really been communicated to most buyers. Pakistan suffers from an image problem when it comes to traveling and investing in the country. Security concerns discourage foreign buyers from visiting Pakistan, limiting face-to-face interaction with potential customers. In order to approach customers, Pakistani exporters have to travel and attend international exhibitions which is costly and time consuming.

  - Lack of strategic planning while participating in international exhibitions has hampered export promotion strategies. Participation of footwear exporters in international fairs is also limited. While the governments of India, Cambodia and other footwear competitors invite significant number of exporters to participate in these exhibitions, Pakistan's pavilion consists of a few individuals, due to lack of funds and a partial subsidy provided by TDAP to exporters.

  - The absence of support by TDAP, and government-appointed trade facilitators and investment counselors has led to a lack of interest by foreign investors. While the Chinese government is reported to facilitating exporters by providing a subsidy equal to the difference between different buyers' offers and exporters' demands, there is no such export facilitation is provided by Pakistan's government.

  - Though there has been some success recently in the government's efforts to remove travel advisories, a lot more needs to be done.

Recommendations

- *Steps need to be taken to increase exporter-buyer interaction by encouraging buyers to visit Pakistan as well as supporting local exporters when they attend international exhibitions.*

- *Government-approved traders and trade counsellors/agents should be trained to facilitate talks/ meetings with international buyers.*

- *Arrangements for governmental action should be undertaken for research into improved marketing techniques, the organization of trade fairs, the dissemination of market intelligence and the simplification of formalities relating to customs procedure, and commercial travel. TDAP can play an important role in building the country's image as a supplier of fashionable good-quality footwear articles.*

- **Promotion of Joint Ventures**

  - Industry experts cite a lack of ancillary industry, component manufacturers, scarcity of middle management, and unskilled labor as the foremost reasons for a dearth in foreign collaboration. Local shoe-makers have so far been unable to attract Chinese investors in spite of their strong

desire for collaboration with Chinese and other foreign companies. Collaboration with Chinese shoemakers would help the domestic industry access new technology and improve labor skills, as well as boost exports.

- Through technology partnerships, Chinese firms can provide Pakistan the gaps required to access the foreign markets that China has traditional access to but is now moving out of due to rising labor costs.

Recommendations:

- *The government must also focus on altering perceptions that foreign investors hold regarding the risks associated with investing in Pakistan. It should identify improving Pakistan's image as a viable and opportune host country by providing more effective policy enforcement mechanisms, offering infrastructure facilities, and ensuring higher national security levels. According to Mr. Siddiqui, former PFMA chairman, a little government support on issues hampering growth, and collaboration with Chinese manufacturers, will go a long way towards improving Pakistan' footwear exports and labor productivity.*

- **Tapping into International Markets**

  - The enforcement of more stringent environmental and labor laws along with an increase in wages in China have eaten into China's cost advantages and buyers are looking at other alternates in Asia. Since more than 55.5 percent of global footwear production takes place in China, Pakistan has been provided with an opportunity to collaborate with the Chinese to set up units, and supply to local Chinese brands and to buyers of Chinese companies in export markets.

  - Japan is a potential footwear market which Pakistan is missing out on. As of 2019, Japan is the 6th largest footwear consumer, with 722.0 million pairs consumed in 2019. While Vietnam, Cambodia and Bangladesh are three of the top 10 suppliers to Japan, Pakistan does not even fulfill 0.01 percent of Japan's import demand for footwear despite being a significant producer. This is due to the high tariff charged on Pakistani footwear of 37.4 percent while Vietnam, Cambodia and Bangladesh are charged 6.7 percent, 3.0 percent and 1.0 percent, respectively.

Exporter/Market	EU	USA	China	Russia	Canada	Japan
Pakistan	0%	12.10%	7.40%	3.40%	13.60%	37.40%
India	6.70%	12.10%	5.80%	3.40%	13.90%	22.80%
Bangladesh	0%	12.20%	0%	3.40%	0%	3%
Cambodia	0%	12.10%	0%	3.40%	0%	1%
Vietnam	6.70%	12.20%	0%	1.80%	2.90%	6.70%
China	10.70%	12.20%	-	3.40%	13.90%	37.40%

Source: ITC Trade Map

- Lack of export diversification in existing footwear markets have been identified as the main reasons for stagnant exports. Due to a lenient tariff structure, small order size and better prices, Pakistani manufacturers are biased towards exporting footwear articles to the EU, where 68 percent of footwear exports are concentrated. Pakistan is missing out on increasing supply to other markets where it has a presence such as the US. The US footwear market demands large import order sizes and lean manufacturing in supplier markets, both of which are not available in Pakistan. Even suppliers or buying houses of retail corporations such as Walmart, Target, etc., do not want to source their products from Pakistan, due to Pakistan's limited capacity and small manufacturing base. Moreover, as US buying houses require delivery of large orders, lack of storage and warehousing facilities hinders production orders. As opposed to Pakistan, manufacturers in India and Bangladesh receive large orders which allows them longer production runs and the ability to benefit from the learning curve advantage resulting in their ability to scale up production rapidly.

Recommendations

- *To increase world export shares through market diversification, Pakistan must simultaneously address internal constraints to improve flexibility and quality of production and secondly, diversify its market to include export destinations other than Europe such as the US due to its vast demand as well as to Australia and Russia which offer low tariffs of 3.4 percent and 3.8 percent, respectively. Moreover, as demand for some shoes is seasonal, Pakistan should deliver shoes to countries situated in both hemispheres.*

- *To address inadequate storage facilities and high lead time, Pakistan should consider establishing central bonded warehouse facilities, which can be used to store duty-free imported raw materials, along with machinery and spare parts, as per anticipated demand. Pakistan may also establish bonded manufacturing facilities that would allow the import of raw materials and capital goods without payment of duty for manufacturing and other operations. When imported inputs are utilized for exports, the deferred duty is exempted. Only when the finished goods are cleared to the domestic market, import duty is to be paid on the imported raw materials used in the production. An enabling environment will come from scale, which requires import liberalization for raw materials. While leakages may occur from bonded imports to local markets and losses from forgone import tariffs, the increase in employment, output, exports, and taxes paid through higher volumes should offset the losses.*

Global Footwear Trends

World Production of Footwear

Since 2010, global footwear production has increased by 21.2 percent, at an average yearly growth rate of 2.2 percent[2]. Industry output slowed slightly in 2019, growing by only 0.6 percent over the previous year, however, this growth was enough to establish a new global production record of 24.3 billion pairs.

The footwear industry is mainly concentrated in Asia where nearly 9 out of every 10 pairs of footwear are produced. While Africa, Europe and North America have maintained their share of global exports of footwear, Asia's dominance in global footwear production has increased by 2 percentage points in the last decade, mostly at the expense of South America.

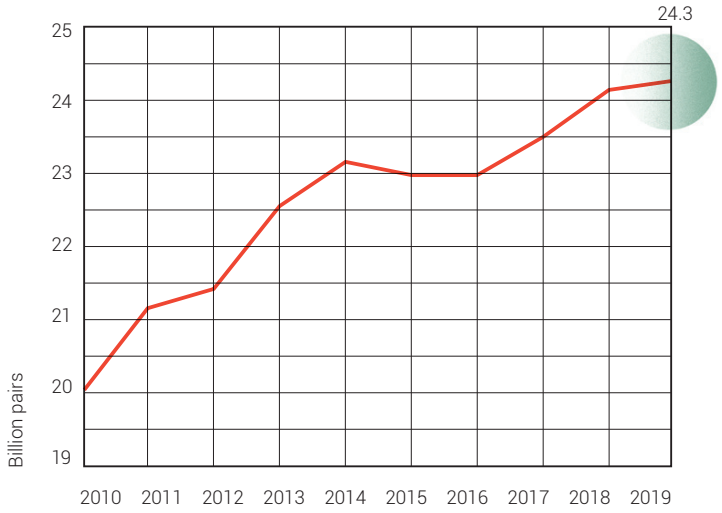
FIGURE 4: World footwear production

Source: World Footwear Yearbook 2019

2 World Footwear 2019 Yearbook

World Footwear Production (Quantity) 2010-19

FIGURE 5: World footwear production



Source: World Footwear Yearbook 2019

The table on the right lists the top 10 footwear producers in 2019. China's footwear industry with more than 55.0 percent of global production is the dominant power in the industry. Turkey, a relatively new entrant continues to rise in the list of the main footwear producing countries and in 2019 it reached 6th position, up from the 13th place it occupied in 2010. Higher positions seem out of reach for Turkey in the short to medium term since Brazil, at 5th position, currently manufactures 70% more shoes than Turkey. Vietnam and Indonesia have overtaken Brazil in the last decade and vie for the 3rd position, with Vietnam currently marginally ahead. Italy is the only European country that still makes it to the world's top 10 producers of footwear, but probably not for long, as it is closely followed by countries such as Cambodia, the Philippines and Thailand.

Table 1: World footwear producers (2019)

Top 10 Footwear Producers (Quantity) 2019			
Rank	**Country**	**Pairs (millions)**	**World Share**
1	China	13 475	55.50%
2	India	2 600	10.70%
3	Vietnam	1 400	5.80%
4	Indonesia	1 228	5.10%
5	Brazil	908	3.70%
6	Turkey	535	2.20%
7	Pakistan	481	2.00%
8	Bangladesh	407	1.70%
9	Mexico	251	1.00%
10	Italy	179	0.70%

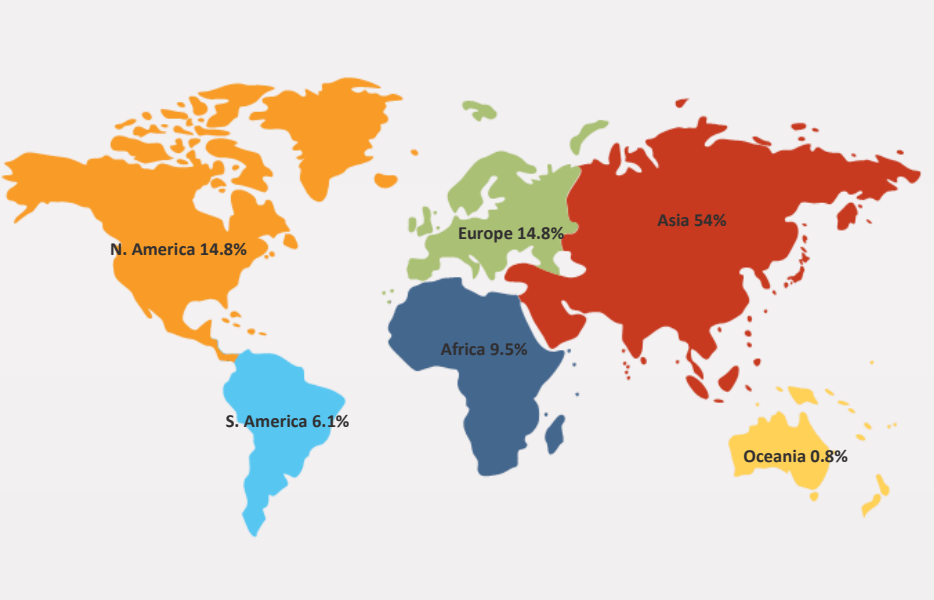
Source: World Footwear Yearbook 2019

World Consumption of Footwear

Footwear consumption is more evenly distributed among continents than footwear production. Asia continues to increase its lead as the largest footwear-consuming continent, as its share of consumption (54.0%) approaches its share of the world population (60.0%). Asia is followed by Europe and North America that represent 15 percent each of global consumption.

China is the largest footwear market in the world with a stable consumption share of 18.7%. Three other Asian countries, India, Indonesia and Japan, are also among the top 10 footwear consumers.

FIGURE 6: World footwear consumption

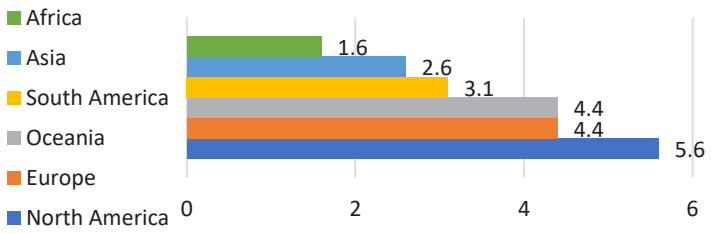


Source: World Footwear Yearbook 2019

Per Capita Consumption of Footwear by Continent (Quantity)

The figure below shoes the geographic differences in consumption patterns. The annual per capita footwear consumption varies between 1.6 pairs in Africa to 5.6 pairs in North America. With 4.4 pairs per person, Europe and Oceania approach North American consumption patterns whereas Asia, with 2.6 pairs per capita, is closer to Africa's per capita consumption. With low per capita consumption, it would appear that future growth would be concentrated in Asia and Africa.

FIGURE 7: Per capita consumption of footwear by continent
(Quantity)



Source: World Footwear Yearbook 2019

China and India's large populations put these two countries in pole position in the top 10 footwear consumers. With large populations and low per capita consumption, Indonesia and Pakistan are expected to be important markets in the coming years. The high per capita consumption sustained through wealth justifies the presence of the USA, Japan, Germany, France and the UK in this list.

Table 2: World footwear consumers (2019)

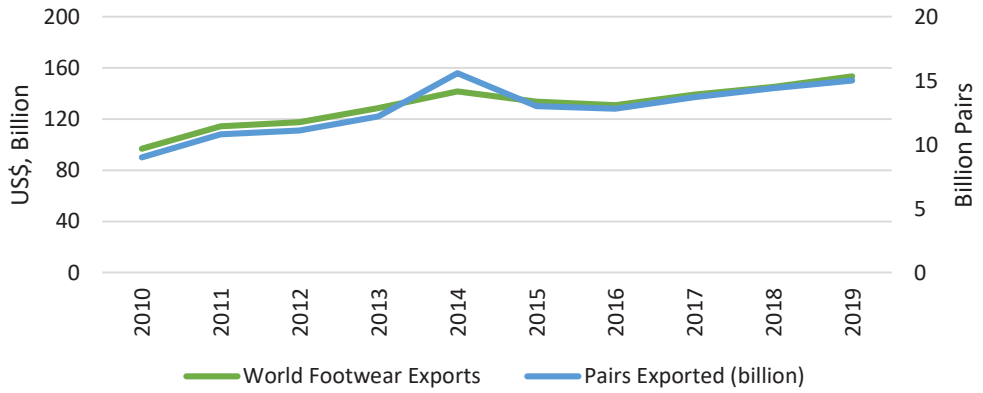
Top 10 Footwear Consumers (Quantity) 2019			
Rank	Country	Pairs (millions)	World Share
1	China	4,143	18.70%
2	India	2,560	11.60%
3	USA	2,406	10.90%
4	Indonesia	971	4.40%
5	Brazil	821	3.70%
6	Japan	722	3.30%
7	Pakistan	477	2.20%
8	Germany	443	2.00%
9	France	384	1.70%
10	UK	378	1.70%

Source: World Footwear Yearbook 2019

The value of global footwear exports continued to increase in 2019, reaching a new record of $153.3 billion, a growth of 5.6 percent over the previous year. This growth was mainly driven by Asian countries, which increased their exports by 3.3 percent. Cumulative growth since 2010 has been 58.3 percent, with higher rates both in Asia and Europe. South American exports have fallen by more than one third in the last decade.

World Footwear Exports

FIGURE 8: World footwear exports

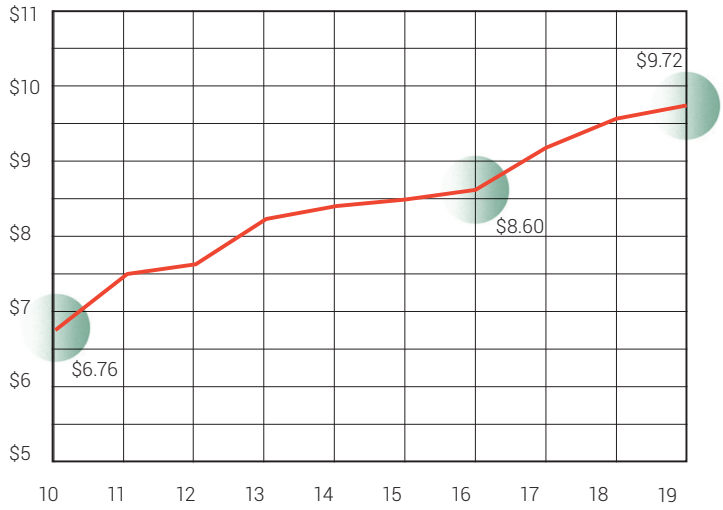


Source: ITC Trade Map

The average export price per pair worldwide is approaching $10.0. The different trends of value and quantity in exports reflects changes in average price per pair. This indicates a somewhat linear trend in the last ten years and recording an average price of $9.72 in 2019 – a 2.0 percent increase from the average price in 2018. Since 2010 the average export price has increased by 43.8% which corresponds to an average growth rate (CAGR) of 4.1%.

World Average Export Price 2010-19

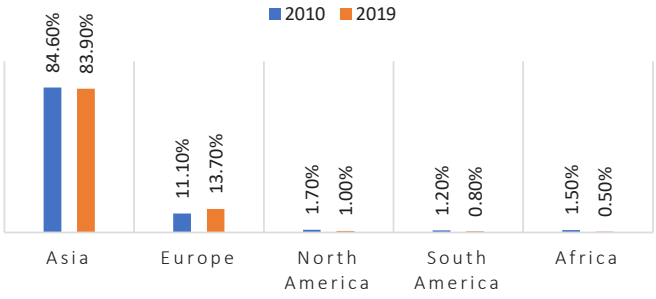
FIGURE 9: World average export price



Source: World Footwear Yearbook 2019

More than 15.0 billion pairs, or 62.0 percent of all footwear produced, was exported in 2019. Asia is the largest exporter with a world share of 83.9 percent. However, its export share has decreased slightly in the last decade, mainly on the back of China's fall in world footwear exports by 7.0 percent since 2010. Europe on the other hand managed to increased its share by 2.6 percent between 2010 and 2019.

FIGURE 10: Distribution of footwear exports by continent



Source: World Footwear Yearbook 2019

Table 3: Top footwear exporters (2019)

Rank	Country	Pairs (Millions)	World Share
1	China	9,542	63.60%
2	Vietnam	1,419	9.50%
3	Indonesia	427	2.80%
4	Germany	350	2.30%
5	India	286	1.90%
6	Turkey	275	1.80%
7	Belgium	269	1.80%
8	Italy	201	1.30%
9	Netherlands	183	1.20%
10	Cambodia	165	1.10%

Source: World Footwear Yearbook 2019

China was the source of 2 out of every 3 pairs of shoes exported in 2019. However, China has seen a steady decline in its exports of footwear, losing 7 percent of its share since 2010. This drop in China's share has been attributed to higher labor costs, more stringent government policies and attractive policies introduced by other competitors such as Cambodia, Vietnam and Bangladesh. In the same period, Vietnam has almost doubled its market share. India and Turkey have also shown improved performances throughout the decade, climbing from 22nd and 16th to 5th and 6th positions respectively. Above them, Germany is now Europe's largest exporter of footwear, having surpassed Italy and Belgium.

Footwear Imports

The figure on the bottom right depicts the distribution of footwear imports by continent of destination. It can be seen that both North and South America have been losing share as footwear importers: North America represents less than one-fourth of global imports and South America represents a mere 2.6 percent. Demographic dynamism has been driving African and Asian imports, also helped in the latter's case by strong economic performance. However, World imports are still led by Europe which is responsible for more than a third of the world's total.

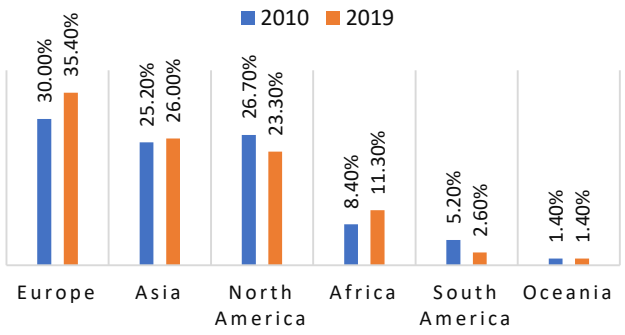
Table 4: Top footwear importers (2019)

Rank	Country	Pairs (Millions)	World Share
1	USA	2,470	19.10%
2	Germany	745	5.80%
3	Japan	653	5.10%
4	France	486	3.80%
5	UK	462	3.60%
6	Belgium	357	2.80%
7	Italy	334	2.60%
8	Spain	319	2.50%
9	Netherlands	289	2.20%
10	Russian Fed.	267	2.10%

Source: World Footwear Yearbook 2019

Distribution Of Footwear Imports By Continent Of Destination (Quantity)

FIGURE 11: Distribution of footwear imports by continent



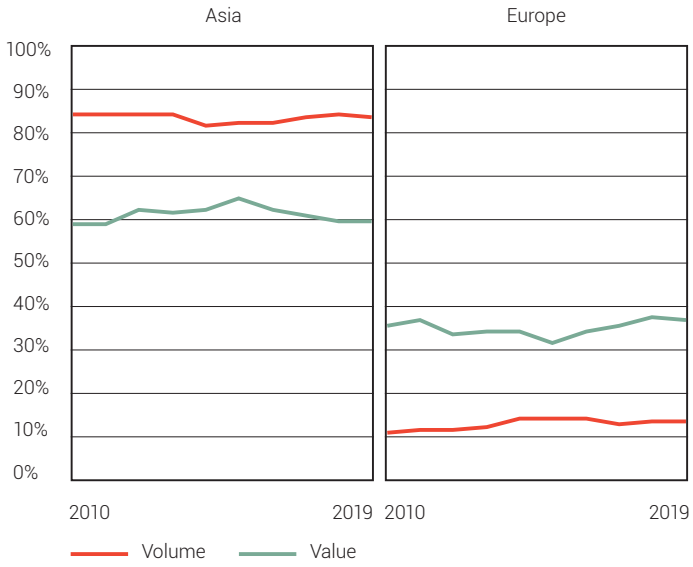
Source: World Footwear Yearbook 2019

As can be seen from the table above, the USA remains by far the largest importer of footwear, importing one in every five pairs of shoes. Japan, in third position, is the major importer in Asia. Eight European counties make it to the top ten list, with Germany being Europe's largest importer. The Russian Federation reentered the top 10 importers in 2019 list switching positions with India, which is the only change from 2018.

Exports

Footwear exports are heavily concentrated in Asia and Europe, and this concentration has improved marginally in the last decade: the joint share of these two continents in world exports increased in terms of volume from 95.6% in 2010 to 97.6% in 2019, and from 95.0% to 97.0% in terms of value. Asia exports six times as many shoes as Europe, however in terms of value, the ratio between the two is only 1.6 to 1 in favor of Asia.

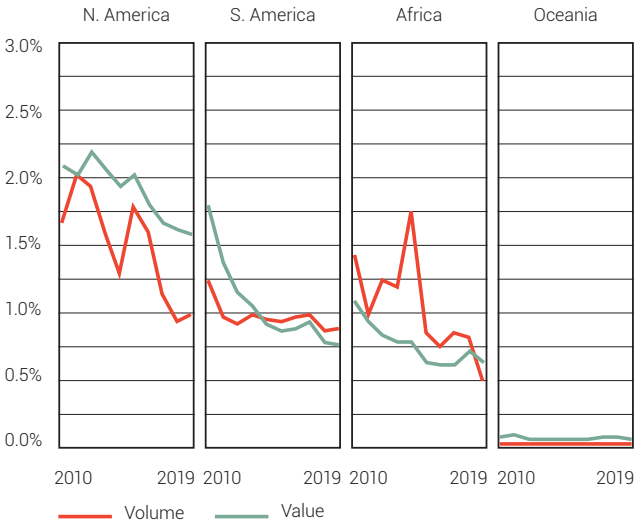
FIGURE 12: Share of world exports (Asia & Europe) 2010–2019



Source: World Footwear Yearbook 2019

Other continents' participation in international footwear exports is less significant and shows a downward trend. As can be seen from the graph below, North America is the only other continent that still accounts for more than 1.0% of total footwear exports (1.0% in volume; 1.6% in value). Africa and South America both have a 0.7% value share, the latter reaching 0.8% in volume. Oceania represents less than 0.1% of world exports.

FIGURE 13: Share of world exports (other continents)

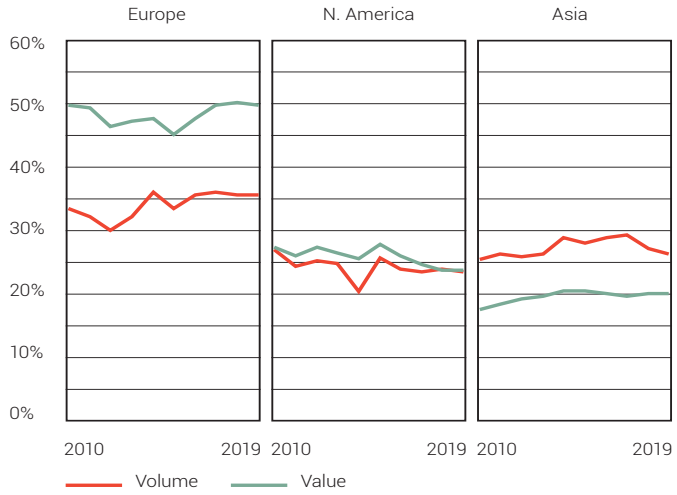


Source: World Footwear Yearbook 2019

Imports

In 2019, Europe accounted for more than one-third of total footwear imports in volume terms and about half in value terms. Over the past five years, Europe's share in world imports in value terms has increased from 46.0 percent in 2015 to almost 50.0 percent in 2019. Asia and North America represent about one-quarter of the world's total imports, with the former enjoying a larger volume share (26.0%) and the latter in value terms (23.7%). However, Asia's share has shown an upward trend throughout the last decade, whereas North America's share has slightly decreased.

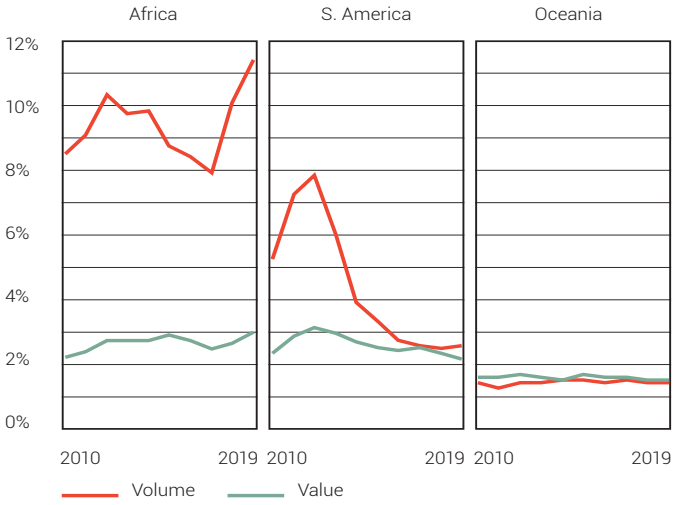
FIGURE 14: Share of world imports (Asia, Europe & North America)



Source: World Footwear Yearbook 2019

Africa's share in world imports is on the rise, and in 2019 the continent represented more than 10.0 percent of the volume of footwear imports; however, its share in value terms is considerably lower: close to 3.0 percent however, with an upward trend as can be seen from the figure below. South America, on the other hand, shows a downward trend and in 2019 represented 2.6% of the volume and 2.2% of the value of world imports. Oceania has a stable share of about 1.5% of the world total.

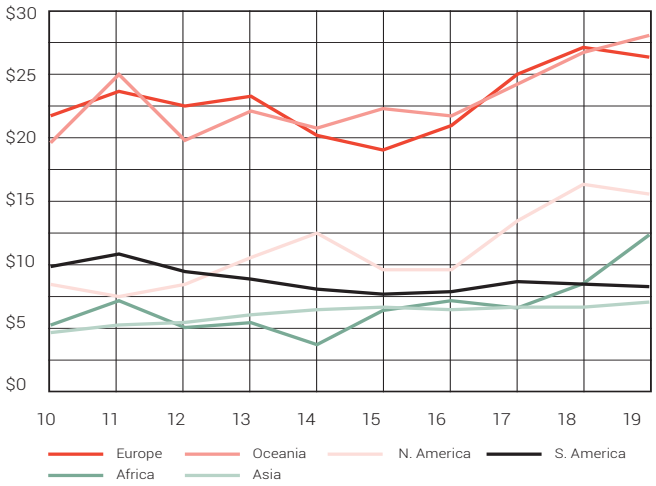
FIGURE 15: Share of world imports (Africa, Oceania & South America)



Source: World Footwear Yearbook 2019

At a continent level, average export prices range from $6.93 in Asia to $28.03 dollars in Oceania, showing little convergence over the past decade. Average export price in Europe and Oceania are the highest, marked by a sharp increase over the last four years. Africa has vied with Asia for the bottom position throughout most of the last decade but in the last couple of years has increased its prices significantly. The graph shows North America also showing an upward trend and occupying an intermediate position. As compared to other continents, South America's average price has fallen by 15.0% since 2010 and is now only 21.0% higher than Asia's.

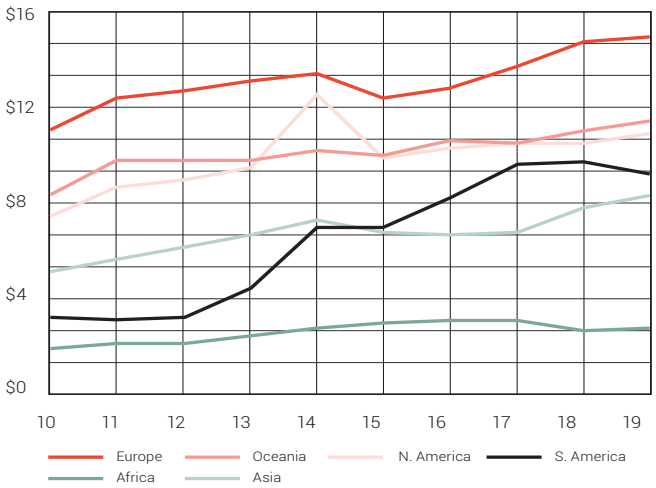
FIGURE 16: Average export price by continent (2010-19)



Source: World Footwear Yearbook 2019

As can be seen from the graph below, there are well-defined regional trends in the pricing of imports. The ratio between the highest and lowest continental prices is 5.4, even higher than that for exports. Europe has consistently paid the highest prices for imports over the last ten years: its average import price has risen by 33.9% since 2010, from 11.17 to 14.95 dollars. Though Africa's import price rose significantly in both 2016 and 2017, by 2019 it was still only $2.77 – the lowest in the world. The other four continents are more similar in their pricing which ranges from 8.29 dollars in Asia to 11.43 in Oceania.

FIGURE 17: Average import price by continent (2010-19)



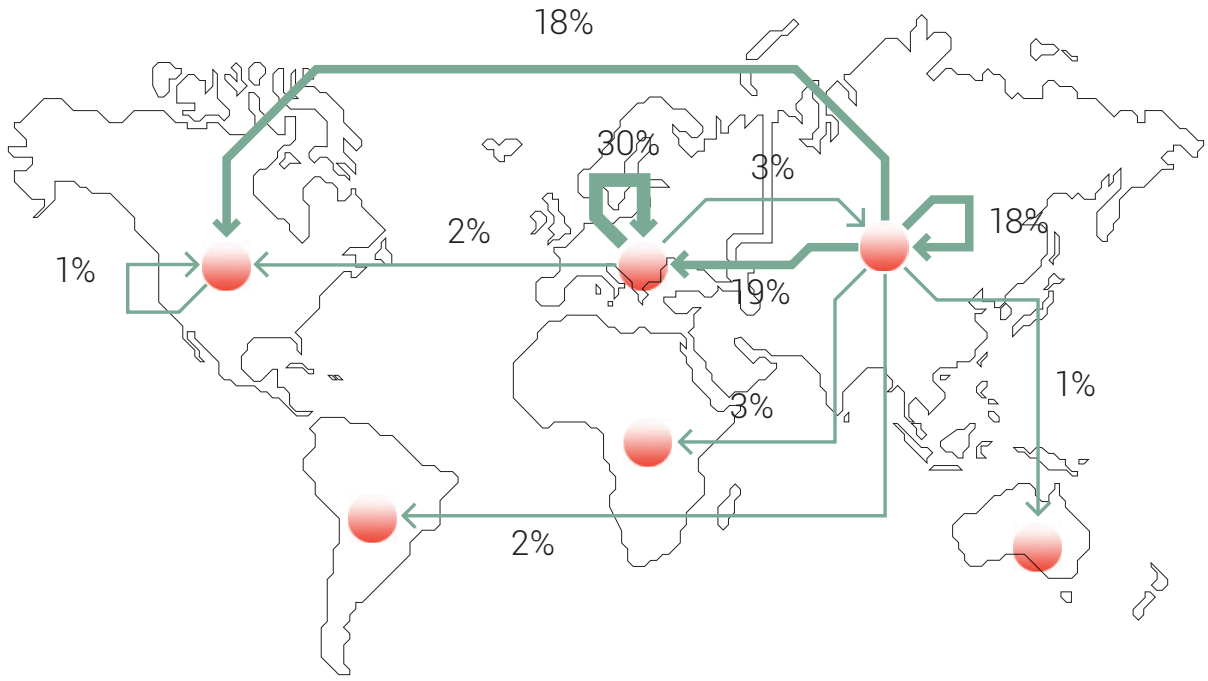
Source: World Footwear Yearbook 2019

Continental Flows of the Footwear Trade

Well-defined regional patterns also exist with respect to each country's trade partners. European countries export footwear almost exclusively among themselves: on average over the 2015-2019 period only 14.0% of exports from European countries were destined to countries in other continents. Similarly, 74.0 percent of North America's footwear exports do not leave the continent. Conversely, 71.0 percent of footwear exports from Asia are destined mainly for Europe and America.

The figure below shows that intra-European trade flows represent almost a third of the world total, Intra-Asian trade is another 18.0% of global trade while trade between Asia and Europe accounts for another 19.0% of global trade.

FIGURE 18: Geographic patterns of footwear trade (value) 2015–2019



The arrows relate to exports within or between continents and the percentages refer to the contribution of each flow to total world footwear exports (value).

