

5.5 Report on Master Plan for Footwear Industry in Myanmar

5.5.1 Present Status of Myanmar's Footwear Industry.

Myanmar's footwear industry is in an early stage of the business life cycle. Some major factors reflecting its strengths, weaknesses, opportunities and threats are as follows.

Strengths: Main raw materials for footwear production, leather and rubber, are available in Myanmar. But if there is an opportunity to gain proper leather tanning technology and skill, there will be no need to import these raw materials, which would save a substantial amount of hard currencies. Cheap labor cost in Myanmar is also one of the advantages which reduce production costs by a substantial margin.

Weaknesses: A large part of Myanmar's footwear makers are unable to exploit this strength because of the lack of proper technology and skill for processing leather and rubber of internationally acceptable quality. There is no cooperation among Myanmar's footwear makers to set up a proper training for footwear production and designs, and also to form business associations and to arrange seminars to share views for the development of the industry and for the expansion of export markets. Most of the footwear manufacturers, especially domestic medium-scale footwear producers, are not focusing on export markets and are content with domestic sales. However, most footwear manufacturers are interested in exporting in the future. As no action is taken, there is no market research on which type and design of footwear can secure market share in other countries.

Opportunities: The production of footwear in Myanmar focuses mainly on domestic market, but there is a shortage of demand in the domestic market. Thus, there is room for the production to be increased not only for the domestic but also for export markets. The labor cost in Myanmar is one of the cheapest among the countries of Indochina. Even the labor cost in Cambodia is getting higher. As a result, one of the largest footwear makers in Myanmar, Tai Yi International, has been receiving orders from the companies that used to purchase footwear from Cambodia. The demand for footwear in the world is getting higher and higher and since Myanmar's footwear industry is in an early stage of development, it has the potential to grow at a fast pace. The value of the local currency, Kyats, has been declining, making Myanmar's footwear products more competitive in the international market.

Threats: The footwear industry in Vietnam and Cambodia is developing, while the development of the footwear industry in Myanmar is at a glacial pace. If Myanmar cannot keep

pace with the development of the footwear industry in these countries, Myanmar will always be lagging behind these countries and will face a worse situation when it joins the AFTA. If its footwear industry does not develop in time, Myanmar will be unable to expand its export markets and will also lose a large portion of the domestic market, since demand for high quality imported footwear will increase while that for low quality traditional-style flip-flops is expected to decline.

Hence, the development of the footwear industry in Myanmar is very important. But, the pace of development is very slow chiefly due to the following factors.

- There are very few large footwear businesses in Myanmar. The majority of footwear manufacturing businesses are small and medium businesses relying heavily on labor. Therefore, mass production is not possible and the quality is not reliable.
- The information on overseas products in the same footwear category, overseas market connections to find transaction partners, statistical materials, etc. are not available among Myanmar's footwear makers.
- Training programs to enhance the quality of Myanmar's technicians and other human resources are not widely available in Myanmar.
- Financing of SMEs in the footwear industry is not effective; hence, most firms need to rely on their own equity capital, which normally is a pool of capital of close relatives and friends, and business partners. Most of the small and medium footwear businesses have very limited access to the formal financial industry. It is therefore difficult to raise debt capital through formal financial institutions and also to raise equity capital through the capital market because of the absence of an equity market. Thus, there are few chances for small and medium footwear makers to become larger.
- Production of raw materials or parts, such as soles, leather and uppers, required for footwear production is not developed, either. Hence, large footwear businesses need to develop their own raw materials or parts production businesses that can supply parts of reliable quality. Hence, in order for small and medium footwear makers to grow, they must first develop their own raw materials and parts production businesses, which require large capital investment.
- Myanmar's footwear makers have had very few chances for the expansion of export markets. This can be a result of a vicious cycle. Export markets cannot be expanded because of the poor quality of locally-made footwear. The lack of export markets in turn results in very limited efforts to enhance the quality of products: the makers are content with the existing level of quality, which is accepted by the domestic market.

Due to these factors, growth of the footwear industry in Myanmar is at a glacial pace. Footwear exports during the three years from 1999 to 2001 increased, but the share of footwear exports in the total value of exports was at most 0.69%. This is due to the impediments and problems which will be described in the following section.

5.5.1.1 Supply Side Analyses

(1) Footwear Manufacturers

We will analyze different types of manufacturers in this section. Footwear found in Myanmar's market will be categorized into seven groups, ranging from Type 1 to Type 7 as follows for convenience and also for better understanding of the sections that follow.

- Type 1. Flip-flops with inner soles of leather and uppers of leather or textile materials.
- Type 2. Flip-flops with inner soles of textile materials and uppers of textile materials.
- Type 3. Flip-flops with inner soles of synthetic leather and uppers of leather or textile materials.
- Type 4. Flip-flops with inner soles of rubber and uppers of rubber or plastics.
- Type 5. Slippers or flip-flops with inner soles of rubber or EVA and uppers of rubber or EVA. (EVA is the composite of ethyl, vinyl and acetylene)
- Type 6. Slippers with inner soles of rubber or EVA and uppers consisting of leather straps or straps made of textile materials across the instep and around the big toe.
- Type 7. Fancy slippers or shoes like sling-backs with inner soles of leather or other materials and uppers of leather or other materials covering the ankle or like clog with out soles of rubber plastics, leather or composition leather and uppers of leather, incorporating or without incorporating a protective toe-cap.

Since the domestic market relies mainly on locally-made Type 1, Type 2 and Type 3 footwear, manufacturers of these types of footwear play an important role. But it is found that the production of these types of footwear has not developed because of many factors, which will be explained later. Thus, the manufacturers of these types of footwear are normally medium or small manufacturers.

Footwear manufacturers can be categorized as follows.

- a) Large footwear manufacturers with foreign investment with a workforce of 500 persons or more.
- b) Large footwear manufacturers with local investment with a workforce of 500 persons or more.
- c) Government-owned footwear factories
- d) Medium footwear manufacturers with fewer than 500 workers

- e) Small footwear home industries using two or four mainly family members as workers.

Foreign footwear producing companies that are operating under the ambits of Foreign Investment Law and local footwear producing companies that are operating under the ambits of Myanmar Citizens Investment Law are categorized as large and medium footwear manufacturers. These companies normally produce leather shoes, casual shoes, Type 4, Type 5 and Type 6 footwear, sandals, etc. It is found that there are only 3 footwear producing companies under Myanma Investment Commission. There are one 100% foreign company producing flip-flops, slippers, leather shoes, casual shoes, sandals, etc. on a CMP basis and two local companies producing shoes, Type 4, Type 5 and Type 6 footwear.

The state-owned footwear factories under the Ministry of Industry 1 are categorized as government-owned footwear factories. Local footwear businesses which have been producing Types 1, 2 and 3 footwear are categorized as medium footwear manufacturers. It is estimated that there are about 300 medium footwear producers in Myanmar.

There are small home industries with around 2~4 workers which are producing Types 1, 2 and 3 footwear. Some of them produce non-brand, or nameless, Type 1, 2 and 3 flip-flops. Some of them produce flip-flops which are copies of popular brands. Others produce the same types of flip-flops for medium footwear producers and act as their sub-contractors. It is estimated that there are about 500 small home industries.

Table 5- 71 Number of Footwear Producers as of 2001

			Number	
Large&Medium-scaled			Medium-scaled	Small-scaled
100% Foreign	Foreign JV	100% Local		
1	0	2	300	500

Source: JICA Study Team

It is found that the number of large producers which can produce export-quality footwear is insignificant compared with that of medium and small producers producing lower-quality footwear. This is one of the reasons that the international market has not recognized the quality of Myanmar footwear and why the footwear industry has not developed in Myanmar. The numbers of workers in footwear production by the size of their employers are as follows.

Table 5- 72 The Number of Workers in Each Category

			Person
Large-scaled	Medium-scaled	Small-scaled	
150~ 700	50~ 80	4~ 10	

Source: Interviews with footwear factories managers

Some large manufacturers are operating with more than one factory so that one produces different types of soles, another uppers, etc. These companies may employ as many as approximately 2000 workers.

(2) Analyses of Footwear Manufacturing

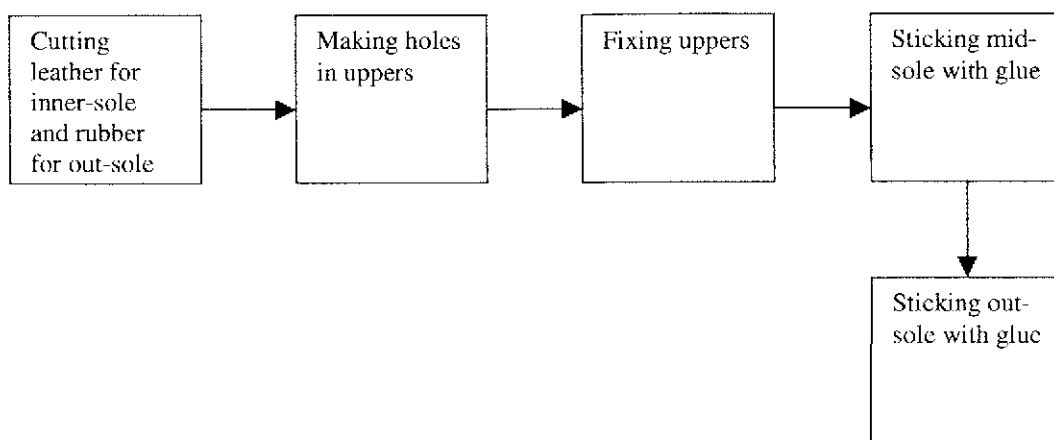
1) Small and Medium Footwear Producers

It is estimated that there are about 300 medium footwear makers in Myanmar. These medium-scaled footwear producers normally produce about 20~50% of footwear in house and give sub-contracts to small footwear producers. It can be estimated that there are at least approximately 500 small footwear producers in the country. There are normally 40~80 workers in a medium-scale producer, and the number of workers may be as small as 2~4 workers in small footwear home industries. Workers at these enterprises are usually family members. Medium-scaled footwear producers usually provide their sub-contractors with all necessary raw materials and parts for making the required type and quality of footwear at per-pair price. These small and medium-scale producers make footwear by hand.

2) Production Process.

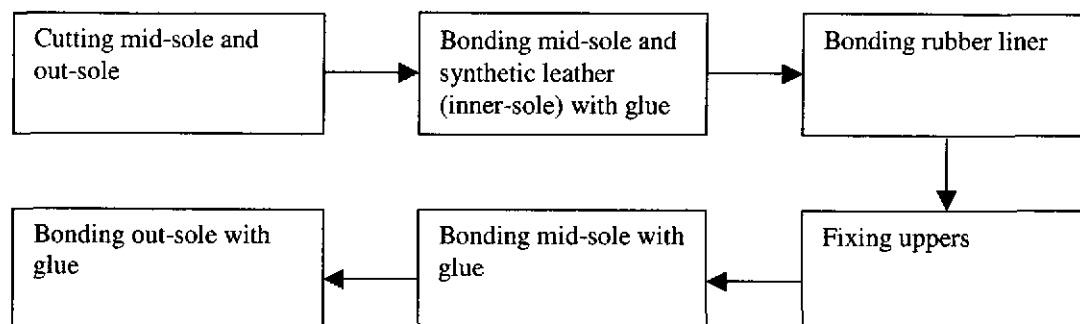
The production process of locally-made footwear, such as Type 1, 2 and 3, is quite simple. No machinery is required for production. Hence, it is labor-intensive. The step-by-step traditional production process for locally-made footwear is as follows.

Figure 5- 43 Traditional Production Process for Type 1 Footwear.



Source: JICA Study Team

Figure 5- 44 Traditional Production Process for Type 3 Footwear.



Source: JICA Study Team

As shown above, the traditional production process is quite simple and manual. Processed leather, synthetic leather, textile materials, etc. to be used as inner-soles and different quality rubbers to be used as mid-soles and outer-soles can readily be purchased locally. Since the production process is not difficult, a large number of small family enterprises have sprung up to act as sub-contractors to medium-scaled producers.

The breakdown of the cost of one pair of the most popular type of footwear in Myanmar, which is Type 1, is as follows.

Table 5- 73 Cost Breakdown of One Pair of Footwear

	Kyats	
	Minimum	Maximum
Cow leather	270	480
Out-sole rubber	53	250
Uppers	40	120
Mid-sole	50	300
Petrol	5	12
Director labor	15	25
Total Variable Cost per pair	433	1,187

Source: Interviews with local producers

The cost of cow leather in the market varies from 450 to 800 Kyats per lb depending on the quality, and usually approximately 0.6 lbs of cow leather is used for one pair. Uppers are usually made of velvet-like fabric, jute fibre or coarse cotton cloth. The main textile material for uppers is velvet-like fabric and the price is around 750 Kyats per yard and uppers of approximately 22 pairs of footwear can be produced from one yard. Petrol is used for making glue by mixing the unused rubber with petrol. It is calculated that glue for 50 pairs of footwear can be made by mixing 1 gallon of petrol and 0.5 lbs of rubber.

Large-scaled Footwear Production

Most foreign organizations are not willing to invest in Myanmar for production and exports on an FOB basis of footwear because of high levels of taxes on exports. Because of an 8% commercial tax plus 2% income tax, most foreign organizations are only interested in business on a CMP basis, because in this case only 2% of export earnings are deducted as income tax. Out of export earnings 10% (8% commercial tax + 2% income tax) are deducted when the earnings are credited to the exporter's account, but the 8% commercial tax is refunded if the export of footwear is on a CMP basis. One of the foreign companies engaged in the footwear business on a CMP basis gets about US\$ 4.5 per pair for cutting, making and packaging footwear, such as boots, shoes, and sandals.

Now, we will analyze the economic justification for footwear production on a CMP basis. An economic justification analysis is important for two reasons. First, it will provide an idea of how much profit the footwear CMP business can earn in Myanmar and provide information on projected future cash flows to encourage potential investors to participate in the footwear industry, which in turn will lead to the development of the industry. Second, sales revenues and different expenditure are average figures collected from relevant governmental organizations to which large businesses have to report, so that they can be used as a guideline for potential foreign and local investors.

For the economic justification analysis, let's assume that we will establish a footwear factory with the maximum capacity of about 600,000 pairs of boots, shoes and sandals per year with the above-mentioned machinery and equipments. Although the maximum capacity is 600,000 pairs, it is assumed that only 60% of the maximum capacity will be produced in first year and that the level of production increases by 10% every year; hence, it will be able to produce at maximum capacity from the fifth year onward. The products of lower quality will be sold in the local market, and it is assumed that 5% of total production is of lower quality. Hence the said business will be producing 360,000 (60% of 600,000) pairs of assorted kinds of footwear in the first year out of which 342,000 (95% of 360,000) pairs will be produced on a CMP basis and 18,000 (5% of 360,000) pairs will be sold locally. Let's further assume that the same quantity of boots, shoes and sandals will be produced; hence, out of the 18,000 pairs made in the first year, 6,000 pairs will be boots, 6,000 pairs will be shoes and 6,000 pairs will be sandals. Boots will be sold for Kyats 7,200 per pair, shoes for Kyats 6,000 per pair and sandals for Kyats 4,800 per pair. Thus, the total US\$ income for 360,000 pairs of production on a CMP basis in the first year will be US\$ 1,539,000 ($\text{US\$}4.5 \times 342,000 \text{ pairs}$) and the total income in Kyats in the first year will be $\text{Kyats } 108,000,000 \{ (7,200\text{K} \times 6,000\text{pairs}) + (6,000\text{K} \times 6,000\text{pairs}) + (4,800\text{K} \times 6,000\text{pairs}) \}$. The same formula will be applied for the later years. It is reasonable to make a further assumption that it will cost around US\$ 3.417 per pair on average for raw materials of any type of footwear which will be sold locally. It is also assumed that other

expenditures will increase by 10% every year. We will not take into account the depreciation in our hypothetical example. With the above-mentioned hypothetical example, economic justification for footwear production on a CMP basis will be as follows.

Table 5- 74 Standard Case of Economic Justification of CMP Footwear Business Classified by Different Currency

Particulars	Unit: Thousands									
	Year 1		Year 2		Year 3		Year 4		Year 5 to 20	
	US\$	Kyats	US\$	Kyats	US\$	Kyats	US\$	Kyats	US\$	Kyats
SALE INCOME										
Revenue from CMP	1,539	0	1,795.5	0	2,052	0	2,308.5	0	2,565	0
Revenue from Local sale	0	108,000	0	126,000	0	144,000	0	162,000	0	180,000
COST OF PRODUCTS										
Raw material for local sale	615	0	718	0	820	0	923	0	1,025	0
Sub-total			1,795.5	126,000	2,052	144,000	2,308.5	162,000	2,565	180,000
GROSS PROFIT	924	108,000	1,077.5	126,000	1,232	144,000	1,385.5	162,000	1,540	180,000
EXPENDITURES										
Salary & Wages	20	50,000	30	55,000		60,000		65,000		70,000
Power & Electricity		3,000		3,300		3,600		3,900		4,200
Selling Expenses		2,000		2,200		2,400		2,600		2,800
Repair & Maintenance		6,000		6,600		7,200		7,800		8,400
Oil & Fuel Expenses		2,500		2,750		3,000		3,250		3,500
Other Expenditures	15	10,000	17	11,000	19	12,000	21	13,000	23	14,000
Commercial Tax		10,800		12,600		14,400		16,200		18,000
Cash Surplus by Currency	889	23,700	1,030.5	32,550	1,213	41,400	1,364.5	50,250	1,517	59,100
Income Tax							204.68	15,075	227.55	17,730
Cash Surplus after Tax	889	23,700 (US\$26)	1,030.5	32,550 (US\$36)	1,213	41,400 (US\$46)	1,159.82	35,175 (US\$39)	1,289.45	41,370 (US\$45)

Note: This table shows the calculation of cash flow through CMP business

Source: JICA Study Team

It is estimated that liquid capital in cash of Kyats 23,400,000 will be required. Building the factory will cost about Kyats 40,000,000, and Kyats 32,400,000 will be required for furniture and fittings. These equity and other investments will be converted into US\$ with the market exchange rate of Kyats 900 per US\$. It is further estimated that the machinery investment shall be US\$ 5 million for this large footwear plant. With the above-mentioned cash flows, the IRR analysis is as follows.

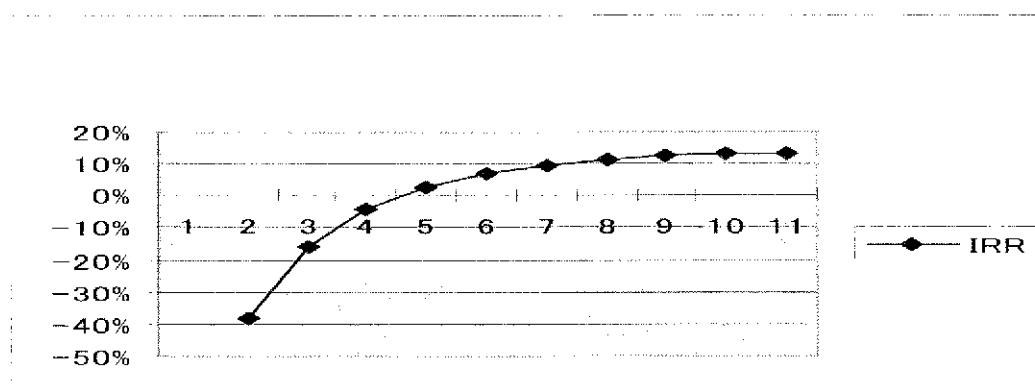
Table 5- 75 IRR Analysis in Footwear CMP Business

		US\$ thousands									
		Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Net Capital Surplus		915	1,067	1,259	1,199	1,335	1,331	1,331	1,331	1,331	1,331
Depreciation (10Ys)		500	500	500	500	500	500	500	500	500	500
Total Cash Flow		1,415	1,567	1,759	1,699	1,835	1,831	1,831	1,831	1,831	1,831
Interest rate	0.15										
Discount rate		0.869	0.756	0.657	0.571	0.497	0.432	0.375	0.326	0.284	0.247
Discount cash flow		1,231	1,185	1,157	971	912	792	688	599	520	453
Initial Investment	5,106										
IRR		-38%	-16%	-5%	2%	7%	9%	11%	12%	13%	13%

Source: JICA Study Team

It is noted that the break-even point will be reached in about 3 years. The Internal Rate of Return of the said business is found to increase as the life of business extends but the rate of increase will slow.

