VII-2-5. Sales Promotion

(1) Domestic Sales

1) Weight of Domestic Sales

The domestic market is a small one and there are limits to the demand for canvas shoes and sports shoes. Further, middle aged and elderly consumers mostly prefer sandals, slippers, and thongs, the opinion was expressed in the current survey.

Despite this general opinion, only one of the companies visited was exporting over 50 percent of its canvas and sports shoes, i.e., the weight of domestic sales was high. Some of the companies had failed in export and turned to the domestic market only then.

Table VII.2-22 shows the ratio for individual companies.

Table VII. 2-22 Domestic Sales of Canvas Shoes, Etc.by Company

Company	Canvas Shoes	Sports Shoes	Sandals Slippers
	%	%	%
A	100		
B	99.5		
C	94		
D	67	90	97
E	59		
F	47	3	
G		100	
H		80	

Source: Survey Questionnaires

The system for supply of products to the domestic market in many cases was for the manufacturing company to establish a specialised marketing company and sell to retail stores through it. A company with a large sales organisation also opened up its own stores.

A look at this by the number of workers of the companies in the sales divisions shows all but one of the companies had 10 or less such workers, with the lowest being two and the average being 5.6. The company with its own sales stores had 124 sales workers. Notable differences were thus seen in the domestic sales systems.

Most of the stores selling directly to consumers are shoe stores and sports goods stores in shopping complexes. Further, shoe corners have been established in supermarket style sales outlets and many products are displayed there. Note that there are as yet no large scale mass sales outlets for shoes.

There are large numbers of shoe outlets, with one outlet operating a few doors down from another in the same shopping complex. In all outlets, the lighting is good and the shoes are well displayed.

Table VII.2-23 shows an example of the outlets. Note that the states of the outlets were evaluated subjectively by the survey members.

Table VII. 2-23 Rubber Footwear at Retail Shops

Retail Shop			Rubber Footwear				Remarks
Location	Place	Kind of Shop	Display	Kind	Design	Colour	
Penang	Shopping Complex	Retail Shop	Average	Less	Average	Less	
		Retail Shop	Good	Average	Average	Less	Large-Size Shop Having Various Kind of Rubber Footwear
Kota Kinabalu	Shopping Complex	Shoe Shop	Good	Many	Many	Many	
		Sports Goods Shops	Good	Many	Many	Many	
Johore Bahru	Shopping Complex	Own Shop	Good	Many	Average	Many	
		Shoe Shop	Good	Average	Average	Many	
		Super Market	Good	Less	Average	Less	
Kuala Lumpur	Super Market	Own Shop	Good	Average	Many	Many	

Source: Market Survey

3) Domestic Sales Prices

A look at the retail price range of domestic footwear shows the following:

Baby shoes:	M$5 to 10
Children's shoes:	M$10 to 15
School shoes:	M$10 to 15
Jogging shoes:	M$30 to 40

Imported, famous brand jogging shoes such as Nike and Adidas sell for M$100 to 130, about three times the price of domestic counterparts. This is a high price for people who earn an average of M$400 monthly.

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Sales prices in East Malaysia were set somewhat higher than in Peninsular Malaysia.

The differences seen in the price tags of products of one manufacturer were as follows:

	Prices in Peninsular Malaysia	Prices in East Malaysia	Difference
Leather Shoes	M$59.9	M$65.9	M$6
Sandals	24.9	27.9	3
Children's Shoes	9.9	10.9	1

Table VII.2-24 shows details on the above sales prices.

Note one of the features of the domestic market is the obligatory use of white canvas school shoes in the 11 years from primary school to form 5, resulting in a stable source of demand. Note that the shoes are provided free by the state government in East Malaysia, but not in Peninsular Malaysia. The school shoes need only be white. The rest of the design is not stipulated.

Table VII. 2-24 Domestic Sales Price

Retail Shops			Kind and Price of Rubber Footwear		
Location	Place	Kind of Shops	Kind	Price	Remarks
Penang	Shopping Complex	Retail Shop	Casual	M$38	
			Children	22.00	
			School	14	Discount/Sales
		Retail Shop	Casual	29.90	Similar to Japanese One Pricing at ¥1,980
				39.90	Similar to Japanese One Pricing at ¥1,980
				32.95	Similar to Japanese One Pricing at ¥1980
			Jogging	29.90	
				45	Similar to Japanese One Pricing at ¥4,000
				90	Similar to Japanese One Pricing at ¥7,000~¥8,000 (Imported)
Kota Kinabalu	Shopping Complex	Shoe Shop	Fashion	35	
			School	10~15	
			Jogging	20	For Children
		Sports Goods Shop	Sports	100~130	Imported
Johore Bahru	Shopping Complex	Own Shop	Children	10~15	
			School	10 more/less	
			Jogging	30 more/less	Best Quality = M&55
			Slipper	15 more/less	PVC
				30 more/less	Upper = Leather
		Shoe Shop Supper Market	Infant	5~10	
			Jogging	40 more/less	
				100 more/less	Imported
Kuala Lumpur	Super Market	Own Shop	Casual	25 more/less	For Ladies, Colourful
				15~17	For Ladies, Low Rating
			Jogging	24	Similar to Japanese One Pricing at ¥1,980
				30~40	Similar to Japanese One Pricing at ¥3,000

Source: Market Survey

(2) Export Strategy

1) Export Situation

At the present time, only one company is exporting more than 50 percent of its canvas and sports shoes. Note that close to 100 percent of boots are exported, however. Most of the current export-oriented products are ordered by overseas partners, i.e., are OEM products. The large companies dealing in canvas and sports shoes rely on OEM shipments for about 90 percent of their exports.

About 90 percent of boot exports are made using the companies' own brands, but marketing is handled by the overseas partners, so from the viewpoint of export activity, the result is the same as with OEM.

Most of the exports are to Europe, but shipments are also made to the U.S., Australia, Singapore, and the like. Several companies expressed the opinion that entry into the Japanese market was difficult, but one company was already shipping products to that market.

Table VII.2-25 shows this in tabular form.

Table VII. 2-25 Export Ratio of Rubber Footwear

Company	Canvas Shoes	Sport Shoes	Boots	Sandals Slippers	OEM Ratio	Main Countries Exported
A	53	97			94	Australia,France,UK,USA
B	41				100	USA,Singapore
C	36	10		3	89	Italy,Canada, Singapore
D	6					Singapore,UK,
E	0.5					Netherlands,
F		20			33	Japan
G			98		13	Norway,Sweden,Denmark

Source: Survey Questionnaires

2) Export Promotion Activities

a) Systems and Content

Since most of the exports are OEM, the export staffs of rubber footwear companies are currently at the most six members. The average was 3.8 members, with as few as two in one company. Therefore, companies still do not engage in sufficient market surveys or sales promotion activities on their own. Only one company has its own

sales promotion office overseas, with the others relying on thier partners and importers. Two companies were placing advertisements in overseas newspapers and magazines.

The companies, it may be seen, have not prepared sufficient corporate brochures, product catalogues, and other materials required for export promotion.

Such materials could be obtained in the current company visits only infrequently. Further, there was a notable lack of catalogues at the fair held in September 1988 in Osaka Japan. This lack of preparation of materials was also pointed out by a raw material manufacturer visited for this survey.

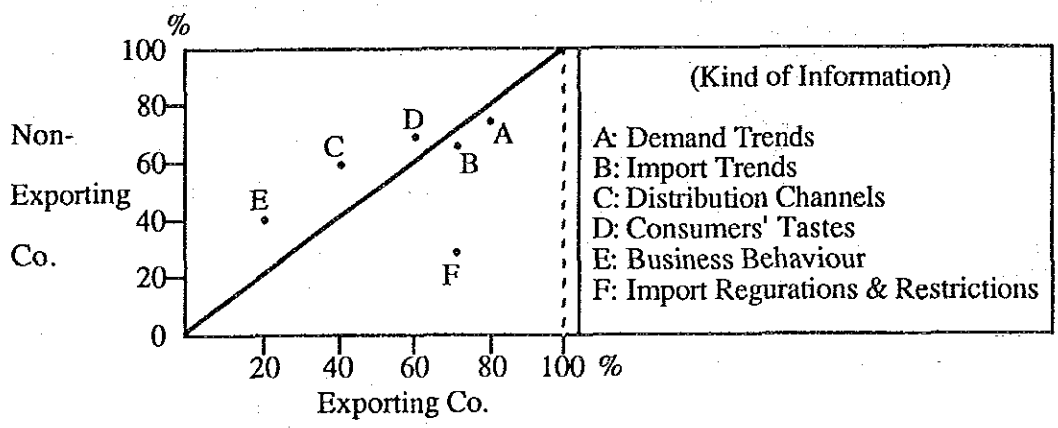
b) Overseas Market Information

Information on overseas markets is obtained from importers and MEXPO in addition to affiliated firms, but cannot necessarily be evaluated as sufficient.

Due to this situation, many companies expressed interest in the catalogues of Japanese manufacturers brought along in the current survey as part of the information regarding export markets.

Figure VII-2-10 shows what kind of information is considered necessary.

Fig. VII. 2-10 Overseas Information Needed



Source: Survey Questionnaires

Notes: 1) Classifying 5 Export-oriented Companies as Exporting Company and the Other 4 as Non-Exporting Company.
2) Totaling Points after Giving 6 Point to the 1st Selection and then 5 points to the 2nd Selection and so on.
3) The Highest Points Supposed to be 100.

The following may be pointed out from Fig. VII.2-10.

[1] Information about market trends is considered most required regardless of whether companies are currently exporting or not (A, B, D).

[2] Companies currently with less exports or not now exporting seek information on how to export (C, E).

[3] Companies currently exporting desire information regarding the restrictive conditions of overseas markets (F).

c) Direction of Expansion of Exports

As the direction taken for expansion of exports, many companies mention selective emphasis, out of products already being produced, on higher value-added products such as sports and leisure shoes and casual shoes.

As markets for expanded exports, common interest was shown in Japan as a target market. Note that common interest was shown in the U.S. as well.

Table VII.2-26 shows this.

Table VII. 2-26 Export Items To Be Expanded

Classification	No.of Manufac-turers	Item	Export Market
Present Products	3	Canvas Shoes Safety Boots Ladies Boots	Japan, U.S.A. Europe
High Value-Added Products	6	Sports/Leisure Shoes Casual Canvas Shoes Leather Sports Shoes Jogging & Court Shoes	Japan, U.S.A. Europe,Canada Eastern Europe

Source: Survey Questionnaires

In terms of quality, one of the requirements for successful expansion of exports, the standards currently applied to export products are primarily foreign ones, such as those of the ISO, ASTM, and DIN. This may be said to be natural as OEM production is prevalent at present. Only one company was using its own standards.

There are almost no complaints regarding exports. A company exporting to Japan indicated that there were complaints about quality and delivery and another company indicated there were claims on slight points of quality.

The low level of complaints may be said to be due to the prevalence of OEM production at present.

VII-2-6. State of Peripheral Industries

(1) Subcontracting Industries

Subcontracting in Malaysia takes the form of commissioning of production outside based on one's own specifications. Two types of work are currently being subcontracted: sewing of uppers and production of soles.

Sewing of uppers is believed prevalent for mass production items with fixed specifications, such as seen in the case of companies producing mostly canvas school shoes. This work is labour intensive and can be done so long as one has sewing machines, so subcontracting is used. Five out of eight companies, with the exception of boots, were using subcontractors for the sewing of uppers. None of the companies considered the quality or delivery of subcontracted work to be a particular problem, so the situation is good. The subcontractors are all set up as companies.

On the other hand, there is the case of a small sized sandal manufacturer. It produces soles on its own, but contracts out the work for finishing them into sandal products. The company's brand is affixed to the products for their sale. In this case, the company reportedly contracts work out to 20 odd small locations, so it is considered that some of the work is being performed at private homes.

Two companies were contracting out production of soles. One company was engaged in large scale production, so contracted out production of premoulded soles for the cold cement process. The other company is placing orders with a sole manufacturer which recently entered its corporate group.

(2) Materials Industries

The rubber footwear industry is labour intensive, so seeks an abundant, inexpensive, and good quality labour force. At the same time, the system of supply of materials is an important element. This is because rubber footwear requires diverse types of materials.

Table VII.2-27 shows the state of procurement of main materials at the present time.

Materials which are not yet produced domestically and must all be imported are synthetic rubber, nylon taffeta, eyelets, white carbon, and EVA resins. Other main materials are produced domestically.

The main materials of uppers, cotton cloth and vinyl leather, are produced domestically in various types of good quality.

Regarding the dyeing of cotton cloth, there were problems of discolouration in 1985, but this has been resolved now. This point was confirmed by analysis of samples obtained during the survey and brought back to Japan. Some cloth is imported, but this is because special types are demanded.

Sewing thread is also produced and supplied domestically.

These materials are all produced by domestic companies with superior management and no problems are believed to exist in stability of quality.

Almost all types of shoe laces are now being produced domestically, but laces used frequently for some jogging shoes are not yet produced. However, consideration is being given to introduction of facilities to enable production of such laces in the near future.

In this way, many materials are now being produced domestically, but some are imported, such as shoe laces, due to the fact that domestic industry is not yet producing a part of them and, in the case of fasteners, due to the fact that domestic materials are available, but the grade of quality has to be high or they cannot be used.

The states of procurement of materials from a questionnaire of rubber footwear manufacturers were grouped together as follows. Table VII.2-27 shows details for each item:

A:	Items for which all companies use domestic products	3
B:	Items for which almost all companies use domestic products	4
C:	Items for which there about equal numbers of companies using domestic products and imported products	3
D:	Items for which almost all companies use imported products	4
E:	Items for which all companies use imported products	7
	Total	21

Table VII. 2-27 Procurement of Main Materials

	Materials	Classi-fication	Domestic	Imported	Main Import Source
1.	Natural Rubber	A	Yes		
2.	Synthetic Rubber	E		Yes	Japan, Korea, Taiwan Belgium
3.	Cotton Cloth	B	Yes	Yes	Korea,Taiwan,Thailand
4.	Vinyl Leather	C	Yes	Yes	Korea, Taiwan
5.	Split Leather	D	Yes	Yes	Japan, Korea, Taiwan
6.	Nylon Taffeta	E		Yes	Korea, Taiwan
7.	Shoe Lace	B	Yes	Yes	Korea, Taiwan
8.	Eyelet	E		Yes	Japan, Korea, Taiwan Hong Kong, India, Sweden
9.	Fastner	E		Yes	Japan, Hong Kong, Taiwan USA, France
10.	Adhesive	B	Yes	Yes	Taiwan
11.	Carbon Black	A	Yes		
12.	White Carbon	E		Yes	Korea, Taiwan
13.	Calcium Carbonate	B	Yes	Yes	China
14.	Clay	A	Yes		
15.	Rubber Accelerator	D	Yes	Yes	West Germany, USA, UK
16.	Zinc Oxide	C	Yes	Yes	West Germany, China
17.	Titanium Dioxide	D	Yes	Yes	West Germany, UK Australia, Belgium, Japan
18.	Stearic Acid	C	Yes	Yes	
19.	E.V.A. Resin	E		Yes	Singapore, Japan, Korea Taiwan
20.	E.V.A. Blowing Agent	E		Yes	Korea, Taiwan, China
21.	E.V.A. Gross Linking Agent	D		Yes	Korea, Taiwan

Source: Survey Questionnaires
Note : Refer to Classification In The Previous Page

(3) Jig and Tool Manufacturers

1) Mould Manufacturers

Only one large company was producing moulds in-house. The other companies were procuring them through orders to mould manufacturers. While some domestic moulds were used, the majority of the companies placed orders to Korea and Taiwan.

The main reasons were that deliveries take three to six months when orders are placed with domestic manufacturers, but only about two weeks when imported.

Mould manufacturers were visited and the situation surveyed, and the mould manufacturers themselves indicated that deliveries take three to four months.

The main reason why deliveries by domestic mould manufacturers take such a long time is that the manufacturers are small scale operations of 10 to 20 workers which handle orders for moulds for leather shoes as well and have large balances of orders.

This is also due to the fact that there are only three mould manufacturers in the Kuala Lumpur area and only one manufacturer in Penang.

Despite this situation, the mould manufacturers have no desire to expand the scale of their operations all at once. They have difficulties in securing skilled labour and prefer to expand step by step.

One of the manufacturers visited had an electro-discharge machine and was scheduled to purchase a copy milling machine - thus modernising its facilities, but another manufacturer was still operating with old-fashioned machinery.

Seen from the state of equipment, there is a large gap between the equipment in use and the latest equipment at MIDEC. It was heard that the Metal Industry Development Centre (MIDEC) was interested in modernising manufacturers of moulds for rubber footwear and believe that the pace of modernisation will pick up in the future.

Note that one of the manufacturers was using Japanese materials for the moulds. Another was switching over from Japanese materials to Korean ones due to the yen appreciation, but Korean materials were considered poorer in workability.

2) Last Manufacturers

There are no rubber footwear manufacturers which produce lasts in-house. When a question was raised as to the place of procurement during the visits to the rubber footwear manufacturers, only one place of procurement, i.e., last manufacturer, was mentioned. Therefore, orders from the companies concentrate in this one company and like the case with moulds deliveries take three to four months.

This last manufacturer has about 30 workers and adopts a production system involving much troublesome work, so cannot easily increase production.

Therefore, lasts, like moulds, are also being contracted out to Korea. Note that the evaluation of one company, a last user, was that Korean makes are cheap in price, but suffer from many flaws and are poor in quality.

3) Die-Cut Knife Manufacturers

Die-cut knives come in many forms, but all of these are ordered from businesses close to the rubber footwear manufacturers. There are no problems in procurement, either in terms of quality or delivery.

VII-3. System and Policy

VII-3-1. Industrial Promotion Policy

The Malaysian government has designated the rubber product industry as one of the 12 priority industries under its Industrial Master Plan (IMP) which maps out the course of industrialisation in the coming 10 years. The government also regards the rubber product industry a a central leader of resource-based industries which raises the value added of natural rubber, one of the principal products of the country, and earns foreign currency.

Tyres account for 70 percent of the rubber products in Malaysia and demand for medical rubber gloves has been growing sharply lately in connection with AIDS. Nevertheless, rubber footwear remains an important component of the industry.

Malaysia has no specific industrial promotion measures aimed at rubber footwear manufacturers. But the country has special promotion measures for the rubber product industry in general. The measures include a discount system applied to natural rubber purchased from the specified government agencies for export and a power rate reduction system for the production of goods for export. The rubber footwear industry benefits from these measures.

In addition, the pioneer status system applied to the manufacturing sector or Malaysia for the encouragement of investment as well as the grant of investment tax allowances (ITA) and other measures are applied to the rubber footwear industry.

(1) Incentives for Investment

1) Pioneer Status

Under this stimulation program, the privilege of exemption from corporate tax and development tax is given. The period of exemption is five years from the start of production. If additional conditions are fulfilled, extension of the exemption period for another five years will be granted.

2) Investment Tax Allowance (ITA)

The manufacturers of rubber footwear would be eligible to apply for the Investment Tax Allowance. The maximum amount of allowance that can be granted under the ITA is 100%. The rates vary depending upon the proportion of:

a) export ratio (upper limit of 30%);

b) local raw material content (20%);

c) added value (20%);
d) number of employees (15%);
e) site location (15%)

3) Abatement of Adjusted Income

The abatement of adjusted income to large companies which purchase components from local small-scale companies has become to be given from the year of assessment 1990. The abatement is 5% of adjusted income or a total value of components purchased, whichever is lower.

(2) Incentives for Research and Development

In order to encourage research and development (R & D) activities in Malaysia, the following incentives would be provided:

1) Expenses required for scientific research for projects run by a company directly or through an agent and of a nature which would be lead to earnings in the future may be deducted. Expenses required for research approved by the Ministry of Finance may be deducted doubly.

2) Building used for the purpose of approved research are allowed the industrial building reduction of an initial 10% and subsequent 2%.

(3) Incentives for Training

The following incentives would be given for certain training activities to improve technical skills and productivity:

1) The Industrial Building Allowance (IBA) is granted to a company which has incurred expenditure on buildings used for approved industrial training. The incentive consists of an initial allowance of 10% and annual allowance of 2%.

2) Double Deduction of Operational Expenses is granted to a manufacturing company that has incurred expenditure for approved training.

The mixing of synthetic rubber with natural rubber for outer soles of rubber footwear has become common lately as a result of attempts to meet the needs of

consumers who seek durable and lightweight products. Still required is the blending of natural rubber (at an average rate of 30 percent or sometimes close to 50 percent depending on the market prices of natural rubber). In order to keep the blending ratio of natural rubber from falling or to raise it in the future, it will be necessary to further step up efforts for the research and development of new materials using natural rubber, centering on the Rubber Research Institute of Malaysia (RRIM) which has a long tradition and much experience.

Low-interest loans to small- and medium-sized businesses from the ASEAN fund (AJDF), tax privileges for small firms (total exemption of import duties on raw materials, parts, machinery and equipment, etc.) and the improvement of the credit guarantee system to be implemented by the fiscal 1989 budget will be powerful incentives for the rubber footwear industry and some of its peripheral industries which have a good many small- and medium-sized firms.

The industry, however, strongly desires that these measures be flexibly applied and procedures for them simplified. Realization of such desires is strongly hoped for.

VII-3-2. Export Promotion Plan

In the special export promotion plan for the rubber footwear industry, as mentioned in the previous section, there are discounts on purchases of natural rubber and discounts on electricity, as follows:

[1] When purchasing natural rubber to use for rubber footwear production for export from the Federal Land Development Authority (FELDA), Malaysia Rubber Development Corporation (MARDEC), and Rubber Industry Small Holders Development Authority (RISDA), a price discount of M$0.2 per kg will be made.

[2] Depending on the rubber footwear export level, there is a maximum 20% discount for the use of electricity. If 100% of the production is targeted for export, there will be a 20% discount. When production is 40% for export, the discount will be 8% (20% x 40% = 8%).

In addition, there are the following export promotion measures which are also applied to other industries:

1) Abatement of Adjusted Income for Exports

An abatement of Adjusted Income for Exports would be granted to rubber footwear manufacturing companies exporting, directly or through agents

a) a rate which is equivalent to 50% of export sales as bears to total sales; and
b) 5% of the value of indigenous Malaysian materials which are incorporated in the manufacture of the products exported.

2) Double Deduction of Export Credit Insurance Premiums

To encourage the development of new markets, rubber footwear manufacturers would be allowed to make a double deduction for payments of premiums for export credit insurance.

3) Double Deduction for Export Promotion

Double deductions would be allowed for some specific expenses incurred by manufacturers for developing export markets for products made in Malaysia.

The qualifying are as follows:

a) Overseas advertisements
b) Supply of free samples overseas

c) Surveys of export markets
d) Preparation for bidding overseas
e) Supply of technical information overseas
f) Displays and participation in trade or industrial fairs recognized by the Ministry of Finance
g) PR activities relating export
h) Overseas business trips of employees
i) Food and lodging expenses for Malaysian businessman on overseas trips (M$200 per day)
j) Expenses for maintaining overseas sales office

Because the domestic market is narrow and apt to cause overproduction, the course of the development of the rubber footwear industry of Malaysia cannot but naturally be oriented toward exports. However, the overseas market for high-grade goods is currently flooded with Korean and Taiwanese products while China, Thailand, and Indonesia are expected to advance into the low-grade goods market. Therefore, Malaysia should first make efforts to eliminate waste from its production lines and reduce costs as much as possible. It will also be necessary for Malaysia to aim at medium and high-grade products with high value added in the future because the country's labor costs are higher than costs in China, Thailand and Indonesia, Uppers and other materials of higher grade will be needed to produce medium and high-grade footwear and, under the present circumstances, will have to be imported. It is hoped that procedures for exemption or rebates of customs duties on imports of these materials will be simplified.

Overseas marketing activities are also a major decisive factor in export promotion.

It is currently enough to make rubber footwear on order because OEM accounts for most of the production. But in the future, it will become necessary to precisely grasp the needs of various foreign countries through market research, participation in overseas trade fairs and other means and to set up separate production systems geared to satisfy the taste of individual markets.

The Ministry of Trade and Industry of Malaysia has an export center (MEXPO) which has conducted overseas exhibitions, commercial negotiation meetings and market research and also has good offices for use for inquiries and supply of information relative to rubber footwear. But the results have not been perfect due to budgetary restrictions and a shortage of staff. Especially desirable are stepped-up activities for the collection of market information and samples in foreign countries and participation in overseas trade fairs, activities which currently appear to be insufficient.

Finally, efforts for exports must be made by the rubber footwear industry as a whole. It will be necessary to expand and strengthen the footwear manufacturers' organization, now a section of the Rubber Products Manufacturers Association (MRPMA), as well as MEXPO. The government and private organizations must join forces and exert themselves to open up and expand export markets.

VII-3-3. Incentives for Rubber Footwear Companies

In regard to the questionnaire given to nine companies, their evaluation and use of favourable aspects of the system are as follows:

"Accelerated Depreciation Allowance" -- (five companies, "using"; two companies," very effective"; three companies, " effective").

"Double Deduction for Promotion of Export" -- (five companies, "using"; two, "very effective"; and three companies," effective").

"Abatement of Adjusted Income for Exports"-- (four companies, "using"; two companies," very effective"; and two companies," effective").

