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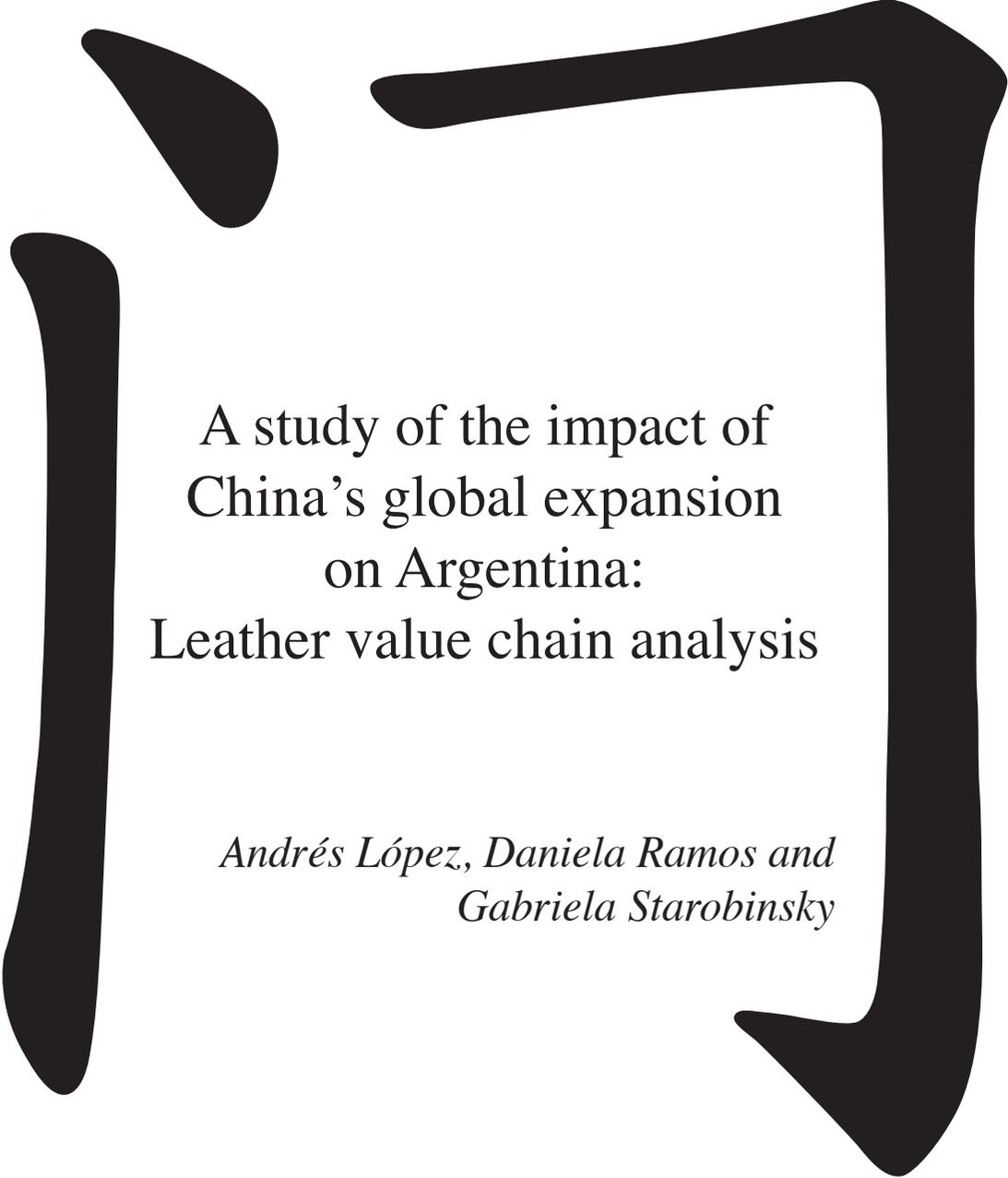


Universidad Nacional Autónoma de México

Facultad de Economía

Centro de Estudios China-México

Número 4, 2010



A study of the impact of
China's global expansion
on Argentina:
Leather value chain analysis

*Andrés López, Daniela Ramos and
Gabriela Starobinsky*

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Revista bimestral del Centro de Estudios China-México
de la Facultad de Economía de la UNAM

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Número de certificado de reserva otorgado por el Instituto Nacional del Derecho de Autor
para versión impresa: 04-2010-071617584500-102

Número de certificado de reserva otorgado por el Instituto Nacional del Derecho de Autor
para versión electrónica: 04-2010-022210232000-203

Número de certificado de licitud de título (en trámite).

Número de certificado de licitud de contenido (en trámite).

Correspondencia:

Centro de Estudios China México. Edificio anexo de la Facultad de Economía de la UNAM. Segundo piso. Circuito interior, Ciudad Universitaria. CP. 04510, teléfono 5622 2195. Correo electrónico de la revista: cuadchmx@unam.mx

Imprenta:

Editores Buena Onda, S.A. de C.V. Suiza 14, Col. Portales Oriente, delegación Benito Juárez, México D.F., CP. 03570.

Precio por ejemplar: \$75.00 M.N.

Tiraje 100 ejemplares

Cuadernos de Trabajo del Cechimex en su versión electrónica puede ser consultada en:
<http://www.economia.unam.mx/cechimex/cuadernos-trabajo.html>

A study of the impact of China's global expansion on Argentina: Leather value chain analysis¹

Andrés López, Daniela Ramos and Gabriela Starobinsky²

Resumen

El desarrollo industrial de China ha tenido un alto impacto en la cadena de valor de la piel a nivel mundial experimentando significativas transformaciones en las últimas décadas. El mercado de la piel en el mundo es una de las empresas menos integradas y con cadenas de suministro globales dispersadas a través de muchos países y regiones. El objetivo de este estudio es analizar los efectos de estos cambios sobre la industria de la piel en Argentina. Trata de explicar cómo China representa por un lado, una oportunidad para Argentina, al ser un gran comprador de materias primas y por otra parte, una amenaza, al ser un gran exportador de calzado y manufacturas de piel así como de otros materiales que compiten con la piel. Finalmente, este estudio examina el grado en el que estas oportunidades y amenazas se han materializado en los últimos años y las perspectivas de la industria de la piel en Argentina con relación a China.

Palabras clave: cadena de valor de la piel, industria de la piel argentina y china, industria de transformación de la piel.

摘要

中国工业的发展对于全球皮革价值链已经产生了巨大的影响。在过去的十几年中，由于受到竞争和利益目标的驱动，全球皮革市场已经发生了重大的变化。由分散在许多国家和地区的缺少整合的企业和更多的全球供应链，构成了新的市场形态。本研究力图分析这些变化对阿根廷皮革产业的影响。中国作为原材料的大买家，对于阿根廷来讲是机遇；但作为鞋类和以皮革或其它原料为制成品的出口大国，对于阿根廷又是一种威胁。本文分析了近年来在多大程度上这些机遇和威胁化作了现实，以及阿根廷皮革工业与中国的关系的前景。

关键词：皮革价值链 皮革产业 皮革加工工业

Abstract

China's industrial development has had a large impact on the leather value chain at a worldwide level. It has undergone important transformations during the last decades. The new shape of the world leather market is one of less integrated enterprises and more global supply chains dispersed across many countries and regions. The main objective of this study is to analyze the effects of these changes on Argentina's leather industry. China is both an opportunity for Argentina, being a big buyer of raw materials, and a threat, as it is a large exporter of footwear and manufactures made of leather and of other materials that compete with leather. This study examines the extent to which these opportunities and threats have materialized in recent years and the prospects of the Argentine leather industry in relation to China.

Keywords: Leather value chain; Argentine and Chinese leather industry; leather processing industry.

¹ This paper was prepared as part of a research project on "The Impacts of China's Global Expansion on Latin America" coordinated by Professor Rhys Jenkins of the University of East Anglia which was funded by the World Economy and Finance research programme of the UK Economic and Social Research Council (Grant No. RES-165-25-005).

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³ The industry includes leatherwork, saddlery and harnesses and leather textiles.

Introduction

Leather production has been a dynamic and important industry in Argentina since the 19th century and is one of the country's traditional export goods. The central region (the so-called “Pampa”), which covers vast areas of land and produces large volumes of livestock, has been essential in the development of the industry. Originally, Argentina specialized in the production of fresh salted leather, but over time it started expanding towards other stages of the value chain, where more value added is generated. However, until now the competitive sector within the leather industry is that which produces semi-finished and finished leather, while industrial activities – especially footwear – are more inward-oriented.

China's industrial development has had a large impact on the leather value chain at a global level; the chain has undergone significant transformations during the last decades driven by competitiveness and profitability objectives. Nowadays, as Salazar de Buckle (2001) states, “*hides from South America may be processed in India and intermediate and end products may be sold in Europe or the United States*”.

This is a consequence of the fact that location patterns have changed dramatically due to the process of gradual reallocation of manufacturing activities from Western Europe, first to countries such as Pakistan, South Korea and India and then to China, Indonesia, Vietnam, Eastern Europe and Central Asia (Salazar de Buckle 2001).⁴

Hence, as stated by Salazar de Buckle (*ibid*), the new shape of the world leather market is one of less integrated enterprises and more global supply chains dispersed across many countries and regions, connecting developed countries' retail companies with outsourcers in low-cost developing countries (Frenkel 2001).

In this new scheme there is a tendency for developed cattle producing countries to concentrate on exporting fresh leather and importing footwear and leather manufactures. On the other hand, developing countries (e.g. China, Vietnam, Indonesia, India) import raw materials, pre-finished and finished leather to produce footwear and leather products locally, based mainly on low labor costs. Hence there is a clear segmentation now within the value chain. For instance, Italy, Spain and Portugal produce high quality leather footwear while China, Brazil, Mexico and South Asia concentrate (although with differences among them) on low value added footwear (UIA 2005).

Another important factor in the development of the leather value chain is that the availability of raw material (fresh leather) is constrained by different factors, from export restrictions imposed in many countries – such as Russia, Australia, Argentina and Brazil – to the slow increase in fresh leather production that has created a strong competition for hides and the increasing substitution of leather by other materials including rubber and plastics, among others (UIA 2005).

In this context the rapid growth of China, its increasingly important role in international commerce, and its low labor and production costs have changed the map of the leather value chain over recent years.

The main objective of this study is to analyze the impact of these changes on Argentina's leather industry, with a focus on China's emergence as a major player in the world leather value chain. According to the above, China is both an opportunity, being a big buyer of raw materials, and a threat for Argentina, since it is a large exporter of footwear and manufactures made of leather and of other materials that compete with leather. This study examines the extent to which these opportunities and threats have materialized in recent years and the prospects of the Argentine leather industry in relation to China.

The characteristics and stages of the leather value chain are described in section 1. This section also presents the main trends in production and international trade for the different stages of the value chain, from fresh leather and tanning industries to footwear and leather manufactures. Section 2 deals with the evolution and present situation of Argentina's leather industry, including the different stages of the above mentioned value chain. Section 3 analyses Argentina-China's bilateral trade with data from 1995 to the present. The last section presents the conclusions.

⁴ The advantages of this production reallocation process include increasing capacity and flexibility, specialization, lower production costs, shorter delivery times, etc. (Salazar de Buckle 2001). However, the benefits derived from these gains are not evenly distributed among the different actors of the value chain, a fact that reminds us of the relevance of studying the mechanisms of governance of the value chain.

1. The World's Leather Value Chain: Trade and Production Trends in the Context of a Global Reconfiguration of the Leather Industry

The leather production chain is especially heterogeneous because it involves many different production processes and also because of the existence of a wide range of different classes of leather. This study concentrates on the bovine leather sector, due to the importance of this sector for the Argentine economy.

Before the first stage of leather production, which starts with fresh leather in the slaughterhouse, it is essential to take good care of livestock in order to avoid damage to the hides and thus ensure a better natural quality, which translates into a higher value of leather. In order to prevent flaws in the animals' skins it is necessary to protect them from warble fly, ticks, plagues, parasites, etc., to brand them in the face so that burns do not affect the leather and to use straight barbs that will not hurt the hides, just to mention a few preventive measures. It is also important that the cattle are transported safely from the farm to the slaughterhouse. The livestock farmer is responsible for the aforementioned operations. The first stage of production ends when the hides exit the slaughterhouse.

Once in the cold storage chamber, the hide needs to be completely drained of blood in order to preserve it and prevent bacteria from proliferating. Before leaving the plant for the tannery, it is best if the hides are washed and discarnated before the start of the industrial segment of the value chain; this is carried out by the tanners.

Leather that has been treated for the first time is called *wet blue* (the treatment involves the interaction of leather fibers with chrome salts). Semi-finished leather is then obtained by further chemical processing.

Final goods are more adequately classified by combining the soaking activities for all types of hides in the tanning plant and only then differentiating the products by re-tanning and finishing.

Re-tanning is one of the most important phases since this allows flaws to be corrected (loose full grain, uneven leathers, and so on) and it also has a direct effect on lubrication, drying, dyeing and finishing. Finishing involves giving the leather its final surface and look in terms of color, embossing and ironing, which will depend mostly on the demands of fashion. The more processed the leather, the more value is added.

The final stages of the chain correspond to manufacturing activities that involve more complex production processes and more value added, such as footwear, saddlery and harness, leather garments, upholstery, leather accessories, etc. All of these are labor-intensive activities.

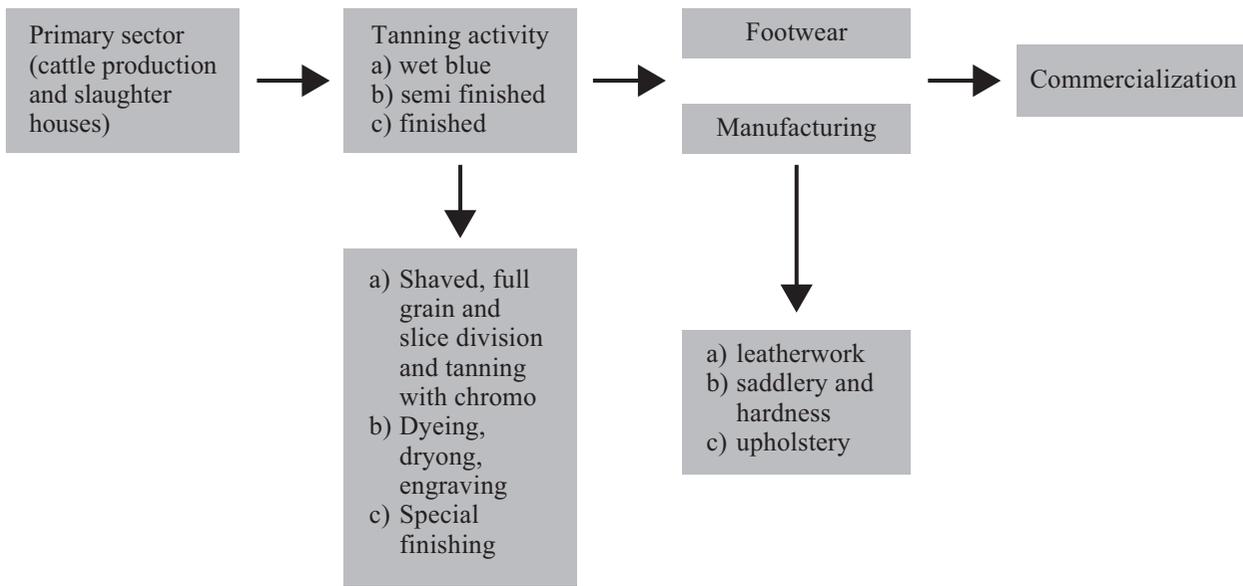
Leather goods are not homogenous. There are a number of factors that affect quality and differentiate the products. For example, plagues, warble fly⁵, parasites, burns, barbed wire marks or imperfect transportation (or other suboptimal methods used in livestock activity). The breed, sex, age and size of the animal are also very important in determining quality.