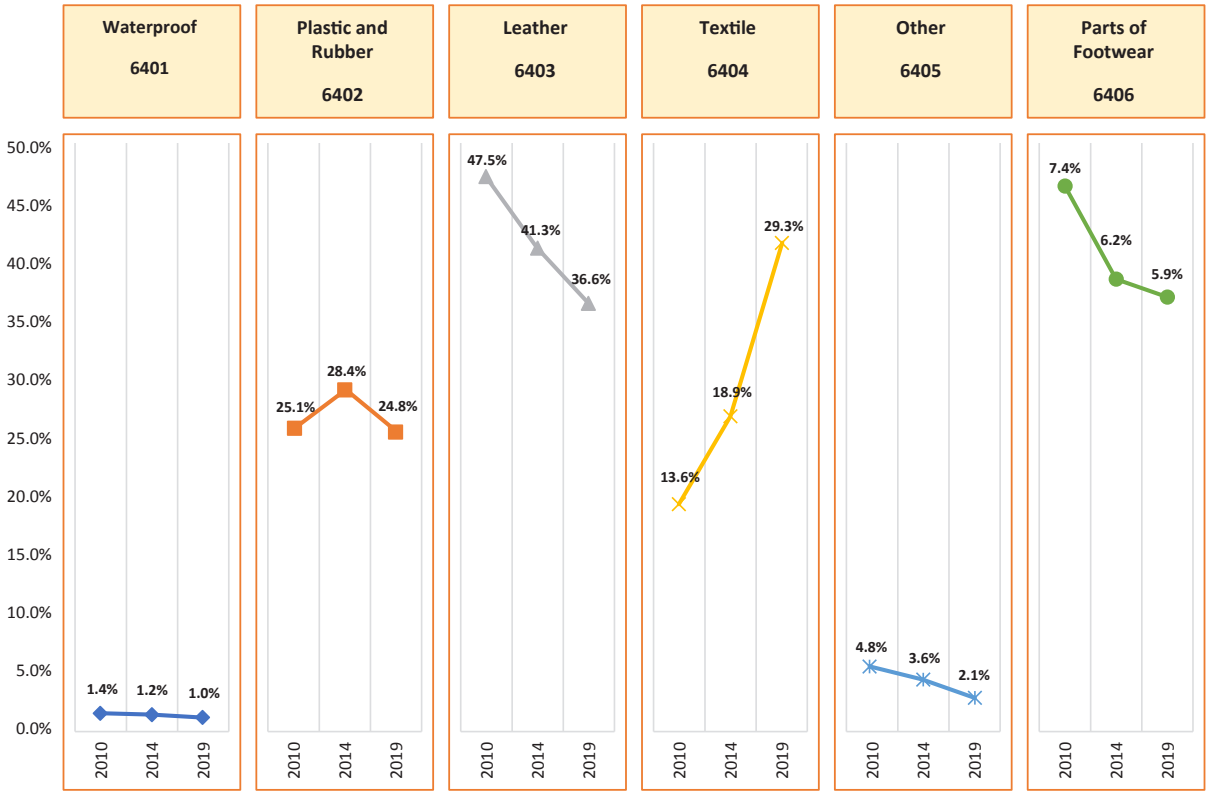
Note: The percentages were calculated for the period 2015-2019 to avoid the volatility of annual figures. Flows of less than 0.5% of the world total do not appear in this diagram.

Source: World Footwear Yearbook 2019

Global Footwear Product Mix

Over the last ten years, the increasing popularity of textile footwear has been the most important feature of the global footwear trade. This category now represents a quarter of all the footwear trade, up from 14.6 percent (value) in 2010. During the same time period, rubber and plastic footwear (HS-6402) as well as leather footwear (HS-6403) have lost significant shares in the global footwear market. Nevertheless, the former still represents more than 47.5 percent of the volume of all footwear exported globally, while the leather footwear category represents over 38.0 percent in value terms of the value of total footwear exports. The contrast in the trade for different types of footwear is even more interesting when the evolution of exports is measured in absolute terms – since 2010 the number of pairs exported fell slightly for rubber & plastic (-1.7%) and leather (-8.1%) but increased by about 80.0% for textile footwear.

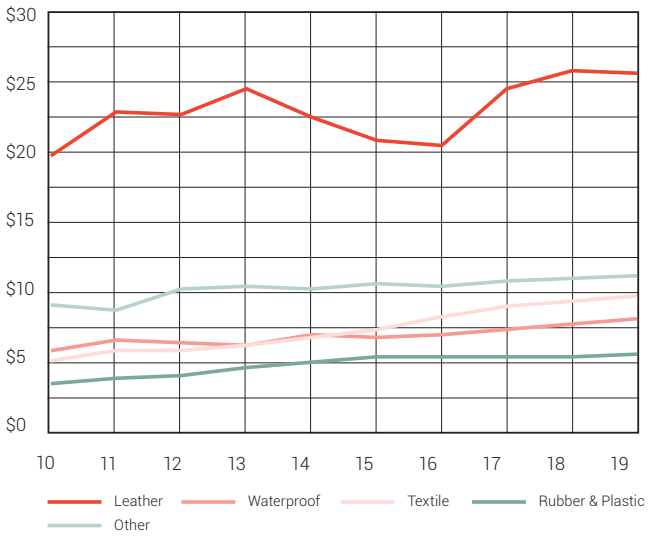
FIGURE 19: Share of exports by type of footwear (HS 4 digit)



Source: ITC Trade Map

While 80 percent more textile footwear were exported in 2019 than in 2010, the value of textile footwear exports during the same time period increased by 244.0 percent. The average export price of this category almost doubled from $5.05 to $9.68 between 2010 and 2019. Price increases for the other categories of footwear were more moderate, ranging from 21.8% for the residual 'other' category to 58.2% for rubber & plastic footwear, with the price of leather footwear increasing by 29.0%. As can be seen from the figure below, the price of leather footwear ($25.54) is 2.3 to 4.7 times greater than those of the other categories (between $5.41 and $10.98).

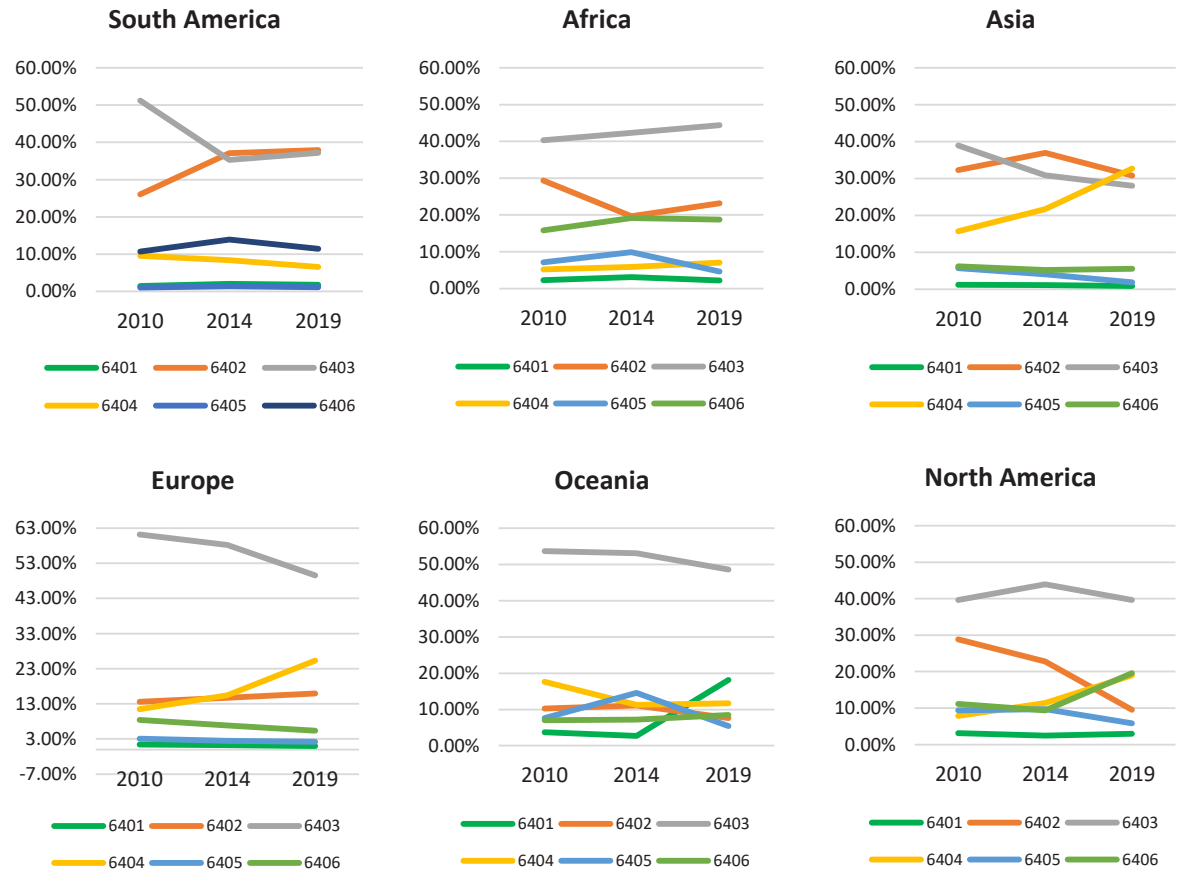
FIGURE 20: Average export price by type of product



Source: World Footwear Yearbook 2019

Type of Footwear Products Exported by Continent (% of value exported)

FIGURE 21: Type of footwear product exported by continent



Source: ITC Trade Map

Footwear Articles sold in the International Market

Table 5: Top 10 global footwear exports (2019)

Product code	Product label	Exported value in 2017 ($)	Exported value in 2018($)	Exported value in 2019($)	Share in world footwear exports (2019)	CAGR (2015-19)	Top exporters in 2019, and share in world footwear exports
640399	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather ...	25,803,912,000	27,175,775,000	28,188,629,000	19.12%	1.51%	China, 21.7% Vietnam, 13% Italy, 12.2%
640299	Footwear with outer soles and uppers of rubber or plastics (excluding covering the ankle or ...	25,782,680,000	24,755,301,000	25,794,388,000	17.50%	-1.48%	China, 62.4% Vietnam, 9% Germany, 5.1%
640419	Footwear with outer soles of rubber or plastics and uppers of textile materials (excluding ...	23,130,640,000	25,175,300,000	25,714,890,000	17.44%	7.14%	China, 48.9% Vietnam, 14.9% Italy, 5%
640411	Sports footwear, incl. tennis shoes, basketball shoes, gym shoes, training shoes and the	13,757,850,000	15,191,924,000	15,746,638,000	10.68%	13.33%	Vietnam, 34.4% Belgium, 15.9% Germany, 9.8%
640391	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather, ...	11,309,320,000	11,890,654,000	12,649,331,000	8.58%	3.26%	China, 14.9% Vietnam, 12.3% Italy, 8.8%
640359	Footwear with outer soles and uppers of leather (excluding covering the ankle, incorporating ...	4,700,567,000	4,885,433,000	4,642,388,000	3.15%	-1.66%	Italy, 44.6% France, 12% Hong Kong, 7.5%
640291	Footwear covering the ankle, with outer soles and uppers of rubber or plastics (excluding waterproof ...	4,003,811,000	4,093,063,000	4,213,278,000	2.86%	3.09%	China, 48.9% Germany, 8.4% Vietnam, 6.5%
640610	Uppers and parts thereof (excluding stiffeners and general parts made of asbestos)	3,690,159,000	3,755,445,000	3,593,730,000	2.44%	2.66%	China, 23.2% Romania, 8.5% Vietnam, 8.3%
640319	Sports footwear, with outer soles of rubber, plastics, leather or composition leather and uppers ...	3,551,012,000	3,523,653,000	3,350,139,000	2.27%	-1.79%	Indonesia, 39% China, 9% Italy, 8.9%
640690	Parts of footwear; removable in-soles, heel cushions and similar articles; gaiters, leg..	3,036,170,000	3,304,110,000	3,332,501,000	2.26%	5.51%	China, 25.1% USA, 14% Italy, 11%

Source: ITC Trade Map

World Imports of Footwear Articles

Table 6: Top 10 global footwear imports (2019)

Product code	Product label	Imported value in 2017 ($)	Imported value in 2018 ($)	Imported value in 2019 ($)	Share in world footwear imports (2019)	CAGR (2015-19)	Top importers in 2019, and share in world footwear imports
640399	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather ...	26,998,207,000	28,877,369,000	30,018,976,000	20.41%	1.37%	USA, 18.2% Germany, 10.6% France, 6.7%
640419	Footwear with outer soles of rubber or plastics and uppers of textile materials (excluding ...	20,297,497,000	23,019,729,000	24,243,009,000	16.48%	10.58%	USA, 19.5% China, 7.3% Germany, 6.9%
640299	Footwear with outer soles and uppers of rubber or plastics (excluding covering the ankle or ...	19,286,480,000	20,295,827,000	21,311,189,000	14.49%	2.55%	USA, 19.5% Germany, 6.7% Japan, 5.4%
640411	Sports footwear, incl. tennis shoes, basketball shoes, gym shoes, training shoes and the like, ...	17,613,848,000	19,164,163,000	19,400,912,000	13.19%	12.43%	USA, 22.1% Germany, 11.2% Belgium, 6.6%
640391	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather, ...	13,271,501,000	13,681,364,000	14,351,211,000	9.76%	-0.33%	USA, 28.7% Germany, 10.1% Netherlands, 5.8%
640291	Footwear covering the ankle, with outer soles and uppers of rubber or plastics (excluding waterproof ...	5,058,726,000	5,198,873,000	5,193,770,000	3.53%	-2.51%	USA, 22% Germany, 11.6% France, 5.8%
640359	Footwear with outer soles and uppers of leather (excluding covering the ankle, incorporating ...	4,803,935,000	4,854,609,000	4,562,713,000	3.10%	-1.70%	USA, 16% France, 13% Hong Kong, 7.7%
640610	Uppers and parts thereof (excluding stiffeners and general parts made of asbestos)	3,425,532,000	3,510,702,000	3,265,644,000	2.22%	2.95%	Italy, 21.6% China, 6.3% Germany, 5.6%
640690	Parts of footwear; removable in-soles, heel cushions and similar articles; gaiters, leggings ...	2,740,887,000	3,148,358,000	3,262,394,000	2.22%	7.52%	Vietnam, 16.9% China, 10.1% Germany, 6.9%
640219	Sports footwear with outer soles and uppers of rubber or plastics (excluding waterproof footwear ...	2,835,479,000	2,910,282,000	2,952,770,000	2.01%	2.52%	USA, 15.3% Germany, 9.7% Hong Kong, 6.4%

Source: ITC Trade Map

Major Manufacturers in the Global Footwear Market

The table on the right lists the top 20 footwear producers, with each country's share in world production, world exports and their export orientation (percentage of total production exported). As can be observed, China and India are placed at the top of the table, but their profiles display stark differences. China manufactures more than half (55.5%) of all shoes produced worldwide and is also the world's largest exporter, both in terms of volume (63.6%) and value (30.9%). Despite the size of its population, more than 70.8 percent of total footwear produced is exported. On the other hand, despite being the world's second largest producer, India's footwear industry is mainly inward-oriented as a mere 11.0 percent of total production is exported. This is enough to make it the fifth largest exporter by volume but, in terms of value, it stands at the eleventh position.

Table 7: Top footwear manufacturers (2019)

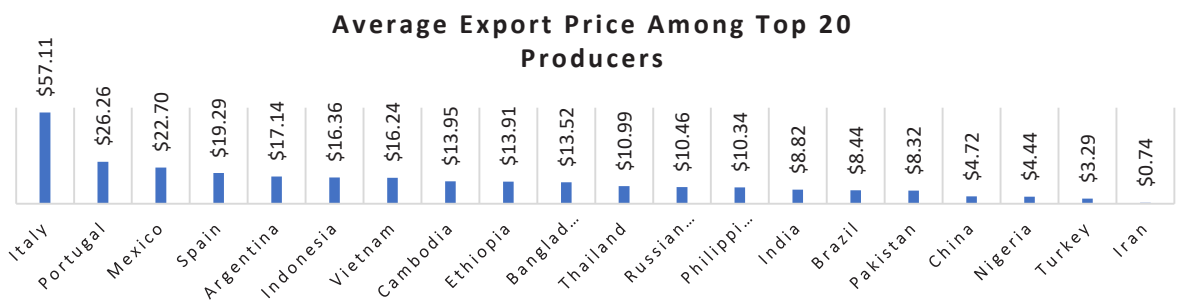
Manufacturers in the Global Market				
Rank	Country	% World Exports (Value)	% World Production (Pairs)	Export Orientation
1	China	30.90%	55.50%	70.80%
2	India	1.70%	10.70%	11.00%
3	Vietnam	15.80%	5.80%	101.40%
4	Indonesia	4.80%	5.10%	34.70%
5	Brazil	0.70%	3.70%	12.70%
6	Turkey	0.60%	2.20%	51.40%
7	Pakistan	0.10%	2.00%	3.80%
8	Bangladesh	0.70%	1.70%	19.40%
9	Mexico	0.30%	1.00%	8.60%
10	Italy	7.90%	0.70%	112.40%
11	Cambodia	1.60%	0.70%	94.70%
12	Philippines	0.10%	0.70%	6.90%
13	Iran	0.00%	0.70%	6.50%
14	Thailand	0.40%	0.60%	34.80%
15	Nigeria	0.00%	0.50%	0.70%
16	Russian Fed.	0.20%	0.50%	22.30%
17	Spain	2.10%	0.40%	158.50%
18	Ethiopia	0.00%	0.40%	2.90%
19	Argentina	0.00%	0.30%	0.40%
20	Portugal	1.40%	0.30%	100.10%

Source: World Footwear Yearbook 2019

Vietnam and Indonesia take the next two spots after India. While Vietnam is export oriented, Brazil which is the only non-Asian country among the world's largest producers, exports 12.7 percent of the shoes it manufactures. Similar is the case for Indonesia which has an export orientation of 34.7 percent. Further down the table Italy, Europe's only representative among the world's top 10 producers, sees its position threatened by close competitors such as Cambodia, the Philippines and Thailand.

Average Export Price among top 20 Producers

FIGURE 22: Average export price among top 20 producers



Source: World Footwear Yearbook 2019

The figure above shows that Italy stands out among the top footwear producers for the high average export price ($57.0) that it charges for its unit exports. While China may have an dominating share in global footwear exports, the graph above shows that its share is driven by a low average export price. Pakistan's average export price is $8.32.

Consumers in the Global Footwear Market

The table below shows that footwear comsumption is less concentrated than footwear prodcution – the top 20 producing countries represent 93.0 percent of the world production whereas the top 20 consuming countries represent only 73.0 percent of global footwear consumption.

Table 8: Top footwear consumers (2019)

World Top 20 Consumers (Quantity) 2019				
Rank	Country	% World Imports	% World Consumption (Pairs)	Import Share of Consumption
1	China	3.70%	18.70%	5.10%
2	India	0.50%	11.60%	9.60%
3	USA	20.20%	10.90%	102.70%
4	Indonesia	0.50%	4.40%	17.40%
5	Brazil	0.30%	3.70%	3.40%
6	Japan	3.70%	3.30%	90.40%
7	Pakistan	0.00%	2.20%	3.00%
8	Germany	8.80%	2.00%	168.30%
9	France	6.00%	1.70%	126.50%
10	UK	5.00%	1.70%	122.20%
11	Mexico	0.90%	1.60%	35.40%
12	Russiaa	2.40%	1.60%	75.40%
13	Bangladesh	0.10%	1.60%	6.20%
14	Italy	4.40%	1.40%	107.10%
15	Turkey	0.40%	1.30%	9.90%
16	Nigeria	0.30%	1.30%	53.30%
17	Philippines	0.30%	1.20%	39.50%
18	Spain	2.70%	1.20%	121.90%
19	South Africa	0.60%	1.00%	86.90%
20	Korea, Rep.	2.20%	1.00%	81.10%

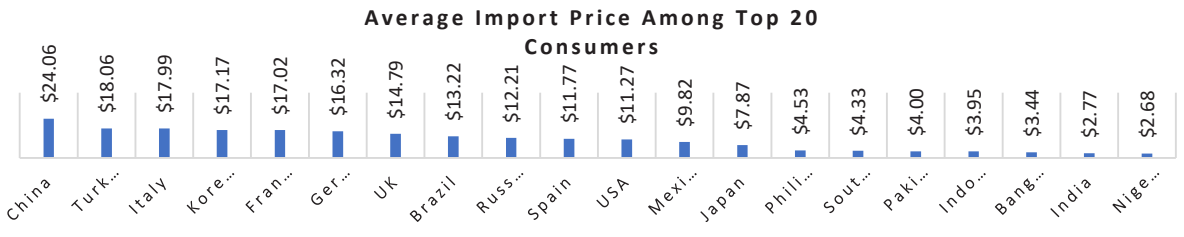
Source: World Footwear Yearbook 2019

Since consumption is largely dependent on each country's population and wealth, it does not come as a surprise that China is the largest consumer of footwear, accounting for 18.7 percent of global consumption. The situation is similar in India which is placed in second place among footwear consumers. The US meets nearly all of its domestic needs via imports. In fact, American imports exceed its consumption because the country re-exports part of what it imports. Together, China, India and the US represent more than 40.0 percent of world consumption. Pakistan is ranked as the 7th largest consumer. Imports represent only 3.0% of Pakistan's consumption, most of Pakistan's consumption is met through domestic manufacturing.

The figure below shows the average import price for the top 20 footwear consumers. China pays the highest average import price of $24.0 while the average import price for the USA is less than half of that i.e., only $11.2.

Average Import Price among top 20 Consumers

FIGURE 23: Average import price among top 20 consumers



Source: World Footwear Yearbook 2019

Top 5 Exporters by Continent

Country	$ (Millions)	Continent Share	Pairs (Millions)	Continent Share	Average Price
Top Exporters: Asia					
China	45 049	51.70%	9 542	75.80%	$4.72
Vietnam	23 047	26.50%	1 419	11.30%	$16.24
Indonesia	6 977	8.00%	427	3.40%	$16.36
Hong Kong	2 521	2.90%	111	0.90%	$22.62
India	2 518	2.90%	286	2.30%	$8.82
Top Exporters: Europe					
Italy	11 497	21.20%	201	9.80%	$57.11
Germany	8 684	16.00%	350	17.00%	$24.78
Belgium	6 608	12.20%	269	13.00%	$24.60
France	4 347	8.00%	121	5.90%	$35.94
Netherlands	4 057	7.50%	183	8.90%	$22.17
Top Exporters: North America					
USA	1 141	49.40%	89	59.50%	$12.81
Mexico	488	21.10%	21	14.30%	$22.70
Dominican rep.	293	12.70%	12	8.30%	$23.62
Canada	226	9.80%	15	9.80%	$15.45
Panama	72	3.10%	5	3.50%	$13.79
Top Exporters: Oceania					
Australia	83	78.90%	3	85.80%	$25.77
New Zealand	21	20.20%	0	12.40%	$45.84
Pitcairn	0	0.40%	0	1.40%	$8.30
Guam	0	0.20%	0	0.00%	$343.15
United states minor outlying islands	0	0.20%	0	0.10%	$42.76
Top Exporters: South America					
Brazil	972	92.20%	115	91.80%	$8.44
Colombia	28	2.60%	2	1.40%	$15.40
Peru	19	1.80%	1	1.10%	$14.23
Ecuador	19	1.80%	6	5.00%	$3.07
Argentina	5	0.50%	0	0.20%	$17.14

Source: World Footwear Yearbook 2019

Top 10 Exporters by Footwear Category

Table 9: Top 10 exporters of waterproof footwear

Waterproof HS-6401					
Country	$ (Millions)	World Share	Pairs (Millions)	World Share	Average Price
China	673	43.70%	108	55.30%	$6.24
Italy	112	7.30%	12	6.20%	$9.23
France	74	4.80%	6	2.90%	$13.38
Netherlands	52	3.40%	3	1.40%	$18.96
Hong Kong	47	3.10%	2	1.10%	$21.65
Portugal	41	2.60%	5	2.40%	$8.74
Canada	40	2.60%	3	1.40%	$14.92
Germany	39	2.50%	3	1.50%	$13.67
UK	34	2.20%	2	0.80%	$20.62
Belgium	27	1.80%	1	0.70%	$21.38

Source: World Footwear Yearbook 2019

Waterproof (HS-6401)

The top ten exporters accounted for 74.0 percent of waterproof footwear exports. The table on the right shows that China dominates the waterproof footwear category with 43.7 percent in terms of value and 55.3 percent in terms of volume. Seven European countries are listed as top producers in this category, led by Italy.

Rubber and Plastic (HS-6402)

China is also the leading exporter for rubber and plastic shoes and is responsible for 3 out of every 4 pairs of rubber and plastic footwear exported globally, and in addition accounting for more than 55.3 percent of their value. Similar to the share in the waterproof footwear category, European countries occupy six positions in the table of the top 10 exporters of rubber and plastic footwear.

Table 10: Top 10 exporters of rubber & plastic footwear

Plastic and Rubber HS-6402					
Country	$ (Millions)	World Share	Pairs (Millions)	World Share	Average Price
China	20 595	53.40%	5 450	76.50%	$3.78
Vietnam	4 435	11.50%	355	5.00%	$12.48
Germany	1 943	5.00%	121	1.70%	$16.04
Italy	1 195	3.10%	41	0.60%	$29.40
Indonesia	1 185	3.10%	92	1.30%	$12.92
Belgium	1 167	3.00%	78	1.10%	$14.91
Netherlands	937	2.40%	60	0.80%	$15.64
France	677	1.80%	39	0.50%	$17.54
Spain	595	1.50%	55	0.80%	$10.81
Cambodia	569	1.50%	46	0.60%	$12.31

Source: World Footwear Yearbook 2019

Leather (HS-6403)

While China takes the top position in each footwear category, its overall share in the export of leather shoes is lower as compared to its share in the other the footwear categories. In terms of volume, China is responsible for 29.9% of world exports, approximately twice as much as Vietnam in second place. In terms of value, the situation is more evenly balanced with Vietnam, Italy and China having shares ranging from 12.6% to 16.5%.

Table 11: Top 10 exporters of leather footwear

Leather HS-6403					
Country	$ (Millions)	World Share	Pairs (Millions)	World Share	Average Price
China	9 311	16.50%	663	29.90%	$14.05
Italy	7 975	14.10%	106	4.80%	$75.10
Vietnam	7 118	12.60%	336	15.10%	$21.22
Germany	3 821	6.80%	95	4.30%	$40.14
Indonesia	2 885	5.10%	156	7.10%	$18.46
France	2 187	3.90%	30	1.40%	$72.02
Belgium	2 054	3.60%	64	2.90%	$32.27
India	1 886	3.30%	129	5.80%	$14.65
Netherlands	1 839	3.30%	45	2.10%	$40.49
Portugal	1 761	3.10%	54	2.40%	$32.70

Source: World Footwear Yearbook 2019

Textiles (HS-6404)

Textiles is the fastest growing category in footwear, and the top two exporters, China and Vietnam, represent 74.6 percent of all exports, with the top 10 exporters collectively accounting for approximately 88.4 percent. China exported more than 2.8 billion footwear pairs made of textile in 2019 – four times more than Vietnam, but the higher Vietnamese unit price makes up for most of the difference between the two countries, resulting in relatively similar value shares. Again, Six European countries appear in this table with Belgium leading in terms of volume, but Italy records a much higher average price.

Table 12: Top 10 exporters of textile footwear

Textile HS-6404					
Country	$ (Millions)	World Share	Pairs (Millions)	World Share	Average Price
China	13 438	29.30%	2 862	60.40%	$4.69
Vietnam	11 268	24.60%	672	14.20%	$16.76
Belgium	3 333	7.30%	121	2.50%	$27.64
Indonesia	2 867	6.30%	176	3.70%	$16.30
Germany	2 765	6.00%	117	2.50%	$23.53
Italy	1 968	4.30%	36	0.80%	$54.66
France	1 267	2.80%	39	0.80%	$32.32
Netherlands	1 150	2.50%	64	1.30%	$18.02
UK	868	1.90%	30	0.60%	$28.51
Cambodia	785	1.70%	70	1.50%	$11.21

Source: World Footwear Yearbook 2019

Other Footwear (HS-6405)

The top ten exporters of 'other footwear' represent 74.5 percent of all exports in the category, with a combined value of $1.3 billion. China is the leading exporter followed by Italy and Vietnam each with a share in volume of 36.6 percent, 8.0 percent and 6.4 percent respectively.

Table 13: Top 10 exporters of other footwear

Other HS-6405					
Country	$ (Millions)	World Share	Pairs (Millions)	World Share	Average Price
China	1 032	32.60%	459	62.70%	$2.25
Italy	253	8.00%	6	0.90%	$39.36
Vietnam	203	6.40%	54	7.30%	$3.78
Poland	144	4.50%	17	2.40%	$8.25
USA	143	4.50%	22	3.00%	$6.41
Singapore	142	4.50%	5	0.60%	$30.00
France	141	4.50%	7	1.00%	$19.58
Germany	116	3.70%	14	1.90%	$8.37
Spain	105	3.30%	8	1.10%	$12.57
Netherlands	80	2.50%	11	1.50%	$7.19

Source: World Footwear Yearbook 2019

Pakistan's Footwear Industry

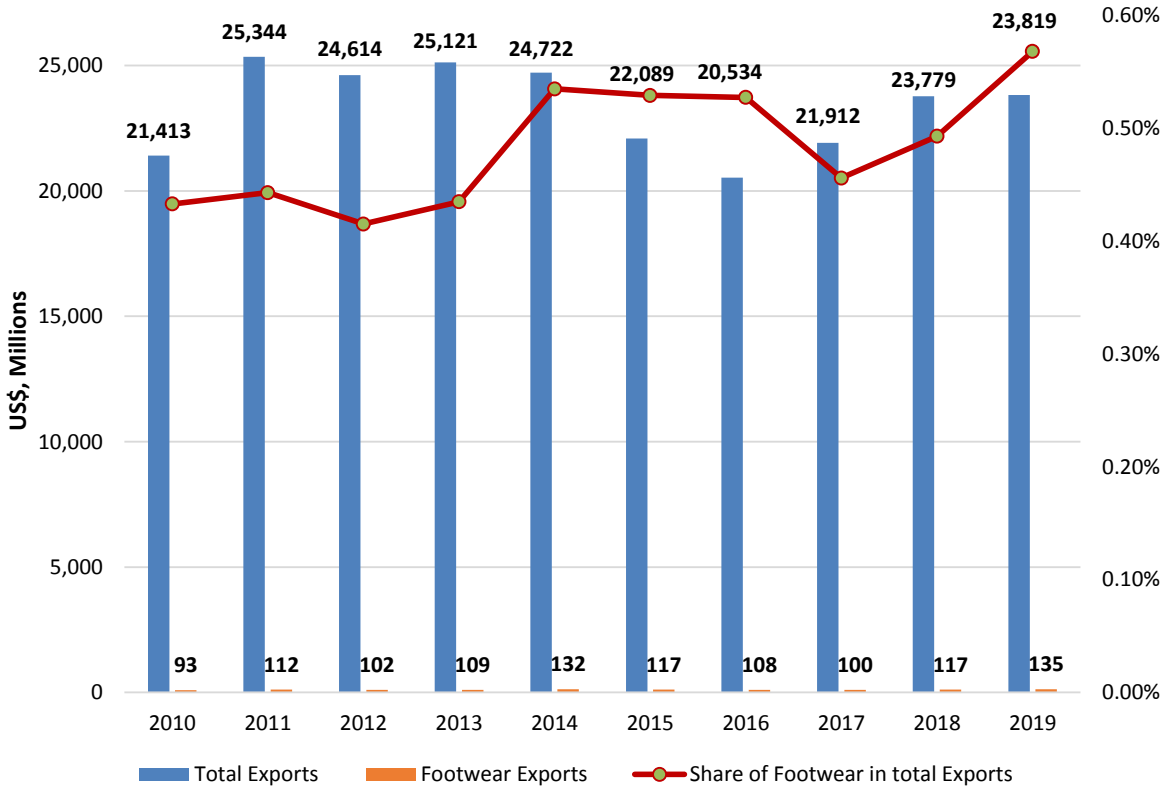
Pakistan's Footwear Exports

The shoe manufacturing industry in Pakistan is predominantly located in and around the city of Lahore, where almost 80 percent of the documented sector of the industry is situated. Other regions where shoemaking activities take place include Karachi, Faisalabad, and Multan. The sector is majorly comprised of the unorganized sector, where craft manufacturers/cobblers represent the majority of footwear manufacturing and local retail shops are dependent on the informal footwear sector for their products to meet local demand. Only 20 percent of the sector is organized and this includes capital intensive factories or mechanized manufacturing units that can produce at least 100-399 pairs a day.

Footwear exports represent less than one percent of the Pakistan's total exports

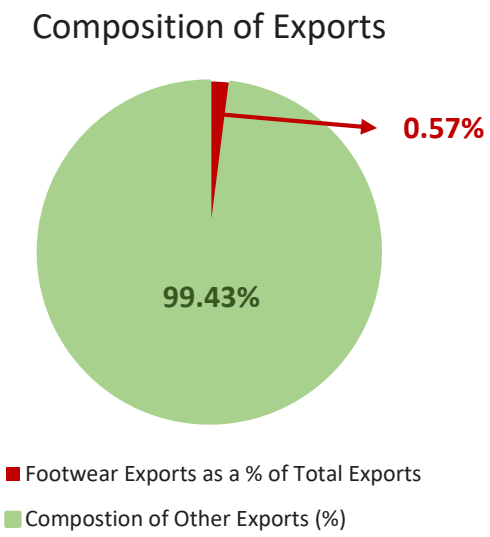
Pakistan's footwear industry has made reasonable progress in the last decade. In 2010, Pakistan exported only $92.6 million worth of footwear, whereas it exported $135.3 million in 2019 – a growth of 45.9 percent. However, this figure is still very small when compared to Pakistan's total exports of $23.8 billion.

FIGURE 24: Pakistan's share of footwear in total exports



Source: ITC Trade Map

FIGURE 25: Pakistan's composition of exports



Source: ITC Trade Map

The figure on the left shows that footwear contributes less than one percent to Pakistan's global exports. However, despite the low contribution to the international footwear trade, Pakistan is the seventh largest producer of footwear, manufacturing more than 2.0 percent of all footwear produced worldwide. It is also the seventh largest consumer of footwear, accounting for 2.2 percent of global consumption.

The table below shows that Pakistan's footwear exports mainly comprise of leather footwear which represents 84.2 percent of the total footwear exports of the country. In 2019, exports from this category declined by $14.0 million from the previous year. Footwear made of rubber and plastic was the second biggest export category, with exports of $15.4 million in 2019, up from $11.4 million over 2018.