The Export Credit Refinancing and the Pioneer Status were evaluated by one company "not effective."

At these company interviews, one company strongly stressed a dissatisfaction concerning the drawback system on customs duties for materials used for export production. They reported that it took them several months from application to payment.

In total, the use of incentives by the companies was high for systems having to do with export. On use of the favourable systems on research and the training of workers, there should be further considerations in the future. As a result, the evaluation on research and training of workers is to begin now. There are already two companies who answered "not effective" on the double deduction system for training.

Table VII. 3-1 Evaluation of Incentive Schemes

Incentive	Not Using	Using		
		Very Effective	Effective	Not Effective
•Pioneer Status	4	2	1	1
•Accelerated Depreciation Allowance	2	2	3	
•Export Credit Refinancing	2		1	1
•Abatement of Adjusted Income for Export	2	2	2	
•Double Deduction for Promotion of Export	2	2	3	
•Double Deduction for R & D	6	1		1
•Double Deduction for Training	4			2

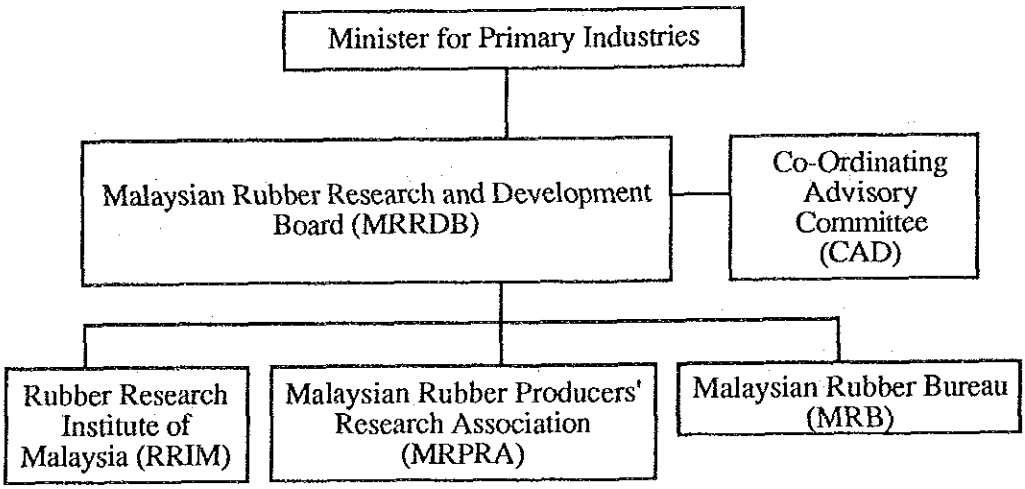
Source: Survey Questionnaires

VII-3-4. Supporting Facilities

(1) Rubber Research Institute of Malaysia (RRIM)

The RRIM was established in 1925 and was organised by the Malaysia Rubber Research Development Board (MRRDB), which is a government institute directly controlled by the Ministry of Primary Industry of the Malaysian government. Fundamentally, it has a long history as an institute involved in raw rubber manufacturing technologies and the cultivation of natural rubber. Research, development, inspection and testing of rubber products were all performed after 1976, when the Technology Center was established. So this phase in its history is brief. The RRIM organisation is shown on Fig. VII. 3-1. Its headquarters is in Kuala Lumpur and the Technology Center is located in the Research Center at Sungai Buloh. Here, there are 1,300 hectares of experimental farms for rubber and 1,200 hectares of experimental farms at Kota Tinggi in Johore State.

Position of RRIM



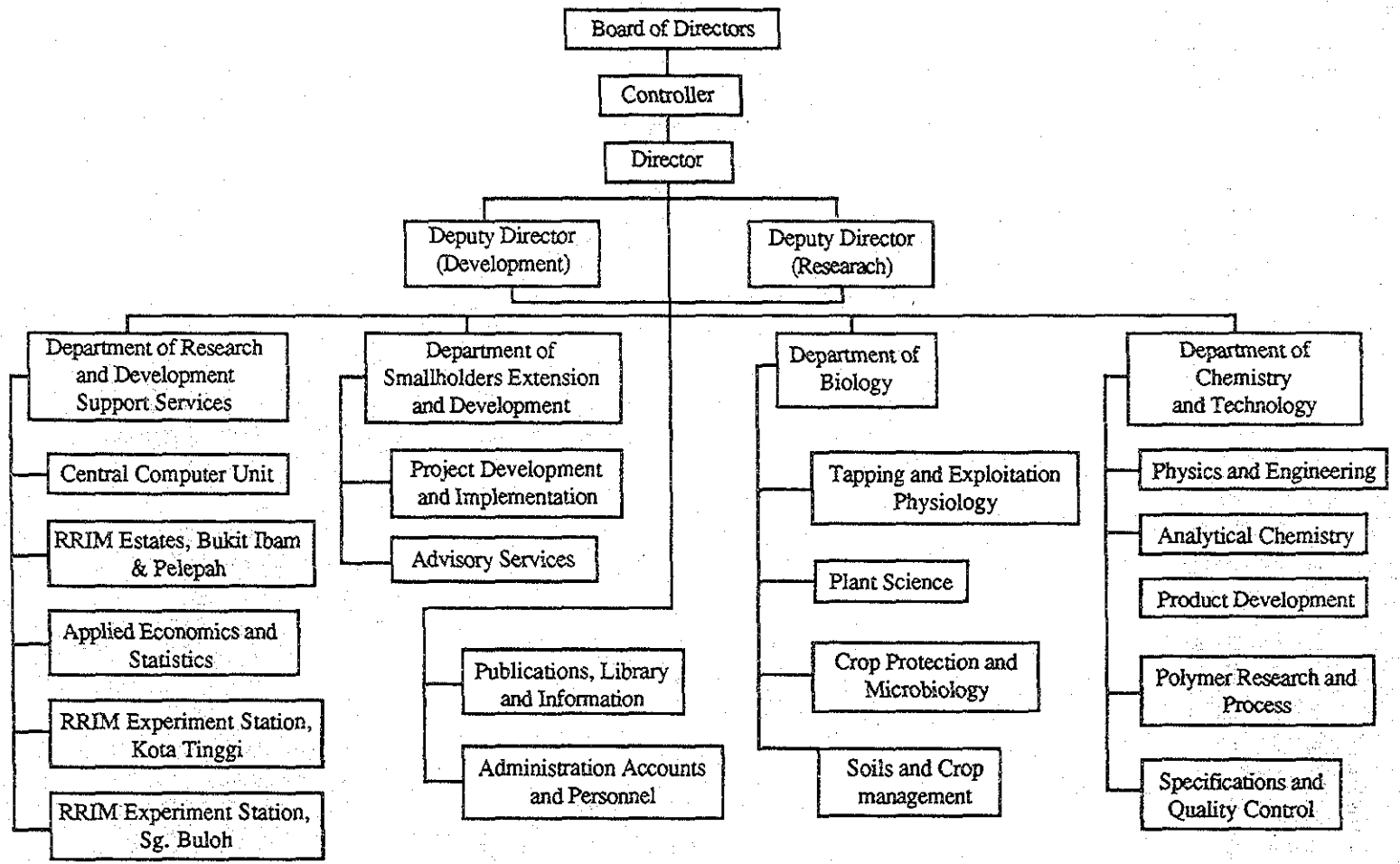
There are 200 excellent senior staff assigned to RRIM. This institute is the world's biggest among those researching only one product. Operational budget comes from MRRDB. For every kilogramme of rubber exported, M¢3.85 are collected by MRRDB as reseach fund. The budget for 1988 was M$39.0 million.

The Technology Center has manufacturing equipment such as the Banbury Mixer, Mixing Roll, Calender Roll, Extruder, Press and manufacturing machinery such as the Tyre Builder and the Tyre Vulcanising Press, which was installed with support from Japan. Also, the Physical Testing Laboratory (PTL) has testing equipment that deals with tension, rubbing, flex, hardness and aging qualities.

This center has 35 experienced senior staff. They are engaged in different types of research and development. Concerning services, there is the Technical Advisory Service and the Physical Testing Service. They perform services on problem solving advices and product development as well as on inspection and quality assurance of rubber products, based on appropriate standards.

Tests and quality assurance work for rubber footwear are performed only when there is a request from the individual company. The numbers are still very small. However, these cases are expected to increase; therefore, an increase in facilities to test rubber footwear is planned. Also, there is a plan to build a National Testing Centre for rubber products.

Fig. VII. 3-1 Organisation Chart of RRIM



(2)Standards and Industrial Research Institute of Malaysia (SIRIM)

SIRIM is a government institute for industry standardisation and for research and development. It is located in Shah Alam west of Kuala Lumpur. Its organization chart is shown on Fig. VII. 3-2. There are 715 people on staff. The standardisation section authorizes the SIRIM mark, based on Malaysian Standards, authorises the SIRIM conformity mark, based on other standards (total of 706 cases in 1988), and registers companies under the Assessment and Registration of Quality Systems (ARQS). This is equivalent to Japan's JIS marking factory system.

Research and development is also a very important duty of SIRIM. The Technology Transfer Centre transfers techniques to the private sector and offers advices on commercialisation and technical applications to small- and medium-scale industries in addition to supplying technical information.

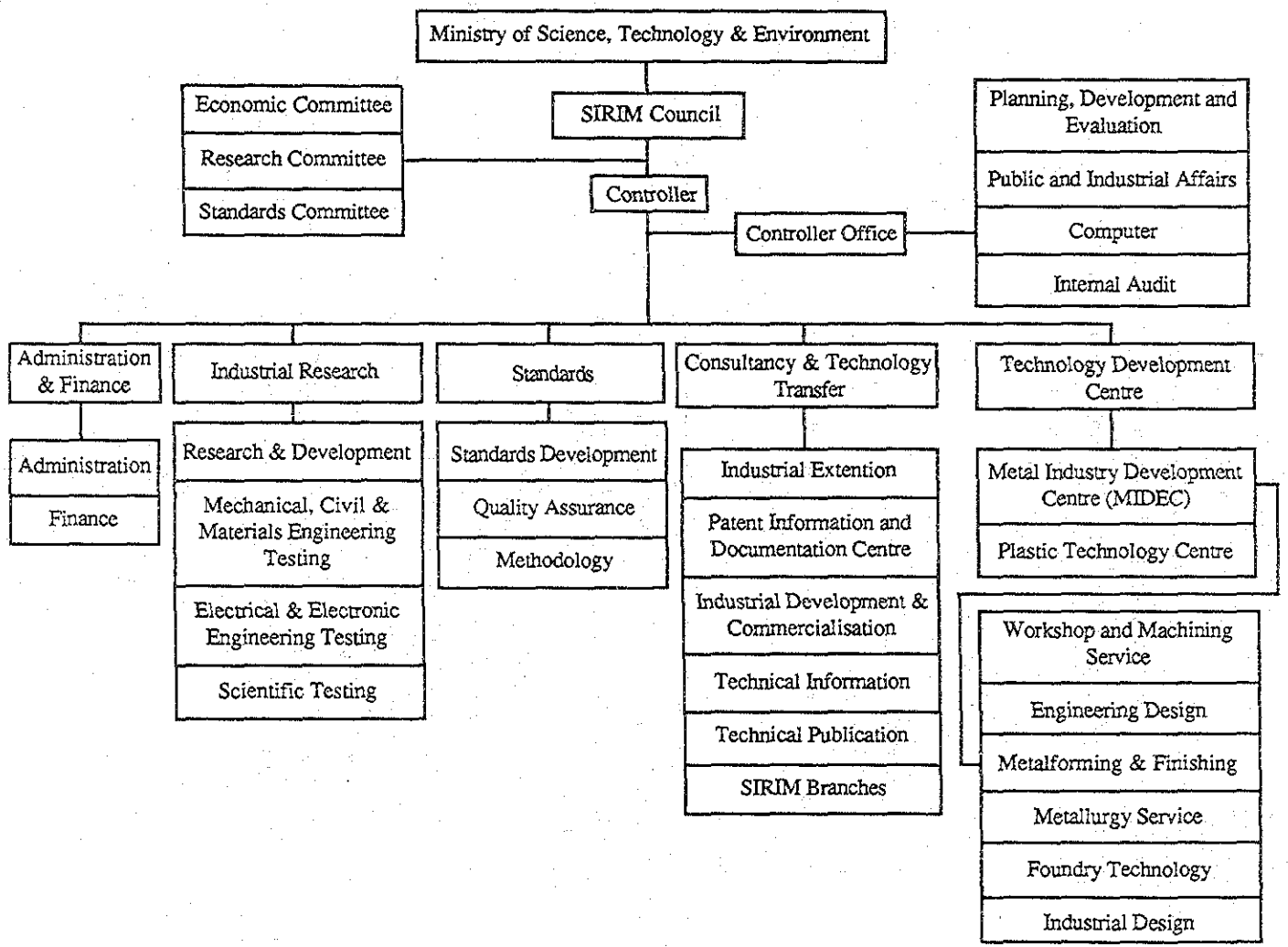
As mentioned, there are only three Standards established for rubber footwear. They are for safety footwear, spike-proof combat boots and canvas shoes, rubber-soled, for school children. The establishment of Malaysian Standards for sports shoes, etc., is expected to be a long-term development because of budget restrictions.

At present, there are only four companies that have the SIRIM mark on their safety shoes, authorised by SIRIM. The actual inspections are carried out mostly by RRIM. The pattern of RRIM inspecting rubber products and SIRIM authorising inspection will continue.

Because RRIM has a long history and experience, it is the government's policy to concentrate R&D efforts on rubber products in conjunction with RRIM. This seems to be the best plan and will tend to prevent duplicate investments.

For quality improvement of the product, standardisation is the premise. And it is also necessary to increase the number of SIRIM mark authorisations. It is very important to aim for an improvement in the industry and to expand these SIRIM registered factory systems, which were started from the end of 1988, to rubber footwear factories. (At present, one glass factory and four factories for reclaimed tyres are registered.)

Fig. VII. 3-2 Organisation Chart of SIRIM



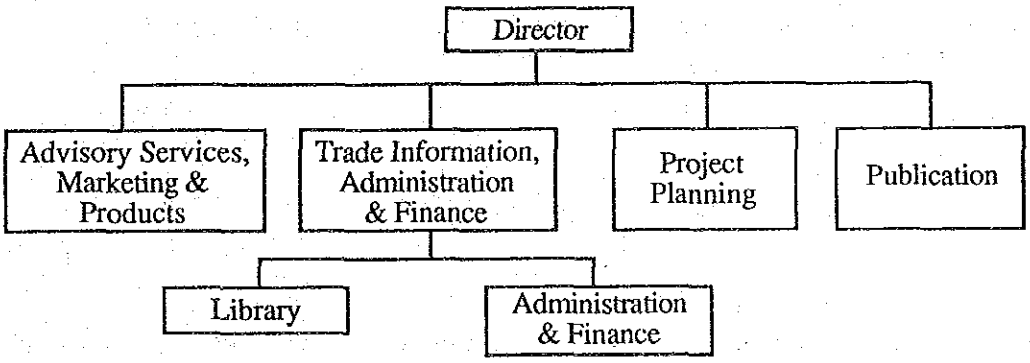
(3) Malaysian Export Trade Centre (MEXPO)

MEXPO is the official trade promotion organisation of Malaysia and was established in 1980 as one unit of the Ministry of Trade and Industry. It was established for the purpose of promoting exports from small- and medium-scale industries, but currently it is promoting exports of Malaysian products in general.

Its head office is located in the centre of Kuala Lumpur and includes a permanent exhibition hall on the ground floor and a trade library on the first floor. Its activities cover the collection of various information and the arrangement of business negotiations and inquiry services through its network of 30 overseas trade commissioners.

The organisational chart of the head office is shown in Fig. VII. 3-3. The number of staff is less than 40. Its main functions include (1) the arrangement of business negotiations and inquiry services, (2) the collection and dissemination of information on the economy and trade, (3) the operation of the permanent exhibition hall, (4) participation in overseas trade fairs and exhibitions, (5) the dispatch and reception of trade missions and (6) the organisation of various seminars and study meetings.

Fig. VII. 3-3 Organisation Chart of MEXPO



At present, through its company registration services, information regarding 3,000 domestic exporters and 26,500 overseas importers has been input in the computers to be used for business negotiations, inquiries and information supply. This information is provided to the private sector through periodicals and business associations. Applications for company registration are acceptable at any time.

In the permanent exhibition hall, which has 1,000 square metres of space, new export products from 270 companies are on display every six months. Any inquiries, including those regarding exhibits, are handled by receptionists in the hall.

The trade library, though rather small in space, keeps 15,000 statistics books, directories, tariff books, market survey reports and country reports, etc. and is used by 50 to 60 visitors every day. The number of visitors is steadily increasing and totalled 10,000 in 1988. It is sincerely hoped that its activities and the number of its staff will be expanded.

VII-4. Present Status of Overseas Market for Rubber Footwear

VII-4-1. World Supply and Demand Trends

(1) Production

The world's production of rubber footwear has been running at an annual rate of about 1.0 billion pairs in recent years (1.027 billion pairs in 1985). Regionally, production in Asia and communist countries is large in volume. Figures of production by country indicate that the Soviet Union is the largest producer in the world, producing 218 million pairs in 1985, or 21.3 percent of the world's total production. It is followed by the United States (72 million pairs in 1985), Japan (71 million pairs), Taiwan, India, Korea and Yugoslavia. Production of rubber footwear declined in almost all countries in 1985 except for the Soviet Union and Yugoslavia (Fig. VII.4-1, Table VII.4-1).

(2) Exports

As the world's trade statistics for rubber footwear are not available, there is no other option than to use statistics by the United Nations and OECD on overall footwear trade. These statistics show that the world export value jumped 23.9 percent to US$16,553 million in 1986. A look at the figures by region indicates that Europe (including Eastern Europe) and Asia are capable of exporting footwear to other regions. The export values of the two regions were US$9,247 million and US$5,765 million respectively in 1986, accounting for 55.9 percent and 34.8 percent of the world's total exports. Europe and Asia accounted for a combined 90.7 percent share of the world's exports in that year. By country, Italy exported US$4,808 million worth of footwear in 1986, making up 29 percent of the world export value in 1986. It was followed by Taiwan (17.8 percent), Korea (12.4 percent), Brazil, Spain and France. Exports from Japan were only US$44 million in 1986. In recent years, Japan's exports have shown a downward trend due to the yen's appreciation and the shift of production bases to overseas countries prompted by soaring labour costs. Although the Soviet Union and the

United States are the largest and the second largest producer of footwear in the world, their exports are almost negligible. As mentioned later, the United States is heavily dependent on imports.

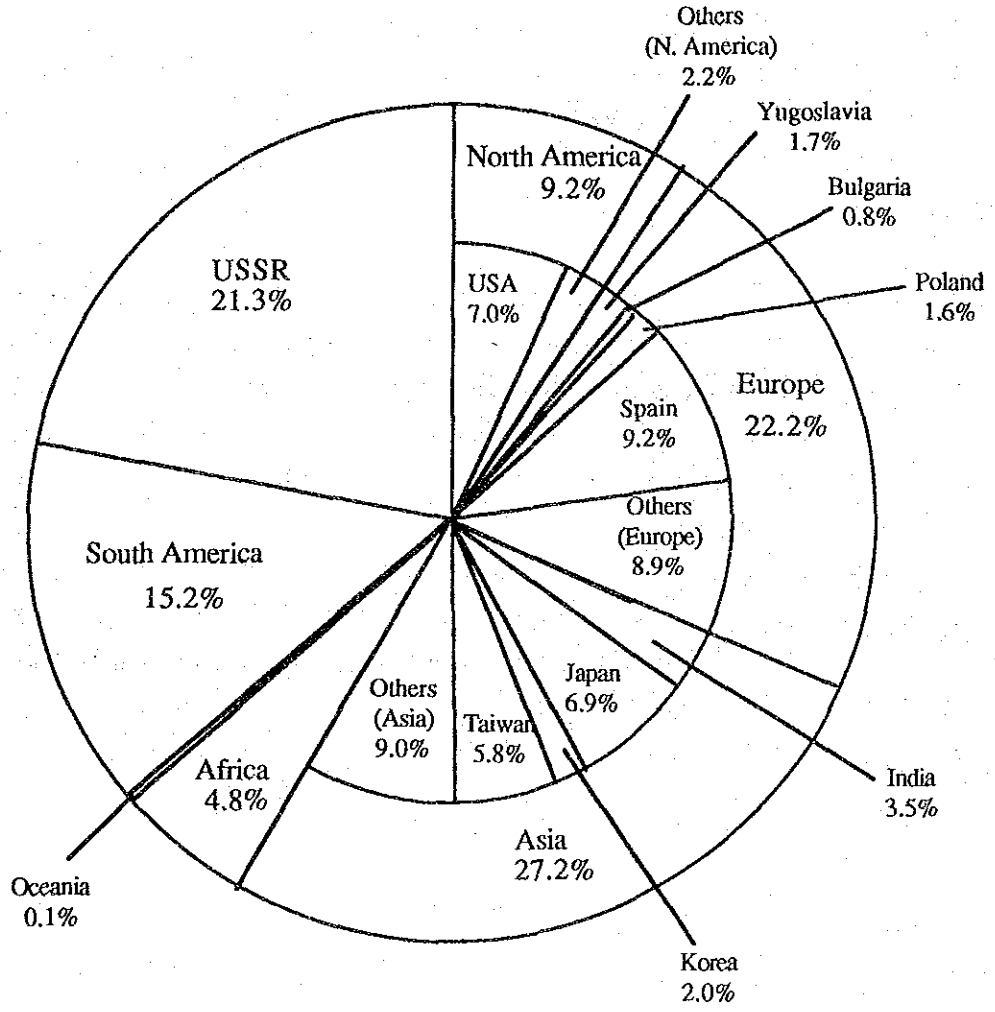
Since export figures in the United Nation's trade statistics do not include exports by Taiwan and China, OECD countries' import values of products from these countries, based on OECD statistics, are used as figures for exports from Taiwan and China to OECD countries (Fig. VII.4-2, Table VII.4-2).

(3) Imports

The world import value for footwear amounted to US$17,389 million in 1986 and has been showing a steady increase in recent years. Industrialised countries, as shown in import figures for 1986, accounted for almost the vast majority of imports of footwear; Europe imported US$7,937 million worth of footwear, accounting for 45.6% of total world imports and North America's imports were US$7,466 million, or 42.9 percent of the total figure.

By country, the United State's share was overwhelmingly large, accounting for 39.4 percent of the world's imports. It was followed by West Germany (13.2 percent), France (7.5 percent), the United Kingdom (6.2 percent), the Netherlands, Canada, Belgium and Japan (Fig. VII.4-3, Table VII.4-3).