At the end of the value chain we find the marketing and distribution activities. Marketing is central to the modern leather product business because it is the marketing agents' responsibility to have the relevant trade information and to be embedded in a network of sales channels in order to be able to contract production, provide financing and serve the customer on time (see Figure 1 below, where the different stages of the leather value chain are described).

In fact, it is at this stage that the bulk of added value is found nowadays. For instance, in manufacturing a pair of shoes for men, if the whole process is divided into four stages, around 4.5% of value may be added at the first stage, obtaining fresh leather. During the second stage, which ends with finished leather, a 9.5% increase in the value is possible. Making the shoes adds up to 32% of the value and, finally, almost 55% of the total value can be added in the marketing stage (UIA 2005).

⁵ There are a number of flies, such as the horn fly, that lie on or even live in the animals' skin and damage it by making holes in it for example

Figure 1
Leather value chain



It is important to bear in mind that the global leather value chain has undergone significant transformations since the 1980s. The core of this movement has been the relocation of production activities from developed to developing economies and the consequent changes in commercial relationships. Hence, an increasing number of footwear and leather manufacturers are engaged in contract manufacturing for global buyers (*sourcing companies*).

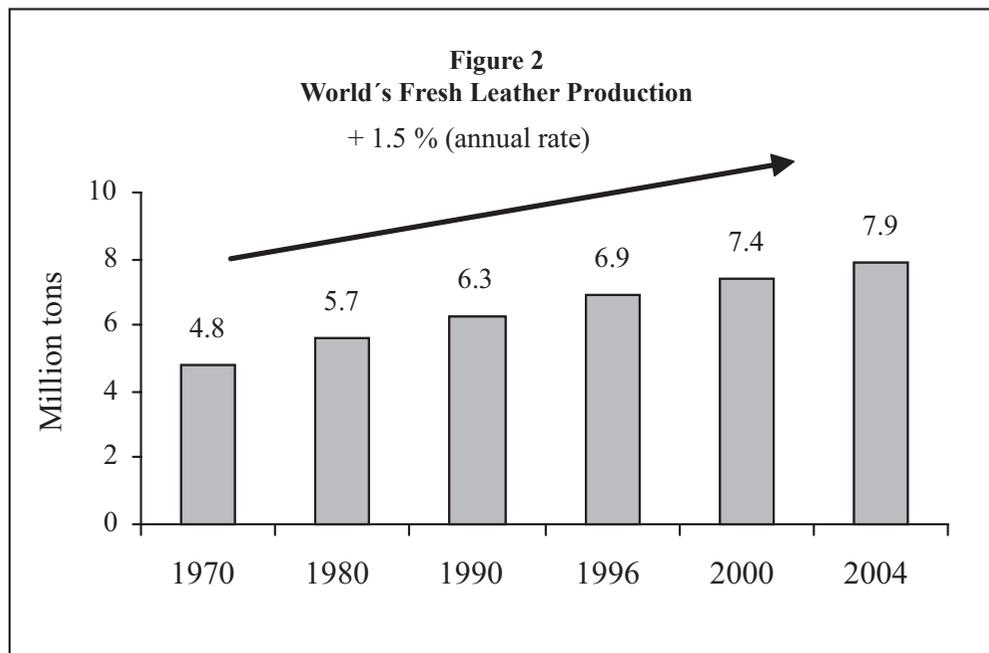
Another relevant change is related to the value chain's governance. Schmitz (2005) points out that as many footwear producers have matured (this is the case of export industries in some East Asian countries), an increasing number of them have started to shift production to affiliated plants in countries with lower labor costs such as China. As a consequence of this trend, the footwear sector is today a *buyer-driven chain* characterized by triangular manufacturing (Schmitz 2005). As Gereffi (1995) states, US buyers place their orders with the manufacturers (e.g. Hong Kong and Taiwan), who in turn shift some or all of the requested production to affiliated offshore factories in low-wage countries (e.g. China). The triangle is completed when the finished goods are shipped directly to the overseas buyer under the U.S. import quotas issued to the exporting nation.

Against this background, the following sections present a brief review of the main characteristics of the different stages of the leather value chain (leather production (fresh and tanned), footwear industry and leather products) and recent main trends.

1.1. Leather Tanning Industries

The first issue concerning leather production is that it depends on cattle breeding. If all existing cattle supplies are being used, it is necessary to increase cattle production in order to increase the production of leather. As this depends on the demand for meat, the supply of leather is price inelastic (CEP 2004). Supply cannot respond to an increase in price (for example as a result of growing demand) because the demand for meat must increase first. As a consequence, the slow growth of the world cattle stock has constrained the growth of leather production. World production of bovine meat has grown at a rate of 1.5% per year in the last three decades, as has fresh leather production (see Figure 2).

The slow increase in fresh leather production has created strong competition for raw materials among leather product and footwear producers, as well as an increasing substitution of leather by other products, e.g. rubber, plastic, fabric.



Source: FAO Statistical Database

According to the latest Food and Agriculture Organization (FAO) statistics, the main producers of fresh leather are, in this order, China, USA, Brazil, Argentina, India, Russia and Australia, which together account for more than half of global production. As cattle breeding requires specific conditions related to the extent and fertility of land and climatic conditions, production is concentrated in a few countries: the top ten account for 62% of total production and the top three for 43% (see Table 1).

In the case of Argentina, as Table 1 shows, cattle production has been almost stagnant.⁶ In 2004 Argentina ranked fourth in the world industry with 430,000 tons, equivalent to 5% of world production (Table 2).

In contrast, Chinese production grew at an average annual rate of 14% during the period 1980-1993.

Until the early 1980s China was not a significant cattle producer, but this situation was reversed during the same decade, when the stock started to grow at a very high annual rate. Within a few years, China overtook India – until then the second producer jointly with Brazil – and by the mid-1990s it had become the second world producer of fresh leather. In 1998 China surpassed the USA to gain first place in the world.

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Argentina	414.9	439.5	370.9	342.8	366.6	421.5	434.77	376.1	355.8	366.30	402.7	414.5
Brazil	280.0	291.0	308.0	322.0	310.0	340.0	324.0	369.0	405.0	422.50	411.5	448.0
China	67.9	67.4	71.0	75.3	85.7	96.1	129.8	152.4	169.3	197.97	237.9	285.6
India	390.0	396.0	410.0	411.6	416.0	429.1	434.4	427.4	439.2	446.46	446.4	448.0
USA	967.7	991.9	997.2	1,051.6	1,060.6	1,081.3	1,067.2	1,027.99	1,007.9	962.72	948.9	955.4
World	5,650.7	5,703.4	5,702.1	5,742.3	5,860.1	5,990.6	6,058.1	6,034.3	6,099.3	6,163.47	6,301.9	6,352.8
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Argentina	384.7	396.5	396.01	385.7	387.5	383.8	338.4	364.4	372.0	347.53	344.9	375.2
Brazil	442.0	454.5	448.0	475.0	605.0	622.0	637.0	667.0	670.0	725.00	750.0	770.0
China	339.1	441.5	643.1	797.2	779.4	1,009.8	1,108.6	1,159.7	1,229.2	1,274.58	1,367.9	1,498.9
India	450.0	448.0	446.0	444.0	442.0	438.0	434.0	430.0	424.00	420.0	416.0	412.0
USA	962.2	958.9	1,013.6	1,047.9	1,064.7	1,063.3	1,069.6	1,099.2	1,116.36	1,031.5	1,053.7	1,045.6
World	6,383.9	6,463.8	6,670.8	6,845.2	6,926.9	7,194.4	7,212.6	7,302.8	7,415.17	7,265.8	7,442.8	7640

Source: Author, based on FAO Statistical Database

⁶ In recent years there has been concern about cattle production in Argentina, particularly regarding the effect of supply shortages in the meat market. Hence in 2006 the government established some rules in order to prohibit trade of young and female animals in order to increase the cattle stock.

Country	Fresh leather production	Share in world Production (%)
WORLD	7,890	100
China	1,610	20
United States of America	1,046	13
Brazil	792	10
Argentina	432	5
India	408	5
Mexico	176	2
France	150	2
Germany	141	2
Italy	132	2
Canada	111	1

Source: Author, based on FAO Statistical Database

As with production, international trade in fresh leather has been stable in recent years, representing less than 10% of total trade in the leather chain. China recently displaced Italy as the main importer of fresh leather processed in the country and re-exported as finished tanned leather, leather manufactures and footwear. In contrast, global trade in processed leather – wet blue, tanned and finished – has grown in recent years, as seen in the following paragraphs. Argentina's share of fresh leather exports is almost negligible.⁷

In the case of tanned leather, world production has shown a moderate increase of 28% between 1995 and 2003, the last available year in FAO statistics. The concentration is similar to that found in fresh leather: the top ten producing countries account for 60% of tanned leather production and the first three account for 35% (see Table 3).

In 2003, Argentina was the eighth largest producer of tanned leather in the world, with 3% of global production. On average the country maintained its world position over the years. On the other hand, Chinese production grew six times faster than world production between 1995 and 2003. Thus, since 1999, and as part of the global changes in production patterns in this industry, China has become the largest producer of tanned leather in the world (FAO 2005).

At a global level there has been a clear tendency in the last few years to relocate tanning activities from developed to developing countries. This movement has been mainly towards East Asia, but has also included Latin America and Eastern Europe. The reasons for this shift – beyond the global trend to outsource processes in industry⁸ – have been the lower wages of the above mentioned regions and the more flexible environmental laws applied in developing economies. In addition, many countries offer strong incentives in the form of subsidies to credit, labor costs, energy, infrastructure, tax exemptions, etc. (UIA 2005).

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	Share of total (%) 2003
WORLD	10,108	10,570	10,789	11,043	11,328	12,165	12,741	12,571	12,962	100
China	792	1,032	1,200	1,302	1,430	1,838	2,089	2,098	2,259	17
Italy	1,523	1,673	1,587	1,486	1,420	1,427	1,429	1,400	1,500	12
Korea	1,400	1,440	1,200	1,300	1,250	1,200	1,300	1,330	1,315	10
Brazil	488	504	537	575	635	700	680	730	750	6
Mexico	402	468	584	623	617	662	712	710	730	6
USA	409	448	490	600	688	660	690	650	670	5
India	559	562	568	567	575	602	616	616	620	5
Argentina	330	300	320	350	380	425	437	385	425	3
Germany	184	196	238	242	275	290	297	264	261	2
Canada	39	62	92	130	121	130	117	116	114	1
Uruguay	80	102	120	106	100	105	106	107	110	1

Source: Author, based on FAO (2005)

⁷ As seen below, Argentina has a tax structure which discourages the export of fresh leather to stimulate the local production of more value added leather goods.

⁸ Manufacturers from developed economies began to outsource production to independent factories located in the same country (onshore) or in third economies (offshore) in the 1980s, when international financing was made available to develop facilities in developing countries (Salazar de Buckle, 2001).

Table 3b: Evolution of exports of tanned leather (million square feet)

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003
World	9,358.5	10,021.1	10,296.8	9,761.1	99,55.5	11,734.5	12,211.3	11,912.2	12,246.7
China	535.1	681.5	919.3	927.4	4,125.3	4,839.5	5,578.7	5,634.1	5,841.8
Italy	1,078.7	1,237.7	1,317.9	1,370.3	1,399	1,942.6	1,938.1	1,731.7	1,821.7
Korea, Rep.	1,499.8	1,507.7	1173	799.4	829	891.8	804.4	702.7	693.7
Brazil	435	406.8	445.4	456.6	452.7	461	489.6	600.6	651.6
USA	634.6	588.9	762.2	867.5	881.7	1001.1	894.9	726.7	627.8
Argentina	207.6	184.2	207.4	194.5	219.5	238.4	274	232.2	280.8
Germany	199.1	182.2	222.5	262.1	258.3	326.2	280.9	256.5	248.4
Austria	89.7	88.8	121.5	135	160.4	163	178.4	149.1	163.5
Spain	56.2	59	93.1	88	98.2	105.4	115.1	135.1	130
UK	166.5	179.9	186.4	158.2	155.3	223.5	154.1	98.5	103.6

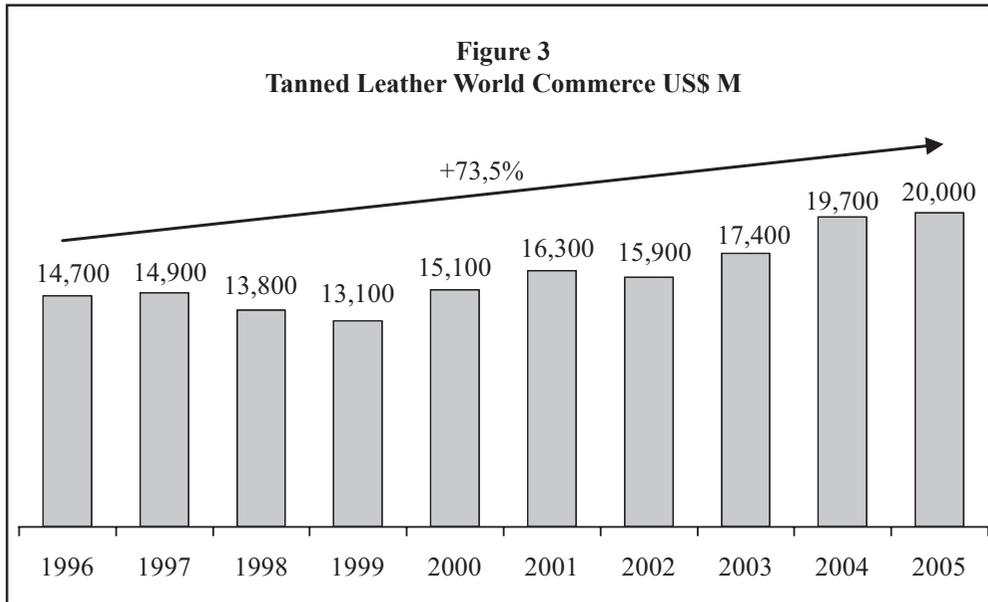
Source: Author, based on FAO (2005)

Table 3c: Evolution of imports of tanned leather (million square feet)