Rank: 7	Pairs produced in 2019: 481 million	World Share: 2.0%	Export Orientation: 3.8%
Rank: 7	Pairs consumed in 2019: 477 million	World Share: 2.2%	Import Share of Consumption: 3.0%

Source: World Footwear Yearbook 2019

Table 14: Pakistan's footwear exports at HS-04 level

HS-Code	Product Description	Share in Pakistan's Total Footwear Exports (2018)	Share in Pakistan's Total Footwear Exports (2019)	Increase/ Decrease from Previous Year
6403	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of . . .	85.42%	84.28%	Decrease
6405	Footwear with outer soles of rubber or plastics, with uppers other than rubber, plastics, leather . . .	9.76%	11.40%	Increase
6404	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of . . .	2.32%	1.72%	Decrease
6402	Footwear with outer soles and uppers of rubber or plastics (excluding waterproof footwear of . . .	1.32%	1.67%	Increase
6406	Parts of footwear, incl. uppers whether or not attached to soles other than outer soles; removable . . .	1.17%	0.92%	Decrease
6401	Waterproof footwear with outer soles and uppers of rubber or of plastics, the uppers of which . . .	0.01%	0.01%	Decrease

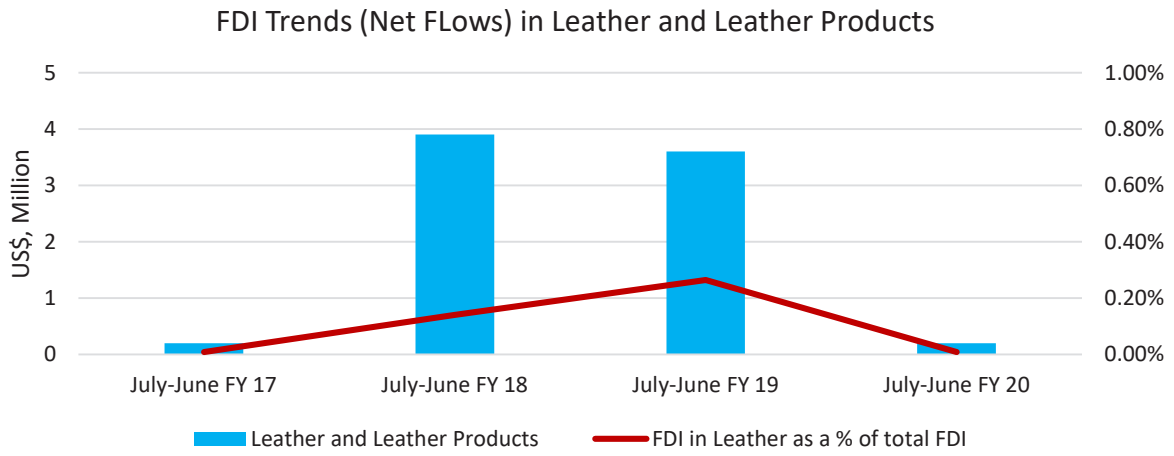
Source: ITC Trade Map

FDI in the Leather Industry

The graph below shows net FDI in Pakistan's leather industry. Foreign investment in the leather industry represents less than 1.0 percent of total FDI inflow. Since footwear is categorized under the leather industry, FDI has played an insignificant role in the development of the footwear sector as can be seen from the figure below. Low FDI in the leather and footwear sector has led to limited access to new markets and inputs that could help facilitate product & market diversification.

Pakistan's footwear industry is an inward/ domestic market which is highly demand oriented

FIGURE 26: FDI in Pakistan's leather industry



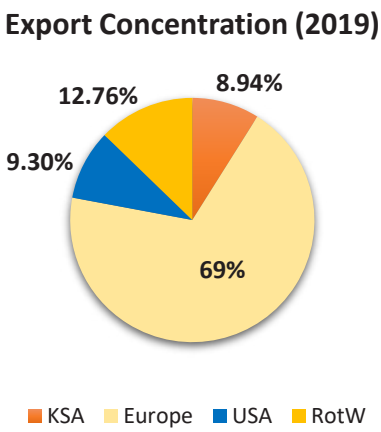
Source: SBP

Pakistan needs to strengthen its export competitiveness to attract FDI. A lack of FDI has also resulted in a poor vertical integration of footwear units in the organized sector. Most firms in the sector are not vertically integrated, i.e., majority of firms do not possess complete production and processing capabilities from raw material/component manufacturing to the finished footwear article. Lack of vertical integration, some of which is due to a lack of capital has meant that the sector has not been able to either innovate through new materials / designs, it has also not been able to scale up and take on large export orders.

Export Concentration

Pakistan's footwear exports are highly concentrated and limited to a few countries. In 2019, more than 69.0 percent of Pakistan's footwear exports were destined for Europe, mainly to Germany, Italy and the UK. The US has a 9.3 percent share even though it has the greatest export potential. The remaining 12.7 percent of exports were destined to markets such as Yemen, Afghanistan and Australia where Pakistan has very low footwear export shares. This lack of market diversification is associated with increased vulnerability to macroeconomic shocks in the destination markets.

FIGURE 27: Pakistan's footwear export concentration



Source: ITC Trade Map

Export Destinations

The following table shows Pakistan's exports of footwear articles during 2017-19. Pakistan's footwear exports have been steadily increasing as shown by the export values and favorable growth rates to its top ten export destinations, with the exception of France, where there is a negative growth in exports in the last ten years. Majority of Pakistan's footwear exports, about 69.0 percent, are destined for European Countries and 6 EU countries make it to the top ten list. The table below, also lists the untapped potential in each of the top ten export destinations. The market with the highest potential for Pakistan's footwear exports is the US, with the ability to realize additional exports of $34.6 million.

Table 15: Pakistan's top footwear export destinations

Importers	Exported value in 2017	Exported value in 2018	Exported value in 2019	CAGR (2010-19)	CAGR (2015-19)	Change over last year	Share in Pakistan's exports of footwear (2019)	Untapped export potential[3]
World	99,887,000	117,221,000	135,313,000	4.29%	9.92%	15.43%	100%	
Germany	28,696,000	32,024,000	33,656,000	8.59%	20.38%	5.10%	24.87%	1,300,000
Italy	16,783,000	18,239,000	20,681,000	6.28%	14.70%	13.39%	15.28%	613,000
United States of America	4,172,000	7,005,000	12,622,000	40.28%	114.16%	80.19%	9.33%	34,600,000
Saudi Arabia	7,253,000	7,593,000	12,094,000	4.99%	11.57%	59.28%	8.94%	673,600
United Kingdom	7,228,000	8,890,000	9,459,000	4.29%	9.92%	6.40%	6.99%	11,300,000
Netherlands	6,721,000	7,497,000	9,380,000	19.67%	49.80%	25.12%	6.93%	3,700,000
Spain	5,232,000	5,355,000	5,005,000	2.85%	6.52%	-6.54%	3.70%	1,400,000
France	4,140,000	4,621,000	4,676,000	-6.76%	-14.57%	1.19%	3.46%	3,800,000
Belgium	1,647,000	2,960,000	3,328,000	6.06%	14.15%	12.43%	2.46%	1,070,000
Yemen	915,000	1,309,000	3,068,000	24.37%	63.34%	134.38%	2.27%	608,800

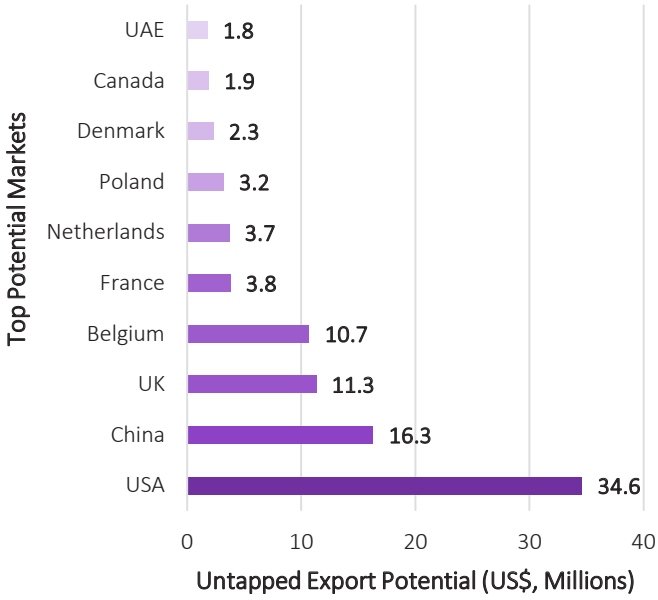
Source: ITC Trade Map

3 This is an approximation taken from the ITC's Export Potential Map

Export Potential Indicator

The Export Potential Indicator (EPI) shows the products that a country already exports and the diversification opportunities of existing products with additional exports in the target market. It indicates the extent to which a country can increase exports to a particular potential market given its supply capacities, demand conditions of the target market, and market access opportunities. The following table shows the potential markets for Pakistan's footwear exports by identifying untapped export potential. Reasons for untapped potential could include lack of market knowledge and consumer preferences, lack of knowledge about trade regulations and mismatch between the supplied and the demanded qualities and more importantly the lack competitiveness in the sector.

FIGURE 28: Top potential markets



Source: ITC Export Potential Map

Pakistan's Top Footwear Exports (2019) at the HS-06 Level

Table 16: Pakistan's top footwear exports at the HS-06 level (2019)

Code	Product label	Exported value in 2019	Share in total exports (2019)	CAGR (2010-19)	CAGR (2015-19)	Top export destinations and share in exports	Tariffs faced by Pakistan
640399	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather …	87,765,000	64.86%	8.66%	4.27%	Germany, 31% Italy, 22% USA, 11.4%	0% 0% 2.4%
640320	Footwear with outer soles of leather, and uppers which consist of leather straps across the …	19,936,000	14.73%	9.29%	12.48%	Germany, 24.4% Netherlands, 14.9% UK, 12.9%	0% for all
640590	Footwear with outer soles of rubber or plastics, with uppers other than rubber, plastics, leather …	15,016,000	11.10%	13.21%	7.60%	KSA, 74.3% Yemen, 6.5% UK, 5%	5% 10% 0%
640391	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather, …	4,379,000	3.24%	-0.84%	4.94%	UK, 25.1% Germany, 16.6% Poland, 14.9%	0% for all
640299	Footwear with outer soles and uppers of rubber or plastics (excluding covering the ankle or …	1,674,000	1.24%	-1.28%	-22.88%	Yemen, 35.8% UK, 17.1% UAE, 7.9%	10% 0% 5%
640359	Footwear with outer soles and uppers of leather (excluding covering the ankle, incorporating …	1,169,000	0.86%	-9.45%	4.83%	KSA, 54.5% UK, 19.9% Yemen, 11.5%	5% 0% 10%
640420	Footwear with outer soles of leather or composition leather and uppers of textile materials …	936,000	0.69%	4.15%	-9.97%	US, 28.2% UAE, 28.2% Netherlands, 19.9%	10% 8% 10%
640419	Footwear with outer soles of rubber or plastics and uppers of textile materials (excluding …	851,000	0.63%	-12.12%	-27.38%	Germany, 28.9% South Africa, 15.2% Denmark, 13%	0% 25% 0%
640610	Uppers and parts thereof (excluding stiffeners and general parts made of asbestos)	707,000	0.52%	-7.29%	2.84%	Belgium, 31.1% Netherlands, 21.2% Italy, 16.7%	0% for all
640411	Sports footwear, incl. tennis shoes, basketball shoes, gym shoes, training shoes and the like, …	540,000	0.40%	-9.48%	-29.60%	Italy, 13.9% USA, 11.9% UK, 9.6%	0% 21.5% 0%

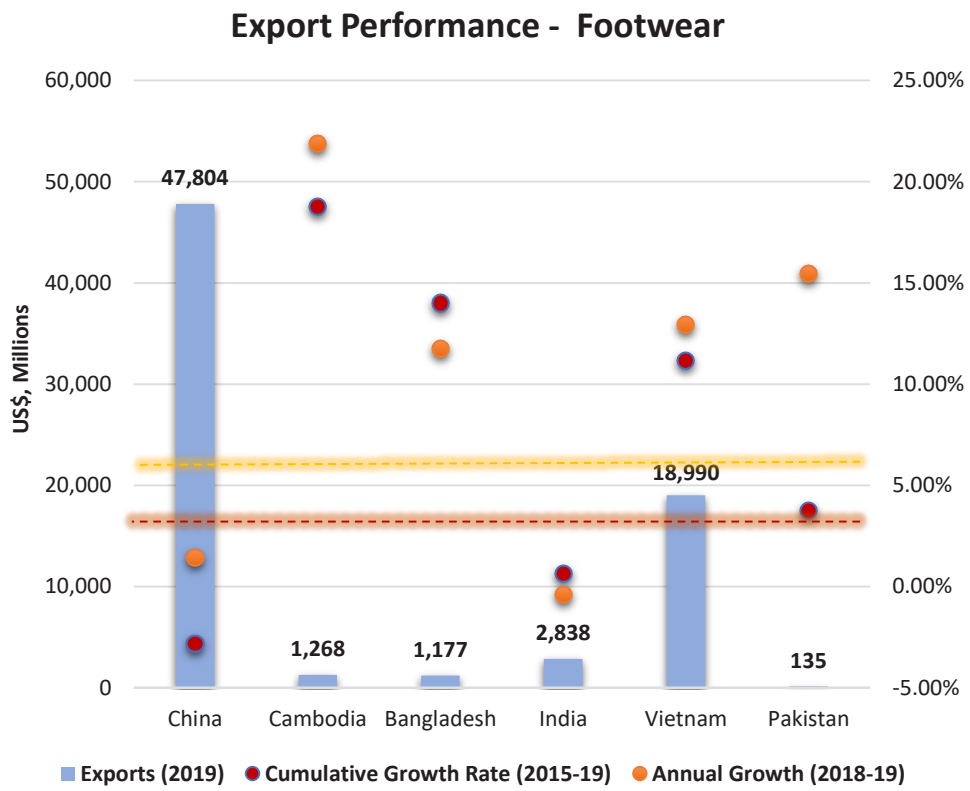
Source: ITC Trade Map

About 90.0 percent of the total footwear exported from Pakistan is under the leather footwear classification, namely under HS-640399 *'Footwear with outer soles of rubber, plastics or composition leather with uppers of leather …'* and HS-640391 *'Footwear with outer soles of rubber or plastics, with uppers other than rubber, plastics, leather…'*. Majority of these exports are destined for high-income countries, such as Germany, Italy, the United States and the United Kingdom. Germany is the largest individual partner country – accounting for nearly one-quarter of total footwear exports in 2019.

Export Performance

As can be seen from the figure below, Pakistan's footwear exports grew faster than world[4] exports at 15.4 percent (annual growth 2018-19) and 3.7 percent (CAGR 2015-19). However, Pakistan's 5-year CAGR of 3.7 percent for this export category paled in comparison to the growth rates of its regional competitors. The fastest export growth, over the last 5 years, in footwear was shown by Cambodia (18.7 percent), Bangladesh (14.0 percent) and Vietnam (11.6 percent). At the HS-02 level, China was the world leader in footwear exports in 2019, with a total of $47.8 billion worth of footwear exported. This despite the fact that there has been an annual decline of about 2.2 percent in Chinese exports over the last 5 years. Cambodia, Bangladesh, Vietnam and Pakistan feature 5-year growth rates above 5.6 percent (the world average depicted by the orange dotted line).

FIGURE 29: Pakistan's export performance



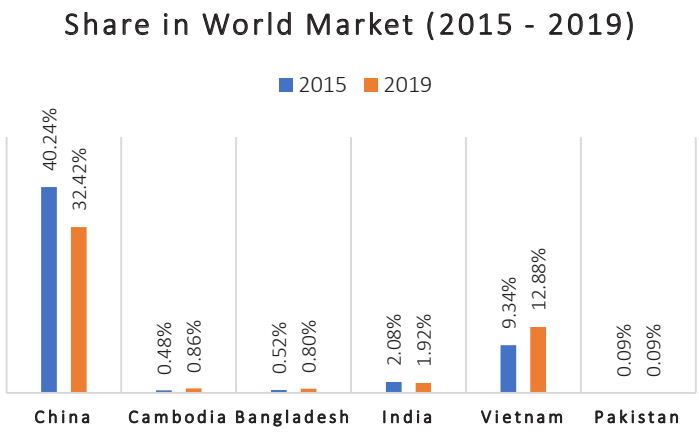
Source: ITC Trade Map

4 World exports grew by 3.5 percent (CAGR 2015-19) and 5.6% (annual growth 2018-19)

Share in World Market (2015-19)

Another indicator that Pakistan's footwear exports have not been able to keep pace with its regional competitors is its relative share in world exports, which which have not risen in line with its competitors. Pakistan's share in world exports has not changed much over the last five years. In sharp contrast, Vietnam's world share increased from 9.3 percent in 2015 to 12.8 percent in 2019. Cambodia and Bangladesh's share in world footwear exports have also increased while China and India's share has declined.

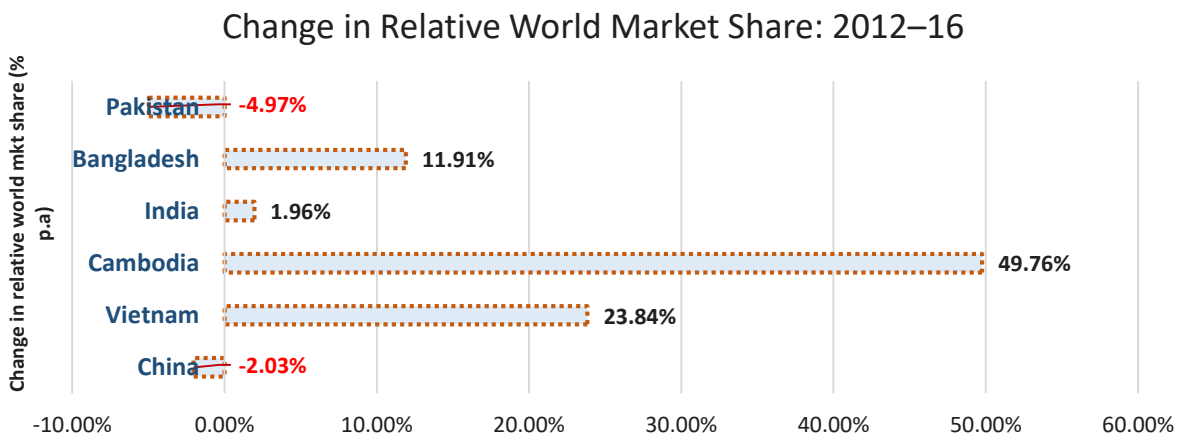
FIGURE 30: Pakistan's share in world market (2015-19)



Source: ITC Trade Map

Pakistan's relative world market share[5] decreased at 4.9 percent over 2012-16. In sharp contrast, Cambodia, Vietnam and Bangladesh have grown phenomenally in terms of relative world market share as can be seen from the figure below. India has also outperformed Pakistan – its world market share increased by almost 2 per cent per annum over 2012-16

FIGURE 31: Pakistan's change in relative world market share



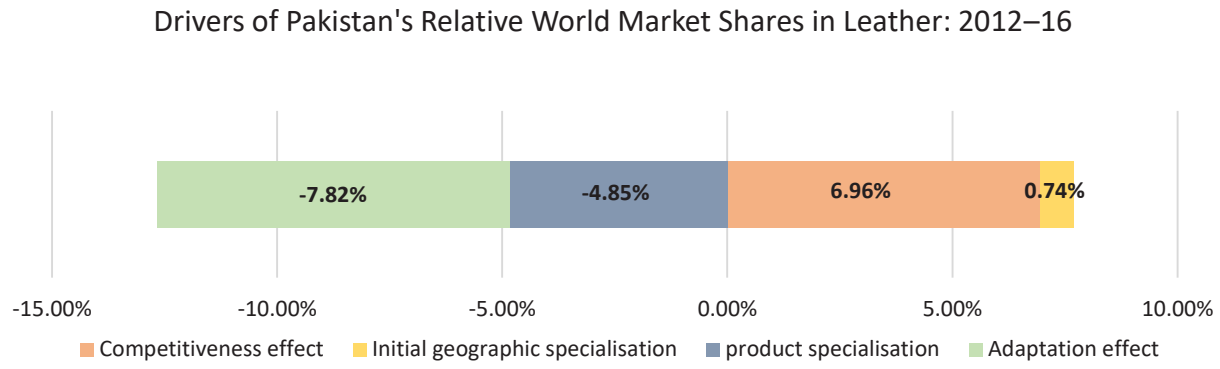
Source: ITC Trade Competitiveness Map

5 International Trade Competitiveness' index of relative change in world market share is defined as the change in the exporting country's share in destination markets' imports times the initial share of partner countries' imports in world trade. For example, this is the change in Pakistan's export share for clothing over 2012-16 multiplied by how much its partners are actually importing in terms of overall world imports of clothing. It takes into account how much clothing partner countries are importing from all countries (as a fraction of world imports), i.e. their relative significance or actual representation in world imports.

The Trade Performance Index (TPI) by ITC provides four variables that measure international competitiveness by studying the change in a country's world market share. Increases in relative world market shares can be attributed to four possible drivers:

i. Actual competitiveness of a sector[6]. This index represents a quota of the "relative change of world market share"[7]
ii. Adaptation to changes in international demand[8]
iii. Correct initial specialization in the most dynamic product within the sector[9]
iv. Correct initial focus on the most dynamic target market[10]

FIGURE 32: Drivers of Pakistan's relative world market shares in leather 2012–16



Source: ITC Trade Map

While Pakistan's footwear sector has not been able to export those footwear products which have a growing demand or adapt to changes in world demand (as shown by negative product specialization and adaptation effects), competitiveness and specialization of domestic exporters on dynamic markets have been the main drivers of increase in relative world market share as shown in the figure below.

However, in comparison to regional competitors, Pakistan's performance in competitiveness is below par. While Pakistan's competitiveness has increased by 6.9 percent per annum over 2012-16, Vietnam, Cambodia and Bangladesh are better ranked. As can be seen from the figure below, competitiveness is the major source of superior world export performance for the second largest footwear exporter Vietnam (rank: 19) and the fastest growing footwear exporter Cambodia (rank: 7). As relative share in world exports rise due to competitiveness for these countries, they pose a threat to Pakistan as they export to the same markets as Pakistan, i.e., the EU and the United States, and are hence directly competing with Pakistan.

6 Competitiveness effect is calculated as the change in the exporting country's share in destination markets' imports times the initial share of partner countries' imports in world trade

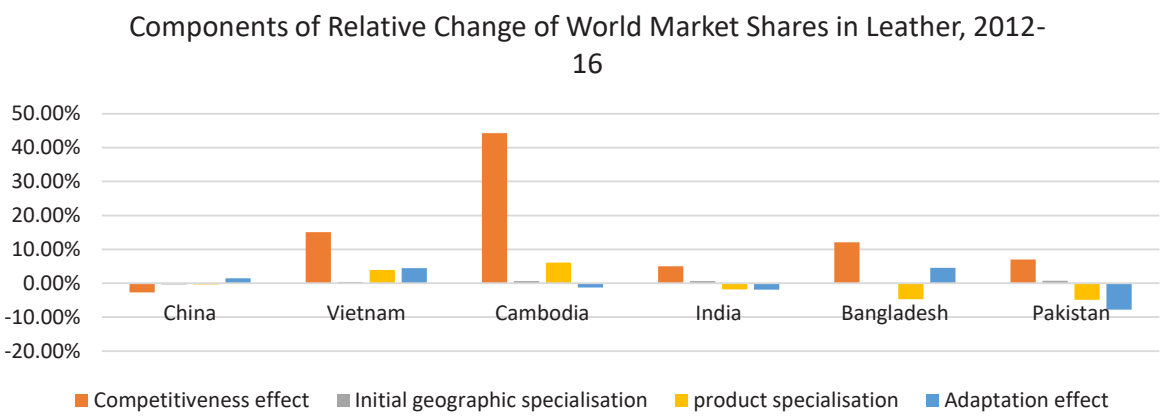
7 Trade Competitiveness Map: Technical Notes https://tradecompetitivenessmap.intracen.org/Documents/TradeCompMap-Trade%20Performance%20Index-Technical%20Notes-EN.pdf

8 Initial market share of the exporting country in partner countries times the change in the share of partner countries in world trade

9 Initial product specialization is the change in the share of elementary markets in world trade times the difference between the initial share of the exporting country in elementary markets and the initial market share of the exporting country in destination markets

10 Adaptation effect is the change in the share of the elementary markets in world trade times the change in the exporting country's market share in these elementary markets

FIGURE 33: Components of relative change of world market shares in leather 2012-16



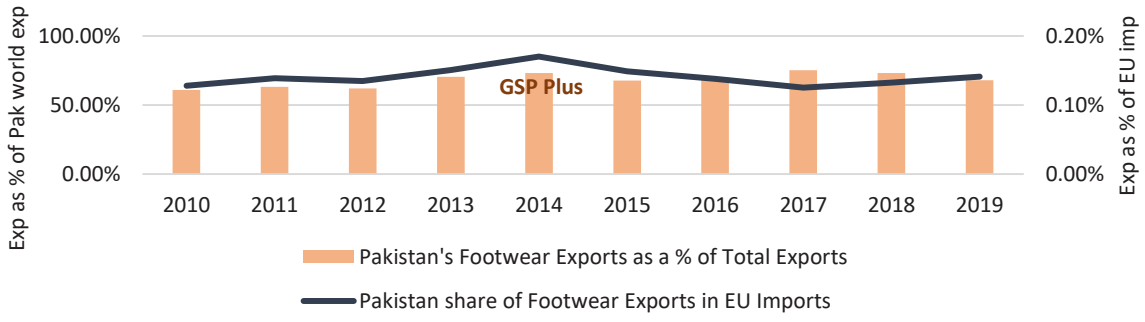
Source: ITC Trade Map

The EU GSP Plus: Performance of Pakistan's Footwear Industry

The European Union (EU) granted Generalized System of Preferences (GSP) Plus status to Pakistan in December 2013 along with 9 other developing countries namely Armenia, Bolivia, Cape Verde, Costa Rica, Ecuador, Georgia, Mongolia, Paraguay and Peru. The GSP Plus status went into effect from 1st January, 2014. Pakistan, along with Sri Lanka and the Philippines from Asia, are part of the EU's 10-year GSP Plus arrangement. The GSP Plus scheme is one of three EU market access schemes for developing countries that offers duty-free access to European markets for a group of products to low-income and "vulnerable" developing countries till 2023.

It has now been six years since Pakistan attained GSP Plus status. In 2019, Pakistan exported $92.0 million out of its total footwear exports of $135.3 million (68.04%) to the EU. Pakistan's footwear export share fell from 73.2 percent in 2014 to just over 68.0 percent in 2019 – a five percent decline since the GSP Plus came into effect. Furthermore, as a share of EU imports from the world, Pakistan's share of footwear exports has declined by 0.3 percent. This indicates that acquiring the GSP Plus has not improved Pakistan's performance despite the zero-tariff structure.

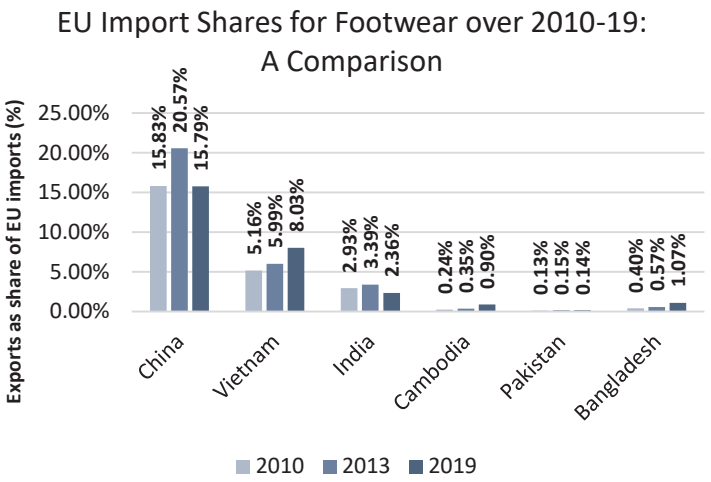
FIGURE 34: Footwear: As share of Pakistan's exports and EU imports



Source: ITC Trade Map

A comparison of Pakistan's export performance relative to regional competitors in the European Union (EU 28) – the largest footwear export market for Pakistan and the world's largest importer of footwear, indicates a sub-par performance in the export of footwear articles. Even though China and India face high tariffs (average export-weighted tariffs of 9.0 and 10.0 per cent respectively), as shown in the table below, yet they have managed to increase their share in the EU's world imports. Of all regional competitors, Pakistan has the lowest share in EU footwear imports.

FIGURE 35: EU import shares for footwear over 2010-19



Source: ITC Trade Map

Pakistan does not enjoy preferential tariffs as compared to Bangladesh and Cambodia, two of the upcoming major footwear producers and exporters as both the latter countries are beneficiaries of the EU's Everything but Arms (EBA) scheme, which entails significantly less restrictions than their regional peers who are part of the GSP Plus scheme such as Sri Lanka and the Philippines.[11]

Table 17: Tariffs faced by EU's suppliers

Tariffs faced by EU's Suppliers	HS-Code					
	6401	6402	6403	6404	6405	6406
China	3%	17%	8%	17%	3%	3%
Vietnam	0%	6%	6%	5%	2%	1%
India	3%	1%	13%	12%	8%	21%
Cambodia	0%	0%	0%	0%	0%	0%
Pakistan	0%	0%	0%	0%	0%	0%
Bangladesh	0%	0%	0%	0%	0%	0%

Source: ITC Trade Map

11 European Commission: https://trade.ec.europa.eu/doclib/docs/2019/may/tradoc_157889.pdf

Pakistan's Footwear Export Performance under Pakistan's Various Trade Agreements

The table below shows Pakistan's trade agreements, where partner countries offer Pakistan preferential tariff treatment. All three trading partners listed offer Pakistan zero-duty access on most footwear articles at the HS-04 level, except HS-6406 in Malaysia and Sri Lanka's case. However, Pakistan has not taken advantage of the favorable tariff structure as shown by its lackluster exports to these three countries. Malaysia and Mauritius import significant quantities of leather footwear, both net importers of footwear, and Pakistani footwear manufacturers can focus on these two markets as they offer a favorable tariff structure.

Table 18: Tariffs faced by Pakistan from Malaysia, Mauritius and Sri Lanka on footwear articles

	6401	6402	6403	6404	6405	6406
Pakistan - Malaysia FTA						
Tariff Charged by Malaysia on Pakistan	0%	0%	0%	0%	0%	11%
Malaysia Imports from Pakistan	0	2,245,000	215,000	0	1,000	0
Malaysia Import from World	15,518,000	177,574,000	155,137,000	227,645,000	34,800,000	15,054,000
Pakistan Export to World	8,000	2,262,000	114,045,000	2,327,000	15,425,000	1,246,000
	6401	6402	6403	6404	6405	6406
Pakistan - Mauritius PTA						
Tariff Charged by Mauritius on Pakistan	0%	0%	0%	0%	0%	0%
Mauritius Imports from Pakistan	1,000	10,000	69,000	5,000	23,000	-
Mauritius Import from World	660,000	9,347,000	15,063,000	11,511,000	11,914,000	393,000
Pakistan Export to World	8,000	2,262,000	114,045,000	2,327,000	15,425,000	1,246,000
	6401	6402	6403	6404	6405	6406
Pakistan - Sri Lanka FTA						
Tariff Charged by Sri Lanka on Pakistan	0%	0%	0%	0%	0%	11%
Sri Lanka Imports from Pakistan	-	-	1,000	38,000	2,000	324,000
Sri Lanka Import from World	570,000	6,824,000	3,599,000	4,742,000	937,000	9,597,000
Pakistan Export to World	8,000	2,262,000	114,045,000	2,327,000	15,425,000	1,246,000

Source: ITC Trade Map

Performance of Pakistan's Major Competitors in the Footwear Segment

Cambodia

Country Statistics		
	Capital	Phnom Penh
	Area (Km2)	181040
	Population	16 Million
	GDP Per Capita	1643 USD
	Δ GDP 2019	7%
	Language	Khmer
	Currency	Cambodian Riel
	GDP 2019	77 Billion USD
	Δ GDP Last 5 Years	52.70%

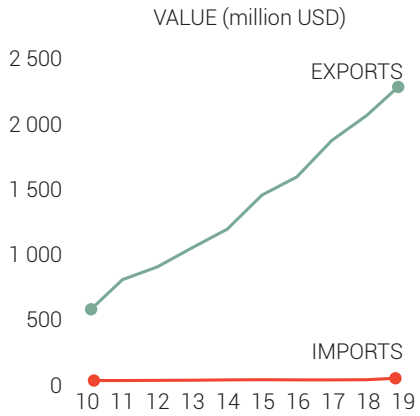
Main Trading Partners				
Export Markets	Million US$	Value Share	Million Pairs	Quantity Share
USA	502	22%	46.2	28%
Germany	291	13%	18.6	11%
Japan	204	9%	14.4	9%
Canada	139	6%	6.7	4%
UK	136	6%	11	7%

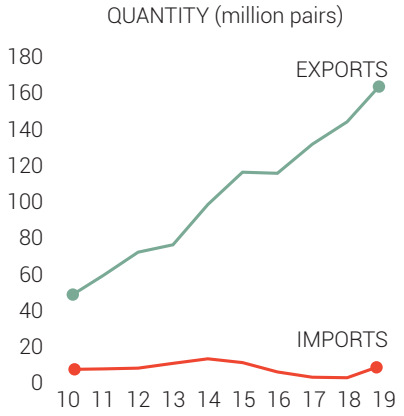
Last 5-year variation in export markets		
		Million US$
USA	275%	368
Germany	96%	124
Belgium	-	123
Spain	490%	85
UK	-36%	-78

Last 5-year variation in import markets		
		Million US$
Thailand	777%	14.7
China	73%	4.2
Vietnam	221%	3.4
Singapore	697%	1.5
USA	-99%	-1.5

Footwear Industry

	Value		Quantity		Average Price
	Million US$	World Rank	Million Pairs	World Rank	US$
Exports	1,267	14	165	10	$13.95
Imports	182	111	9	114	$4.36
Production			174	11	
Consumption			18	100	





Main Trading Partners				
Import Markets	Million US$	Value Share	Million Pairs	Quantity Share
Thailand	16.6	44%	4.65	53%
China	9.8	26%	3.59	41%
Vietnam	4.9	13%	0.16	2%
Singapore	1.7	5%	0.07	1%
Hong Kong	1.2	3%	0.02	0%

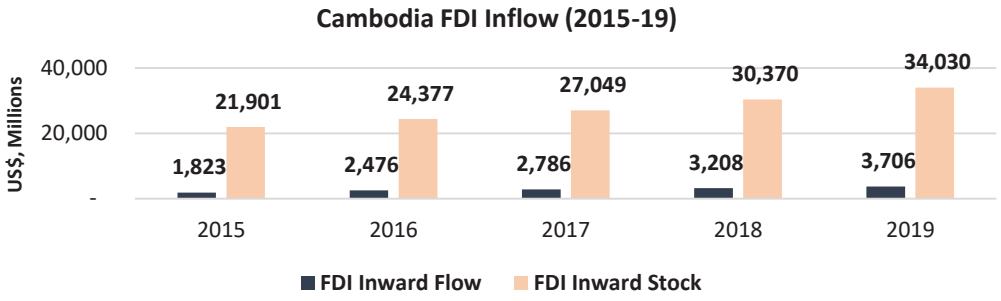
Cambodia

The social and economic importance of the footwear sector in Cambodia has grown significantly in recent years. Combined, the Garment, Textile and Footwear (GTF) sector generates employment for around one million workers, nearly 80 percent of whom are women. These three sectors directly provide income that supports one-in-five households and more than 90.0 percent of this labor is engaged in regular, formal employment.