Fig. VII. 4-1 World Production of Rubber Footwear (1985)



Source: Industrial Statistics Yearbook, Volume II United Nations 1985,
"Koryu" monthly Magazine, The Interchange Association
Note: Spain in 1983

Table VII. 4-1 World Production of Rubber Footwear

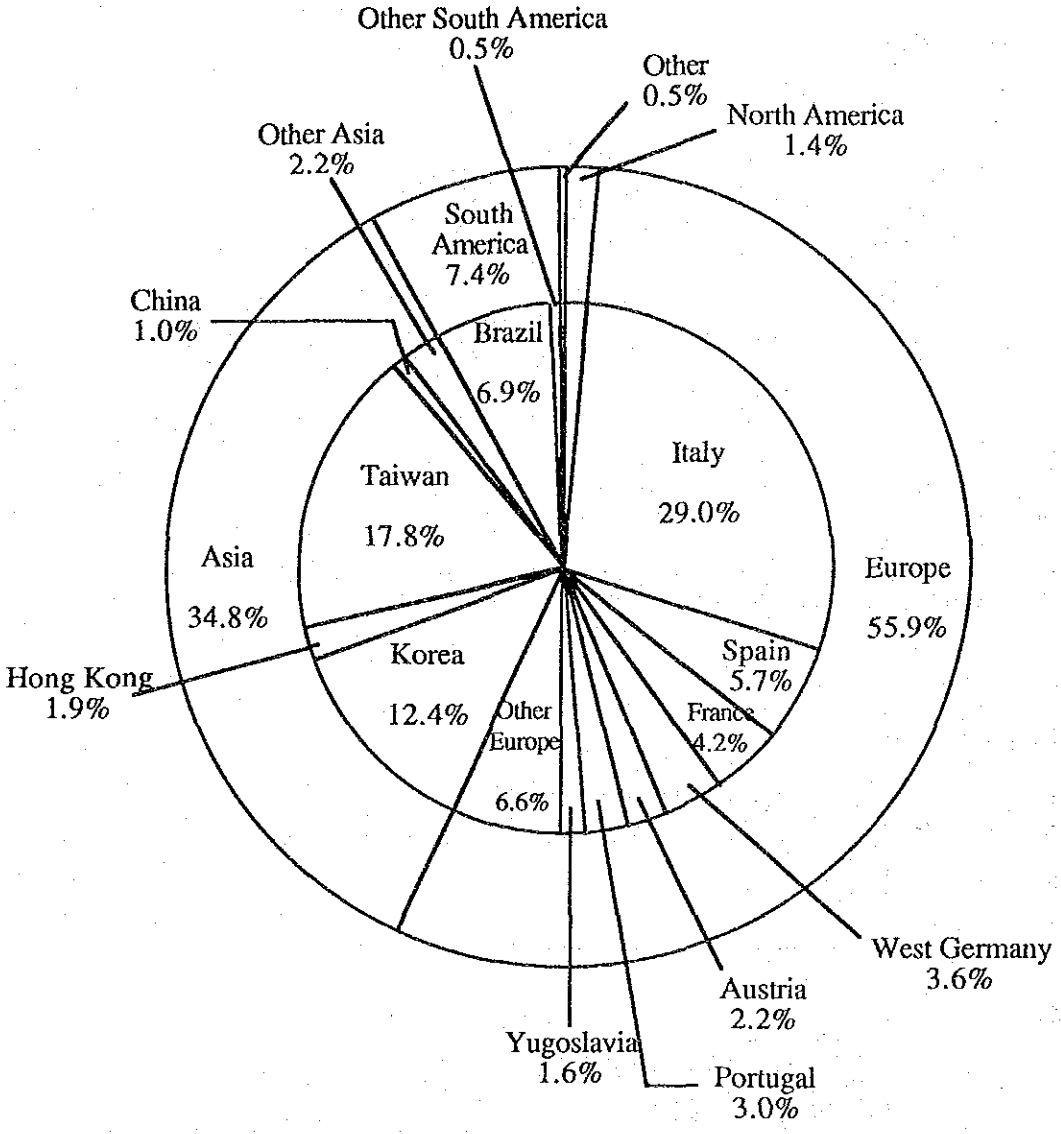
Unit: 1,000 Pairs

Country• District	1983 Value	1984 Value	1984 Growth Rate 83/84 (%)	1985 Value	1985 Growth rate 84/85 (%)	1985 Share of Total Output (%)
(North America)	(117,914)	(102,000)	(-13.5)	(94,227)	(-7.6)	(9.2)
U.S.A.	95,679	80,343	-16.0	71,836	-10.6	7.0
Canada (A)	3,213 (X)	--		--		
Cuba (B)	10,015	8,281	-17.0	8,956	8.2	0.9
(Europe)	(180,653)	(217,415)	(20.3)	(228,021)	(4.9)	(22.2)
France	2,120	1,489	-29.3	--		
Finland	1,550	1,460	-5.8	--		
Portugal	2,158	2,747	27.3	--		
Spain	92,878	--		--		
Yugoslavia	16,031	16,467	2.7	17,244	4.7	1.7
Bulgaria	9,514	7,871	-17.3	8,217	4.4	0.8
Czechoslovakia	6,461	6,140	-5.0	6,199	1.0	0.6
East Germany	5,785	4,911	-15.0	5,263	7.2	0.5
Hungary	3,085	2,955	-4.3	2,617	-11.4	0.3
Poland	19,535	18,121	-7.2	16,307	-10.0	1.6
(Oceania)	(1,014)	(994)	(-2.0)	(975)	(-1.9)	(0.1)
(Asia) *	(315,074)	(310,380)	(-1.5)	(279,494)	(-10.0)	(27.2)
Hong Kong	11,975	10,954	-8.5	--		
India	36,320	37,047	2.0	36,320	-2.0	3.5
Indonesia	9,958	10,946	9.9	--		
Iran	5,728	--		--		
Japan	72,093	71,774	-0.4	70,703	-1.5	6.9
Korea	20,680	22,589	9.2	20,340	-10.0	2.0
Malaysia (C)	14,975	--		--		
Taiwan *	87,128	79,883	-8.3	59,573	-25.4	5.8
(Africa)	(43,589)	(45,949)	(5.4)	(49,753)	(8.3)	(4.8)
(South America)	(154,759)	(156,550)	(1.2)	(156,339)	(-0.1)	(15.2)
Colombia	5,141	--		--		
Ecuador	2,497	--		--		
Brazil	146,200 (X)	--		--		
(USSR)	(199,463)	(208,484)	(4.5)	(218,437)	(4.8)	(21.3)
Total *	1,012,467	1,041,772	2.9	1,027,245	-1.4	100.0

Source: Industrial Statistics Yearbook, Volume II United Nations 1985, "Koryu" monthly Magazine, The Interchange Association

Note *: Taiwanese Canvas Shoes Production Added by Statistics of "Koryu"
Canada (X), Brazil (X) in 1980
(A) Export, (B) Including Plastic Rubber Footwear, (C) Only Peninsular Malaysia

Fig. VII. 4-2 World Exports of Rubber Footwear (1986)



Source: International Statistics Yearbook, Volume II United Nations 1986,
OECD Foreign Trade Statistics 1984~86.

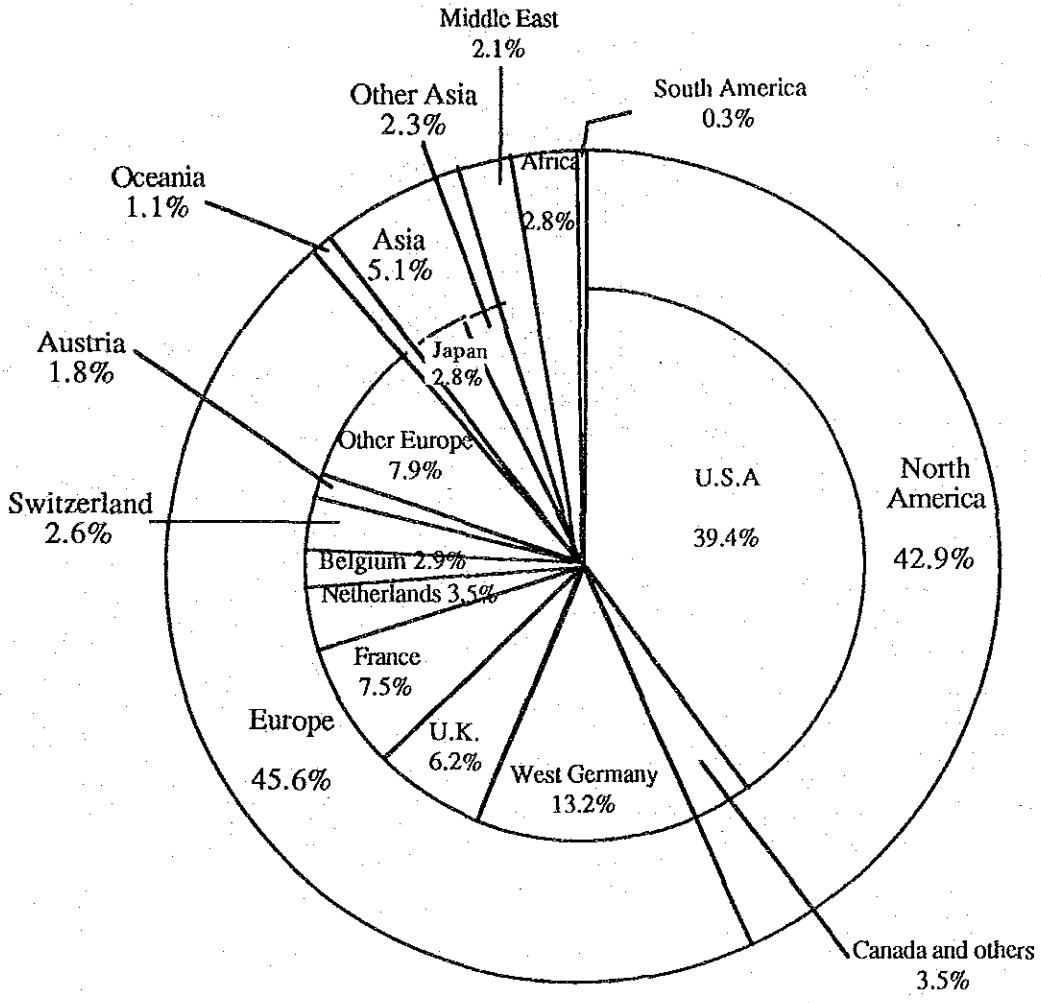
Table VII. 4-2 World Exports of Rubber Footwear (SITC851)

(Unit: US$1,000)

Country• District	1984 Value	1985 Value	1985 Growth Rate 83/84 (%)	1986 Value	1986 Growth Rate 85/86 (%)	1986 Share of Total Export (%)
(Disctictwise)						
Norh America	190,458	186,940	-1.8	237,781	27.2	1.4
Europe	6,657,448	7,261,714	9.1	9,247,063	27.3	55.9
Oceania	10,675	9,634	-9.8	11,299	17.3	0.1
Asia	4,008,818	4,549,517	13.5	5,765,008	26.7	34.8
Middle East	56,253	77,125	37.1	38,567	-50.0	0.2
Africa	45,795	52,208	14.0	31,495	-39.7	0.2
South America	2,143,448	1,222,611	-43.0	1,221,481	-0.1	7.4
Total	13,112,895	13,359,749	1.9	16,552,694	23.9	100.0
(Countrywise)						
Italy	3,503,221	3,748,029	7.0	4,807,820	28.3	29.0
Brazil	2,077,920	1,126,723	-45.8	1,142,928	1.4	6.9
Korea	1,352,057	1,534,317	13.5	2,059,134	34.2	12.4
Spain	769,021	822,607	7.0	942,397	14.6	5.7
France	512,932	576,724	12.4	696,709	20.8	4.2
West Germany	386,565	474,797	22.8	597,272	25.8	3.6
Austlia	274,900	292,064	6.2	356,908	22.2	2.2
Portugal	225,503	299,316	32.7	498,241	66.5	3.0
Hong Kong	236,993	250,013	5.5	309,833	23.9	1.9
Yugoslavia	205,506	203,797	-0.8	263,500	29.3	1.6
Malaysia	19,488	22,945	17.7	25,546	11.3	0.2
Taiwan to OECD Countries	1,991,810	2,327,906	16.9	2,866,623	23.1	17.3
China to OECD Countries	118,752	131,478	10.7	170,050	29.3	1.0

Sources: International Statistics Yearbook, Volume II United Nations 1986, OECD Foreign Trade Statistiacs 1984~86.

Fig. VII. 4-3 World Imports of Rubber Footwear (1986)



Source: International Statistics Yearbook, Volume II United Nations 1986

Table VII. 4-3 World Imports of Rubber Footwear (SITC851)

(Unit: US$1,000)

Country• District	1984 Value	1985 Value	1985 Growth Rate 83/84 (%)	1986 Value	1986 Growth Rate 85/86 (%)	1986 Share of Total Export (%)
(Districtwise)						
North America	5,984,089	6,591,881	10.2	7,465,654	13.3	42.9
Europe	5,376,742	5,714,262	6.3	7,936,507	38.9	45.6
Oceania	178,523	163,583	-8.4	199,374	21.9	1.1
Asia	691,808	719,313	4.0	883,376	22.8	5.1
Middle East	418,832	368,955	-11.9	364,348	-1.2	2.1
Africa	212,379	187,337	-11.8	490,323	161.7	2.8
South America	101,840	64,323	-36.8	49,718	-22.7	0.3
Total	12,964,214	13,809,655	6.5	17,389,299	25.9	100.0
(Countrywise)						
U.S.A.	5,424,326	6,103,707	12.5	6,857,094	12.3	39.4
West Germany	1,577,293	1,634,760	3.6	2,302,860	40.9	13.2
U.K.	861,515	864,890	0.4	1,077,835	24.6	6.2
France	776,326	877,942	13.1	1,297,915	47.8	7.5
Netherlands	401,185	420,830	4.9	612,983	45.7	3.5
Canada	371,109	366,271	-1.3	479,757	31.0	2.8
Belgium	345,923	369,761	6.9	509,985	37.9	2.9
Japan	380,189	391,231	2.9	490,336	25.3	2.8
Switzerland	314,509	320,065	1.8	449,786	40.5	2.6
Austria	217,823	218,066	0.1	313,425	43.7	1.8

Sources: International Statistics Yearbook, Volume II United Nations 1986

VII-4-2. Outline of Rubber Footwear Industry in Japan

(1) Production

Concerning the supply and demand trends of rubber footwear in Japan, statistics are compiled by both the Ministry of International Trade and Industry and the Japan Rubber Footwear Manufacturers' Association. Figures of chemical shoes and chemical sandals are collected by the All Japan Chemical Shoes Industrial Association and the All Japan Chemical Sandal Industrial Association respectively.

Statistics including these figures are available from the Federation of All Japan Footwear Organisations. These figures are classified by items, including product categories such as leather shoes, chemical shoes, injection canvas type shoes, injection rubber boots type shoes, sandals, jikatabi, rubber-soled canvas shoes, rubber boots and others.

Table VII. 4-4 shows production trend of footwear in Japan. Of the items shown in the table, rubber-soled canvas shoes and rubber boots are subject to this survey. The table shows that a total of about 49.0 million pairs of footwear belonging to the two product categories were produced in Japan in 1987.

Table VII. 4-4 Footwear Statistics in Japan

Unit: 1,000 Pairs

Footwear	1987 (Jan. - Dec.)				1988 (Jan. - Dec.)			
	Domestic Production	Import	Total	Export	Domestic Production	Import	Total	Export
Leather Shoes	89,006	12,086	101,092	213	89,184	17,246	106,430	576
Sandal	67,643	11,264	78,907	1,568	58,572	2,703	61,275	1,383
Jikatabi	2,456	7,080	9,536	16	2,713	7,381	10,094	
Rubber Sole	39,682	27,096	66,778	494	37,364			
Rubber Boot	8,568	5,560	14,128	41	8,307			
Chemical Shoes	42,836	30,459	73,295	1,192	43,821	134,676	299,465	3,680
Injection Cloth	61,239	91	61,330	659	60,327			
Injection Boot	14,847	42	14,889	63	14,970			
Others	-	42,355	42,355	2,596	--			
Total	326,277	136,033	462,310	6,842	315,258	162,006	477,264	5,639

Source: All Japan Chemicals Shoes Industrial Association, Japan Rubber Footwear Manufacturers' Association, Federation of All Japan Chemical Sandal Industrial Association

(2) Imports

(2) Imports

Table VII. 4-4 shows that import of rubber-soled canvas shoes and rubber boots amounted to about 32.0 million pairs in 1987. In Japan, almost all footwear which can be classified into rubber footwear are manufactured and imported by 21 member firms of the Japan Rubber Footwear Manufacturers' Association. Import costs of products from Korea and Taiwan showed a rapid rise in 1987 due to the appreciation of Korea's won and Taiwanese dollar and the soaring labour costs. In terms of costs, imports of products from Korea and Taiwan have been increasingly facing difficulties, prompting Japanese importers to seek for new import sources in other countries.

Concerning import by footwear manufacturers in Japan, examination is being made taking into account the following factors from a viewpoint of their comprehensive management strategies.

[1] To use domestic production and overseas production in a proper way for each.
[2] To use technology of NIEs and ASEAN countries in a proper way according to their level. (Divided by manufacturing methods)
[3] To use affiliated manufacturers in a proper way making the most of their respective characteristics.

Imported products require stable supply and good quality. In Japan, the quality is required to be above the standards set by JIS for S-5002 (canvass shoes), S-5005 (boots) and S-5037 (sizes). Outside Japan, 1-2 percent mixture of inferior goods is regarded normal but, in Japan, sometimes invites claims. Retailers, in particular, pay special care to deal in the goods concerned once they have obtained information about the inferiority of the products.

Japanese manufacturers have always intended to make the quality of their products the best in the world. The same is true for imports.

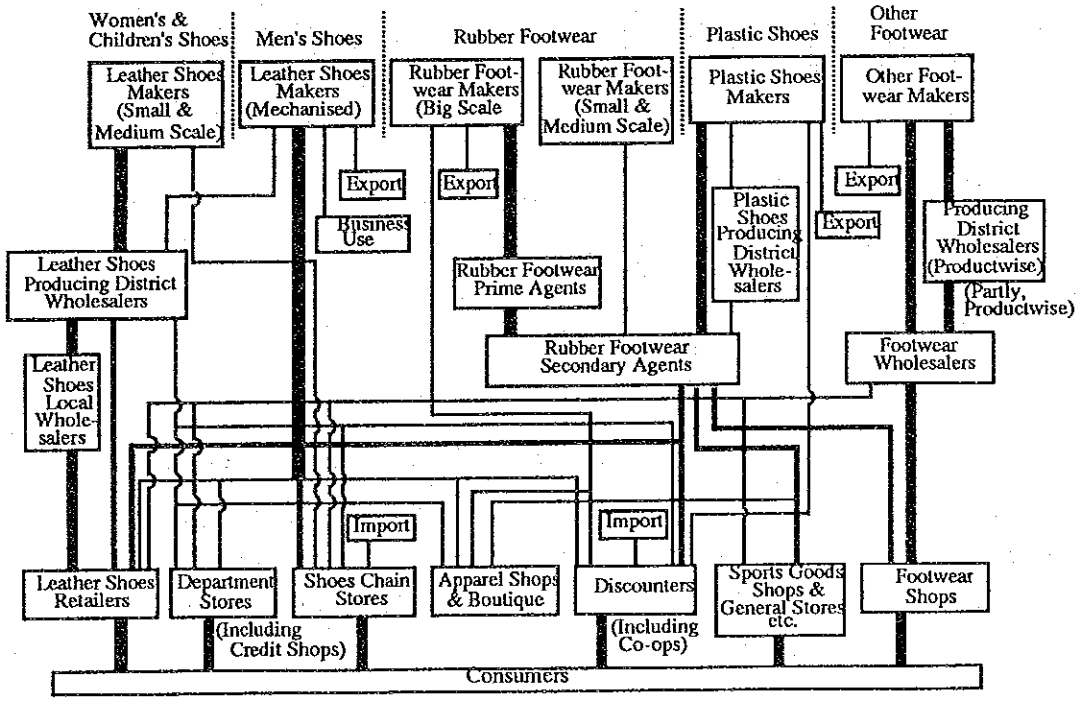
Defects in outward appearance of the products on the counter of retailers can invite claims.

In particular, mould, deformation, discolouration, adhesive spots, weaving defects, detachment of foxing tapes from rubber sole and difference of sizes between left and right of a pair invite claims. Also to protect the safety of consumers, there should be nothing to cause eruptions on the skin nor projections of tacks due to the failure to pull them out during the manufacturing process.

(3) Trend of the Japanese Market

The footwear market of Japan has been divided into leather shoes, rubber footwear, sports shoes and chemical shoes, with each of them having their own independent manufacturers, products distribution channels and sales counters. Lately, however, the diversification of the market due to the individualisation of consumers and their preference of higher-grade products has caused a crossover phenomenon in a wide range.

Fig. VII.4-4 Distribution Channels of Footwear in Japan



Source: "Shoes Book" Posty Corporation

Amid the diversification of material and design, the mainstream of rubber footwear is oriented toward shoes of closely-adhered-to-life type with functional element added on the basis of lightness and softness as a whole. However, more and more manufacturers of sporting goods, apparel or DC (Designer & Character) brands are entering the field of shoes as part of their efforts to expand their product line. Such crossover phenomenon among different types of industry has brought about diversification and fractionalisation of distribution channels and sales counters. A wide variety of articles are sent to sales

counters in accordance with their respective targets. The crossover phenomenon progresses in every type of products. Thus, both the market and the products are becoming ever more complicated.

Manufacturers, wholesalers and retailers, therefore, fix the target of their products at the masses or buyers of higher-grade goods and devise a concept of products (design, material, colour, structure and price) for each clearly defined image of consumers. They never mix up the two sorts of products.

Division of the four seasons is very clear in Japan. In the apparel industry, new products are put on sale one after another in accordance with the changes of season. In general, the exhibition and sale of new seasonal products are made at the following times of the year:

	Spring	Summer	Fall	Winter
Exhibition	Oct.-Nov.	Jan.	May-June	Sept.
Sale	Jan.-Feb.	March-June	July-Sept.	Oct.-Dec.

Any delay in coping with the seasons will bring about accumulation of stock, decline of prices and other bad effects so that full attention should be paid to the appointed date of delivery.

To cope with such circumstances, the Japanese footwear manufacturers have been reforming their productive capacity into a system capable of putting out in a short cycle products with value added on the basis of real time information.

With the diversification of the domestic market and a shorter cycle of fashion changes, the Japanese rubber footwear manufacturers are endeavoring for survival by supplying products of required quality and with more value added through the use of machine-made shoes, and thus satisfying the sense of consumers as well as observing the sale schedules.

In addition to the special characteristics of the Japanese market described above, firms considering selling Malaysian footwear in Japan should take into consideration the following points:

1) Young consumers form the backbone of the Japanese market.
2) Shoes for jogging, aerobics, basketball, and tennis are the most popular items.
3) Leather uppers are currently in fashion, but there are signs of a reactionary move to canvas uppers.
4) In addition to boasting functionality and safety, shoes are becoming increasingly fashionable and casual.

5) Signs of a boom in walking shoes, targeting the middle-aged consumer, and cross-training shoes, designed for use in a variety of sports, are appearing.
6) Specialization in products incorporating unique colours and accessories might be one way of penetrating the field of women's and children's shoes.

In any event, the best method of approaching the Japanese market is to tie up with a specialized distributor or manufacturer in order to take advantage of an established sales network. In the case of medium and lower range products, direct negotiations with supermarket chains might also be effective.

Since sales of rubber footwear is dominated by fashion trends, a constant and accurate grasp of Japanese market movements is critical to success.

(4) Industrial Associations

A wide variety of industry organizations are active in Japan, and the rubber footwear industry is no exception. The Japan Rubber Footwear Manufacturers' Association was established in 1956 and remains active today.

The Association comprises 22 member firms, among which can also be found manufacturers of synthetic resin footwear. Sales at these corporations account for fully 90% of total sales in the Japanese market. Association officials include one chairman, four vice-chairmen, one managing director, nine executive directors, 13 directors, and two auditors.

The secretariat consists of six standing officials under the guidance of the managing director. The Association is financed by member dues, and operating expenses are expected to reach ¥100 million in 1989.

The main activities of the Association are as follows:

1) Export promotion

An export committee has been established, and the Association has participated in overseas trade fairs and conducted foreign market surveys. In addition, it has held foreign trade conferences concerning rubber footwear in cooperation with the Ministry of International Trade and Industry (MITI) and otherwise worked towards the promotion of stable exports.

2) Information gathering and exchange among members

In addition to gathering information on foreign markets and technology by conducting surveys and observing footwear machinery trade fairs abroad, the Association is holding a variety of lectures and seminars.

3) Standardization of rubber footwear

Together with its cooperation in work on the development of JIS, the Association has established a set of industry standards entitled, "Standard Dimensions for Canvas Shoes."

The Association also offers opinions concerning export inspection standards and advice on statistical classifications.

4) Industry interests

The Association is involved in activities concerning the development of the industry as a whole. These target improvement of the industry-wide business environment and include petitioning MITI to: [1] prevent importing nations from raising tariff rates; [2] prevent the establishment of import-restricting legislation; [3] request cuts in overseas shipping costs and prevent increases therein; [4] eliminate import duties on machinery for the manufacture of footwear, etc.

5) Overseas exchange

Exchanges with counterparts overseas is one of the main functions of the Association, and producer conferences are held every year with representatives from Korea, Taiwan, and Hong Kong.

VII-4-3. The Rubber Footwear Market in the U.S.

(1) Outline of the Market

The U.S. Rubber footwear market is classified into four main groups: (1) sports shoes, (2) sneakers, (3) protective shoes, and (4) sandals and thongs. The first group, sports shoes, accounts for the majority of the market, totalling $4.3 billion in wholesale value in 1988.

U.S. demand for rubber footwear has been steadily increasing for the last decade. This increase has been led by the sports shoes segment, which enjoyed explosive growth during the 1980s. Growing awareness of the importance of fitness and sports has contributed to a surge in sales of expensive brand-name sports shoes and casual sports shoes for use in town areas.

The general outlook for the U.S. rubber footwear market is promising heading into the 1990s. Although the growth rate of expensive sports shoes and casual sports shoes may slow down, the overall demand is likely to enjoy continued growth. In addition, several new markets are emerging, including walking shoes for the elderly, sports shoes for babies, fashionable boots, old-fashioned basic sneakers, and multi-purpose sports shoes.

The U.S. rubber footwear market is dominated by imports as there are only two groups, protective footwear (rain and snow boots) and basic sneakers, that U.S. manufacturers produce domestically. In the sports shoes market, Korea is by far the leading supplier, followed by Taiwan, China and Hong Kong. Imports from Malaysia are very nominal.

In the past, import curbs were introduced under the Orderly Marketing Agreements (OMA). Since 1981, no injury to the domestic industry has been found. Given the current production structure, which is heavily dependent on imports, an initiative from the U.S. industry to restrict foreign imports is now unthinkable.

(2) Access to the U.S. Market

[1] According to sources in the U.S. footwear industry, there are four ways for Malaysian manufacturers to gain access to the U.S. rubber footwear market.

The first option is for the Malaysian government to promote the country as a site for U.S. overseas factories. It is important for Malaysia to make more aggressive efforts to invite foreign manufacturers through public relations activities aimed at promoting awareness of Malaysia's advantages over other countries. These include a well-established infrastructure (ports, roads, power, telecommunications and export

processing zones), skilled labour forces, a variety of incentives and a favourable living environment. For public relation activities they should consider the use of audio/visual media and a guidebook compiling the experiences of foreign businessmen in Malaysia. The attraction of U.S. capital could offer the fastest means of building a local manufacturing base and penetrating the U.S. market.