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	Share of total (%) 2003
WORLD	9458	10,173.7	10,375.2	10,082.4	10,709.7	12,032.3	12,687.5	12,433.2	12,734.6	100
China	2,188.3	2,730.6	2,894.8	2,799.5	7,133.5	7882	8545	8,385.3	8,739.6	68.6
Italy	1,044.2	826.8	886.6	977.3	861.3	1,136.1	1,146.3	969.7	910.7	7.2
Korea	246.8	229.9	221.8	185.6	241.3	227.9	286.2	347.1	402.8	3.2
Brazil	31.5	41.9	38.6	28.7	22.3	60.6	38.4	35.3	34.8	0.3
Mexico	30	43.9	20.6	91	44	52.3	79	84.5	86.4	0.7
USA	490	482.2	567.2	567.6	584.1	628.5	551.8	465.2	413	3.2
India	25.2	22.7	29.5	39.5	38	37.8	43.7	43.3	46.9	0.4
Argentina	2	2.1	3.4	7.7	14.3	12	4.3	8.5	10.2	0.1
Germany	209.6	212.2	210.2	214	219.4	243.5	215.1	237.8	219.2	1.7
Canada	1.2	21.2	25.4	27.4	22.7	32.6	27	27.4	38.4	0.3
Uruguay	8	9	10.2	37.4	12.4	12	22	16.3	14.3	0.1

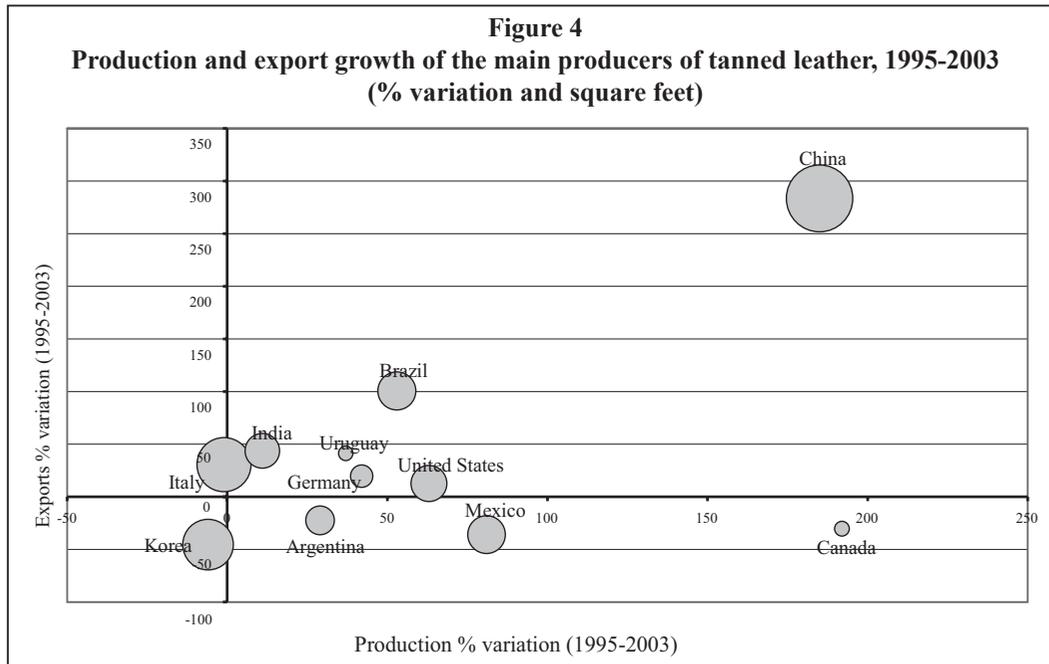
Source: Author, based on FAO (2005)

As a reflection of the shifts in production patterns, world trade in tanned leather has seen a large increase in last years. As shown in Tables 3b and 3c, the volume of world trade in leather increased by about a third between 1995 and 2003. Figure 3 shows the growth in the value of tanned leather exports, which increased from US\$ 14.700 M in 1996 to US\$ 20.000 M in 2005 (Comtrade, SITC 611). The demand for these products has been pushed by Asian countries (UIA 2005).



Source: Author, based on Comtrade

Tables 4a and b present the principal actors in world tanned leather trade. Italy, China, Brazil and the United States are the most important exporters.⁹ Argentina occupies a significant place (in 2005 it was the sixth largest exporter, with US\$ 810 M (around 4% of the world total)).



Source: Author, based on Tables 3a and 3b.

As indicated in Figure 4, which shows the evolution of exports and production and the size of each country as a world producer of tanned leather (indicated by the size of each sphere), China has shown an amazing performance, both in production and exports, which has allowed it to become the largest tanned leather producer, as previously mentioned. In contrast, Argentina's production and exports have decreased slightly in recent years, although the country maintains a significant role as an exporter.

⁹ Hong Kong appears in some statistics as a major leather exporter, but almost entirely regarding re-exports, largely to China.

On the import side, China and Hong Kong are the most important countries, with 18% and 17% of world imports respectively.¹⁰ This shows the increasing importance of the leather processing industry within the Chinese economy.

China is a major actor in terms of both imports and exports, and the same is also true of other countries (e.g. Italy, USA and Germany, among others). On the other, imports play an insignificant role in Argentina, as might be expected given its small industry. The reason is that the category Tanned Leather SITC 611 includes both semi-finished and finished leather. For example, Italy¹¹ exports high-end leather and imports wet blue leather and medium-end leather. The principal market for Italian exports is China, due to the relocation of industries mentioned above.

Table 4a: Ten principal exporters of tanned leather (SITC 611) 2005 (US\$ M)

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Share of total (%) 2005
Italy	3,064	3,425	3,186	3,068	2,977	3,568	3,753	3,649	3,925	4,216	4,082	20
China	348	267	327	350	350	538	896	957	1,144	1,399	1,562	8
Brazil	560	659	726	657	595	757	872	779	1,057	1,290	1,394	7
USA	709	733	845	862	891	920	884	844	878	1,191	1,082	5
Korea	1,526	1,599	1,591	1,166	1,167	1,353	1,241	1,116	1,013	984	855	4
Argentina	894	824	931	780	749	809	786	677	707	812	810	4
Germany	755	706	732	780	704	682	757	831	824	814	710	4
India	370	301	296	268	240	388	464	506	549	583	638	3
Spain	344	427	366	330	334	374	415	386	387	391	378	2
Total World	15,530	15,935	16,075	14,751	13,970	16,420	17,324	16,958	18,489	20,384	20,188	100

Source: Author, based on Comtrade

Table 4b : Ten principal importers of tanned leather (SITC 611) (US\$ M)

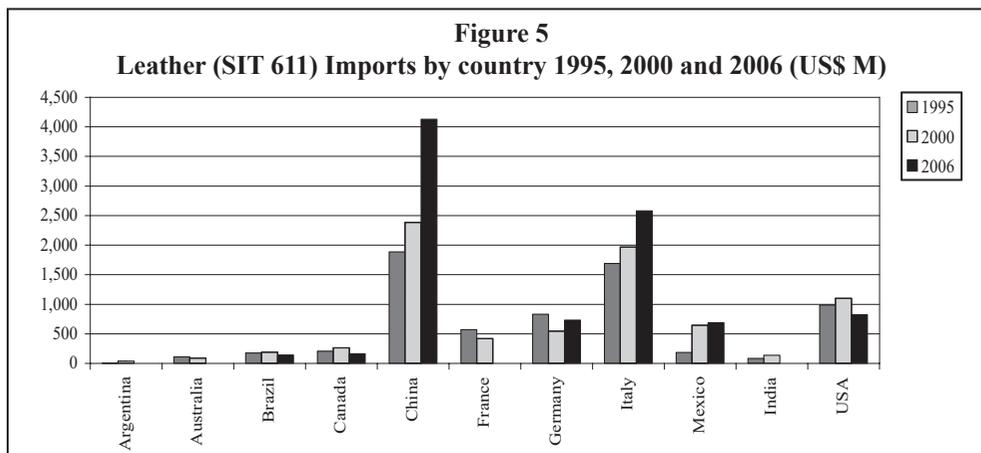
Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Share of total (%) 2005
China	1,882	2,029	2,135	1,902	1,965	2,381	2,382	2,548	2,860	3,350	3,501	18
Hong Kong	2,246	2,373	2,249	1,852	1,825	2,100	2,283	2,249	2,779	3,236	3,286	17
Italy	1,688	1,861	1,822	1,714	1,349	1,967	2,311	2,159	2,206	2,177	2,172	11
USA	986	952	1,037	1,050	985	1,098	965	883	773	841	856	4
Mexico	181	260	367	476	553	644	636	700	698	878	781	4
Romania	186	230	250	278	286	342	480	615	689	734	775	4
Germany	828	749	709	728	637	615	616	572	689	734	732	4
Spain	538	538	586	544	474	516	642	592	657	593	538	3
Poland	142	177	196	227	225	245	312	362	445	514	493	2
Korea	540	498	471	284	358	491	545	553	468	458	434	2
Total World	14,358	14,741	14,898	13,793	13,152	15,139	16,350	16,398	18,010	19,741	19,754	100

Source: Author, based on Comtrade

A large part of the growth of world trade in tanned leather is explained by the increase in China's imports. As can be seen in the next figure, China more than doubled its tanned leather imports between 1995 and 2006. Obviously, this jump in Chinese demand has had an impact on Argentina and other tanned leather exporters, as discussed in the following section.

¹⁰ It is not, strictly speaking, possible to add these figures together to give a total share of China and Hong Kong in world imports. Almost a third of Hong Kong's imports in 2005 came from China, so the figures given in Table 4b include an element of double counting.

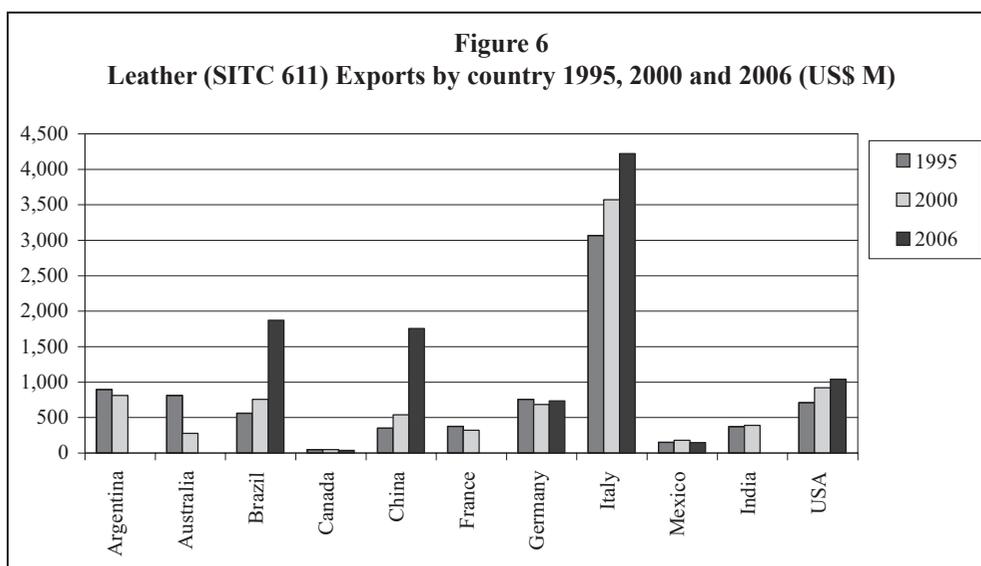
¹¹ Italy has a very important tanning industry concentrated in some clusters. It contributes almost 20% of the world's production of tanned leather. These intermediate products are then manufactured into footwear, apparel, etc. (Foresti / Trenti 2006).



Source: Author, using Comtrade data

At the same time, China increased its tanned leather exports by 400% between 1995 and 2006. The same occurred with Brazil (200% increase in the same period) and, to a lesser extent, Italy, which clearly maintains its position as the leading exporter of tanned leather (remember that this category includes many types of tanned leather).

At present China is more significant as an importer than as an exporter of tanned leather. This is related to the development of footwear, garments and other leather industries in that country and the increasing demand for raw materials for these manufactures.



Source: Author, using Comtrade data

1.2. Footwear

Footwear production is the most important stage of the global leather chain, although not all footwear is produced entirely from leather. In 2005, the world footwear industry produced more than 14,000 million pairs of shoes. Exports of footwear were more than US\$ 70,000 M (CIC 2007).

At present, China is the largest producer in the world, with an annual production of 8,800 million pairs, equivalent to 60% of total world production. The remaining 40% is quite evenly spread between various countries, with India second in importance, although far behind China – in 2005 Indian production was 850 million pairs, or 10% of Chinese production. The other important producers are Brazil (5% of world production), Indonesia and Vietnam (3% of world production each) and Italy with 2% of world footwear production (Table 5). In 2005, Argentina occupied 18th place with production of only 72 million pairs, almost entirely for the domestic market. In contrast, China exports almost 70% of its production, creating strong competition in third markets.¹² For instance, López-Córdova et al. (2006) found that Mexican and South American exports were displaced by

¹² Jenkins and Peters (2006) state that Brazil's low-tech industries are the main sectors suffering due to Chinese competition. These authors mention that this group of industries suffered the highest market loss because of Chinese competition (7.2 % of Brazilian exports in 2004). Among these industries, footwear was the most seriously affected.

Chinese goods in the US market during 2000-2003. Chinese exports of leather goods, apparel and textiles to the USA grew by 7.3% annually, while Mexican and South American exports of these same categories fell by more than 8% per year.

The principal footwear importers are the United States, Hong Kong, Japan, Italy and Spain, which together account for 45% of world imports. Hong Kong does not produce footwear, and most of its footwear exports are manufactured in China and re-exported through the offices of trading firms established in Hong Kong (Salazar de Buckle 2001).

Table 5: Principal producers and traders of footwear 2005 (million pairs)

Country	Production	Imports	Exports
China	8,800	10	5,885
India	850	7	60
Brazil	755	9	212
Indonesia	564	85	165
Vietnam	445	1	420
Italy	281	279	311
Thailand	260	15	140
Pakistan	250	6	18
Mexico	243	39	10
Turkey	224	22	72
Spain	147	189	108
South Korea	125	87	23
Philippines	120	60	5
Japan	102	519	2
Portugal	85	34	77
Malaysia	73	30	36
Argentina	72	18	1
USA	35.2	2,124.0	30
Hong Kong	0.8	780.2	744.6
Total	14,396	8,650	9,219

Source: Chamber of the Footwear Industry of Argentina (CIC)

Within the footwear industry, leather footwear production accounted for 4,400 million pairs and trade was around 2,300 million pairs in 2003 (last available year). Measured in dollars, exports reached almost US\$ 30,000 M in 2006 (Table 7). As in the rest of the footwear industry, China is the first producer of leather footwear, accounting for 44% of world production, as well as the top exporter with 59% of world exports. China's production of leather footwear has risen significantly since 1990 (Tables 6a and 6b) as did its exports, with a significant increase in 1999. Argentina only represents 1% of world production and its exports and imports play a negligible role in world trade. Other important producers are Italy, Mexico and Brazil, which are also main exporters. The top importer is the USA, which takes around 40% of total imports (see Table 6).