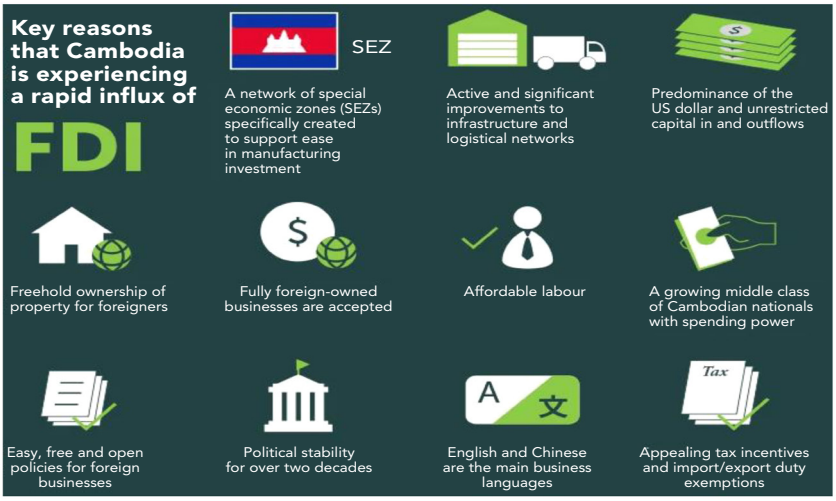
Gross domestic product (GDP) growth remains strong in Cambodia, fiercely driven by the growing real estate, construction, garment, footwear manufacturing and tourism sectors. The Asian Development Bank has even labelled Cambodia as the new "tiger economy" due to the country's consistent economic growth. It is widely recognized as one of the fastest growing economies in the world.

Cambodia continues to see an increase in foreign direct investments (FDI) every year, a key factor behind the Kingdom's economic development. Over the past decade, FDI in Cambodia has increased by over 800.0%. China, Japan, Vietnam, Thailand and South Korea are the main sources of FDI inflows. Garment and sportswear manufacturing are the main sectors for foreign investments. Cambodia received over $6.0 billion in FDI from January to August of 2019 - an increase of 50.0% over the same period in 2018. According to the Cambodia Development Council (CDC), this is the aggregate FDI value of 222 approved projects in 2018.

FIGURE 36: Cambodia FDI inflow (2015-19)



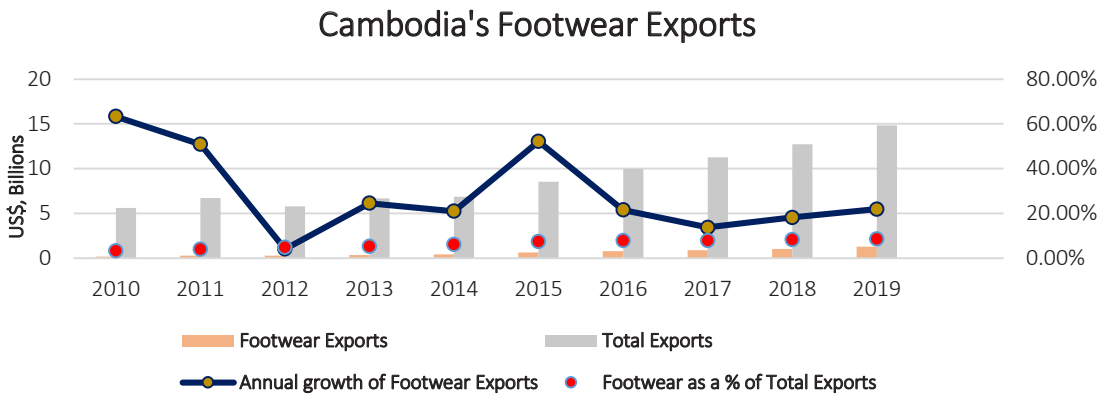
Source: ITC Trade Map



Source: Cambodia Real Estate

Between 2010 and 2019, the footwear sector's share in Cambodia's total exports has grown by 5.3 percent – as compared to 2009, the share in exports have more than doubled from 3.1 percent to 8.5 percent.

FIGURE 37: Cambodia's footwear exports

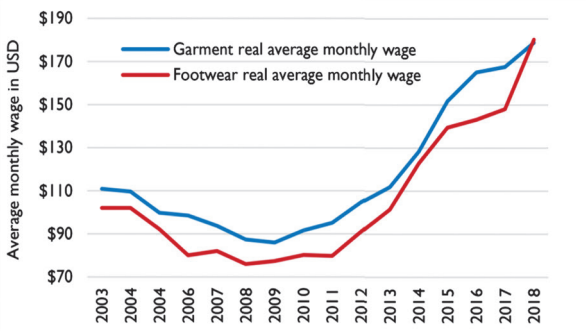


Source: ITC Trade Map

Cambodia's main competitors in footwear production and exports are Vietnam and Indonesia. These three countries, as shown in the table on the right, also have similar wage rates. Vietnam's minimum monthly wage rate varies across regions and ranged between $171 - $180. Similarly, Indonesia's wage rate ranged between $193 - $272 across its regions. The figure below shows Cambodia's monthly average wage in the garment and footwear sector for the 15-year period from 2003 to 2018.

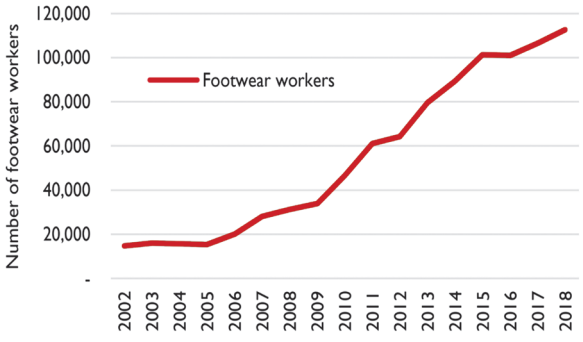
Based on the data shared by Cambodia's Ministry of Commerce, of the approximately 14.5 percent or 112,589 of all workers in the Garment, Textile and Footwear (GTF) sector in 2018 – 87.0 percent were women.

FIGURE 38: Real average monthly wage in the garment and footwear sector in Cambodia 2003-2018



Source: ILO Cambodia Garment and Footwear Sector Bulletin

FIGURE 39: Employment in Cambodia's footwear sector 2002-2018



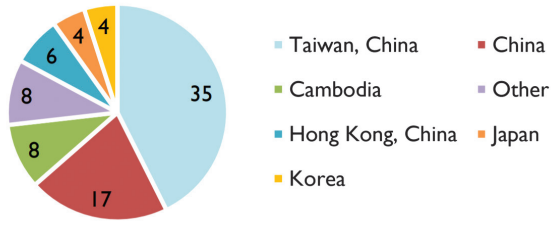
Source: ILO Cambodia Garment and Footwear Sector Bulletin

In 2018, there were 83 factories operating in Cambodia, producing footwear – six more than in 2017. Out of these, eight produced footwear accessories only (shoelaces, inner soles, etc.). All other shoe producing factories export part or all of their production. Most factories use leather and Polyvinylchloride (PVC) as principal

materials, but many of them also use textiles and Polyurethane (PU). These raw materials are mainly sourced from China, Korea, Thailand, Pakistan, Taiwan, China, etc.

Majority of the factories are owned by Cambodian investors, whereas the rest are owned by foreign investors. The figure below breaks down the ownership of these factories by individual countries. As can be seen from the figure below, most factories are owned by investors from Taiwan and China. The ten largest factories, with approximately 7,112 workers, are owned by investors from Cambodia and China.

FIGURE 40: Ownership of footwear factories 2018 in Cambodia

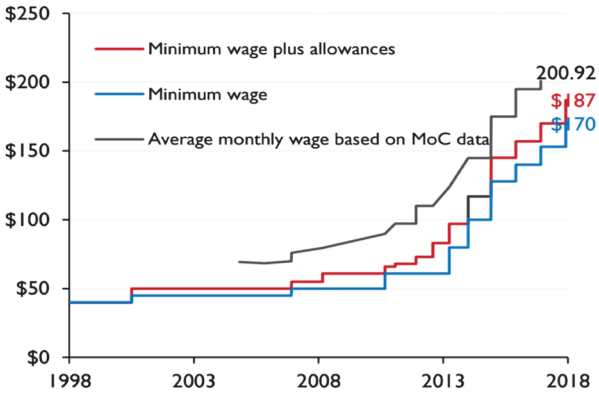


Source: Ministry of Commerce of Combodia

The figure on the right shows the minimum wage for Cambodian garment and footwear workers from 1998-2018 in nominal US$ per month.

Note: The minimum wage shown in the chart is for non-probationary workers. Allowances shown in the chart in relation to minimum wage include transport and accommodation, health care (2012), attendance bonus, and living support (2008), which are all mandatory. Average monthly wage based on Ministry of Commerce data includes earning from regular work, over time work, compensation and non-mandatory allowances.

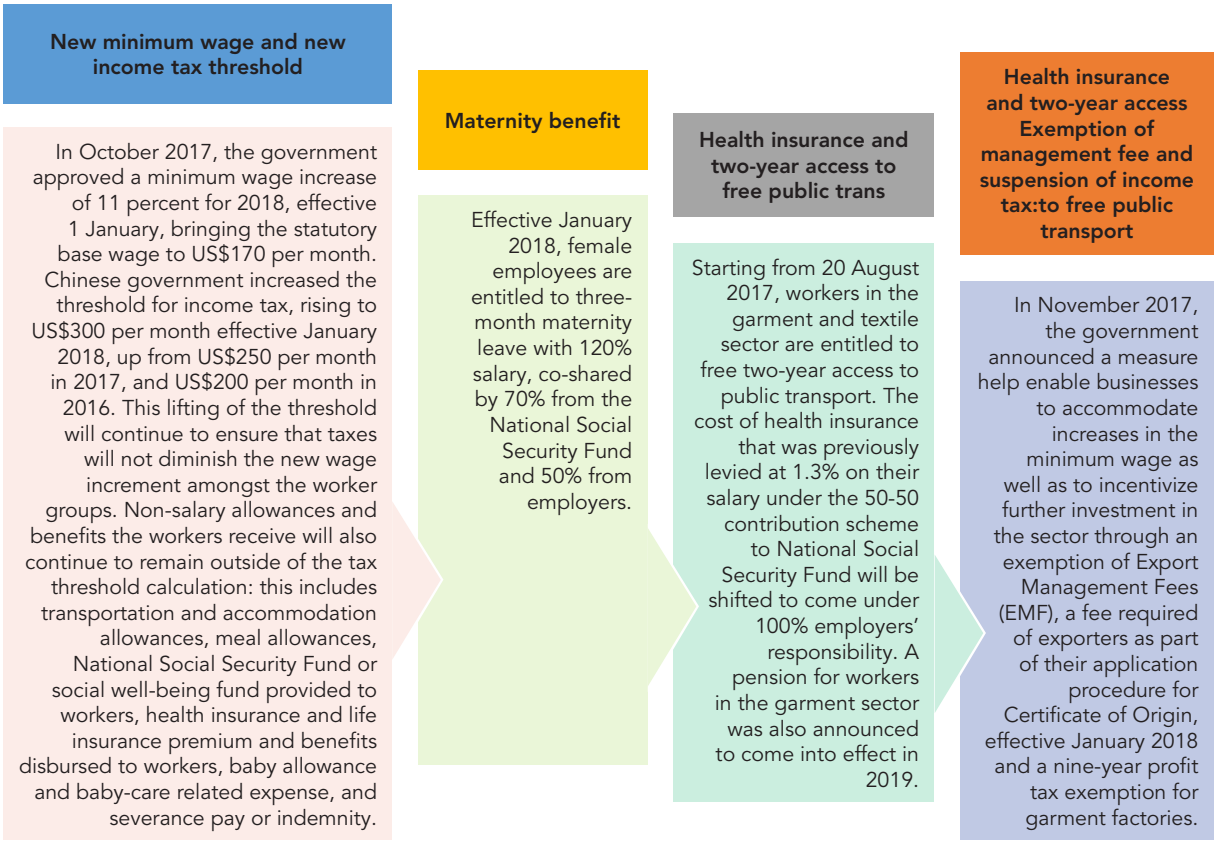
FIGURE 41: Minimum wage in Cambodia



Source: ILO

Government Policies for the Garment and Footwear Sectors of Cambodia

FIGURE 42: Government policies for the GTF sectors



Source: ILO - Cambodian Garment and Footwear Sector Bulletin

Bangladesh

Country Statistics		
	Capital	Dhaka
	Area (Km2)	147630
	Population	163 million
	GDP Per Capita	1856 USD
	Δ GDP 2019	7.90%
	Language	Bengali
	Currency	Bangladeshi taka
	GDP 2019	839 billion USD
	Δ GDP Last 5 Years	55.60%

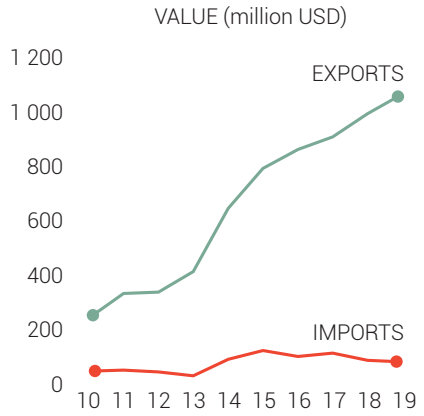
Main Trading Partners				
Export Markets	Million US$	Value Share	Million Pairs	Quantity Share
USA	160	15%	5.9	7%
Germany	151	14%	9.7	12%
Poland	118	11%	9.8	12%
Netherlands	102	10%	7.7	10%
Spain	94	9%	12.1	15%

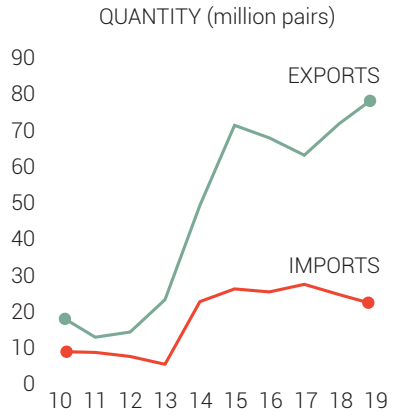
Last 5-year variation in export markets		
		Million US$
Poland	440%	96
USA	132%	91
Netherlands	1%	60
Spain	1%	40
Japan	1%	61

Last 5-year variation in import markets		
		Million US$
Vietnam		0.9
Hong kong	68%	0.2
India	-33%	1
Myanmar	-99%	1.1
China	-13%	9.9

Footwear Industry

	Value		Quantity		Price
	Million US$	World Rank	Million Pairs	World Rank	US$
Exports	1,067	17	79	18	$13.52
Imports	74	96	22	80	$3.44
Production			407	8	
Consumption			350	13	





Main Trading Partners				
Import Markets	Million US$	Value Share	Million Pairs	Quantity Share
Thailand	16.6	44%	4.65	53%
China	9.8	26%	3.59	41%
Vietnam	4.9	13%	0.16	2%
Singapore	1.7	5%	0.07	1%
Hong Kong	1.2	3%	0.02	0%

Bangladesh

Three Reasons Behind Bangladesh's Steady Growth in the Footwear Sector

1) Footwear industries complying with environmental laws, regulations and standards
2) Government promoting investment and growth prospects. As a result, in 2017–18, 20 new export-oriented footwear factories have come up and started operations in Bangladesh
3) Chinese labor costs continue to rise, prompting investors to move to cost competitive manufacturing bases – Bangladesh being one of them

Bangladesh is attracting increasing interest from international investors as an emerging preferred low-cost manufacturing hub in Asia with a steadily growing economy, abundant, easy to train and an affordable young labor force, preferential market access and strategic geo-economic location. The country has a large domestic raw material base and has recently moved towards environmentally sustainable production of processed rawhides and leather products. Bangladesh's leather industry is the country's second largest export earning sector with an export value of $1.5 billion. Bangladesh produced 407.0 million pairs of shoes (all forms of footwear along with leather is included) in 2019. Bangladesh stands at the 8th position in the global footwear market in terms of production volume. The industry directly and indirectly employs 850,000 workers. About 70% of employees in footwear firms are female.

Over 350 million sq. ft.[12] of leather is produced each year, of which 20-25 percent is used to meet local demand, whereas the rest is exported, mainly to China, South Korea, Italy and Japan. In 2018, the size of Bangladesh's local footwear market was valued at TK 170.0 billion. Domestic demand for footwear is valued at around 200 to 250 million pairs. In 2018-19, Bangladesh had exported $607.88 million worth of leather footwear and $271.53 million worth of non-leather footwear. According to EBL Securities Ltd., there are currently 220 tanneries, 2,500 manufacturing units and 90 larger firms operating in Bangladesh.

Bangladesh is situated in a strategic location, bordered between India and Myanmar and it can easily be connected to China. This gives Dhaka, the industrial capital, strategic edge to access EU as well as ASEAN markets. As production costs go up in competitor countries, investment in leather goods and footwear has been rising. According to data from the Leathergoods and Footwear Manufacturers and Exporters of Bangladesh (LFMEAB), wages have increased in competitor countries like China by 19 per cent, followed by Vietnam (14 percent) India (13 percent) and Indonesia, (30 percent)[13]. The footwear industry contributes over 2.4 percent of Bangladesh's export earnings with an average yearly growth of 13.9

FIGURE 43: Composition of Bangladesh's merchandise exports

(In million USD)

Items	FY18	FY19	% change
1) Raw jute	155.7	112.5	-27.7
2) Jute goods	869.9	703.8	-19.1
3) Tea	2.77	2.82	1.8
4) Leather and leather products	519.9	411.9	-20.8
5) Frozen shrimps and fish	467.0	425.0	-9.0
6) Woven garments	15426.3	17244.7	11.8
7) Knitwear products	15188.5	16888.5	11.2
8) Chemical products	150.7	205.2	36.1
9) Petroleum by-product	33.7	203.7	504.5
10) Engineering products	356.0	341.3	-4.1
11) Specialized textiles	110.0	143.9	30.8
12) Footwear	809.7	879.4	8.6
13) Others	2578.1	2972.3	15.3
Total:	36668.2	40535.0	10.5

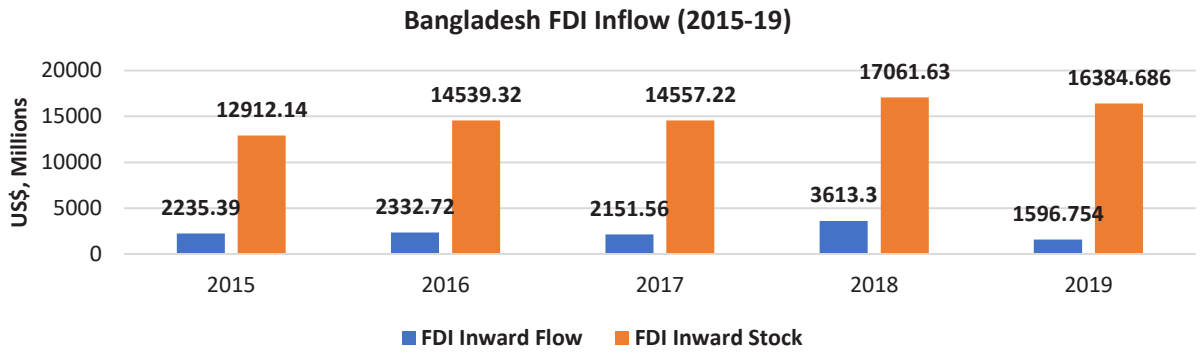
Source: Export Promotion Bureau, (EPB).

12 Leathergoods and Footwear Manufacturers & Exporters Association of Bangladesh: http://lfmeab.org/old/news/news_detail/181

13 The Independent: Leather industry showing rising investment graph http://www.theindependentbd.com/post/179028

percent during the last five years. Moreover, the country's ability to utilize tariff-free access to the European Union, Canada, Australia and Japan have made Bangladesh a sourcing hub for leather and footwear goods. Bangladesh also enjoys duty-free and quota-free access in major Asian market such as China, Turkey, and in some Latin American Countries.

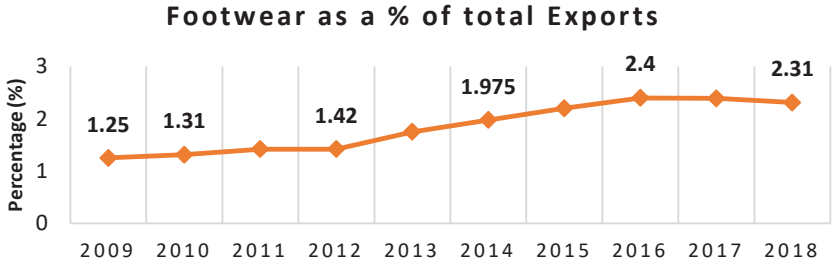
FIGURE 44: Bangladesh FDI inflow



Source: UNCTAD World Investment Report 2020

As shown in the graph above, Bangladesh's FDI net inflow in leather and leather products has increased significantly in the past ten years, rising from $1.6 million in 2008 to $60.8 million in 2018 – an annual growth of 43.8 percent. This influx of investment results from lower labor costs, tariff advantages, and government incentives that Bangladesh has offered foreign investors.

FIGURE 45: Footwear as a % of total exports - Bangladesh



Source: ITC Trade Map

The domestic industry of the country is divided into the organized (branded) and unorganized (non-branded) sector, with the latter dominating the majority of sales in the country. The organized sector is dominated by foreign companies, such as Bata, however, due to rising demand, local players who previously exported have also entered the domestic market. This includes companies such as Bay, Hamco, Jennys, Fortuna, Crescent, Vibrant, Leatherex, STEP, Walkar, etc.

According to the UNCTAD's World Investment Report 2020, FDI inflows to Bangladesh fell by 55.8 percent to $1.5 billion in 2019 (compared to $3.6 billion in 2018). The decrease mirrors an adjustment from a record level in 2018. The export-oriented clothing and footwear industry is still an important recipient of FDI, with major investors in the GTF sectors being from the Republic of Korea, Hong Kong and China. Total FDI stock was estimated at $16.3 billion in 2019 by UNCTAD.

The main investors in the country are China, South Korea, India, Egypt, the United Kingdom, the United Arab Emirates and Malaysia.

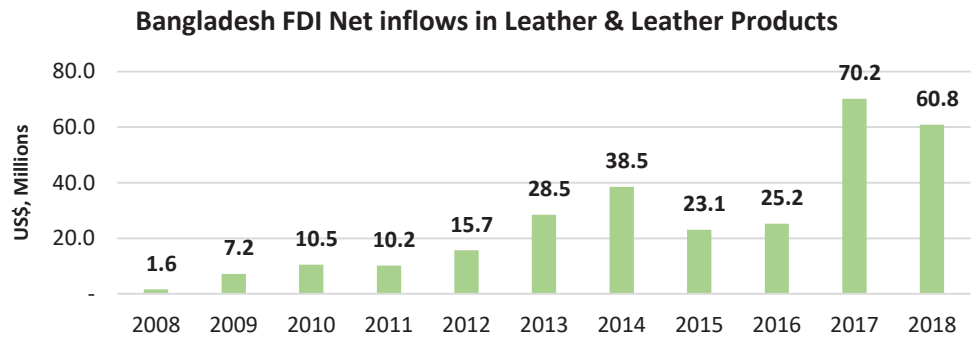
Bangladesh has developed an economic and legislative environment globally favorable to businesses. It holds a strategic and competitive position in the value chain of the global economy and a geographic gateway to countries in the Asia-Pacific region. The Bangladesh government is actively seeking to attract foreign investment, particularly in the areas of energy and infrastructure. Many incentives have been implemented through the industrial policy, growth strategy through exports and public-private partnerships. In order to mitigate the risks of being dependent on industrial production in the textile sector (which accounts for over 80% of total industrial production), the Bangladeshi government is seeking to develop certain sectors by granting companies involved in these areas incentives and favorable conditions. These include agricultural and agro-industrial products, light engineering, leather footwear and leather goods, pharmaceuticals, software and ICT products, as well as shipbuilding.

According to the Bangladesh export policy 2015-18, as a highest priority sector, the leather and leather footwear industry enjoys:

- Cash Assistance
- Project loan at reduced interest rates on a priority basis
- Rebate of the income tax
- Export credit at lower interest rates and on soft terms
- Air transportation facilities on a priority basis
- Duty drawback and bond facilities
- Duty-free import of equipment for setting up the compliant industry
- Possible financial benefits or subsidies consistent with WTO Agreement on Agriculture, and Agreement on Subsidies and Countervailing Measures, including concessionary rates for utility services such as electricity, water and gas.

Source: Bangladesh Export Policy 2015-18

FIGURE 46: Bangladesh FDI net inflows in leather & leather products



Source: Leathergoods and Footwear Manufacturers and Exporters of Bangladesh

Vietnam

Country Statistics		
	Capital	Hanoi
	Area (Km2)	331,230
	Population	96 million
	GDP Per Capita	2,715 USD
	Δ GDP 2019	7.00%
	Language	Vietnamese
	Currency	Vietnamese Dong
	GDP 2019	1,001 billion USD
	Δ GDP Last 5 Years	51.60%

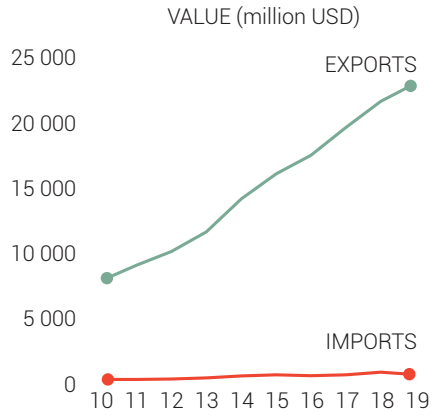
Main Trading Partners				
Export Markets	Million US$	Value Share	Million Pairs	Quantity Share
USA	7,241	31%	507.9	36%
China	2,338	10%	117.4	8%
Germany	2,033	9%	113.8	8%
Belgium	1,294	6%	78	6%
Japan	120	5%	80.9	6%

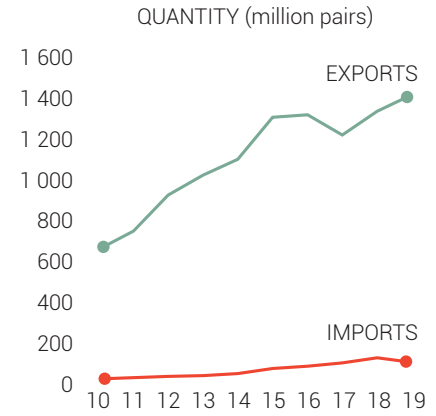
Last 5-year variation in export markets		
		Million US$
USA	93%	3,489
China	268%	1,703
Japan	97%	591
Germany	34%	517
Korea, Rep	106%	498

Last 5-year variation in import markets		
		Million US$
China	24%	86
Singapore	267%	29
USA	-	4
Korea, Rep.	111%	2
Indonesia	58%	1

Footwear Industry

	Value		Quantity		Price
	Million US$	World Rank	Million Pairs	World Rank	US$
Exports	18,989	2	1,419	2	$16.24
Imports	1,039	42	98	31	$5.33
Production			1,400	3	
Consumption			79	48	





Main Trading Partners				
Import Markets	Million US$	Value Share	Million Pairs	Quantity Share
China	441	85%	93.7	96%
Singapore	39	8%	1.7	2%
Thailand	5	1%	0.9	1%
Malaysia	5	1%	0.3	0%
USA	5	1%	0.2	0%

Vietnam

Vietnam is the 3rd largest producer of footwear with a share of 5.8%, behind India (10.7%) and China (55.5%). This robust industry in Vietnam is responsible for more than 1.5 million jobs. Foreign direct investment (FDI) is the main factor contributing to recent years' rapid development of the country's footwear sector. In 2018, FDI covered almost 80.0% of Vietnam's footwear exports. Vietnam earned 16.2 billion US$ from exporting footwear in 2018, including $12.0 billion grossed from the US, the EU and China. Vietnamese footwear exports have more than doubled in the last 10 years and the local industry is benefiting from various FTAs and the shift from China of manufacturing activities. Moreover, as China focuses on the production of high-tech goods, orders for footwear and handbags is expected to keep moving from China to Vietnam.

> *A young population, a stable foreign exchange rate, low minimum wage rates, and labor productivity compatible with other countries are some of the key features of Vietnam's footwear industry.*

The main strength of the Vietnamese footwear industry is a skilled workforce and highly competitive wages. 70.0 percent of the Vietnamese footwear producers are local SMEs with lower production and export revenue, comparing to 30.0 percent of large foreign producers. Many local producers lack financing resources to upgrade their structures with modern technology necessary for larger productions that can feed into the external markets. On the other hand, about 60.0% of the materials for footwear production is imported, mainly from China. In 2018, Vietnam had multiple trade agreements with over 60 countries, all of which offer the country a chance to transform its economy. Besides increasing exports, FTAs have helped to promote administrative reforms, improve infrastructure and ensure equality in accessing resources.

FTAs for the Footwear Industry

The Vietnamese Government is also promoting the industry by welcoming and prioritizing foreign investors in the footwear sector. Over the last few years, Vietnam has been active in signing bilateral trade agreements with countries throughout the world. So far, Vietnam has signed 12 free trade agreements involving 25 countries including China, Japan, Korea, Russia, ASEAN countries, to name a few, and currently it is negotiating new trade deals with 33 other countries including 28 EU member countries. Signing these FTAs has proved most useful to the country, and it has enabled Vietnam's economic development to shift away from exporting low-tech manufactured products as well as primary goods, to more complex high-tech goods like electronics, machinery,

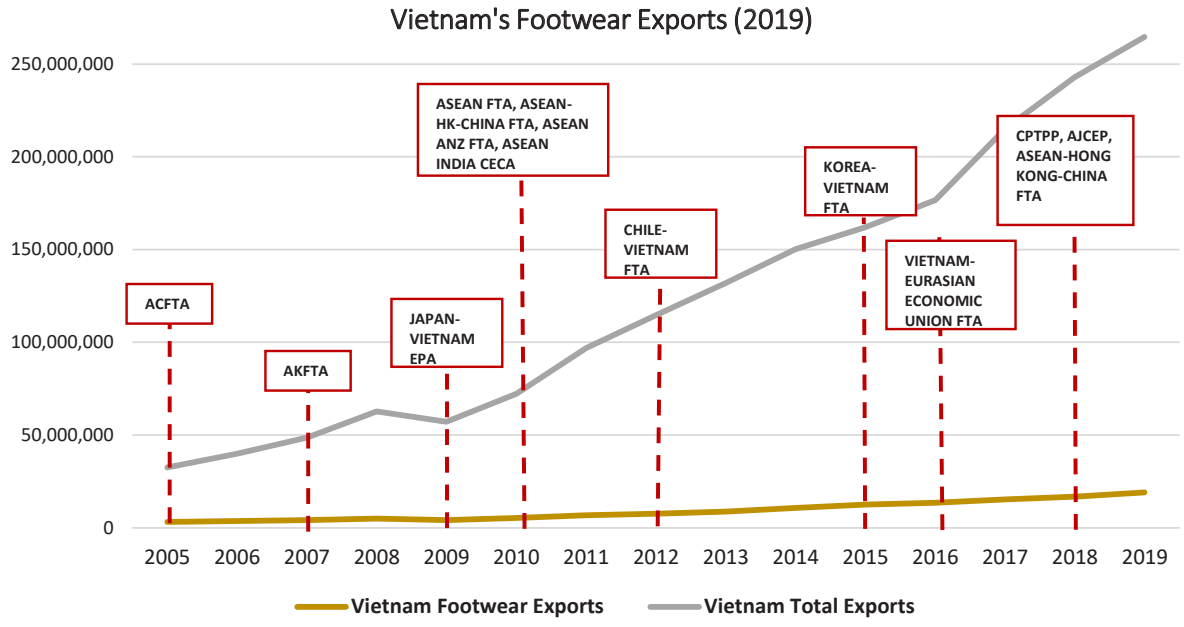
FIGURE 47: Vietnam's top export commodities

vehicles and medical devices. These FTAs, with their zero-duty rates, have helped some of Vietnam's struggling sectors to thrive and grow exponentially. This includes the machinery, footwear and textile sector that have witnessed high-growths in the past 13 years.

The footwear sector has optimized opportunities from free trade agreements (FTAs) that Vietnam has signed to increase exports. As a result, it is benefiting from low and duty-free access under various FTAs with main partner countries. Recently, Vietnam signed the EU-Vietnam FTA (EVFTA), which came into effect on 1st August, 2020. Nguyen Duc Thuan, Chairman of the Vietnam Leather, Footwear, and Handbag Association (LEFASO) is reported to have said that zero tariff will be applied on about 50 types of footwear products that Vietnam exports to Europe. In the European footwear sector, Vietnam's biggest competitor is China. Vietnam's footwear products will enjoy a tariff differential of between 3.5 to 4.2 percent when exported to the EU, creating a significant competitive advantage. The EU also offers unilateral incentives for a large number of goods originating from Vietnam under the Generalized System of Preferences (GSP), which will help Vietnam's footwear become more competitive than its rival Chinese products in the EU market. Many foreign footwear producers have shifted their businesses from China to Vietnam to benefit from the EVFTA.

The following graph shows the growth trajectory of Vietnam's total exports since 2005, and includes yearly values of its top export categories. Over the past 13 years, Vietnam has signed 12 trade agreements with more than 25 countries. Footwear is the second fastest growing category, only behind machinery, with exports growing annually by 13.8 percent since 2005, or a percentage change of 516.8 percent since 2005.