[2] The second option is an overseas commission production arrangement under which U.S. firms would contract Malaysian manufacturers to produce shoes or footwear parts using their specifications. Currently, Malaysian manufacturers are producing products for European and Australian companies under this form of arrangement which is also called an "OEM" contract. However, production for U.S. manufacturers would be very small. A main factor for this is the limited size of footwear factories in Malaysia. They are not suited for the large-lot production required for supply to the U.S. market. To enter the U.S. market, it is necessary to promote Malaysian products to U.S. manufacturers with the aim of winning OEM contracts with the manufacturers of established brand-names such as Nike.

[3] The third option is to form joint ventures between U.S. and Malaysian firms. This option includes the establishment of joint ventures with manufacturers in Korea and Taiwan which produce brand-name products for the U.S. market. By teaming up with U.S. firms or manufacturers in Korea and Taiwan, Malaysian companies could acquire management and marketing skills and learn product development strategies. In this case, it is necessary to establish a system for the supply of information related to the general investment climate and the technological capability, financial strength and management of each company.

[4] The fourth option is direct exportation of Malaysian footwear products. In the short-term range, the target should be in the reduction of export prices of Malaysian products because the technical levels of Malaysian products have already improved to a satisfactory level. The most promising markets for Malaysian products are those for sports shoes such as low basketball shoes, cross-training shoes and tennis shoes. In the short run, the market for basic sneakers offers a good opportunity while in the middle-term range, prospects for walking shoes for the elderly are bright. In identifying promising markets, each manufacturer should make efforts to study market trends by participating in special exhibitions and joining inspection missions.

Regardless of the choice, it is important for Malaysian firms to act soon to enter the U.S. market to take advantage of the current favourable environment and to compete with Indonesia, Thailand and China.

Currently, Korea, Taiwan and Hong Kong dominate the U.S. import scene. However, they are now suffering from the appreciation of their currency against the U.S.

dollar and increasing labour costs. Countries such as Malaysia could become increasingly attractive offshore sourcing alternatives for these reasons.

Furthermore, Korea, Hong Kong and Taiwan no longer enjoy favourable tariff treatment under the Generalized System of Preferences (GSP). Although GSP is extended to only a few categories of rubber footwear products, footwear parts, zori and disposable footwear, the graduation of Korea, Taiwan and Hong Kong from the GSP places Malaysia in a more competitive position in the production of footwear.

Since the current leading exporters are shifting their focus toward electronics and machinery, their governments no longer view the rubber footwear industry as an engine for export growth. Since the industry concentration has shifted, Malaysian manufacturers should consider launching an aggressive drive to develop the local rubber footwear industry.

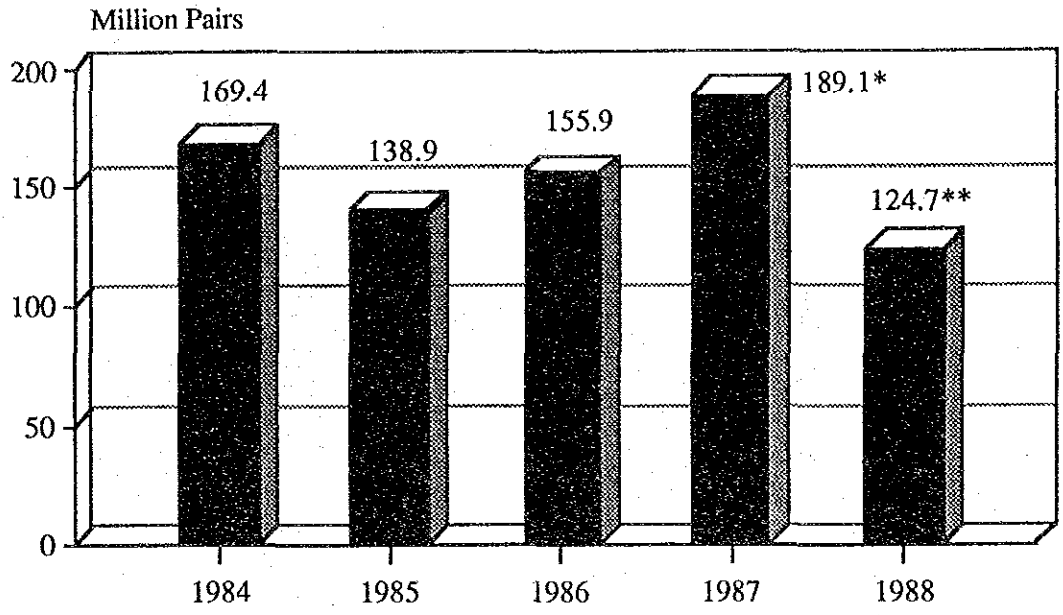
Other countries such as Indonesia, Thailand and China are are also emerging as attractive sourcing alternatives, and thus it is important for Malaysian manufacturers to assure and improve quality and to rationalize costs through the reduction of defect ratios. Finally, it is desirable for public institutions such as RRIM to establish an inspection system and expand R&D activities to support private industry.

(3) Trends in Demand

U.S. demand for rubber footwear has been on an upward course since 1985 and will likely reach new high in 1988, (1988 demand figures are not available yet.) Demand for basic sneakers (fabric upper with rubber or plastic soles) fell from a total of 169.4 million pairs in 1984 to a low of 138.9 million in 1985. It then rose in 1986 to 155.9 million and reached 189.1 million pairs in 1987, an increase of 21 % over 1986. The ITC statistics reveal that during the first six months of 1988, 124.7 million pairs were purchased. If this momentum continues, 1988 could be a record year for rubber footwear consumption. (Fig. VII.4-5)

The heightened demand for rubber footwear is fueled by sharply rising demand for brand name sports shoes. The demand for U.S. brand name sneakers and sports shoes totaled $1.8 billlion in wholesale value. In 1988, U.S. sales totaled $4.3 billion, up 139% since 1983. The sales increase is partially attributable to the ongoing fitness craze occurring in the U.S. In addition, a barrage of sophisticated advertising and marketing efforts by U.S. companies is fueling the demand. These brand name companies are now looking to expand the market demand for other kind of footwear beyond the sports shoes market sector.

Fig. VII. 4-5 U.S. Market Demand ('84 - '88)
[Fabric Upper with Rubber or Plastic Soles]



* Preliminary Figures
** Preliminary Figures For First Two Quarters of 1988
Source: Textile Division, USITC

(4) Production Trends

As previously described, the U.S. rubber footwear market is comprised of four major groups: sports shoes, basic sneakers, protective footwear and sandals and thongs..U.S. manufacturers, however, produce two of these four groups: Protective shoes and basic sneakers. In addition, almost all athletic shoes are now manufactured in foreign countires. Major brand name U.S. manufacturers of joggers and sneakers such as *Reebok, Nike, Converse and L.A. Gear engage in overseas production.* With import programmes closedly linked to U.S. sourcing arrangements, the U.S. rubber footwear industry will continue to rely heavily on imports.

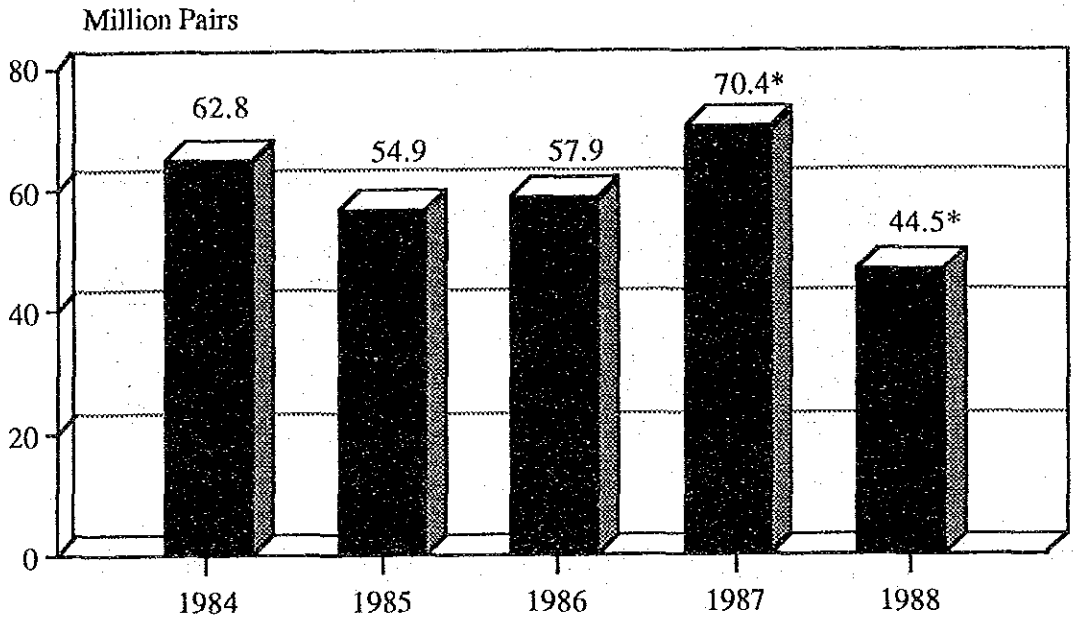
The following is the production trend of sneakers and protective shoes:

1) Basic Sneakers/Casual Footwear

U.S. production recovery was led by a rebound in the sector of basic sneakers or casual footwear (fabric upper with rubber or plastic soles), which reached a production level of 70.4 million pairs in 1987 from a low point of 57.9 million pairs in 1985. Industry sources suggest that if production levels in this area maintain their current

momentum, 1988 production will have probably exceeded that of 1987 by a respectable margin. Continued growth in this segment of the market is anticipated. (Fig. VII.4-6)

Fig. VII. 4-6 U.S. Production Trends ('84 - '88)
Fabric Upper with Rubber or Plastic Soles

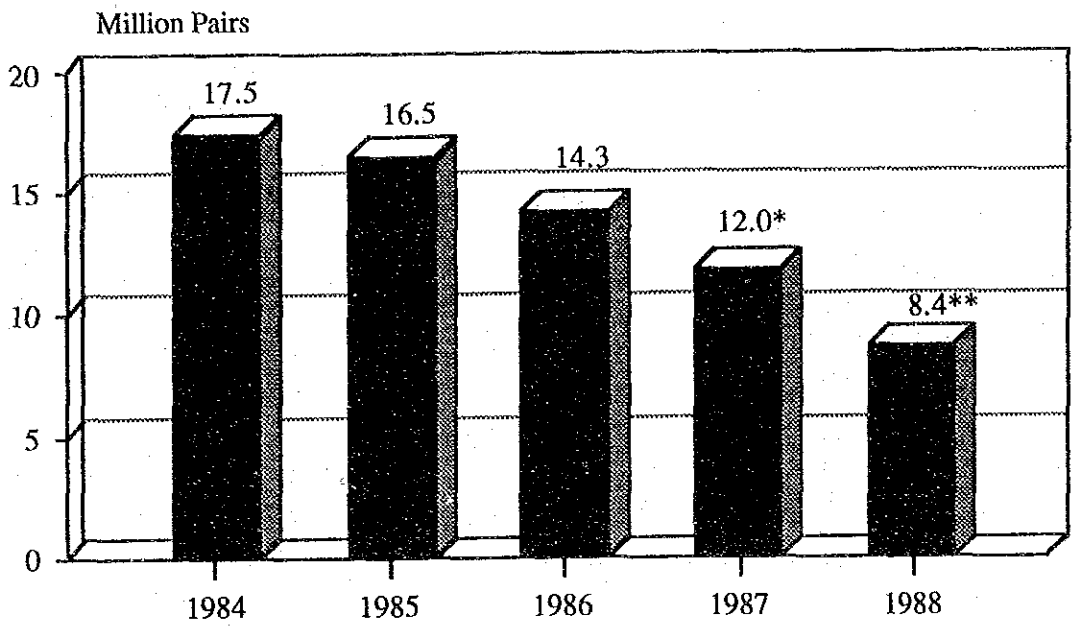


* Preliminary Figures
** Preliminary Figures For First Two Quarters of 1988
Source: Textile Division, USITC

2) Protective Footwear

In contrast, domestic production of protective footwear continued to decline throughout 1986 and 1987. The U.S. produced 17.5 million pairs in 1984, 16.5 million in 1985, and 14.3 million in 1986. However, in the first six months of 1988, there was an upturn in domestic production levels. During the first two quarters of 1988, production levels were up by 39% from the previous two quaters and 61% from the same quarters of the previous year. (Fig. VII.4-7)

Fig. VII. 4-7 U.S. Production Trends ('84 - '88)
Protective Footwear



* Preliminary Figures
** Preliminary Figures For First Two Quarters of 1988
Source: Textile Division, USITC

(5) Trends in Imports

U.S. rubber footwear imports reached 129.1 million pairs in 1987. This was a significant increase over figures for 1986 (109.7 million pairs), 1985 (97,.6 million pairs) and 1984 (123.7 million pairs). It appears that 1988 figures will exceed the 1987 import level. (Fig. VII.4-8)

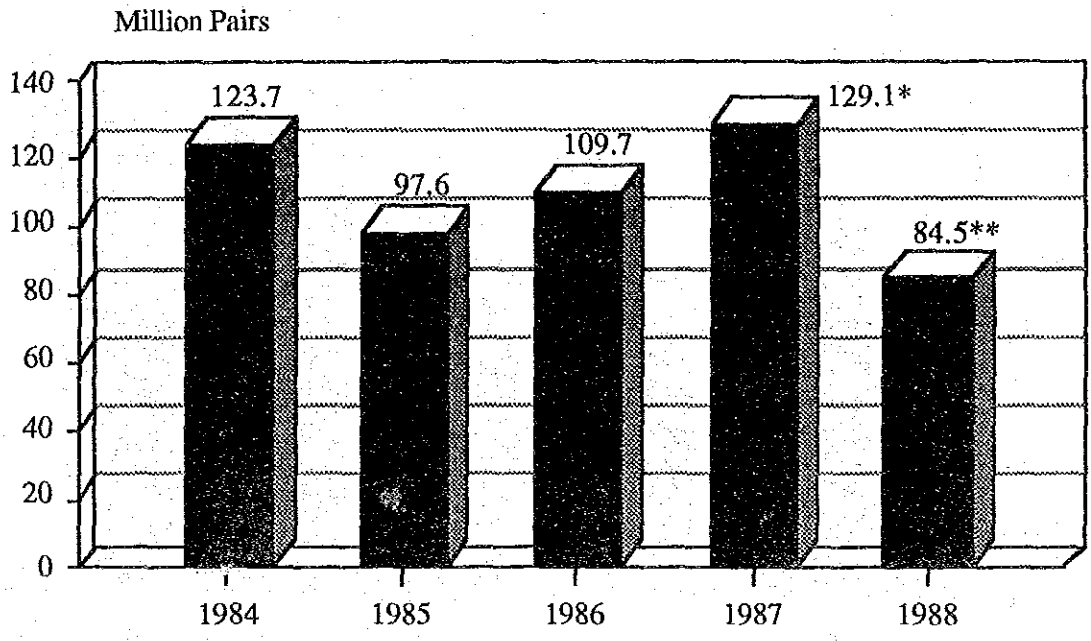
Casual rubber footwear (fabric uppers with rubber/plastic soles) has been leading the recent import swell. U.S. imports in this caegory grew from 84.8 million pairs in 1985 to 99.0 million in 1986. In 1987, they made a substantial lead to 119.5 million pairs. Early indications for 1988 suggest that imports will significantly exceed 1987 levels. (Fig. VII.4-9)

U.S. imports of protective footwear, on the contrary, have falled by almost 50% since 1984. Imports were 16.0 million pairs in 1984, 12.8 million in 1985, 10.7 million in 1986 and 9.6 million in 1987. In the first half of 1988, there were only 3.9 million imported pairs of protective footwear on the U.S. market. (Fig. VII.4-10)

Imports from East Asia completely dominate the U.S. rubber footwear import market. Korea, in particular, has been the dominant rubber footwear supplier since 1984. Korea's preeminence extends to almost all forms of rubber footwear. In fact, Korea leds in 9 out of 14 different sub-categories of the rubber footwear market in 1987, especially in sports shoes, joggers and sneakers of all prices. Protective footwear is the only sector in which Korea is not the market leader. Taiwan, Brazil, West Germany and Canada are important producers in this area, along with Korea. Mexico is the chief supplier of rubber or plastic slip-on shoes, and the China is the main foreign produce of low-priced zoris.

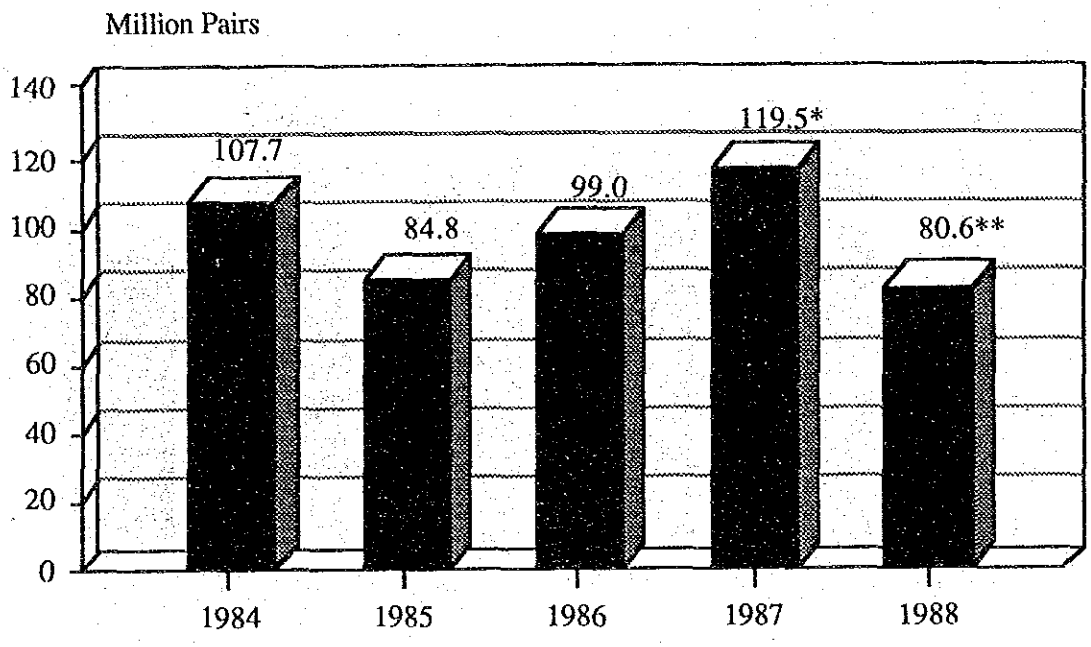
Attention is focused on the China and Thailand. According to figures provided by the ITC, imports from China and Thailand during the first two quarters showed impressive growth rates of 66% and 200%, respectively. An industry analyst notes that although Malaysia is not currently a major rubber footwear exporting country, it will be the most significant new source of rubber footwear imports to the U.S.

Fig. VII. 4-8 Total U.S. Imports ('84 - '88)



* Preliminary Figures
** Preliminary Figures For First Two Quarters of 1988
Source: Textile Division, USITC

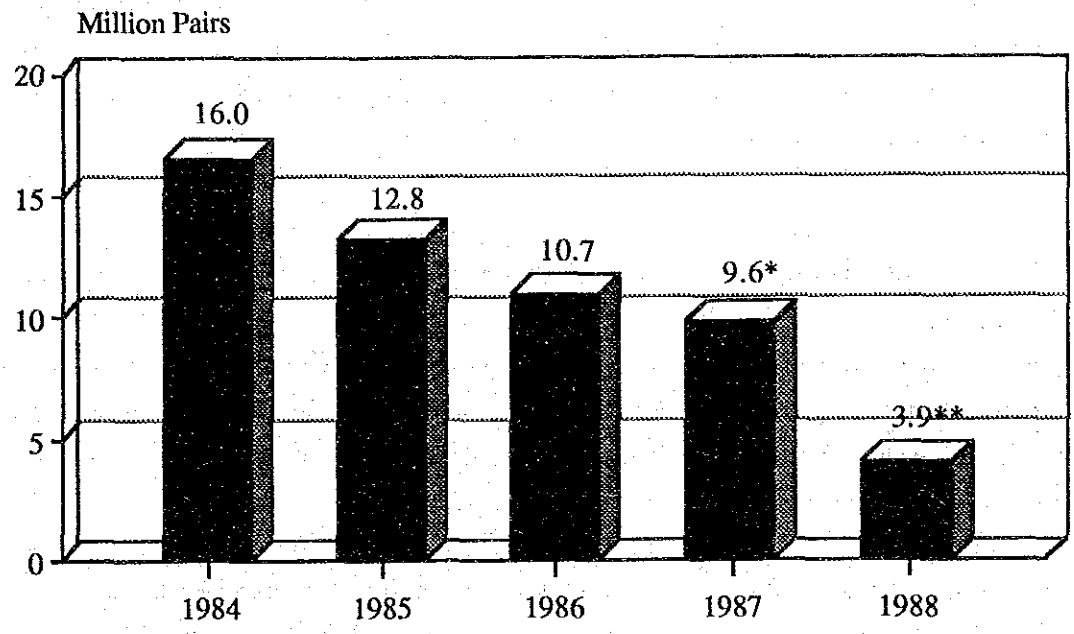
Fig. VII. 4-9 U.S. Imports ('84 - '88)
Fabric-Upper with Rubber or Plastic Soles



* Preliminary Figures
** Preliminary Figures For First Two Quarters of 1988
Source: Textile Division, USITC

[Fabric-Upper with Rubber or Plastic Soles]

Fig. VII. 4-10 U.S. Imports ('84 - '88)
[Protective Footwear]



* Preliminary Figures
** Preliminary Figures For First Two Quarters of 1988
Source: Textile Division, USITC

(6) Major Distribution Channels

In recent years, U.S. distribution channels have developed into a highly complex web that weaves elements of production and retail factors. Today, most major rubber footwear producers find it necessary to employ more than one channel of distribution in order to remain competitive in the U.S. market.

1) Distribution Channel One

The traditional distribution route of rubber footwear producers mirros the channels of distribution employed by the appeal industry. U.S. rubber footwear makers rely on footwear trade shows to sell their shoes. These shows (sometimes referred to as "markets") are attended by footwear industry buyers who are employed by retailers. Buyers represent the interests of major department stores, sporting goods stores, mail order houses and smaller independent retailers.

Buyers place their orders and receive shipments either from a domestic factory or via a distributor that handles the importation of the goods manufactured overseas.

This distribution system utilizing footwear shows by buyers is the most costly to the consumer because it involves several steps.

2) Distribution Channel Two

Larger companies such as Reebok, Nike and Converse employ their own sales representatives that sell directly to retailers. Sales representatives are responsible for handling a specific region, and they cultivate relationships with the retailers in that market. Retailers buy directly from the representatives that are responsible for insuring the delivery of footwear from the warehouse to the store.

3) Distribution Channel Three

A third method of distribution favored by larger U.S. companies attempts to eliminate some costs by owing and operating both their factories and retail shops. In this way, the company is able to control both production and distribution and eliminate the need for middlemen, buyers or sales representatives. This channel might offer the most substantial savings to the consumer.

4) Distribution Channel Four

Some U.S. companies have contractual agreements with off-price/discount stores. In such cases the retailer receives merchandise directly from the producer's factory or

warehouse.Frequently, these products are irregular in quality and appearance.(slightly defected).

5) Distribution Channel Five

In the case of protective footwear, there are two chief channels of distribution employed. The first route reflects the traditional channel of distribution which includes the use of a buyer, a footwear show, a distributor and finally the retailer. However, a second distribution channel is used for specialized protective footwear products. In this case a buyer deals with a sales representative, and an arrangement is worked out wherby a special order is placed for a specified boot. The factory is basically commissioned to produce a specialized item. This type of tailer-made arrangement is common to the production of highly specialized industry boots such as those worn by workers in nuclear power facilities.

(7) Market Trends

In general, there are a number of factors wchich influence the market trends of the U.S. rubber footwear market.

The following are among the most important trends that may be affecting the present and future composition of the U.s. footwear market.

1) Brand Name Preference

Many U.S. customers are strongly influenced by brand names. There is a strong tendency that many U.S. customers buy certain shoes because they are fashionable. Given the importance of the brand name, manufacturers seek actively to promote thier name. Heavy use of concept advertising (described below in this section) is designed to give the name which would add a sellable reputation or "flavor" to shoes.

2) Market Segmentation

There is a growing segmentation of the U.S. rubber footwear market. More and more producers have to cope with the heterogeneous nature of the U.S. market. As U.S. customers' buying habits have become increasingly sophisticated, there is now no one single profile of an American buyer. As the rubber footwear market in the U.S. becomes highly compartmentalized and fragmented, niche markets and specialized and unique products will be more and more important for both manufacturers and retailers.

3) High Tech Component

In general, a current important trend, particularly in sports shoes, is an emphasis on the technology component of the shoes. "High-tech" sports shoes are up-scale in both price and quality, and appeals to those who are serious about their involvement in sports, either for health or leisure purposes. The idea is to reinforce the brand name by demonstrating that the shoe has special qualities, which will provide comfort, prevent injury, or cushion the impact of athletic activity.