Table 6a: Leather footwear production (million pairs) 2003*

Country	Production	Share (%)	Imports	Share (%)	Exports	Share (%)
World	4,470	100	2,311	100	2,337	100
China	1,987	44	332	14.4	1,383	59.2
Italy	283	6	100	4.3	188	8.0
Mexico	240	5	8	0.3	5	0.2
Brazil	210	5	0	0.0	118	5.0
India	183	4	1	0.0	50	2.1
Spain	110	2	34	1.5	68	2.9
Portugal	74	2	7	0.3	62	2.7
United States	70	2	885	38.3	15	0.6
Argentina	43	1	2	0.1	1	0.0
United Kingdom	30	1	157	6.8	15	0.6

Country	Production	Share (%)	Imports	Share (%)	Exports	Share (%)
World	3952	100.0	1308	100	1315.8	100
China	509	12.9	2.4	0.2	163.2	12.4
Italy	320	8.1	19	1.5	245.2	18.6
Mexico	122	3.1	0.8	0.1	4.8	0.4
Brazil	141	3.6	1.4	0.1	140	10.6
India	198	5.0	n/a	n/a	19.2	1.5
Spain	156	3.9	5.4	0.4	81.8	6.2
Portugal	90	2.3	1.7	0.1	69.7	5.3
United States	184	4.7	491	37.5	11.7	0.9
Argentina	40	1.0	0.3	0.0	3	0.2
United Kingdom	41	1.0	50	3.8	8.6	0.7

Source of Tables 6a and 6b: Author, based on FAO (2005) *Last available year

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
World	23,964	26,425	26,297	24,7444	24,407	25,062	24,479	24,617	27,811	27,988	30,803	29,496
China	2,101	2,842	3,421	3,536	7,126	7,685	6,774	6,702	7,892	6,317	7,750	8,396
Italy	5,603	6,450	5,864	5,495	4,818	4,979	5,383	5,291	5,870	5,879	5,899	6,317
Brazil	1,316	1,432	1,345	1,161	1,125	1,345	1,380	1,266	1,281	1,445	1,496	1,439
Vietnam	n/a	n/a	n/a	n/a	n/a	59	105	217	514	390	576	n/a
Indonesia	1,189	1,167	832	685	949	951	909	746	721	-	-	-
Thailand	588	538	310	501	468	400	405	420	440	-	-	-
Portugal	1,455	1,561	1,689	1,451	1,427	1,180	1,269	1,252	1,354	1,381	1,247	1,271
Spain	1,522	1,656	1,699	1,644	1,362	1,330	1,380	1,489	1,636	1,658	1,513	n/a
Romania	154	250	270	291	103	371	476	570	691	763	863	915

Source: Author, based on FAO (2005) and Comtrade

World leather footwear production grew 23% between 1995 and 2006. However, Chinese exports increased twelve times faster than average (299%). This amazing performance is to a great extent the result of China's entry into the new configuration of the global footwear value chain. Throughout the past decade there has been an increasing tendency towards triangulation. This means that global buyers continue to buy from their old suppliers but the latter place orders in third countries. This is possible due to the process of production reallocation. In effect, almost 80% of Hong Kong and 90% of Taiwanese manufacturers have moved a significant part of their production to China in the last decades.¹³ This scheme might allow developing countries to enter a global value chain faster than in the past. As Gereffi points out (1995, cited in Salazar de Buckle 2001), while an export industry took more than 20 years to develop in Japan and about 15 years in Taiwan and South Korea, China's footwear sector did it in less than 10 years.¹⁴

Though China is at present the top producer and exporter of footwear, its production is concentrated at the low end of the chain.¹⁵ However, its industry is moving gradually from plastic/rubber and textile footwear to higher value-added footwear. Hong Kong producers have strengthened their capacities and adopted quality measures and improved their design skills (Salazar de Buckle 2001). The following tables show the average value per exported pair, by country in 2003 (last available year) and the average export price of footwear sold to USA, by country in 2006. In both cases, China occupies a low price (and presumably, low value-added) position, similar to those of Brazil, India and Thailand and far from Italy, Spain, Germany or even Mexico (see Table 8b).

¹³ China offers not only cheap labor but also links to its huge domestic consumption.

¹⁴ Note that the author was talking about the development of the Chinese footwear industry until 1995. The next ten years were even "faster".

¹⁵ In a survey conducted to determine the competitive advantages of some footwear producers, Schmitz and Knorringer (1999) found that Italy's greatest strength lay in its innovative design and high quality fashion whereas China had advantages in price, reliable product quality and capacity to cope with massive standardized orders.

	1995	1996	1997	1998	1999	2000	2001	2002	2003
World	14.2	15.2	14.2	14.0	13.0	12.1	11.5	11.5	11.9
China	4.9	6.1	6.0	6.0	7.8	7.2	6.0	5.7	5.7
Italy	22.1	24.2	22.0	23.2	22.6	21.5	23.5	25.6	31.2
Spain	17.9	18.2	17.2	18.1	17.7	19.0	17.5	19.9	24.1
Portugal	20.8	20.5	21.4	19.3	18.1	16.4	17.1	18.1	21.8
Germany	30.1	29.4	26.5	26.8	23.5	24.7	23.8	25.8	30.6
Brazil	19.2	20.0	18.8	17.6	11.0	11.2	11.8	10.8	10.9
Indonesia	11.0	16.0	16.3	12.0	13.4	13.8	13.8	13.8	13.4
India	10.5	9.9	8.8	8.9	9.8	9.1	9.3	9.4	10.0
Thailand	13.4	13.8	12.9	12.8	12.3	11.1	10.7	10.5	10.5
Argentina	20.7	21.1	30.0	23.3	26.7	10.0	15.0	12.5	15.0

Source: Author, based on FAO (2005)

Exporting country	Average price (US\$/ pair)
China	7.01
Italy	44.2
Vietnam	11.1
Brazil	14.4
Indonesia	11.2
Thailand	12.4
Mexico	22.3
Spain	36.8
India	14.9
Dominican Rep.	12.1
Hong Kong	5.7
Taiwan	6.3
Philippines	5.3

Source: USA Department of Commerce

The relocation of footwear production over the past decades has changed the country's traditionally integrated footwear production¹⁶ into a new scheme based on the division of labor between countries. This new pattern has allowed some developing economies access to new technologies, design skills and technology and to upgrade quality (Salazar de Buckle 2001). In this process, captive relationships became the norm (Schmitz 2005). Schmitz and Knorrninga (1999) studied the leather value chain and found that it is governed by the largest buyers in Europe and USA, who coordinate and integrate the chain. These buyer companies (called "*sourcing companies*") have a growing influence on the whole supply chain and frequently control the design and specification of products.¹⁷

The driver of this process has been the low costs offered by some economies. As Salazar de Buckle (2001) states, at the beginning of the 1990s, the fundamental determinants of competitiveness within this industry were production costs and trade barriers,¹⁸ but in recent years making shoes better, more quickly and more productively than before also seem to be important factors within the relocation process.

¹⁶ This includes leather processing, tanning, finishing and shoe manufacturing.

¹⁷ Schmitz, H. (2005), quoting Salazar de Buckle, T. (2001), points out that although sourcing companies in the footwear industry are interested in upgrading production, in some value chains they encounter little interest in helping producers to acquire their own design capability, develop their own brand names or establish their own marketing channels.

¹⁸ The author mentions that other less important factors were technological developments, proximity to major markets, management, design and marketing skills, etc.

Nevertheless, labor costs continue to be a determining factor of competitiveness within the footwear industry. (Schmitz 2005) points to two trends within the global footwear industry: on the one hand, non-price factors (quality, brand, speed) play an increasingly important role for competing in global markets; but on the other hand, price competition continues to lead to downward pressure on prices, reinforcing the importance of low-cost/low-prices in order to enter the chain.

A related issue that is important to mention is that during the last decades there has been some concern over labor standards within the footwear industry, particularly those predominant in some low labor cost countries such as Brazil or China. Some buyers that exercise governance in the value chain have put pressure on their suppliers to comply with higher labor standards; for instance to eradicate child labor and humiliation in labor relations (Navas-Alemán; Bazan 2003). Similarly, Frenkel (2001) states that some contractors have implemented codes of conduct in response to the allegations of labor exploitation leveled at some global firms.

Table 9 shows the average labor costs in different developing countries, from United Nations Industrial Development Organization (UNIDO).

Country	US\$/hour
Korea	7.2
Taiwan	5.9
Hong Kong	5.4
Portugal	5.3
Brazil	1.5
Indonesia	0.7
China	0.6
Vietnam	0.6
Thailand	0.5
Pakistan	0.2
India	0.2
Source: www.factbook.net	

1.3. Leather Manufactures, Upholstery and Other Final Products

In 2006, total world trade in leather manufactures was around US\$ 39,000 M. This included a wide range of products from clothes made with leather to leather upholstery.¹⁹ The main importers of these products are USA, Hong Kong²⁰ and Western Europe (Germany, UK and Italy). Together, these comprise 55% of total imports (Table 10).

The major suppliers of leather manufactures are China,²¹ Germany, Italy and United States. These countries made up 54% of exports in that year (Table 11). In turn, Argentina plays an insignificant role in world trade in leather manufactures as its share on total exports is merely 0.1%. As shown in Table 11, China occupies first place as an exporter of leather manufactures accounting for 35% of world exports in 2006.

¹⁹ Leather final products include, among others, saddlery and harness, suitcases, vanity cases, briefcases, handbags, articles of apparel and leather clothing accessories, gloves, belts, etc.

²⁰ Mainly, but not exclusively, from China; for re-export.

²¹ Hong Kong appears in some statistics as an important exporter, but it has no leather processing industries. Almost all of its exports are re-exports, hence it operates as an exit port for China's exports.

Table 10: Imports of articles of leather, saddlery and harness. HS (Harmonized System) 2002 Chapter 42. (US\$ M)

	2005	2004	2003	2002	2006	
Country	Imports	Imports	Imports	Imports	Imports	Share (%)
United States	9,386	8,852	8,020	7,555	10,145	25.8
Hong Kong	4,240	4,159	3,683	3,666	4,391	11.2
Germany	2,294	2,082	1,926	1,732	2,430	6.2
UK	2,118	1,946	1,646	1,473	2,291	5.8
Italy	1,790	1,593	1,293	1,073	2,163	5.5
Canada	875	753	661	584	965	2.5
Belgium	916	815	725	626	937	2.4
Switzerland	676	597	540	467	717	1.8
Mexico	693	557	455	390	628	1.6
Rep. of Korea	489	420	368	302	623	1.6
China	253	183	128	91	357	0.9
World	38,044	34,975	30,080	27,161	39,287	100

Source: Author, based on Comtrade

Table 11: Exports of articles of leather, saddlery and harness. (US\$ M) HS2002 Chapter 42

	2002	2003	2004	2005	2006	
Country	Exports	Exports	Exports	Exports	Exports	Share in total (%)
China	7,828	9,511	10,259	11,420	12,403	35.3
Italy	2,214	2,599	3,304	3,613	4,148	11.8
Germany	741	836	933	1,110	1,234	3.5
USA	615	679	820	1,075	1,150	3.3
Belgium	642	771	889	963	1,067	3
Pakistan	-	459	497	693	680	1.9
United Kingdom	386	439	507	536	603	1.7
Switzerland	195	263	302	360	399	1.1
Mexico	184	195	224	237	255	0.7
World	22,732	27,499	31,639	34,957	35,178	100

Source: Author, based on Comtrade

Trade in leather manufactures involves a wide range of products but the core of production is found in articles such as suitcases and handbags on the one hand and clothing and other leather accessories on the other (see Table 12). The former products accounted for more than 70% of total trade in 2006, and the latter around 21%.

Exports HS1996 4 digits	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
4201 Saddlery and harness of any material	296	309	357	437	695	791	856	911	909	730	631
4202 Suitcases, camera cases, handbags, etc	13,754	14,049	13,285	14,377	15,969	16,130	15,876	17,703	21,009	23,429	24,965
4203 Clothing, accessories of leather, composition leather	5,349	5,433	5,030	4,706	6,098	6,547	6,609	8,209	7,893	8,543	7,404
4204 Leather, composition leather articles, technical use	80	118	137	101	135	111	123	41	48	78	75
4205 Articles of leather and composition leather, n.e.s	399	527	646	905	1162	1,092	1,280	1,696	2,205	2,307	2,318
4206 Articles of gut, goldbeater's skins, bladders, tendons	41	55	44	55	68	43	43	43	50	55	39

Source: Author, based on Comtrade

A very common practice nowadays is the production of famous brand leather manufactures in China and other Asian countries. To a large extent this is a process similar to that recorded in the footwear industry. According to this, world production of leather manufactures is segmented into different products – garments, upholstery, accessories, etc. – and the pattern of relocation of production has followed this segmentation scheme (UIA 2005).

As in the footwear industry, some factors such as design, technology and fashion are becoming increasingly important in determining the competitiveness of economies in some products. This seems to offer an opportunity for countries that are not able to enter a global value chain for mass-produced leather products to export some products in which design and other non-price factors are critical.

2. Argentina's Leather Processing Industry

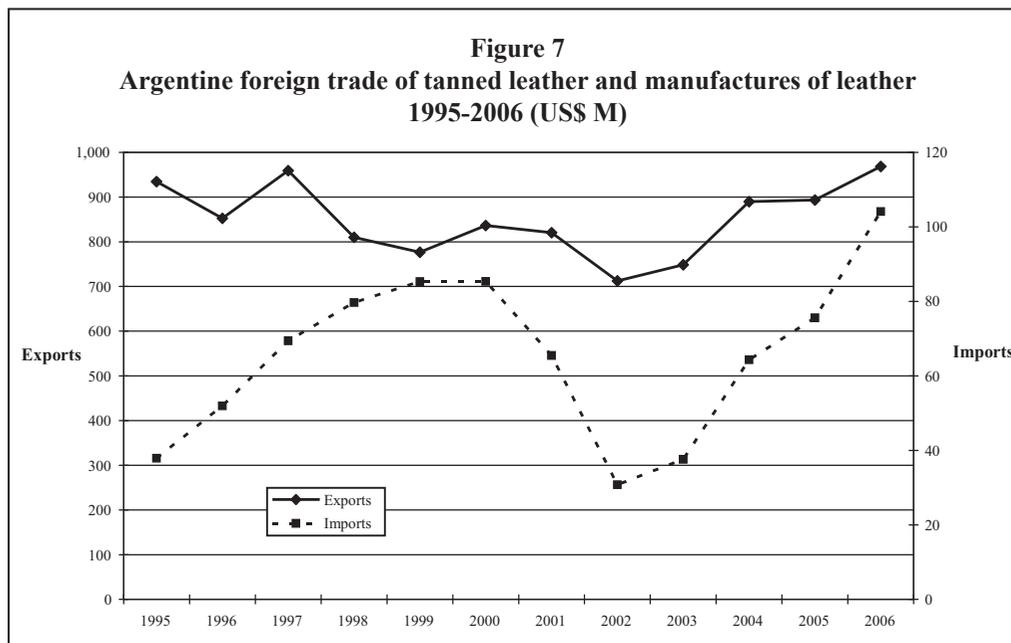
In this section we present a brief overview of Argentina's leather value chain and its main characteristics. As mentioned in the previous sections, the country does not play a significant role as footwear producer or supplier of leather products, but it is an important producer and exporter of leather (it is the world's 4th producer of fresh leather and 8th producer of tanned leather).

In 2006 Argentina exported almost US\$ 1,000 M of leather and final products and imported US\$ 104 M, of which the greater part corresponds to leather manufactures. As shown in Table 13, the evolution of imports of leather products has shown three clear stages during the analyzed period. The first, from 1991 to 2000, saw the growth of imports driven by currency appreciation. The second began in 2000 when the economy entered a period of stagnation and economic crisis, and lasted until 2002 when the devaluation of the peso carried imports to their lowest level. The third stage started in 2003 and continues today.

