Chendai steps in right direction

Mature supply chain and skilled labor give China's 'shoe capital' an edge over rival footwear producers in Southeast Asia

By **DENG YANZI** and **HU MEIDONG** in Quanzhou

When Lin Haibin's family set up a shoemaking workshop in Chendai in the 1980s, they likely sensed great change coming to this small town in Jinjiang, in East China's Fujian province.

Similar to hundreds of other workshops then opening in the area, Lin's family business started with only one production line making shoes without any brand names, selling to different parts of China.

Production capacity expanded gradually over the years, and the company started to reach out to foreign brands after Lin took over the family business in 2005.

Daeast-Asia (Fujian) Sports Production Co now operates 11 production lines and has around 2,000 employees, according to Lin. It specializes in waterproof sneakers for international brands, including Fila, Puma and Skechers, and produced more than 7 million pairs of shoes last year.

Lin's success story is hardly unique in Chendai. Now dubbed "the shoe capital of China", the town is home to more than 4,000 footwear manufacturing and supporting companies, and among them are a dozen Chinese household names, including Anta, 361 Degrees and Xtep.

According to Chendai's latest data, the town's population has grown by close to 500,000, while four out of every five residents are migrants from all across China, predominantly working in the footwear industry.

In the past year, more than 750 million pairs of sneakers were produced in Chendai, which accounts for 16 percent of the world's sports shoe production and 40 percent of China's.

Its homegrown sportswear brands, already top-tier in the domestic market, have also been making tracks in the international arena.

Beginning in Chendai as a small sneaker workshop in the 1980s, Hong Kong-listed Anta Sports has grown to become the world's third-largest sportswear brand behind Nike and Adidas, with its market capitalization exceeding HK$100 billion ($12.8 billion) in January.

The brand has been aggressive with global expansion plans since its 2007 listing. In 2009, Anta Sports acquired the China arm of Italian sportswear brand Fila and started a series of acquisitions of foreign brands, including South Korea's Kolon Sport and Hong Kong children's wear brand Kingkow.

However, apart from the heavyweights, the better part of the town's footwear companies are smaller contract manufacturers for brands from home and abroad. In recent years, rising wages and raw material prices have put huge pressure on Lin's company and peers in the area.

A shoe factory in Chendai. Dubbed "the shoe capital of China", the town is home to more than 4,000 footwear manufacturing and supporting companies.
DENG YANZI / CHINA DAILY ASIA WEEKLY

30 percent
Loss of orders to Southeast Asian countries recorded by Chinese shoemakers since 2008

174 dollars
A Vietnamese worker's minimum monthly wage, which is less than half the comparable salary in China

Manufacturing costs in China have been climbing since 2008, but the toughest time for the local industry came before 2015 when local labor and raw material costs, respectively, rose by as much as 30 percent annually, Lin recalled.

The wages for shoe factory workers in China grew 350 percent from 2003 to 2013, according to the Asia Footwear Association (AFA).

"The soaring costs drove clients away, and put many local factories out of business," Lin told *China Daily Asia Weekly*.

Amid rising wages, a number of lower end shoemakers moved to other parts of China, such as Zhejiang and Shandong provinces in the east and Hebei province in the north, for lower costs.

In the meantime, top international brands turned to Southeast Asian countries as alternatives, and the resourceful Chinese contract shoemakers followed with expansion or relocation to the emerging manufacturing hubs.

For instance, Pou Chen Group, the world's biggest shoe manufacturer for Nike and Adidas, increased production in Vietnam from 34 percent in 2013 to 42 percent in 2015, while it reduced the number of its production lines in China.

China Daily reported in 2013 that according to the AFA, China's shoemakers had lost 30 percent of orders to Southeast Asian countries since 2008, due to climbing operational costs.

For cheap labor, Vietnam is one of the most popular destinations for the shoemaking industry. Hiring a minimum-wage worker in Vietnam would cost $174 per month — less than half the monthly cost of a minimum-wage worker in China at $360.

However, the region's labor cost advantages were not attractive enough for business owners like Lin to leave Chendai.

"We thought about moving to Southeast Asia, but we believe (China) has a more mature market environment that will not be surpassed in the next five years in terms of its supply chain, safe business environment, and especially the skill set of the workers," Lin said.

For products that require more complex technology and skilled labor, Lin believes China still has an edge over Southeast Asia.

The lack of skilled labor is a key issue most Chinese companies face after relocating to Vietnam, said Liu Yongcheng, deputy general manager of business management for Jinjiang Shoes and Textile City, which brings together suppliers, shoemakers, intermediaries and other relevant players in the industry.

The factories must also account for workers' training expenses, despite the lower labor costs in Vietnam, he explained.

Liu noted that Jinjiang, the county-level city that manages several shoemaking towns besides Chendai, has made its name in the manufacturing of sports and leisure shoes due to its variety of materials and technologies, after decades of development.

"Without a well-established and complete supply chain like Jinjiang, the overall costs of operating in Southeast Asia could be higher and efficiency could be lower, as they cannot react to orders as fast as in Jinjiang," he said.

Liu also noted that shoemakers who relocated to Vietnam hoping to benefit from the Trans-Pacific Partnership agreement might rethink their decision, since the United States opted out of the major international trade deal last year.

He expects shoemaking factories will return to Jinjiang in the future, while Southeast Asian countries will remain strong competitors.

"I believe some manufacturers will slim down their capacity abroad, but not all, because they may still value labels like 'Made in Vietnam' and stay," Liu said.