

ITALIA



Italian Trade Commission

意大利对外贸易委员会
政府机构



CHINA LEATHER AND SHOE
MACHINERY

MARKET REPORT 2009



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1. Introduction

After over twenty years' development, Chinese leather and shoe industry has affirmed its leading position in the global market. Some data from China Leather Association reveals that China keeps ranking top both in the leather production and export in the year of 2008.

Influenced by the global financial crisis, the world trade suffers seriously. China leather and shoe industry, which performs with an export-oriented feature, undoubtedly can not avoid the negative market results.

However, China leather and shoes industry also has given a very active response to the crisis, in order to minimize the loss, by increasing the production efficiency, improving the brand awareness on domestic brands, adjusting the industry structure, upgrading the production facility, and exploring the potential domestic demand. And all these effects are already gradually delivering the positive results.

To understand and analyze the China leather and shoe industry, it is necessary to have a glance at the following characters summarized here:

- ***Extremely fragmented***
 - 21,000 leather and tanning companies, geographically scattered throughout China
 - Largest companies concentrated mainly in Zhejiang, Hebei, Fujian and Sichuan
 - Most of the other players are small local Chinese companies
- ***Highly segmented***
 - Different sectors form the stable industrial features in different geographical areas.
 - The legal status of key players vary by segments (state-owned vs. foreign-invested vs. private Chinese)
- ***Highly competitive***
 - The majority of Chinese private companies compete on price
 - Generally characterized by low value added and low technology
 - Second-hand foreign branded machinery also used
 - Growing technology level of Chinese companies

- ***Good growth potential***
 - Consumers demanding higher quality products – manufacturers
 - Upgrading technology and buying new machinery

Driven by fast-growing leather and shoe industry, China leather and shoe machinery industry also experienced the high-speed development recent years, no matter in the production quantity, but also the production quality.

Italy, as China's largest world supplier of leather and shoe machinery, still owns the market advantage at some aspects, such as technology level, quality, compared with the Chinese machinery manufacturers.

However one trend has to be noticed that these gaps between Italian and Chinese machinery are getting smaller and smaller. Instead of directly competing with the local Chinese companies, there are possible alternative options for the Italian companies to enter the Chinese market, for example setting up the WOFE and moving the production facility to China, establishing the joint-venture with local partners, and so on.

When the penetration strategy into the Chinese market has been taken into consideration by the Italian companies, these topics should be brought into discussion as the first step: competition environment, distribution channel, investment mode, marketing strategy and local regulations.

For the purpose of giving a clear overview if the full report, the analysis on China leather and shoe industry will follow and focus on the following 5 key sections:

- **The demand side**
- **The supply side**
- **The competitive environment**
- **The Distribution strategy**
- **Potential opportunities/barriers for Italian companies**

2. Demand Side Analysis

The leather and shoe industry, as one crucial sector of the light industry, gives the great contribution to China's GDP every year.

There are more than 21,000 enterprises in leather and shoe industry in China which are mainly segmented into shoe making, tanning, leather coat making, bag and other leather products, and clustered in Zhejiang, Guangdong, Fujian, Hebei, Henan, and Sichuan province, as shown in the table below

Industries	Description
Tanning	<ul style="list-style-type: none"> • Production value in 2008: RMB 89 billion • ~2,900 companies • Mainly driven by the domestic demands, and most of the producers concentrated in <i>Hebei</i> and <i>Zhejiang</i>
Leather bag	<ul style="list-style-type: none"> • Production value in 2008: RMB 85 billion • ~5,900 companies • Largest producer of leather bag worldwide, OEM orders and export are the key dynamics of growth
Leather shoes	<ul style="list-style-type: none"> • Production value in 2008: RMB 170 billion • ~9,300 companies • Export driven, low profit rate, and highly influenced by the cost rising in terms of raw material, labor force as well as logistics
Leather coat	<ul style="list-style-type: none"> • Production value in 2008: RMB 39 billion • ~2,200 companies • Old fashion design cause the low value-add and brand awareness, which is the key barrier of Chinese domestic manufacturers in exploring the market • Export and OEM are still the key driven force of industrial development
Other leather products	<ul style="list-style-type: none"> • Production value in 2008: RMB 176 billion • ~1,200 companies • Using leather as decoration is increasingly maturing in China's market such as in automotive industry and indoor decoration • In line with the improving of people's living level, the market of leather products is considerable

As viewed from the primary and secondary indicators gathered from the Chinese leather and tanning industry, the overall industry environment features for leather and tanning industry development during 2008 can be described as below:

Industry overview

- The production efficiency increase, the growth slows down.