Figure 5- 45 IRR Analysis on a Hypothetical Footwear CMP Business



Source: JICA Study Team

There are only three large footwear makers and one of them, namely REVA Company, more than one footwear factory: one produces different types of soles, another produces different types of uppers and another produces different types of footwear with different types of parts supplied by its sister factories.

Now we will analyze REVA's footwear business. This firm produces around 75,000~ 120,000 pairs of different types of footwear per month. It has been producing different types of footwear parts and footwear at government-owned factories. It has installed required

machinery at the government factories in order to be able to produce required types of footwear and pay Kyats 14-24 per pair to the Ministry of Industry 1 for the use of its factory. It pays as rental Kyats 14 to 24 per pair depending on the type of footwear produced. It pays Kyats 24 per pair to the Ministry as rental for the production under 50,000 pairs per month but when monthly production exceeds 50,000 pairs, it pays only Kyats 14 per pair for additional production exceeding 50,000 pairs. Depending on the types of footwear direct labor cost for one pair varies from Kyats 24 to 70. It exports 500,000-1,100,000 pairs of different types of footwear per year to Japan, Italy and France. It was further found that the majority of exports to different destinations go through Hong Kong.

3) Availability and Supply of Raw Materials.

Raw materials required for locally-made Type 1, 2 and 3 footwear are not very sophisticated. The following are prices of major types of raw materials required for locally-made Types 1, 2 and 3 footwear.

Table 5- 76 Costs of Raw Materials

Main Types of Raw Materials	Kyats Price
Cow leather	450-800 per lb
Synthetic leather	800 per yard
Textile material (valvet-like cloth)	750 per yard
Outer sole	53-250 per lb

Source: JICA Study Team

These types of raw materials are locally available; hence, there should be no supply problems. But some raw materials for Types 4, 5, 6 and 7 footwear are not available locally so that they are usually imported. These include high quality polyvinyl chloride and other chemical materials for making different types of soles.

Raw materials for boots, shoes and sandals are more sophisticated. According to a study of Tai Yi International Company, a large footwear maker working on a CMP basis, the following are major types of raw materials required for the production of boots, shoes and sandals and their average unit prices. Most of these types of raw materials are not available locally and are imported.

Table 5- 77 Breakdown of Raw Materials

Unit prices in US\$

Major Types of Raw Materials	Unit	Unit price	Major Types of Raw Materials	Unit	Unit price
Cow Hide	Sq.ft	2.50	Mesh	Yard	1.30
Coated Pu leather	Sq.ft	2.20	Tissue paper filler	Rem	2.50
Split leather	Sq.ft	1.20	Silica gel	Pcs	0.02
Kid skin	Sq.ft	2.40	Shoe Eyelets	Set	0.01
Pu leather	Sq.ft	4.00	Buckle (Hook, Studs)	Set	0.02
Linen	Yard	3.50	Buckle (Metal, Ornament)	Pcs	0.08
PVC Sponge leather	Yard	1.20	Shoe button	Pcs	0.04
Wonderful PU	Yard	1.20	Insole rubber sponge filler	Kg	0.50
Silk	Yard	2.00	Rubber rings	Bag	1.35
Textile fibre 100% cotton	Yard	1.50	Zipper	Pcs	0.09
Textile fibre	Yard	1.30	PVC welt	Kg	1.50
50% Rayon cotton & 50% Nylon woven fabric	Yard	2.60	Magic-tape (Loop+Hook)	Yard	0.20
Grosgrain	Yard	0.90	Shoe lace	Npr	0.05
Canvas 65% polyester, 35% cotton	Yard	0.38	Outsole	Npr	0.75
Canvas	Yard	0.80	Insole	Npr	0.15
Nylon Fabric	Yard	1.50	Heel & Toplift	Sheet	0.15
Fabric polyester	Yard	0.20	Shank	Sheet	0.25
Woven fabric	Yard	4.50	Neoprene graft adhesive	Yard	0.90
Non-woven	Yard	0.75	Primfr	Yard	0.85
Tricon	Yard	0.45	Hardener	Kg	3.40
Tricot	Yard	0.25	Glue for Natural rubber	Kg	1.00
Tricot + Foam	Yard	0.75	Cleaning naththa	Roll	2.00
Chemical sheet	Yard	0.50	Methylene chloride	Cone	150.00
Non-woven cloth filler	Yard	0.15	Cutting die	Yard	1,100.00
Rubber sponge, Eva sponge	Yard	0.25	Aluminium last	Yard	1.75
Insole cardboard	Sheet	1.20	Plastic last	Rem	3.25
Cardboard	Sheet	1.10	Shoe cream	Pcs	7.00
Boa	Yard	3.50	PE paper	Set	0.70
PVC Cutting Board	Kg	0.40	Plat torm	Set	0.21
PVC Outsole sheet	Sheet	1.30	Rubber foam	Pcs	1.50
Rubber outsole sheet	Sheet	4.20	Foam	Pcs	0.18
Polymers of Styrene (EVA)	Sheet	8.00	Latex	Kg	0.80
Topline reinforcement	Yard	0.01	Printing Ink	Kg	1.50
50% Rayon cotton & 50% Nylon woven piping	Yard	0.02	Plastic tongs	Kg	3.25
Thermo plastic glue	Kg	3.00	Square nail	Kg	0.05
Elastic	Yard	0.30	Plastic sticks	Kg	1.39

Source: Myanma Investment Commission

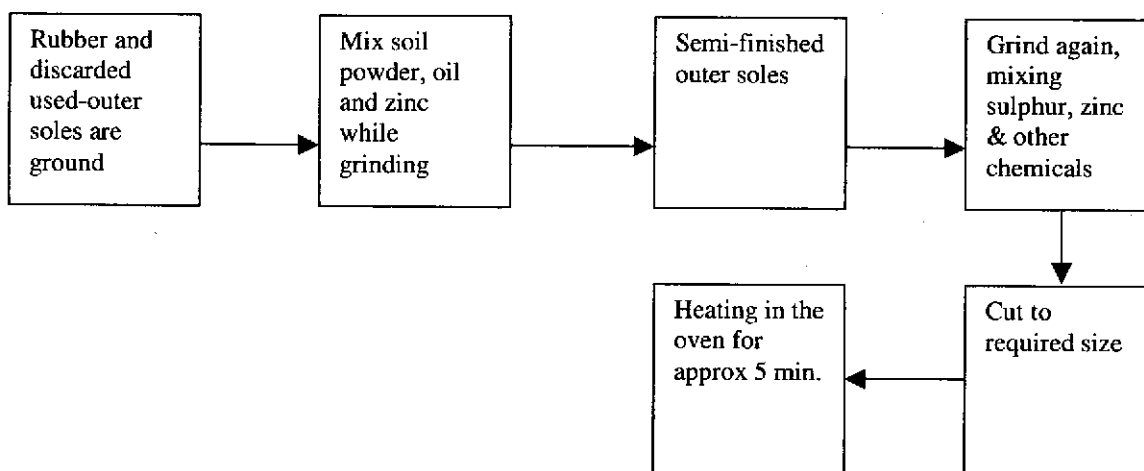
These raw materials need to be imported for large-scale footwear business for the production of assorted kinds of footwear, such as boots, shoes and sandals. It is noted that

footwear businesses running on a CMP basis usually import all required raw materials at the cost of the buyer and do cutting, making and packaging for a price of about US\$ 4.5 per pair.

4) Production of Raw Materials and Parts Necessary for Footwear Production.

Major raw materials for popular types of locally-made footwear (Types 1, 2 and 3) are cow leather and outer soles. No machinery is required for the production of cow leather since cow leather is cleaned and processed by dipping it in the liquid composed of calcium hydroxide and other chemicals. But the production of outer soles is more complicated. The usual process for the production of outer soles is as follows.

Figure 5- 46 Usual Process for the Production of Outer Soles



Source: JICA Study Team

One shop producing outer soles for Types 1, 2 and 3 footwear usually produces around 30,000 pieces, each measuring 1 inch x 1.5 inches, per month, which are enough for 60,000 pairs of footwear. It should be noted that some locally-made Types 1, 2 and 3 footwear use pure rubber as outer soles. The above-mentioned soles are used to reduce the cost of footwear and are sold for a price of around 80~ 100 Kyats per pair.

5) Production at Government Footwear Factories.

We will now analyze the footwear production at state-owned factories under the jurisdiction of the Ministry of Industry 1. There are only four state-owned footwear factories, of which three are under the jurisdiction of the Ministry of Industry 1. They are under the control of government organizations and do not have specific names. The footwear production at the factories under the Ministry of Industry 1 is found to be in-significant in comparison to total

domestic production, and it is estimated that SOEs production accounts for only about 0.0005% of total domestic production. It is noted that 951,048 pairs of footwear were produced by the state-owned factories under the jurisdiction of the Ministry of Industry 1 between April 2001 and August 2001, 784,649 pairs between September 2001 and November 2001 and 252,086 pairs between December 2001 and March 2002.

(3) Analysis of Retailers & Wholesalers in the Domestic Market

1) Different Types of Footwear Shops

Footwear shops are roughly classified into wholesales shops and retail shops. Footwear wholesale shops normally sell only one type of footwear. Some wholesalers sell different types of footwear with different brand names. Some wholesalers sell only under their own brands; hence, they are brand-owners but not producers. They give small production contracts to several small household industries to supply them with finished products. Yuzana Plaza, Mingala Market, Theingyi Market, Bogyoke Market and New Bogyoke Market are the wholesale centers of footwear in Yangon. Out of these markets, footwear is distributed throughout Yangon and to other parts of Myanmar.

Wholesalers are the distribution channels for local small footwear producers. Small producers make small numbers of footwear as household enterprises and distribute through wholesalers. There are two types of small footwear producers. One is those producing footwear for medium-scale producers, which provide them with necessary raw materials. The second type is those that produce footwear in order to sell under their own brands. Hence, wholesalers are distribution thresholds for both small and medium-scale producers. Some wholesalers order the types and brands of footwear they want to large producers and sell by themselves. The types and brands they order to large producers are usually the imitations of imported foreign footwear, which are popular in the market.

According to our study, about 55% of locally produced footwear available in Yangon is made in Mandalay, about 5% in PaKhauKu and about 1% in MyinGyan. Thus only 40% of locally produced footwear available in Yangon is made in Yangon. But it should be understood that there are quite a few small footwear producers in Yangon producing footwear under the brands of popular Mandalay brands; hence, some Mandalay footwear found in Yangon might actually be made in Yangon. Similarly, some famous brands of foreign-made footwear are copied in Yangon; hence, they are actually produced in Yangon. Thus it is estimated that about 50% of locally produced footwear available in Yangon are made in Yangon and about 45% are estimated to be produced in Mandalay.

Retail shops can be classified into four groups as follows.

- a) Mini-shops selling nothing but different types and brands of footwear. Footwear available for sale in these shops usually consists of 80% of locally produced footwear and 20% of imported foreign footwear.
- b) Mini-shops selling nothing but different types and brands of imported foreign footwear.
- c) Mini-shops selling assorted items, which include both locally produced and imported foreign footwear.
- d) Supermarkets selling assorted products, which include locally produced and imported foreign footwear.

In the Yangon market, the first type of retailers (mini-shops selling nothing but different types and brands of footwear) account about 50% of all footwear shops. Ten percent of footwear shops are mini-shops selling nothing but different types and brands of imported foreign footwear. The remaining 40% are mini-shops selling assorted items, which include locally produced and imported footwear. There are only a few supermarkets selling assorted products, which include locally produced and imported footwear, in the Yangon market.

Types 1, 2 and 3 retailers usually have only four to seven workers. Supermarkets usually have 50-300 workers. The supermarkets usually have only two sections selling locally and foreign-made footwear with separate showcases or shelves attended by no more than two sales assistants.

2) Different Types of Locally-made and Foreign-made Footwear.

The footwear industry in Myanmar is in an early stage of the business cycle. People in Myanmar are still relying on locally-made footwear on account of their reasonable prices, since the majority of the population of Myanmar is in the category of low income level. The demand for imported footwear has increased, especially in the urban areas, but it is found that the imported footwear are being substituted by locally-made footwear having reasonable levels of quality and imitating foreign designs and brands. The demand for those substitutes has risen quite significantly because of their prices that are lower (by about 60-80%) than the original foreign-made footwear. Along with the appearance of medium-sized production factories producing locally-made footwear with foreign designs and imitation of foreign brand footwear, various types of footwear have sprung up in the market. We will analyze the major types of footwear available in the market.

Out of the above-mentioned types of footwear, it is found that Type 1, which is flop-flops with inner soles of leather and uppers of leather or textile materials, are one of the most popular among the people of Myanmar, particularly in the cities. This type of footwear is the main type

of footwear produced locally. The majority of people in Myanmar mostly wear this type. According to our questionnaires analysis, 25% of total population in the urban areas wears this type of footwear and 42% of people frequently buy this type.

Type 2, which is Flip-flops with inner soles of textile materials and uppers of textile materials, is also one of the most popular types of footwear and this type of footwear is worn at some special occasions since its durability is not as good as Type 1 footwear. According to our questionnaires analysis, about 15% of people in the urban areas wear this type of footwear and around 23% of people frequently buy this type.

Type 3, which is flip-flops with inner soles of synthetic leather and uppers of leather or textile material is popular in the rainy season; hence, it can be considered as seasonal type of footwear. According to our questionnaires analysis, about 18% of people in the urban areas wear this type of footwear. But it should be noted that the questionnaires analysis was conducted in the rainy season and this type of footwear is good for that season but it is observed that less than 8% of people frequently wear this type.

Type 4, which is flop-flops with inner soles of rubber and uppers of rubber or plastics, is quite popular in the rural areas. Since rural population accounts for 75% in Myanmar, it is believed that the demand for this type is around 37.5 million pairs per year. Although people in the urban areas normally buy around two or three pairs of footwear in a year, it is not unusual for people in the rural areas to buy only one pair in a year. According to our questionnaires analysis, 5% of people in the urban areas wear this type since the analysis was conducted in the rainy season but only around 3% of the urban population frequently buys this type of footwear.

Type 5, which is slippers or flip-flops with inner soles of rubber or EVA and uppers of rubber, is quite popular among the age group of 20~24 in the urban areas. Hence out of total population in the urban areas, only 2% of people are observed to wear this type of footwear according to our questionnaires analysis. About 2% of total urban population is found to buy this type frequently. It is also observed according to our questionnaires analysis that about 65% of urban population wears locally produced footwear, whereas about 35% wears imported footwear.

Major types of imported footwear gaining popularity in Myanmar are as follows. Foreign imported flip-flops with outer soles of rubber and uppers of rubber or plastics, that is Type 4, are quite popular, especially in the rainy season. Since they are more expensive than the same type of locally produced flip-flops, demand is not as high as expected in the rural areas. According to our questionnaires analysis, only 4% of urban population wears this type of footwear in the rainy season and only 2% of people buy this type frequently.

The popularity of Type 5 and Type 6 foreign imported slippers are found to be high among the age group of 20~34 especially in the urban cities. It is quite popular among the age groups of 15~19, 20~24, and 25~34 in the urban areas. It is found to be the most popular among

the age group of 20~24. According to our questionnaires analysis, about 12% of people in the Yangon area wear this type since the analysis was conducted in the rainy season. About 5% of urban people in the above-mentioned age groups tend to buy this type of footwear frequently.

Type 7 imported fancy sling-back or clog type of footwear is popular among women in the age group of 20~24 in the urban areas. According to our questionnaires analysis, about 19% of urban population wears this type of footwear and about 14% buys it quite frequently.

The percentages of the urban population wearing different types of locally produced and imported footwear are as follows.

Figure 5-47 Percentage of Urban Population Wearing Different Types of Local-made Footwear

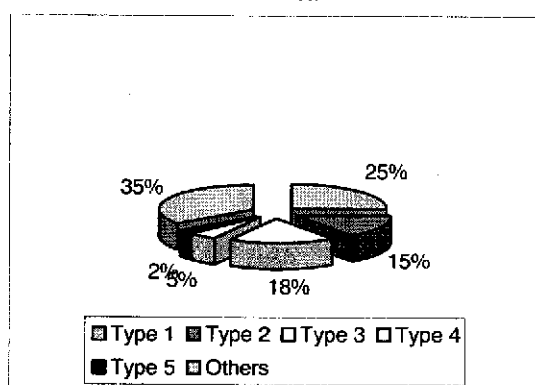
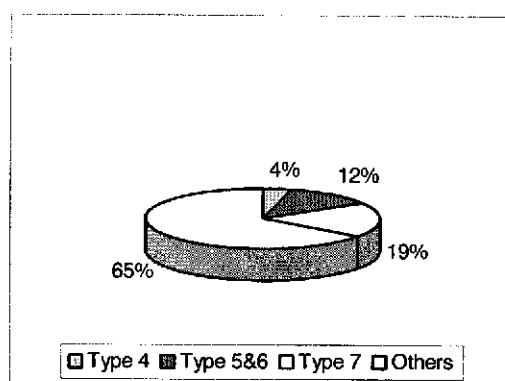


Figure 5-48 Percentage of Urban Population Wearing Different Types of Foreign-made Footwear



Source: Questionnaires analysis

Other types of imported foreign footwear available in the market are as follows.

- Brogues
- Moccasins
- Loafers
- Walking shoes and sports shoes
- Court shoes or women's shoes
- Stilettos

Out of these imported footwear, brogues, loafers and walking shoes have reasonable size of demand, but it is not very significant in comparison with that for imported Types 4,5,6 and 7.

3) Price Variability and Average Sales Volume.

The sales volumes of wholesalers are much larger than those of average retailers, which are usually only about 10~20% of wholesalers'. The majority of wholesalers are located in

Theingyi market, Mingalar market, Yuzana plaza, Bogyoke market and New Bogyoke market in Yangon. But there are several wholesalers located outside of these wholesale centers.

The sales volumes of locally-made footwear wholesalers vary from 10,000 to 30,000 pairs per month. They sell to different parts of Myanmar, especially Rakhaing State in the West, Myawaddy in the North-east and Mawlamyaing, Patheingyi and Davao in the South. Actually, however, they do not usually distribute to these areas directly, since traders from these areas come to Yangon and buy from them. The wholesalers also sell retail with price differences of about 30-50 Kyats. Some wholesalers have a chance to export through the borders to neighboring countries, especially to Bangladesh, via traders who specialize in trade with these countries. For instance, traders who specialize in trade with Bangladesh come to Yangon and buy selected footwear from wholesalers and transport them to Bangladesh by road through the border. Some Type 5 and Type 6 footwear imported from Thailand are also exported to Bangladesh through the traders specializing in trade with Bangladesh. They are normally exported unofficially by road through the borders.