Exports of tanned leather and manufactures, as can be seen in Figure 7, have been virtually stagnant since the mid-1990s. The main part of these exports corresponds to tanned leather (around 85% in 2005) and the rest to manufactured products (CICA 2007) (see Table 13). The fact that the majority of tanned leather is exported creates a problem in the manufacturing sector, which faces difficulties in finding adequate supplies of raw materials to be processed locally.²² Sometimes, quality problems force the local industry to import tanned leather to be manufactured.²³

²² Leather is classified into seven categories, according to its quality. In the case of Argentina, the first three categories (the better ones) are exported, whereas the remaining four are processed locally.

²³ Tanned leather represents approximately 40% of the cost structure of this sector. The rest corresponds to other industrial and non industrial inputs (10% and 16%), imported inputs – mainly chemicals – (5%), indirect taxes (9%) and labor costs (20%) (UIA 2005).



Source: Author based on CEP data, sector files

Table 13: Exports of Argentina's leather value chain. Selected years
HS 2002 and HS 1992* in US\$ M and as % of total

	1995	2000	2005
Fresh leather	2.6	2.1	1.1
<i>Share in total chain (%)</i>	<i>0.3</i>	<i>0.3</i>	<i>0.1</i>
Tanned leather	810.7	715.5	705.6
<i>Share in total chain (%)</i>	<i>81.8</i>	<i>91.0</i>	<i>84.2</i>
Leather manufactures	75.6	40.7	102.7
<i>Share in total chain (%)</i>	<i>7.6</i>	<i>5.2</i>	<i>12.2</i>
Footwear	102.4	27.6	28.9
<i>Share in total chain (%)</i>	<i>10.3</i>	<i>3.5</i>	<i>3.4</i>
Total	991.3	785.9	838.2
<i>Share in total chain (%)</i>	<i>100</i>	<i>100</i>	<i>100</i>

Source: Author, based on Comtrade

Numbers differ from those of Table 13 because here we use the Harmonized System (HS) and for some classifications, numbers differ from those of ISIC utilized in the above table. The years 1995 and 2000 are under HS 1992 classification and 2005 is under HS 2002 classification.

Table 14 shows Argentina's world trade in leather and leather end products and the share of imports and exports in total production and domestic consumption, respectively. Almost 57% of total production was exported in 2006 whereas imports accounted for around 12.4% of local consumption. The share of imports in consumption shows an upward trend since 2003 in line with the country's economic recovery after the devaluation crisis of 2002 (the same happened during the convertibility years). The table shows the period of 'convertibility' and openness of the economy between 1991 and 2001 when the share of imports in domestic consumption also grew (ProArgentina 2005).

Year	Exports	Imports	Balance	X /Production (%)	M /Consumption (%)
1991	526	n/a	n/a	n/a	n/a
1992	481	n/a	n/a	n/a	n/a
1993	653	31	622	56.3	5.7
1994	810	37	773	56.4	5.6
1995	935	38	897	70.4	8.8
1996	853	52	801	49.0	5.5
1997	959	69	890	50.3	6.8
1998	810	80	730	52.3	9.8
1999	777	85	691	51.2	10.3
2000	836	85	751	50.7	9.5
2001	820	65	755	51.4	7.8
2002	712	31	681	52.0	4.5
2003	749	38	711	50.0	4.8
2004	890	64	825	49.0	6.5
2005	893	76	818	53.9	9.0
2006	968	104	864	56.8	12.4

Source: Author, based on CEP data, sector files

On the other hand, imports are largely composed of manufactured goods. Hence, although there are some exceptions, Argentina's pattern of specialization shows a clear bias towards the export of low value added products (tanned leather) and the import of high value added goods.²⁴

The local industry must solve some problems in order to become more competitive and capable of competing in the global market, not only in the tanned leather segment but also in leather manufactures. Within the sector there is some consensus on critical aspects including stagnation in the supply of fresh leather and the lack of incentives for producers to improve the quality of leather,²⁵ a tariff structure that stimulates exports of semi-finished leather (see below), lack of a trained labor force (particularly in the footwear industry), a low level of integration of the different stages of the value chain, and the fact that the sector is made up of a large number of SMEs, which means that firms face the typical problems of this kind of company²⁶ (access to credit, technology, etc.) (see UIA 2005).

2.1. The Leather Tanning Industry

Argentina's tanning industry²⁷ is made up of around 450 firms which employ approximately 20,000 workers (CICA 2007).²⁸ Although many of these companies are SMEs, the bulk of production is concentrated in a small number of big firms which control this stage of the chain.

Table 15 presents a summary of the main characteristics of this sector prepared by UIA (2005), based on information from the trade associations and the Ministry of Agriculture, Cattle and Fishing. As shown, the production of fresh leather shows a relatively low concentration level in contrast to the next two stages of the chain, slaughterhouses and the tanning process, which are highly concentrated in a small number of companies.

24 This is a very different pattern from Brazil's, where exports are concentrated in the last stages of the value chain, particularly in footwear.

25 Leather represents approximately 10% of the value of a head of cattle and depends entirely on the demand for meat. Hence, producers have no incentive to improve leather quality.

26 The exception is the tanning industry where companies are medium and large sized.

27 Unless otherwise indicated we use the term leather to refer to bovine leather.

28 Note that there is a considerable difference between the information provided by CICA (2007) and that of UIA (2005).

Table 15: Structure of the Argentine Leather Industry						
	FRESH LEATHER		TANNING	INDUSTRY		
	Livestock farmers	Slaughterhouses	Tanneries	Footwear		Leather Products
				Sports shoes	Other shoes	
Concentration	Low	Medium/High	High	High	Low	Low
	600 ha / livestock farmer	Output: 40% of firms account for 90% of production	Output: 15 firms account for 80%	Leather being replaced by other materials as a component of sports shoes		Mostly SMEs
			Exports: 15 firms account for 85%			
Number of enterprises	250,220	430 establishments	300 tanneries	750/800 plants		500 enterprises
Number of jobs	150,000	60,000	20,000 (8,000 indirect)	26,000 (14,000 indirect)		9,000 (9,000 indirect)
Turnover	US\$ 2,800 million	US\$ 3,900 million (meat products)	US\$ 1,000 million (e)	N/A		US\$ 337 million
Location of industry	Buenos Aires: 37% of the cattle La Pampa: 6.5% of the cattle	Buenos Aires: 56% La Pampa: 2%	Highly concentrated in Buenos Aires and Santa Fe			80% in the Capital District and Buenos Aires province

Source: UIA (2005)

The tanning industry is clearly outward-oriented: 80% of its production is exported to many countries, including China. Hence the evolution of international markets and their degree of variability are crucial at this stage of the chain. On the other hand, exports are heavily concentrated in a few companies, as can be seen in Table 16:

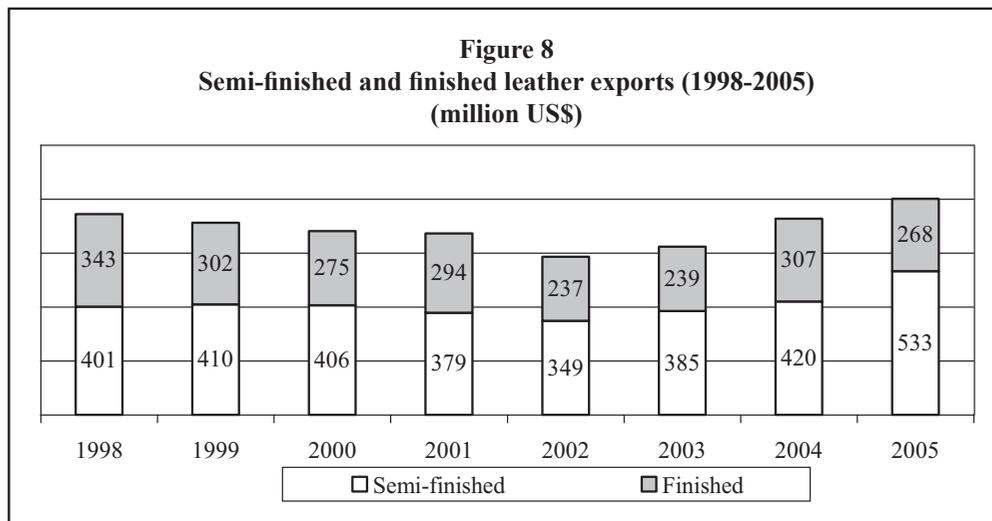
Table 16: Share of tanned leather exports by firm (% share of total). 2000-2006.							
Firm	2000	2001	2002	2003	2004	2005	2006
Sadesa SA	12.0	17.8	20.9	19.9	17.1	16.9	19.4
Curt. Arlei SA	4.6	5.0	2.4	1.0	4.0	13.9	13.5
Toredo SA	0.0	0.0	4.2	9.4	10.4	12.5	13.1
Curtiembre Fonseca	11.9	11.3	11.0	13.4	11.7	11.4	11.8
Curtarsa	13.1	13.3	15.4	10.7	9.9	8.2	8.8
Cuesset SA	4.1	4.3	3.0	3.3	2.4	3.0	4.7
La Hispano Argentina	3.0	3.1	2.6	3.3	3.3	2.6	3.9
Curtiembre San Luis	5.2	5.6	2.8	1.5	5.4	6.0	3.7
Yoma SA	10.8	14.4	12.0	14.4	13.9	7.1	2.8
Antonio Espósito	6.5	5.0	5.4	3.4	3.1	2.4	2.5
C.i.d.e.c. SA	3.9	0.7	1.1	1.8	2.2	3.6	1.3
Becas SCA	4.5	3.8	4.2	3.1	1.9	0.7	0.4
Seton Argentina	0.1	1.5	2.7	3.4	5.8	0.0	0.0
Top five firms (%)	41.6	47.4	53.9	54.4	53.1	62.9	66.6
Top ten firms (%)	71.2	79.8	79.7	80.3	81.2	84	84.2

Source: Author, based on CICA

The destination of exports is shown in Table 17. As can be observed, at present China is the top buyer of Argentine tanned leather (with almost 30% of total exports). The second partner is USA (15.6% of exports). In 2006, the top ten destinations of Argentina's leather exports accounted for more than 80% of the total exports (CICA 2006).

Table 17: Argentina's tanned leather exports. Top five destinations of each year			
Year	Country	Value (US\$ M)	Share in total exports (%)
2001	China	101	15.1
	USA	194	28.8
	Italy	58	8.6
	Mexico	53	7.9
	Brazil	85	12.6
	World	673	100.0
2002	China	107	18.0
	USA	162	27.2
	Italy	40	6.7
	Mexico	67	11.3
	Brazil	38	6.3
	World	596	100.0
2003	China	110	17.6
	USA	105	16.9
	Italy	61	9.7
	Mexico	69	11.1
	Brazil	48	7.7
	World	624	100.0
2004	China	143	19.7
	USA	120	16.5
	Italy	65	8.9
	Mexico	71	9.8
	Brazil	47	6.5
	World	727	100.0
2005	China	174	23.0
	USA	131	17.3
	Italy	62	8.2
	Mexico	75	9.9
	Brazil	27	3.6
	World	755	100.0
2006	China	231	29.6
	USA	122	15.6
	Italy	60	7.7
	Mexico	46	5.9
	Brazil	27	3.5
	World	780	100.0
Source: CICA			
*Corresponds to bovine leather which is the bulk of leather exports (more than 99%)			

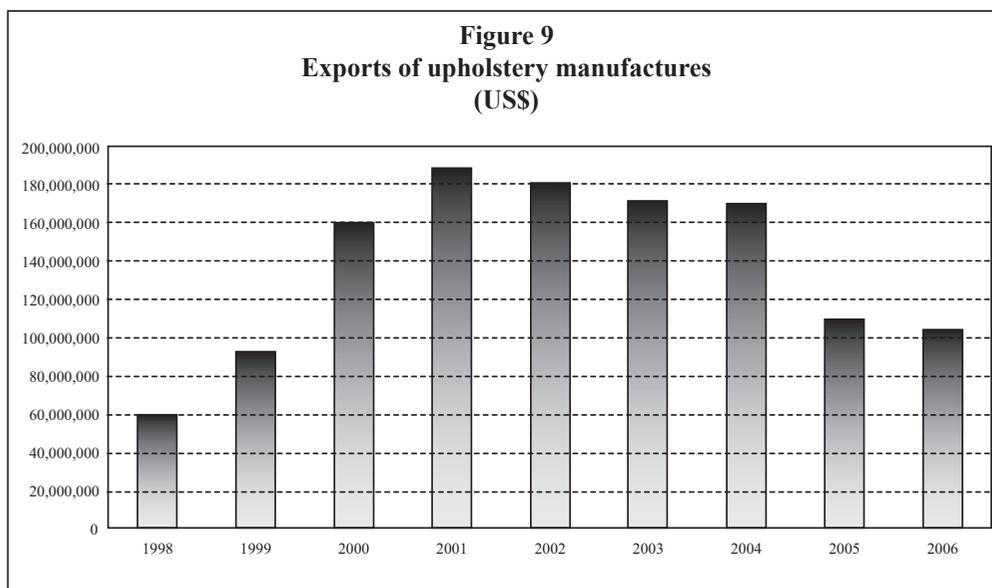
The next figure shows the distribution of exports between finished and semi-finished leather and its evolution throughout the period of this analysis. As observed, in the last years there is a clear tendency towards exports of less processed products. According to some key informants this situation is largely the result of changes in the sector's tariff structure (both import protection and export promotion – see section II.4. below).



Source: Author, based on UIA (2005) and Comtrade

Within this sub-sector of the value chain an important segment has been growing very fast in recent years. We refer to leather upholstery for the automotive industry. As can be seen in the next figure, exports of leather upholstery climbed from US\$ 65 M in 1996 to US\$ 170 M in 2004. However, recently many tanneries have closed their upholstery production lines because it is more profitable to export semi-finished leather,²⁹ given the tariff structure. This situation is clearly illustrated in Figure 9.

According to Argentine Industrial Association (UIA) (2005) and Argentinean Chamber for the Tanning Industry (CICA) (2007), in 2006 USA was the main buyer, accounting for around 82% of exports, followed by Mexico (7.4%), Canada (4.9%), the UK (3.8%) and Brazil (1.1%).



Source: CICA

²⁹ Upholstery is a labor-intensive activity and competition with other low labor cost countries has reduced the profitability of this production line.

From the point of view of its global position, Argentine leather is internationally recognized for its quality. In recent years a couple of companies have installed plants abroad and the industry has entered a process of technical upgrading and productivity improvement, thanks to the high investment made during the 1990s (UIA 2005).

2.2. The Leather Products Industry³⁰

The Argentine leather products industry comprises 300 small and medium enterprises (SMEs) which employ approximately 9,000 workers. The sector overall is inward-oriented, except for some products such as saddlery and high end manufactures, which have succeeded in gaining market niches due to their comparative advantage in design and quality (CEP 2004).

This sector was seriously affected by imports during Argentina's convertibility program (1991 to 2001), which fixed the nominal exchange rate and led to an appreciation of the national currency. The strong devaluation which came after the 2001 crisis played two roles in this sector: on one hand it started a process of import substitution which fostered local production, and on the other, the more competitive exchange rate stimulated exports. The devaluation also attracted many tourists, who come to Argentina and buy leather articles that are typical to the country. Although there are no statistics on tourist demand, key informants considered that tourism represents an important part of the demand for local production.