During the year of 2008, the total industrial output value of large state-owned industrial enterprises and large non state-owned industrial enterprises reached RMB 561.1 billion Yuan for the year of 2008, an increase of 20% over the previous year. And during the first quarter of 2009, the total industrial output value reaches RMB 113.4 billion Yuan, increases by 8% over the same period of last year.

- China's predominance in leather, tanning and shoe industry

China still maintains its competition advantage in the leather production and export. In 2008, the whole industry manufactures light leather of 640 million Sqm, leather shoes of 3.32 million pairs, leather case of 770 million pieces, leather clothes of 56.53 million pieces. China also ranks among the top countries of raw hide production in the global industry.

- The quality and brand awareness improve

Until the end of 2008, there are totally 27 large-scaled leading leather product companies achieve the "GENUINE LEATHER" certification issued by China Leather Association. More that 400 leather shoes, garment and suitcase manufacturers are certificated as the "GENUINE LEATHER" producers. The overall quality of the industry reaches the middle class of global standard. Some famous Chinese enterprises expand their market share in the global market by establishing the international chain-sale or sharing the distribution channel with the foreign enterprises.

Trade situation

- The export and import recession

The export of Chinese leather and tanning industry faces the depressing market recession after the outbreak of financial crisis. During the first quarter of 2009, the export experienced the first-time decline since the year of 2000. The export value is USD 8.63 billion, decreased by 3.5%, compared with the same period of the previous year. For the whole year of 2008, the export value of the leather, fur and other products is USD 42.53 billion, including USD 9.56 billion from leather shoes, USD 13.94 billion from leather suitcase. Meanwhile, the situation of import on leather products is also negative. The import value is USD 930 million, decreases by 24.3% on a year-on-year basis.

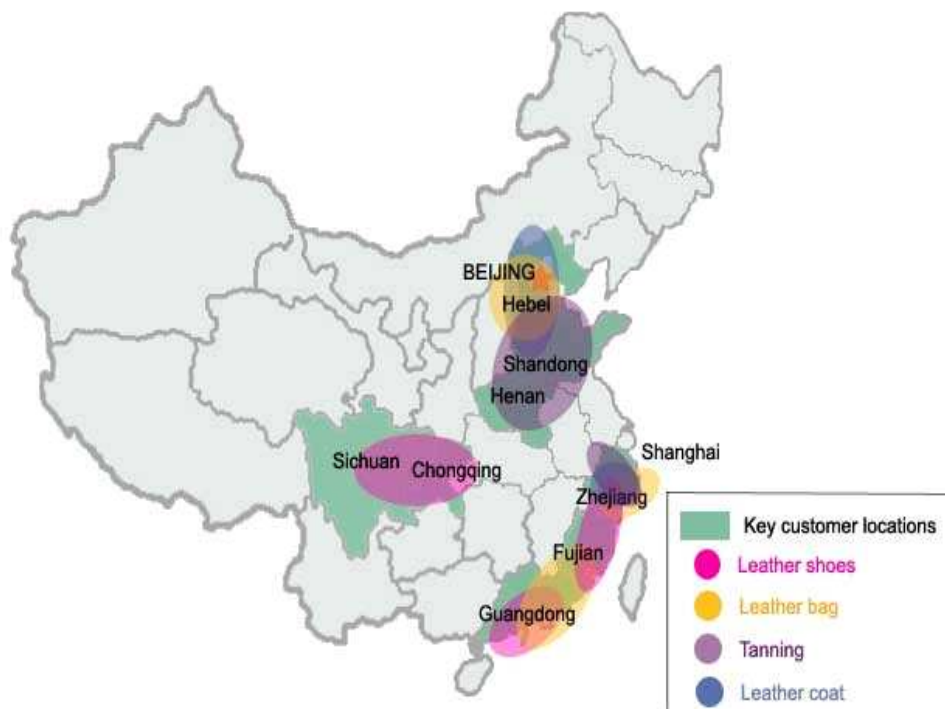
Industry geographic concentration

- Industry structure adjustment and regional distribution

The Chinese leather and shoe industry enhances the continuous industry structure adjustment and the level of processing technology receives the great improvement. The different industry features of main sectors come into shape within different geographic areas. There are around 700 enterprises with over RMB 500 annual sale revenue in China, which concentrate in Zhejiang, Hebei, Shandong, Guangdong, and Fujian.