The sales volumes of locally-made footwear retailers vary from 200 to 1,000 pairs per month depending on their size and location. Some retailers selling only footwear products tend to have higher sales volumes than those selling assorted items, including footwear. Some small retail shops in small markets or bazaars have a higher sales volume of around 1,000 pairs per month.

The prices of locally produced footwear vary. The prices of most of locally-made footwear for men are usually higher than those for women. But there is some locally produced fancy footwear for women having the prices much higher than the average prices of locally-made footwear for men. The prices depend mainly on the brand and quality. For men's footwear, the minimum price is only 210 Kyats and the maximum 2,800 Kyats; hence, the average level of price is around 1,200 Kyats. For women's footwear, the minimum price is only 150 Kyats and the maximum 5,000 Kyats. The average price of widely-used locally-made women's footwear which is mostly of Type 3 is around 400-600 Kyats. It should be noted that the cheapest footwear is sometimes not even displayed in the mini-shops and may not even have a brand name. They are produced by small-scale home industries targeting the low-income-level community and sold at stalls.

According to our questionnaires analysis, about 25% of women's footwear is of Type 3 whereas only 10% of men's is of this type. About 13% of women frequently buy the same Type 3 footwear whereas only 3% of men frequently buy the footwear of this type. One of the reasons why women frequently buy this type of footwear is because of its reasonable prices. The minimum price of this type of footwear is 180 Kyats and the maximum about 1,000 Kyats. They vary depending on the quality of inner soles and design, and the quality of uppers. Most women have at least one of this type of footwear, though they have fancy types of footwear for special

occasions.

The minimum and maximum levels of prices for different types of locally-made footwear are as follows.

Table 5- 78 Prices Levels of Locally-made Footwear

	(in Kyats)	
	Min price	Max price
Type 1	230	2,800
Type 2	250	1,300
Type 3	200	1,600
Type 4	210	1,100

Source: Shop visits

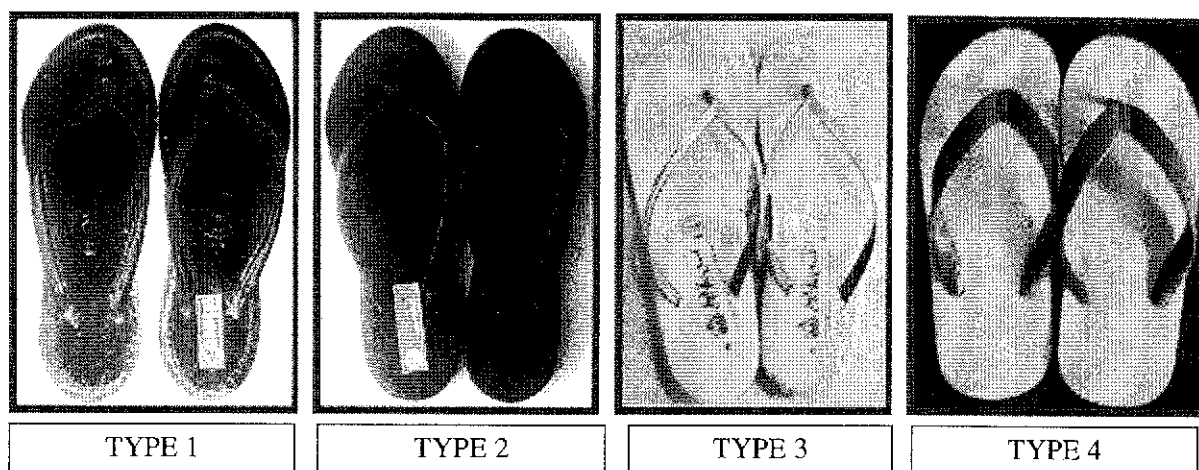
As explained above, the footwear with the minimum level of prices is sometimes not even available at mini-shops and may not even have a brand name. They are produced by several small-scale home industries targeting low-income communities. The minimum level of prices of Type 1 and Type 2 footwear of acceptable quality is around 600- 700 Kyats.

The minimum level of prices of ordinary imported footwear is around 1,000 Kyats. Imported footwear may sometimes cost around 18,000 Kyats. The ordinary imported footwear excludes the expensive shoes which may even cost around 80,000 Kyats. Since urban population accounts for around 75% of total population in Myanmar, only locally produced footwear is in high demand.

4) Quality and Design of Footwear for which Demand is High

The levels of quality and design of footwear vary a lot. But the designs of Type 1, Type 2, Type 3 and Type 4 are alike. Most people wear these designs, resulting in higher demand for them. The common design of these types of footwear is flip-flop type having the inner soles made of cow leather, textile material, synthetic leather or rubber with the uppers of leather, textile material, synthetic leather, rubber or plastics. The designs of this type of footwear are shown in the following pictures.

Figure 5- 49 Designs of Various Types of Locally made Footwear (I)

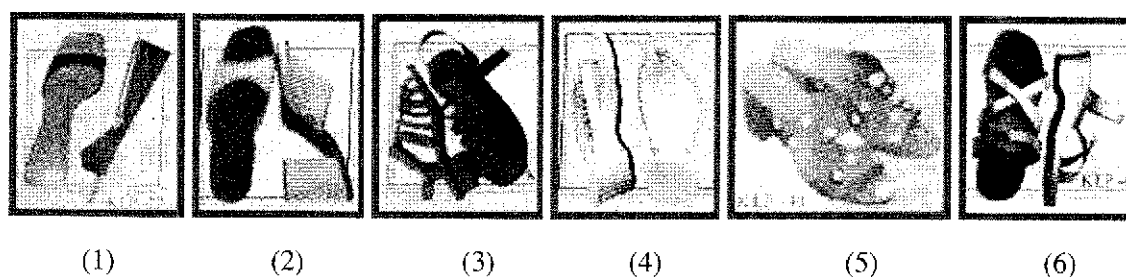


Source: JICA Study Team

The qualities of these types of locally-made footwear cannot be easily judged before they are used for a few months, unless one is quite familiar with footwear qualities. Low quality footwear wears and tears in only 3 months or so, whereas high quality footwear can be in good shape for about a year. But in comparison with imported foreign footwear, the quality of locally-made footwear is poor, since they are hand-made without using any machine and also because of the poor quality of raw materials.

However, there is some locally-made footwear of internationally acceptable levels of quality. This type of fancy footwear is for women. They are usually flip-flops or slippers with inner soles of synthetic leather or textile materials and outer soles of rubber with uppers of synthetic leather or textile materials. Some of them are copies of foreign-made Type 7 footwear. Since they are hand-made, it normally takes some time to produce them in designs that are of acceptable quality. But the prices of such footwear are higher than those of other locally-made footwear and range from 3,500 to 6,000 Kyats. The demand for these types of footwear exists in several foreign countries, especially in Europe and Japan. Some fancy designs are shown in the following pictures. Picture 4 is the design of footwear mostly exported to Japan.

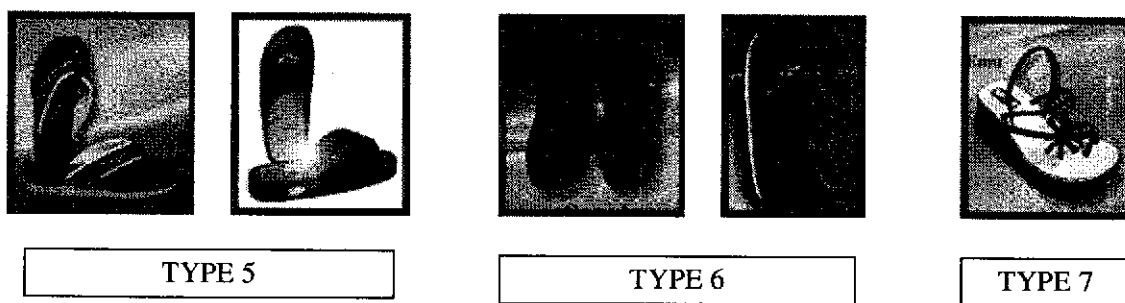
Figure 5- 50 Designs of Various Types of Locally-made Footwear (II)



Source: JICA Study Team

There also are Type 4, Type 5, Type 6 and Type 7 footwear produced locally. These types of footwear are not hand-made but are made with imported machines. Their quality is quite high. Consequently, there is considerable demand for these types of footwear in several foreign countries, including France, Germany and Italy. These types of footwear are exported mainly through Hong Kong. Some designs of foreign-made footwear are copied for domestic consumption. Some foreign brands are copied and distributed locally. These copies are quite popular because they are cheaper than the real foreign-made ones. Some popular designs of these types of footwear are shown below.

Figure 5- 51 Designs of Various Types of Locally-made Footwear (III)



Source: JICA Study Team

5) Different Brands of Best-selling Footwear

According to our survey of footwear shops, there are about 350 local brands. There also are about 100 brands of foreign-made footwear in the market. One of the reasons why there are so many brands in the market is that people are not really particular about the brand as long as the quality is not too bad. This is especially so for Type 1, Type 2, and Type 3 footwear that is flip-flops. For instance, whatever the brand name is, Type 1 footwear are almost the same in terms of design and quality. The same is true for Type 2 and Type 3 footwear. Consequently, a large number of cottage industries and medium-scale producers are in existence and make products that are copies of currently famous or established brand name products. For instance, when SINCHAUUKKAUNG (Six Elephant) brand became famous, SINKOEKAUNG (Nine Elephant) brand and SINNGAKAUNG (Five Elephant) brand appeared on the market. When SINNGAKAUNG (Five Elephant) became famous, AHHTOOSINNGAKAUNG (Special Five Elephant) appeared on the market. Thus, many brand names in the same category of footwear can be found on the market.

Out of 350 brands, the following are the brand names in high demand. They are listed in a descending order of popularity.

Table 5- 79 Brand Names and Types

Brand Name	Type of Footwear Available in the Market
US	Type 1
SINKYAE	Type 4
SHWEMAUNG	Type 2
MYINKYAE	Type 4
YINMAR	Type 1, Type 2, Type 3
PANTHEE	Type 1, Type 3
KANGAROO	Type 5, Type 6
BM	Type 4
SINCHAUKKAUNG	Type 1
SEINDAMAUK	Type 2, Type 3
HLEBAIN	Type 1, Type 2
POPULAR	Type 1, Type 2, Type 3, Type 4
MYAMARLAR	Type 1, Type 2
SINNGAKAUNG	Type 1
D1	Type 1
KITO	Type 5, Type 6
HTOO	Type 1, Type 3
FORYOU	Type 1, Type 2, Type 3
SINKOEKAUNG	Type 1, Type 2
SATYETKAN	Type 1
NGWENGANMIN	Type 1, Type 2

Source: Market Survey in Yangon

Since the demand for these brand name products is higher than average, these products are available at most shops, especially so in Yangon. It should be noted that SINKYAE (Elephant Star) and MYINKYAE (Horse Star) brand footwear are Type 4 footwear imported from Thailand. But locally produced imitations, SINKYAE and MYINKYAE, are also in high demand since their quality is not significantly lower than that of the original Thai-made products.

There is also non-brand footwear on the market. Such footwear is normally of Type 1 and Type 3 and their prices are cheaper than those of brand name products. The target market for such nameless footwear is low-income people. These products are not normally available at mini-shops or shops selling only footwear. They are usually sold at stalls.

5.5.1.2 Analyses of Footwear Imports

(1) Time Series Analysis of the Imports of Different Types of Footwear in 1998/99, 1999/00 and 2000/01.

We will now analyze the importation of different types of footwear into Myanmar for the last three years. This analysis is based on the data acquired from the Customs Department and the Ministry of Commerce; hence, the types of footwear are categorized into 26 from a to z according to the HS Codes as follows.

HS-Code: 64.01: Waterproof footwear with outer soles and uppers of rubber or of plastics, the uppers of which are neither fixed to the sole nor assembled by stitching, riveting, nailing, screwing, plugging or similar processes.

Type a. (HS-Code: 6401.10.00) Footwear incorporating a protective metal toe-cap.

Type b. (HS-Code: 6401.91.00) Other footwear covering the knee.

Type c. (HS-Code: 6401.99.00) Other footwear.

HS-Code: 64.02: Other footwear with outer soles and uppers of rubber or plastics.

Type d. (HS-Code: 6402.12.00) Sports footwear: Ski-boots, cross-country ski footwear and snow board boots.

Type e. (HS-Code: 6402.19.10) Sports footwear: Others that are running shoes and golf shoes.

Type f. (HS-Code: 6402.19.90) Sports footwear: Other footwear other than running shoes and golf shoes.

Type g. (HS-Code: 6402.20.00) Footwear with upper straps or thongs assembled to the sole by means of plugs.

Type h. (HS-Code: 6402.30.00) Other footwear, incorporating a protective metal toe-cap.

Type i. (HS-Code: 6402.99.00) Other footwear not covering the ankle.

HS-Code: 64.03: Footwear with other soles of rubber, plastics, leather or composition leather and uppers of leather.

Type j. (HS-Code: 6403.12.00) Sports footwear: Ski-boots, cross-country ski footwear and snowboard boots.

Type k. (HS-Code: 6403.19.10) Sports footwear: Others that are running shoes and golf shoes.

Type l. (HS-Code: 6403.19.90) Sports footwear: Other footwear other than running shoes and golf shoes.

Type m. (HS-Code: 6403.20.00) Footwear with outer soles of leather, and uppers which consist of leather straps across the instep and around the big toe.

Type n. (HS-Code: 6403.30.00) Footwear made on a base or platform of wood, not having an inner sole or a protective metal toe-cap.

Type o. (HS-Code: 6403.40.00) Other, incorporating a protective metal toe-cap.

Type p. (HS-Code: 6403.59.00) Other footwear with outer soles of leather other than covering the ankle.

Type q. (HS-Code: 6403.91.00) Other footwear covering the ankle.

Type r. (HS-Code: 6403.99.00) Other footwear other than covering the ankle.

HS-Code: 64.04: Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of textile materials.

Type s. (HS-Code: 6404.11.10) Sports footwear: Running shoes and golf shoes with outer soles of rubber or plastics.

Type t. (HS-Code: 6404.11.90) Other sports footwear other than running shoes and golf shoes and with outer soles of rubber or plastics.

Type u. (HS-Code: 6404.19.00) Footwear other than sports footwear and with outer soles of rubber or plastics.

Type v. (HS-Code: 6404.20.10) Running shoes and golf shoes with outer soles of leather or composition leather.

Type w. (HS-Code: 6404.20.90) Other footwear other than running shoes and golf shoes and with outer soles of leather or composition leather.

HS-Code: 64.05: Other footwear

Type x. (HS-Code: 6405.10.00) With uppers of leather or composition leather.

Type y. (HS-Code: 6405.20.00) With uppers of textile materials.

Type z. (HS-Code: 6405.90.00) Other footwear other than footwear with uppers of leather or composition leather and also other than footwear with uppers of textile materials.

Since the footwear types are categorized according to the HS Code, it is quite complicated but its advantage is that detailed analysis can be conducted.

In 1999, Type f accounted for the largest share of footwear imports to Myanmar in terms of value, amounting to US\$ 0.059 million, or 28% of total value of footwear imports. In the same year the second largest group of footwear imported into Myanmar was Type t and the third largest group was Type z.

In 2000, Type z accounted for the largest share with its total import value amounting to US\$ 0.29667 million, or 24% of total value of footwear imports to Myanmar. The second largest group was Type r and the third largest group was Type t.

In 2001, Type z again accounted for the largest share with its total import value amounting to US\$ 0.151 million, or 26% of total value of footwear imports to Myanmar. The second largest group was Type u and the third largest group was Type k.

Imports of most Types of footwear have declined during the last three years possibly because of the development of local factories producing import substitution footwear. But the imports of Types d, g, i, k and u footwear are found to have increased during the last three years. Imports of footwear by type for the last three years were as follows.

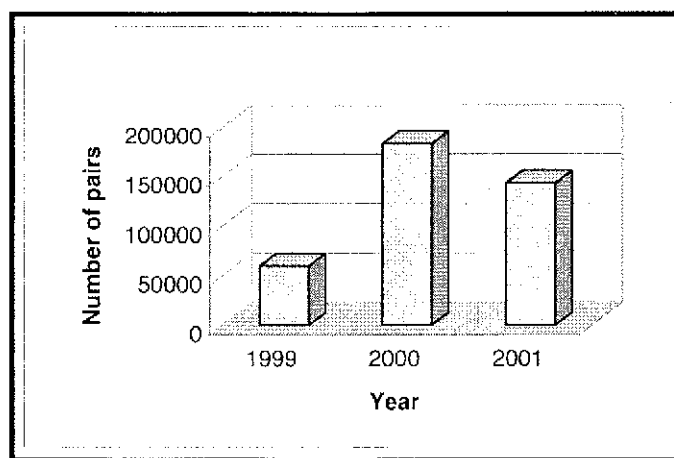
Table 5- 80 Footwear Imports by Type

Type	US\$ in million		
	1999	2000	2001
a	0.00783	0.05117	0.00483
b	0.00083	0.00633	0.00217
c	0.00033	0.09067	0.05200
d	0.00000	0.00033	0.00717
e	0.00000	0.01550	0.00683
f	0.05900	0.01583	0.01317
g	0.00000	0.00367	0.00583
h	0.00200	0.00400	0.00000
i	0.00900	0.02950	0.03467
j	0.00017	0.00000	0.00000
k	0.00000	0.01800	0.06050
l	0.00383	0.02617	0.01667
m	0.00317	0.07767	0.00000
n	0.00017	0.00017	0.00117
o	0.01250	0.01017	0.00533
p	0.00450	0.00167	0.00000
q	0.00017	0.00000	0.00000
r	0.00767	0.18850	0.01700
s	0.00367	0.07083	0.03033
t	0.04417	0.13467	0.01300
u	0.01017	0.06017	0.13067
v	0.00283	0.03583	0.00600
w	0.00933	0.07467	0.01283
x	0.00533	0.02667	0.01650
y	0.00633	0.00133	0.00000
z	0.01850	0.29667	0.15100
Total	0.21150	1.24017	0.58767

Source: CSO, Custom Dept., Ministry of Commerce

Total imports of footwear in 2000 were the largest of those in the last three years. Imports declined in 2001 as shown below.

Figure 5- 52 Total Footwear Imports



Source: Customs Dept, Ministry of Commerce, CSO

(2) Analysis of the Imports of Footwear by Country During the Last Three Years

Now we will analyze imports of footwear for the last three years by the country of origin. In 1999, imports from Singapore accounted for the largest share and they were followed by those from South Korea and those from Indonesia. In 2000, Singapore again accounted for the largest share and was followed by Taiwan and Indonesia. In 2001, Thailand accounted for the largest share and was followed by Indonesia and Malaysia in this order. Imports of different types of footwear from Singapore, Thailand, Taiwan, Indonesia, South Korea and Malaysia for the last three years were as follows.