4) Influence of Apparel Trends

Footwear market trends are affected by garment trends, particularly in the women's footwear market.

Women change shoes more often than men; they buy a greater variety; and they tend to look for items that are currently in fashion to wear in combination with their clothes. Because of this tie, weak garment sales generally result in weak footwear sales.

5) Colour

U.S. footwear manufacturers have begun emphasizing the colour element in making shoes. For example, in the past, sports shoes or rubber boots were available only in certain colours. Now, these shoes are offered in a wide variety of colours. This trend has been partly promoted by the manufacturers as part of their market strategies. It has also been driven by the trend among consumers who find shoes more a fashion item than that of function. More and more U.S. consumers now look to colour as an important factor of the shoes.

VII.4-4 . Rubber Footwear Industries In Korea and Taiwan

This chapter looks at the general situation of the footwear industries in Korea and Taiwan which have been covered as part of the third country survey. These country and region hold a very important position in regard to the production and supply of footwear in East Asia and also all over the world. Both Korea and Taiwan have developed as a result of their exports to the United States. However, a decline in their competitiveness is feared due to factors such as the recent rise in labour costs and the revaluation of their currencies against the US dollar. Steps to counter this situation not only include the development of technology and turning to products with a high added value, but moves are also being seen where manufacturers are setting up operations in other countries to take advantage of cheaper sources of labour. Due to the highly labour intensive nature of footwear products the stage has been reached where production bases which were once shifted from Japan to Korea and Taiwan are being now shifted again to countries such as Indonesia and China.

(1) History of the Rubber Footwear Industry

1) Start of Growth

Rubber footwear manufacture in Korea started in 1920 with the establishment of the Tairiku Rubber Manufacturing Company, a joint venture between Japanese and Korean interests which was formed for the manufacture of rubber footwear. Keijo Rubber and Samhwa were established in the 1930s with local capital, and then in the latter half of the 1940's companies such as Kukye and Tae Hwa were established. The rubber footwear industry grew largely around the production of rubber shoes. The period up until 1955 can be described as one of infancy. Most of the many Japanese companies which were established up to this date no longer remain today. From the latter half of the 1950s through to the early 1970s the rubber footwear industry grew in both terms of quality and output as a result of the increase in demand for combat boots as well as a stable domestic demand. Canvas rubber shoes and plastic shoes joined rubber shoes as major production items.

As for Taiwan, Taihatsu Rubber and Fong Chuan Rubber were established around the middle of the 1940s. They were followed by Fu Xing Rubber and Bei Hua Rubber which went into production before 1960. The rubber footwear industry in Taiwan has experienced rapid growth since the 1960s. A major contributing factor was the development of the petrochemical industry. As a result, the production of plastic footwear made from raw materials such as PVC and PU increased significantly. Japanese

manufacturers began to set up operations in Taiwan from 1965 onwards. The formation in 1965 of joint venture companies by Rikio to make work shoes and Fukuyama Rubber to make cloth shoes was followed up until 1970 by a number of Japanese companies setting up operations in Taiwan. They include Mitsuuma, Moon Star, Nichiman, Onitsuka, and Japan Industry. In addition to such companies from Japan, the West German company Adidas also established operations in Taiwan. However, as is also the case with Korea, most of these companies no longer exist.

2) Growth Due to Expansion of Exports

Korea first exported rubber shoes to the United States in 1962 when some 128,000 pairs of shoes (worth US$119,000) were exported to that country. Rubber footwear exports continued to increase, and in 1973 they were worth US$100 million. During the first half of the 1970s rubber footwear bloomed as an export industry, so that in 1976 the value of footwear exports accounted for 5.7% of Korea's total exports. During this period the situation arose where it was not possible to keep up with orders from overseas, and as a result there was a rush of activity within the industry to increase existing production plant and equipment as well as to construct new plant and equipment. However, exports failed to expand during the period from 1977 through to 1981 as the result of the implementation of import restrictions on non-rubber footwear by the United States- its major footwear importer. The industry underwent hard times during this period due to the surplus of production plant and equipment and also the sharp increase in domestic wages and in the price of raw materials.

With the lifting of restrictions on exports to the U.S. in the early 1980s a number of new manufacturers began a major export drive. However, the slump in the export of all-rubber shoes which led the large manufacturers to turn to the domestic market saw a series of bankruptcies of medium and small-sized manufacturers in 1982. In addition, with a change towards a demand for higher grade and more fashionable footwear manufacturers were required to have development and production systems that corresponded to this trend. As for export markets, Hong Kong, Taiwan, and Brazil were fast catching up. A shift was made from a system of order production based on the introduction of technology for well-known overseas brands over to a system for development production. Since the mid-1980s increased efforts have been made in the area of developing and fostering its own brands.

As for Taiwan, although there were some exports of rubber boots and sports shoes to Southeast Asia during the 1950s, footwear exports remained relatively small until the 1960s when it became possible to export a large volume of sandals and slippers as a result of Taiwan's newly available self supply in PVC and PU. However, at first

most of the exports were cheap and of inferior quality. But this was followed by greater attention to product development as famous brands of sports shoes and leisure shoes were imported into the country. The industry has grown considerably as an export industry since the 1970s due also to the dispatch of observation missions overseas, the holding of trade fairs, and greater support for marketing activities as part of the government's policy for the promotion of exports. The industry grew as exports to the United States expanded, but as was the case with Korea the industry faced difficult times from 1977 through to 1981 when it recorded a decrease in exports, mainly in plastic footwear which accounted for two-thirds of its exports, as a result of the US's import restrictions. While production began to expand once more with the abolition of the export agreement between the two countries, excessive competition resulted in decreased profitability for plants. Even though in the early 1980s OEM for well-known brands such as Adidas was taken on, due to having to rely on imports for raw rubber and raw leather the industry mainly produces synthetic rubber-soled shoes in which it is able to be self sufficient.

(2) Production Today

1) Production Trends

Korea and Taiwan's output of footwear in recent years is shown in Tables VII.4-5 and VII.4-6. Although there are differences between the various types of statistics available, data held by the Korean Footwear Exporters Association show that in 1987 the total output for all kinds of footwear in Korea was 468 million pairs, or the equivalent of a 21% increase over the previous year. In the case of Taiwan, however, output was 687 million pairs in 1987 which was equal to a 1% decrease over 1986 figures which had shown a 20% increase over the previous year. Figures for 1988 showed a further decrease with output standing at 588 million pairs, similar to the level recorded in 1985. Fig. VII.4-11 and VII.4-12 show the ratios of total output for the various items of footwear. As has already been mentioned, footwear made from plastic has been the major footwear product produced by Taiwan for some time, and in 1988 it accounted for 69% of total production. The drop in production recorded in 1988 is mainly due to the decrease in the production of plastic footwear for that year. In contrast to this, leather sports shoes are the leading production item in Korea and in 1987 they comprised 36% of total production. They were followed in second place by canvas shoes which comprised 22% of the total, with plastic shoes ranked third and comprising 16% of total production.

Table VII. 4-5 Output of Footwear in Korea

Unit : 1,000 Pairs

	1983	1984	1985	1986	1987
Canvas Shoes	97,721	99,797	68,899	85,713	103,770
All Rubber Shoes	22,946	22,726	20,673	19,447	16,285
Plastic Shoes	27,522	19,218	27,610	46,977	76,525
Leather Sports Shoes	126,034	131,520	143,346	166,261	169,424
Other Leather Shoes	-	-	11,981	16,268	26,909
Slippers	20,669	19,364	21,491	27,420	37,650
Others	14,625	14,379	14,203	26,115	37,540
Total	309,517	307,004	308,203	388,201	468,103

Source: Korean Footwear Exporters Association
Note: Leather Sports Shoes for 1983 and 1984 Include Other Kinds of Leather Shoes.

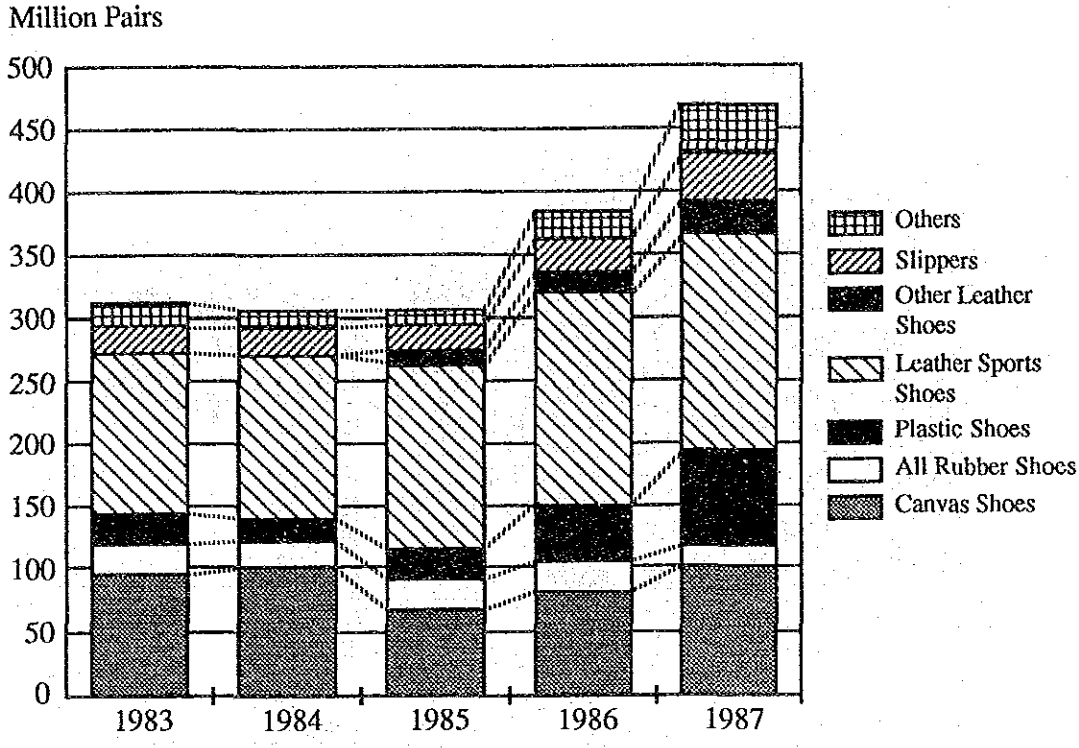
Table VII. 4-6 Output of Footwear in Taiwan

Unit : 1,000 Pairs

	1983	1984	1985	1986	1987	1988
Canvas Shoes	87,128	79,883	59,573	71,602	62,056	49,758
All Rubber Shoes	2,269	2,411	2,679	1,927	950	706
Plastic Shoes	269,198	348,446	389,085	468,295	478,524	403,357
Leather Shoes	66,293	111,504	133,388	150,772	145,836	134,397
Total	424,888	542,244	578,725	692,596	687,366	588,218

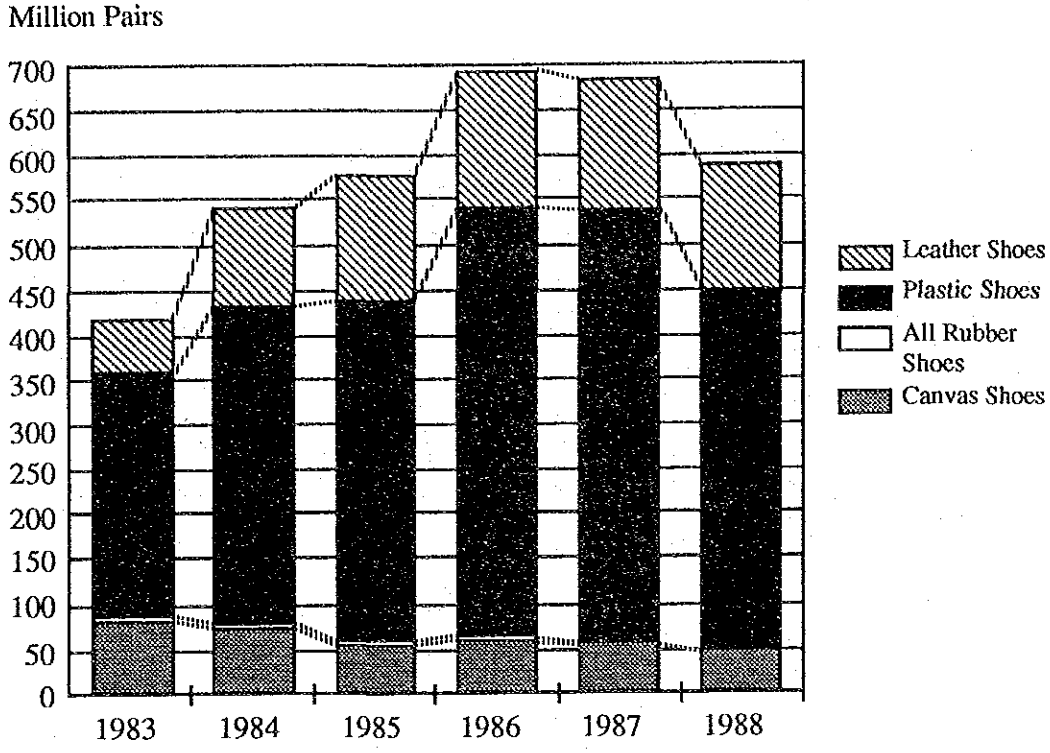
Source: Industrial Production Statistics Monthly, Taiwan Area

Fig. VII. 4-11 Output of Footwear in Korea



Source: Korean Footwear Exporters Association
Note: Leather Sports Shoes for 1983 and 1984 Include Other Kinds of Leather Shoes.

Fig. VII. 4-12 Output of Footwear in Taiwan



Source: Industrial Production Statistics Monthly, Taiwan Area

2) Structure of the Industry

According to data held by the Economic Planning Institute of Korea, as of the end of 1985 there were 875 companies which manufactured footwear in Korea (includes manufacturers producing parts, etc). They employed a total work force of 153,900 workers and total production was worth 1.79 trillion won. Of the 875 manufacturers, 365 produced rubber shoes, 181 leather shoes, and 170 parts. According to the white paper on industry and commerce for 1987, however, there were some 3,758 companies manufacturing footwear in Korea in 1986. Medium and small companies comprised 98% of the total, with only 72 large companies. The five largest manufacturers are covered in the following section.

As for Taiwan, according to an industry association there are approximately 1,200 footwear manufacturers, the majority of which manufacture for export. There are about 150 companies which manufacture genuine leather shoes, that is men's shoes, etc for which the uppers and soles are made of leather. There are also approximately 600 manufacturers which produce mainly for the domestic market. Footwear factories in Taiwan tend to be somewhat smaller in scale than those in Korea. A publisher which publishes newspapers and journals on industry in Japan has classified the largely export-

oriented footwear industries of Korea and Taiwan into the following three categories on the basis of the level of products and the situation regarding management.

It should be noted that in both Korea and Taiwan there are many factories manufacturing exclusively for export which are affiliated to large company groups.

Korea

Class A: Factories producing mainly international brands of sports shoes which rank at the top in the world in terms of production, quality, and volume. Many of these factories have long had ties with Japanese manufacturers and they also export to Japan.

Class B: While factories in this class are bigger in size than Taiwanese factories, they rank as medium size factories by Korean standards. Due to the shortage of Japanese manufacturers and those which qualify for Class A many of these factories produce products for large American and European brands.

Class C: The management of these manufacturers is generally unstable. They produce products for large American and European retailers and for Japanese wholesalers.

Taiwan

Class A: Companies in this class produce high quality sports shoes and casual shoes which include the Reebok, Nike, Avia, Adidas, and Rockport brands. While a large percentage of their goods are exported to the United States, they are turning their attention to Japan and Europe as they diversify their export markets. There are about 200 companies in this class and they have between 2-22 production lines.in their factories

Class B: Manufacturers in this class produce for the American and Japanese markets. Shoes made of leather and plastics comprise a large portion of their output. Even though they are small and have 2-3 production lines they are economically and technically sound. There is, however, a difference between their U.S. and Japanese lines, and it is not easy for them to change lines each other due to factors relating to quality and lot size. Approximately 400 companies fall within this category.

Class C: Manufacturers in this group produce mainly cheap shoes for the U.S. and Japanese markets. Products exported to the U.S. are handled by large retailers, and those bound for Japan are handled by outsider wholesalers.As a result of higher costs during1987 and 1988 moves have been seen to be made towards using this class of manufacturer even though in terms of quality and delivery they are not up to the level required for leading brands. There are about 700 manufacturers in this group and they have only 1-2 production lines. There have been many closures and bankruptcies in this group.

3) Outline of Leading Companies

According to " Korean Industries" (published by Korean Development Bank) there are five main manufacturers of rubber footwear in the country. These are shown in Table VII.4-7. In addition to these five, a Japanese footwear journal listed Poong Young and Dae Yang as each having annual turnovers in excess of 100 billion won in 1986. Also, HS Corp has seven affiliated companies including Tong Yang Rubber and Poong Young and is the largest footwear sales comapny in Korea.

The companies which were covered as case studies as part of the Taiwan survey are as shown in Table VII.4-8. The top ten (on a value basis) exporters of footwear in Taiwan listed by a Japanese footwear journal include some of these companies. The ten companies are: Pou Cheng, Sherwood, Phondy Enterprise, Ching Luh, Feng Tay, San Peng, Han Ging, Tong Yang Chemical,Daimond Industry and Chung Hoo Ind.

Table VII. 4-7 Leading Footwear Manufacturers in Korea

Company Name	Establishment Year	Capital (Billion Won)	Employees Number	Production Capacity	Main Products	Export Ratio(%)
Kukje Corp.	1949	38.83	13,760	34,032	Canvas Shoes, Plastic Shoes, Rubber Shoes	70.0
Tong Yang Rubber	1947	6.37	8,700	15,000	Plastic Shoes, Canvas Shoes	93.5
Tae Hwa Co.	1931	3.74	9,500	16,509	Plastic Shoes, Rubber Boots, Canvas Shoes	94.0
Samhwa Co.	1953	5.50	10,194	22,323	Plastic Shoes, Jogging Shoes, Canvas Shoes	85.0
Ching Yang Corp.	1963	4.00	6,800	27,251	Canvas Shoes, Plastic Shoes, All Rubber Shoes	60.0

Source : [Korean Industries 1987] The Korean Development Bank

Table VII. 4-8 Leading Footwear Manufacturers in Taiwan (Case Study)

Company Name	Establishment Year	Capital (NT$ 100 Million)	Employees Number	Production Capacity	Main Products	Export Ratio(%)
Pou Chen Co.	1970	5.49	5,159	12,000	Rubber Shoes, Slippers, Sandals, Sports Shoes	80
Sherwood Inc.	1969	4.86	1,450	4,850	Sports Shoes,	80
San Peng Inc.	1970	0.75	1,750	3,600	Rubber Shoes, Leather Sports Shoes, Boots	100
Chung Hoo Ind.	1972	0.37	510	1,920	Sports Shoes, Tennis Shoes	100
Jung Di Hsing Ind.	1983	1.20	950	1,800	Succer Shoes, Tennis Shoes, Baseball Shoes	100

Source : Survey in Taiwan
[Rubber Industry in Taiwan] Posty Corporation
Note : Production Capacity and Export Ratio Partially Estimated

4) Industry Groups

Both Korea and Taiwan have industry associations which cover the footwear industry. The Korean Footwear Exporters Association was established on the basis of the Exporters Association Act. Its activities include allocating quotas for footwear exports, making import recommendations for raw materials for use in exports, the exchange of information within and outside the country, and submitting requests to the government concerning problems and tasks facing the industry. Its members comprise both manufacturers and exporters, and there is a total membership of 75 companies. The Korean Rubber Industries Cooperative Association represents medium and small manufacturers of rubber products which include footwear, parts for footwear, belts, hoses, etc.

In the case of Taiwan there is the Taiwan Footwear Manufacturers Association, a manufacturers' association which has a membership of 1,235 companies.

Industry association from Korea, Taiwan, Hong Kong and Japan hold joint conferences at which they exchange opinions and also statistics and data.

5) Recent Trends in the System and Policies

In Korea there are no special incentive measures for footwear. While more than 75% of footwear production is exported and it ranks behind textiles, electronics and steel as one of the country's leading export items, the footwear industry is basically neither a key industry nor one marked for strategic development. Although it has been subject to assistance with export finance along with other export industries such incentive measures have gradually been cut back due to the surplus recorded in the country's international balance of payments in recent years. The basic policy line taken in regard to the footwear industry consists of allowing the industry freedom to make its own structural adjustments, the promotion of overseas investment and also a shift to less developed countries for low-priced and low-grade products, setting an employment policy as a result of structural adjustments, and assistance in the area of technology in order to establish a production system for the manufacture of high grade products.

In April 1987 approval was granted for the establishment of the Korean Institute of Footwear Technology.. The institute's activities are due to start this year (1989) and the role envisaged for it is that of a research and development organization which also has a voacational training function. Government assistance is expected as part of its policy for technological assistance mentioned above. The institute's functions are as follows:

•• as a development center for the footwear and related industries

- modernization of the footwear industry

- fostering the domestic production of related industries producing materials and parts

•• technical R & D and transfer
- development of new materials
- development of design and fashions through the application of human engineering
- rationalization and automation of manufacturing processes
- research into leather, rubber, textiles and adhesives
- development of special types of shoes

•• joint use of equipment
- application of computer networks
- joint development and use of CAD/CAM
- laboratories open for public use

•• training of technical staff and disseminating of information
- education in specialist technology
- setting up an overseas information network
- holding seminars and symposiums related to footwear
- publication of research journals
- operating a showroom to display footwear materials and parts

In the case of Taiwan, however, the slump in exports and the downturn experienced in sales for shoe manufacturing equipment as a result of the appreciation of its currency has prompted the the Industrial Development Bureau of the Ministry of Economic Affairs to devise a project for the promotion of the automation of machinery in the shoe manufacturing industry. This project is to be implemented by the Industrial Technology Research Institute for a two-year period starting in 1989. The project consists of the following main parts:

•• inauguration of a sub-committee for the research and development of shoe manufacturing machinery and equipment consisting of members from the Industry Division, Industrial Technology Research Institute, and manufacturers

•• improving and increasing the production efficiency of existing machinery and equipment used for shoe manufacture

•• design and development of new shoe machinery and equipment

•• introduction of the latest machinery from Europe and the U.S.

•• promotion of the automation of production

(3) Exports

1) Export Trends

According to data from the Korean Footwear Exporters Association exports for all types of rubber footwear increased 23% over the level for the previous year in 1987 and totalled 460 million pairs. A comparison with exports from Taiwan based on data provided by the Taiwan Footwear Manufacturers Association shows that production totalled 795 million pairs in 1987 which represented a 6% decrease over production for the previous year. The situation worsened further in 1988 when exports to the United States and Japan decreased and production for the year totalled 665 million pairs which was equal to a 16% decrease over the level for 1987 (refer to Fig. VII.4-13 and 14).

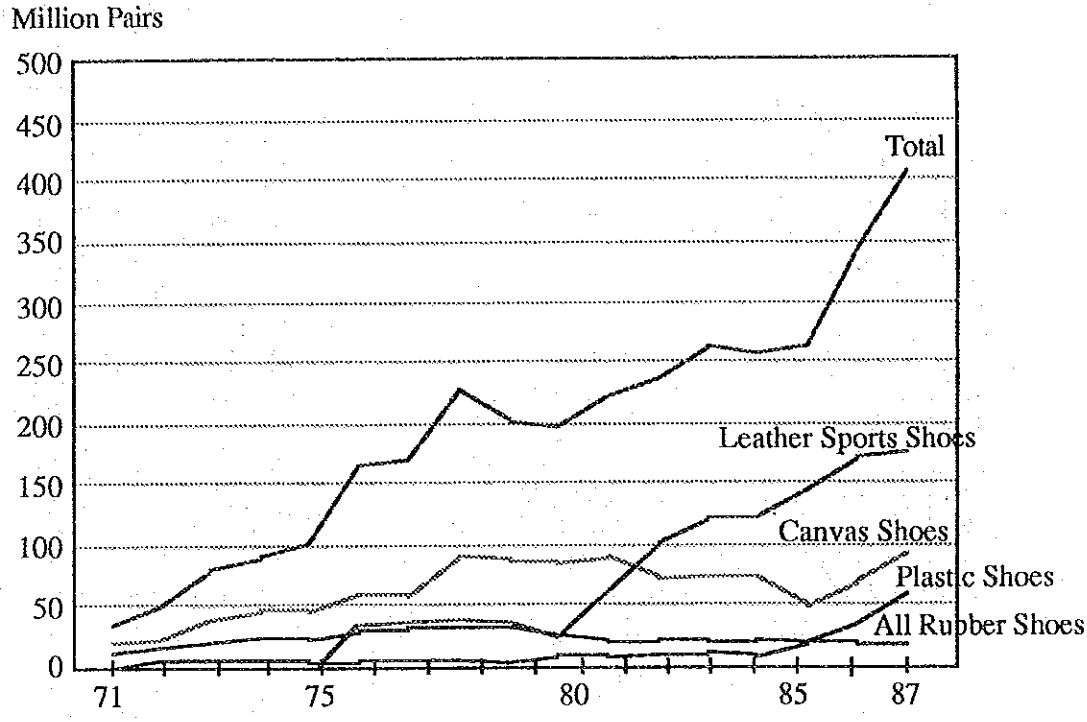
A look at exports classified according to item shows that in Korea production of leather sports shoes totalled 169 million pairs, or 42% of total shoe production, and canvas shoes accounted for 23% of total production at 93 million pairs. In Taiwan the major export items are sports shoes and casual shoes, and in 1988 they accounted for 28% and 24% respectively of total production (refer to Fig. VII.4-15, 16, 17). A look at footwear exports from Taiwan according to the type of material used shows that plastic shoes accounted for the major portion of exports comprising 62% of total footwear exports in 1988 (Fig.VII.4-18).