Geographic Area	Industry feature
Wenzhou, Wen Ling (Zhejiang)	Leather shoes making
Hai Ning (zhejiang)	Leather garment
Tongxiang (zhejiang)	Fur garment
Pinghu (zhejiang)	Leather case
Suning, Zaoqing, Sangpo (Hebei)	Leather production
Xin Ji (Hebei)	Sheepskin garment
Jin Jiang (Fu Jian)	Sports shoes making
Guangzhou, Hui Dong (Guang Dong)	Leather products
Chengdu (Si Chuan)	Leather shoes making
Bi Shan (Chong Qing)	Leather shoes making

Geographical distribution of key customer industries for leather and tanning machinery



Market trend

- Energy-saving and environment-friendly trend

Most of the Chinese leather enterprises employ clean production techniques that facilitate high utilization efficiency of raw and semi-finished materials and reduced discharge of pollutants and improve management to decrease water pollutants. 90% of the water pollutants has been treated and meet the State's discharge standards. The total discharge quantity of the water pollutants is also under the strict control for the further reduction by the government and industry association with issuing several industry environment-protection regulations. Hence, the demand on the environment-friendly and high efficiency machinery and equipments will keep growing.

- Facility upgrading

Due to the revaluation of RMB and rising costs, leather products exports are declining; there is good demand for advanced machinery as Chinese manufacturers upgrade production facilities and technology to improve efficiency and lower unit costs

Main industry players

Top Tanneries in China

Company name	Website	Main products
浙江卡森实业股份有限公司 Kasen Group	www.kasen.com.cn	Upholstered furniture leather, furniture leather, automotive leather
烟台制革有限公司 Yantai Leather Co., Ltd.	www.yantaitannery.com	Face clothing leather, suede, double layer clothing leather, furniture leather
晋江兴业皮革有限公司 Xingye Leather Co., Ltd	www.xingyeleather.com	shoe leather
东明皮革有限公司 Dongming Leather Co., Ltd	www.dongming.com	Clothing leather
远东皮革有限公司 Fareast Leather Industrial Co., Ltd	www.fareastleather.com	Shoe leather

Import-Export analysis / Italy's market position

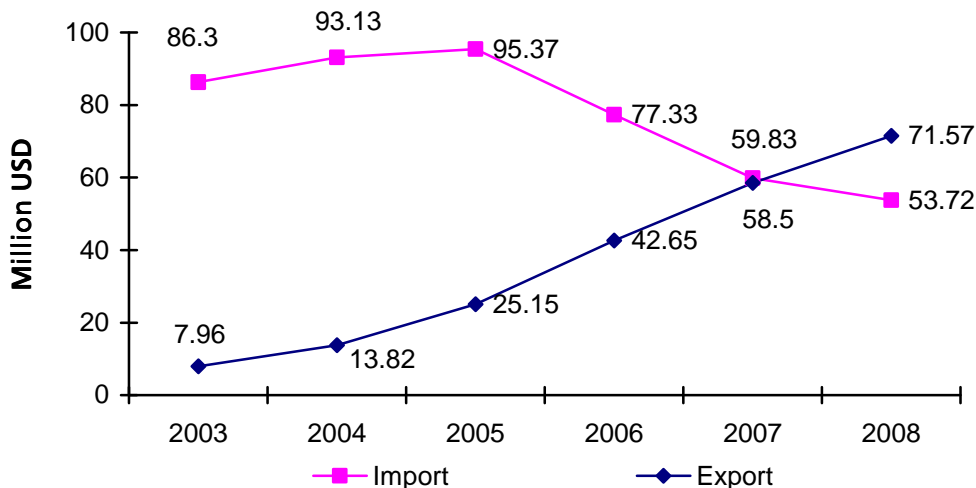
- China's Import Analysis

China was historically reliant on imported machinery; however the technology / quality of domestic machinery manufacturers have been improving and export matched import for the first time in 2007. Actually after 2005, during which year the import reached its peak with USD 95.37 million, the import started to decline

year by year. Up to 2008, the China's export exceeded over the import. As the result of this change, China became a net exporter in the global market. (See the figure below).

However, China is still a net importer of high-end and fully automatic tanning machinery, and only a few large Chinese machinery manufacturers are capable of more advanced producing machinery.