Figure 5- 53 Footwear Imports from Singapore

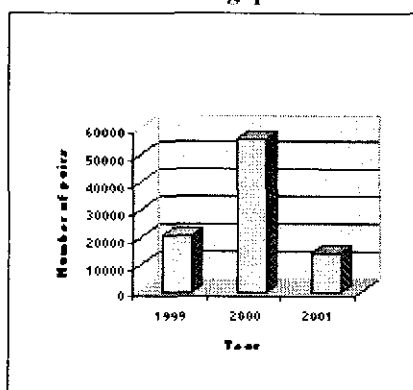


Figure 5- 54 Footwear Imports from Thailand

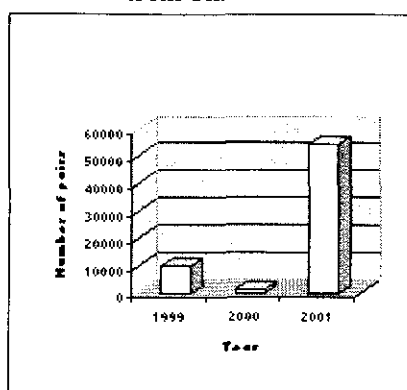
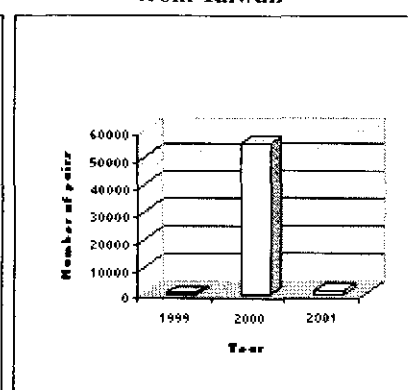


Figure 5- 55 Footwear Imports from Taiwan



Source: JICA Study Team

Figure 5- 56 Footwear Imports from Indonesia

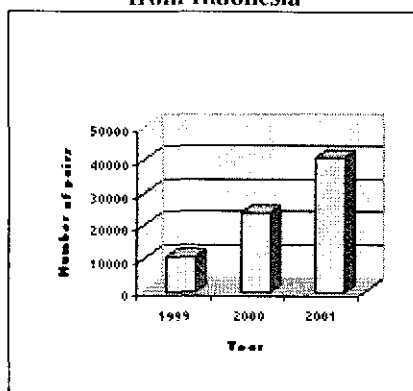


Figure 5- 57 Footwear Imports from Korea

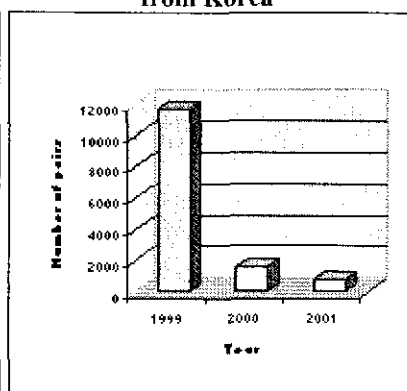
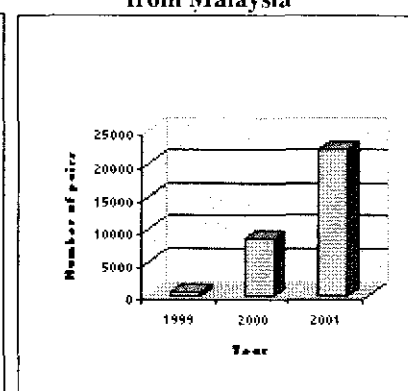


Figure 5- 58 Footwear Imports from Malaysia



Source: JICA Study Team

There were about 26 countries from which different types of footwear were imported, while imports from Thailand, Indonesia and Malaysia increased during the three years. Imports from other countries declined. The values of footwear imports from different countries for the years from 1999 to 2001 were as follows.

Table 5- 81 Footwear Imports by Country

Country	US\$ in million		
	1999	2000	2001
Australia	0.0003	0.0042	0.0000
Bangladesh	0.0002	0.0000	0.0000
Brunei	0.0000	0.0002	0.0000
China	0.0000	0.0355	0.0125
France	0.0078	0.0093	0.0040
Germany	0.0000	0.0003	0.0000
Hong Kong	0.0052	0.0853	0.0480
India	0.0002	0.0000	0.0000
Indonesia	0.0050	0.0580	0.0928
Italy	0.0000	0.0007	0.0000
Japan	0.0208	0.3030	0.0163
Korea	0.0130	0.0337	0.0223
Malaysia	0.0023	0.0713	0.1607
New Zealand	0.0000	0.0000	0.0000
Pakistan	0.0002	0.0003	0.0000
Philippines	0.0000	0.0000	0.0000
Poland	0.0000	0.0000	0.0000
Saudi Arabia	0.0000	0.0000	0.0000
Singapore	0.1413	0.4463	0.1102
Solomon Island	0.0000	0.0002	0.0000
Sudan	0.0000	0.0298	0.0000
Switzerland	0.0000	0.0277	0.0000
Taiwan	0.0000	0.0798	0.0128
Thailand	0.0060	0.0308	0.0990
United Kingdom	0.0003	0.0005	0.0000
U.S.A.	0.0090	0.0158	0.0090
Others	0.0000	0.0072	0.0000

Source: CSO, Custom Dept., Ministry of Commerce

Thus, it is evident that footwear imports are being substituted by high quality foreign-designed, locally-made footwear. It is likely that local footwear producers will develop to fully substitute imported footwear and expand export markets. However, unless measures for import substitution are taken in earnest, in time the situation could deteriorate when Myanmar joins AFTA and undertakes to reduce all import tariff rates to 0-5%. Some overseas buyers are visiting local small factories to inspect the quality of products.

(3) Outlooks for Domestic Market Growth and Import Substitution

The people in Myanmar have always relied mostly on locally-made Type 1, Type 2 and Type 3 footwear. However, imported foreign footwear has become quite popular among younger people and high-income earners. As a result of the depreciation of the local currency, imported footwear is becoming more expensive and unaffordable to the majority of people. There have emerged large footwear makers who can manufacture high-quality products for import substitution. Still, these companies are unable to expand their export markets.

There are only three large footwear makers in Myanmar. They are Tai Yi International, Myanmar Sunny and REVA, which are registered under the Myanmar Investment Commission. One of them is wholly foreign-owned and manufactures footwear on a CMP basis. The two large local footwear businesses have been producing about 5,000 pairs per day partly for domestic consumption but mainly for exports. There are about 300 medium-scale footwear makers and 500 small makers which are cottage industries. It should be noted that the majority of the cottage industries are supporters or sub-contractors of medium-scale makers, since medium-scale makers produce only 30% of their total production in-house and subcontract out 70% of their production. The average total production of a medium-scale maker is about 3,000 pairs per day. The average price of their products is about Kyats 600 per pair. And the average price of footwear produced by large makers is about Kyats 1,000 per pair. Using the market exchange rate of about Kyats 900 per US\$, it is estimated that total domestic production of footwear was about US\$ 183 million in 2001. This amount was higher than in the previous three years and reflected the increase in medium-scale makers as well as in export volumes. It is estimated that domestic production in 1999 and 2000 was only 80% and 90%, respectively, of domestic production in 2001. Supply and demand of footwear in Myanmar are shown in the following table.

Table 5- 82 Estimation of Supply and Demand of Footwear in Myanmar

	US\$ in mil		
	1999	2000	2001
Domestic production	146.67	165.0	183.0
(+) Total Imports	0.2115	1.24017	0.58767
(-) Total Exports	2.54	5.895	14.15
Domestic Consumption	144.34	160.35	169.77

Source: Surveys, Customs Dept, Ministry of Commerce, CSO

The level of exports is found to have increased by 135% in 2000 and 140% in 2001. If this rate of increase can be maintained in the future, domestic production will definitely increase. On the other hand, the value of footwear imports declined by more than 50% in 2001 while the value of exports as well as domestic consumption increased quite significantly. It highlights the fact that import substitution has taken place quite effectively. Footwear imports from the countries from where the majority of footwear imports used to come have declined as seen in the following graph.

Figure 5- 59 Footwear Imports from Selected Countries

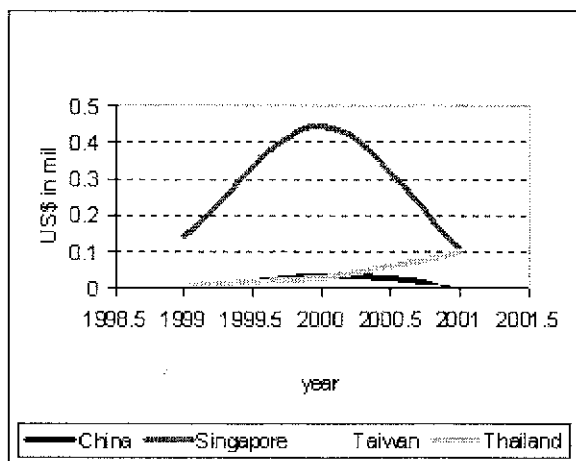
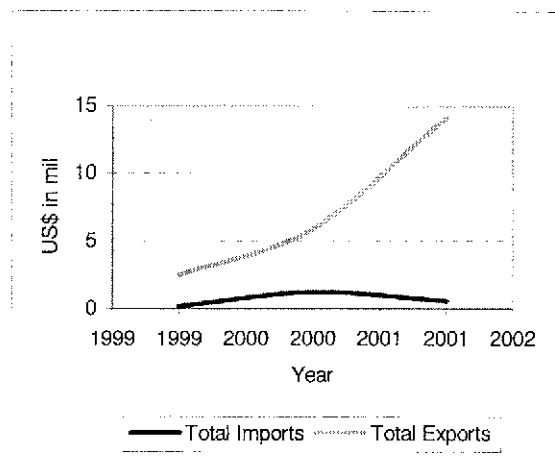


Figure 5- 60 Total Footwear Import and Export



Source: JICA Study Team

Although footwear imports from Thailand are still increasing, total footwear imports have declined, indicating import substitution in footwear has begun, though it is still in its early stage.

Footwear import substitution capability of Myanmar cannot be enhanced without the development of large footwear makers which produce high-quality footwear for domestic consumption as well as for exports.

Our demand analysis has shown that total demand for different types of footwear in Myanmar is at least 54,066,756 pairs per year. If we assume the average price of Type 1, 2 and 3 footwear is Kyats 600 per pair and that of Type 5 & 6 footwear is Kyats 1,000, total demand would be US\$ 362 million per year. Thus it can be estimated that the present domestic consumption is only around 47% of the minimum potential demand. Hence, domestic consumption will rise sharply when people's incomes increase in the future.

5.5.1.3 Analyses of Footwear Exports

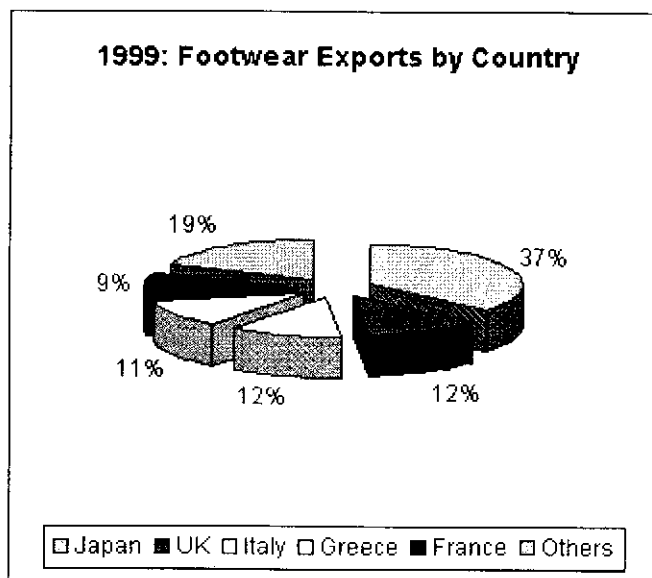
(1) Export by Type

With the development of large-scale footwear production and CMP businesses, footwear exports have increased significantly during the last three years. It is found that total footwear exports increased by 132% between 1999 and 2000 and by 140% between 2000 and 2001. In 1999, most exported footwear was Types 5 and 6 flip-flops and slippers. They were mostly exported to Japan, which accounted for 36%, the largest share, of exports of these types of footwear from Myanmar. The second largest share went to United Kingdom, which accounted for 12%, and the third largest share went to Italy, which accounted for 11.8%. Exports of Types 5 and 6 flip-flops and slippers in 1999 to different destinations were as follows.

Figure 5- 61 1999: Exports of Type 5 & 6 by Country

Country	Value US\$ in mil	Percentage		Country	Value US\$ in mil	%
Australia	0.01	0.39%	1st highest exports to	Japan	0.92	36%
Belgium	0.01	0.39%	2nd highest exports to	UK	0.31	12%
Bulgaria	0.005	0.20%	3rd highest exports to	Italy	0.3	11.80%
Canada	0.06	2.36%	4th highest exports to	Greece	0.28	11%
China	0.01	0.39%	5th highest exports to	France	0.24	9%
Cyprus	0.01	0.39%				
France	0.24	9.45%				
Greece	0.28	11.02%				
Germany	0.12	4.72%				
HK	0.05	1.97%				
Indonesia	0	0.00%				
Ireland	0.005	0.20%				
Italy	0.3	11.81%				
Japan	0.92	36.22%				
Korea	0.005	0.20%				
Lao	0	0.00%				
Malaysia	0.005	0.20%				
Mexico	0.005	0.20%				
Netherlands	0.11	4.33%				
Norway	0.01	0.39%				
Portugal	0	0.00%				
Singapore	0.01	0.39%				
Spain	0	0.00%				
Sweden	0.01	0.39%				
Switzerland	0.02	0.79%				
Thailand	0	0.00%				
United Arab Emirates	0.005	0.20%				
USA	0.01	0.39%				
UK	0.31	12.20%				
Vietnam	0.02	0.79%				
Total	2.54	100%				

Source: Customs Dept., Ministry of Commerce



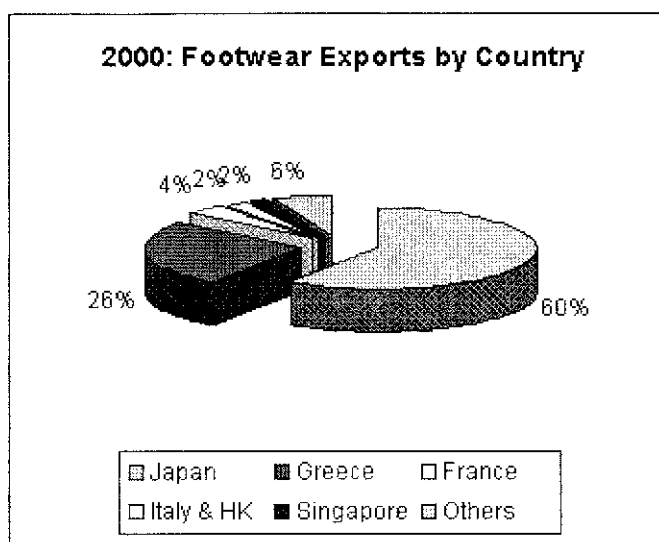
Source: Customs Dept., Ministry of Commerce

In 2000 also, Types 5 and 6 flip-flops and slippers accounted for the largest share of exports. Exports of these types of footwear increased 132% between 1999 and 2000. The largest share, worth US\$ 3.5 million, or 59% of total exports of these types of footwear in 2000, went to Japan. The second largest share went to Greece, which accounted for 26%. The third largest share went to France, which accounted for 4% of total exports of these types of footwear in 2000. Exports of Types 5 and 6 flip-flops and slippers in 2000 to different destinations were as follows.

Figure 5- 62 2000: Exports of Type 5 & 6 by Country

	Value US\$ in mil	Percentage		Country	Value US\$ in mil	%
Australia	0.01	0.17%	1st highest exports to	Japan	3.5	59%
Belgium	0	0.00%	2nd highest exports to	Greece	1.56	26%
Bulgaria	0	0.00%	3rd highest exports to	France	0.25	4%
Canada	0	0.00%	4th highest exports to	Italy & HK	0.12	2%
China	0	0.00%	5th highest exports to	Singapore	0.11	1.87%
Cyprus	0	0.00%				
France	0.25	4.24%				
Greece	1.56	26.46%				
Germany	0	0.00%				
HK	0.12	2.04%				
Indonesia	0	0.00%				
Ireland	0	0.00%				
Italy	0.12	2.04%				
Japan	3.5	59.37%				
Korea	0	0.00%				
Lao	0	0.00%				
Malaysia	0.005	0.08%				
Mexico	0	0.00%				
Netherlands	0.07	1.19%				
Norway	0.01	0.17%				
Portugal	0.01	0.17%				
Singapore	0.11	1.87%				
Spain	0	0.00%				
Sweden	0.05	0.85%				
Switzerland	0.03	0.51%				
Thailand	0.01	0.17%				
United Arab Emirates	0	0.00%				
USA	0.03	0.51%				
UK	0.01	0.17%				
Vietnam	0	0.00%				
Total	5.895	100%				

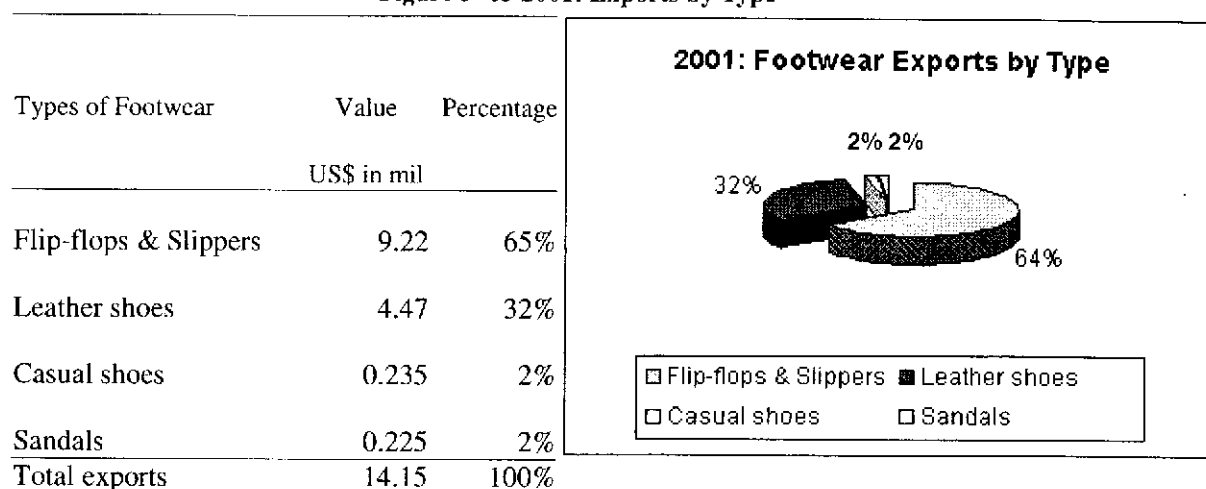
Source: Customs Dept., Ministry of Commerce



Source: Customs Dept., Ministry of Commerce

In 2001, leather shoes, casual shoes and sandals were also exported to different destinations. Exports of Types 5 and 6 footwear accounted for 65%, leather shoes 32%, casual shoes and sandals 2% each of total footwear exports in 2001. Exports of types 5 and 6 footwear increased 56% between 2000 and 2001. Value of exports by different type of footwear was as follows.