The United States was the leading country of destination followed by Japan in the number two spot for shoe exports from both Korea and Taiwan. In the number three spot for Korean exports was France, followed in order by Canada, Great Britain and West Germany (1987), and in the case of Taiwan West Germany ranked third, followed in order by Saudi Arabia, Canada, and Australia (1988) (refer to Fig.VII-4-14 and VII.4-16). A breakdown of exports to the United States and Japan reveals that in the case of Korea 51% of its exports to the U.S. were leather sports shoes, followed by canvas shoes at 20% and plastic shoes at 13.5% of the total respectively. Exports to Japan comprised of 22%, 22%, and 30% respectively with plastic shoes accounting for a significant proportion. As for Taiwan, although plastic shoes also accounted for a large proportion of exports to the United States and Japan, shoes made from cloth accounted for a significant proportion of footwear products exported to Japan. They accounted for 40% of the total in 1988 which was greater than the amount exported to the U.S. in terms of volume.

Both Korea and Taiwan impose restrictions on the volume exported to specific countries. For example, in 1987 Korea's exports to the United States were limited to 24 million pairs of leather shoes for general use and 31 million pairs of other types of non-rubber shoes. Exports to Canada were restricted to 6.7 million pairs of leather shoes and

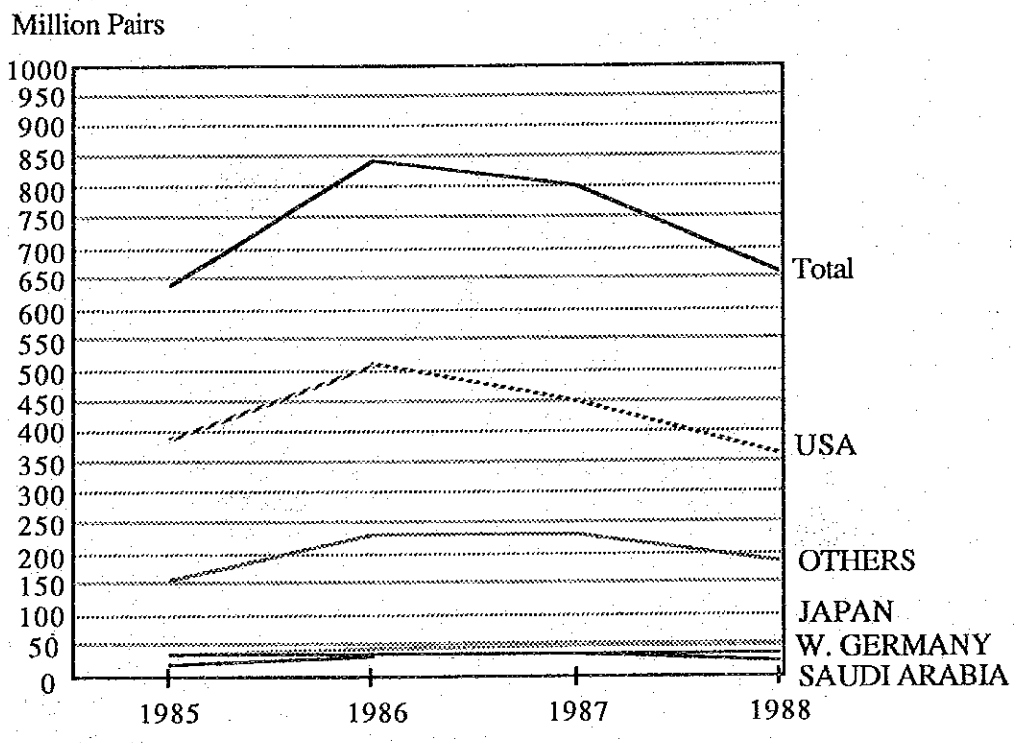
6.4 million pairs of non-leather shoes. The purpose of these voluntary export restrictions was to reduce the trade surplus between itself and the United States. Since 1987 Taiwan has also imposed voluntary export restrictions equal to 80% of the previous year's output. Based on its 1989 export quota for France of 15.05 million pairs the export quota for France will be increased by an annual rate of 5%.

Fig. VII. 4-13 Export of Footwear in Korea - by Item



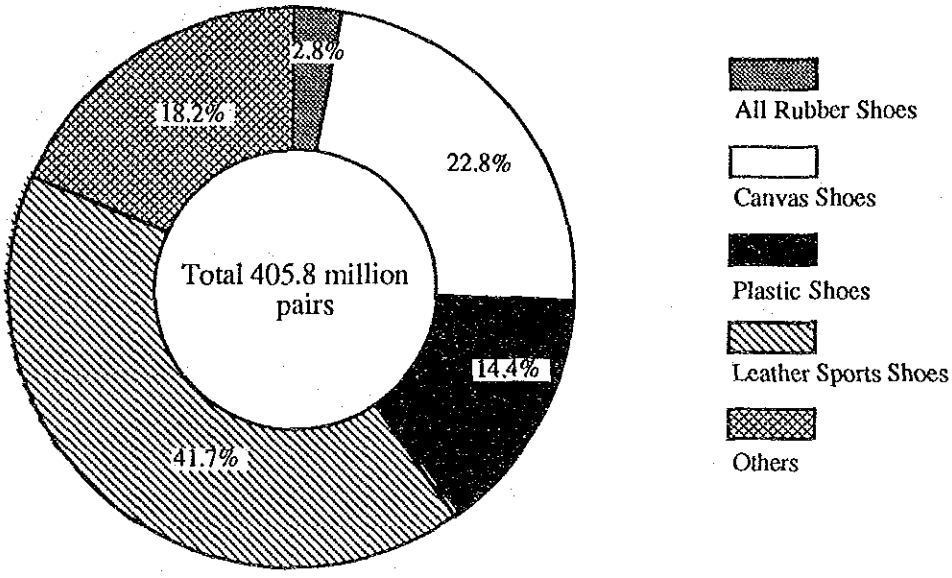
Source: Korean Footwear Exporters Association

Fig. VII. 4-14 Export of Footwear in Taiwan - by Country



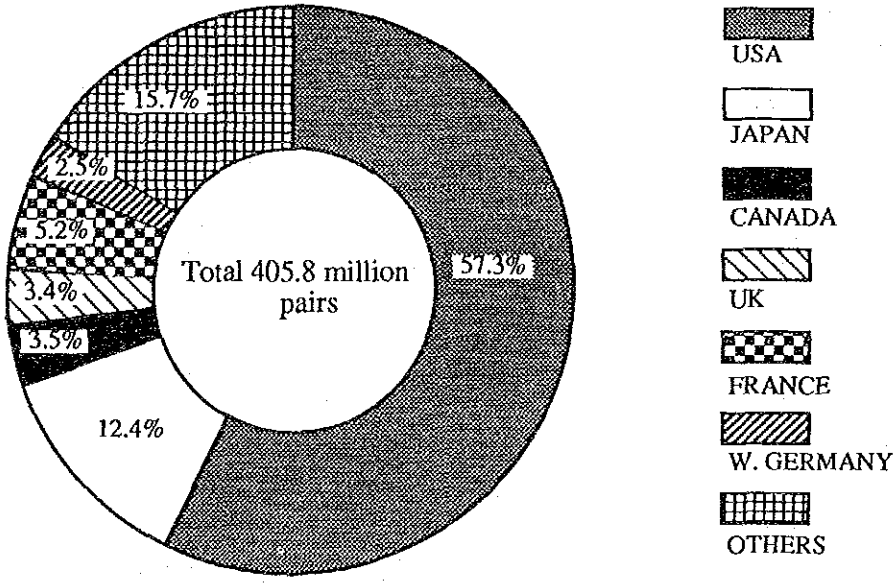
Source: Taiwan Footwear Manufacturers Association

Fig. VII. 4-15 Export of Footwear in Korea - by Item (1987)



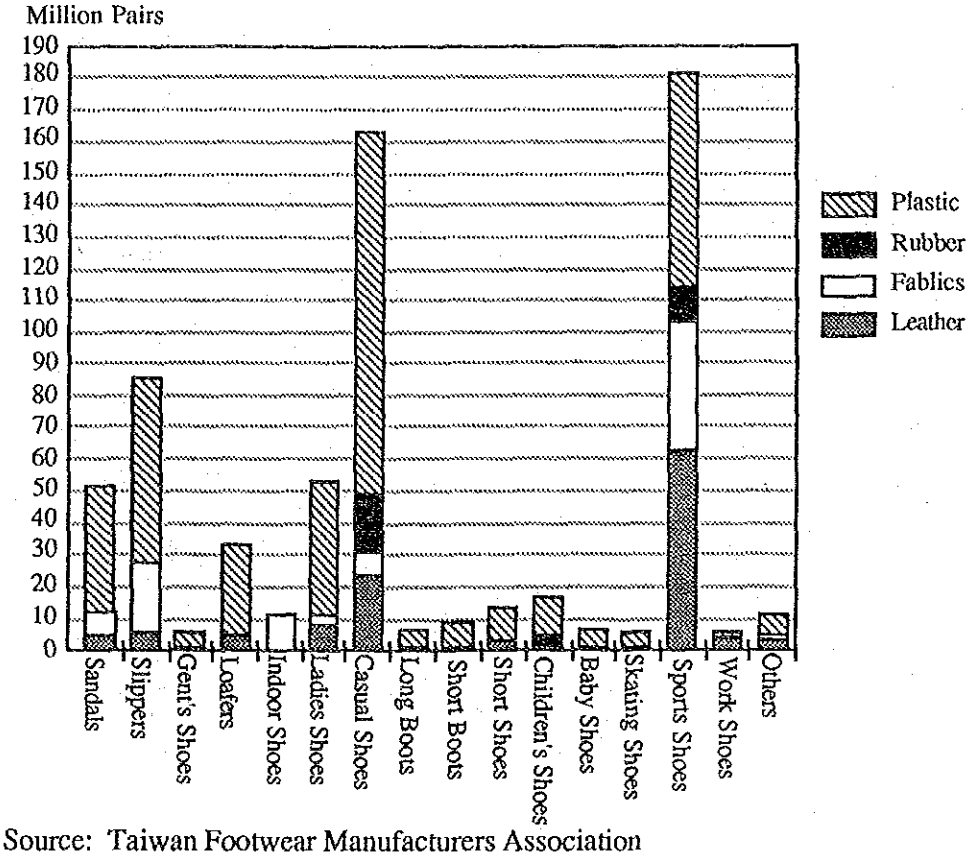
Source: Korean Footwear Exporters Association

Fig. VII. 4-16 Export of Footwear in Korea - by Country (1987)



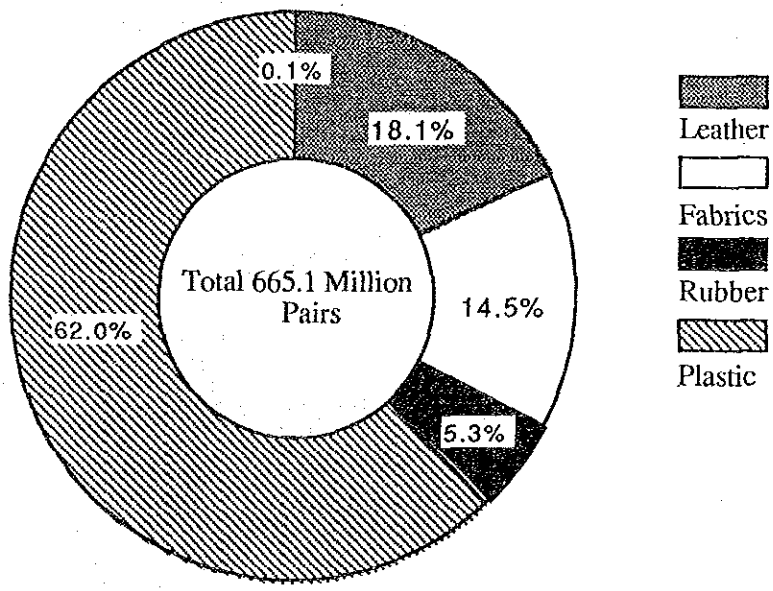
Source: Korean Footwear Exporters Association

Fig. VII. 4-17 Export of Footwear in Taiwan - by Item (1988)



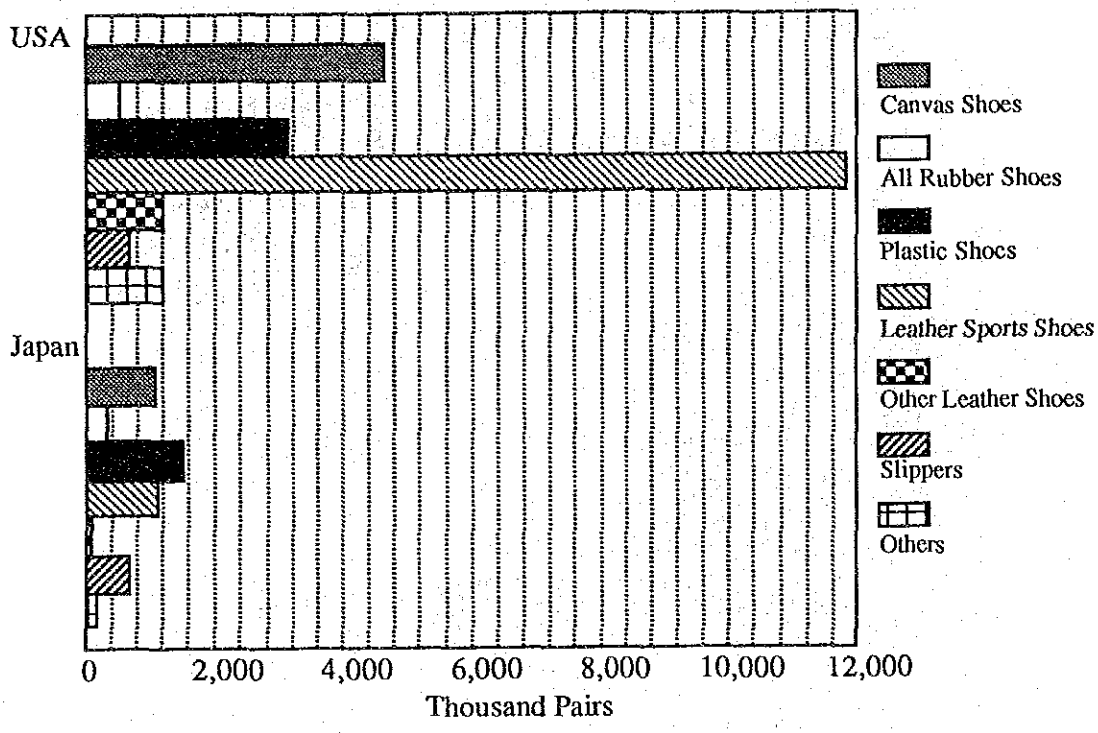
Source: Taiwan Footwear Manufacturers Association

Fig. VII. 4-18 Export of Footwear in Taiwan - by Material (1988)



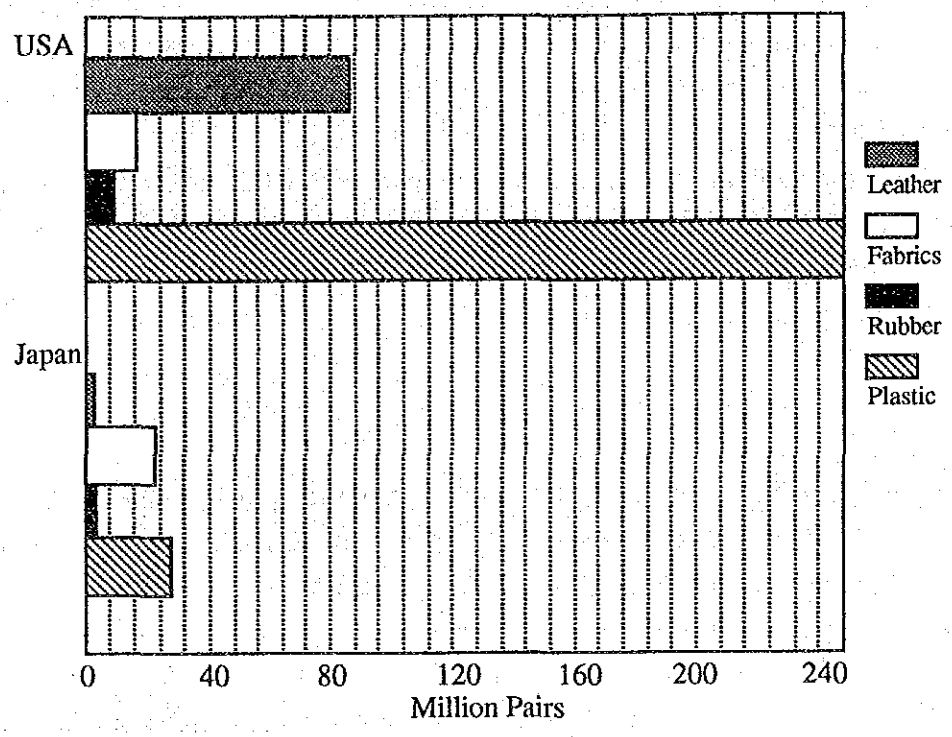
Source: Taiwan Footwear Manufacturers Association

Fig. VII. 4-19 Export of Korean Footwear to USA and Japan - by Item (1987)



Source: Korean Footwear Exporters Association

Fig. VII. 4-20 Export of Korean Footwear to USA and Japan - by Material (1987)



Source: Korean Footwear Exporters Association

2) Export Inspection

In Taiwan there are no regulations for the inspection of shoe exports, and as a result companies export products in line with the requirements of the orders they receive. Companies placing orders retain inspectors on a permanent basis in the manufacturers' plants in order to maintain quality standards.

In Korea, footwear is inspected following regulations set down for inspection standards for export items and inspection methods (Ministry of Commerce and Industry Ordinance No. 662, 23 April, 1982). These regulations cover appearance, physical properties and packaging, etc.

3) OEM Brands

Both Korea and Taiwan export a high percentage of their products. For instance, according to the 1987 edition of the Korean white paper on commerce and industry in 1986, 77.5% of production was exported in terms of value. It is said that the percentage is even higher in the case of Taiwan. It can be said, though, that the footwear industries of Korea and Taiwan have developed largely due to exports to the United States and that acquiring OEM orders has been a major factor behind those exports. Consequently, even though production technology in the Korean and Taiwanese footwear industries is of a high level, more research is required when it comes to the development of new products. In Korea in particular, there are many companies which have already begun to develop their own company brands.

Table VII.4-9 Examples of Orders for OEM Brands from Korean and Taiwanese Manufacturers

	Name of Korean Company	Name of OEM Brand
1.	Dae Yang Rubber Co.,Ltd.	Reebok
2.	Sanhwa Co., Ltd	Regal (exported to Japan), Reebok, Nike, Kenney
3	Ching Yang Corporation	Kangaroo, Converse, Fila, Asics (exported to Japan) Achilles (exported to Japan)
4.	Poong Young Corporation	Reebok, Converse, Saucony, Fila, Avia
5.	Se Won Co., Ltd.	Asics (for domestic market and exported to Japan), Kangaroo, Adidas, Hi Tech
6.	Tae Kwang Rubber Ent. Co., Ltd.	Nike, Kangaroo, Fila, Converse, Tretorn (total volume OEM)

7.	Idambee Industriesl Inc.	Asics, Mizuno (both exported to Japan)
8.	Dae Henng Co., Ltd.	Adidas (for domestic market and export)
9.	Hyop Shin	Nike, Kaepa, Puma, Saucony, Sciemetic,Yasuda, Runbird, (total volume OEM)
10.	Dong H Chemical Co., Ltd.	Puma, Wilson, Diadora, Etonique, LA Gear, Kaepa, Timberland, Donna Mountain
11.	Hwa Sung Co., Ltd.	Bata, Mon Blanc
12.	Boo san Chemical Co., Ltd.	Reebok, Converse (total volume OEM)
13.	Dong Sung Co., Ltd.	Okamoto
14.	Hou In Chemical	Nike (total volume OEM)
15.	Honam Rubber Ind. Co., Ltd.	Keds, Grasshopper, Topsider, Asics (exported to Japan)

Name of Taiwanese Company		Name of OEM Brand
16.	Pou Chen Co.	Reebok, Avia, New Balance, Converse, Adidas, Rockport, Saucony
17.	Feng Tay Enterprises Co.	Nike (total volume OEM)
18.	Fong Chuan Rubber Enterprise	Nike (total volume OEM)
19.	Phondy Enterprise Co.	Nike (total volume OEM)
20.	Ching Luh Shoes Co.	Avia, Brooks, Mizuno
21.	Shuen Yug Industrial Co.	Converse, Avia
22.	Shuenn Cheng Shoes Co.	Pony
23.	San Peng Industry Co.	Brooks, Pony, Kangaroo
24.	Chung Hoo Industrial Co.	Avia, Puma, Etonique, Hi Tech
25.	Chung Chyun Industrial Co.	Asics Tiger (exported to Japan, total volume OEM)
26.	Chung Shyong Industrial Co.	Puma, Asics Tiger, Etonique
27.	Jung Di Hsing Industry Co.	Puma, Mizuno, Nike, Lotto
28.	Da Sheng Enterprise Co.	Reebok, Avia
29.	Chung Tai Plastic Co.	Reebok
30.	Kang Tai Enterprise Co.	Adidas, Reebok

Sources: "Report on the Korean Rubber Industry" "Report on the Taiwan Rubber Industry" published by the Posty Corporation.

Table VII-4-10. Examples of Brands Belonging to Korean Footwear Manufacturers

Company Name	Name of Brand
Kukje Corporation	Prospecs, Arthis
HS Corporation	Lecaf
Tong Yang Rubber Enterprise Co., Ltd.	Pro World Cup
Sunkyong Limited	Arrow,, Impac, Zebra
Samusung Limited	Weekend
Dae Yang Rubber Co., Ltd.	Super Comet
Sung Hwa corporation	Hawks
Kolon Industries Inc.	Activs
Samkwa Co., Ltd.	Tiger, Seku
Ching Yang Corporation	Unisports
Tae Hwa Co. Ltd.	Cavallo

Source: Survey in Korea

(4) Recent Problems - A Decrease in Competitiveness

Both Korea and Taiwan have recently faced the problem of decreased competitiveness in regard to their footwear exports. The appreciation of their currencies against the US dollar, the sharp rise in labour costs, and increased costs incurred as a result of the rise in the cost of raw materials are the major factors behind this loss of competitiveness. In Korea, for example, this caused nine manufacturers in Pusan, where a large number of the country's footwear manufacturers are concentrated, to fall into bankruptcy with the loss of 2,500 jobs. While manufacturers are turning towards raising the grade of their products, automating production, and setting up operations overseas all eyes are on the future of the industry. In the case of Taiwan, 86 manufacturers, or some 7% of the 1,235 members of the Footwear Manufacturers Association have ceased operations.

1) Appreciation of Currencies Against the U.S. Dollar

The rates of exchange of the Korean and Taiwan currencies against the US dollar since the 1985 Plaza Agreement are shown in Table VII.4-11. The Taiwanese yuan rose sharply from early 1986 through to the end of 1987, and then started to settle in early 1988. The Korean won started to rise nearly one year later in early 1987.

On the basis of an estimated 7.98% decrease in profitability based on a 15% appreciation of the won for the twelve months of 1988, the Korean industry has adopted

measures to raise the export unit price and to make factories more productive. As for the Taiwanese footwear industry, factories continue operations as profits fall 3-5% below normal levels, and the reaction has been as if the appreciation of the yuan had reduced profits to zero. While, as has been seen earlier in the section on export trends, there has been a marked decrease in exports since 1986, it is expected that because the won has appreciated at a higher rate than the yuan, orders for sports shoes in 1989 will be more or less the same as the 1988 level providing that the yuan does not appreciate by a significant amount. Although orders for Taiwanese-made sports shoes would decrease further if the United States applies pressure to bring about the stabilization of the won and an appreciation of the yuan, it is not thought that there would be a dramatic drop in terms of the monetary value of exports due to the growing trend towards medium and higher grade products.

Table VII. 4-11 Foreign Exchange Rate of Korean Won and Taiwanese Yuan

	1985 (Year End)	1986 (Year End)	1987 (Year End)	1988 (Year End)
Korea (Won)	890.2	861.4	792.3	684.1
Taiwan (NT$)	39.85	35.50	28.55	28.17

Source: IFS, The Exchange Association
Note: Figures are as of the End of Each Year.