Table 18: Argentina's total trade of leather articles. Chapter 42 HS2002 2002-2005 (US\$ M)

2002			2003			2004			2005		
Export	Import	Balance									
50	10	39	59	15	44	94	36	58	102	50	51

Source: Author, based on Comtrade

In 2005 Argentina exported around US\$ 102 M of leather manufactures and imported US\$ 50 M. In 2006 imports grew dramatically to US\$ 68.2 M and during the first seven months of 2007 they grew at a rate of 35%. The US is the principal importer of these products: almost 60% of Argentina's exports went to the US in 2005 (see Table 19).

On the other hand, imports are highly concentrated in China: more than half of Argentina's leather manufacture imports come from that country. Tables 19 and 20 show the importance of each market as a client or as a supplier. It is important to mention that these tables are based on Harmonized System Classification in order to discriminate correctly between leather manufactures and similar products made from textiles, plastic, rubber, etc. As discussed in the following section, it is in this type of manufacture that China poses its main threat to Argentina's industry.

Table 19: Argentine exports of leather manufactures 2005*. Chapter 42 HS2002

Country	Export value (US\$ M)	Share in total (%)
World	102.7	100
USA	58.6	57
Mexico	10.6	10
China	6.2	6
Japan	4.0	4
Germany	2.8	3
Chile	2.6	2
Spain	2.5	2
UK	2.1	2
France	1.5	2
Brazil	1.4	1

Source: Author, based on Comtrade
*Excluding footwear

³⁰ The industry includes leatherwork, saddlery and harnesses and leather textiles.

Country	Import value (US\$ M)	Share in total (%)
World	50.73	100
China	27.58	54
Hong Kong	7.86	16
Brazil	3.24	6
USA	2.13	4
India	1.50	3
Uruguay	1.47	3
France	1.24	2
Asia, other	0.98	2
Singapore	0.57	1
Viet Nam	0.51	1

Source: Author, based on Comtrade
*Excluding footwear

2.3. The Footwear Industry

Argentina's footwear industry is made up of around 1,100 firms, mostly SMEs (CEP 2006). The industry includes footwear of various materials (plastic, rubber, textile, etc) including leather footwear, and their parts. According to recent data, the industry employs around 53,000 workers. However, there are no official statistics. The Chamber of the Footwear Industry estimates that around 60% of footwear produced corresponds to leather footwear and the rest to other materials such as textile, synthetic, rubber, plastic, etc (Cerutti 2003).

The footwear sector suffered a crisis during the 1990s, when a wave of cheap footwear imports dampened the local market, causing a decline in terms of production, exports, employment and number of firms (see Tables 21 and 22). The number of pairs produced fell from 91 million in 1991 to 45 million in 2000 (a fall of over 50%) and imports grew from 8 million to 24 million in the same period.

From the point of view of the pattern of specialization, Argentina's footwear exports are concentrated in a medium segment, that is, they have some degree of design but without the added value of developed countries' footwear exports. In particular, within some niches such as Polo boots, Argentina has been gaining market share in the US, Saudi Arabia and Europe in recent years.

Year	Exports	Imports	Balance	Exports/ Production	Imports/ Production
1991	59	n/d	n/a	n/a	n/a
1992	52	n/d	n/a	n/a	n/a
1993	92	136	-44	7	9
1994	87	152	-65	6	9
1995	102	123	-21	7	9
1996	73	135	-62	4	8
1997	105	183	-78	6	10
1998	68	202	-134	4	12
1999	36	181	-145	3	12
2000	28	201	-173	2	13
2001	18	194	-176	2	17
2002	12	28	-16	3	7
2003	18	95	-77	3	12
2004	20	146	-126	2	15
2005	29	183	-154	3	16
2006	32	243	-211	3	19

Source: Author, based on CEP data, sector files

As seen in Section I (see Table 8a), the average value of Argentina's (limited) exports of leather footwear is higher than that of other developing economies such as Brazil, India or Thailand, but lower than Italian or Spanish average prices. This denotes the relatively segmented or niche orientation of leather footwear exports in the case of Argentina but, at the same time, the lack of a widespread strategy of specialization in the footwear industry that could enable Argentina to export with a high degree of design and value added.³¹

After the 2002 devaluation the context turned around. The economic recovery, the indirect protection provided by the devalued exchange rate and gradual import substitution generated better prospects for the industry. Hence production recovered rapidly (from 36 million pairs in 2001 to 80 million in 2006). At the same time, imports fell abruptly (from 68 million in 2000 to 25 million in 2001 and only 4 million in 2002). As expected, the growth of domestic consumption pushed imports up again and since 2003 they are showing significant dynamism: between 2003 and 2006 imports grew at an annual rate of 76%. As a result, in 2006 footwear imports reached their highest level in this decade.

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Production	91.4	89.7	73.769	65.2	64.5	63.5	62.6	61.7	52.0	44.5
Imports	8.9	16.7	21.8	19.8	15.1	13.5	17.3	21.1	18.5	23.9
Exports	3.9	2.7	3.47	3.0	4.5	3.2	3.3	3.0	1.2	0.8
Domestic consumption	96.4	103.6	91.9	82.0	75.0	73.7	76.6	79.7	69.2	67.7
	2001	2002	2003	2004	2005	2006				
Production	36.5	45.5	50.3	70.1	76.1	80.2				
Imports	24.8	3.9	13.5	18.9	20.11	23.3				
Exports	0.5	0.8	1.28	1.6	1.9	1.8				
Domestic consumption	60.8	48.6	62.4	87.5	94.3	101.8				

Source: CIC

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
World	123.1	135.1	183	202.1	180.5	200.8	193.6	27.8	94.8	146.1	183.3
Brazil	19.8	36.6	56.8	78.3	99.1	134.3	138.2	18.2	75.0	109.1	123.7
% share	16	27	31	39	55	67	71	65	79	75	67
China	38.1	35.49	64.59	68.33	45.58	37.82	28.18	4.09	11.9	25.63	27.3
% share	31	26	35	34	25	19	15	15	13	18	15
Hong Kong	2.7	0.8	0.7	1.2	0.1	0.1	0.1	0.03	0	0	11.8
% share	2	1	0	0.01	0	0	0	0	0	0	6
Vietnam	0.1	1.7	5.9	10.7	7.6	4.8	3.9	0.8	1.8	4.3	7.0
% share	0.09	1.2	3.2	5.3	4.2	2.4	2.05	3.03	1.9	2.9	3.83
Indonesia	23.7	22.9	22.7	15.6	7.9	7.2	10.4	2.6	1.4	2.6	2.86
% share	19.3	16.9	12.4	7.7	4.4	3.6	5.4	9.3	1.4	1.78	1.6
Italy	5.3	2.9	2.3	2.4	2.2	1.89	1.4	0.2	0.4	0.5	0.7
% share	0.04	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0	0.00	0
USA	2.4	1.5	1.4	0.9	0.3	0.1	0.05	0	0.1	3.7	0.2
% share	1.9	1.1	0.8	0.5	0.1	0.05	0.02	0	0.1	2.5	0.09

Source: Author, based on Comtrade

As we can see in Table 23, after imports from Brazil increased significantly until the 2002 crisis. After the devaluation, imports again showed an upward trend and in 2005 they reached pre-crisis levels. In the case of China, the stagnation and then decline of imports from 1998 to 2002 is explained by the imposition of safeguard measures against some non-Mercosur countries including China, a measure that stimulated imports from Brazil (CIC 2007) (see Table 23).

³¹ Although we have no data for leather footwear, information provided by the Centro de Estudios de la Producción (CEP) (2006: 37-42) on all types of footwear (leather and non leather) states that from 2003 to 2006 the average export price of Argentina's footwear rose 50% from US\$ 9.6 to US\$ 14.2. In the opinion of the cited author, this reflects the increase in the exported value-added. However, it could be the result of the gradual loss of competitiveness of the sector, given the increase in some labor and non-labor costs.

2.4 Fiscal Structure: Tariffs, Export Duties and Export Refunds

To understand the evolution of trade within the leather value chain, it is important to mention the main changes that have occurred within the sector's tariff structure. In this sense, the Argentine government has implemented different schemes of protection and stimulus to exports in recent years.

Table 24 shows the present tariff structure affecting leather trade in Argentina and in other selected countries.

Import Tariff	Fresh leather	Leather wet blue	Semi-finished and finished leather	Upholstery	Footwear	Leather Products
European Union	0%	0%	5.5-6.5%	n/a	5.8%	2.7-9.7%
United States	0%	0%	0%	n/a	0-37.5%	2.4-20%
China	5%	5-8.4%	5-8.4%	n/a	n/a	n/a
Brazil	2%	4-10%	8-10%	18%	20%	20%
Argentina	2%	4-10%	8-10%	18%	20%	20%
Export taxes	Fresh Leather (crude and salted)	Leather Wet Blue	Semi-finished and finished leather	Upholstery	Footwear	Manufactures of leather
Brazil	9%	7	0%	0%	0%	0%
Argentina	15%	15%	5%	5%	5%	5%
Exports refunds	Fresh Leather (crude and salted)	Leather Wet Blue	Semi-finished and finished leather	Upholstery	Footwear	Manufactures of leather
Argentina	-	2.5%	2.5%	6%	6%	6%

Source: UIA (2005)

In Argentina – as in the other countries – import tariffs give more protection to the higher value-added stages of the chain. In the case of footwear and manufactures, the tariff on imports to Argentina is 20%, the same as in Brazil, and higher on average than those of the USA and Europe. On the other hand, Argentina also imposes a duty on exports in order to discourage the export of less-processed products. To complete the scheme, Argentina has established a system of export refunds to foster exports of products with a high degree of processing and added value.

As mentioned above, Argentina's tariff structure has changed in recent years. In effect, until December 2002 the refund for footwear, upholstery and leather products was 12%, for finished leather it was 5%, and for semi-finished leather, 2.5%. This refund scheme clearly stimulated the export of more processed articles and created a wider gap between the profitability of exporting semi-finished leather *vis a vis* finished leather or leather products. However, in 2002, the different refund levels were combined into only two rates: 2.5% for finished and semi-finished leather and 6% for leather products and footwear. The interviewed leather manufacturing companies considered this an important disincentive to exports of more processed leather and to the production of products with greater added value. As a result, many tanning companies closed or scaled back their upholstery lines and shifted to the semi-finished segment (UIA 2005).³²

³² This allows firms to obtain a more rapid turnover of business which gives them an important financial advantage.

3. Bilateral Trade between China and Argentina within the Leather Value Chain

In this section we analyze bilateral trade between China and Argentina within the leather value chain at a 5-digit level of the SITC rev. 3. The importance of China as a commercial partner for Argentina's leather processing industry has two dimensions: in terms of exports, China (with Hong Kong) has become the leading buyer of Argentine tanned leather, and in terms of imports it is the second supplier of imported footwear in Argentina.

As seen below, the pattern of Argentina-China trade replicates the global value chain scheme described in Section I. Argentina's exports to China are almost exclusively semi-finished and finished tanned leather, while leather products and footwear exports are negligible.

3.1 Leather Value Chain Exports to China

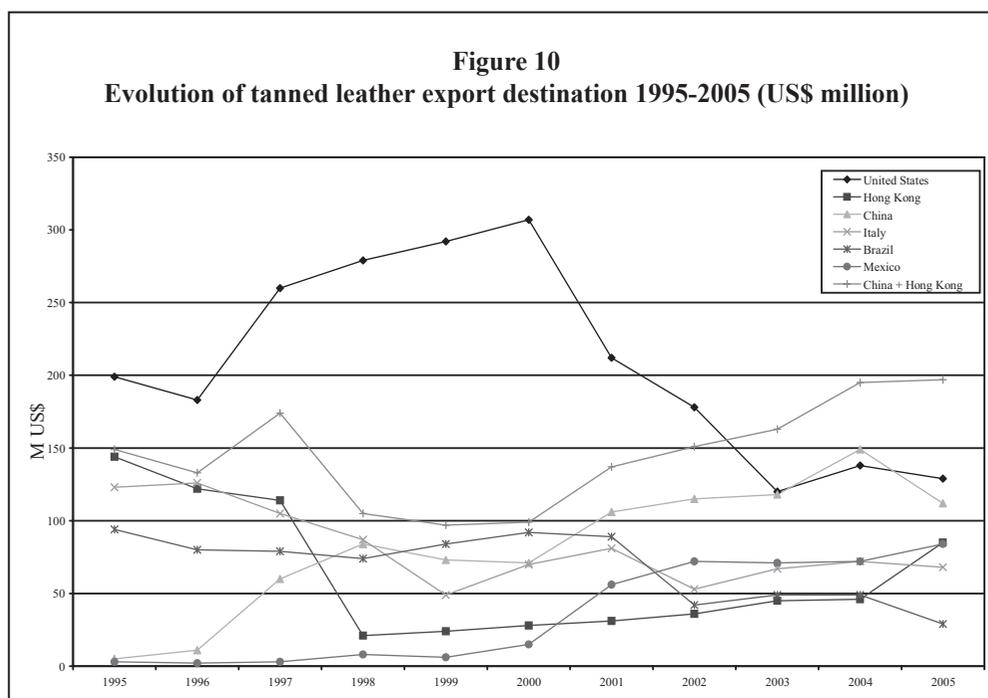
If we study the evolution of tanned leather exports we can observe a shift from Hong Kong to China throughout the period of the analysis and an upward trend in exports to both economies in aggregate terms (see Figure 10).

In the particular case of mainland China, exports grew from US\$ 5 million to more than US\$ 117 million between 1995 and 2005, an increase of more than 2000%. This dynamism was mainly explained by the increase in finished tanned leather exports and, to a large extent, it reflects the sharp increase in Chinese demand for raw materials that has characterized the last decade.

Table 25: Composition of Argentina's exports to China. 1995, 2000 and 2005 (000 US\$)

Product	1995	2000	2005	% Variation 2005/2000	Contribution to growth 2005/2000 (%)
Semi-finished tanned leather	490	18,310	31,251	12,941	28
Finished tanned leather	4,819	53,108	80,315	27,207	59
Leather manufactures and footwear	4	360	6,250	5,889	13
Total leather value chain	5,313	71,778	117,816	46,037	100

Source: Author, based on National Institute of Statistics and Censuses (INDEC)



Source: Author, based on INDEC

Although Argentina's total exports of tanned leather remained practically unchanged, China and Hong Kong have displaced USA as the first export market.³³

Table 26: Argentina's exports of tanned leather (SITC 611). Share by country (%)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
China & Hong Kong	16.7	16.2	18.7	13.5	13.0	12.2	17.4	22.3	23.1	24.0	24.3
United States	22.3	22.2	27.9	35.8	39.0	37.9	27.0	26.3	17.0	17.0	15.9
China	0.6	1.3	6.4	10.8	9.7	8.8	13.5	17.0	16.7	18.3	13.8
Hong Kong	16.1	14.8	12.2	2.7	3.2	3.5	3.9	5.3	6.4	5.7	10.5
Mexico	0.3	0.2	0.3	1.0	0.8	1.9	7.1	10.6	10.0	8.9	10.4
Italy	13.8	15.3	11.3	11.2	6.5	8.7	10.3	7.8	9.5	8.9	8.4
Brazil	10.5	9.7	8.5	9.5	11.2	11.4	11.3	6.2	6.9	6.0	3.6
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Author, based on Comtrade and INDEC

If we consider the share of China in each of the main segments of the tanning industry – semi-finished and finished leather – Table 27 shows that, in 2005, China accounted for 11.4% of Argentina's tanned leather exports and almost one third of semi-finished leather exports; whereas ten years earlier, the country received less than 1% of Argentina's exports of both commodities.