China Import & Export of Leather, Tanning and Shoe Machinery 2003 - 2008



Source: China Customs

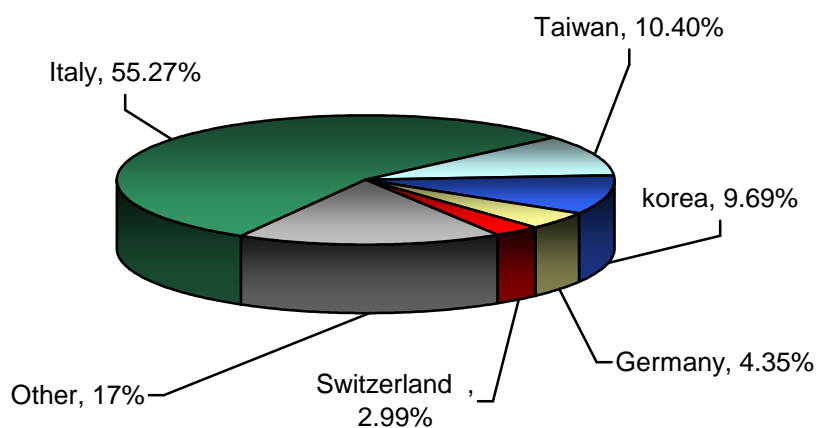
The table below shows that China totally imported USD 53.72 million from the world in 2008, decreased by -10.21%.

Within the list of the key countries that export leather, tanning and shoe machinery to China – Italy ranked #1, with an import value of USD 29.69 million, accounting for 55.27% of total imports in 2008. Italy is holding the extremely dominant place within this market. Meanwhile, the main competitions are from Taiwan, Korea, Germany and Switzerland.

China Imports By Countries								
Millions of US Dollars								
Rank	Country	January - December			% Share			% Change
		2006	2007	2008	2006	2007	2008	- 08/07 -
	World	77.33	59.83	53.72	100	100	100	-10.21
1	Italy	33.12	30.16	29.69	42.83	50.41	55.27	-1.55
2	Taiwan	14.56	10.11	5.59	18.82	16.90	10.40	-44.74
3	Korea, South	12.64	4.42	5.21	16.34	7.39	9.69	17.74
4	Germany	3.51	3.45	2.33	4.54	5.77	4.35	-32.33
5	Switzerland	0.52	0.12	1.61	0.67	0.19	2.99	1292.76
6	United States	1.96	0.95	1.30	2.54	1.59	2.43	37.40
7	China	2.07	2.53	1.17	2.68	4.23	2.18	-53.70
8	Japan	2.55	1.86	0.79	3.30	3.11	1.48	-57.40
9	Australia	0.20	0.14	0.77	0.25	0.23	1.43	463.71
10	Greece	0.28	0.35	0.74	0.37	0.58	1.38	114.57

Source: China Customs

Top 5 Export Countries or Regions to China (Year 2008)



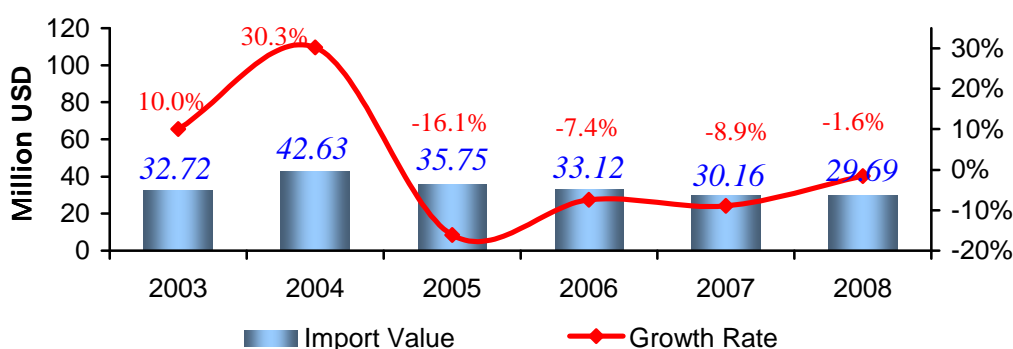
Source: China Customs

Table: China imports of leather and tanning machinery, top 5 countries, Year 2008