FIGURE 48: Vietnam's footwear exports (2019)



Source: ITC Trade Map

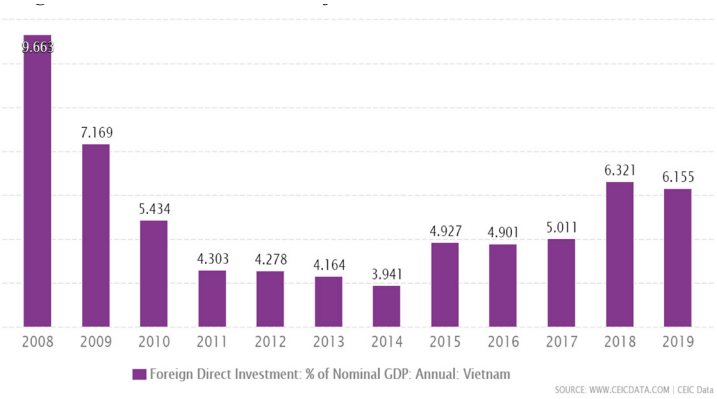
As new free trade agreements (FTAs) are being signed, they are expected to push Vietnam into becoming more competitive by reducing trading costs and improving its business environment.

Following the signing of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Vietnam FTA (EVFTA) trade deals, both of which are expected to have a significant impact on the nation's economy. The Planning and Investment Ministry's National Centre for Socio-Economic Information and Forecast said that between 2021 and 2025, the country's GDP is forecast to rise by seven percent on the back of these new FTAs.

Vietnam received a total of $38.0 billion of foreign direct investment (FDI) in 2019 (till 20th December) – a 10-year high, according to the Foreign Investment Agency (FIA) under the Ministry of Planning and Investment. The Republic of Korea was the leading foreign investor in Vietnam in 2019, investing $7.92 billion into the country and accounting for over one fifth of the total flow of foreign direct investment into Vietnam during the year. Hong Kong came close behind the Republic of Korea with $7.87 billion US$, ranking second among 125 countries and territories investing in Vietnam. Roughly 50.0% of FDI coming into Vietnam goes into varied manufacturing sectors such as facilities for aircraft engines, animal feed production, automotive, electronics, clothing and other products. Moreover, for cost reasons, Adidas (Germany), and Nike (U.S.) moved manufacturing operations from China to Vietnam. It is noteworthy that investment from China, Vietnam's fifth largest investor in 2019, showed a rising trend, with a 1.65 times increase from 2018.

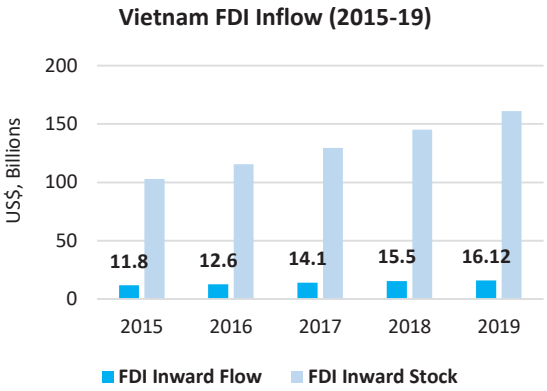
> *By 2020, footwear exports turnover is forecast to reach $24 billion, maintaining a growth rate of 10% compared to 2019.*[14]

FIGURE 49: Vietnam's FDI: % of nominal GDP



Source: CEIC

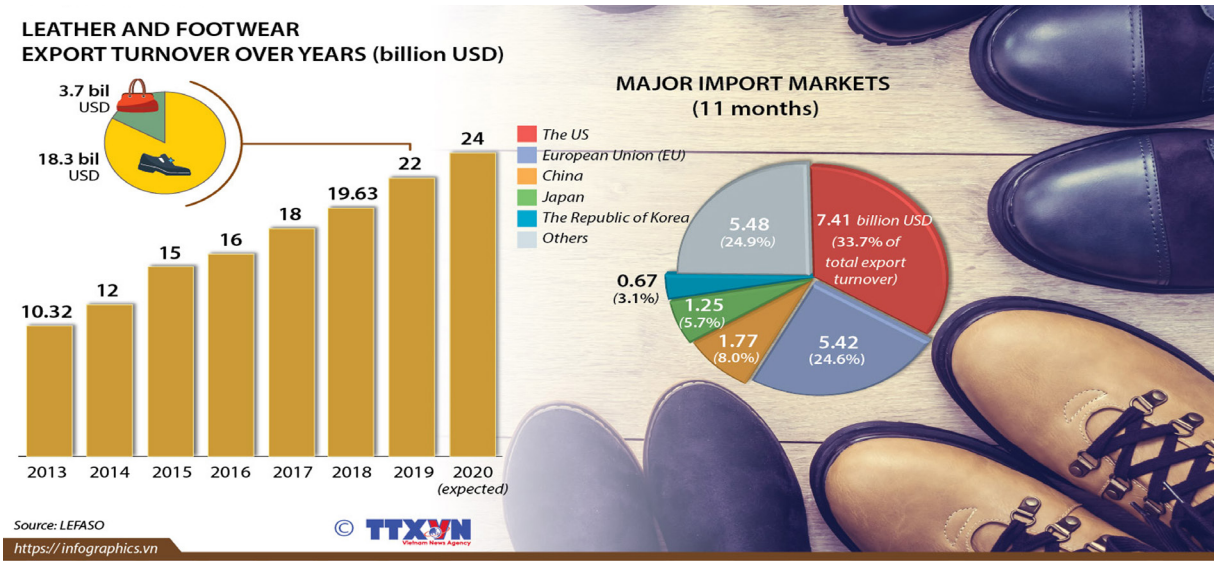
FIGURE 50: Vietnam's FDI inflow



Source: UNCTAD World Investment Report 2020

14 The Voice of Vietnam – VOV World: Footwear exports to earn 24 billion US$ in 2020 https://vovworld.vn/en-US/current-affairs/footwear-exports-to-earn-24-billion-usd-in-2020-824091.vov

FIGURE 51: Vietnam's leather and footwear turnover

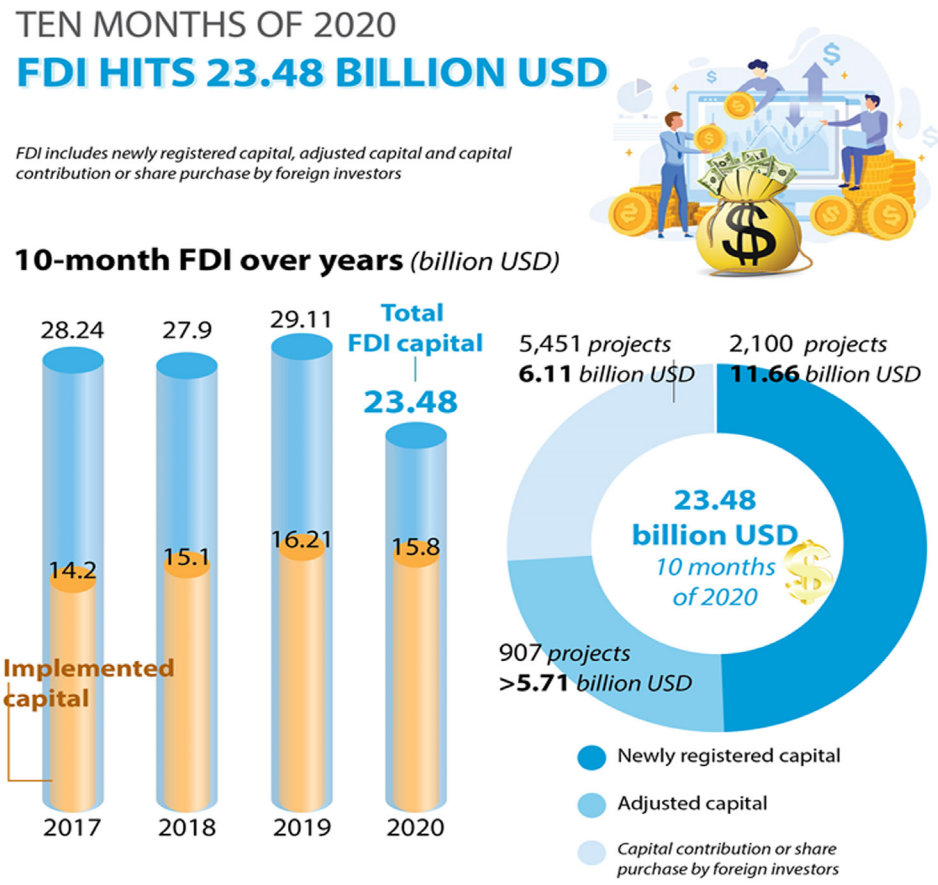


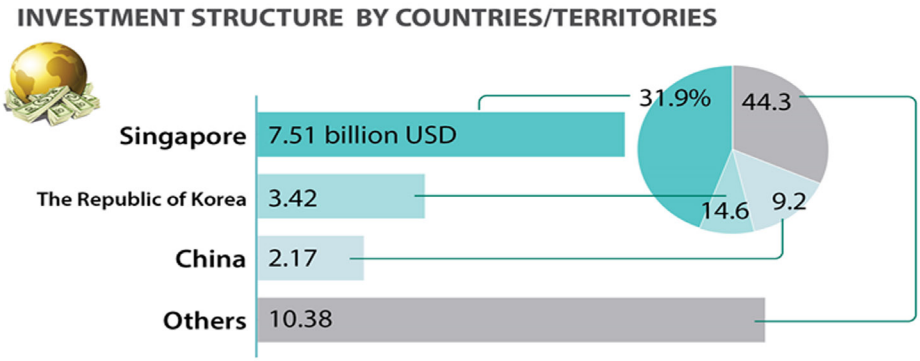
Vietnam Signs an FTA with the EU

The signing of EVFTA is very good news for Vietnam's footwear industry. The European Union has described the EU-Vietnam Free Trade Agreement (EVFTA) as "the most ambitious free trade deal ever concluded with a developing country". Among other trade facilitations, 65 percent of the duty lines for Vietnamese imports of footwear into the EU will be zero rated immediately and 100 percent of import duty lines for footwear will be eliminated after 7 years from the date of coming into force of the FTA. This will create favorable conditions for Vietnam's export of footwear to the EU, in comparison with other exporter countries, especially China.

As per Vietnam's Ministry of Planning and Investment, signing of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Vietnam FTA (EVFTA) are expected to have a significant impact on the nation's economy. These FTAs are expected to help increase Vietnam's GDP by 4.6 percent and its exports to the EU by 42.7 percent by 2025 while the European Commission has forecast the EU's GDP to increase by $29.5 billion by 2035. Shipments to the European Union are expected to surge by 44 per cent by 2030, while those to CPTPP member states are expected to rise by 14.3 per cent by 2035.

FIGURE 52: Vietnam's FDI in 2020





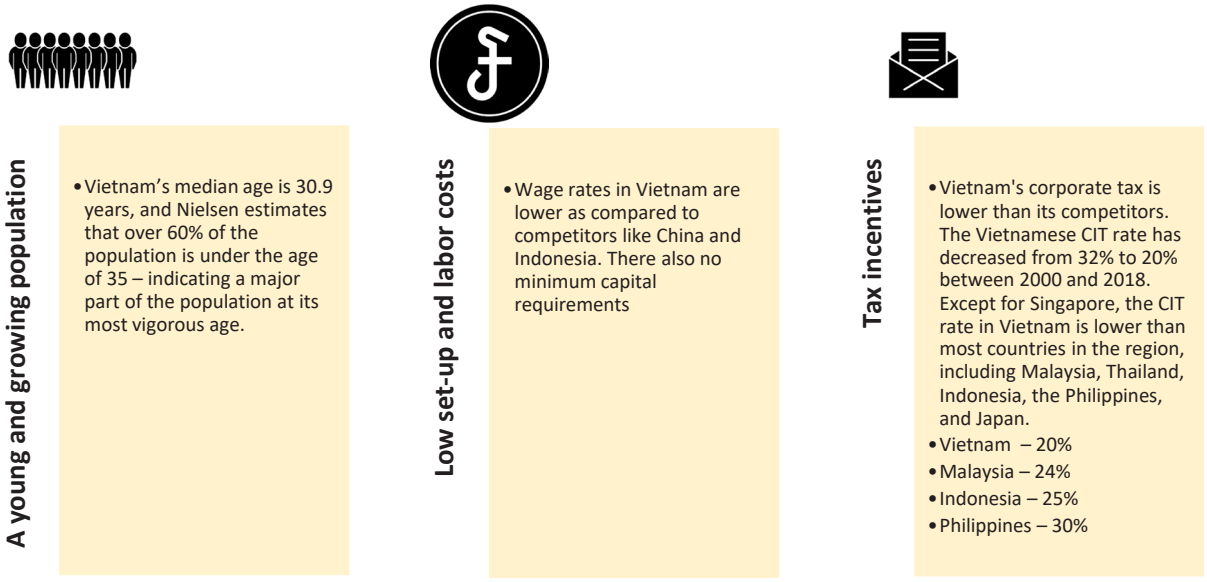
Source: Ministry of Planning and Investment - Vietnam

Reasons to Invest in Vietnam

Vietnam has expanded its footwear export market to more than 100 countries, 70 of which import more than $1 million worth of Vietnamese footwear. The Leather and Footwear Association (LEFASO) says that in 2020, the sector's industrial production index is expected to increase 11.0 percent and the localization rate of products will hit 60.0 percent, while the export value will increase 10.0 percent to $24 billion.

Furthermore, Vietnam's Ministry of Industry and Trade is building a strategy for footwear sector development till 2030 and a vision for 2035 to provide the government and enterprises a roadmap for making leather footwear a major economic sector.

FIGURE 53: Investment incentives in Vietnam



Source: Cekindo Business International, Ltd.

Location-based incentives offered by the Government of Vietnam:

Tax incentives are granted based on regulated encouraged sectors, encouraged locations, and size of the projects. The areas distant from Hanoi and Ho Chi Minh city are classified as economically disadvantaged. Investors setting up business in these areas can also benefit from decreased tax rates. The tax incentive scheme depends on the actual location:

- Economically disadvantaged: 2-4 years of tax exemption and 4-9 years of the corporate income tax (CIT) 7.5% – 10%.

- Extremely economically disadvantaged: 4 years of tax exemption and 9 years of CIT 5% and from 13th year CIT 10%.

Employment incentives:

Additional tax reductions may be available for engaging in manufacturing, construction, and transportation activities that employ several female staff and/or ethnic minorities. CIT reduction must correspond with the actual payment for those employees.

China

Country Statistics

Capital	Beijing
Area (Km2)	9 562 910
Population	1398 million
GDP Per Capita	10 262 USD
Δ GDP 2019	6.10%
Language	Mandarin
Currency	Yuan
GDP 2019	27 307 billion USD
Δ GDP Last 5 Years	50%

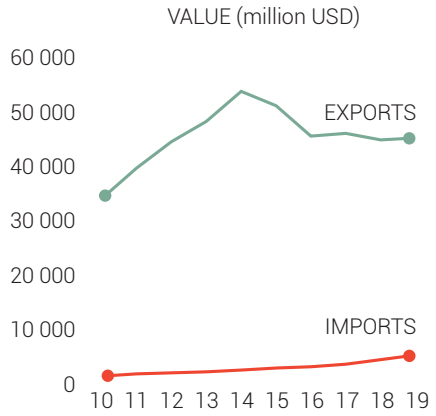
Main Trading Partners				
Export Markets	Million US$	Value Share	Million Pairs	Quantity Share
USA	11,411	25%	1,610.5	17%
Japan	2,042	5%	501.1	5%
Russia	1,849	4%	236.2	2%
Germany	1,772	4%	291.7	3%
Philippines	1,694	4%	526.8	6%

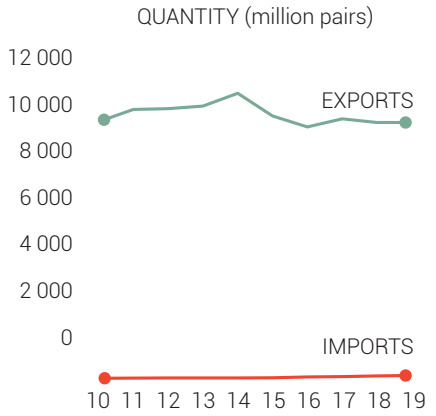
Last 5-year variation in export markets		
		Million US$
Philippines	192%	1,114
UK	-35%	-877
Hong Kong	-57%	-959
Kazakhastan	-60%	-1,323
USA	-17%	-2,331

Last 5-year variation in import markets		
		Million US$
Vietnam	268%	1,703
Indonesia	197%	534
Italy	44%	261
USA	955%	110
Cambodia	407%	63

Footwear Industry

	Value		Quantity		Price
	Million US$	World Rank	Million Pairs	World Rank	US$
Exports	47,803	1	9,542	1	$4.72
Imports	5,634	6	210	14	$24.06
Production			13,475	1	
Consumption			4,143	1	





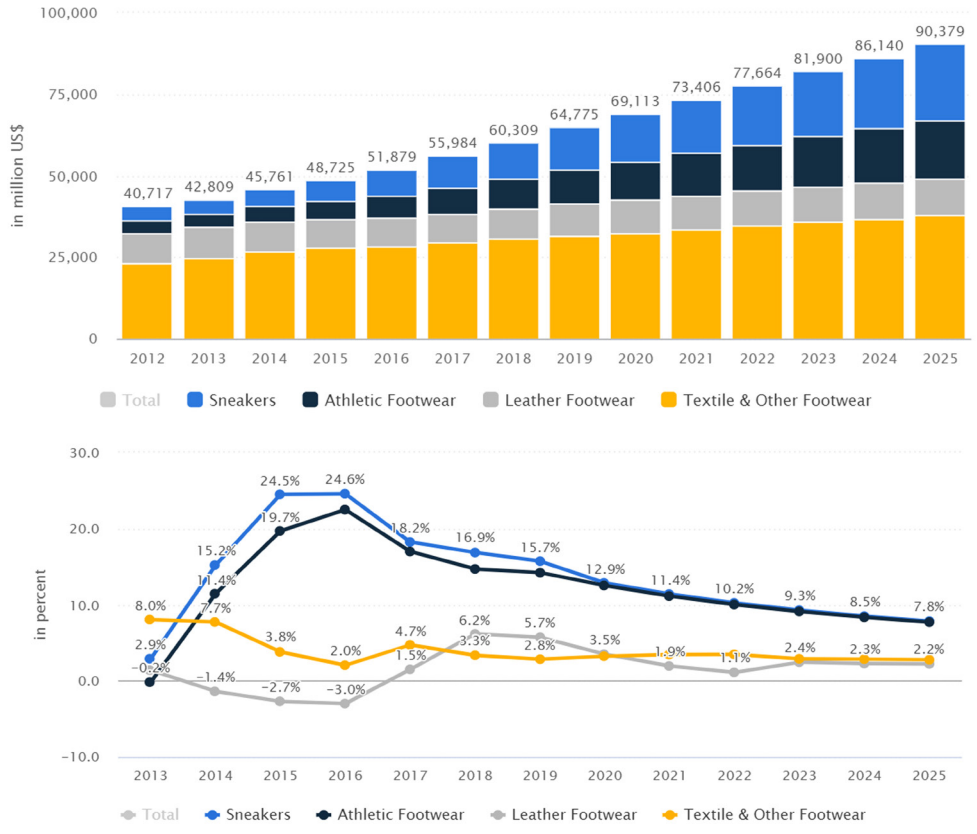
Main Trading Partners				
Import Markets	Million US$	Value Share	Million Pairs	Quantity Share
Vietnam	2,338	46%	117.4	56%
Italy	854	17%	3.6	2%
Indonesia	806	16%	47.8	23%
China	285	6%	11.3	5%
USA	122	2%	2.5	1%

China

The Chinese footwear industry has long been the number one footwear industry in the world. Although fierce competition has led to many buyers gravitating towards other Southeast Asian countries as preferred sources, the country is still expected to be the world's top footwear supplier over the next few years. China's economy grew at a rate of 6.6% in 2018, lower than its 10-year average of 9.8% (2005–2015) but still a robust pace. Real household consumption levels in China have doubled over the past decade, rising from $1.5bn in 2006 to $3.7bn in 2016[15]. In the past, growth in this market was driven by a large growing population, whereas today, it is being driven by the increased purchasing power of Chinese buyers.

Data from ITC shows China's exports of footwear in 2019 were valued at $47.8 billion, up by 1.4 percent or $668.7 million, from the previous year. According to Statista, total revenue from China's footwear industry for 2019 reached $64.7 billion. It is expected that the Chinese footwear market will continue to grow at an average annual rate of 5.8 percent through 2025. Leather shoes have been the fastest-growing segment over the last few years, as output for leather shoes has grown steadily by over 1.5 percent in recent years.

FIGURE 54 China's revenue (value and percent) in various footwear categories (US$, million)

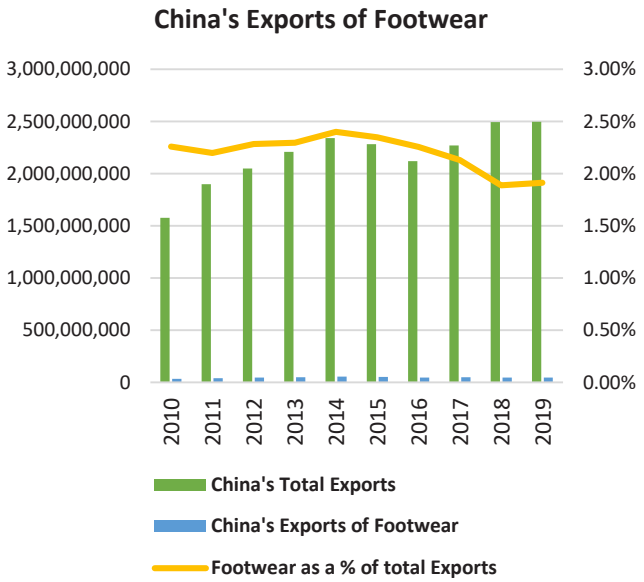


Source: Statista

15 MarketLine Industry Profile: Footwear in China

The growing popularity of sports footwear drives the footwear market's growth, primarily due to the 'athleisure' trend that has increased across the world. The cultural shift of athletic footwear being repurposed as everyday wear has changed the footwear market dynamics. China's footwear industry's growth is also driven by increasing footwear demand in the international market, especially for products like running shoes, boots, wedding shoes, women shoes, and other famous footwear categories.

FIGURE 55: China's exports of footwear



Source: ITC Trade Map

In 2019, China exported more than $47.84 billion worth of footwear goods to the global market, representing over 30.4 percent of the world's total footwear exports for that year. The U.S., Japan, Russia, Philippines, Vietnam, and EU members such as Germany and the U.K. are currently the major destinations for China's footwear exports. The graph on the left shows China's footwear exports as a share of total exports. The Asian giant's merchandise exports have grown steadily over the past nine years, rising by an average rate of 5.2 percent annually. Footwear is China's twelfth most exported commodity, with an average share of 2.2 percent in exports, growing annually at a rate of 3.3 percent.

FIGURE 56: Footwear sales in China (2018)

Women's footwear sales (2018)	$39.2bn	Market Share: 55.8%
Men's footwear sales (2018)	$18bn	Market Share: 25.6%
Children's footwear sales (2018)	$13bn	Market Share: 18.6%

Source: MarketLine

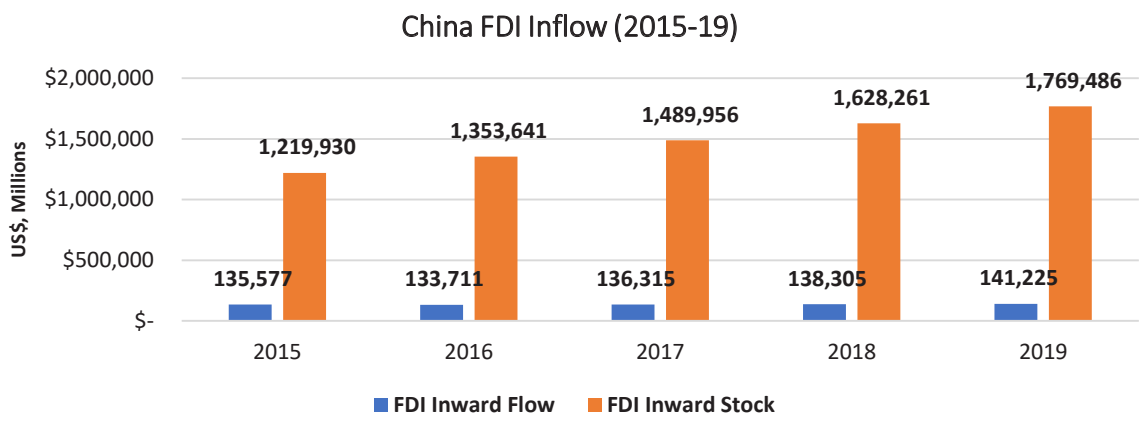
The Chinese economy continues to maintain a healthy growth rate and which has been stimulated by the consecutive increases of industrial output, imports & exports, consumer consumption and capital investments for over two decades. However rising labor costs, stricter controls on capital and trade restriction have forced some manufacturers to relocate their business to other Asian economies.

According to the 2020 World Investment Report published by UNCTAD, FDI inflows continued to increase between 2018 and 2019, from $138 billion to $141 billion (+2%). This growth is supported by liberalization plans, the rapid development of the high-tech sector, and free trade zones. The stock of FDI in 2019 reached $1,769 billion, an exponential growth compared to 2010, when the stock was $587 billion.

> *In 2019, China was ranked the world's second largest FDI recipient after United States and before Singapore. The country is the largest recipient in Asia.*[16]

16 FDI in China: https://www.nordeatrade.com/en/explore-new-market/china/investment#:~:text=FDI%20in%20Figures&text=The%20stock%20of%20FDI%20in,the%20largest%20recipient%20in%20Asia.

FIGURE 57: China's FDI inflow



Source: UNCTAD World Investment Report 2020

China's leading investment indicators have remained broadly stable. Inflows from the US and Europe have dropped, but regional investments have continued to increase as ASEAN countries' flows grow. FDI inflows to the high-tech sector have been rising significantly and currently account for almost a third of total inflows.

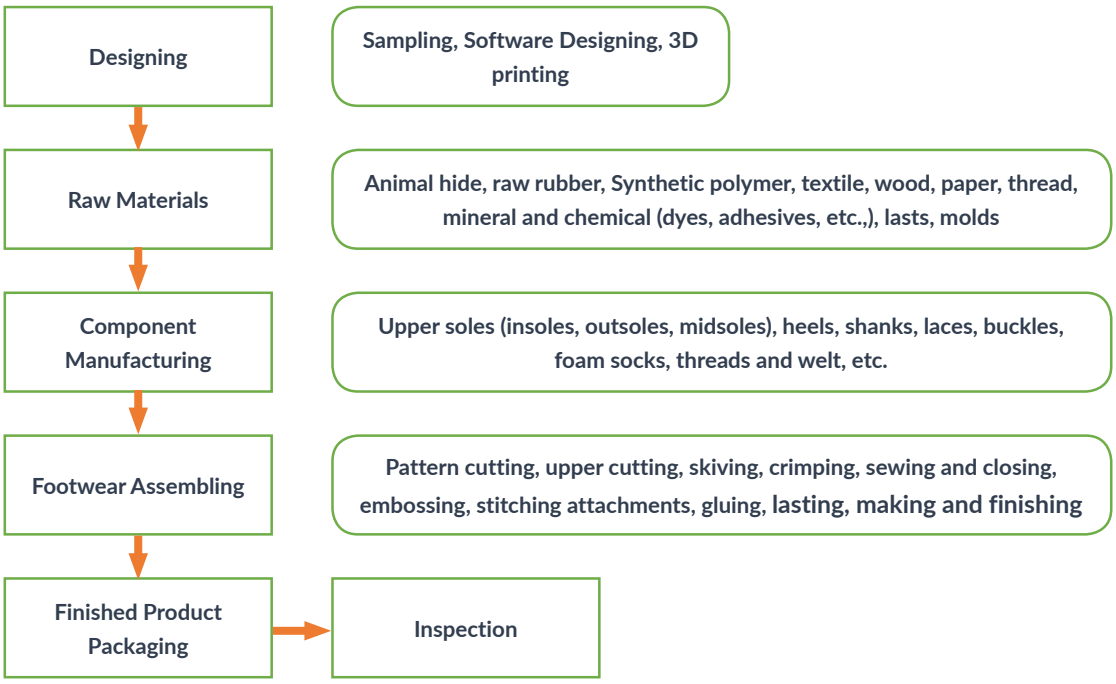
The U.S. remains China's largest footwear destination. In 2019, the North-American country imported more than $11.5 billion worth of footwear from China, accounting for roughly half of all footwear imports. While this makes China the largest footwear provider to the U.S., China's market share has been falling from a 2010 peak of 76%. This has been due to several factors, such as rising labor costs, a move towards high-tech goods, more stringent enforcement of environmental and labor laws, and competitive prices offered by neighboring Asian nations.

The Footwear Value Chain

Shoemaking is considered a traditional handicraft profession. There are many parts to a shoe, such as the sole, insole, outsole, midsole, heel, and vamp or upper, and more than 200 operations are required, using hundreds of different materials and components, for making a pair of shoes. However, with modern machinery, the shoemaking process has been mechanized and made simpler as each procedure in footwear manufacturing is performed by separate machines operated by skilled workers.

Approximately 40 different materials can be used to manufacture a pair of shoes (this number can go up to 200, depending on the shoe's style and value). Shoes can be classified into many different categories - including classification by gender (e.g., men's and women's shoes), by the intended use (e.g., sports shoes, casual shoes, formal shoes etc.), by the type of material used to produce the upper part of the shoe etc., - shoes can also be sorted into leather-based, textile-based and rubber or plastic-based products[17]. The most common components used to style shoes are: the upper part – this consists of all elements of the shoe above the shoe's sole; lower part – this includes the entire bottom of a shoe (insole, sole, and outsole); grindery – this comprises other items that may be attached to the upper and lower parts of the shoe, such as eyelets and toe puffs. The following figure shows the process of footwear manufacturing:

FIGURE 58: Footwear manufacturing process



17 (PDF) A SUSTAINABLE MATERIALS FOR FOOTWEAR INDUSTRY: DESIGNING BIODEGRADABLE SHOES. Available from: https://www.researchgate.net/publication/340830961_A_SUSTAINABLE_MATERIALS_FOR_FOOTWEAR_INDUSTRY_DESIGNING_BIODEGRADABLE_SHOES [accessed Nov 26 2020].

FIGURE 59: Footwear components

Source: Sneaker Factory

The following is a list of materials commonly used for a shoe's upper, sole, heel and shoe-joining materials.

Material for shoe upper and sole	Description	Use
Chrome-Tanned Leather	Chromium is a heavy metal used as a leather tanning agent.	Chromium is a cheap, fast method of tanning leather. This leather is more likely to be soft, pliable and stable in water compared to other methods. [1] [2]
	Formaldehyde is a chemical compound (CH_2O) used in tanning leather.	Formaldehyde is used in a number of ways throughout the leather tanning process e.g., as an adhesive or as a tanning agent. The result is pale in colour so hides are referred to as "wet-white".
Conventional (Non-Organic) Cotton	Chemicals, referred to as pesticides, are used in cotton production to kill, repel or stop the growth of organisms, by impairing biological processes essential for living. The most commonly used pesticides are insecticides that go by the names of Malathion, Aldicarb and Parathion.	Pesticides are used to obtain a higher cotton yield.
Basic (Cationic) Dyes	Dyeing is a method of applying colour to a textile. This can happen at any stage in the manufacture process; dyes can be applied to fibres, yarn, fabric or a completed article of clothing.	Basic dyes dye acrylic fibres.
Acid Dyes		Acid dyes dye protein fibres (e.g. wool, silk) and nylon.
Disperse Dyes		Disperse dyes dye polyester yarn.
Vat Dyes		Vat and direct dyes dye cotton yarn.
Direct (Substantive) Dyes		
Durable Water Repellent (DWR) treated fabrics	The Greenpeace 'Detox Outdoor' campaign describes PFCs as "a family of man-made, fluorine-containing chemicals".	The purpose of using PFCs is to make clothing and accessories waterproof.
Chrome-Tanned Leather	Chromium is a heavy metal used as a leather tanning agent. Leather is commonly used as an outsole.	See Upper - Chromium
PVC (polyvinyl chloride)	A versatile plastic that accounts for 20% of all plastics manufactured worldwide.	In footwear, PVC is often found in outsoles as well as synthetic leathers and coated fabrics for a shoe's upper.

Material for shoe upper and sole	Description	Use
PU	A rigid type of polyurethane plastic.	Used in outsoles because of its flexibility, resistance to abrasion, strength and durability.
TPU (thermoplastic polyurethane)	An elastic, flexible type of polyurethane plastic.	Used in outsoles because of its elasticity, flexibility and resistance to abrasion, impact and weather.
EVA Foam (ethylene vinyl acetate)	A tough but flexible plastic.	To provide a level of comfort in a shoe's insole.
Petroleum Rubber	A tough, elastic polymer.	Used in outsoles.
Illegally Logged Wood	""Illegal logging and related trade occur when timber is harvested, transported, processed, bought or sold in violation of national or sub-national laws."	Used in midsoles for wedges and platforms.

Material for heel	Description	Use
ABS (Acrylonitrile Butadiene Styrene)	ABS is one of the plastics used to make heels. It's a low cost, easy to machine plastic with good impact resistance, strength and stiffness.	ABS is molded to create high heels and is reinforced with an internal tube of metal.

Material for shoe-joining	Description	Use
Solvent-Based Adhesives	Hazardous chemical substances used in the manufacturing of adhesives e.g., Benzene and Toluene.	Adhesives used in shoe construction, and more often than not, in cheap, poor quality shoe construction.