Table 27: Argentine leather exports to China 1995, 2000 and 2005 SITC (Rev. 3) 5 digits. % share (000 US\$)

Product (SITC 5 digits)	1995		2000		2005	
	China	World	China	World	China	World
611. Leather	5,309	884,380	71,418	796,709	111,637	802,227
611.41 Bovine leather tanned or re-tanned but not further prepared, whether or not split	490 (0,7%)	73,418	18,310 (21,9%)	83,254	31,251 (32,1%)	97,274
611.42 Bovine leather parchment-dressed or prepared after tanning	4,819 (0,6%)	810,963	53,108 (7,4%)	713,456	80,315 (11,4%)	704,954

Source: Author, based on INDEC

An important point that needs to be highlighted is the existence of Argentine tanneries in China. In recent years some companies, attracted by the low labor costs, have installed plants in that country in order to finish the semi-finished leathers exported from Argentina. Obviously, if this scheme is extended, the value added exported by Argentina would tend to diminish.

3.2. Leather Value Chain Imports from China

Although China has increased its importance as export market for Argentine leather, it is on the side of imports that the bilateral relationship is truly significant. As mentioned previously, China is the second supplier of footwear imports to Argentina and is also an important source of leather products. In this section we analyze the evolution of imports from China in these two

³³ Between 2000 and 2003, USA reduced its tanned leather imports; therefore Argentina practically kept its market share in spite of the reduction of exports to USA.

segments of the value chain. In both cases, we will see that the threat of competition from China arises not only in the ‘leather made’ segment but mainly from the ‘non leather’ one.

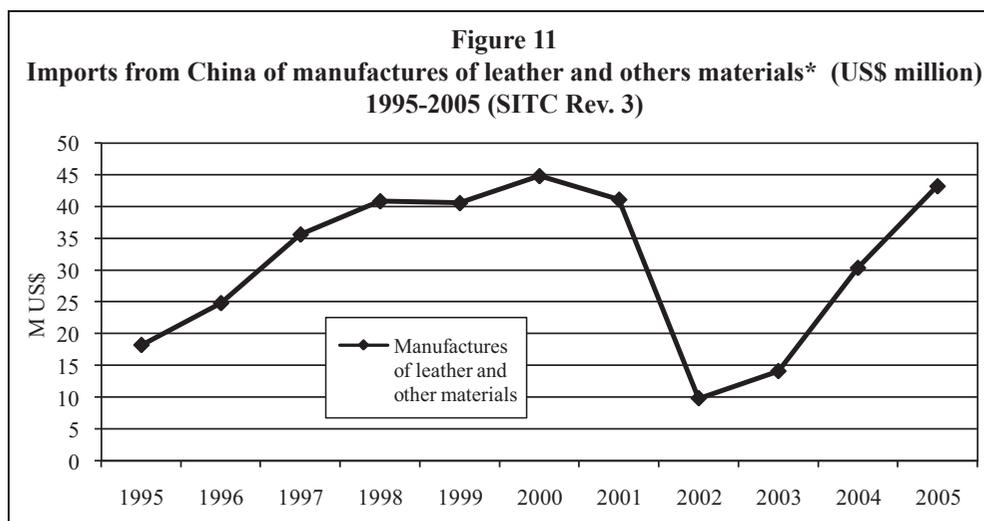
Leather Products

As can be seen in Figure 11, imports of leather and non leather manufactures from China have shown an upward trend since 1995, interrupted only by the recession during 2000-2002. In fact, since the low of 2002, imports have grown at an average annual rate of 63% (to 2005).

Imports, which grew further in 2006 and 2007,³⁴ have increased their share of domestic consumption. Table 28 shows that, according to the information provided by the Centre for Production Studies, the share of imports from China almost doubled between 2001 and 2006 within the two analyzed sectors, International Standard Industrial Classification (ISIC) 191 and 192.

Table 28: Share of imported goods in domestic consumption, by origin. ISIC 191 and 192		
2001	Total imports/domestic consumption (%)	Imports from China/domestic consumption (%)
Tanning and dressing of leather; manufacture of luggage, handbags, saddlery and harness (ISIC 191)	7.8	3.87
Footwear (ISIC 192)	16.9	2.42
2006		
Tanning and dressing of leather; manufacture of luggage, handbags, saddlery and harness (ISIC 191)	12.4	6.31
Footwear (ISIC 192)	19.0	4.90

Source: Author, based on CEP data



Source: Author, based on information from INDEC

*The figure shows all the positions of the SITC Rev. 3, which include not only products made exclusively of leather but positions which also include products made of other materials such as fabric, rubber, plastic, etc. We include only articles in which imports from China have any significance.

Using the Harmonized System classification, Table 29 shows the evolution of imports of leather goods from China and from the world. It is clear that China has a prominent position as a supplier of imports.

³⁴ In 2006, total imports of leather (HS Chapter 41) and leather manufactures (HS Chapter 42) recorded an annual growth of 52.5% and 34.5%, respectively.

	China	World	China/World (%)
1996	21.9	39.3	55.7
1997	32.5	52.5	61.9
1998	35.7	53.1	67.1
1999	36.5	53.0	68.9
2000	41.2	57.9	71.2
2001	37.6	50.9	73.9
2002	7.7	10.8	71.4
2003	10.9	15.6	69.9
2004	28.4	36.3	78.3
2005	27.6	50.7	54.4

Source: Comtrade

The same information but divided by type of product is presented in Table 30 under the 5-digit Standard International Trade Classification Data (SITC) classification. Unfortunately, the bulk of imports are classified under SITC 831.99 – ‘other articles of leather and synthetic materials’ – hence it is impossible to know exactly which articles are included therein.³⁵ However, based on the interviews conducted for this study, in the case of China we presume that these articles mainly correspond to “non leather”.

Description SITC 5 digits	1995		2000		2005	
	China	World	China	World	China	World
831.99 Travel goods, handbags and similar containers	11.1	7.7	34.0	18.7	43.6	20.2
831.22 Trunks, suitcases, executive cases, and similar containers with outer surface of plastics or of textile materials	19.6	18.1	12.3	7.1	14.6	6.4
831.12 Handbags, with outer surface of sheeting of plastics or of textile materials	25.9	13.2	17.7	8.4	12.2	6.2
848.43 Hats made up from lace, felt or other textiles	4.1	3.5	7.5	4.3	8.2	0.0
848.22 Rubber gloves	11.8	18.4	6.3	13.8	6.0	14.6
848.21 Apparel and clothing accessories of plastics	6.2	4.5	5.7	3.4	5.6	2.6
831.91 Articles of a kind normally carried in the pocket or handbag	9.2	4.4	7.8	4.2	5.0	2.4
848.11 Articles of apparel	0.7	1.8	5.5	4.6	1.9	0.0
821.19 Parts of seats	0.2	22.2	0.0	32.2	1.2	39.1
848.12 Gloves, not designed for use in sports	1.3	0.6	2.3	1.1	1.0	1.0
612.9 Other articles of leather	0.3	0.5	0.4	0.7	0.3	0.3
831.11 Handbags with outer surface of leather, of composition leather or of patent leather	5.0	2.4	0.1	0.8	0.1	0.6
612.2 Saddlery and harness for any animal, of any material	0.1	0.3	0.1	0.4	0.1	0.1
831.21 Trunks, suitcases, executive cases, and similar containers with outer surface of leather, of composition leather	4.7	2.3	0.2	0.3	0.1	0.1
612.1 Articles of leather used in machinery or mechanical appliances	0.0	0.2	0.0	0.1	0.0	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Comtrade

The main Chinese threat to the Argentine leather industry comes – paradoxically – from non leather products imported from China, which is a strong producer of this kind of good. These products compete with leather products manufactured locally in a similar segment (for instance, synthetic manufactured goods such as plastic or textile handbags) (Table 30).

³⁵ Subgroup 831.9 includes: Binocular cases, camera cases, musical instrument cases, spectacle cases, gun cases, holsters and similar cases, n.e.s.; traveling bags, toilet bags, rucksacks, shopping bags, wallets, purses, map cases, cigarette cases, tobacco pouches, tool bags, sports bags, bottle cases, jewelry boxes, powder boxes, cutlery cases and similar containers, of leather or of composition leather, of sheeting of plastics, of textile materials, of vulcanized fiber or of paperboard, or wholly or mainly covered with such materials or with paper, n.e.s. Divided into two basic headings: 831.91: Articles of a kind normally carried in the pocket or handbag and 831.99: Other travel goods, handbags and similar containers.

In 1995, Chinese leather handbags represented 5% of total imports from China of the selected articles (handbags, trunks, suitcases, hats, gloves, apparel and clothing accessories, articles of a kind normally carried in the pocket, parts of seats and saddlery and harness). In contrast, handbags of other materials (mainly synthetic) accounted for 26% of the same total (if we add SITC 831.99 the total share of 'non leather' is 37%). In 2005 these percentages were 0.1% and 12% (and 55.8% if we assume that the bulk of 831.99 is made up of non leather manufactures).

Competition with China has decreased in some leather segments. For instance, imports of SITC position 831.11 (leather handbags) were more significant in 1995 (US\$ 1.3 M) than in 2005 (US\$ 694,000). It is also striking that China's share of total imports of that article fell from 70% of to 9.4% over the period (see Table 31).

It is clear that in some segments the importance of China as a supplier has increased dramatically (see Table 30). For instance, in 2005 China accounted for 85% of imports of handbags and similar containers (SITC 831.99), almost 90% of plastic and textile suitcases (SITC 831.22) and 78% of plastic handbags (SITC 831.12), etc.

Table 31: Argentina's imports of leather and non leather manufactures from China and the world. 1995, 2000 and 2005 (000 US\$)									
Description SITC 5 digits	1995			2000			2005		
	China	World	China/World (%)	China	World	China/World (%)	China	World	China/World (%)
831.99 Travel goods, handbags and similar containers	2,022.0	4,317.0	46.8	15,251.0	20,236.0	75.4	19,047.0	22,375.0	85.1
831.22 Trunks, suitcases, executive cases, and similar containers with outer surface of plastics or of textile materials	3,581.0	10,226.0	35.0	5,492.0	7,647.0	71.8	6,372.0	7,137.0	89.3
831.12 Handbags, with outer surface of sheeting of plastics or of textile materials	4,727.0	7,419.0	63.7	7,948.0	9,165.0	86.7	5,344.0	6,845.0	78.1
848.43 Hats made up from lace, felt or other textile	740.0	1,952.0	37.9	3,363.0	4,619.0	72.8	3,602.0	4,910	73.4
848.22 Rubber gloves	2,158.0	10,369.0	20.8	2,837.0	14,984.0	18.9	2,619.0	16,216.0	16.2
848.21 Apparel and clothing accessories of plastics	1,122.0	2,523.0	44.5	2,544.0	3,699.0	68.8	2,434.0	2,896.0	84.0
831.91 Articles of a kind normally carried in the pocket or handbag	1,681.0	2,492.0	67.5	3,504.0	4,543.0	77.1	2,188.0	2,661.0	82.2
848.11 Articles of apparel	119.0	1,013.0	11.7	2,487.0	4,956.0	50.2	850.0	1,900	45.2
821.19 Parts of the seats	28.0	12,495.0	0.2	22.0	34,914.0	0.1	507.0	43,338.0	1.2
848.12 Gloves, not designed for use in sports	229.0	361.0	63.4	1,035.0	1,243.0	83.3	453.0	1,138.0	39.8
612.9 Other articles of leather	45.8	286.0	16.0	189.6	784.4	24.2	129.1	360.2	35.8
831.11 Handbags with outer surface of leather, of composition leather or of patent leather	916.0	1,332.0	68.8	52.0	867.0	6.0	65.0	694.0	9.4
612.2 Saddlery and harness for any animal of any material	11.0	141.0	7.8	25.5	428.3	6.0	58.7	100.4	58.5
831.21 Trunks, suitcases, executive cases, and similar containers with outer surface of leather, of composition leather	853.0	1,317.0	64.8	68.0	288.0	23.6	43.0	134.0	32.1
612.1 Articles of leather used in machinery or mechanical appliances	0.0	132.0	0.0	0.5	91.6	0.5	0.0	112.7	0.0
Total	18,233.0	56,375.0	32.3	44,819.0	108,465.0	41.3	43,712.0	110,797.0	39.5

Source: Author, based on data from INDEC

At present there is some concern within the Argentine industry about Chinese competition, particularly due to the increasing incidence of non leather products and the (presumed) undervaluation of imports from that country. Thus the sector has adopted a defensive position against import competition and is aiming to obtain certain protectionist measures such as non-automatic import licenses, reference custom values and some other non-tariff norms for synthetic manufactures.

Nevertheless, a more integrated policy is needed to promote the development of this industry in Argentina, including actions aimed at stimulating not only exports with greater added value but also new investments to help upgrade technology in the sector and expand the installed capacity,³⁶ two items that have been delayed by the industry due to the fall in profitability in recent years.

With reference to this last point, some companies have mentioned that in recent years the sector has been losing competitiveness due to the increase in labor costs and leather prices.³⁷ This is remarkable given the outward-oriented bias of the tanning industry, which implies that prices of raw materials (leather) are determined internationally. Related to this is the above mentioned problem of the relatively low quality of leather supplied to the local industry.

In this context, in August 2007 the government established a set of measures aimed at restricting imports from Asian countries, particularly China. These measures are analyzed in section 1.4 of López et al. (2008). The goal of these new measures was to intensify customs controls in order to prevent unfair practices. Hence the government has enhanced controls on imports, particularly over products such as leather articles, plastic products and footwear.

In the case of leather products, the government established additional restrictions such as the obligation to present a document which authorizes the import of this kind of product from Asian countries (Note of Diverse Imported Manufactures). Similar measures have been taken to protect the footwear industry. In this case, the government requires imports specifically destined for local final consumption to present a Note of Footwear Parts Imports.

³⁶ At present the sector is producing at full capacity.

³⁷ The price of fresh leather has increased from US\$ 0.35 to US\$ 1.47 per kilogram from 1999 to 2006.

Box 1: Analysis of traded leather goods under the Harmonized System Classification

For analysis in this section, we take into account Chapter 42 of the Harmonized System: Articles of leather; saddlery and harness, because the classification of SITC five digits in the case of manufactures mixes different materials in the same category (rubber, plastic, textile, etc.), which makes it difficult to discern the proportion that corresponds to leather articles. With HS2002 we can observe the values for leather manufactures only.