Rank	Country	Import value [US\$ M]	% of total imports	Note
1	<i>Italy</i>	29.69	55.27%	<ul style="list-style-type: none"> With market share of 55.27% in 2008, Italian leather and tanning machinery had held the dominative position in China's import market However Italian companies still face some competition from Taiwan and Korea, whose imports have grown rapidly in recent years Some large Italian companies have established manufacturing plants in China to further expand the market in Asia The market share of imported machinery is shrinking in China
2	Taiwan	5.59	10.4%	
3	Korea	5.21	9.69%	
4	Germany	2.33	4.35%	
5	Switzerland	1.61	2.99%	
Top 5 total		44.43	83%	

Source: China Customs

China Imports from Italy, 2003 - 2008



Source: China Customs

The figure above analyzes the growth trend of China's import from Italy from 2003 until 2008. It can be found that China's import from Italy started to decline gradually since 2005, after it reached the peak in 2004 with the net import value of USD 42.63 million.

Note: The statistical data herein is obtained by adding up the import values of different products under the Chinese customs headings of:

Customs Code	Leather, Tanning and Shoe Machinery Segment
8453	Machinery for preparing, tanning or working hides, skin, or leather or for making or repairing footwear or other articles of hides, skins, leather, other than sewing machines.
845310	Machinery for preparing, tanning or working hides, skin, or leather
845320	Machinery for making or repairing footwear
845380	Other machinery
845390	Parts

Source: China Customs

China Imports from World by Customs Code									
Millions of US Dollars									
		January - December			% Share			% Change	
HS	Description	2006	2007	2008	2006	2007	2008	- 08/07 -	
8453	Machinery For Work Leather Etc	77.33	59.83	53.72	100	100	100	-10.21	
845310	Prepar/Tan/Work Hde	32.14	29.12	30.28	41.56	48.68	56.36	3.95	
845320	Mke/Repair Footwear	29.81	19.26	12.63	38.56	32.19	23.51	-34.43	
845390	Pts Prep/Make Artic	6.54	7.50	8.42	8.46	12.54	15.67	12.2	
845380	Mke/Repr Art Of Hde	8.84	3.94	2.40	11.43	6.59	4.46	-39.16	

Source: China Customs

China mainly imports the machinery for preparing, tanning or working leather from the world. In 2008, China imported the machinery with the value of USD 30.28 million, which accounted for the 56.36% of total import.

China Imports from Italy by Customs Code								
Millions of US Dollars								
HS	Description	January - December			% Share			% Change
		2006	2007	2008	2006	2007	2008	- 08/07 -
8453	Machinery For Work Leather Etc	33.12	30.16	29.69	100	100	100	-1.55
845310	Prepar/Tan/Work Hde	18.54	16.60	19.40	55.97	55.04	65.34	16.86
845320	Mke/Repair Footwear	8.43	7.89	4.61	25.46	26.15	15.53	-41.54
845380	Mke/Repr Art Of Hde	2.27	0.77	0.58	6.87	2.55	1.97	-24.04
845390	Pts Prep/Make Artic	3.88	4.90	5.10	11.7	16.26	17.16	3.96

Source: China Customs

In 2008, China's import from Italy experienced a slight decrease to USD 29.69 million at the rate of -1.55 %. The high-end machinery for preparing, tanning or working leather took the largest percentage of the total import. In 2008, China imported this kind of machinery with the value of USD 19.40 million, which accounted for the 65.34% of total value.

- **China's Export Analysis**

China Exports by Countries								
Millions of US Dollars								
Rank	Country	January - December			% Share			% Change
		2006	2007	2008	2006	2007	2008	- 08/07 -
	World	42.65	58.50	71.57	100	100	100	22.34
1	Vietnam	5.24	11.97	13.86	12.29	20.46	19.36	15.79
2	Italy	8.47	12.04	10.74	19.85	20.58	15.01	-10.78
3	India	5.50	7.64	7.84	12.91	13.05	10.96	2.70
4	Indonesia	1.85	2.81	4.56	4.34	4.80	6.38	62.43
5	Hong Kong	3.88	4.26	3.38	9.09	7.29	4.73	-20.57
6	Russia	1.08	0.67	3.17	2.53	1.15	4.43	370.71
7	Taiwan	0.76	0.80	2.22	1.79	1.36	3.11	179.33
8	Argentina	1.09	1.74	2.12	2.56	2.97	2.97	21.99
9	Mexico	1.58	1.43	1.86	3.70	2.45	2.60	30.18
10	Iran	0.51	1.02	1.73	1.19	1.74	2.42	69.68

Source: China Customs

Italy, as the No.1 imported leather, tanning and shoe machinery supplier of China, meanwhile is also the second export destination of Chinese exported machinery. The first export destination of Chinese machinery is Vietnam, and then followed by Italy, India, Indonesia and Hong Kong. In 2008, China exported the leather, tanning and shoe machinery with a net value of USD 10.74 million to Italy, which took 15.01% of the total export.