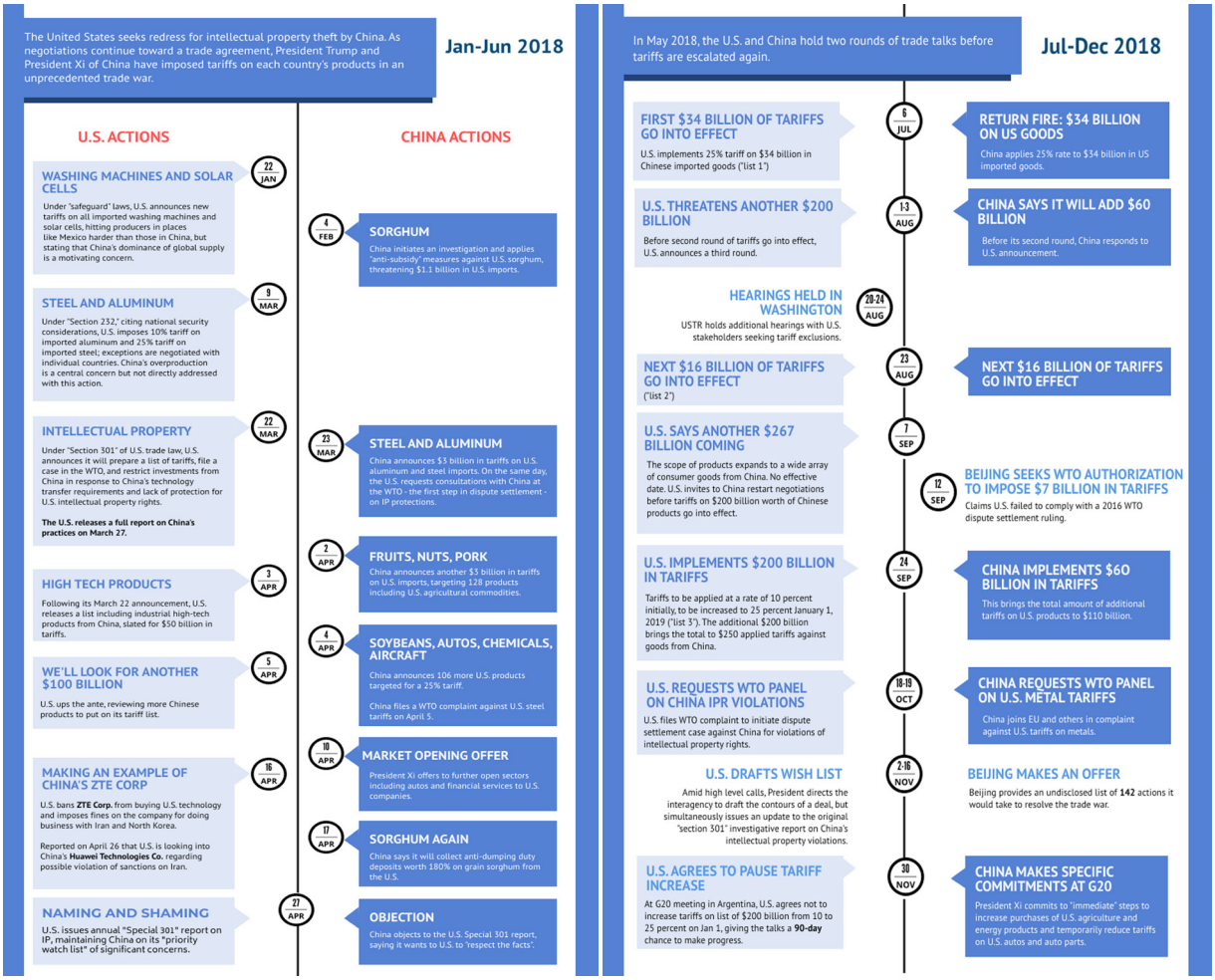
Source: Better Shoes Foundation

Annexure 2 highlights the negative impact these materials can have on people and the environment, and provides a list of better alternatives that can be used by footwear manufacturers.

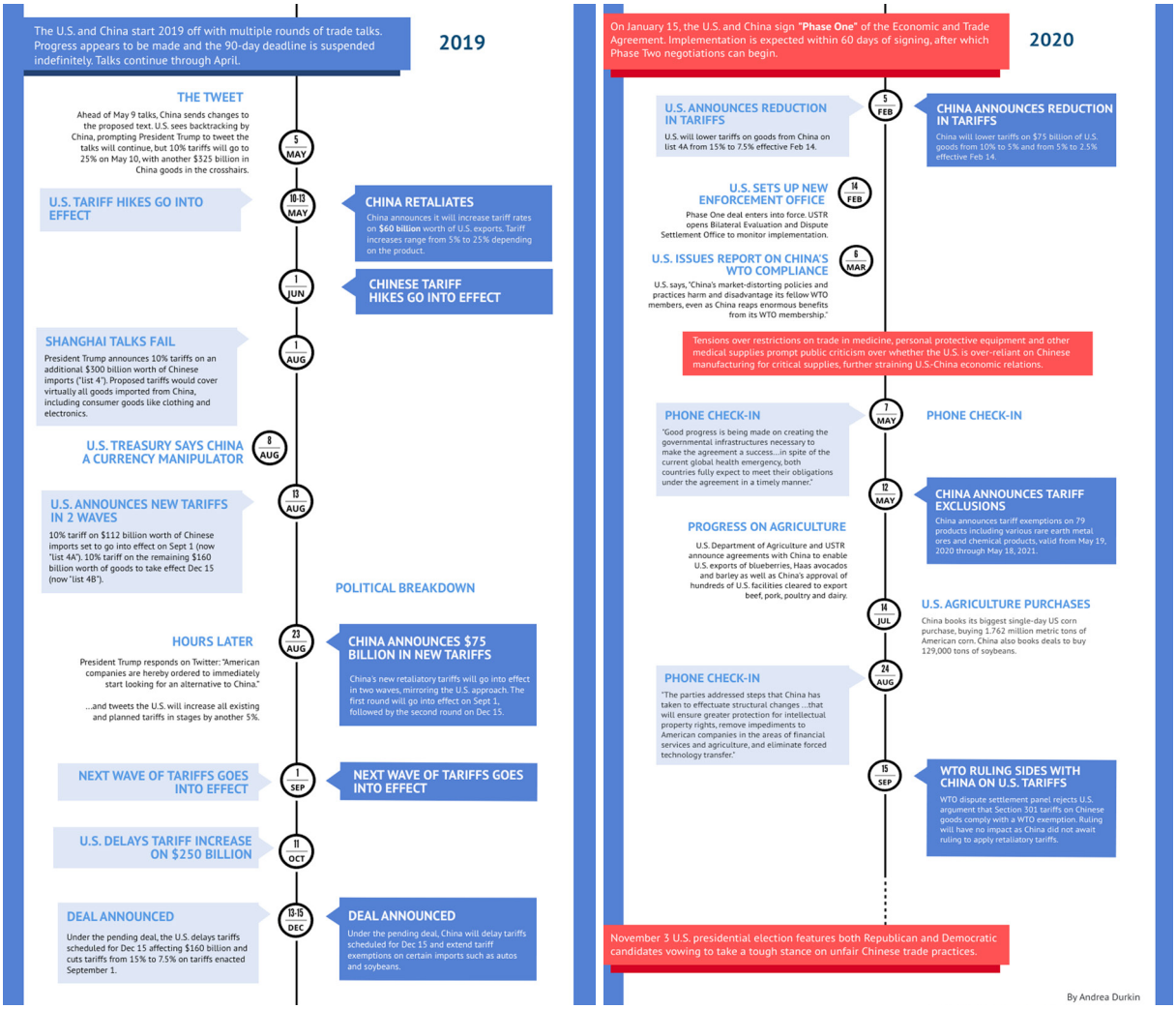
The US – China Trade War: A Timeline

In July 2018, US President Donald Trump followed through on months of threats to impose sweeping tariffs on China for its alleged unfair trade practices. Over the months that have followed, both countries have been engaged in countless back-and-forth negotiations, a tit-for-tat tariff war, have introduced foreign technology restrictions, they have fought several WTO cases, and nearly bringing US-China trade tensions to the brink of a full-blown trade war. The following figures outline a timeline[18] of the major events in the trade conflict, what led up to it, and how the two countries are attempting to deescalate the situation.

FIGURE 60: Timeline of the US-China trade war



18 Trade Vistas: U.S. – China Trade War Timeline https://tradevistas.org/u-s-china-trade-war-timeline/



Source: Trade Vistas

Footwear was not affected by the first two rounds of Trump administration tariffs on U.S. imports from China. However, when President Trump announced the third tranche of tariffs on more than $300 billion worth of Chinese goods, this round of tariffs significantly hit shoe manufacturers. The 10.0 percent (originally 7.5 percent[19]) duties on Chinese footwear took effect on 1st Sept, and additional duties of 15 percent, which was set to go into effect on 15th Dec, have officially been put on hold for the moment. Apparel and footwear are already some of the highest-taxed U.S. imports, representing 4 percent of all imports in 2018 yet contributing 30 percent of all duties collected. According to the Footwear Distributors & Retailers of America (FDRA), more than 70.0 percent of shoes sold in the U.S. come from China. Higher tariffs have increased the cost of goods sold for all U.S. companies that import footwear products made in China unless they can diversify their sourcing, reduce costs, adjust product designs, or obtain government and vendor support. Companies like Nike, Under Armour, and Puma have steadily been decreasing their reliance on China, shifting supply chains to places like Vietnam. The U.S. imported $14.0 billion worth of footwear from China in 2019, making it a US sector largely reliant on China.

19 https://www.govinfo.gov/content/pkg/FR-2019-08-20/pdf/2019-17865.pdf

When the US enforced the third tranche of 10.0 percent duty in Sept, the landed cost of shoes that were tariffed increased from $11.47 to $12.5, and it was estimated that the price would further rise to $14.22 if the fourth tranche of tariffs scheduled for 15th Dec. had taken affect. "For years, footwear has incurred average import duties of about 11.0 percent. The total industry bill for these tariffs in 2018 was $2.9 billion each year. If the additional 15.0 percent duties take effect on 15th Dec., that bill will increase to $5.2 billion", Matt Priest, President, and CEO of FDRA, said.[20]

Footwear companies have been diversifying their sourcing for a decade now, and the quantities of footwear flowing in from China is already at an all-time low. In 2009, about 88 percent of U.S. footwear was manufactured in Chinese factories. Ten years later, that number had fallen to 67 percent. Tariffs aren't the only element causing brands to head for new sources. Other variables like rising labor, energy, and raw material costs are also prompting companies to reevaluate their partnerships with Chinese suppliers. Footwear brands are trying to figure out new ways to stay relevant, driven not just by tariffs and duties but also by a desire to be sustainable and fashionable.

Moreover, the uncertainty caused by the suspension of the Dec 15 tariffs and their possible imposition could cost importers an additional $1 billion in tariffs. Also, the current 53.0 percent of taxable footwear is subject to a 15.0 percent tariff, where U.S. brands have paid more than $370.0 million in additional duties since September. While the duty to be charged is 7.5 percent under the tariff policy, as yet it is unclear when the change will take place adding to the uncertainty. The constant shifts in the direction of the trade dispute have made relocation difficult for many manufacturers. Nevertheless, it is an undeniable fact that U.S. companies are continuing to look elsewhere for production and sourcing.

Trade War Impact on Regional Footwear Competitors

The impact of the trade war has had a positive effect on other Asian suppliers. Vietnam is the forerunner to replace China as the next major footwear supplier to the world. In addition to lower labor costs, Vietnam's free-trade agreements guarantee access to global markets.

As low-tech and labor-intensive industries such as the footwear industry are not complicated to set-up, and workers are easily trained, many Chinese factories are also transferring their assemblies to Bangladesh for apparel and footwear. Leather footwear exports from Bangladesh to the US registered a 17.5 percent rise to $150.9 million in 2019, although the sector's total exports to global markets faced a 12.0 percent negative growth during the period. Experts attribute the ongoing US-China trade war to the windfall export earnings from the US market. While footwear imports from China fell by more than $600 million, footwear imports increased by over $26 million from Bangladesh, a jump of over 19.4 percent from the previous year – a substantial rise. Increased branding has also positively impacted exports. "American buyers and brands were not well informed about the quality of Bangladeshi goods and types of footwear produced here. In branding Bangladeshi goods, we have arranged several international Bangladeshi leather footwear and leather goods sourcing

20 US footwear importers brace for Chinese tariff hit: https://www.joc.com/maritime-news/trade-lanes/trans-pacific/us-footwear-importers-brace-chinese-tariff-hit_20191031.html

shows," Saiful Islam, managing director of PICARD Bangladesh Limited, an export-oriented leather products manufacturer, is reported to have said. Moreover, according to an estimate by the Asian Development Bank (ADB), Bangladesh's exports are estimated to increase by an additional $400 million along with a 0.19 percent rise in the country's GDP over the next two years if the trade war escalates.

The U.S. is also the largest destination for Cambodian footwear exports, taking a share of 6.0 percent in 2018 and 6.8 percent in 2019 of total US footwear imports. Footwear is Cambodia's fifth largest export category to the US. Footwear exports grew by $116.4 million in during 2018-19, reaching a value of $301.3 million in 2019. The trade war has benefitted Cambodia as well. After the additional 15 percent tariff on Chinese footwear, Cambodia appears to be the latest beneficiary of the US-China trade war, joining the already exhaustively profiled Vietnam among the countries enjoying increased exports to the US as tariffed Chinese goods open the door for other cheap suppliers. "Companies are really pulling back from China and footwear is much more exposed than apparel so far from the tariffs," said Nate Herman, senior vice president of supply chain at the American Apparel & Footwear Association. He added, "Everyone is trying to get out of China as quickly as they can."[21]

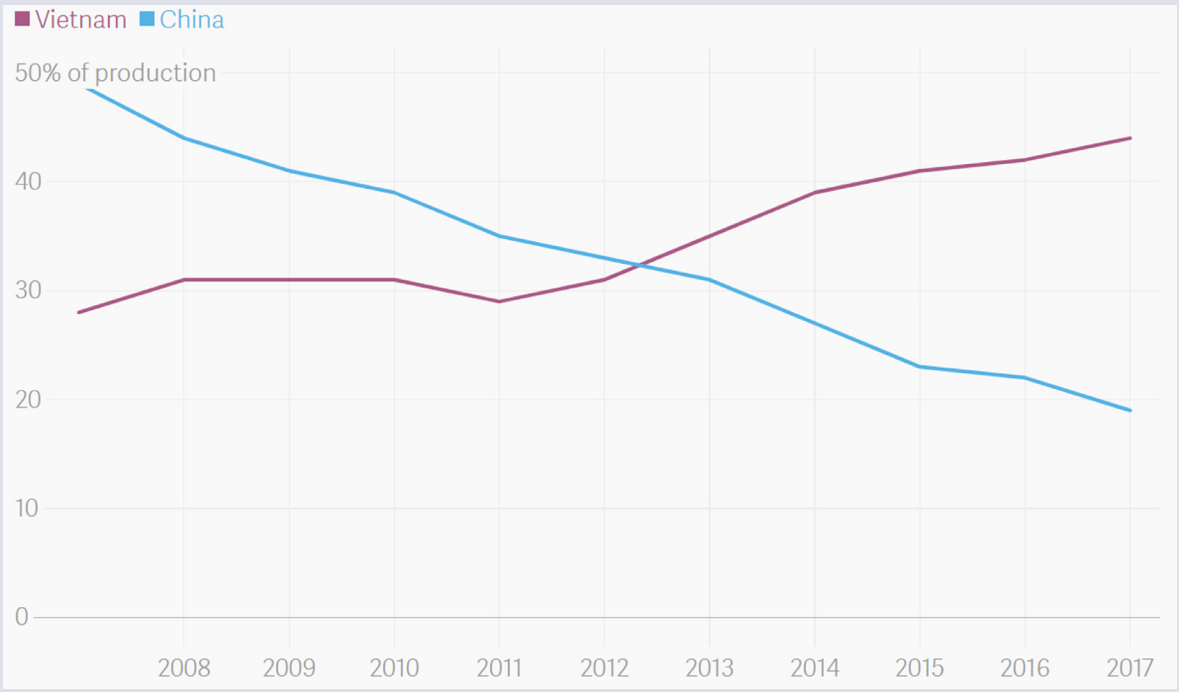
21 Sourcing Journal: Footwear Sourcing Shifts in Line With US-China Trade War https://sourcingjournal.com/footwear/footwear-supply-chain/footwear-sourcing-u-s-china-trade-war-131712/?mod=article_inline

The Case for Nike, Adidas and other Shoe Manufacturers in China

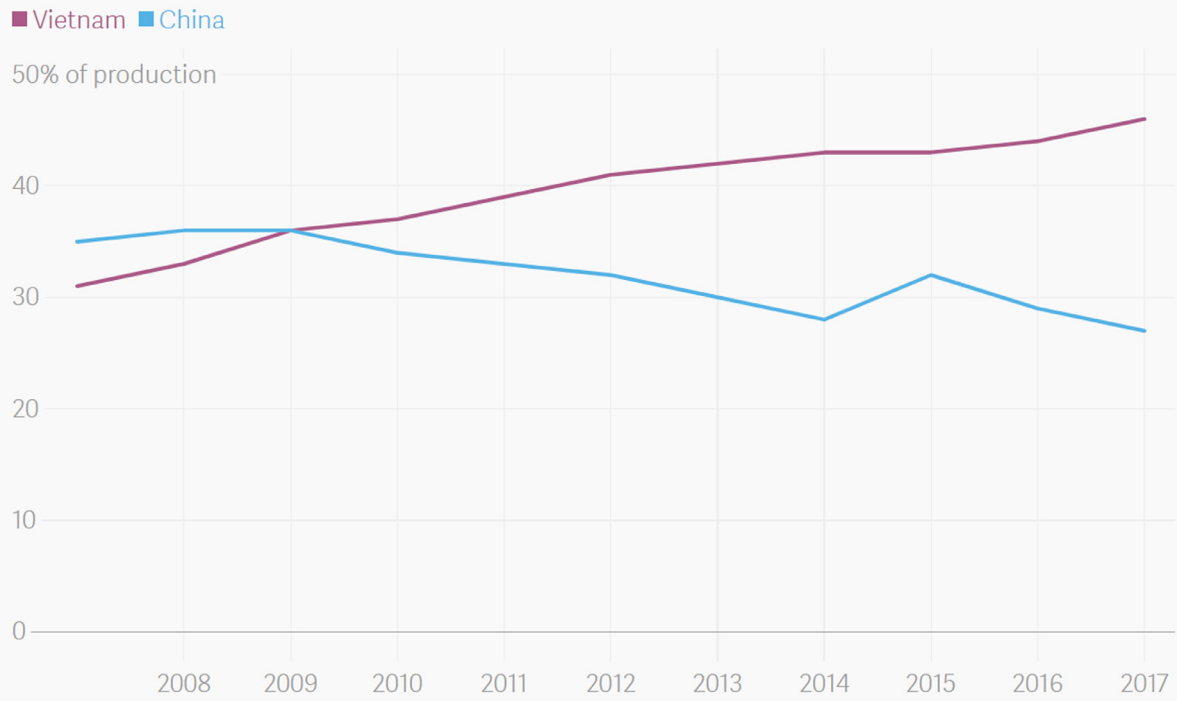
The U.S. footwear industry is one of the biggest pawns in an escalating trade war with China. In May of 2019, more than 170 shoe retailers and brands sent a letter to President Trump asking him to not raise tariffs on footwear products. They cited that additional tariffs would mean some American consumers would have to pay a nearly 100 percent duty on their shoes (Trump in May was considering a 25% tariff hike). "The consumer won't be able to hide," FDRA President and CEO Matt Priest said. "Even if it's 10%, it's death by a thousand cuts."

Companies like Nike, Under Armour and Puma have steadily been decreasing their reliance on China, shifting orders to places like Vietnam. Since 2010, Adidas has cut the share of footwear it buys from China by half and most of that business has been absorbed by Vietnam. 98% of Adidas's total 2019 footwear volume was produced in Asia (2018: 97%). Vietnam represents Adidas' largest sourcing country with 43% of the total volume (2018: 42%), followed by Indonesia with 28% (2018: 28%) and China with 16% (2018: 18%). At Adidas, China is actually in third place as a supplier of shoes: Indonesia is now the second-biggest source, behind Vietnam. A similar situation is playing out at Nike where a decade ago, China was its main footwear producer. Currently, Vietnam owns that title. For fiscal 2019, contract factories in Vietnam, China and Indonesia manufactured approximately 49% (up from 47% in 2018), 23% (down from 26% in 2018) and 21% of total NIKE Brand footwear, respectively.

Adidas Footwear Production



Nike Footwear Production



Under Armour, another footwear giant, said over 87 percent of its footwear products were manufactured by five primary contract manufacturers, operating primarily in China, Vietnam, and Indonesia.

While some large manufacturers shift production to other Asian countries, several footwear manufacturers are going under as the impact of the new tariffs sets in. Payless ShoeSource was a popular wholesale channel for many shoe brands, but it filed for bankruptcy in February and shut all its 2,500 stores. Moreover, footwear brands like Nine West, Rockport, and The Walking Co. filed for bankruptcy in 2018. "The short term is going to be retail ugly," Rick Helfenbein, CEO of the American Apparel and Footwear Association, told CNBC. He further said, "We don't have a place to go. You can't move this mountain of merchandise so quickly [away from China]. The message from the [Trump] administration is, 'Get out of China.' The problem is we can't do it as fast as they would like us to do it. So, we are going to stay there ... and fight it out." Analysts at Moody's suggest that it will take time to materially diversify operations away from China and adjust costs for most companies. Due to long lead times in the production cycle, it may take time to work through potential limitations in the footwear manufacturing capacity in other countries, including quality control checks.

Data analysis of 91 footwear articles on which China faces an additional 7.5 percent tariff

Table 19: Articles on which China faces additional US tariffs

Exporter	Value Exported in 2018	Value Exported in 2019	Change in Value 2018-19
China	7,246,030,000	6,846,938,000	(399,092,000)
Bangladesh	109,197,000	134,165,000	24,968,000
Vietnam	5,093,360,000	5,845,788,000	752,428,000
Cambodia	254,093,000	361,790,000	107,697,000
Indonesia	1,354,479,000	1,466,642,000	112,163,000
Pakistan	6,547,084	10,287,799	3,740,715

Source: ITC Trade Map

Analysis of the table above indicates that US imports of footwear increased in 2019 from all regional players, once additional tariffs were placed on China. Vietnam was the most significant beneficiary of the trade war, as its exports to the US for footwear rose by $752.4 million. Pakistan benefited the least from the trade war as its exports in the 91 categories increased by $3.7 million only.

To increase footwear exports to the US and to take advantage of China's high tariffs, Pakistani manufacturers need to produce those footwear articles that face low import tariffs. The following table lists down 51 footwear articles, on which China faces new tariffs, that Pakistan currently exports to the US, sorted according to the lowest tariffs faced by Pakistani footwear exporters.

Table 20: US footwear imports from Pakistan

HS-Code	US Imports from Pakistan (2018)	US Total Imports (2019)	US Imports from Pakistan (2019)	Tariff Charged by US on Pakistan
64062000	-	38,137,823	7,360	GSP eligible
64019230	-	976,586	2,400	0%
64021200	-	119,633,149	25,050	0%
64031260	12,937	1,427,844	-	0%
64031920	7,467	1,259,464	14,450	0%
64031970	7,392	17,999,676	2,698	0%
64032000	30,799	5,437,420	30,529	0%
64035111	16,592	652,406	19,585	0%
64039111	1,222	1,979,030	-	0%
64061065	1,275	72,731,130	2,564	0%
64069060	113,035	13,211,555	145,804	0%
64069090	81,519	23,058,769	59,051	0%
64035915	8,542	6,761,203	3,312	2.50%
64031940	31,796	23,390,458	36,182	4.30%
64061090	1,060	14,241,916	2,300	4.50%
64035130	9,582	195,219,449	6,368	5%
64035930	661	26,138,696	-	5%
64039130	619,368	410,081,445	285,064	5%

HS-Code	US Imports from Pakistan (2018)	US Total Imports (2019)	US Imports from Pakistan (2019)	Tariff Charged by US on Pakistan
64039940	15,944	37,299,132	-	5%
64021915	761	103,268,900	3,409	5.10%
64061045	1,715	99,921	-	6%
64041181	1,200	137,935,110	23,011	7.50%
64061040	1,300	536,345	-	7.50%
64039920	-	4,031,330	6,120	8%
64035160	15,556	37,597,848	14,063	8.50%
64035960	11,535	138,740,609	22,999	8.50%
64039160	604,610	1,892,812,449	2,692,095	8.50%
64039960	3,440,330	2,327,125,576	5,597,293	8.50%
64061005	-	597,321	1,930	8.50%
64021990	30,764	324,500,566	872	9%
64041990	459,158	1,573,948,586	5,537	9%
64035190	25,405	191,855,243	36,843	10%
64035990	160,541	539,907,934	113,103	10%
64039190	429,380	1,699,749,838	465,015	10%
64039990	57,001	2,881,474,752	273,250	10%
64042040	-	120,125,963	882	10%
64051000	10,512	39,791,376	8,570	10%
64041120	55,295	12,097,290	25,150	10.50%
64041915	302	7,574,347	2,907	10.50%
64069015	110,978	18,332,509	123,430	14.90%
64042020	370	225,774	-	15%
64029190	-	199,500,025	70,870	20%
64029990	1,354	824,681,439	508	20%
64041190	106,900	3,209,596,427	149,714	20%
64021970	5,280	2,882,869	4,454	24.45%
64029980	576	111,612,116	-	29.25%
64041989	42,863	273,738,807	-	29.50%
64041189	1,963	376,251,530	1,342	29.97%
64019290	-	127,863,437	580	37.50%
64041939	7,009	288,747,035	819	37.50%
64021950	1,105	243,733	316	48.37%
64041179	4,130	3,391,479	-	55.07%
	6,547,084	**18,480,475,635**	**10,287,799**	

Source: ITC Trade Map

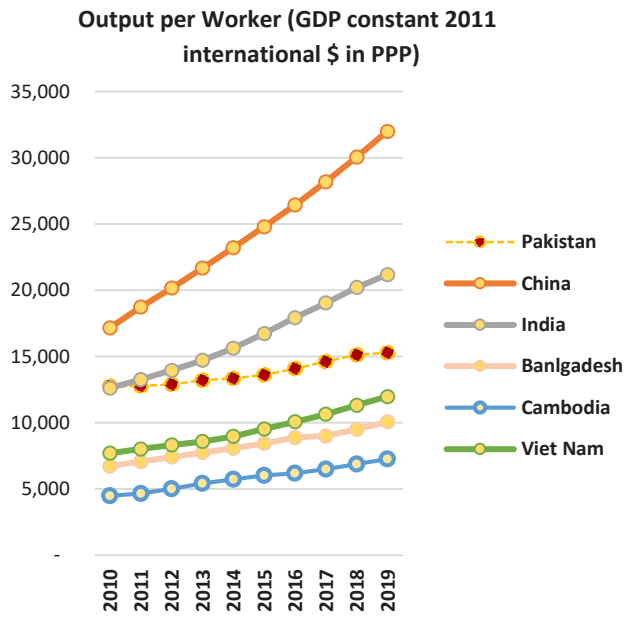
Industry View on Enhancing the Export Competitiveness of Pakistan's Footwear Industry

Labor

Shortage of trained manpower

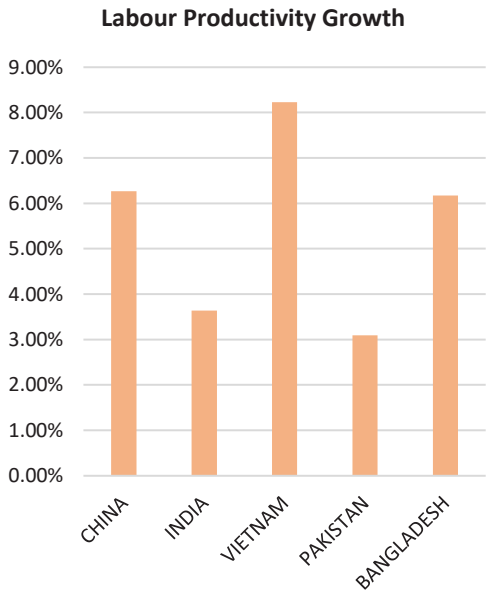
The footwear industry of Pakistan is highly labor-intensive. Even though there is an abundance of labor in Pakistan, labor quality is not up to the standards required for producing high end footwear. The average number of shoes made by a Pakistani laborer is 4-5 pairs per day, whereas globally the productivity ranges from 10-12 pairs of shoes per worker per day. Due to a lack of dedicated training institutes and skill-development programs, factory workers produce basic low-quality shoes, and these fetch a low price in international markets. In the year 2000, Pakistan's labor productivity exceeded that of both China and India. A decade later, China had more than doubled its labor productivity having surpassed Pakistan in 2008. India also caught up and its labor productivity eventually exceeded Pakistan's in 2011. Pakistan's labor productivity is estimated at $15,294[22] in 2019, according to data from the International Labor Organization (ILO), and it has grown at an

FIGURE 61: Output per worker (GDP constant 2011 international $ in PPP)



Source: The Global Competitiveness Report (2019)

FIGURE 62: Labor productivity growth



Source: The Global Competitiveness Report (2019)

22 International Labor Organization: Statistics on Labor Productivity https://ilostat.ilo.org/topics/labour-productivity/

average of ~1.5% per year since 2000. India's labor productivity is higher, at $21,181 in 2019, having grown at a much faster average of ~5.7% per year during the same period. China's labor productivity is $32,002, having grown at ~8.8% per year since 2000.[23] A labor-intensive industry manned by labor with a low skill level is one of the reasons for poor industry performance, as well as for Pakistan being stuck in the lower-price range for footwear articles.

There has been a slight or negligible change in the availability of training programs in the footwear sector. There are not many institutes dedicated to cater to the demand for skilled workforce for the sector and only a handful of institutes (Pakistan Institute of Fashion Design, Institute of Leather Technology etc.) currently provide specialized training facilities in footwear designing and manufacturing. As a result, all the major players employ unskilled workers and provide them on-the-job/in-house training. Most firms do not face issues in getting the required number of workers, however, getting trained workers has been and remains a constant issue for the industry. There is a great deal of training required in the technical side of the industry which involves operating machinery; cutting, stitching, molding, as well as an expertise of the chemicals used in the production process. In addition to a technological and mechanical understanding of machine operation, training is also required at the quality control level to ensure excellence of the product and procedures. Industry experts pointed out that owners of footwear firms are upgrading equipment and trying to meet requirements of international buyers. However, the supply of skilled and qualified manpower to correspond to the improved in manufacturing processes is not keeping pace with the rate of automation.

Based on the data provided by the Punjab Skills Development Fund (PSDF), the following institutions/ TSPs are playing a role in providing education and training and narrowing the gap between skills demand and supply in the Footwear industry of Pakistan:

Table 21: Institutes in Pakistan offering footwear training

Institute	Courses Offered	Duration	Key Course Content
TEVTA –Footwear Institute of Leather Technology	DAE Leather Technology	3 Years	Shoe Designing, Modeling, Grading, Manufacturing, Quality Control
	Diploma	1 Year	Shoe Designing, Modeling, Grading, Manufacturing, Quality Control
	Certificate (Vocational)	3-6 months	Shoe Designing, Modeling, Grading, Manufacturing, Quality Control
Pakistan Institute of Fashion & Design	Bachelor Design of Leather Accessories & Footwear	4 Years	Designing & Sketching
UMT School of Textile & Design	Bachelor of Fashion Design	4 Years	Drawing Rules/Styles of Shoes, Shoe Sizes, Panel Making, Material Management, Waste Management, Introduction to Stitching Techniques (Machine/Hand), - Closing, CAD and use of Other Designing Software, Shoe Repair TQM
	Bachelors of Science in Leather technology	4 years	Basic Shoe Designing /Techniques, Designs for Men's and Women's, Waste Management Techniques in Cutting, Introduction to Stitching Techniques (Machine/ Hand), CAD and Use of Other Designing Software

23 https://profit.pakistantoday.com.pk/2019/02/25/why-did-pakistans-labour-productivity-fall-behind-india-and-china-this-past-decade/

Institute	Courses Offered	Duration	Key Course Content
Pakistan Institute of Modern Studies	Diploma in leather technology	6 months	Designing/Sketching, Stitching/ Sewing, Material Technology, Product Development, Quality Assurance/ Control
Charsadda	Certificate programs in cutting, stitching, sewing, closing, upper making, designing/ sketching, last making	6 months	Designing, sketching, closing, upper making etc.

Source: Punjab Skills Development Fund

While GILT imparts technical as well as creative design knowledge to students, PIFD majorly focuses on creative designing. This leads to a lack of labor force with technical knowledge and skills, which is translated into sub-standard basic shoes. With little technical knowledge, most skills are learnt on the job and this can prove costly for firms due to an inherently high worker turnover in the garment, textile and footwear (GTF) industry. Apart from skilled workers, there is also a shortage of skilled human resource for important support functions like designing, merchandising and product development.

Moreover, there is a severe shortage of middle and upper managers and this has hindered investment and expansion in the footwear industry. The shortage of technicians in supervisory roles has played a major role in Pakistan's stagnant footwear exports. The dearth of qualified labor leads to significant delays and even postponement of product line expansion plans. The majority of labor start work after high-school (FSC/Matric), and the mean experience ranges from 3-35 years. The managements' old habits, beliefs, and assumptions cloud openness to new ideas and overpower creative and innovative initiatives. The status quo remains in place and, as a result, the industry is unable to bypass old techniques and move towards innovation. Additionally, due to a scarcity of managerial personnel, Pakistan's cost of hiring management staff is twice as high as the cost of similar staff in Bangladesh or India.