Year	Export	Import	Balance
2002	6	7694	-7688
2003	4	10,921	-10917
2004	8,984	28,383	-19399
2005	6,250	27,581	-21331

Source: Own production based on Comtrade
*Available years in Comtrade

Table B: Argentina's exports and imports (000 US\$). Chapter 42 Harmonized System 2002: Articles of leather, saddlery and harness. 2002-2005

HS2002 code	Country	2002		2003		2004		2005	
		Export	Import	Export	Import	Export	Import	Export	Import
4201 Saddlery and harness for any animal	World	6,607.18	19.29	7,229.10	56.60	9,831.12	106.93	11,897.69	113.56
	China	0.00	8.96	3,82	19,91	0,01	46,73	3,54	46.37
4202 Trunks, suitcases, vanity cases, executive cases, briefcases	World	3,552.73	8,534.36	5,027.45	13,841.56	6,497.49	33,245.25	9,854.94	46,223.91
	China	0.22	6,755.20	0.00	10,247.09	7.79	27,207.64	0.20	26,192.99
4203 Articles of apparel and clothing accessories, of leather	World	15,976.48	1,950.61	16,986.57	1,361.08	18,582.10	2,562.75	20,013.75	3,873.71
	China	0.00	5.29	0.00	1,361.08	0.06	1,012.64	0.00	1,312.51
4204 Articles of leather or of composition leather	World	10.50	78.62	6.8	104.99	3.67	63.80	4.83	119.33
	China	0.00	0.00	0.00	0.00	0.00	0.15	0.00	0.00
4205 Other articles of leather or of composition leather.	World	24,018.17	0.13	30,076.70	150.14	59,638.49	234,38	60,897.98	395.58
	China	0.00	0.04	0.00	0.10	8,967.42	115.67	6,245.79	28.72

Source: Author, based on Comtrade

Argentina has a significant surplus with the rest of the world in codes 4201, Saddlery and harness for any animal (around US\$ 10 M per year); 4203, Articles of apparel and clothing accessories of leather (around US\$ 15 M per year); and 4205, Other articles of leather or of leather composition during the years 2002, 2003, 2004 and 2005 (around US\$ 30 M in 2001 and 2002 and US\$ 60 Min 2004 and 2005). Regarding code 4202, Trunks, suit-cases, vanity cases, executive cases, briefcases, Argentina shows a deficit during the observed period. Position 420.4, Articles of leather or of leather composition, trade is unimportant. Imports of leather manufactures are also insignificant. These are goods consumed by high-income people and Argentina is a middle-income country. Apart from that, local supply of these articles is sufficient to meet the demand. Thus leather product manufacturers do not suffer competition from leather products but they do from articles made of other materials with the same functionality or the same market.

Argentina has some experience in the treatment of leather and is considered a high-quality producer internationally. As observed, it specializes in specific articles of leather such as saddlery, harnesses and tooled leather. The top three importers of these articles are the United States, Brazil and Chile.

It has already been mentioned that trade with China is not significant in leather products, as is clearly shown in Table 21. In 2004 and 2005, Argentina exported US\$8 million and US\$6 million to China respectively.

Footwear Imports

The Argentine footwear industry is an inward oriented sector with a high income elasticity (CEP 2006). 80% of the more than 102 million pairs of shoes consumed in 2006 were locally produced, whereas the rest was imported mainly from Brazil and China (CEP 2006).

As mentioned above (see section 2.3), Argentina's footwear imports have been growing very fast since the economic recovery post-devaluation. In the first seven months of 2007 imports have shown an annual increase of almost 19% while in 2006 imports grew 32.4% with respect to 2005.

China is the second source of Argentina's footwear imports after Brazil, which enjoys some tariff advantages as a member of Mercosur. In 2005 China exported US\$ 38.1 M to Argentina, representing around 15% of total footwear imports. As can be seen in Figure 14, imports from China showed a downward trend from 1998 (when some protectionist measures were imposed in Argentina to protect local industry) to 2002 and have been recovering since then at a very rapid rate.

If we consider imports from China and from Hong Kong, it can be seen in tables 32 and 33 that the share of these suppliers in total imports has been growing in recent years.

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Brazil	16	27	31	39	55	67	71	65	79	75	67
China	31	26	35	34	25	19	15	15	13	18	15
Hong Kong	2	1	0	0.01	0	0	0	0	0	0	6
Vietnam	0.09	1.22	3.22	5.29	4.22	2.38	2.05	3.03	1.93	2.95	3.83
Indonesia	19.28	16.92	12.41	7.72	4.4	3.6	5.35	9.31	1.43	1.78	1.56
USA	1.93	1.1	0.75	0.46	0.14	0.05	0.02	0	0.14	2.52	0.09

Source: Author, based on Comtrade

Local producers compete with China mainly in sports footwear (performance training footwear) and in low quality (non leather, low design) footwear. In the first case, imports of this kind of shoes (SITC 85123, 85124, 85125 and 85132) – which may be made either of leather or plastic – have prevailed during the period under study. Nevertheless, it is important to bear in mind that Argentina only produces some intermediate technology sports footwear, with the high-tech ones made in China, India and Brazil, among other countries.

Table 33: Argentina's footwear imports from China. SITC Rev. at 5 digits (000 US\$). 1995-2005

SITC five digits	Description	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
85123	Sports footwear, with outer soles and uppers of rubber or plastics	1,307	531	1,026	1,202	780	574	651	26	92	1,407	2,100
85124	Sports footwear, with outer soles of rubber, plastics, leather	657	739	1,382	1,319	350	409	306	9	37	173	791
85125	Tennis shoes, basketball shoes, training shoes with outer soles of rubber or plastics and uppers of textile materials	2,792	1,970	4,066	5,937	6,141	2,619	2,121	576	3,404	3,712	4,574
85132	Other	9,581	6,926	16,153	18,712	7,515	6,976	3,978	505	3,434	9,403	18,714
85148	Footwear with outer soles of leather	12,127	7,670	16,292	15,019	8,881	8,009	5,088	735	818	3,371	6,297
85151	Other footwear, with uppers of textile materials with outer soles of rubber or plastics	1,651	2,836	3,626	2,645	1,368	521	178	5	143	413	335
8519	Parts of footwear, gaiters and leggings	2,947	9,889	16,873	17,984	16,602	15,797	14,002	2,019	3,460	5,585	5,316
	Total	31,751	30,657	59,426	62,822	41,670	34,905	26,325	3,873	11,407	24,064	38,127

Source: Author, based on INDEC

Another problem for local industry, especially for that which provides intermediate inputs, is the increasing import of parts of shoes (SITC 8519) such as uppers or soles made of different materials. As shown in Table 34, China is a large world producer of this kind of goods and Argentina's top supplier.

Table 34: Share of China and Brazil in Argentina's footwear imports (US\$ M). SITC -Rev. 3- 4 digits 1995-2005

Commodity	Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
851.1 Footwear with protective metal toecap, not including sports footwear	World	0.10	0.35	0.18	0.32	0.62	0.81	0.85	0.03	0.22	0.64	0.87
	Brazil	0.00	0.00	0.00	0.01	0.29	0.50	0.60	0.00	0.16	0.51	0.69
	%	0.00	0.00	0.00	1.95	47.60	61.87	70.10	0.00	73.91	79.42	79.35
	China	0.00	0.13	0.00	0.03	0.05	0.01	0.00	0.00	0.00	0.00	0.00
	%	0.00	37.83	0.00	8.95	8.21	1.77	0.00	3.40	0.00	0.20	0.00
851.2 Sports footwear	World	20.31	19.59	21.06	26.66	21.39	19.00	19.98	5.58	29.31	39.09	44.02
	Brazil	2.84	5.22	3.11	3.11	3.27	7.29	10.79	3.80	23.92	30.61	31.16
	%	13.98	26.65	14.75	11.68	15.28	38.38	54.02	68.18	81.62	78.31	70.79
	China	5.08	3.45	6.83	8.97	7.75	3.83	3.31	0.64	3.66	5.65	5.94
	%	25.04	17.60	32.41	33.65	36.25	20.19	16.56	11.49	12.49	14.46	13.49
851.3 Footwear, n.e.s., with outer soles and uppers of rubber or plastics	World	31.06	38.20	62.26	74.71	49.65	70.35	77.70	8.45	36.41	59.61	84.16
	Brazil	7.13	16.48	28.84	40.76	34.00	55.46	64.12	6.17	30.09	46.05	57.08
	%	22.95	43.13	46.33	54.55	68.48	78.83	82.53	72.95	82.64	77.26	67.82
	China	11.24	7.64	17.03	19.60	7.90	7.25	4.21	0.53	3.57	10.01	14.43
	%	36.17	20.00	27.36	26.24	15.91	10.31	5.42	6.22	9.80	16.80	17.15
851.4 Other footwear with uppers of leather or composition leather	World	51.46	44.90	60.05	63.49	66.07	71.04	65.54	8.85	14.63	26.76	34.51
	Brazil	8.45	12.37	21.52	29.75	47.19	55.38	53.01	6.57	12.00	20.41	24.14
	%	16.41	27.54	35.84	46.85	71.43	77.95	80.89	74.16	82.00	76.28	69.96
	China	13.71	8.23	17.13	15.84	9.35	8.43	5.36	0.77	0.87	3.53	3.07
	%	26.65	18.32	28.53	24.94	14.16	11.86	8.18	8.69	5.92	13.19	8.88
851.5 Other footwear, with uppers of textile materials	World	10.76	13.35	12.77	12.80	13.27	14.17	11.41	1.42	8.37	10.60	9.52
	%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Brazil	1.20	2.05	2.39	3.59	6.50	9.60	8.58	0.67	7.24	8.90	7.38
	%	11.18	15.34	18.73	28.05	48.96	67.77	75.17	47.33	86.50	84.03	77.47
	China	4.63	5.47	5.78	4.94	3.04	1.51	0.51	0.00	0.15	0.45	0.15
	%	42.99	40.96	45.30	38.62	22.93	10.66	4.50	0.34	1.79	4.21	1.60
851.7 Footwear, n.e.s.	World	0.55	0.20	0.11	0.04	0.11	0.10	0.04	0.01	0.01	0.09	0.07
	Brazil	0.01	0.00	0.00	0.00	0.00	0.06	0.02	0.00	0.01	0.08	0.00
	%	1.14	0.65	0.00	0.00	0.72	60.58	45.02	12.72	44.45	91.86	4.42
	China	0.30	0.04	0.00	0.00	0.02	0.03	0.01	0.00	0.00	0.00	0.01
	%	55.33	21.81	1.26	0.00	20.55	31.72	29.43	0.00	0.00	5.47	12.14
851.9 Parts of footwear* removable insoles, heel cushions, gaiters, leggings	World	8.85	18.54	26.57	24.07	29.41	25.34	18.05	3.49	5.83	9.29	10.12
	Brazil	0.22	0.46	0.93	1.04	7.84	5.96	1.10	0.97	1.63	2.48	3.22
	%	2.49	2.49	3.51	4.34	26.64	23.53	6.12	27.73	27.94	26.64	31.86
	China	3.13	10.54	17.82	18.94	17.45	16.75	14.77	2.15	3.65	5.97	3.73
	%	35.40	56.83	67.06	78.69	59.34	66.13	81.80	61.57	62.61	64.31	36.89

Source: Author, based on Comtrade
*Includes uppers, whether or not attached to soles other than outer soles.

To cope with the threat of import competition the government has established some protectionist measures, such as the reference prices and custom controls mentioned above. The exception to this phenomenon is the production of high-end footwear, where China poses no threat to local producers. This sector of the leather footwear industry has some comparative advantages in Argentina such as the quality of leather, design capabilities and skilled (but scarce) human resources. However, the sector is very low scale, producing only small quantities, mostly for sale to tourists and for export to Spain and Latin America. In this type of footwear, Argentina competes with 'second brands' from the world's top producers such as Italy.

4. Conclusions

In a context in which an increasing number of developing countries are competing in the global leather market, it seems reasonable to think that Argentina needs to find a niche market to develop its leather processing industry based on factors other than low wages – an area where it seems impossible to compete with countries like China or India – such as design or high quality. Fortunately, as far as we know, leather manufacturers in Argentina have a similar vision of the future of the leather industry and many of their actions are aimed at achieving this goal.

This idea is shared by international experts in the industry. For instance, Salazar de Buckle (2001) states that many specialists' findings confirm the idea that concentrating activities on the labor-intensive stages of the value chain might not lead to sustainable income growth in developing countries and hence a better strategy would be to shift to higher value-added stages, based on design or marketing skills.

At present, however, the development of Argentina's leather industry has been uneven and many steps are needed to achieve these objectives. Argentina's exports are concentrated in tanned leather (profiting from the natural advantages of the Pampas and the extensive cattle production in Argentina), while the footwear and leather product segments are – in spite of some high quality product export niches – mostly inward-oriented and in fact often need special protectionist measures to survive.

So far, the pattern of Argentina-China's trade replicates the abovementioned scheme. Argentina's exports to China comprise almost exclusively semi-finished and finished tanned leather, whereas leather products and footwear exports are negligible. In turn, China is Argentina's second supplier of footwear. In fact, both in footwear and in leather products the threat of competition from China arises not only in the "*leather made*" segment but also (and perhaps mainly) in the "*non leather*" segment. Hence it comes as no surprise that different protectionist measures have been adopted against imports from China (as well as other sources) of these products, which are labor intensive, a fact that explains why the public authorities are prone to protect them against foreign competition.

Furthermore, while it could be thought that Argentina is profiting from the growth of the Chinese market inasmuch as it is able to export huge volumes of leather to said destination, the fact is that total leather exports have been mostly stagnant, which means that China's growing demand has displaced other export markets without helping to increase Argentina's total exports. Moreover, not only have some Argentine firms invested in China to process semi-finished leather exported from Argentina, but a trend towards a higher share of semi-finished leather *vis a vis* finished leather is visible in the export pattern, which means that Argentina is exporting lower value added products. To further aggravate the situation, China's buoyant demand is negatively affecting downstream leather industries' competitiveness since it has helped to increase leather prices, and it could have a more negative impact if more leather is exported to China for further processing, leaving domestic producers without the raw materials they need.

In this context, what strategies could Argentina adopt to avoid the threats that China poses for the domestic leather industry? The *status quo* is to keep exporting low value added leather to China while trying to protect the domestic producers of footwear and leather manufacturers by way of protectionist measures. However, this situation is far from sustainable.

As said before, the evidence points towards the need for a reconfiguration of the Argentine leather value chain. As for the footwear producers, they should change their specialization pattern in order to leave the production of low cost/low quality goods –since competition with China and other Asian countries is impossible in those segments – and specialize in niches where design and other high value-added skills are important. However, note must be taken of the fact that as long as China's industry keeps growing and maturing, Chinese firms will also surely undertake an upgrading process in order to compete in high quality/high price niches.

In the case of leather manufacturers, there are some products in which Argentina currently exports successfully, but so far these cases are the exception not the norm. As in the case of footwear, there is also a need for firms in this sector to turn to strategies that allow them to compete on the basis of design, marketing and other complex skills in order to preserve their position in the domestic market and also to be able to export on the basis of attributes other than price.

The protection currently enjoyed by local producers must be used to foster such strategies through technical assistance, finance and other measures. In this regard, there is a need to change the current export and tariff schemes in order to further increase incentives for exporting high value-added products. Finally, there is also a need to coordinate actions among the actors of the different stages of the leather value chain, since many of the problems arise from the lack of cooperation and the lack of a common strategy to improve the competitiveness of the chain as a whole.

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