2) *Sharp Increase in Labour Costs*

There is a relatively large element of labour intensive work involved in footwear production, and a skilled workforce has a considerable influence on competitiveness. According to data provided by the Bank of Korea, labour costs comprise 16.0% of the prime cost of footwear compared to an 8.4% average for manufacturing industries. This ratio of labour costs for the footwear industry is even well above the average of 9.2% for light industries. In Taiwan as well, the Footwear Manufacturers Association puts the ratio of prime cost comprised by labour costs at 18.0%.

As a result of labour disputes which have been occurring in Korea since the latter half of 1987, labour unions have been formed within the footwear industry, demands have been made for higher wages, and there has been a call for greater emphasis on workers' rights. The effect of these developments has been an average wage increase of 22.7% within the industry in 1987 and a 14.0% increase in 1988.

In Taiwan as well, the average wage paid by footwear manufacturers was roughly 13,000 yuan in 1988 which represented a 13.0% increase over the 1987 average of 11,500 yuan. Calculated in terms of dollars this is equal to an increase of roughly 30.0%.

In adition, with the announcement that public servants will receive a wage increase of between 10-15% in 1989 it is inevitable that industry will have to follow suit.

3) Sharp Increase in Material Costs

As shown in Table VII.4-12, the large increase in the cost of raw materials such as EVA resin, leather, natural rubber, synthetic rubber and cotton yarn since 1986 has increased product costs.

Table VII. 4-12 Price Increase Rate of Main Materials

	Unit	Dec., 1986 (US$)	March 1988 (US$)	Increase Rate (%)
Leather	s/f	1.54	2.05	33.1
Natural Rubber	M/T	860	1,130	31.4
Synthetic Rubber	M/T	835	1,050	25.7
EVA Resin	M/T	810	1,350	66.7
Cotton Yarn(No.20)	bale	450	560	24.4

Source: The Bank of Korea

4) Setting Up Overseas Operations

Footwear manufacturers in both Korea and Taiwan have been establishing operations in other countries in order to obtain cheap labour and a stable supply of raw materials, and also as a result of the effect of voluntary export restrictions. Korea and Taiwan view Indonesia and Thailand as desirable countries in which to invest. Considerable attention is also being paid to setting up operations in China, or forming tie-ups with Chinese companies.

Table VII.4-13 shows the situation regarding moves made by Korean footwear manufacturers to set up operations overseas. They have largely concentrated on Indonesia and Thailand.

Table VII. 4-13 Overseas Operations of Korean Footwear Industry

Company Name	Investment Country	Type of Ownership	Investment (US$1,000)	Number of Lines
Samhwa Co.	Philippines	-	-	3
Doosan Ind.	Sri Lanka	Joint-Venture	-	-
Tong Yang Rubber	Indonesia	Joint-Venture	13,494	24
Kukje Corp.	Indonesia	Joint-Venture	-	3
Tae Hwa Co.	Indonesia	Joint-Venture	3,500	16
Sung Hwa Corp.	Indonesia	Joint-Venture	5,300	8
Tae Kwang	Indonesia	Joint-Venture	-	-
Kolinto	Indonesia	Wholly Owned	12,000	6
Korean Chase	Indonesia	Wholly Owned	1,960	2
Wha Soon	Thailand	-	-	3
Yu Pung Chemical	Thailand	-	-	-

Dong Il Chemical	Thailand	-	-	-
Song Gyong		-	-	-
Dong Hae Chemical			-	2

Source: Survey in Korea

In the case of Taiwan there is a very high level of interest in China. According to statistics obtained from the investment committee of the Ministry of the Economic Affairs of Taiwan, there were 253 instances of investment in foreign countries during the period from 1980 through to September 1988, and 13 of these instances (5.1%) involved the manufacture of rubber footwear products. However, the statistics do not show the large number of companies which have moved into China by way of Hong Kong. Industry sources put the number of Taiwanese footwear manufacturers which have set up operations in China at more than 100. Although labour costs on the Chinese continent, which are 1/15 those in Taiwan, and the low cost of $4 per pair of shoes have attracted manufacturers to China, profits from shoe production are not very large, and it is said that more money is to be made in selling raw materials and shoe manufacturing equipment.

Taiwanese manufacturers setting up operations in China face the following kinds of problems:

* The only advantage gained from producing in China is the lower cost of wages. The difference in technical levels means that the products made there are inferior quality products for export to third countries. An alternative to this is re-exporting semi-manufactured products to Taiwan for finishing, but this duplicates the amount of work involved;
* Incentive measures which have been given to Taiwanese companies in China such as tax exemptions and a cheap supply of raw materials are gradually being withdrawn so that the advantages for Taiwanese companies are disappearing;
* Because such moves are made through a third country it is not possible for Taiwanese investors to remain on the continent for a long period;
* The remittance of profits, etc. is uncertain due to the foreign currency situation in China.

VII.4-5 Rubber Footwear Industries in Indonesia and China

This chapter will look at the general situation of the footwear industries of Indonesia and China which have been covered as part of the survey of third countries. Viewed from the perspective of population, these two countries have a huge domestic demand, and they have started to become Asian bases for the production and export of footwear. However, major differences are to be seen in their production, export structure, and systems.

(1) Rubber Footwear Industry Today

1) Trends in Demand and Supply

It has been estimated that in 1988 rubber footwear production in Indonesia exceeded 66 million pairs. As shown in Table VII.4-14, a significant increase was recorded over the level for the previous year. However, as this figure is based on a combined total for the 71 companies covered by the survey undertaken in Indonesia it is possible that the increase is larger than the total which would be reached were it based on Statistics Bureau statistics. This possibility must be taken into account when looking at the rate of increase. As for the rubber shoe industry in China, although problems related to the procurement of raw materials caused a 3.7 percent decline in output in 1987 over the level for the previous year, production in 1988 is estimated to have been 790 million pairs, and suggests that there has been a recovery (Table VII.4-15).

China's population has passed the 1.1 billion mark, and Indonesia's population is estimated to be about 170 million. A look at the demand and supply structure for rubber footwear for both countries shows that as far as demand is concerned there is a high ratio of domestic demand. The domestic demand ratios for both countries in 1987 were exactly the same at 87%. The difference in the size of the domestic markets of these two countries in comparison to that of Malaysia places the footwear industries of China and Indonesia at a considerable advantage. As for supply, the ratio of imports for these two countries is low. While, as far as recent trends in demand and supply are concerned, the volume of imports has been showing a decline, a large increase has been seen in production for export. This shows that both Indonesia and China are playing increasingly bigger roles as production bases for rubber footwear. As for domestic demand, with the exception of 1987 when a 7.7% decrease was recorded for China, steady increases have been recorded.

Table VII. 4-14 Demand and Supply of Rubber Footwear in Indonesia

Unit: Million Pairs

	1983	1984	1985	1986	1987	1988
Supply						
Production	28.40	31.24	33.33	35.62	45.59	66.27
Import	0.29	0.24	0.56	0.59	0.13	0.04
Demand						
Export	0.37	1.08	2.03	1.83	6.04	9.48
Domestic	28.32	30.43	31.86	34.37	39.68	N.A.

Source: Central Bureau of Statistics
Field Survey: Production in 1988
Note: Domestic demand is calculated as "Production + Import - Export."
Export and import for 1988 = Figures represent the totals for Jan. through July.

Table VII. 4-15 Demand and Supply of Rubber Footwear in China

Unit: Million Pairs

	1984	1985	1986	1987	1988
Supply					
Production	572.01	687.02	809.76	779.99	790
Import	0.32	0.61	0.18	0.15	0.1
Demand					
Export	52.41	65.31	75.14	102.16	120.34
Domestic	519.92	622.32	734.8	677.98	669.76

Source: Department of Rubber, Ministry of Chemical Industry
The Customs House
Note: Domestic demand is calculated as "Production + Import - Export".
Figures for 1988 are estimates.

2) Structure of the Industry

As illustrated by the rapid increase in the number of shoe manufacturing plants in recent years, the Indonesian footwear manufacturing industry has been experiencing marked growth. Although according to Ministry of Industry statistics there are 57 domestic manufacturers, the survey undertaken in Indonesia revealed 77 companies in Java alone, with a number of manufacturers located in Medang in northern Sumatra (71 of these companies were included in the survey. Totals for the survey used hereafter have been based on these companies). However, among the 71 manufacturers there were only 22 which were relatively large and which possessed more than 200 sewing machines. There were also 16 manufacturers which possessed less than 10 sewing machines and which can therefore be described as cottage industries.

The larger sized manufacturers are shown in Table VII.4-16. They have the largest levels of output and in 1988 produced 450,000 dozen pairs. There are several which have between 600 and 700 sewing machines, and while there are those which carry a work force of more than 3,000 there is no simple correlation between employee numbers and output. There are also manufacturers which are even smaller in size and which export 100% of their products. The combined workforce for the 71 companies covered by the survey was 28,000.

One recent trend of particular note in Indonesia has been the entry of new companies into the industry. According to the Investment Coordinating Board (BKPM), for the period from January 1987 through to November 1988 there were a total of 41 domestic and foreign capital companies which received permission to start new projects for the production of rubber shoes.

In the case of China, production of rubber shoes is controlled by the Ministry of Chemical Industry, and more than 90% of production is carried out by the Ministry of Chemical Industriy. The remaining amount is produced by shoe manufacturing plants affiliated to the Ministry of Light Industries and by rural enterprises which are controlled by the Ministry of Agriculture. It is said that there are approximately 200 shoe manufacturing plants throughout the country. Roughly 220,000 persons are engaged in the manufacture of rubber shoes, with 200,000 attached to the Ministry of Chemical Industries. Production and export is concentrated in the four regions of Shanghai, Tianjin, Qingdao and Guangzhou. While the production of footwear dates back to 1950 in Shanghai, Tianjin and Qing dao, it is a relatively new industry in Guangzhou. An outline of these four regions is provided in Table VII.4-17.

Table VII. 4-16 Indonesia's Leading Footwear Manufacturers

	Output (1,000dz.)	Sewing Machines (No.)	Employees (Persons)	Export Ratio (%)
Pt. Kompas Mas	450	700	1,605	90
Pt. Salim Brother Perkasa	375	450	651	100
Pt. Famous Shoes Factory	300	310	1,004	85
Pt. Venus Mustika Buana	300	200	1,900	50
Pt. Kemakmuran Sapta Perkasa	294	350	2,000	0
Pt. Garuda Indawa	260	400	2,505	100
Pt. World Best Shoes Indonesia	260	200	400	100
Pt. Gesta Eva	250	300	400	70
Pt. Sepatu Bata	240	250	508	15
Pt. Henson Union Jaya	195	400	1,050	100
Pt. Sindoll Pratama	182	300	503	100
Pt. Dipta Sunrise Nusantara	180	60	280	25
Pt. Telaga Mas Pertiwi	170	200	501	70

Pt. Tae HWA Indonesia	125	600	3,060	100
Pt. Hevea Latex & Rubber Work	105	200	401	80
Pt. Bertoni Sari Jaya	100	500	903	100
Pt. Sima Sakti Makmur	100	600	2,000	50

Source: *Survey in Indonesia*
Note: Based on estimated output for 1988

Table VII-4-17 Main Footwear Producing Regions in China

1. Shanghai	
Output of rubber footwear:	71.6 million pairs- 9.2% of national output (1987)
Leading companies/factories:	Shanghai Warrior Rubber Corp. - consisting of 32 factories and a research institutes. The Shanghai No. 6 Rubber Shoe Factory, the Shanghai No. 7 Rubber Shoe Factory, and the Shanghai Rubber Shoe Research Institute comprise the main facilities Dazhonghua Rubber Corp. - consisting of 38 enterprises and research institutes from 13 provinces and cities around the country. Its main plant Shanghai Dazhonghua Rubber is the factory which produces tyres, belts and other products under the "Double Coin" brand.
2. Tianjin	
Output of rubber footwear:	41.5 million pairs - 5.3% of national output (1987)
Leading companies/factories:	Tianjin Dazhonghua Rubber Factory, Tianjin Rubber Shoe Factory, and Tianjin Continental Rubber Factory - the above three factories produce roughly 90% of rubber shoes produced in the Tianjin region
3. Qingdao	
Output of rubber footwear:	35.0 million pairs - 4.5% of national output (1987)
Leading companies/factories:	Qingdao No. 9 Factory - the largest exporter of rubber shoes in China. Its output of 8.0 million pairs in 1987 accounted for more than 80% of total rubber shoe production in the Qingdao region. It employs 6,102 workers, and has an export ratio of 26%
4. Guangzhou	
Output of rubber footwear:	20.0 million pairs - 2.6% of national output (1987)

Leading companies/factories:	Guangzhou Lingnan Rubber Factory - has an output of 8.0 million pairs and employs 1,200 workers. Also engages in OEM exports.

Source: Survey in China

3) Supply of Materials and Production Costs

Although domestic supply for most materials such as rubber and canvas is possible in Indonesia and China, imports are relied upon for high grade materials. Also, in the case of order production from overseas it is common for the company placing the order to set specifications and to supply the required materials and parts, thus necessitating imports. The larger manufacturers generally process soles and sew the uppers in-house. There are two companies which also produce shoe laces in-house.

In China, a dual price system is adopted for essential materials and as a rule state-owned enterprises are supplied with materials at the official price by the various departments responsible for the supply of materials, in line with state production projects. As for making up the shortfall in materials (said to be around 10%), the enterprises themselves purchase them at general market prices or at prices set through negotiations with sellers. Regional, town and village, and collectively-owned enterprises are not allocated a supply of materials and so procure their materials at market prices or through negotiation. As a result, the supply cost is higher for these enterprises than for state-owned enterprises. There are three systems for the supply of materials for which imports are required. Under the first system materials are imported and distributed to state-owned enterprises by designated importers through material supply control authorities in line with state production projects. The second system consists of procuring materials through export-import authorized enterprises which possess their own foreign funds, and the third system involves receiving supplies of materials from overseas companies placing production orders. Recently this third system has come into wider use for the supply of materials for export production. The reasons for this are that raw materials used in the production of exports are not produced domestically, and also because of the high quality of materials used, the import ratio of raw materials for exports is higher than that for goods for domestic consumption, and because various problems are incurred with the other systems, such as delays in supply.

Because the level of labour costs is low in both Indonesia and China, they are placed at a relative advantage in regard to production costs. The survey undertaken in Indonesia found that the weekly wage (six days) for workers engaged in the sewing and assembly stages ranged from 12,000-21,000 rupiah (1,000 rupiah roughly equals US$0.6).While production costs vary according to the raw materials used and design, the

cost per pair of shoes for factories which are supplied materials as a result of OEM is between $1.5 to $3. The cost for products for the domestic market, however, ranges between 2,000 to 3,000 rupiah.

4) Inspection and Quality Standards

Because order production is the most common form of production for exports it is very important that the requirements of the companies placing the orders are fulfilled. In the case of Indonesia, overseas buyers and companies which have technical tie-ups with local manufacturers usually send production and quality control personnel to the factories.

In China there are manufacturing standards, safety standards and inspection and testing regulations for rubber-soled canvas shoes, rubber over-shoes, and rubber-plastic shoes.

5) Policies

In Indonesia there are general investment incentive measures and other kinds of measures for the promotion of exports which may be utilized for the manufacture of footwear. There do not seem to be, however, any special preferential measures aimed at just the footwear industry.

In China the authorities concerned are emphasizing the following as part of their policies for the promotion of the production of rubber footwear and the promotion of exports:

* strengthening export supply projects for rubber sports shoes
* strengthening inspection of the implementation of the projects for rubber shoes export supply
* tightening production management for export products
* guarantees for the supply of materials for export products
* preferential measures for rubber sports shoe manufacturers producing for export

6) Research and Development and Training Organisations

In Indonesia a relatively low level of importance is attached to research and development activities due to the reliance of export manufacturers on order production. In regard to products for the domestic market as well, it is usually sufficient to copy products made by other manufacturers which are considered to be superior in quality and to meet consumer preferences. The Indonesian government does not appear to carry out any particular research and development activities aimed at improving footwear products and opening up new markets.

At the present time there do not appear to be any specialist training or educational organizations, public or private, which are concerned with the particular area of shoe manufacture. In order to acquire exports it is necessary to go overseas or to employ technical experts from abroad.

It could be said that China leads Indonesia in this respect. On a state level there is the Beijing Rubber Research Institute, the Ministry of Chemical Industry's Scientific and Technological Information Center of Rubber Industry, and the National Technical Committee on Product Standization. On the regional level there is the Beijing Rubber Products Reseach and Designing Institute, the Tianjin Reseach Institute of Rubber Industry, the Shanghai Reseach Institute of Rubber Shoes, and the Qingdao Rubber Research Institute. There are approximately 1,000 personnel throughout the country who, through such organizations, are engaged in the research and development for the rubber sports shoe industry and design development for shoes. In addition, there are about 12,000 people who possess expert and technical knowledge in the area of shoes who are engaged in research and development and control in the various factories situated around the country. In respect to training also, it is said that there are more than 90,000 people engaged in the shoe industry who have already attended various types of educational courses, technology training courses and vocational training courses at related institutions. For instance, the Shanghai Reseach Institue of Rubber Shoes holds two courses each year on design for rubber sports shoes which are attended by 200 people from factories all over the country. Also, while there are no universities which teach courses in high-level expert technical knowledge, there are a number of technical schools at the secondary education level.

(2) Exports

1) Export Trends

Rubber footwear exports from Indonesia increased 16-fold during the period from 1983, when 370,000 pairs were exported, to 1987 when exports totalled 6.04 million pairs. Exports in 1987 increased a high 3.3-fold over the level for the previous year, and exports for the first seven months of 1988 recorded a 60% increase over exports for the whole of 1987. As for different types of footwear items, marked increases were recorded in sports shoes with textile or canvas upper and rubber soles and men's and boy's shoes with leather upper and rubber soles. (Fig.VII-4-21)

Of particular note is the complete change in the composition of the countries of destination for its footwear exports which occurred between 1983 and 1987. Exports to

Japan which in 1983 comprised 40.7% of the total (volume base) had shrunk to just 0.02% of the total by 1987. Similarly, although exports to the United States, which was the second largest importer of Indonesian-made footwear with a 26.6% share of total exports, increased 2.51-fold over the 1983 level, its share of total exports declined to 4.2%. In contrast to this, exports to Great Britain increased markedly. In 1987 exports to Great Britain amounted to 4,077,500 pairs, or 67.5% of total exports(Fig.VII.4-22). The large expansion of exports and changes in the countries of destination have been due to the entry of foreign capital companies into the industry and the acquisition of OEM orders.

As for China, exports of rubber footwear have been increasing steadily, although not at the same rate as Indonesia. In 1988 an estimated 120.34 million pairs were exported, and this represented a 30% increase over the level for the previous year and a 2.3-fold increase over the level for 1984 when exports totalled 52.41 million pairs(Fig.VII.4-23). There has been an increase in the export of items manufactured from materials and designs supplied by the country of destination. Whereas in 1984 such exports represented 2.0% of total exports, this share had increase to 10% by 1988 when some 12.0 million pairs of such items were exported. Canvas shoes accounted for over 90% of exports, and in 1988 they represented 93.8% of all export footwear items. China exports footwear to some 90 countries and regions all over the world, with Hong Kong, the United States, and Japan accounting for more than 60% of the total. A sharp increase has been seen in exports to Hong Kong and the U.S. in recent years.

2) Outline of Export Companies

40 of the 71 companies covered by the survey undertaken in Indonesia export footwear, and 19 of this number export 100% of their products. OEM items account for the majority of exports and it is most common for manufacturers to export directly. There are, however, a number of cases where goods are exported through trading companies which act as agents for overseas buyers. At any rate, the production and export of items is carried out through fixed orders with goods being manufactured to meet the specifications of those placing orders. At the present time there do not appear to be any manufacturers which independently export their own original brands.

As for China, more than 80 of the 200 factories located around the country were producing for export in 1987. Furthermore, some 30 of these factories were carrying out order production for companies from the United States, Japan, West Germany, Korea, Taiwan and Hong Kong. To give one such example, in 1987 the Qingdao No. 9 Factory (refer Table VII.4-18) started producing high quality sports shoes for an American company under the Pony brand, and exports more than 30,000 pairs annually. In another

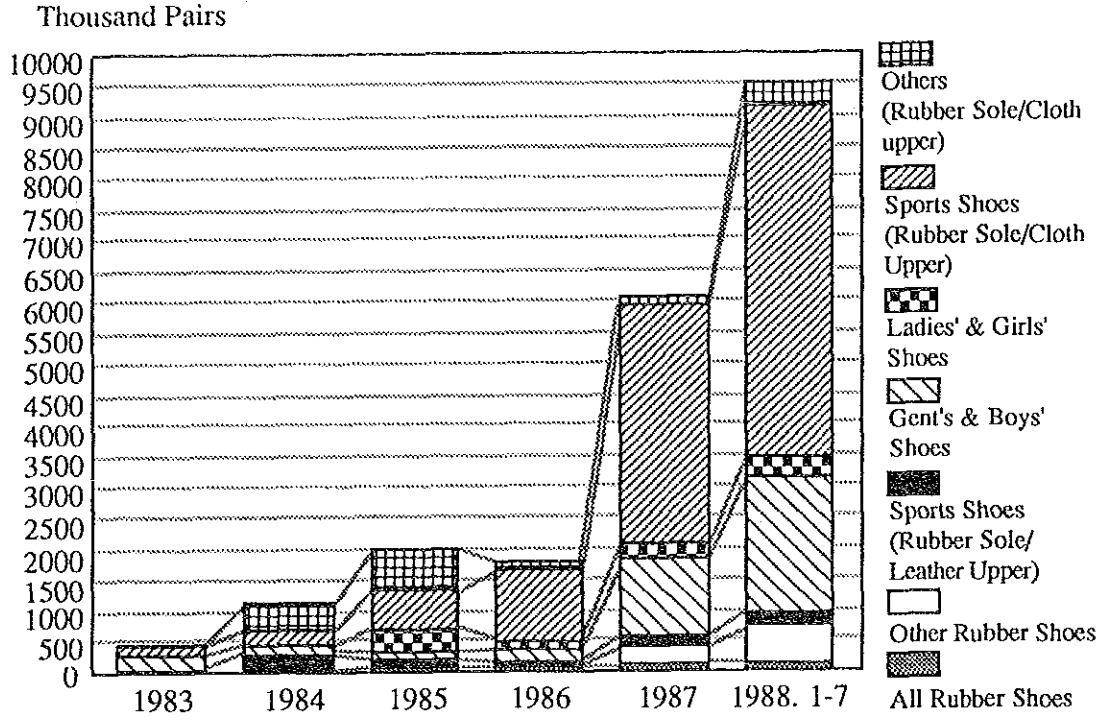
example, the Shanghai No. 7 Rubber Factory, which is affiliated to the Shanghai Worrier Corp., receives orders from Sekaicho and exports sports shoes to Japan.

3) Export Promotion Activities

Footwear exports from Indonesia have expanded with the establishment of production bases there by Asian NIES, and by Korea in particular. As has already been mentioned, the present situation is one in which Indonesian manufacturers are not compelled to undertake activities for the promotion of exports due to the fact that fixed orders comprise the bulk of their exports. Of the 71 companies covered by the survey (including companies which produce exclusively for the domestic market) there were only 22 which had participated in trade fairs or other similar activities.

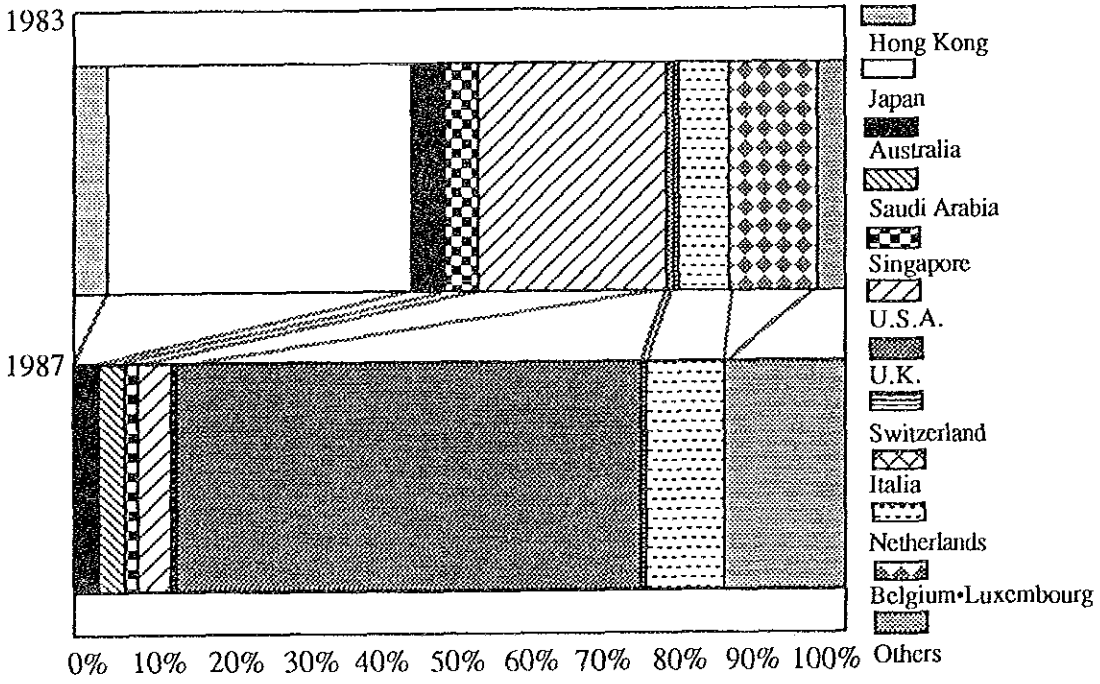
In the case of China, the reform which were made in the system for overseas trade from the latter half of 1987 through to early 1988 have resulted in considerable changes to the export routes used for footwear. Prior to the reform the China National Light Industry Import & Export Corporation and its branches held a monopoly over exports. However, as a result of the reform footwear has now been classified as the third category commodities which are free from the state control. It is now possible for footwear to be exported by companies with import-export right subordinate to the Ministry of Chemical Industry, the Ministry of Light Industry and the chemical and light industries bureaus at the provincial, municipal and autonomous regional level, and also by authorized manufacturers which carry out direct export and import transactions. An increase in export activities is being brought about as a result of these new routes. It should also be noted that more than 50 Chinese rubber sports shoes manufacturers participated in the International Rubber Industry Exhibition held in Beijing in November 1988 and held business talks with overseas buyers.