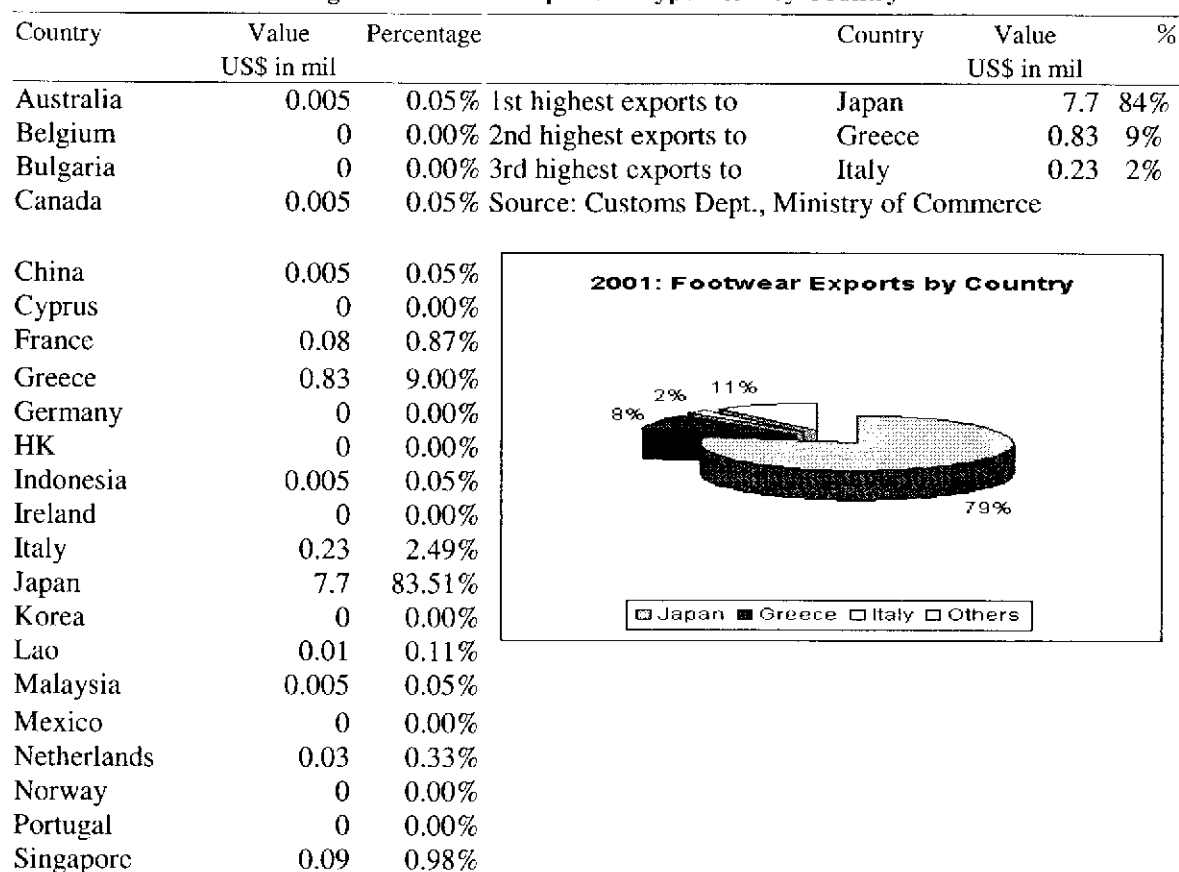
Figure 5- 63 2001: Exports by Type



Source: Customs Dept., Ministry of Commerce

Now we will analyze footwear exports by type as well as by country. The following is exports of Types 5 & 6 footwear by country. It is found that in 2001, 84% of total exports of Types 5 & 6 went to Japan, which accounted for the largest share of exports of these types of footwear in 2001. Nine percent of total exports of the same type went to Greece and 2% to Italy.

Figure 5- 64 2001: Exports of Type 5 & 6 by Country



Spain	0.01	0.11%
Sweden	0.09	0.98%
Switzerland	0.02	0.22%
Thailand	0.01	0.11%
United Arab Emirates	0.08	0.87%
USA	0.005	0.05%
UK	0.01	0.11%
Vietnam	0	0.00%
Total	9.22	100%

Source: Customs Dept., Ministry of Commerce

Other types of footwear exports to different destinations were as follows.

Table 5- 83 2001: Exports of Leather Shoes by Country

Country	Value US\$ in mil	Percentage
Greece	1.24	28%
Italy	0.09	2%
Japan	2.91	65%
Netherlands	0.03	1%
Singapore	0.1	2%
Sweden	0.09	2%
UK	0.01	0%
Total	4.47	100%

Table 5- 84 2001: Exports of Casual Shoes by Country

Country	Value US\$ in mil	Percentage
UK	0.01	4%
Italy	0.005	2%
Japan	0.17	69%
Singapore	0.06	24%
Total	0.245	100%

Table 5- 85 2001: Exports of Sandals by Country

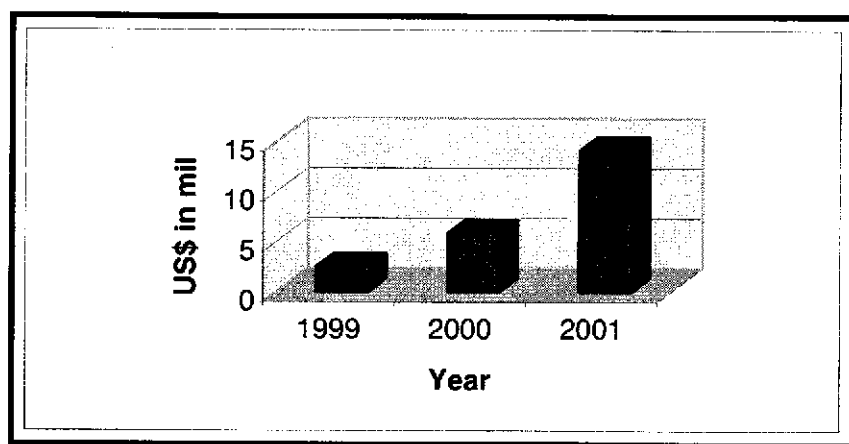
Country	Value US\$ in mil	Percentage
France	0.01	4%
Greece	0.04	18%
Italy	0.09	40%
Japan	0.08	36%
UK	0.005	2%
Total	0.225	100%

Source: Customs Dept., Ministry of Commerce

(2) Export by Destination

It is found that in 2001, the largest destination for leather shoes was Japan, which was followed by Greece. The largest destination for casual shoes was also Japan, which was followed by Singapore. On the other hand, the largest destination for sandals was Italy, which was followed by Japan and Greece. As a whole, the largest share of footwear exports went to Japan, which imported footwear worth US\$ 10.86 million, or 77% of total footwear exports in terms of value. The second largest destination was Greece, which imported footwear worth US\$ 2.11 million, or 15% of total footwear exports in terms of value. The third largest destination was Italy, which imported footwear worth US\$ 0.415 million, or 3% of total footwear exports in 2001. Time series of total footwear exports for 1999, 2000 and 2001 were as follows.

Figure 5- 65 Total Footwear Exports



Source: JICA Study Team

Table 5- 86 Total Footwear Exports

	US\$ in mil		
	1999	2000	2001
	2.54	5.895	14.15

Source: Customs Dept., Ministry of Commerce

A significant increase in footwear exports was seen during the last three years. Total value of exports increased 132% in 2000 and 140% in 2001. The major export destinations were Japan, Greece, Italy, France, Hong Kong, Singapore and the UK. The levels of exports to these countries are shown below.

Figure 5- 66 Total Exports to Japan Figure 5- 67 Total Exports to Greece Figure 5- 68 Total Exports to Italy

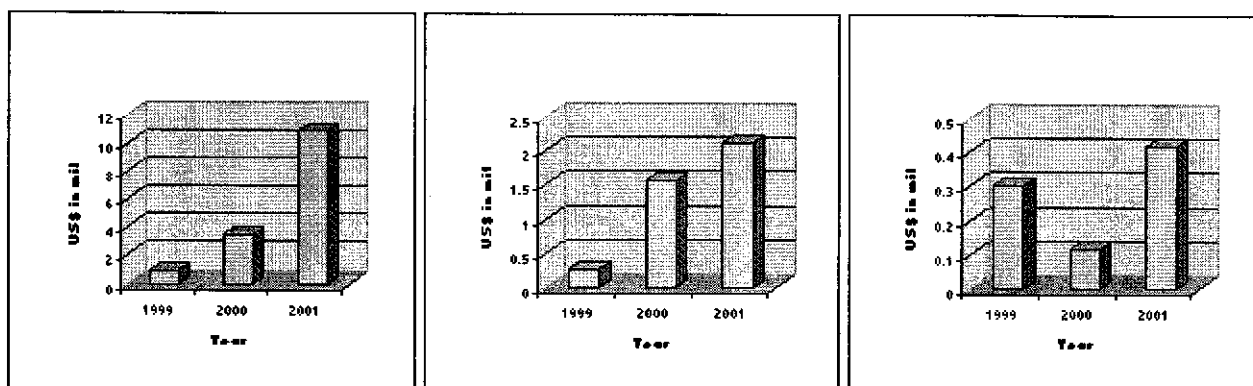


Figure 5- 69 Total Exports to France

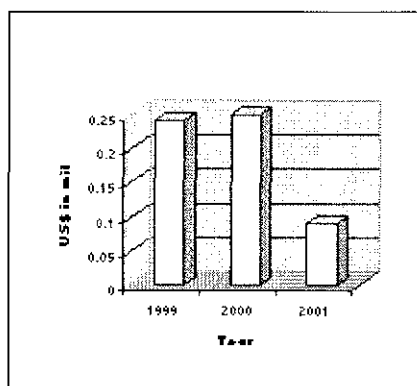


Figure 5- 70 Total Exports to UK

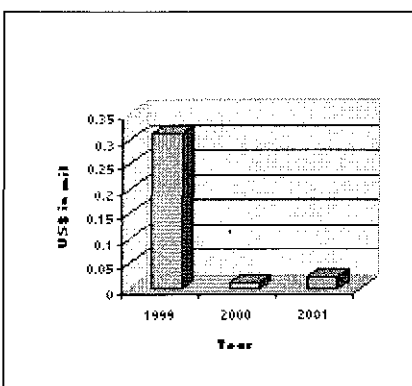
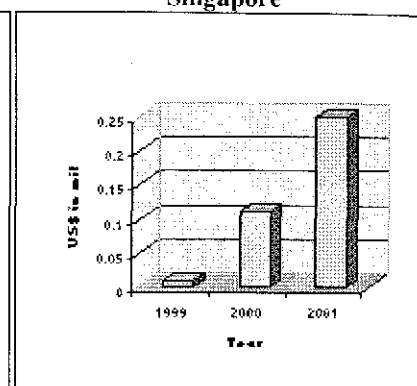


Figure 5- 71 Total Exports to Singapore



Source: JICA Study Team

In terms of value, exports of footwear to Japan increased very significantly during the last three years, increasing by 280% in 2000 and by 210% in 2001. Total footwear exports to Greece increased by 457% in 2000 and by 35% in 2001. Total footwear exports to Italy declined by 60% in 2000 but increased by 246% in 2001. Total footwear exports to France increased by 4% in 2000 but declined by 64% in 2001. Total footwear exports to US decreased by 97% in 2000 but increased by 150% in 2001. Total footwear exports to Singapore increased by 1000% in 2000 and by 127% in 2001.

Thus it is found that total exports to Japan, Greece, Italy and Singapore increased significantly whereas the rates of increase in exports to France and UK declined. Footwear accounted for 2% of total exports of all products to Japan in 1999, 6% in 2000 and 12% in 2001. Footwear accounted for 7% of total exports of all products to Italy in 1999, 2% in 2000 and 3% in 2001. Footwear accounted for 0.01% of total exports of all products to Singapore in 1999, 0.08% in 2000 and 0.20% in 2001. Footwear secured increasing shares in exports to Japan in 1999, 2000 and 2001, as shown below.

Table 5- 87 Export of Footwear by Country

	US\$ in mil		
	1999	2000	2001
Total exports to Japan	49.37	60.32	90.39
Footwear exports to Japan	0.92	3.5	10.86
Percentage of footwear exports to Japan	2%	6%	12%
Total exports to Italy	4.00	5.86	16.13
Footwear exports to Italy	0.3	0.12	0.415
Percentage of footwear exports to Italy	7%	2%	3%
Total exports to Singapore	116.91	135.48	122.88
Footwear exports to Singapore	0.01	0.11	0.25
Percentage of footwear exports to Singapore	0.01%	0.08%	0.20%

Source: Customs Dept., Ministry of Commerce, CSO

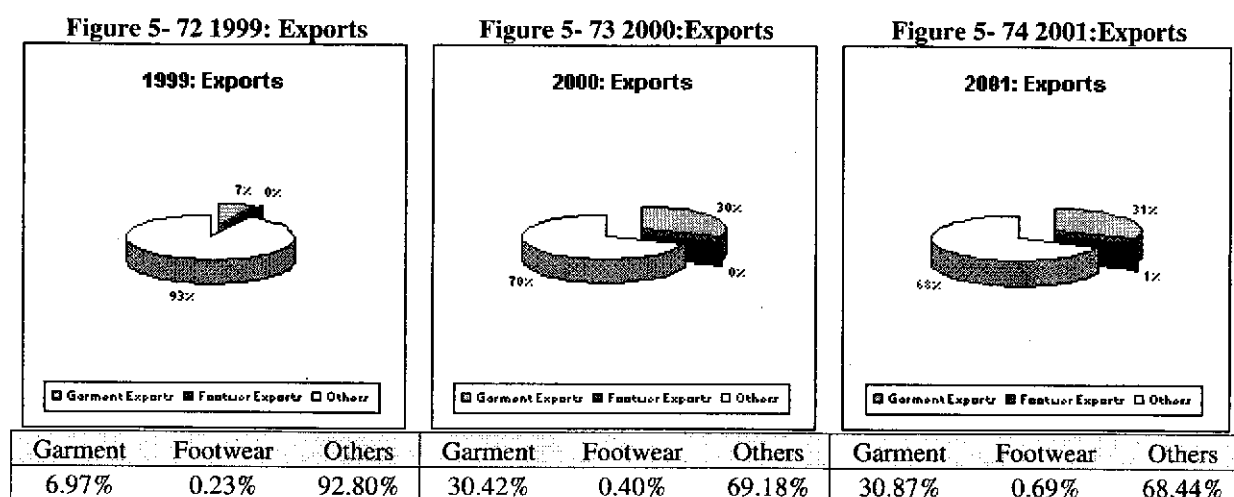
Footwear accounted for only 0.23% of Myanmar's total exports of all products to all destinations in 1999, 0.40% in 2000 and 0.69% in 2001, as shown in the following table.

Table 5- 88 Total Export of Footwear

	US\$ in mil		
	1999	2000	2001
Total exports of all products	1,125.96	1,491.21	2,043.71
Total footwear exports	2.54	5.895	14.15
Percentage of footwear exports	0.23%	0.40%	0.69%

Source: Customs Dept., Ministry of Commerce, CSO

The percentage of footwear in total exports is still very low, but it has been increasing at an accelerating rate. A comparison of garment exports and footwear exports during the last three years is as follows.



Source: Customs Dept., Ministry of Commerce, CSO

Both garment exports and footwear exports have been increasing, but growth of footwear exports is still quite slow because the footwear industry in Myanmar is still in its infancy.

(3) Cost analysis of Export Products

We will analyze the cost of domestically produced footwear for exports to arrive at FOB prices under the following scenarios.

- Scenario 1. Footwear manufacturers engage in exports.
- Scenario 2. Traders buy from manufacturers for export

(a) Scenario 1

Under the scenario 1, the costs of locally popular Type 1 footwear and those of a high-quality import substitution Type 5 or 6 footwear will be analyzed.

The result of the first analysis is as follows.

Table 5- 89 Cost Structure of Type 1 Footwear

Particulars	Kyats	
	Minimum	Maximum
Cow leather	270	480
Out-sole rubber	53	250
Uppers	40	120
Mid-sole	50	300
Petrol	5	12
Director labor	15	25
Total Variable Cost per pair	433	1187
Others (Admin, power, etc.)	50	100
Profit	72.5	193
Forwarding charges	0.35	1.18
Trasportation fees	1.47	2.06
FOB Price per pair	557.66	1483.29
FOB Price per pair in US\$	0.62	1.65

Source: Company visits, Customs Dept.

Depending on the quality of raw materials used, costs as well as prices of Type 1 footwear vary significantly. Cow leather is usually bought by the pound. The cost of cow leather is about Kyat 450~ 800, depending on the quality, and about 60% of a pound of cow leather is used for one pair of this type of footwear. Out-sole rubber costs about Kyats 250 per pair, but low quality out-soles made of discarded used-outsoles are much cheaper and cost about Kyats 800 per sheet which can produce about 15 pairs. Mid-sole costs vary from Kyats 50 to 300, depending on the quality. Some unused rubber is mixed with petrol to make glue. Half a pound of rubber mixed with one gallon of petrol can make glue for about 50 pairs. Profit is assumed to be equivalent to 15% of the total costs. Forwarding charges are based on one 20 foot-container, which can accommodate about 17,000 pairs of footwear. Transportation fee is the cost of transporting a 20-foot container from the warehouse to the port. Prices in the US\$ are based on the market exchange rate of about Kyats 900 per US\$.

FOB prices per pair of this type of footwear range from about US\$ 0.62 to US\$ 1.65, depending on the quality of raw materials used.

Now, we will analyze the cost structure of Type 5 and Type 6 footwear, which are of high quality and which can be considered to be import-substitution footwear. The results are as follows.

Table 5- 90 Cost Structure of Types 5 and 6 Footwear

	Kyats
Particulars	Cost
Sole	450
Uppers	62.5
Threads for uppers + glue	25
Direct Labor	70
Total variable costs	607.50
Others (Admin, power, etc.)	100
Profit	106
Forwarding charges	1.18
Transportation	2.06
FOB Price per pair	816.16
FOB Price per pair in US\$	0.91

Source: Company visits, Customs Dept.

Soles for these types of footwear cost about Kyats 6,300 per sheet (210 x 110cm), which is enough for about 45 pairs. For an ordinary not-very-fancy footwear, about two and a half soles are used as out-sole, in-sole and mid-sole. Rubber to be used for uppers costs about Kyats 1,500 per sheet which is large enough for about 24 pairs of footwear uppers. Direct labor costs per pair range from Kyats 24 to 70, depending on the design of the footwear. Profit is assumed to be equivalent to 15% of total costs. Forwarding charges and transportation fee are based on the cost for one 20-foot container, which can accommodate about 17,000 pairs of footwear. Fifty pairs of footwear are packed in a box and about 340 boxes can fit in one 20-foot container. The price in US\$ is calculated at the market exchange rate of about Kyats 900 per US\$. After forwarding and transportation charges, FOB price in the US\$ is US\$ 0.91. The FOB price of high-quality Type 5 and 6 footwear is found to be cheaper than the maximum price of low-quality Types 1, 2 and 3 kinds of footwear. This results from mass production of raw materials and parts for footwear, such as soles and uppers, which reduces costs.

(b) Scenario 2

The previous section calculated FOB prices in the US\$ based on costs. Now, we will analyze FOB prices of locally-made good-quality footwear available in Myanmar, which we can purchase easily. The first case is for purchasing good-quality locally-made footwear (flip-flops for women) from the manufacturer, adding markup and exporting. The second case is also buying Type 5, 6 or 7 footwear from the manufacturer, adding markup and exporting. Flip-flops for women are currently exported to Japan by one of the medium-scale footwear makers in Myanmar. The sales price of the footwear, Kyats 3,500, is a bit more expensive than other ordinary locally-made flip-flops. The cost breakdown to arrive at an FOB price as well as the picture of this type of footwear is shown below.