As part of the Punjab Skills Development Fund's sector study on footwear, the following skills have been identified that are severely lacking in Pakistan's footwear industry's labor force:

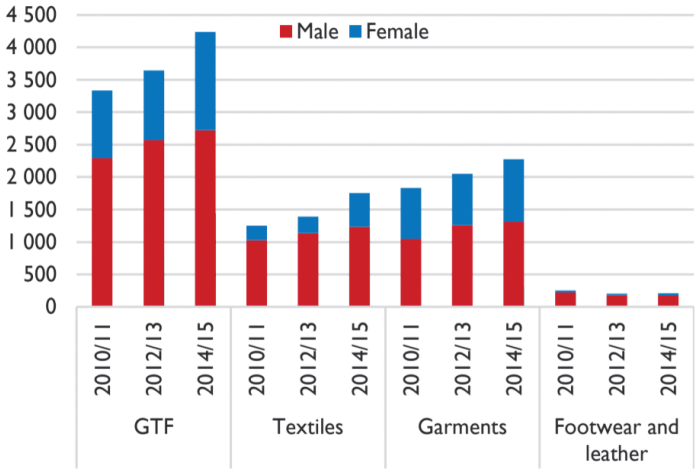
Table 22: Skills for which curricula development is needed in Pakistan

Skills for which Curricula Development is Needed	Skills Gap
Shoe Designing	• Acute shortage due to high industry demand and low supply of good designers • Lack of foreign qualified professional shoe designers to teach the subject (both at institute and organization) • Lack of local qualified shoe designers to teach the subject (both at institute and organization) • Fashion designers taking up footwear designing as a career due to high demand/high salary being offered • Unavailability of creative designers with the ability to create own designs instead of copying/ modifying • Inability to create trendy designs which are easier to produce and are cost effective • Lack of knowledge about shoe anatomy, hence unable to produce proper designs • Lack of workshops where the designers can get hands on experience on shoe designing • Lack of knowledge of latest fashion trends • Lack of knowledge/inability to use of latest software on footwear designing • Unavailability of a well-designed course covering every aspect of shoe designing • Aging karigars/Ustaad- skills have not been passed on to family/shagirds
Pattern Making	Inability to convert designs on paper • Inability to create patterns of various sizes • Lack of knowledge about shoe anatomy and shoe sizes hence unable to make proper patterns with respect to size • Lack of knowledge/ability to use pattern making software
Cutting	• Lack of knowledge of handling various tools/ machine/ equipment used for cutting • Lack of knowledge of latest technologies used in the cutting department (bulk cutting, laser cutting etc.) • Lack of knowledge on how to go about cutting process causing minimum wastage of material • Inability to follow design, match patterns (printed, embossed material) to cut identical pair of shoes • Lack of training staff in the footwear industry itself to train the new hires • Lack of training institutes • Lack of practical training at the institutes /hands on exposure to a variety of material and cutting tools
Stitching/Upper Stitching/Closing	• Inability to stitch neatly with minimum errors/wastage of material • Inability to match colors (matching threads color with material) • Lack of training staff in the footwear industry itself to train the new hires • Lack of training institutes • Lack of practical training at the institutes/hand on exposure to a • variety of stitching methods (hand stitching, machine stitching, use of various size and type of needles based on the type of stitching required and material in us

Source: Punjab Skill Development Fund (PSDF)

In addition to its role as an important contributor in Pakistan's exports, the footwear sector is a major employer in the manufacturing sector. The leather and footwear sector employed 2.5 percent of the manufacturing labor force in Pakistan in 2015. This sector requires relatively low capital investment and most of its activities, such as stitching and cutting, are labor intensive. The leather sector, including the footwear sector, employed more than 500,000 people (2017).

FIGURE 63: Employment in Pakistan's GTF sector



Source: Sector Bulletin

Within the organized sector, there is a heavy reliance on labor through all steps of shoe manufacturing. Employment in the formal footwear industry is classified under two groups: 1) permanent and part-time/contractual, and 2) indirect employment – the split between permanent and part-time labor is approximately 25%: 75%, respectively[24]. The total employment figure of labor in the footwear sector in the formal sector is estimated to be 60,000 and that in the informal sector at 150,000 (Total=210,000).

Working time and wages in the leather and footwear sector

Table 23: Working time and wages in the leather and footwear sector of Pakistan

	2012-13			2014-15		
	Male	Female	Total	Male	Female	Total
Average working time (weekly hours)	53.1	34.8	47.7	54.3	36.6	48.0
leather and footwear	51.7	36.9	49.9	52.7	36.3	49.9
Total wage employees (000)	1,902.0	429.2	2,331.2	1,945.2	455.1	2,400.3
leather and footwear	135.0	13.7	148.7	121.2	23.6	144.8
Average monthly earnings (000 rupees)	11.4	4.4	10.1	14.8	5.0	13.0
leather and footwear	10.0	3.2	9.4	12.7	4.0	11.3

Source: International Labor Organization (ILO)

24 Punjab Skill Development Fund: Footwear Sector Study Skills

Lahore employs more than 55.0% of the footwear labor force (out of 75% of Punjab) followed by Karachi which employs 17% (out of 19% of Sindh) and Sialkot which employs 20%.

Table 24: Footwear employment in Pakistan

Province	Number of People Employed	Percentage Breakup
Sindh	39,900	19%
Punjab	157,500	75%
Baluchistan	2,100	1%
KPK	10,500	5%
Total	210,000	100%

Source: Punjab Skill Development Fund (PSDF)

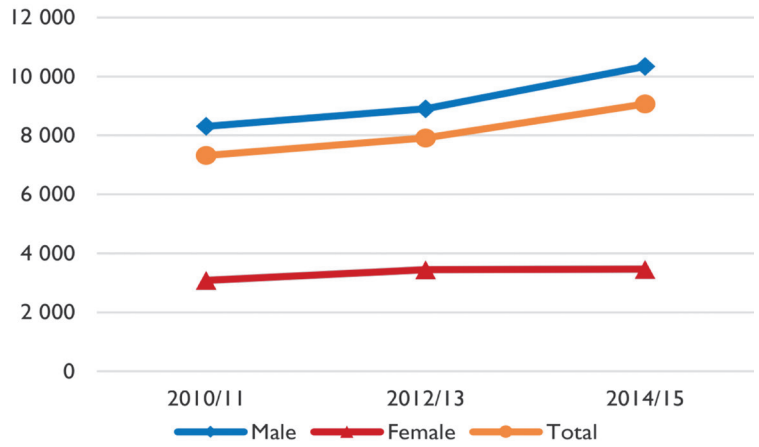
The footwear industry is highly male-dominated in Pakistan. The table below shows that the leather and footwear sector employ a relatively low share of female employees as compared to the garments or textile sector.

Table 25: Total employment in Pakistan's GTF sector

	2012-13			2014-15		
	Male	Female	Total	Male	Female	Total
Total Employment (000)	2 571.1	1 076.3	3 647.5	2 721.5	1 520.3	4 241.8
Textiles	1 134.3	257.1	1 391.4	1 236.4	518.6	1 755.0
Garments	1 258.0	794.3 2	2 052.3	1 311.3	963.5	2 274.8
Footwear	178.8	24.9	203.7	173.8	38.2	212.0

Source: ILO

FIGURE 64: Avg real monthly earnings by sex in Pakistan's GTF sector (rupees), 2010/11, 2012/13 and 2014/15



Source: ILO - Employment and wages rising in Pakistan's garment sector

Recommendations:

Footwear is the sub-sector with the maximum potential for value addition in finished leather, and therefore adequate investment needs to be made to achieve maximum productivity. Pakistan's existing vocational and technical training ecosystem is not sufficient to meet the present and future labor force's needs. An initiative needs to be taken by the government and the association to design and develop training programs. In collaboration with the private sector, the government should develop undergraduate specialty training programs in footwear and accessory design, including associate's and bachelor's degrees. The footwear association should help design these programs' curriculum in collaboration with exporters/manufacturers after analyzing the industry's requirements.

Apart from technical and creative design courses, the program should also focus on developing critical managerial skills. A skilled middle management level is essential for all three types of upgrading— guiding firms to make more complex products, create more productive and efficient manufacturing techniques, and transition to higher-value functions/services such as designing and branding. Moreover, foreign creative designers and technicians should be appointed to ensure the quality of training and keep up with international footwear design trends and techniques.

Inadequate Support from the Ancillary or Supporting Industries

Inputs used in footwear manufacturing

A significant constraint facing Pakistan's footwear industry is the absence of a local ancillary industry that produces quality inputs or components, crucial for making finished footwear products. These inputs include molds, shoe lasts, and chemicals used in footwear processing. Although the footwear industry is reasonably developed in Pakistan, the supporting ancillary sector is mostly absent. Production inputs such as molds and lasts are imported by footwear manufacturers, which increases production costs and lead times, and delays the delivery of export orders. There are only a handful of mold makers in Pakistan and only two last makers, whereas India has more than 1,400 last makers. Large investments are required to set up molding units and low demand, due to a small manufacturing base, hinders domestic and foreign investment. This significantly affects footwear exporters, as buyers (foreign customers) value quick response time. While the abundant supply of leather and cheap labor may be advantageous to exporters in Pakistan, the nonavailability of other inputs required for footwear manufacturing puts local exporters at a disadvantage.

Components / accessories used in footwear

Pakistan's downstream supplier/vendor support is inadequate. A single shoe can contain 65 distinct parts that require 360 processing steps for assembly[25]. The footwear industry has neither big suppliers nor a wide range and variety of accessory makers, like buckles, zips, lace patters, trims, straps, etc. to support them. Moreover, the lack of innovation has limited the availability of significant

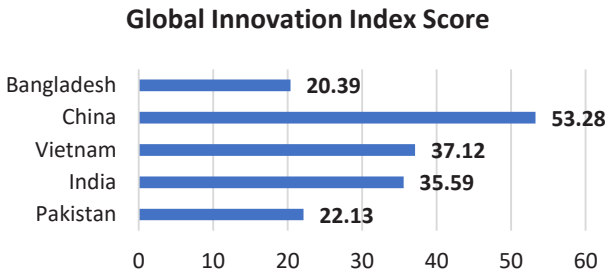
25 https://www.sciencedirect.com/science/article/abs/pii/S0959652612006300

accessories/components, such as the latest trends of buttons, threads, and other decorations used to style fashionable footwear articles. Thus, all these items are imported. Since components make up a significant part of any footwear item, importing these accessories impacts profitability and timelines. The PFMA chairman stated that the lack of an ancillary industry had forced organized shoemakers to 'vertically' structure their facilities. "Each and every step involved in the production of a shoe is performed under one roof against the global practice of encouraging horizontal production. The vertical structuring of manufacturing not only hampers expansion but also affects productivity.[26]" Some manufacturers reported that the lead time for procuring imported raw materials ranges between 45 and 90 days. While the local availability of leather is a cost advantage for manufacturers, the high sales tax and duties charged on other raw materials leads to high cost of inputs, which is translated into the finished product. This raises export price, and makes Pakistani footwear uncompetitive in the global market.

Research and Development

Pakistan's rank on the Global Innovation Index (GII) fell to 107 in 2020 from 105 in 2019. GII measures a country's institutions', innovations, human capital and research, infrastructure, market and business sophistication, knowledge and technology outputs, and creative outputs. In Pakistan's case the GII report highlighted major weaknesses in the country in terms of expenditure on education as a percentage of GDP, school life expectancy, tertiary enrollment and research and development.

FIGURE 65: Global innovation index score



Source: Global Innovation Index 2020

There is a shortage of proper R&D facilities in the country. While Pakistan's organized sector (which mainly includes big footwear brands) has gradually upgraded its quality standards, and employed sophisticated machinery, SMEs in the footwear industry operate well below capacity, using outdated and obsolete machinery due to high capital cost of machinery. Lack of skilled workers required to operate new machinery has also hampered investment in technology. There are only 4 or 5 footwear manufacturing units in Pakistan which employ technicians such as shoe master, design engineer, and shoe stylist and that use 3-D printing, while the rest are working with old production methods. Moreover, budgetary limitations for SMEs, which make up more than 80 percent of total footwear manufacturers in Pakistan, has led to the unfulfillment of design and finishing standards demanded by developed markets. This translates into low-quality final products that ultimately gives rise to low unit price realization in the global market. Pakistan has only been able to produce shoes which are generally sold in the international market for $40-$50 – a range considered to be at the low end of the price spectrum for footwear articles.

26 https://www.dawn.com/news/1299024

Interviews with footwear exporters and manufacturers showed that research undertaken in Pakistan is mostly basic and customer driven. Foreign buyers bring their own designs and these are mostly replicated by Pakistani exporters. The design and style to be cloned are mostly from countries which are known for product innovation. As cloned products do not fetch a price similar to the original item, there is a general lack of motivation among local footwear manufacturers to innovate. Since product innovation is a crucial step to attract buyers and to move towards producing high-end footwear articles, there is a serious need for investment in this area, at both the government, sector and firm level.

Recommendations:

Pakistan needs to develop its industry for accessories to reduce import reliance. The local footwear industry needs to be restructured horizontally by developing an ancillary/supporting industry, mechanization of cottage industry, investment in technology and skills development. While large manufacturers may not bear the brunt of high import tariffs on accessory imports due to scale, the problem becomes more severe for SMEs who cannot stay profitable due to high duties. Moreover, due to limited resources, product development is not of export standards.

To increase the base of allied industry, and encourage more players to enter this market, it is recommended that the government provide financial support to manufacturers and exporters who invest in setting up assembly units for the production of footwear components/accessories.

While import duty on footwear machinery may not be high, significant duties are still paid on supplementary items such as chemicals and dyes, footwear accessories and components, making the overall investment high. This means that exporters have to resort to old and obsolete machinery that cannot be used to manufacture the latest footwear designs. On the other hand, regional competitors import machinery that features the latest cutting and design patterns and allows them to benefit from securing contracts of big footwear brands such as NIKE, Adidas, New Balance, etc. These manufacturers also benefit from faster delivery processes, mass customization, and personalization.

Technology adoption rates are low in Pakistan and are not subsidized sufficiently – an SRO providing a 6.0 percent rebate was introduced in 2006 to encourage R&D in the footwear industry but was discontinued after two years. Since value addition is not possible without technological upgradation, there is a need to make considerable investment in upgrading Pakistan's footwear assembly process to compete with footwear manufacturing giants such as India and Vietnam. To effectively survive in the international market, companies must keep themselves updated of the latest trends, designs in the international market, and continuously assess their capabilities to update their processes and machinery and manage their profitability accordingly. By installing modern processing machinery, it is possible to achieve a high average unit price for Pakistani footwear articles globally. Better machines and know-how of advanced production techniques will ensure consistent quality, which cannot be expected under the existing setup.

Moreover, a similar scheme to the Technology Upgradation Fund (TUF), formulated for the textile sector, needs to be introduced to facilitate the leather and footwear sector. This scheme should support product and skill development, training, upgradation of information technology and help achieve compliance with international standards

Issues Relating to Pakistan's Leather Industry

Pakistan's leather industry is one of the largest export-oriented industries. With 800 tanneries[27] across the country and production numbers of around 47.4 million hides per annum (2015-16), the industry employs more than 500,000 people directly and indirectly (2009-2010). Leather makes up 30 - 50 percent of a footwear article, but despite its abundant availability locally, the quality of leather supplied to the footwear industry has decreased in recent years.

Pakistan is one of the biggest markets of raw hides and skins in Asia, and over 30 to 40 percent of total production is generated on the occasion of *Eid-ul-Azha*. Over the last few years, Eid has occurred during the summer months. The leather industry has suffered more during recent years due to the lack of uninterrupted electricity and gas supply and hot and humid weather. Moreover, due to a lack of knowledge of preserving raw skins and hides, and unprofessional butchers damaging skins and hides by adding extra cuts, more than 10-20 percent of the total collection of hides and skins are damaged. This decline has also caused Pakistan's leather export figures to fall by approximately 22 percent (2015-19).

Recommendations:

Pakistan's leather sector is currently suffering due to high utility and labor costs, a scarcity of skilled labor, and the need to upgrade machinery and infrastructure. The government in collaboration with the PTA should provide training and education to various stakeholders who are involved in the hides and skins value chain with an emphasis on practical skills in different aspects of animal husbandry, animal slaughtering, bleeding, ripping, flaying and processing of hides and skins. This would lead to:

- *A sound knowledge of basic principles of hygiene and sanitation during the production and processing of hides and skins.*
- *Improved knowledge and technical skills for production of good quality hides and skins.*
- *Improved knowledge and technical skills in different aspects of preservation and processing of hides and skins.*
- *Knowledge of grading and storage of hides and skins.*

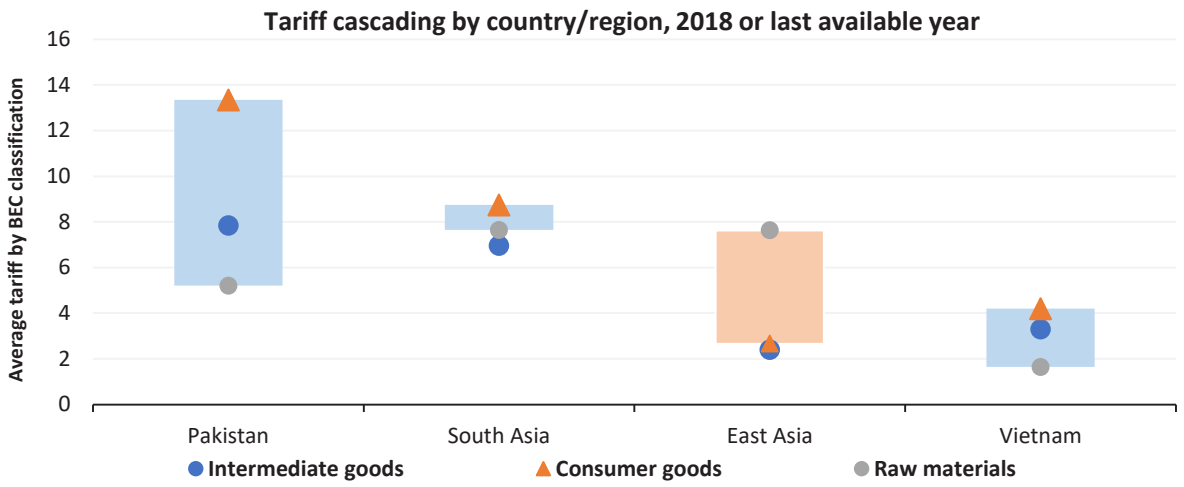
27 The country has a significant number of tanneries with a high world standing for quality in three main clusters around Karachi, Lahore (including Kasur) and Sialkot.

Heavy Dependence on Imports

Pakistan's footwear sector is under growing pressure. High dependence on imports of accessories, components, chemicals and adhesives have led to severe barriers to entry into the global export markets. Several industries have even closed because of high cost of production and stiff competition from cheaper imports of finished products. Majority of the footwear exporters cited that Pakistan imports finished shoes on minimum Import Trade Price (ITP). Shoes which are usually priced at $8-$10 are under-invoiced and imported from China for less than $2. Even with the imposition of high duties, these imports are available at a lower price than footwear articles manufactured locally. Moreover, high duties on imported raw materials also makes local footwear products uncompetitive with similar imports from competing nations. This is because Pakistan Customs charges a higher tariff on imported components that go into making a shoe, such as buckles, laces, trims, etc., than the taxes levied on finished goods, such as imported ladies' shoes.

Pakistan's tariffs (customs duties) are almost twice as high as the world average and three times higher than those in East Asia and the Pacific (EAP)[28]. Pakistan is the world's seventh-most protected economy, as measured by the Overall Trade Restrictiveness Index (OTRI). It also has one of the highest weighted average tariff rate differentials in the region and in the world, with an average tariff difference between consumer goods and raw materials of 8.1 percent in 2018, and between intermediate goods and raw materials of 2.6 percent. These differences in tariffs, known as 'tariff escalation' or 'cascading', have been used to both protect domestic firms and generate revenues.[29]

FIGURE 66: Tariff cascading by country/region



Source: The World Bank

28 Focus is only on customs duties (tariffs) to facilitate the cross-country comparison

29 The World Bank: Economic Policy for Competitiveness: Import Duties and Performance - Some Stylized Facts for Pakistan https://documents.worldbank.org/en/publication/documents-reports/documentdetail/226941591075288820/pakistan-economic-policy-for-competitiveness-import-duties-and-performance-some-stylized-facts-for-pakistan

Recommendations:

Ready availability of finished footwear imports has hampered the growth of the local industry. Many businesses are now set up in Pakistan, taking advantage of the low import price for shoes to supply imported Thai and Chinese articles to consumers. It is recommended that the Import Trade Price (ITP) of footwear articles be re-assessed in light of the damage it is causing the local footwear industry. In addition, vertical consistency through cascading tariff structures should be implemented. The imposition of excessive import tariffs has eroded the competitiveness of the industry by increasing the cost of inputs, caused de-industrialization by making industrial investment less viable due to eroded competitiveness, bred incompetence by protecting the inefficient producers, imposed a higher burden on consumers by making industrial products expensive, and created anti-export bias by making the domestic market more attractive than exports. Tariffs on essential raw materials, intermediate goods and even machinery should be restructured and the initiative should be taken to implement the cascading of nominal tariffs with progressive stages of manufacturing. This would increase competitiveness of the industry by providing access to imported raw materials, intermediate goods and machinery at international prices.

The following is a list of commonly imported footwear components/raw materials on which Pakistani footwear manufacturers pay high duties:

Table 26: Commonly imported footwear components which face high custom duty

Item	Has Code	Custom duty	Additional Custom Duty	I. Tax	Sales Tax	Additional Sales Tax
TPR for shoes	4005.9900	11%	2%	11%	17%	3%
Interlining for shoes	5903.2000	20%	7%	11%	17%	3%
Mold for shoes	8480.7900	0%	2%	11%	17%	3%
Welt for shoes	3926.4090	20%	7%	11%	17%	3%
Eyelet Tape for shoes	5807.1030	20%	7%	11%	17%	3%
Adhesive for shoes	3506.9190	16%	4%	11%	17%	3%
Shank Bord SHOES (Toe Puff counter Inc.)	4811.5910	16%	4%	11%	17%	3%

Source: PFMA

The following table includes a detailed list of raw materials imported by Pakistani footwear manufacturers, and the issues they face importing these materials.

Table 27: Issues faced by Pakistani manufacturers on importing footwear components

Product Description	HS-Code	Issues Faces
Buckle	8308.9020	Easily cleared duty free under SRO no. 492(1)/2009
Buttons	9606.2920	
Hang tags	4821.9000	
D ring	8308.9090	
Elastic	5807.9000	
Eyelet	8308.1020	
Eva arch	8308.9090	
Footwear decorative ornaments	8308.9090	
Security tags	8531.9090	
Paper sticker	4821.9000	
Rivet	8308.2000	
Logos on footwear	8308.9090	
Shoe box	4819.2000	
Zips	9607.1900	
Foil	3212.1000	These footwear raw materials are with minimum custom duty however after rescinding of SRO 1125(1)/2011, exporters face liquidity crunch
Fur lining leather	4301.3000	
Finished leather	4107.9200	
Footwear machines	8453.2000	
Footwear machine parts	8453.9000	
Latex foam	4002.19	Big hurdles for footwear manufacturers because these components are under 100% margin to be held by bank at the time of opening of L/C under directives by SBP. Funds utilized for margins and exporter face liquidity crunch.
Counter stiffener	3921.9090	
Laces	6307.904	
Gel pad	3506.911	
Outsoles	6406.209	
Insoles	6406.9	
Heel	6406.209	
Insole card board for footwear	6406.9000	
Heel grip	5903.9000	These footwear components come in the shape of rolls or sheets, cut according to size range and utilized in footwear production and exported. Customs officers do not approve benefit of SRO 492(1)/2009 for these items.
Toe puff	3921.9000	
Insole card board	4807.0000	
Counter stiffener	3921.909	
Hot fix	7018.909	
Pu synthetic lining	5903.9000	
Interlining for footwear	5903.9000	
Micro fiber	5903.9000	

Source: PFMA

Inconsistent Government Policies

As pointed out by several manufacturers, the fundamental issue with Pakistan's footwear policies is that they are not long-term. Regulations that impact business costs, such as DLTL rates, are defined for short-term periods. The same is the case with the rebates system, where exporters are unsure if these incentives will continue in the following years. For example, SRO 871(1) introduced a rebate at the rate of 6 percent of the FOB value of exports to the leather footwear sector to encourage research and development. This was effective from 25th August 2006 but was stopped on 25th June 2008 due to a government change.

Similarly, a 3 percent Local Taxes and Levies Drawback (LTLD) is currently in effect that provides a drawback rate, half of which is available without condition, while the remaining drawback is contingent on showing a year-on-year export growth exceeding 10 percent. This is in effect till 30th June 2021 – a short-term policy measure. All those interviewed expressed dissatisfaction with the current rebates system, stating that they cannot plan based on short-term policies that can change. Footwear production is a long-term industry involving multiple production processes and developing buyer relations over an extended period of time; hence, short-term incentives cannot be relied upon, hindering investment and expansion.

Incentive	SRO	Rate	Period
3% LTLD	711(1)/2018	50% without increased and balance on 10% increase of last year exports	01 July 2018 to 30 June 2021

Table 28: Sales tax in Pakistan, Bangladesh, China, India and Vietnam

Country	Sales Tax
Pakistan	17%
Bangladesh	15%
China	13%-17%
India	18%
Vietnam	10%

Source: Trading Economics

Pakistan has one of the highest sales tax rates as compared to other neighboring countries. The respondents felt that this does not enable the sector to capture international markets through a pricing advantage. Similarly, the government does not provide grants or tax subsidies or other reliefs to this sector resulting in higher Cost of Production (COP) offsetting labor advantages.

Another important issue highlighted is the complexity involved in acquiring government support in the form of repayment of customs duties. All those who were interviewed complained that they are unable to use the government scheme freely because of the number of regulations involved. The complex process, marred by bureaucratic delays, makes reimbursements time-consuming and costly. Moreover, the rebates on footwear exports is one of the lowest in the region, standing at 1.5 percent only in Pakistan, while the governments of India, China and Bangladesh have allowed 9.1 percent, 12.4 percent and 12.4 percent, respectively.

Exporters of leather footwear also complained that government policies offer higher rebates to raw leather exports (3.73 percent[30] on cow and buffalo hide) than those offered to footwear exporters

30 https://www.pakistantanners.org/documents/04-July-2011/Export%20Policy.pdf

and these do not promote value-addition. This is because leather manufacturers do not see any incentive to forward integrate or sell locally to footwear manufacturers. Moreover, a 3.73 percent rebate on leather hides means that regional competitors such as Italy and China are able to procure leather at a cheaper rate.

The following rebate incentives are currently being provided by the government of Pakistan for the footwear exporters.

Table 29: Incentives currently provided by the government of Pakistan for footwear exporters

Product Description	Rates as per SRO 210(1)/2009 of 5/3/2009
Canvas Textile Footwear with Rubber Sole (on HS Codes 6404.1100, 6404.1900, 6405.9010)	1.00%
Leather Footwear incl Chappal & sandals Upper of leather and Leather sole (on HS Codes 6403.2000, 6403.5100, 6403.5900)	1.21%
Leather Footwear incl Chappal & sandals Upper of leather and PU / PVC / TPR or Rubber sole (on HS Codes 6403.2000, 6403.9100, 6403.9900	1.82%
Synthetic Footwear with Synthetic upper and PU / PRV / TPR or Rubber sole (HS Codes 6402.9900, 6405.9090)	0.46%
PVC Injection Molded Footwear (HS Code 6402.9900)	0.48%

Source: PFMA

Recommendations:

If the government wants to promote footwear exports, it should introduce policies that are stable and long-term. Incentives such as rebates, export credit, duty drawback, interest rates, etc. need to be valid for a minimum of 5 years. Frequent changes in policies should be avoided to allow for consistency to boost exports and investor confidence. Moreover, policies should also outline short-term and long-term goals.

All policies related to the leather and footwear sector should promote value addition, such as finished footwear articles, and policies should be made after consulting stakeholders from the value-added sectors. This does not mean that rebates should be removed for exports of raw materials, such as leather hides, but incentives should include a condition where the rebate is also valid if the leather is sold to local footwear manufacturers. With the availability of export-quality leather, footwear exporters would not have to import leather, reducing the pressure on the balance of payments.

Delay in payment of billions of rupees refunds has restrained the exporters from running their industries due to liquidity and cash flow issues; thus, they cannot fulfill export commitments. As of February 2020, the government has repaid Rs 103 billion of Rs 250 billion outstanding pending claims related to sales tax and DLTL. Therefore, the government should also ensure timely payment of rebates and refunds to reduce exporters' liquidity crunch.

Enhance the role of the Footwear Association

As a representative of businesses, industry associations understand issues that are material to their members. Thus, these associations are well equipped to offer sector-specific advice and guidance on key sustainability issues, by developing tools and promoting best practices.

Recommendations:

Pakistan may consider enhancing the role of the Pakistan Footwear Manufacturers Association (PFMA) as it has an essential role in sharing best practices and developing standards. The representation of more than 100 footwear manufacturers in the association will provide policymakers a plethora of information to understand a range of external views to define sustainable targets and contribute towards good policy outcomes.

PFMA Members

SME Members Companies	Large Manufacturers
93	14

Cluster Development

One of the biggest challenges faced by the sector is the small size of production units and fragmented nature of manufacturing. This makes it difficult for the domestic industry to consolidate and offer common training programs. Moreover, due to the dispersion of the industry, there is a lack of inter-firm coordination and innovation which hinders many small firms to benefit from flexible inter-firm alliances, supported by mutual information exchanges of both an informal and formal nature.

In major industrially established cities of Punjab, SME agglomerations are a widespread phenomenon. While various kinds of clusters are common in these cities, few of them share the virtues of successful cluster models. In most cases, cooperation among firms is accidental or non-existent. Although a significant number of industrialists work and reside in close proximity, entrepreneurs do not share business information, discuss common problems or organize joint activities. Moreover, these SMEs have a sporadic relationship with business development service providers, and are not accustomed to presenting articulated calls for action to local policymakers. These clusters are characterized by low level of trust, latent conflicts and cutthroat competition among firms. As a result, they are locked within a vicious circle of stagnation and poverty. The Cluster Development Initiative (CDI) by the government of Punjab has proposed two initiatives for the Lahore footwear cluster in areas of design development and productivity improvement. The objective of the first initiative is to establish a design center at the cluster level to facilitate the cluster companies in market intelligence related to the existing/potential export markets and provide design related services. Simultaneously, a second initiative for productivity improvement is also under implementation. The objective of this initiative is to improve productivity through the implementation of total quality management (TQM) and lean manufacturing.

Recommendations:

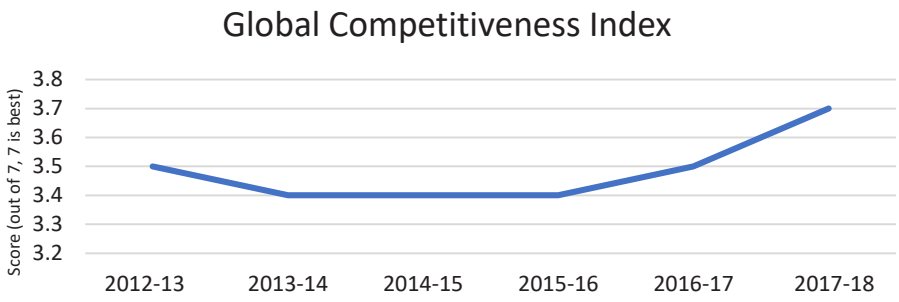
The footwear industry in Pakistan is largely unorganized. Furthermore, the supply chain of the footwear industry is largely dispersed leading to longer lead times and higher costs when compared to other countries. This fragmented nature calls for consolidation of industry as a hub through clusterization, which would be a key to robust infrastructure development and the creation of an ecosystem for innovation within the country. There is a need for robust infrastructure development which can be done through the development of leather and footwear products complex with plug and play facilities ready for factories to move in. Thus, the government needs to invest in special zones for export industries, with proper infrastructure, and a high level of security. Moreover, to promote the initiatives taken by the CDI, the government should provide financial support via the Export Development Fund. The establishment of a footwear hub and research centers will lead to the improvement of the supply chain of this sector. The development of large clusters for small-scale and large-scale factories in this category would be one of the biggest factors that can contribute to the growth of this industry.

High Cost of Doing Business

According to industry participants Pakistan's high cost of doing business is a significant factor affecting the country's competitiveness, and is a major contributor to the sector's underperformance. As of 2020, Pakistan was ranked 108 out of 137 countries in the World Bank's Doing Business 2020 Study. This ranking has improved by 28 places from the previous year due to a recent improvement in the business climate. However, except for Bangladesh, Pakistan has been performing poorly and is lagging well behind its competitors, such as China (77th place), India (45th place), and Vietnam (38th place); there are thus still a number of areas where Pakistan needs improvement especially those relating to superfluous rules and procedures.

Pakistan suffers from low levels of human capital and labor market inefficiencies in which it ranks 16th and 21st from the bottom out of 141 countries, forming significant hurdles in Pakistan's ability to adapt to, and benefit from, changes in world demand for footwear articles.

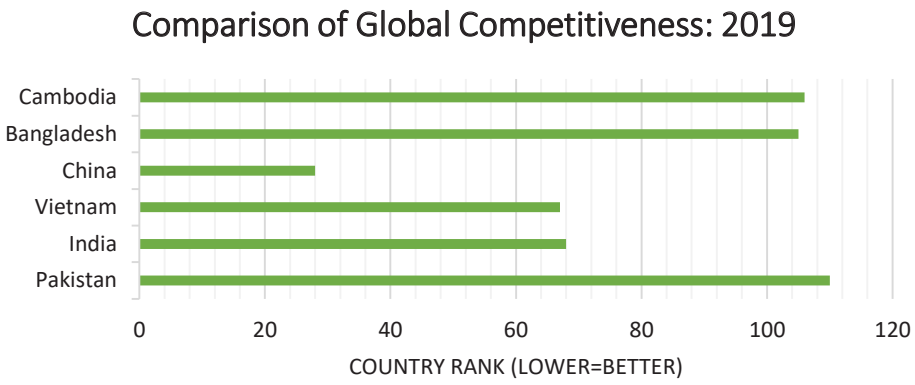
FIGURE 67: Global competitiveness index - Pakistan



Source: Global Competitiveness Index

Moreover, Pakistan is the least competitive among countries in the reference group, with China, Vietnam, and India taking the lead.

FIGURE 68: Comparison of Pakistan's global competitiveness with its competitors: 2019



Source: Global Competitiveness Index

The table below lists the overall ranking of doing business in Pakistan in comparison with its competitors.[31]

Table 30: Doing business comparison

	Pakistan	China	India	Bangladesh	Vietnam
Starting a Business					
Procedures required to register a firm (number)	5	4	10	9	8
Time required to register a firm (days)	16.5	9	18	19.5	16
Cost of starting a new business (% of income per capita)	6.7	1.1	7.2	8.7	5.6
Minimum capital required to start a firm (% of income per capita)	0.0	0.0	0.0	0.0	0.0
Getting Electricity & Gas					
Procedures to obtain permanent electricity connection (number)	6	2	4	9	4
Time to obtain permanent electricity connection (days)	113	32	53	125	31
Reliability of supply and transparency of tariff index (0-8)	5	7	6	0	7
Cost of getting permanent electricity connection (% of income per capita)	1,234.5	0.0	28.6	1,745.8	994.2
Electricity Tariff (US cents/kWh)	7.5	8.0	7.2	11.0	8.0
Gas Tariff (US$/MMBTU)	6.5	-	7.0	4.6	4.2
Getting Credit					
Strength of legal rights index (0-12)	2	4	9	5	8
Depth of credit information index (0-8)	7	8	7	4	8
Paying Taxes					
Payments (number per year)	34	7	11	33	6
Time (hours per year)	283	138	252	435	384
Total tax and contribution rate (% of profits)	33.9	59.2	49.7	33.4	37.6

31 https://tradingeconomics.com/country-list/corporate-tax-rate

	Pakistan	China	India	Bangladesh	Vietnam
Corporate Tax Rate (%)[31]	29.0	25.0	25.2	25.0	20.0
Trading Across Borders					
Time to Export:					
Border compliance (hours)	58	21	52	168	55
Documentary compliance (hours)	55	9	12	147	50
Cost to Export:					
Border compliance (US$)	288	256	212	408	290
Documentary compliance (US$)	118	74	58	225	139
Time to Import:					
Border compliance (hours)	120	36	65	216	56
Documentary compliance (hours)	96	13	20	144	76
Cost to Import:					
Border compliance (US$)	287	241	266	900	373
Documentary compliance (US$)	130	77	100	370	183
Enforcing Contracts					
Time taken to enforce contract (days)	1,071	496	1,445	1,442	400
Cost of enforcing contract (% of claim)	20.5	16.2	31.0	66.8	29.0

Source: The Pakistan Business Council (PBC) - Strengthening the Export Competitiveness of Pakistan's Towels and Terry Made-ups Sector

Pakistan's gas rate per MMBTU is $2.3 higher than the rate in Vietnam and $1.9 higher than that of Bangladesh's. Similarly, it costs $288/container to ship out an export order from Pakistan which reaches its destination port in 58 hours (2 days and 10 hours). On the other hand, it costs $212/container in India to ship out an export order that reaches its destination port in 52 hours (2 days and 4 hours).[32] The lower cost in India is due to the successful implementation of the Single Window Interface for Facilitation of Trade (SWIFT) system which helps traders lodge their clearance documents in minimal time, leaving time to serve the operational side of businesses.