Fig. VII. 4-21 Export of Footwear in Indonesia - by Item



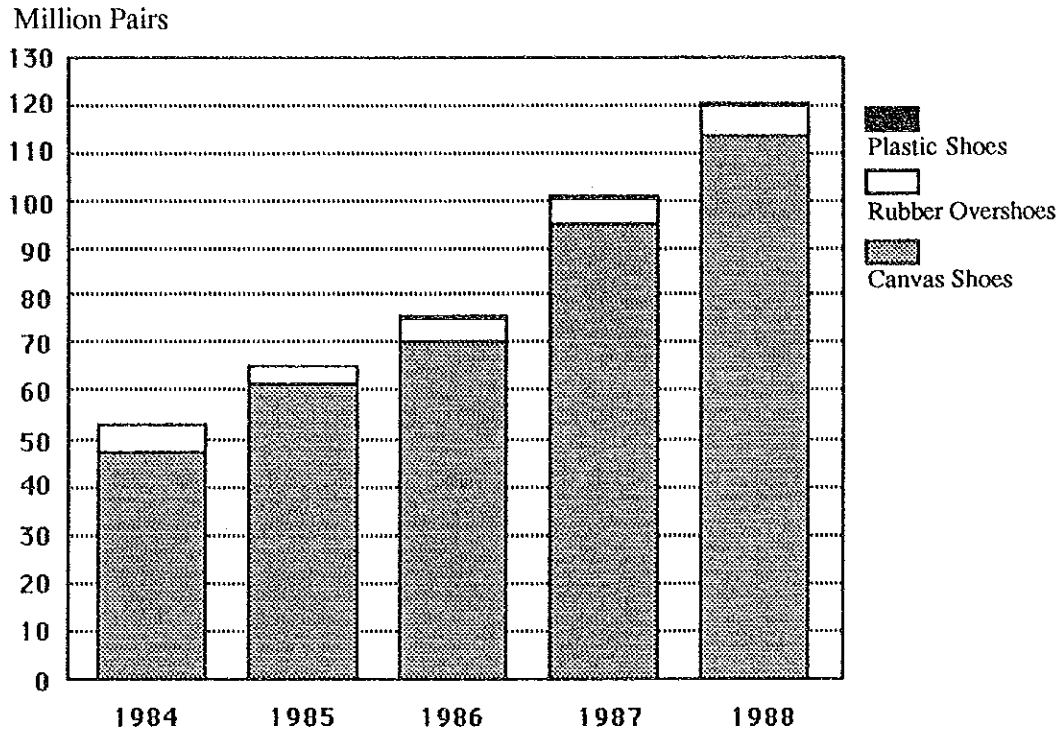
Source: Central Bureau of Statistics, Indonesia

Fig. VII. 4-22 Export of Footwear in Indonesia - by Country (1983/1987)



Source: Central Bureau of Statistics, Indonesia

Fig. VII. 4-23 Export of Footwear in China



Source: The Customs House,
The Civilian Products Section, Department of Rubber,
Ministry of Chemical Industry

VII-5. Analysis of Competitiveness

The evaluation of competitiveness is made generally from two points of view.

(1) The view from the out-put of the firm, in other words, a view from the user's side in terms of quality, delivery and cost. This is called "Q.D.C."

(2) The view of resources utilised in the business activities from the maker's side. This includes manpower, materials, machines, management, money and information, and is called "5M1I."

Regarding (2), detailed explanations have already been made and thus only simple summaries are given below.

Manpower - - High quality labour can be obtained at a low cost. However, the current demand and supply situation is facing difficulties.

Materials - - - Domestic purchasing of natural rubber and other high-quality raw materials is beginning. However, some of the raw materials are not yet domestically produced and it is difficult to procure moulds and lasts at home.

Machines - - - Equipment and facilities for the production of footwear are almost arranged, however, there is not enough utilisation of labour-saving facilities.

Management - The management system in every field, although different among companies, is weak.

Money - - - - - Larger companies have no problems with money, however, small-scale businesses are in trouble in terms of operating capital.

Information - - Information on rationalisation and markets is in short supply. Public relations for products is also insufficient.

Consequently, in order to strengthen their competitiveness, various aspects concerning management and information must be improved.

Another way to evaluate the competitiveness, that is an analysis and evaluation from the manufacturer's side, is described as follows.

VII-5-1. Competitiveness in Quality

In the survey, samples were collected from firms by obtaining cooperation from the Malaysian rubber footwear industry. The samples were either the major products or products intended for export. They were obtained after it was explained that they would be used in Japan for quality and marketability analysis and evaluation.

(1) Quality of the Sample Products

The samples were analysed and evaluated from the viewpoints of performance and appearance. The evaluation is based on the methods used in the Japanese market.

1) Results from the Performance Tests

The performance testing included a test for the intensity of the rubber and cloth and a test of the adhesive strength of the cloth and the sole, that is, it was to test the quality of the performance as footwear.

The results and evaluation are shown in Table VII. 5-1. The number of the samples tested was eight (pairs). One pair of shoes was collected from each firm. All were canvas shoes and boots were excluded.

Table VII. 5-1 Results of Testing of Malaysian Samples

Evaluation O ..... Good, Δ ..... Good, But to be Partly Improved, X ..... To be Improved

Testing Item	Unit Value	A Co. Value	A Co. Evaluation	B Co. Vakye	B Co. Evaluation	C Co. Value	C Co. Evaluation	D Co. Value	D Co. Evaluation	E Co. Value	E Co. Evaluation	F Co. Value	F Co. Evaluation	G Co. Value	G Co. Evaluation	H Co. Value	H Co. Evaluation
Outer Sole																	
Thickness																	
Main Stamping Area (Including Crown)	mm	3.4	Δ	4.2	O	4.7	O	5.0	O	3.7	O	5.5	O	5.5	O	5.2	O
Arch	"	1.6	Δ	3.0	O	3.2	O	3.0	O	2.0	O	3.0	O	3.3	O	2.5	O
Heel (Including Crown)	"	5.4	O	4.8	O	5.2	O	5.0	O	4.3	O	5.5	O	5.6	O	5.2	O
Physical																	
Hardness	degree	69	O	62	O	67	O	74	O	59	O	54	O	64	O	64	O
Tensile Strength	kg/cm²	155	O	174	O	170	O	140	O	177	O	147	O	125	O	125	O
Elongation	%	450	O	600	O	450	O	420	O	570	O	480	O	520	O	440	O
Gravity	-	1.42	X	1.15	O	1.12	O	1.28	Δ	1.13	O	1.18	O	1.22	O	1.30	Δ
Abrasion	cc	0.28	Δ	0.10	O	0.11	O	0.16	O	0.13	O	0.23	O	0.10	O	0.36	Δ
Peeling Strength																	
Upper Cloth/ Foxing Tape	kg/cm	Completely Cemented	O	2.3 - 2.7	O	0.6 - 1.5	X	1.7 - 2.7	O	1.1 - 1.5	X	3.0 - 3.4	O	-		-	
Upper Cloth/ Outer Sole	"	-		-		-		-		-		-		1.6 - 5.5	Δ	1.2 - 3.8	Δ
Upper Cloth/ Upper Back Cloth	kg/3cm	3.2	O	1.4	O	2.4	O	-		1.5	O	1.2	O	0.3	O	0.45	O
Insole Cloth/ Insole Rubber	"	1.1	X	-		0 - 6.0	X	2.2	O	4.0	O	2.0	O	1.7	Δ	5.4	O
Rubberized Heel Cloth/Heel Rubber	kg/cm	0.8	Δ	0.7	Δ	0.5	X	1.0	O	0.3	X	0.8	Δ	-		-	
Upper Cloth Bursting Strength	kg/cm²	2.3	O	25.5	O	2.2	O	21.5	O	29.5	O	25.5	O	32	O	40	O
Insole Cloth Bursting Strength	"	8.5	O	5.5	O	10.5	O	9.5	O	8	O	14	O	7	O	5	O

Source: Testing Results and Evaluation in Japan

The testing method was based on Table VII 5-2

Table VII. 5-2 Items and Method of Testing

	Testing Item	Testing Method
Outer Sole	Thickness	JIS S5002
	Hardness	JIS K6301
	Tensile Strength	JIS K6301
	Elongation	JIS K6301
	Gravity	JIS K6350
	Abrasion	Akron-Type Abraser Angle 10°, Load 3Kg. Rotation Speed 1,000 r.p.m.
Peeling Strength	Upper Cloth/Foxing Tape	JIS S5002
	Upper Cloth/Outer Sole	JIS S5002
	Upper Cloth/Upper Back Cloth	JIS S5002
	Insole Cloth/Insole Rubber	JIS S5002
	Rubberised Heel Cloth/Heel Rubber	JIS S5002
Bursting Strength	Upper Cloth	JIS S5002
	Insole Cloth	JIS S5002

As the test was conducted aiming at the Japanese market, the Japan Industrial Standards (JIS) and the internal criteria of major Japanese footwear firms were borrowed for evaluation purposes. However, only the latter was used when the former did not include the item in question.

The test results indicate that the following aspects must be improved to raise the competitiveness of the products.

a) The outer soles were fine for the most part, however, some of the calender rolled soles are thin and some products with heavy specific gravity and advanced abrasion were observed. Blending of materials and chemicals for outer soles should be rechecked.

b) The adhesive strength of each position and parts should be improved, except for the adhesion of the upper cloth and upper back cloth.

Products with weak or "zero" adhesion were observed. Adhesive strength varied among the products, thus both adhesive and manufacturing technologies must be improved.

Incidentally, these results correspond to the tact control or disproportion of tact time.

The bursting strength of the cloth of the major parts was sufficient. Regarding colour fastness, as the test was conducted with samples presented by some cotton cloth manufacturers, the materials used for the sample were not tested.

The test results, shown in Table VII.2-9, indicate no problem with the samples from the cotton manufacturers.

2) Test Results of the Appearance Test of the Sample

Evaluation of the appearance of the products differed from market to market.

The evaluation here was conducted with the Japanese market in mind as it is said to have strict standards.

The appearance evaluation, based on the manufacturing standards of the Japanese footwear manufacturers, is shown as follows: The number of inappropriate samples is shown in brackets [ ] by item. The total number of the sample is eight.

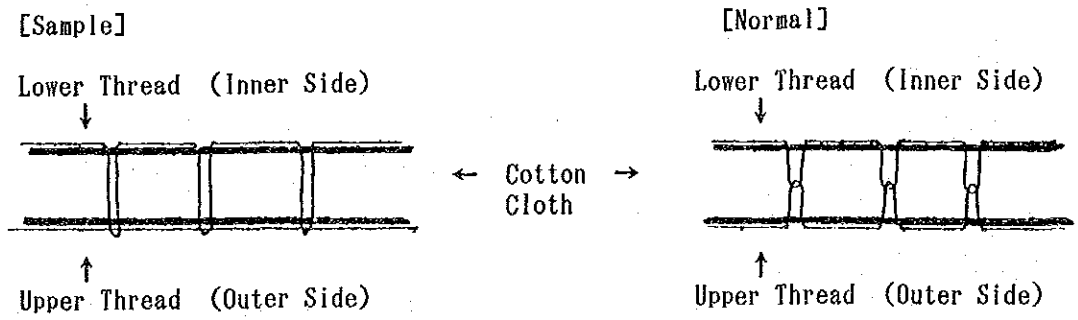
a) Sewing

[1] Rough stitching [two pairs]

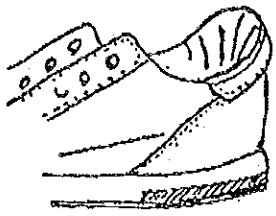
There are only seven to nine stitches per three cm. The standard in Japan is 10 to 12 stitches.

[2] Uneven seams [three pairs]

This is caused by the fact that the twining of the upper thread and lower thread is not proper as is shown in the drawing below:



[3] Too many wrinkles in the counter vinyl in the heel [three pairs]
This is caused basically by using the wrong pattern. However, it is also caused by inaccurate affixment or sewing.



[4] Sewn wrinkles found [two pairs]
There were wrinkles in the canvas because parts were sewn without fitting or pulling the canvas.

[5] Punching scratch and unfirm fixings found with the eyelets. [one pair]
This is supposedly caused by not well adjusting the eyelet machines.

b) Assembling

[1] The centre of the heel was not well adjusted. [three pairs]
(The centre indicates the joint of the upper parts.)

[2] The height of the heel was different between the right and left shoes. [two pairs]

[3] The widths of the toe tips were unequal. [three pairs]

Problems [1], [2] and [3] are caused by bad lasting.

[4] The upper part is stained by the adhesives. [three pairs]
This is caused by uneven width being applied with adhesives for fixing foxing tape.

c) Others

[1] The designs of the outer sole and toeguard were not clear.[two pairs]

[2] Differences in the level of the surface of the foxing tape was observed. [two pairs]
This is caused by the lack of fitting between the sizes of the outer sole and the lasted upper.

[3] There were differences between the right and left shoes in terms of the thickness of the outer sole. [one pair]

[4] The inner sole was deformed. [two pairs]
This was caused by the fact that the shape of the insole did not fit that of the last.

[5] The printing ink used for heel marking had come off. [one pair]

(2) The Inspection Standards of Export Inspection Law

It would be preferable if the samples obtained were improved as prescribed above.

In Japan, too, there were many products with poor appearance 30 years ago. Consequently, the Export Inspection Standards were created based on the Export Inspection Law which was enforced in February 1958. It stipulated inspection of appearance in detail and was aimed at the improvement of products.

In order to raise the quality of the appearance of Malaysian products and secure competitive power for them, it seems necessary to prepare some standards of this sort. Thus the appearance section of Japan's export inspection standards is shown.

Incidentally, under the Export Inspection Law, rubber footwear was a designated item and was subject to compulsory inspection. The inspection was conducted for OEM products as well.

In April 1973, canvas shoes etc., the quality of which had improved, were excluded from the designated items.

Export Inspection Standards for Rubber-soled Footwear

(Appearance)

1) General Form

a) There should be no difference between the right and left shoes. Any asymmetry should not be noticeable.

b) Differences in the corresponding parts between the right and left shoes should not be noticeable.

c) Irregularity in the outer sole, insole or lasted parts in the upper should not be noticeable. This clause is not applicable to irregularity used in the pattern.

d) Deformity should not be noticeable.

2) Form and Size of Inner Sole
The inner sole should be in balance, in form and size, with the outer sole.

3) Lasting of Upper
Lasting of the upper should be appropriate.

4) Heel Fixing
The heel should be fixed properly.

5) Counter
The downward edge of the counter should reach to insole.

6) Cracks, Hole Flaws, Breaks
a) Cracks, hole flaws or breaks should not be found in the trunk, upper or the surface of the sole and they should not be noticeable when found in other parts.

b) Iron burns, scratches and other flaws should not be noticeable.

7) Fabric Unevenness and Fabric Knots

Fabric Unevenness and fabric knots should not be noticeable on the outside and on the inside, they should not stand out.

8) Wrinkles or Creases
Wrinkles or creases should not be noticeable.

9)Spots, Pockmarks and Stains
Spots, pockmarks or stains should not be noticeable on the outside and on the inside should not stand out.

10) Folded Edges
Frays should not be noticeable, particularly, frays around the top line edge should be easily undone.

11) Mould
Mould should not be found.

12) Tack
Tack should not be found anywhere.

13) Foreign Matter
Foreign matter should not be noticeable.

14) Frosting and Blooming of Chemicals
Frosting and blooming should not be noticeable.

15) Bubbles
Unevenness in the bubbles in the areas made of sponge should not be noticeable or in other areas bubbles should not be noticeable.

16) Elasticity
Elasticity in the rubber woven cloth should be appropriate.

17) Colour Tone and Uniformity in Pattern
Differences, unevenness and bleeding in colour, irregularity in gloss, nonuniformity, shears and indistinctness in pattern should not be found on the

outside and should not be noticeable on the inside except for differences, unevenness in colour or irregularity in gloss used for decoration.

18) Width of Cementing
The width of cementing should not be unsightly.

19) Varnishing
Missing, cracks, scars, unevenness, dripping and other defects in varnishing should not be noticeable.

20) Adhesion
The cemented part on the outer sole, heel, tape around the outer sole (except for the tape cemented on to the upper and the rubber outer sole), trunk and upper (except for cemented part between the trunk or the upper cloth and its back cloth) should not easily be separated. Missing and incorrect cementing of adhesive in those parts should not be found and separation and swelling in those parts should not be noticeable. In other cemented areas (except for the cemented area on the outer sole and the mark inside), missing, incorrect cementing and swelling and separation of the cemented area should not be noticeable.

21) Sewing
a) Missing and incorrect sewing should not be found in the sewn part except for the sewn part in the mark and decoration and here they should not be noticeable.
b) Sewing, thread terminal and the condition of thread should be good. Breaking and cramps in sewing and inequality in stitching paces should not be noticeable.
c) More than three consecutive missed or dropped stitches should not be found and two consecutive missed or dropped stitches should not be found in more than five areas.

22) Fallout of Yarn
Fallout of yarn should not be noticeable.

23) Rust
Rust on any fixtures other than nails, wooden screws and other fixtures of that kind and reinforced fixtures set onto the bottom part should not be noticeable. Iron-made fixtures should be plated or coated or should be treated with rustproofing.

24) Finish

Finish should be good and waste thread, burrs and other defects should not be noticeable.

25) Setting of Parts

Setting of parts (fixed in some other method than adhesion or sewing) should be good and any missing or incorrect setting should not be found.

26) Operating parts

Operating functions should be good.

27) Accessories

Accessories should be good and any missing or incorrect setting should not be found.

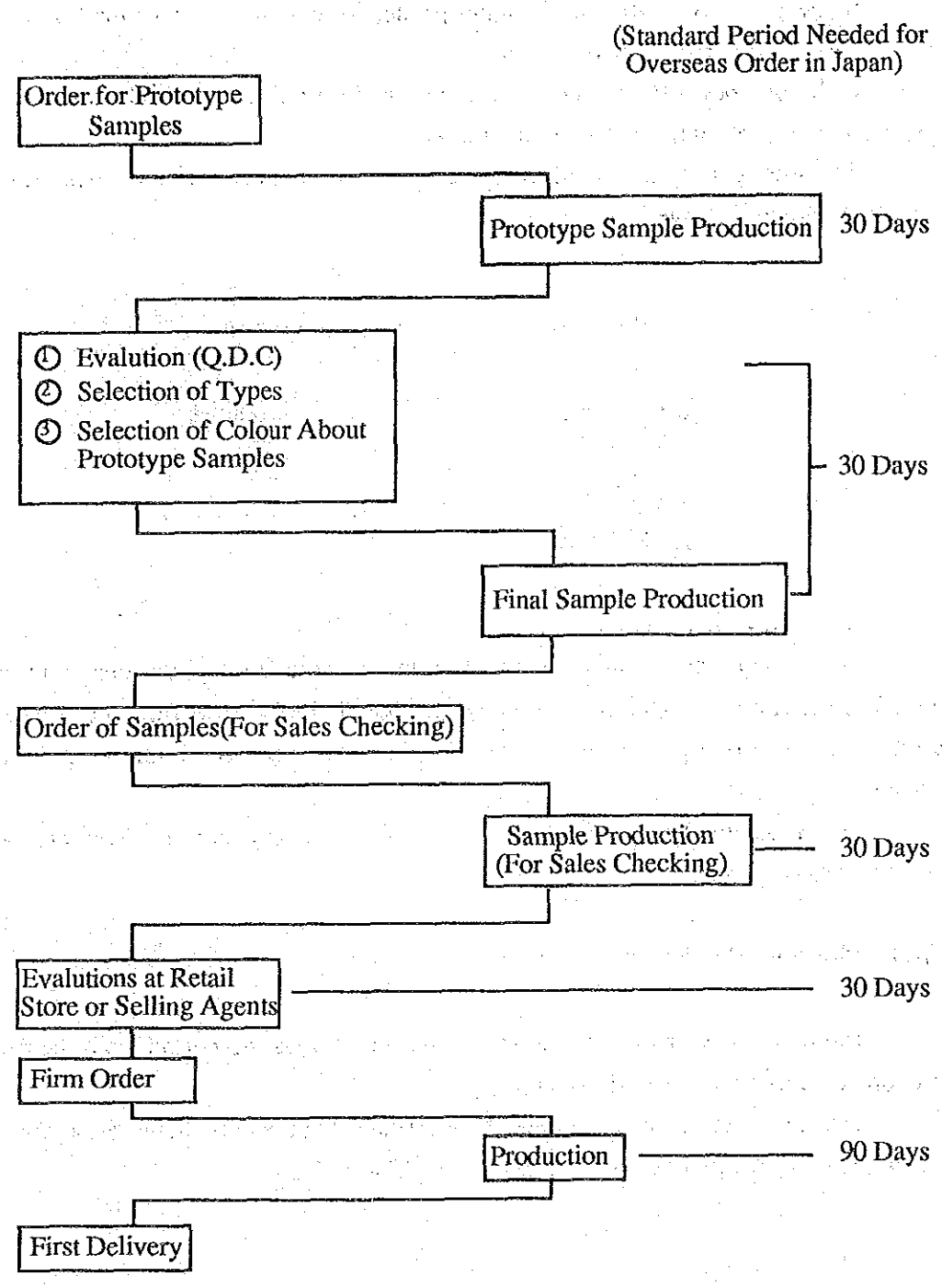
VII-5-2. Fulfillment of Delivery

(1) Production Period of Prototype Samples

The basic steps of new product development are shown in Fig. VII. 5-1.

Foreign manufacturers first check as to the capability of making the prototype samples requested, as is shown in Fig. VII. 5-1.

Fig.VII. 5-1 Basic Steps From Trial\Order to First Delivery



If the prototype samples are appropriate, its colour is determined and some products to be sold on trial are produced.

If the prospects for market acceptance of the product are bright, makers may receive a mass order and begin substantial production.

The time spent on prototype sample production, calculated from the data from the survey, is shown in Table VII. 5-3.

Table VII. 5-3 Period Needed for Prototype Production

Classification	Period Needed
Shortest	7 days
Longest	30 days
Average	15 days

Source: Survey Questionnaires

As is shown in the table, the longest period is 30 days.

The survey was conducted without taking consideration of various conditions, therefore the responses include seven days for the shortest. However, to evaluate the products' competitive power, the 30 days for the longest period should be paid more attention.

This means the Malaysian rubber footwear manufacturers are capable of producing in the requested period.

(2) Production Period for Products

The production period, as shown in Fig. VII. 5-1, is the period from the time a firm order is received to the time of delivery.

This period in Japan is supposed to be 90 days. On the other hand, the analysis of the production period in the survey is shown in Table VII. 5-4.

Table VII. 5-4 Production Period after Firm Order

Case	Period Needed		
	Shortest	Longest	Average
A	60 days	100 days	80 days
B	35 days	90 days	79 days
C	20 days	90 days	67 days

Notes : Case A: Survey Questionnaires
Case B: In Case of Malaysian Samples Collected
Case C: In Case of Japanese Samples Handed Over to Malaysian Manufacturers

Case A in Table VII. 5-4 indicates the number of days spent from the time of order of 50,000 pairs of shoes by OEM to the time of delivery.

Case B indicates the number of days spent from order to delivery. The volume of the order is not specified.

Case C is the number of days spent for the delivery of the minimum order received, which was requested by the Malaysian manufacturer, namely, the days spent for the minimum amount delivered for an order.

As is shown in the average number of days and the longest period of time in Table VII 5-4, the days spent for production are 80 to 90 on average. Accordingly, the competitive power in this regard is not a problem.

Concerning delivery, which is related to the production period, the Japanese market is said to be particularly strict. In Japan, new products are sold based on four seasons and the selling period for a season is about three months. If a delivery is one month behind the fixed schedule, sales plans are totally undermined. This is why delays in delivery of seasonal goods to the Japanese market are not tolerated. Seasonal commodities belong to the high value added category.

The Malaysian rubber footwear industry is predicted to move in the direction of adding more value to their products. At present there is no problem with the production period and therefore it would be logical for manufacturers to attend to delivery times in order to maintain competitive power.