Figure 5- 75 Cost Breakdown of Type 4

	Kyats
Particulars	Cost
Purchase price	3,500
Packaging	20
Total cost	3,520
Profit	528
Forwarding charges	1.18
Transportation	2.06
FOB Price per pair	4,051.24
FOB Price per pair in US\$	4.50

Source: Company visits, Customs Dept.



Any exporter can buy any types and designs of footwear (e.g., the pair shown in the picture) from manufacturers, put a brand, and export to any country where they can find buyers. The manufacturers are medium-scale local labor-intensive footwear makers so that mass production is not possible. Since footwear of reliable quality footwear is hand made, it is quite expensive.

In the second case, trader buys Type 5 or Type 6 footwear from large-scale manufacturers, so the prices are much lower. The prices of a pair of high-quality Type 5 or 6 footwear made by large manufacturers vary from 500 to 1,800 Kyats. We will look at the FOB prices of a pair of such high-quality footwear as shown in the pictures.

Figure 5- 76 Cost Breakdown of Type and 5 Type 7

Type 5



	Kyats
Particulars	Cost
Purchase price	814
Packaging	20
Total cost	834
Profit	125
Forwarding charges	1.18
Transportation	2.06
FOB Price per pair	962
FOB Price per pair in US\$	1.07

Source: Company visits, Customs Dept.

Type 7



	Kyats
Particulars	Cost
Purchase price	1,600
Packaging	20
Total cost	1,620
Profit	243
Forwarding charges	1.18
Transportation	2.06
FOB Price per pair	1,866.24
FOB Price per pair in US\$	2.07

Source: Company visits, Customs Dept.

FOB prices of Type 5 and 6 footwear are about US\$ 1.07 and 2.07, respectively, per pair. The difference is due to the difference in purchase prices, since the price of Type 6 footwear is usually set higher than that of Type 5 footwear by the manufacturer because it is a bit more sophisticated in its production.

Thus, buying footwear from manufacturers for export is not competitive in terms of prices. Hence, the development of the industry and promotion of exports are essential. Large footwear makers should be encouraged to improve production in terms of machinery, technical know-how and labor to boost efficiency and flexibility to reduce product costs and shorten production period to match customer behavior, which has changed to placing smaller but more frequent orders. They should be encouraged to adopt proactive business strategies to produce top quality products comparable to those of South Korea, Taiwan and Italy. More diverse styles should be introduced to meet the demand of each market, and own brand names should be established to facilitate distribution in each market. Then, Myanmar's footwear will be competitive in the international markets not only in terms of prices but also in quality.

5.5.1.4 Analysis of Domestic Market

(1) Analysis of Customers or End-users in the Domestic Market

1) Types of Footwear Preferred by Different Age Groups and Different Income Groups

In order to analyze types of footwear preferred by different income groups, people at different income levels are categorized as follows.

- a) People who are dependents or students
- b) People who have monthly income of below 10,000 Kyats
- c) People who have monthly income of between 10,001 and 20,000 Kyats
- d) People who have monthly income of between 20,001 and 50,000 Kyats
- e) People who have monthly income of over 50,000 Kyats

According to our questionnaires analysis, 31% of people in category 1 like Type 1 footwear best, 26% like Type 2 best, 11% like Type 3 best and only 2% like Type 4 best. It is found that 26% of the same category of people like Types 5, 6 and 7 foreign-made footwear. It was found that 39% of people in category 2 like Type 1 footwear best, 13% like Type 2 best, 11% like Type 3 best and 11% like Type 4 best. Sixteen percent of the people in the same category like Types 5, 6 and 7 imported footwear best. It was also found that 28% of people in

category 3 like Type 1 footwear best, 28% like Type 2 best, and only 4% like Type 3 best. People who like Types 5, 6 and 7 imported footwear best accounted for 23%. Among the people in category 4, 27% like Type 1 footwear best, 23% like Type 2 best, and only 2% like Type 3 best. Forty-four percent of the people in this category like Types 5, 6 and 7 imported footwear best. Among the people in category 5, 36% like Type 1 best, 21% like Type 2 best, and 11% like Type 3 footwear best. Twenty-nine percent like Types 5, 6 and 7 foreign-made footwear best.

Table 5- 91 Preferences by Income Level

Income Level	1st Preference	2nd Preference	3rd Preference
Dependent	Type 1	Type 2	Type 5,6,7
Below 10,000	Type 1	Type 5,6,7	Type 2
10,001~ 20,000	Type 1,2	Type 1,2	Type 5,6,7
20,001~ 50,000	Type 5,6,7	Type 1	Type 2
Above 50,000	Type 1	Type 5,6,7	Type 2

Source: Questionnaires analysis

Our questionnaires analysis shows that people, whatever level of income they are at, like Type 1 or Type 2 footwear best. It is further found that Type 4 footwear are most preferred by people in lower income groups and by those who are dependent or have monthly income of below 10,000 Kyats. People with higher income do not give the first preference to Type 4.

It has been found that people in all income groups like Type 1 and Type 2 best. Since only the people with monthly income of from 20,001 to 50,000 Kyats prefer Type 5, 6 and 7, we have analyzed footwear preference by different age group. Young people tend to prefer fancy types or foreign imports-types of footwear. In our questionnaires analysis, we categorized people into the following 5 age groups.

- a) People from the age of 15 to 19
- b) People from the age of 20 to 24
- c) People from the age of 25 to 34
- d) People from the age of 35 to 44
- e) People at the age of above 45

According to our questionnaires analysis, people between the ages of 15 and 34 prefer Types 5, 6 and 7 footwear and their second preference is Type 1. The older people are found to prefer Type 1 footwear and their second preference is Type 2. The following is the distribution of preference by age group.

Table 5- 92 Preferences by Age Group

Age Group	Type 1	Type 2	Type 3	Type 4	Type 5,6,7
15~ 20	23%	21%	4%	2%	45%
21~ 25	22%	22%	6%	2%	39%
26~ 35	40%	21%	5%	5%	25%
36~ 45	40%	31%	7%	0%	14%
Above 45	37%	30%	20%	0%	3%

Source: Questionnaires analysis

It is found that the preference for Types 5, 6 and 7 footwear is significantly lower in the older age groups since 45% of our samples in the age group of 15~ 20 like these types whereas only 3% of our samples in the age group of over 45 do so. Our analysis of the preference of men and women shows that both men and women like Type 1 and Type 2 footwear, since 37% of men and 26% women like Type 1 best and 27% of men and 20% of women like Type 2 best. Hence, the ratios of both men and women who like Type 1 were the highest. It was found that 37% of women like Types 5, 6 and 7 best, but only 27% of women frequently buy these types.

To sum up, the demand for Type 1 and Type 2 is high not only among the people with lower income but also among the people with higher income. It was also found that younger people like Types 5, 6 and 7 footwear best, but their second preference is for Type 1 and Type 2. The percentages of older people who like Type 1 and Type 2 were higher than those of the younger people who do so. The preference for other types of footwear is found to be not very significant among our samples.

2) Brand Preference.

Brand awareness and brand image are some of the most important factors to be established in marketing. But in the footwear market in Myanmar, most people are not found to give large weight on brand in considering purchases. According to our questionnaires analysis, men tend to give more weight to brand names than women do. It is found that 24% of men take brand names into consideration when they purchase footwear whereas about 23% of women do so. But, while only about 3% of men take into designs consideration when they buy footwear, about 24% of women do so.

The results of our questionnaires analysis highlight that while 33% of men always buy the same brand, 27% of women do so. Women tend to give more weight on the design and price of footwear, since about 40% of them buy footwear when they think it is beautiful and reasonably priced.

Since the questionnaires were conducted during the rainy season, it is found that the highest percentage of people were wearing KITO brand, which is Type 5 and Type 6 footwear mainly imported from Thailand. Now KITO brand footwear is produced locally. The second highest percentage of people in our samples were wearing ELEPHANT-STAR brand, which is Type 4 footwear chiefly imported from Thailand but for which local imitations are available. It should be noted that more than 40% of ELEPHANT-STAR brand footwear is imitations produced locally with the same brand, type and design.

While the highest percentage of men in our samples wear ELEPHANT-STAR brand, which is Type 4 footwear, and the second highest percentage SHWEMAUNG brand, which can be Type 1, Type 2 or Type 3. The highest percentage of women in our samples wear YINMAR brand, which is Type 3 footwear. It is understood that the brands, ELEPHANT-STAR, SHWEMAUNG and YINMAR are those of footwear which can be used in the rainy season. ELEPHANT-STAR is made of rubber, some SHWEMAUNG brand footwear are made of rubber and plastic composition and YINMAR brand footwear are made of synthetic leather. Our findings are reasonable since the survey was conducted in the rainy season. But there could be some variations in other seasons.

Overall, about 60% of people are not particular about the brand, since most of the footwear they usually wear are Type 1, Type 2, Type 3 or Type 4, and all brands in these categories are alike with more or less same quality. Hence, brands with reasonable quality and prices are mostly preferred and are in heavy demand. In Yangon, locally-made Type 1 footwear with the brand name of US is found to be in high demand, since its price, which is around Kyats 1500, is not as high as that of the well-known locally-made brand, SINCHAUUKAUNG (Six Elephant), which is around Kyats 2,500. US brand, as it is found, is not cheap although cheaper than other famous brands, but a large percentage of people in the cities usually do not like very cheap brands and buy reasonably priced US brand to gain certain level of status.

SINKYAE (Elephant Star) brand is Type 4 footwear imported from Thailand and its prices are around Kyats 1000. There are some imitation SINKYAE sold at the price of around 500 Kyats which are also in high demand. But one of the local factories in Myanmar produces the same imitation SINKYAE whose quality is not lower than that of the original for around Kyats 250. It was found that they were in very low demand in the cities. This illustrates the usual behavior of footwear buyers in the cities. One of the reasons why the demand for this product is low is that only a small percentage of people in the cities wear this kind of Type 4 footwear and also because its price is much lower than the average price of its kind and this makes people suspicious of its quality.

3) Estimated Demand for Different Types of Footwear by Different Age Groups and Different Income Groups

It is found that most of the people in Myanmar prefer Type 1, Type 2 and Type 3 footwear. There is demand for Type 5 and 6 among the younger people in the cities especially Yangon, Mandalay, Myitkyina, Taunggyi, Kyeintong, Tachilake, Lashio and Musae. We will estimate the demand for Type 1, 2 and 3 footwear in Myanmar, since these types of footwear are worn by the majority of the people in the country. According to our questionnaires analysis, which is attached as Appendix, 42% of our samples frequently buy Type 1 footwear, 23% frequently buy Type 2 footwear and 8% normally buy Type 3 footwear.

(a) Estimated demand for Type 2 footwear in Myanmar

Let us now analyze demand for Type 2 footwear. According to our questionnaires analysis, about 18% of people in the 15~19 age group frequently buy this type. Twenty-six percent of people in the 20~24 age group, 19% of people in the 25~34 age group, 26% of people in the 35~44 age group and 27% of people over 45 frequently buy this type. And it is also found that in the 15~19 age group about 2% of people buy only one pair, 16% buy two pairs, 23% buy three pairs and 59% buy more than three pairs (let's assume four pairs) per year.

It is estimated by the Central Statistics Organization that there are about 4,791,000 people in the 15~19 age group. Hence, it can be estimated that 862,380 (18% of 4,791,000) buy Type 2 footwear every year. Thus, 17,248 (2% of 862,380) people in the 15~19 age group buy one pair of Type 2 footwear per year, 137,981 (16% of 862,380) people in the same age group buy two pairs per year, 198,347 (23% of 862,380) people buy three pairs per year and 508,804 (59% of 862,380) people buy more than three pairs (let's assume four pairs) per year. Hence it can be estimated that there is demand for about 2,923,468 pairs of Type 2 footwear per year from the 15~19 age group.

There are about 4,616,000 people in the 20~24 age group according to the Central Statistical Organization; hence, about 1,200,160 (26% of 4,616,000) people buy Type 2 footwear every year. Our questionnaires analysis found that about 5% of people in the same age group buy one pair of Type 2 footwear per year, 13% buy two pairs, 26% buy three pairs and 57% buy more than three pairs (say four pairs) of Type 2 footwear per year. Thus, it can be estimated that about 60,008 (5% of 1,200,160) people buy one pair, 156,021 (13% of 1,200,160) people buy two pairs, 312,042 (26% of 1,200,160) people buy three pairs and 684,091 (57% of 1,200,160) people buy more than three (let's assume four) pairs per year. Hence the demand for Type 2 footwear from the 20~24 age group can be estimated to be about 4,044,539 pairs per

year.

There are about 8,220,000 people in the age group of 25~34 according to the Central Statistical Organization. Hence, about 1,561,800 people (19% of 8,220,000) buy Type 2 footwear every year. Our questionnaires analysis shows that about 4% of the 25~34 age group buy one pair of this type of footwear per year, 21% buy two pairs, 43% buy three pairs and 31% buy more than three (say four) pairs per year. Hence, it can be estimated that 62,472 people (4% of 1,561,800) normally buy one pair, 327,978 (21%) people buy two pairs, 671,574 people (43%) buy three pairs and 484,158 people (31%) buy more than three (say four) pairs per year. Thus, it is estimated that the demand for Type 2 footwear per year is around 4,669,782 pairs in the 25~34 age group.

There are about 6,489,000 people in the age group of 35~44 according to the Central Statistical Organization. Hence, about 1,687,140 people buy Type 1 footwear every year. Our questionnaires analysis shows that about 33,743 (2% of 1,687,140) people buy one pair of Type 2 footwear per year, 725,470 (43%) people buy two pairs, 438,656 (26%) people buy three pairs and about 489,271 (29%) people buy more than three pairs (say four pairs) per year. Thus, it can be estimated that there is demand for about 4,757,735 pairs of Type 2 footwear in the age group of 35~44.

It is found that there are about 10,291,000 people in the age group of over 45 according to the Central Statistical Organization. Thus, it is estimated that about 2,778,570 (27% of 10,291,000) people buy Type 2 footwear per year. Our questionnaires analysis shows that about 472,357 people (17% of 2,778,570) buy one pair, 1,750,499 people (63%) buy two pairs, 194,500 people (7%) buy three pairs and about 361,214 people (13%) frequently buy Type 2 footwear every year. Hence, it can be estimated that there is demand for about 6,001,711 pairs of Type 2 footwear in the age group of over 45.

Thus, it can be estimated that the total demand for Type 2 footwear is about 22,397,235 pairs per year.

(b) Estimated demand for Type 1 footwear in Myanmar

Approximately 42% of the people of Myanmar buy this type of footwear. A further analysis shows that about 39% of the 15~19 age group, 35% of the 20~24 age group, 52% of the 25~34 age group, 40% of the 35~44 age group and 47% of the age group over 45 buy this type of footwear. Therefore, it can be estimated that among the 15~19 age group, about 37,370 people (2% of 1,868,490) buy one pair, 298,958 people (16%) buy two pairs, 429,753 people (23%) buy three pairs and 1,102,409 people (59%) buy more than three pairs (say four pairs) per year. Hence, it is estimated that the demand for Type 1 footwear in the 15-19 age group is about 6,334,181 pairs.

In the 20~24 age group, it is estimated that about 80,780 people (5% of 1,615,600) buy one pair, 210,028 people (13%) buy two pairs, 420,056 people (26%) buy three pairs and about 920,892 people (57%) buy more than three pairs (say four pairs) per year. Thus, the demand for Type 1 footwear in the 20-24 age group is estimated at about 5,444,572 pairs per year.

In the 25~34 age group, it is estimated that 170,976 people (4% of 4,274,400) buy one pair, 897,624 people (21%) buy two pairs, 1,837,992 people (43%) buy three pairs and about 1,325,064 people (31%) buy more than three pairs (say four pairs) per year. Hence, the demand for Type 1 footwear in the 25-34 age group is estimated at about 12,780,456 pairs per year.

In the 35~44 age group, about 51,912 people (2% of 2,595,600) buy one pair, 1,116,108 people (43%) buy two pairs, 674,856 people buy three pairs and about 752,724 people (29%) buy more than three pairs (say four pairs) per year. It is estimated that the demand for Type 1 footwear in this age group is 7,319,592 pairs per year.

In the over 45 age group, about 822,251 people (17% of 4,836,770) buy one pair, 3,047,165 people (63%) buy two pairs, 338,574 (7%) buy three pairs and about 628,780 people (13%) buy more than three pairs (say four pairs) per year. Thus, the demand for Type 1 footwear in this age group is estimated to be 10,447,423 pairs per year.

Hence, the total demand for Type 1 footwear in Myanmar is estimated to be 42,326,224 pairs per year.

(c) Estimated demand for Type 3 footwear in Myanmar.

It was found that about 8% the people of Myanmar buy this type of footwear; about 5% of people in the 15~19 age group, 7% of the 20~24 age group, 7% of the 25~34 age group, 12% of the 35~44 age group and 17% of the over 45 age group buy this type of footwear.

In the 15~19 age group, about 4,791 people (2% of 239,550) buy one pair, 38,328 people (16%) buy two pairs, 55,097 people (23%) buy three pairs and about 141,335 people (59%) buy more than three pairs (say four pairs) of Type 3 footwear per year. Thus, the demand for Type 3 footwear in the 15-19 age group is estimated to be 812,075 pairs per year.

In the 20~24 age group, about 16,156 people (5% of 323,120) buy one pair, 42,006 people (13%) buy two pairs, 84,011 people (26%) buy three pairs and about 184,178 people (57%) buy more than three pairs (say four pairs) per year. Thus, the total demand for Type 3 footwear in this age group is estimated to be 1,088,914 pairs per year.

In the 25~34 age group, about 23,016 people (4% of 575,400) buy one pair, 120,834 people (21%) buy two pairs, 247,422 people (43%) buy three pairs and about 178,374 people (31%) buy more than three (say four pairs) per year. Hence, the demand for Type 3 footwear in this age group is estimated to be about 1,720,446 pairs per year.

In the 35~44 age group, about 15,574 people (2% of 778,680) buy one pair, 334,832

people (43%) buy two pairs, 202,457 people (26%) buy three pairs and about 225,817 people (29%) buy more than three pairs (say four pairs) per year. Thus, the total demand for Type 3 footwear in this age group is estimated to be about 2,195,878 pairs per year.

In the over 45 age group, about 297,410 people (17% of 1,749,470) buy one pair, 1,102,166 people (63%) buy two pairs, 122,463 people (7%) buy three pairs and about 227,431 people (13%) buy more than three pairs (say four pairs) per year. Hence, the demand for Type 3 footwear in this age group is estimated to be about 3,778,855 pairs per year.

In total, the demand for Type 3 footwear is estimated to be about 9,596,168 pairs per year.

(d) Estimated demand for Type 5 & 6 footwear in Myanmar

Since Types 5 and 6 footwear is worn mainly in the cities, we will use samples in Kachin State where Myitkyina city is located, Shan State where Taunggyi, Kyaingtong, Tachilake, Lashio and Musae cities are located, and Yangon Division and Mandalay Division for estimating the demand for these types of footwear. Total urban population in these areas is estimated to be about 4,759,000 by the Central Statistical Organization. Our own questionnaires analysis, which is attached as Appendix, shows that about 5% of the urban population buys Type 5 and Type 6 footwear every year. Thus, it can be estimated very roughly that the demand for these types of footwear is at least 237,950 pairs annually.

(e) Estimated demand for major Types of footwear in Myanmar

As mentioned above, the demand for major types of footwear in Myanmar, that is Type 1, 2, 3, 5 and 6 is estimated as follows.