Apart from uncompetitive input costs, local exporters also face high tax rates. Pakistan's corporate tax rate is the highest amongst its competitors like Bangladesh, India, China and Vietnam. Multiple other taxes including sales tax, income tax, and other regulatory duties further raise the cost of doing business. Pakistan stands at 173 in the international ranking of paying taxes. According to the World Bank Report, Pakistani businessmen pay 47 taxes in a year as compared to Hong Kong (3), UAE (4), Ireland (9), Malaysia (8), India (13) and Sri Lanka (36).[33] According to those interviewed, higher transaction costs increase undocumented economic activity. Eighty percent of the footwear industry is categorized under the informal/cottage industry, mainly due to low entry barriers. This results in tax evasion and non-compliance with safety, labor, and quality standards. Subpar quality lowers the footwear sector's productivity, and uncompliant vendors, especially for footwear accessories and components, necessitates imports. While large-scale producers can integrate vertically to offset these uncertainties in raw material supply, SMEs cannot – this prevents them from achieving export readiness.

32 The time and cost for this segment include time and cost for customs clearance and inspection procedures conducted by other government agencies. More information is available at https://databank.worldbank.org/source/world-development-indicators

33 https://fp.brecorder.com/2018/12/20181213430742/

Table 31: Doing business ranking

	Pakistan	China	India	Bangladesh	Vietnam
Overall	108	31	63	168	70
Starting a Business	72	27	136	131	115
Dealing with Construction Permits	112	33	27	135	25
Getting Electricity	123	12	22	176	27
Registering Property	151	28	154	184	64
Getting Credit	119	80	25	119	25
Protecting Minority Investors	28	28	13	72	97
Paying Taxes	161	105	115	151	109
Trading Across Borders	111	56	68	176	104
Enforcing Contracts	156	5	163	189	68
Resolving Insolvency	58	51	52	154	122

Source: The Pakistan Business Council (PBC) - Strengthening the Export Competitiveness of Pakistan's Towels and Terry Made-ups Sector

Table 32: Comparison of global competitiveness indicators – 2019

	China	Turkey	Vietnam	India	Bangladesh	Cambodia	Pakistan
Overall	28	61	67	68	105	106	110
Institutions	58	71	89	59	109	123	107
Infrastructure	36	49	77	70	114	106	105
ICT Adoption	18	69	41	120	108	71	131
Macroeconomic Stability	39	129	64	43	95	75	116
Health	40	42	71	110	93	105	115
Skills	64	78	93	107	117	120	125
Product Market	54	78	79	101	119	113	126
Labour Market	72	109	83	103	121	65	120
Financial System	29	68	60	40	106	88	99
Market Size	1	13	26	3	36	84	29
Business Dynamism	36	75	89	69	121	127	52
Innovation Capability	24	49	76	35	105	102	79

Source: The Pakistan Business Council (PBC) - Strengthening the Export Competitiveness of Pakistan's Towels and Terry Made-ups Sector

Recommendations:

To retain the competitiveness of the industry on the world market, the current concessionary rates of US cent 7.5/kwh for electricity, RLNG at $6.5 per MMBTU and gas at RS786 per MMBTU offered to registered manufacturers and exporters of five zero-rated sectors should be continued for the foreseeable future as fuel oil and gas tariffs play a major role in the output costs.

Unfavorable Tariffs in Major Markets Restrict Access

The table below lists the external trading costs arising from tariffs. It shows the import duties levied on footwear exports in Pakistan's major export destinations compared to the duties imposed on its competitors. Cambodia is the biggest beneficiary of duty-free access in general, with zero-duty faced in the EU, China, and Canada. Japan charges a 1.0 percent tariff on Cambodia. The same is the case for Bangladesh, which is a fast-emerging player in the global footwear market, with an export CAGR of 14.0 percent in the last few years. Bangladesh's status as an LDC has played a crucial role in the recent accelerated development of its economy and the significant achievements in trade and social sectors. Pakistan, however, has restricted market access. It compares unfavorably with Cambodia and Bangladesh in most markets and faces zero duties in the EU market only.

Table 33: Pakistan's restrictive access in footwear markets

Exporter/Market	EU	USA	China	Russia	Canada	Japan
Pakistan	0%	12.10%	7.40%	3.40%	13.60%	37.40%
India	6.70%	12.10%	5.80%	3.40%	13.90%	22.80%
Bangladesh	0%	12.20%	0%	3.40%	0%	3%
Cambodia	0%	12.10%	0%	3.40%	0%	1%
Vietnam	6.70%	12.20%	0%	1.80%	2.90%	6.70%
China	10.70%	12.20%	-	3.40%	13.90%	37.40%

Source: ITC Trade Map

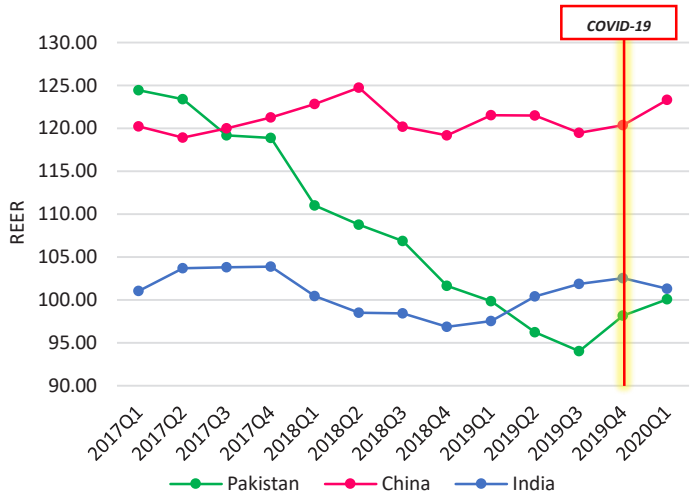
Recommendations:

The government, in collaboration with foreign trade associations should seek to gradually reduce tariffs, especially those charged on footwear articles, with partner countries through negotiations. Reducing tariffs mitigates the "loss of efficiency" costs generated by the distortions to the price system that the tariff causes. Reducing the degree of market protection also expands the market, allowing producers in exporting countries to enjoy economies of scale and bringing benefits to the economy as a whole. Moreover, Pakistan needs to focus on having Preferential Trade Agreements (PTAs) / FTAs with key consuming markets to give a boost to the labor-intensive manufacturing industries.

Volatile Exchange Rate

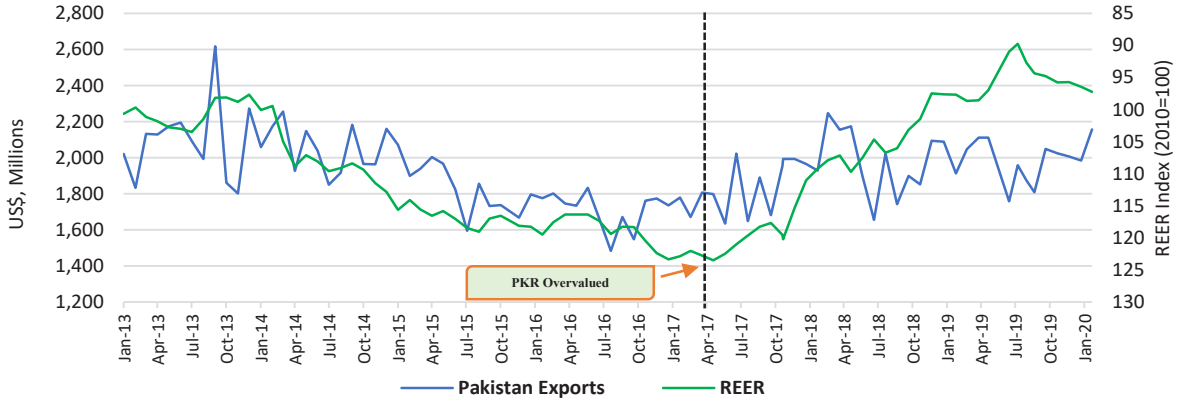
While it has been acknowledged that the Pakistani Rupee in the recent past was overvalued with respect to the dollar, making exports less competitive, recent depreciation of the rupee has led to an increase in exports but has also caused the cost of inputs to increase significantly. Due to the absence of an allied industry, footwear producers are heavily dependent on importing certain raw materials and components crucial in the production of footwear articles. These include molds and lasts that are used in the production process and accessories such as buckles, trims, laces, etc., used in designing different types of footwear. Any rise in input costs reduces the capacity utilization of the manufacturing units and the profitability of the manufacturers. These costs are sometimes also transferred to finished goods, causing cost-push inflation and making locally manufactured articles uncompetitive globally.

FIGURE 69: Comparison of real effective exchange rate (REER)



Source: The Pakistan Business Council (PBC) - Strengthening the Export Competitiveness of Pakistan's Towels and Terry Made-ups Sector

FIGURE 70: Pakistan's real effective exchange rate



Source: The Pakistan Business Council (PBC) - Strengthening the Export Competitiveness of Pakistan's Towels and Terry Made-ups Sector

Recommendations:

To facilitate international trade and reduce the degree of risk and uncertainty in the economy, the government should seek to reduce exchange rate fluctuations to within narrow target zones. This would reduce the destabilizing aspects of international trade in goods and financial assets when currencies become overvalued or undervalued.

Limited Access to Finance

Access to credit is another issue faced by footwear manufacturers, especially small- and medium-sized firms, that make up most of the footwear sector. As commercial loans are difficult to obtain due to collateral requirements by lending institutions, most SMEs use their own limited funds for business expansion. Moreover, the informal sector which mainly comprises of small-scale firms are mostly unregistered, where there is no proper documentation or tax returns filed, as a result they are unable to take advantage of the friendly credit schemes where available. Large manufacturers have more working capital, but these are also tied up in export refunds.

The Export Finance Scheme (EFS) is in operation since 1973, intended to boost Pakistan's exports. Under the scheme, short-term financing facilities are provided to exporters through banks for exports of all manufactured goods, primarily value-added products other than basic & primary commodities/ raw materials[34]. Loans from commercial banks is not readily available as the Government has in the recent past crowded out the private sector from debt market in an effort to finance its deficits. This lack of finance discourages firms from product and market diversification, preventing them from expanding into new, possibly higher value-added products – this is apparent from the lack of creativity, R&D, and fresh investment in the footwear industry. Resultantly, the majority of footwear producers remain stuck in low-value-added goods, hindering the export competitiveness of the industry.

Table 34: Ease of financing in competitor countries

	Percent of firms with a bank loan/line of credit	Proportion of loans requiring collateral (%)	Percent of firms using banks to finance investments	Proportion of investment financed by banks (%)	Percent of firms using banks to finance working capital	Proportion of working capital financed by banks (%)	Percent of firms identifying access to finance as a major constraint	Private Sector Lending as Percent of GDP (2010-17, Average)
Bangladesh (2013)	34.1%	84.4%	19.8%	12.4%	29.9%	13.6%	22.8%	43.0%
Cambodia (2016)	19.9%	77.5%	2.5%	0.9%	18.2%	7.4%	16.9%	46.0%
China (2012)	25.3%	77.6%	14.7%	4.5%	22.1%	6.4%	2.9%	137.0%
India (2014)	21.3%	84.7%	30.3%	18.1%	36.4%	17.8%	15.1%	52.0%
Pakistan (2013)	6.7%	64.0%	8.1%	2.0%	8.6%	2.5%	13.2%	16.0%
Vietnam (2015)	40.8%	91.0%	29.3%	15.4%	32.3%	13.1%	10.8%	101.0%

Source: The Pakistan Business Council (PBC) - Strengthening the Export Competitiveness of Pakistan's Towels and Terry Made-ups Sector

Recommendations:

The government should provide incentives and boost lending to the private sector by reducing the export finance rate, it should also reduce the cost of funds for non-participating and indirect exporters, some of whom are vendors for exporting manufacturers. For small-scale/informal manufacturers' the challenge is to take advantage of credit-friendly schemes that the SBP provides for small enterprises. Thus, to channel finance in these sectors, these small-scale firms need to become creditworthy; this in return would give them access to these loans and expand their business and product lines and decrease their dependency on the government for credit friendly loans.

Security and the Need for Image-Building

Another issue cited by the footwear exporters is relates to security concerns of buyers. The political and security situation in Pakistan, though it has improved in the past few years is in the minds of the buyers highly volatile. This perception of insecurity discourages investment especially foreign investment. Security concerns discourage foreign buyers from visiting Pakistan severely

34 Currently, mark-up rate under EFS for the borrower stands at 3% (banks get refinance from SBP at 2% (1 % for SMEs) and are permitted a maximum spread of 1% (2% for SMEs).

limiting face-to-face interactions between Pakistani exporters and potential customers. In order to approach customers, Pakistani exporters have to travel and attend international exhibitions which is both costly and time consuming. Exporters felt that Buyers' visits to manufacturing premises are extremely important as during these visits, buyers explain their requirements and expectations in greater detail and are also able to assess suppliers' capabilities. Pakistani exporters miss out on these opportunities to interact with customers, and have to operate through trial and error, often involving multiple international visits from Pakistan, which are expensive.

Exporters felt that Fairs and Exhibitions can play a significant role in building Pakistan's image as a footwear producer. However, lack of strategic planning at almost every international exhibition has hampered export promotion strategies. Participation of footwear exporters in these fairs is limited. While the governments of India, Cambodia and other footwear competitors invite significant number of exporters to participate in these exhibitions, Pakistan's pavilion consists of a few individuals, due to lack of funds and only a partial subsidy provided by TDAP to exporters.

According to footwear exporters, Pakistan's commercial consulates and embassies have mostly failed to arrange meetings or to motivate buyers to visit Pakistan. The absence of support by TDAP, and government-appointed trade facilitators and investment counselors has led to a lack of interest by foreign investors. Some exporters even claimed that the Chinese government facilitates exporters by providing a subsidy equal to the difference between different buyers' offers and Chinese exporters' prices, they suggested that the Government of Pakistan should provide a similar scheme for Pakistani exporters. Moreover, they felt that government was not aggressive enough when it came to getting travel advisories on Pakistan removed.

Recommendations:

Steps need to be taken to increase exporter-buyer interaction by encouraging buyers to visit Pakistan as well as supporting local exporters when they attend international exhibitions. Moreover, government-approved traders and trade counsellors/agents should be trained to facilitate talks/meetings with international buyers. Arrangements for governmental action should be taken for research into improved marketing techniques, the organization of trade fairs, the dissemination of market intelligence and the simplification of formalities relating to customs procedure, and commercial travel. TDAP can play an important part in building the country's image as a supplier of fashionable good-quality footwear articles. The pursuit of socio-economic advancement in Pakistan must be a collaborative effort between the public and private sectors. Hence, a public-private partnership should be initiated to introduce a marketing plan to increase exports. To change the perception of quality associated with Pakistani footwear, marketing efforts must be made to showcase Pakistan as a manufacturing destination for quality products at competitive prices. Moreover, due to the enormous economic and social effects of the travel advisories on the country, impacting investment and tourism, the government should work to remove negative travel advisories.

Promotion of Joint Ventures

Joint ventures have not been very successful in Pakistan's footwear industry. Industry experts cite a lack of allied industry and component manufacturers, scarcity of middle management, and unskilled labor as the foremost reasons for a dearth in foreign collaboration. Pakistan's footwear industry needs to collaborate with foreign manufacturers as it would give the industry access to new markets and distribution channels, access to new knowledge and expertise, including specialized staff and technology, and increase firms' manufacturing capacity. Local shoe-makers have so far been unable to attract Chinese investors in spite of their strong desire for collaboration because they do not have the requisite experience for establishing joint ventures with foreign companies. Moreover, according to PFMA Chairman, Mr. Javed Siddiqui, the Chinese are also afraid of coming to Pakistan because of security concerns. Rising labor costs, which have crossed $6,000 per person per year compared with around $1,200 in Pakistan, are forcing Chinese manufacturers to relocate their facilities in countries like Pakistan.

Recommendations:

To encourage foreign collaboration and pursue economic development through foreign private sector involvement, the government will need to offer more consistent policies to foreign investors and focus on the long-term implications of policy creation and implementation. In addition to providing business-friendly policies, such as lowering corporate taxes and offering tax holidays, as done by governments of competitor countries, the Pakistani government must also focus on altering perceptions that foreign investors hold regarding the risks associated with investing in Pakistan. The government should identify improving Pakistan's image as a viable and opportune host country by providing more effective policy enforcement mechanisms, offering infrastructure facilities, and ensuring higher national security levels. According to Mr. Siddiqui, a little government support on issues hampering growth, and collaboration with Chinese manufacturers, will go a long way towards improving Pakistan' footwear exports and labor productivity.

Tapping into International Markets

Global trends in footwear consumption and production are changing. Footwear buyers around the globe have become more selective and more demanding when it comes to designs and quality. The overall trend has shifted towards buying more innovative designs and in smaller quantities. As labor costs in China rise, production is shifting to other East Asian nations. Factory wages in China have more than tripled since 2008, and the enforcement of more stringent environmental and labor laws have hampered cost advantages. Producers are now looking towards other low-cost nations to set up production units. Many countries are looking to capitalize on this shift, such as Bangladesh, Cambodia and Vietnam.

Vietnam has absorbed much of the manufacturing capacity that China has lost. The country has signed a number of international trade deals and invested in industrial infrastructure over the past decade, and has experienced an increase in textiles and apparel manufacturing, among other

industries. In August 2020, the EU decided to partially withdraw Cambodia's duty-free access to the EU market due to systematic concerns related to human rights. However, despite the withdrawal of preferential access of approximately 20% of Cambodia's exports to the EU, the country has still managed to draw FDI of $37.6 million in October, including the establishment of a shoe and shoe accessory manufacturing factory. Such investment demonstrates confidence of foreign investors in Cambodia's macroeconomic, political and social stability. Since more than 55.5 percent of global footwear production takes place in China, Pakistan has been provided with an opportunity to collaborate with the Chinese to set up units, and supply to local Chinese brands and companies.

According to footwear manufacturers, Japan is a potential footwear market which Pakistan is missing out on. As of 2019, Japan is the 6th largest footwear consumer, with 722 million pairs consumed during the year. While Vietnam, Cambodia and Bangladesh are three of the top 10 suppliers to Japan, Pakistan does not even fulfill 0.01 percent of Japan's import demand for footwear despite being a significant producer. This is due to the high tariff charged on Pakistani footwear of 37.4 percent while Vietnam, Cambodia and Bangladesh are charged 6.7 percent, 3.0 percent and 1.0 percent, respectively.

Apart from accessing potential markets, exporters cited export concentration and specialization in existing footwear markets as the main reason for stagnant exports. Due to a lenient tariff structure, small order size and better prices, Pakistani manufacturers are biased towards exporting footwear articles to the EU, where 68 percent of Pakistan's footwear exports are concentrated. Industry experts opined that Pakistan is missing out on increasing supply to other markets where it has a presence such as the US. The US is the largest importer of footwear, importing one in every five pairs of shoes. As the third-largest consumer of footwear, imports account for almost all of the American footwear consumption. The US footwear market demands large import order sizes and lean manufacturing in supplier markets, both of which are not available in Pakistan. Even suppliers or buying houses of retail corporations such as Walmart, Target, etc., do not want to source their products from Pakistan, due to Pakistan's limited capacity and small manufacturing base. Moreover, as US buying houses require delivery of large orders, lack of storage and warehousing facilities hinders production orders. As opposed to Pakistan, manufacturers in India and Bangladesh receive large orders which allows them longer production runs and the ability to benefit from the learning curve advantage resulting in their ability to scale up production rapidly. This leads these countries to offer better prices in international markets and maintain higher margins.

Recommendations:

The footwear industry in Pakistan has not kept up-to-date when it comes to the latest designs/ trends and innovative manufacturing processes. In order to effectively survive in the international market, companies must keep themselves abreast of latest trends, designs of the international market and continuously assess their capabilities in order to update their processes and machinery and work towards managing their profitability accordingly.

To increase world export shares through market diversification, Pakistan must simultaneously address internal constraints to improve flexibility and quality of production and secondly, diversify its market to include export destinations other than Europe such as the US due to its vast demand as well as to Australia and Russia which offer lower tariffs of 3.4 percent and 3.8 percent, respectively. Moreover, as demand for some shoes is seasonal, Pakistan should deliver shoes to countries situated in both hemispheres.

To address inadequate storage facilities and high lead time, Pakistan should consider establishing central bonded warehouse facilities, which can be used to store duty-free imported raw materials, along with machinery and spare parts, as per anticipated demand. Exporters can then purchase these items from the warehouse, according to their export needs. Pakistan needs to promote the establishment of more bonded manufacturing facilities that will allow the import of raw materials and capital goods without payment of duty for manufacturing and other operations. When imported inputs are utilized for exports, the deferred duty is exempted. Only when the finished goods are cleared to the domestic market, import duty is to be paid on the imported raw materials used in the production. Under its flagship initiative, 'Make in India', India's government has introduced this scheme to boost manufacturing in the country. Under the revamped scheme, the government has streamlined the existing provisions for manufacturing goods in a custom bonded warehouse. Now importers can import both input material and capital goods and carry out manufacturing activity in the Customs bonded warehouse. An enabling environment will come from scale, which requires import liberalization for raw materials. While leakages may occur from bonded imports to local markets and losses from forgone import tariffs, the increase in employment, output, exports, and taxes paid through higher productivity would more than offset the losses.

Annexure 1

Table 35: List of footwear manufacturers interviewed

S. No.	Company Name	Name of Authorized Representative/Focal Person
1	Deluxe Footwear	Mr. Rashad Islam, Director
2	Stylo Shoes	Mr. Javed Iqbal, Director
3	Servis Shoes	Mr. Hassan Ehsan, GM Exports
4	KMT Leather	Mr. Mehr Ali Khawaja
5	Bata Shoes	Mr. Aziz Hani, GM Procurement
6	Shafi (Private) Limited	Mr. Muhammad Ali, CEO
7	Shafi LifeStyle (pvt) Ltd.	Mr. Hamza Hafeez, Executive Director
8	Borjan Shoes	Mr. Zahid Hussain, CEO
9	Starlet Shoes	Mr. Muhammad Younas, CEO
10	New Long Life Shoes	Mr. Muhammad Rafiq, CEO
11	UENT	Mr. M Zubair, Director Operations
12	Pakistan Footwear Manufacturers Association (PFMA)	Lt Col Ahmed Fawad Farooq (R), Secretary General
13	Elegant Shoes	Mr. Nabeel Anwer Sheikh, Director

Annexure 2

The following is a list of materials most commonly materials imported by Pakistani footwear manufacturers.

Table 36: List of materials most commonly imported by Pakistani footwear manufacturers

Item	HS Code	Purpose of Import
Leather	5903.2000	For making Shoes Upper/Durable and Comfort Shoes
Heel Grip	6001.9290	For making Back Counter of Shoes
Insole	5603.9400	For making Shoes more Comfortable
Shank Board	4811.9000	For making sole and insole stable
Toe Puff	4811.9000	For making Shoes toe
Memory Foam	3921.1100	For making Shoes cofortable Insole
Lining/Interlining	5603.9400	For making Shoes Upper inside part
Fur Lining	5603.9400	For making shoes inner part comfortable
TPR	5603.9400	For making sole
Mould	8480.7900	For making Sole according Size and Shape/Design
Welt	3926.4090	For making Shoes more attractive
Eyelet Tape	5807.1030	For making shoes upper Decoration
Sole	6406.2010	For making Shoes
Lace Holding Hooks	7326.9090	Used for making Shoes Lace Holding
Buckle	7326.9090	Used for fastening the belt used in Shoes
Rivets	7318.2300	Used for Shoes Upper Decoration
Trim	8308.9020	For Shoes Decoration
Zips	9607.1100 9607.1900	Used for Shoe Fastner, Locker , Binding the Edge
Laces	5807.9000	Used for Shoe Fastner, Locker
Steel Shank	7326.9090	Used for Support of Shoes and for Sole/Shape protection
Elastic	5806.2000	Used for Flexibilty and maximum Comfort
Chain	8308.9090	Used in Shoes for Decoration
Heel	6406.2090	Used for Increase the height of Shoes and Wearer / Decorative Purpose
Shoes Boxes	4819.1000	Used for Shoes Packing in Box
Packing Tape	5807.1030	Used for Shoes carton while packing
Shoes Screw	7326.9090	For Making Shoes Sole Stable and strong
Stiffner	3921.9090	Help maintain the shoes shape and support the foot
Polythylene Glue	8453.9000	Used for making Shoes
Eyelet	8308.9090	Used as Shoes Accessories for make Laces easily tight
Stickers	4821.1090	Used for Shoes Labeling

Annexure 3

The following tables list commonly used materials for a shoe's upper, sole, heel, and joining methods. These are materials chosen for their low cost combined with their ability for easy and speedy manufacture. Additionally, the table describes why each material is used, how it's harmful to humans and our environment, the size of its impact, and suggestions for better alternatives.

Better Footwear Material: Upper

Material	Description	Use	Effect on humans	Effect on environment	Size of impact	Better Materials
Chrome-Tanned Leather	Chromium is a heavy metal used as a leather tanning agent.	Chromium is a cheap, fast method of tanning leather. This leather is more likely to be soft, pliable and stable in water compared to other methods.	Tannery workers exposed to Chromium are at risk of damage to gastrointestinal, respiratory and reproductive systems. Chromium is also carcinogenic.	Tannery waste contaminates water sources through negligence, e.g. dumping hides onto riverbanks. Contamination can accumulate in food sources e.g. local fish supplies.	16 million people are at risk of Chromium exposure globally according to the Blacksmith Institute.	• Biocouture • Cellulosic Fiber • Cork sheeting • Eco leather • Modern Meadow • MuSkin • Mycelium • Piñatex™ • Vegetable Tanned Leather • wet-green®
	Formaldehyde is a chemical compound (CH2O) used in tanning leather.	Formaldehyde is used in a number of ways throughout the leather tanning process e.g. as an adhesive or as a tanning agent. The result is pale in colour so hides are referred to as "wet-white".	Inhaled formaldehyde (at concentrations above 0.1ppm in air) can potentially result in watery eyes, headache, a burning sensation in the throat, and difficulty breathing. Formaldehyde is also classified as a carcinogen.	Unknown	Formaldehyde tanning is nowhere near as common as Chrome tanning, but the health effects as a result of exposure in tanneries are known and it's being phased out.	
Conventional (Non-Organic) Cotton	Chemicals, referred to as pesticides, are used in cotton production to kill, repel or stop the growth of organisms, by impairing biological processes essential for living. The most commonly used pesticides are insecticides that go by the names of Malathion, Aldicarb and Parathion.	Pesticides are used to obtain a higher cotton yield.	Pesticides also impact human health, not just the intended pest. The effects from poisoning range from headaches, vomiting and difficulty breathing to impaired memory, disorientation and severe depression.	After applying pesticides, rain often washes it away - this happens to 1 million tons every year due to excessive application. Major cotton producing countries, like the USA and India, have detected pesticides in their water resources.	The EJ Foundation says that "cotton is the world's most important non-food agricultural commodity", but cotton production means that there are 7 million people at risk to pesticide exposure.	• Bast fibres e.g. Hemp • Climatex • Organic Cotton

Material	Description	Use	Effect on humans	Effect on environment	Size of impact	Better Materials
Basic (Cationic) Dyes	Dyeing is a method of applying colour to a textile. This can happen at any stage in the manufacture process; dyes can be applied to fibres, yarn, fabric or a completed article of clothing.	Basic dyes dye acrylic fibres.	Dyes are made from a variety of chemicals and compounds e.g. sulfuric acid, chromium, copper and other metallic elements. "The World Bank estimates that textile dyeing and treatment contribute up to 17-20% of total industrial water pollution." This pollution can enter the water supplies of local communities and wildlife.		"Conventional textile dyeing is extremely water and chemical-intensive: for every two pounds of textiles dyed, 25-40 gallons of water is used."	• Reactive Dyes • Waterless dyed fabric • Undyed fabric
Acid Dyes		Acid dyes dye protein fibres (e.g. wool, silk) and nylon.				
Disperse Dyes		Disperse dyes dye polyester yarn.				
Vat Dyes		Vat and direct dyes dye cotton yarn.				
Direct (Substantive) Dyes						
Durable Water Repellent (DWR) treated fabrics	The Greenpeace 'Detox Outdoor' campaign describes PFCs as "a family of man-made, fluorine-containing chemicals".	The purpose of using PFCs is to make clothing and accessories waterproof.	PFCs can accumulate in the human body - they've been detected in blood and breast milk around the world. "Research has shown that some PFCs cause harm to reproduction, promote the growth of tumors and affect the hormone system."	PFCs are resistant to breakdown and have the potential to remain in the environment for hundreds of years. Research on animals has shown PFCs cause tumors, cancer and reproductive problems.	"Several scientific studies have already shown that PFCs can be found around the globe, including in remote areas." "Even if production were to end today, PFC pollution would remain the environment for many years to come."	• Bionic-Finish®Eco • Nikwax • Sympatex
PVC (polyvinyl chloride)	See Sole - PVC (polyvinyl chloride)					

Source: Better Shoes Foundation

Better Footwear Material: Soles

Material	Description	Use	Effect on humans	Effect on environment	Size of impact	Better Materials
Chrome-Tanned Leather	Chromium is a heavy metal used as a leather tanning agent. Leather is commonly used as an outsole.	See Upper - Chromium				Vegetable-Tanned Leather
PVC (polyvinyl chloride)	A versatile plastic that accounts for 20% of all plastics manufactured worldwide.	In footwear, PVC is often found in outsoles as well as synthetic leathers and coated fabrics for a shoe's upper.	Directly (from oil extraction e.g. rashes, chronic headaches, vomiting for those living near oil extraction sites with severe long-term effects like lung disease, liver and kidney damage and miscarriages) and indirectly affected (through environmental damage i.e. you eat what your fish supply eats).	Crude oil extraction causes problems like deforestation, oil spills, pollution of toxic chemicals. From the 100 million tons of plastic produced each year, 10 million tons ends up in the sea. Plastic doesn't break down like natural materials - there's an area of floating plastic the size of Turkey in the North Pacific.	Oil spills are difficult to clean up and described as impossible, in the case of Artic oil reserves.	Bioplastics
PU	A rigid type of polyurethane plastic.	Used in outsoles because of its flexibility, resistance to abrasion, strength and durability.				• Bioplastics • EcoTPU • Natural Rubber
TPU (thermoplastic polyurethane)	An elastic, flexible type of polyurethane plastic.	Used in outsoles because of its elasticity, flexibility and resistance to abrasion, impact and weather.				• Bioplastics • EcoTPU • Natural Rubber
EVA Foam (ethylene vinyl acetate)	A tough but flexible plastic.	To provide a level of comfort in a shoe's insole.				• Coir • Cork • Natural Latex Foam
Petroleum Rubber	A tough, elastic polymer.	Used in outsoles.	Rashes, chronic headaches, vomiting for those living near oil extraction sites with severe long-term effects of exposure like lung disease, liver and kidney damage and miscarriages.	Crude oil extraction causes the problems like deforestation, oil spills, pollution of toxic chemicals.	To put synthetic rubber production into context, approximately 70% of all rubber used is synthetic. When oil spills occur, they're difficult to clean up and described as impossible in the case of Artic oil reserves.	• Natural Rubber
Illegally Logged Wood	""Illegal logging and related trade occur when timber is harvested, transported, processed, bought or sold in violation of national or sub-national laws."	Used in midsoles for wedges and platforms.	Illegal logging aids deforestation, the loss of biodiversity and climate change. "This creates social conflict with indigenous and local populations and leads to violence, crime and human rights abuses."	Illegal logging aids deforestation, the loss of biodiversity and climate change.	In 2015, illegal imports accounted for nearly 10% of total trade. "It is estimated that some 1.6 billion people worldwide depend on forests for their livelihood and 60 million indigenous peoples depend on forests for their subsistence."	FSC-Certified Wood

Better Footwear Material: Heels

Material	Description	Use	Effect on humans	Effect on environment	Size of impact	Better Materials
ABS (Acrylonitrile Butadiene Styrene)	ABS is one of the plastics used to make heels. It's a low cost, easy to machine plastic with good impact resistance, strength and stiffness.	ABS is molded to create high heels and is reinforced with an internal tube of metal.	Directly (from oil extraction e.g. rashes, chronic headaches, vomiting for those living near oil extraction sites with severe long-term effects like lung disease, liver and kidney damage and miscarriages) and indirectly affected (through environmental damage i.e. you eat what your fish supply eats).	Crude oil extraction causes problems like deforestation, oil spills, pollution of toxic chemicals. From the 100 million tons of plastic produced each year, 10 million tons ends up in the sea. Plastic doesn't break down like natural materials - there's an area of floating plastic the size of Turkey in the North Pacific.	Oil spills are difficult to clean up and described as impossible, in the case of Artic oil reserves.	• Bioplastics • FSC-Certified Wood

Better Footwear Material: Joining Methods

Material	Description	Use	Effect on humans	Effect on environment	Size of impact	Better Materials
Solvent-Based Adhesives	Hazardous chemical substances used in the manufacturing of adhesives e.g. Benzene and Toluene.	Adhesives used in shoe construction, and more often than not, in cheap, poor quality shoe construction.	Chinese shoemakers were reported to have high levels of exposures to benzene, toluene and other toxic solvents. The solvents in Benzene are reported to cause harm to the respiratory system and brain, and is classified as a carcinogen.	Unknown	Unknown	Water-based Glue e.g. Renia Aquila 315 or Irutex™ FI 4006 1K or avoid altogether and purely use stitching methods

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