Table 5- 93 Demand by Type: Myanmar

Type of footwear	Estimate demand per year
Type 1	42,326,224
Type 2	22,397,235
Type 3	9,596,168
Type 5 & 6	237,950
Total	74,557,577

Source: questionnaires analysis

The questionnaire surveys in Yangon, Mandalay and Taunggyi were limited in scale, however, it was found that in these areas more people buy more than three pairs of footwear per

year compared with the national average. But it is noted that there are people in rural areas who buy only one pair of footwear a year. Although it was impossible to conduct extensive surveys in these areas, the national average is estimated to be two pairs per year. On this basis, estimated demand for each major type of footwear per year is as follows.

Table 5- 94 Demand by Type: Average Level (Major Cities)

Type of footwear	Pairs
	Estimate demand per year (Average Level)
Type 1	30,328,544
Type 2	16,172,867
Type 3	7,327,394
Type 5 & 6	237,950
Total	54,066,756

Source: questionnaires analysis

The average and maximum figures for demand for each type of footwear are shown below.

Table 5- 95 Demand by Type: Average and Higher Level (Major Cities)

Type of footwear	Pairs	
	Estimate demand per year (Average Level)	Estimate demand per year (Higher Level)
Type 1	30,328,544	42,326,224
Type 2	16,172,867	22,397,235
Type 3	7,327,394	9,596,168
Type 5 & 6	237,950	237,950
Total	54,066,756	74,557,577

Source: questionnaires analysis

Thus, even when estimated conservatively, it is estimated that total annual demand for Types 1, 2, 3, 5, and 6 is about 54 millions pairs. The demand for Type 4 footwear is also quite large in the rural areas, which account for the major portion of the country; hence, if Type 4 footwear is included, the demand for footwear is estimated to be at least 60- 70 million pairs per year.

4) Different Views of People on Different Types of Footwear.

Brand preferences and footwear type preferences of different age groups and different income groups were described quantitatively earlier in this report. We will now analyze qualitatively the behavior of people in different age-groups and income groups. It is found that the majority of the people of Myanmar do not take brand names into serious account when they buy locally-made footwear as long as the price and quality are reasonable. Only a small number of people always buy expensive high-quality footwear with famous brand names like SINCHAUUKKAUNG (Six Elephant), which is in the category of Type 1. The majority of people prefer Type 1 footwear. They also prefer Type 2 footwear, but since it is not very sturdy, they usually wear Type 2 footwear only on special occasions. Most women have at least one pair of Type 3 footwear since they can wear it in all weathers although they have other types of footwear at the same time. Similarly, most men in the rural regions have at least one pair of Type 4 footwear since they find it comfortable to wear and it can be cleaned with water after going through muddy trails.

It is further found that the popularity of Types 5 and Type 6 footwear is rising among the younger and middle aged people. These types of footwear are used to be imported and were expensive. But, medium-scale local factories have sprung up and are producing these types of footwear at acceptable levels of prices, raising their popularity.

In buying other foreign-made footwear like brogues, moccasins, loafers, walking shoes, sports shoes, court shoes or women's shoes, stilettos and so forth, the majority of people do not take brand names into serious consideration as long as the price and quality are reasonable. But, there are a small number of people who usually wear brand-name products, but their number is not very significant.

5) Factors Considered by Different Aged Groups and Different Income Groups in Buying Footwear.

People may consider the following factors in purchasing footwear.

- Brand name
- Quality
- Beauty
- Others

Our analysis shows that the percentage of people who give top priority to each of the above factors is as follows.

Table 5- 96 Selections Criteria by Age Group

Age groups	Factors considered			
	Brand	Quality	Beauty	Others
15~ 19	20%	32%	20%	29%
20~ 24	17%	32%	22%	29%
25~ 34	24%	30%	8%	37%
35~ 44	36%	29%	7%	29%
Above 45	30%	33%	3%	33%

Source: Questionnaires analysis

There is quite a high degree of attention to the beauty of footwear among the younger people between the age of 15 and 34. The degree of attention to the beauty of footwear declines as the people get older. On the other hand, the degree of attention to brand names is low in the younger age groups and increases in the middle age groups up to the age of 44 but tend to decline a bit in the older age group. Hence, it is noted that younger people tend to consider the quality or beauty of footwear more than brand names, whereas older people tend to consider brand names and quality more than beauty in buying footwear. The degree of attention to quality when buying footwear is more or less the same for all age groups. The degrees of attention to the two major factors, which are brand names and beauty, paid by each age group are as follows.

Figure 5- 77 Degree in Percentage of Brand Factor Effecting Different Age Groups When Buying Footwear

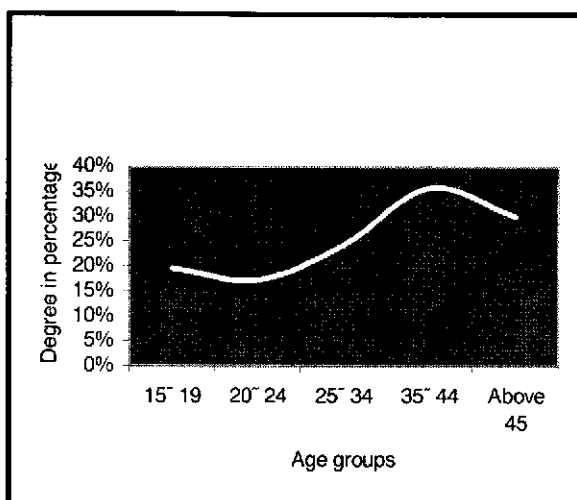
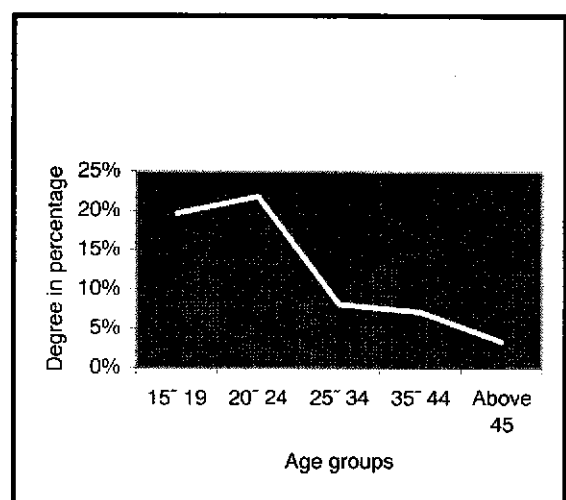


Figure 5- 78 Degree in Percentage of Beauty Factor Effecting Different Age Group in Buying Footwear



Source: Questionnaires analysis

Hence it is evident that brand names are the most important factor for the older age groups whereas beauty of the product is the most important factor for the younger age groups. Factors affecting the purchasing behavior are not significantly different by income group.

6) Mentality of People in Myanmar in Buying Different Types of Footwear.

It is noted that advertisements have only limited impact on people's decision in buying footwear. The majority of people, as mentioned above, are not particular about the brand names, as they consider prices to be the most important factor as long as the quality is reasonable. Consequently, there are very few advertisements of footwear in Myanmar. It is observed that about 34% of people in our samples buy footwear because the price is reasonable relative to quality. This holds true especially for Type 1, Type 2, Type 3 and Type 4 footwear since these types are all in the same flip-flop style. Footwear within each of these categories is usually alike, but footwear of Types 5, 6 and 7 vary in design and quality. Hence, in buying Types 5, 6 and 7 footwear, people take beauty and quality into consideration. It is also noted that there are quite a few people who buy footwear just because the price is cheap. Those people do not care at all about the brand names and buy any kind of Types 1, 2, 3 and 4 footwear. As mentioned earlier, the non-brand footwear are usually produced by small-scale cottage industries and sold at stalls.

5.5.2 Impediments and Problems in Footwear Development

5.5.2.1 Present Impediments and Problems in Export Promotion

(1) Problems in quality and quantity

Since the majority of footwear makers in Myanmar are small and medium enterprises relying wholly on labor, mass production is not possible. Hence, it is impossible to always guarantee reliable quality. With the present level of quality of domestic hand-made products, it is very difficult to find secure markets outside of Myanmar. Only a handful of medium-scale makers can produce acceptable quality hand-made footwear, but the capacity of a maker is only 3,000-5,000 pairs per month. Consequently, it is difficult to fulfill large orders. Another major problem is the quality of footwear, which is not acceptable by international standards. High-quality hand-made footwear made by medium enterprises is not available in adequate quantity in the market.

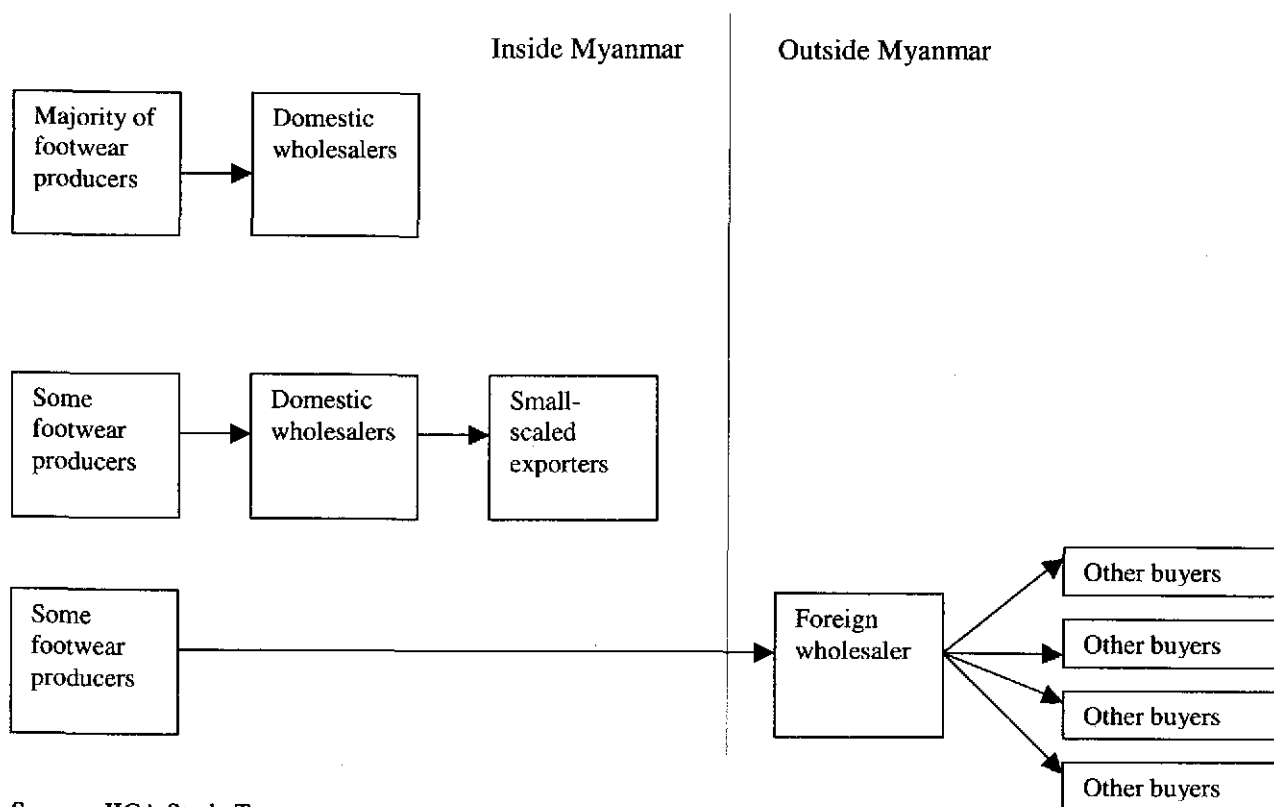
Most Type 1, Type 2 and Type 4 footwear made by about 300 medium and 500 small footwear producers is not of acceptable quality for exports. Producers are content with selling in the domestic market and do not have strong intention to export. Still, they would like to have an

opportunity to export but have only very limited idea on how to improve product quality for the export market.

(2) Market connections

A lack of capability to find reliable markets abroad is a major problem for the footwear industry in Myanmar. Large domestic manufacturers are found to be relying on one country as a transit point as they lack market connections. High-quality footwear produced by one of Myanmar's large footwear makers is being exported to such destinations as France, Italy, UK, Japan, mainly through Hong Kong. The company has few connections with these markets, so it has to rely on Hong Kong for re-exporting to these markets. If they have connections in other countries, it would be better. Therefore, special organizations which specialize in export promotion by finding reliable markets abroad through, for example, using the Internet to find potential buyers are necessary. The current status of connections in the footwear industry is as follows.

Figure 5- 79 Sales Flow



Source: JICA Study Team

As demonstrated here, very few footwear producers have direct access to foreign wholesalers and even these producers have very limited direct access to foreign buyers since most of exports reach destinations via a handful of foreign firms. There are no trade agencies or brokers in Myanmar which can promote footwear exports by finding and expanding export markets.

(3) Difficulty in checking credit standing of foreign buyers or counterparts

Myanmar businesses have very limited access to international markets and it is impossible to check the credibility of the foreign parties they are dealing with. Checking the credit standing of the counter party is important for importers but it is also important for exporters.

There was a case of a foreign company which placed a huge order. A local maker produced the required quantity, incurring very high variable costs. After the products are made, the foreign buyer visited the company and re-negotiated the price, since it thought the quality was not satisfactory. The local producer had no choice since it had already incurred huge variable costs and the prices were higher than similar products in the domestic market. If the local producer refused to renegotiate the price, it would have to sell the products in the domestic market at a loss. A case like this is attributed to one of the following reasons.

- The quality of products is not satisfactory.
- The foreign buyer tried to renegotiate the price although the quality was fine.

This incident is attributable to a lack of a proper contract between the foreign buyer and the local producer and also the absence of a proper yardstick for gauging if the quality of the products meets the quality required by the contract. If the incidence is attributable to the deviousness of the foreign buyer, it happened because of a lack of information on the credibility of foreign companies.

(4) Acquisition of export licenses

A businessman or company intending to engage in import-export business is required to apply for export-import registration permit. But this is not all. In addition to registration, a company or businessman intending to engage in import-export business is required to apply for import or export license for each import or export transaction. The application must show the items, lots, prices and foreign transaction partners at each step of export process. These requirements create complication and inefficiency, and are time-consuming.

5.5.2.2 Present Impediments and Problems in Domestic Production and Import Substitution

The capability of import substitution in Myanmar mainly depends on the development of large footwear manufactures which can make different types and designs of high-quality footwear. The quality of footwear made by these manufacturers should be on a par with imported footwear while their prices are lower than those of imports. One of the impediments to the development of large manufacturers is the registration and approval system.

(1) Unnecessary Delays in Incorporation, Registration & Approval

Major issue: It takes more than 6~12 months to register a firm and get approval.

Myanmar Citizens Investment Law requires that large footwear makers having the investment of over Kyats 10 millions should be approved by Myanmar Investment Commission. The Commission is not under the Ministry of National Planning and Economic Development (NPED Ministry). DICA (Directorate of Investment and Companies Administration) is under the jurisdiction of NPED and undertakes all the paperwork and supports the Commission. With the issuance of Foreign Investment Law (FIL) and Myanmar Citizens Investment Law (MCIL), the Commission is assumed to have the power and authority to accept any proposal, scrutinize it and issue permits in accordance with chapter 6 of FIL and chapter 5, clause 6 of MCIL. According to chapter 15, clause 30 of FIL, the decisions of the Commission made under the power conferred by this Law shall be final and conclusive. However, the power and authority of the Commission have diminished and all the proposals are presented to the Cabinet through the Trade Council for approval. The Commission at present does not have any power and authority to make conclusive decisions. This system causes unnecessary delays in all the registration and approval processes. Although relevant personnel from the Commission say that the process normally takes less than two months, it would be lucky if the approval is granted in less than six months. This obviously discourages businesses from registering under the Myanmar Investment Commission. As a result, incentives, exemptions, guarantees, etc., which could be enjoyed by the businesses operating under FIL and MCIL and which are important for the development of new businesses are not fully taken advantage of. This is why the development of businesses is slow.

Even the application for incorporation of a company needs to be presented to the Cabinet, and it normally takes more than six months just to incorporate a private limited company.

(2) Electricity shortages

Major issue: A majority of footwear manufacturers get no more than two hours of electricity supply per day.

Most businesses in Myanmar have long been facing electricity shortages. The worst case is that businesses operating with the approval of the Myanmar Investment Commission and which are under the ambit of FIL or MCIL get only about two hours of electricity a day. The Myanmar Investment Commission was formed to provide assistance of any kind to and to dissolve any problems encountered by the organizations under its approval with the view to induce investment and promote businesses in Myanmar. But organizations under MIC approval seldom get electricity supply for two hours a day while even the residential areas are getting electricity supply for half a day. Therefore, footwear manufacturers are relying on their own power generators, incurring the cost of about US\$ 0.12-0.15 per unit which is very expensive and lead to higher operating costs.

(3) Water treatment

Major issue: Poor water treatment systems are causing frequent breakdown of boilers used for making soles for footwear causing inefficiency in footwear production.

Most footwear businesses operate in the outskirts of the cities where water supply is not available. They need to rely on their own artisan wells that provide water supply of low quality. There is no water treatment system at most of the factories. One of the large footwear factories located in HlaingThaYar industrial zone has been complaining about the poor quality of water supply, which causes frequent breakdown of boilers used for making soles for footwear. It even has had to replace boilers from time to time, which increased fixed costs. Water supply is not a major problem for the production of locally-made Type 1, Type 2 and Type 3 footwear since their production requires no boiler or machinery because they are hand-made. Outer soles for these types of footwear are made by electric heaters, so only electricity supply is a major problem for these medium-scale footwear production businesses. But the capability for import substitution can be enhanced only if large footwear manufacturers which are capable of making footwear whose quality is comparable to that of imported products are developed. Such makers use different types of machinery, including boilers, thus good water supply plays an important role for their development.

(4) A Lack of proper technology and machinery

Of all the footwear makers in Myanmar, 37.3% are medium-scale businesses, 62.3% are small-scale businesses and large-scale footwear production businesses account for only 0.4%. Production method and processes in small-scale as well as medium-scale footwear production businesses are the same and they are labor-intensive. The only difference between small and medium-scale footwear businesses is the number of workers. Medium-scale businesses normally have 40-80 workers while small ones normally have only four to eight workers. Since all types of footwear produced by them are hand-made, mass production is not possible and reliable quality is not guaranteed. As long as reliable quality is not guaranteed, Myanmar will never be able to enhance its capability of import substitution. If small and medium enterprises are not able to grow into large enterprises with proper technology and machinery, it will be impossible to develop the footwear industry in Myanmar and achieve import substitution efficiently.

(5) Quality of raw materials

The quality of raw materials also plays an important role in the quality of footwear. There are several hundreds of makers that produce parts of footwear, such as soles, cow leather and uppers. Again, because of the lack of proper technology and machinery, high-quality parts cannot be produced. For instance, chemicals, methods and technology are not good enough for the processing of cow leather, which is a major raw material for locally-made footwear. The same holds true in the production of soles. Discarded used-soles are also used in the first-phase grinding in order to minimize the cost of soles. In the first and second-phase grinding, proper chemicals are not properly mixed resulting in the low quality of soles. After the grinding stage, semi-finished soles are heated with the make-shift heating units. All in all, mass production is not possible and reliable quality is not guaranteed. Without high-quality raw materials and parts, the quality of footwear is not guaranteed. Thus, in parallel with the development of footwear manufacturers, the development of makers of raw materials and parts is equally important to achieve import substitution.

(6) Human Resources

Human resources are one of the important factors in the success of an organization. Most of the domestic organizations are not yet taking effective human resources management into serious consideration. In the absence of effective human resources management, the development of the organization will be very slow. The firms do not yet understand motivation factors or hygiene factors that can raise the morale of employees. Commitment of the

employees is also important for the success of an organization, but it will not be attained without the commitment of the organization to the employees. Most organizations are confused between the motivating factors and hygiene factors and cannot effectively raise the morale of workers, causing inefficiencies in day-to-day operations. Proper training programs are also necessary to enhance the capability and quality of engineers and technicians who will in turn be able to enhance the quality of the organization and its products. For example, a large footwear manufacturer in Myanmar has hired a few technicians from abroad but since they did not provide training programs for local employees, they had to obtain knowledge indirectly through on-the-job-training. This is good in some sense but formal training as well as on-the-job-training should be provided on a continuing basis to the employees and local technicians so that they can gain proper knowledge that can be applied immediately to the practical environment.

(7) Difficulty in obtaining travel documents for overseas training

Overseas training for employees to enhance the quality of local technicians is very difficult because of difficulty in acquiring travel documents, such as passports and departure forms. It takes three to six months to obtain a passport and even when one gets a passport, it is not enough. An applicant is further required to get tax clearance from township tax department, tax clearance from the Internal Revenue Department and departure form from the Immigration Department. Upon return from an overseas trip, passports have to be surrendered at the airport and one has to go through the same process for the next trip. Passports normally are valid for only one year since passports issued to company employees are just for short visits. If the holder postpones the trip for say seven months, the passport needs to be extended six months after the issuance date.

Business passports are issued to the maximum of three persons from the same company and they must be on the board of directors. Even in these cases, it takes around two months to get a passport. Like ordinary passport holders, a business passport holder is required to get tax clearance from township tax department, tax clearance from the Internal Revenue Department and departure form from the Immigration Department after the acquisition of a passport. But it is not all. It is even more sophisticated for business passport holders since they further need to get tax clearance from the company's Tax Administration Office and an additional form stating the frequency of overseas trips from Passport Section. Business passports are normally valid for only one and a half years and they need to be extended every six months.

Thus, it is not easy to take even one overseas trip. Business passports are issued in order to make it easy and convenient for businessmen to take overseas trips. But actually it is not convenient at all. The only difference is that business passports need not be surrendered at the airport. But as the compensation for that benefit, business passport holders are required to go

through more sophisticated documentation procedures for each trip.

It is not so difficult to travel to Thailand, Malaysia, Singapore and Hong Kong either for businessmen or employees. But acquisition of visas for entry to other countries, such as Japan, the United States and the United Kingdom is not easy. These difficulties in acquiring travel documents deter Myanmar businessmen, employees and technicians from having access to overseas markets.

5.5.3 Policy Recommendations

(1) Financing

The majority of footwear manufacturers are SMEs facing difficulty in obtaining adequate amount of funding to grow into large companies. They usually rely on equity pooled by relatives or close friends. Most of them do not have access to formal financial institutions for loans on account of the lack of enough collateral. And they cannot rely on the informal financial sector for loans because of exorbitant interest rates that range from 36% to 72% per annum. Hence, there should be some special arrangements by the government for SMEs in the footwear industry, so that they can have access to low-interest loans, such as an arrangement for 6% per annum loans provided to entities in the agricultural sector designed for agricultural industry development.

Another strategy is to develop organizations which can create an environment in which footwear businesses can have an easy access to bank loans. These organizations can be business associations which provide necessary assistance in developing business plans which include economic justifications, financial projections and feasibility studies, and support footwear businesses to have an easy access to bank loans. These business associations may also act not only as consultants but also as the medium between financial institutions and footwear businesses.

Financial institutions in Myanmar are mostly interested in trading businesses since businesses in the trade sector generally have higher turnovers and can collateralize the stocks and other properties, such as warehouses, and are found to involve less risk for short-term loans.

Unless there is support from the government or business associations as described above, growth of footwear manufacturing businesses into large companies is quite uncertain.

(2) Development of supporting businesses

Supporting businesses for the footwear industry are leather, rubber and EVA production. These production businesses play an important role for the development of the footwear

industry in Myanmar. There are quite a few leather processors for the production of leather bags, jackets, wallets, etc., but the quality of processed leather is not yet satisfactory on account of a lack of proper technology. Large-scale leather processing businesses especially for the footwear industry do not exist in Myanmar. There is one state-owned leather factory which is under the Ministry of Industry 1, producing leather for leather shoe production. But the quality of leather and leather shoes produced is far from being acceptable. The design and quality of leather shoes produced by the state-owned leather shoe factory are shown in Figure 5- 79. Figure 5- 80 is leather shoes produced by a private small-scale leather shoe production business, and the quality of shoes in Figure 5- 80 is much better than the quality of leather shoes produced by the state-owned leather shoes factory. But since the private business that makes the shoes in Figure 5- 80 is small, the maximum production is only about 100 pairs per month and economies of scale is not possible. There are very few footwear businesses producing leather shoes.

Figure 5- 80 Shoes Made by SOEs



Figure 5- 81 Shoes Made by Private Sectors



Source: JICA Study Team

Leather production is still small, inefficient and low quality in Myanmar. There are very few large-scale leather shoe factories. Those that exist are foreign-owned and rely mostly on imported leather. Small and medium-scale footwear makers produce only Types 1, 2 and 3 flip-flops and usually rely on low quality cow leather for locally-made flip-flops. The quality of cow leather used for production of locally-made flip-flops are determined by the leather of different parts of cow and not determined by the quality of processing. There are only small-scale processing businesses for cow leather so that the economies of scale is not possible. As a result of reliance on traditional leather processing technique, the quality is not guaranteed.

There are only a handful of large-scale footwear makers producing Types 5 and 6 flip-flops and slippers made of rubber and EVA. But, there are no producers of high quality rubber and EVA for flip-flops and slippers in Myanmar. Consequently, they have no choice but to establish their own factories for the production of rubber and EVA which are mainly used as inner soles, mid-soles and out-soles of flip-flops and slippers.

Thus, there is the need for the development of supporting industries for footwear

production businesses. Since processing of leather and production of rubber and EVA require large amounts of capital and a high level of technology, foreign direct investment should be welcomed. Raw leather as well as pure rubber is available in Myanmar, but there is need for the importation of PVC, which is one of the raw materials for EVA production.

(3) Alternative ways of developing power supply and water treatment

The industrial companies involved in international trading are required to pay electricity charges in US\$, usually about US\$ 0.08 per unit. But the problem is that the reliable and constant power supply is not available. Some industries get electricity for only 2 hours a day. Thus, they need to rely on their own power generators, which cost them about US\$ 0.10~0.15 per unit. Instead of each firm using its own small diesel electricity generators, it would be more economical if one large diesel generator is developed in each industrial zone and provides reliable and constant power supply to the entire industrial zone. This would be the best and the most economical way to immediately solve the electricity problem in the industrial zones before government's large hydro-power projects are implemented.

Establishing a large water treatment plant requires large capital, since the water supply from artisan wells in most industrial zones contains high levels of iron and sulfur. But, the treatment of water from more than 500 feet below the ground may not require sophisticated treatment technology, since water from deep underground does not normally contain high levels of iron and sulfur although the hardness is the same. Thus, the situation will improve if at least one water treatment plant is built in each industrial zone to purify water from several deep artisan wells and supply water to the industries.

(4) Training and human resources development

There is no formal training in the footwear industry. People learn from experience or get on-the-job training. Since the majority of the participants in Myanmar's footwear industry are small and medium-scale enterprises relying on traditional production process, workers do not have the chance to learn proper technology and receive appropriate training for production of export-quality footwear. Thus, the development of business associations which can arrange training programs for footwear businesses in Myanmar is necessary. Training programs abroad to study big footwear industries in China, Hong Kong and Europe should also be arranged to enhance technical skills and knowledge of human resources in Myanmar's footwear industry.

Hence, an immediate solution would be to arrange seminars and workshops led by experienced people from existing large footwear manufacturers through business associations so that their technical knowledge and experience could be shared with people in small and

medium-scale makers.

(5) Faster and less complicated procedures for obtaining travel documents for businessmen and employees

Prolonged and complicated procedures for the application for a passport and other travel documents, such as Form-17, Form-19, Form-24 and D-Form, should be simplified. Apart from the difficulty in obtaining passports, there are many problems in obtaining other travel documents for each trip abroad. For each trip, a departure form is required. The departure form is issued by the Immigration Department in exchange for Form-19 from the Internal Revenue Department. Form-19 is issued in exchange for Form-17 and Form-24. All businessmen or employees planning to go abroad need to go through all these prolonged and complicated procedures for each trip abroad. Employees going abroad for short training need to surrender their passports at the airport upon their return to the country and need to repeat the same process if they make another trip.

This problem should be solved immediately for businessmen and employees going abroad for business or training. This problem can be solved if the relevant authorities of Myanmar get guarantees from each enterprise so that its employees and directors can obtain passports immediately and can go abroad freely as long as their passports are valid without the need to present other documents, such as Form-17, 24, 19 and D-form. The guaranteeing enterprise has to take full responsibility for the misconduct of its employees or directors going abroad.

(6) Reducing red-tape at the Ministry of Commerce

In addition to the registration of companies or businessmen intending to engage in import-export business, an application for import or export license is required for each import or export transaction. The application for an export license is required to show items, lots, prices and transaction partners in the foreign country at each step of the export process. These requirements are time consuming and create complications and inefficiency.

Production of rubber and EVA, which are used as inner soles, mid-soles and out-soles, requires PVC plastics seeds, which are normally imported. But, the importation of PVC takes at least two to three months from the time the application for import license is made. This is mainly because a number of applications for import licenses are made to get licenses to import required quantity. For instance, if 50 tons of PVC is required and the application is made for an import license, the Ministry of Commerce issues an import license for only 10 or 20 tons, making it necessary to make additional applications to import the required quantity.

Because of the complications frequently encountered in dealing with the Customs

Department and port authorities, companies usually use customs clearing and forwarding agencies, which have built up good relations with relevant officers. It is difficult for outsiders to deal with people at the Customs Department and port authorities. It usually takes three to four days for imported containers to be cleared by the customs if customs clearing and forwarding agencies are used, but it takes three to eight days if an outsider (e.g., an employee from the importing company) who has no close relationship with the relevant officials handles it.

The customs clearance can be dealt with if a company uses a customs clearing and forwarding agencies which have close ties with customs officials. However, most importers and exporters encounter red tape at the Ministry of Commerce when they apply for an import or export license for each transaction. The Ministry of Commerce does not like to have huge net negative exports (i.e., export-import), so it tries to control the amount of imports so that it will be in balance with the amount of exports. Such efforts are usually useless and ineffective unless export promotion measures are taken.

A major problem with government officials and policy makers is that they usually deal with problems piecemeal rather than getting at the source of all problems. As a result, problems may be solved temporarily but are liable to create more complicated problems. Hence, Goodhart's Law in economics needs to be heeded.

(7) Marketing

Most enterprises in Myanmar do not have direct access to international buyers, since they do not have information on potential buyers in other countries. There are two major ways to allow them to have direct access to overseas buyers and to obtain reliable information.

One way is to create an interactive Internet web-page focusing on different types of footwear available in Myanmar. In the page, information on Myanmar's footwear manufacturers will be posted together with pictures and price information on their products. Such interactive page will allow viewers to ask for information on line and may enable viewers to place orders on line.

Another way is to form a special organization which can get all the information about potential buyers abroad for local manufacturers as well as disseminate information on Myanmar's footwear to international markets via trade promotion centers. The organization is to stand as the promotion center for Myanmar's footwear industry.

It would be better if the above two methods can be implemented simultaneously. Since most footwear makers are small and medium enterprises, they do not have easy access to the Internet and may not know how to use it to promote their products and access directly to overseas buyers. Hence, the special organization that will act as the promoter of Myanmar's footwear will have to undertake these activities and educate and organize the manufacturers.

(8) Export promotion

It is necessary for all relevant governmental organizations to cooperate and exchange views to develop proper policies for export promotion. The Customs Department does not levy taxes on footwear exports and the officials believe that they are doing something for export promotion, but a 10% tax is deducted from all export earnings by the banks. There are always conflicts of interests among governmental agencies. For instance, at a higher level authorities would like to promote exports, but they do not want to reduce income from export earnings by doing away with the 10% tax.

Moreover, exporting businesses do not have the right to sell foreign currencies in their accounts at market rates. Account transfers are not allowed and withdrawals of US\$ from US\$ accounts are prohibited. Hence, in order to generate cash in the local currency, exporters must import something. If exporters cannot find products to import, they have to contact importers who pay them the local currency equivalent at the market rate to import the products on behalf of the importers. For instance, if an exporting company exports footwear for the total FOB price of US\$ 50,000, the 10% tax and bank charges of US\$ 12~20 will be deducted from its earnings by the bank, leaving it with US\$ 44,980 [US\$ 50,000 – US\$ 5,000(10% tax) – US\$ 20(bank charges)] in its account. Eighty percent of this amount can be used to import essential items and 20% for preferred items. If Company A wants to import essential products having the total CIF value of US\$ 15,000, it pays the exporter in the local currency at the market rate, and the exporter will import the products on behalf of Company A.

It should be noted that the market exchange rate of the US\$ against the kyat in such a case is usually higher than the existing market rate of US\$ cash. If the market rate is Kyats 950 per US\$ cash, the market rate for exporter is about Kyats 1,050 per US\$.

Export promotion will be ineffective, as long as exporters are forced to import something in order to convert their export earnings into the local currency.

To solve this problem, the 10% taxes on export earnings should be reduced. Import duties can be increased if the authorities are worried about the decline in income resulting from the cut in the tax rates. At the same time, exporter should be allowed to use their US\$ income freely without having have to import something.

5.5.4 Conclusion

The following are some of the comments and recommendations to develop the footwear industry in Myanmar to increase exports and promote import substitution.

First, measures should be taken to enhance the quality of Myanmar's footwear in order

not only to draw attention from foreign markets but also to enhance the capability for import substitution. An association of footwear manufacturers should be created to organize footwear makers in the country and to hold workshops on how to improve the quality of Myanmar's footwear. The association should also arrange for training of manufactures, focusing not only on production technology but also on designs that are popular in other markets. Since it will be difficult to arrange for training of people in all enterprises in the industry by foreign experts, creating a trade association is a high priority, so that experiences and knowledge of large domestic manufacturers can be shared with small and medium footwear makers before implementing training programs by foreign experts. Capability for technological research, model designing and professional training must be enhanced to international standards.

Along with the training of the people in the footwear industry, training of workers in the supporting industries, such as the leather processing and rubber industries should be arranged, since these industries play a pivotal role in the development of the footwear industry in Myanmar. Without strong supporting industries, medium-scale footwear makers will find it difficult to grow, since it requires large capital to develop their own raw material plants in order to attain high product quality and realize economies of scale

Then the measures for export expansion should be taken. Myanmar's industries do not have access to foreign markets because of very limited availability of effective communications channels and media, such as the Internet, e-mail, fax and telephone. Hence, the trade association should act as a pipeline between the domestic footwear manufacturers and the international markets. Like China, Hong Kong, Thailand, Vietnam, and other countries where the footwear industry is developed, Myanmar should also create an interactive Internet web-page for its footwear industry to display high-quality products made by enterprises in the country as well as their prices. The home page should allow the viewers to ask for information and place orders on line. After the nation's footwear industry has developed to a certain stage, the industry will create its own interactive Internet web page to gain direct access to foreign buyers. A footwear design center should also be created, since good design is essential for the development of the industry as a whole.

In addition, Myanmar should conform to the world's trading standards. Most of the nations in the Western world, particularly the EU countries, are beginning to look for suppliers who conform to their standards. These standards extend from the health and welfare of workers to the prohibition of the use of certain chemical products as raw materials for shoes and their components and environment-friendly manufacturing practices.

EU can be a potential export market for Myanmar's footwear industry. However, the European shoe industry demands equal competitive conditions, adherence to ILO conventions on the elimination of child labor and on health and safety at work. The US is the world's largest importer of footwear in terms geography, quantitative demand, the range of product categories

and complexity of distribution channels. It is also the trickiest market in the world. To access such a large market and cultivate it is not an easy job. Myanmar's footwear industry has formidable competitors, particularly China. Myanmar has to enhance its awareness of US laws and relevant business practices and do more research on the United States to build business relations with the country's footwear distributors. It also has to develop a proper export-marketing plan.

Myanmar's competitive advantages are the availability of abundant labor, low labor cost and smart workers who can quickly master production techniques. But these advantages cannot be put to good use unless the quality, quantity and designs of Myanmar's footwear are improved to meet international requirements.

Having joined the ASEAN later than other countries, Myanmar is allowed to maintain protection of footwear industry for two to three years after the deadline for the ASEAN-6. Those members have committed to cutting tariff applicable to footwear products, mostly to 5%, by 2002. Thus, Myanmar has to take immediate measures to expand exports to the other ASEAN countries in order to take advantage of this treatment before it will have to reduce its tariff rates on imports. Unfortunately, however, Myanmar's footwear industry is not yet sufficiently developed to take advantage of this opportunity.

The government should make financing arrangements for small and medium-scale footwear makers to grow into large enterprises, since the majority of these firms are small and do not have easy access to bank loans. With the current level of conservativeness of Myanmar's financial institutions, such arrangements will not be made if support from the government is not forthcoming. The manufacturers must improve labor productivity and product quality by investing in new, advanced equipment and technology which will help them meet these requirements and also bring various economic effects, including the capability for environmental protection and improvement of the safety in the industry.

5.5.5 Proposed Development Strategies for the Development of Myanmar Footwear Industry

In-depth analyses of various problems faced by private enterprises and foreign companies operating in Myanmar have been made in the main body of this report. Based on the outcome of these analyses, this summary section summarizes the proposals in the development strategies as follows.

Table 5- 97 Development Strategies for the Footwear Industry

	Urgent target	Medium-term target	Long-term target
Technical education	Improvement of educational curricula and technical education by foreign experts	Establish technical education centers and introduce technical competence certification system.	Establish technical colleges and department of footwear.
Domestic production of materials		Create materials development centers.	Offer incentives for foreign investment in the materials sector.
Overseas market expansion	Enhance the functions of business associations to bridge the gap between Myanmar's footwear makers and foreign buyers by providing overseas information.	Business associations will create web-pages on the Internet to exhibit various types of footwear so that buyers and others can place orders online.	Each footwear maker will create its own web-page on the Internet to gain direct access to overseas buyers.
Export promotion	Establish footwear design centers with the help of foreign designers.	Overseas training for designers.	
	Reduce red tape at the Ministry of Commerce, Customs Department, ports and banks.		
		Allow exporters to use their US\$ export earnings for purposes other than importing something.	
Infrastructure development	As a temporary measure for supplying power to makers in an uninterrupted and reliable manner, install large generators at each industrial zone.	In the medium and long term, develop hydropower stations for reliable power supply to both industrial and residential customers. Develop artisan wells and water treatment stations in industrial zones with government assistance.	
Streamlining of red tape	Reduce bureaucratic procedures for incorporation of firms.	Reduce the time required for the approval of Myanmar Investment Commission.	
Simplify red tape for overseas travels for business and training	Simplify procedures for obtaining passports and other documents for overseas travel.		

Source: JICA Study Team