China Exports to Italy by Customs Code								
Millions of US Dollars								
HS	Description	January - December			% Share			% Change
		2006	2007	2008	2006	2007	2008	- 08/07 -
8453	Machinery For Work Leather Etc	8.47	12.04	10.74	100	100	100	-10.78
845320	Mke/Repair Footwear	6.20	9.20	7.10	73.21	76.45	66.14	-22.82
845390	Pts Prep/Make Artic	1.19	2.34	2.64	14.02	19.48	24.58	12.59
845310	Prepar/Tan/Work Hde	0.17	0.46	0.99	1.97	3.84	9.25	114.61
845380	Mke/Repr Art Of Hde	0.91	0.03	0.00	10.80	0.22	0.03	-87.30

Source: China Customs

Italy mainly imports the machinery for making and repairing shoes from China. In Italy, a lot of shoe making companies are owned by the Chinese immigrants. And these companies, which have the close links with China, raise the demand on Chinese shoe machinery. Another reason might lie on the low cost of the Chinese machinery. Accordingly, the regular equipment maintenance will require the steady supply of importing the machine components to guarantee the proper operation of the china-made machineries.

3. Supply Side Analysis

China has started to develop its leather machinery industry since 1980s'. After more than 20 years' development, China already becomes one of the biggest manufacturing countries in terms of quantity. However in terms of quality and technology level, China is still lagging behind Italy.

Currently, there are totally around 300 machinery and component manufacturers in China. During the year of 2008, the total production value reached around RMB 3 billion, growing at about 20% CAGR. And the domestically produced machinery account for 85% of the total market share, due to the low price. China mainly exports the leather, and shoe machinery to these following countries: Vietnam, Indonesia, India, Italy and so on. In 2008, the total export value was over USD 70 million, which only took small percentage of the total production capability.

Similar as the Italian enterprises, most of the Chinese leather and shoe machinery manufacturers are also small-middles sized ones. The leather machinery manufacturers mainly concentrate in Jiangsu, Zhejiang, Shanghai, Guangdong and Hebei. Meanwhile, the shoe machinery manufacturers mostly concentrate in Wenzhou city of Zhejiang, Yancheng city of Jiangsu, Guangdong, and Fujian. The Chinese manufacturers already own a wealth of and experience and strong mechanical processing machinery manufacturing and engineering capacity. The domestically produced machinery can basically satisfy the expectation and requirement of the domestic leather and shoe enterprises. However domestic manufacturers are mainly supplying mid-low-end products, while imported machinery dominate the high-end market with higher technology, larger capacity and increased production efficiency

China, as the No.1 leather and shoe manufacturing country, has huge potential market space for the leather and shoe machinery manufacturers throughout the whole world. Nowadays, a lot of Taiwan leather and shoe machinery manufacturers have moved their production facility to Mainland China, to lower down the labor cost and get closer to the end-users. Meanwhile, a lot of foreign investments also seek the opportunity to enter the Chinese market. For the purpose of enhancing the domestic technology advantage and quality, the local Chinese enterprises are also eager to cooperate with the foreign enterprise, especially the Italian enterprises who undoubtedly own the top level technology in this industry. This kind of cooperation, or say partnership is expected to be built on the basis of resource sharing, including the technology and distribution channels.

4. Competitive Environment

As the world's largest producer of leather products, China's machinery market offers more opportunities for Italian players, and Italy is the No.1 exporter of leather machinery to China.

The general market condition can be summarized as below for the machinery suppliers who perform in the local Chinese market.

Unfavorable Conditions for Machinery Suppliers

- Market situation: Supply of leather and shoe machinery over demand
- Financial status: Low profitability of the leather and shoe manufacturers limits their purchasing powers

Favorable Conditions for Machinery Suppliers

- Market need quality products with series of varieties
- Government policy of structural adjustment aimed to increase high-grade products
- Private investment pours into leather industry, especially in the west regions such as Sichuan
- New technical and quality standard for leather industry

Italian machinery manufacturers are facing the competition from both local Chinese manufacturers as well as the foreign manufacturers.

Competition from Domestic Manufacturers

- About 90% of machines for the leather industry can be provided by domestic manufacturer;
- Domestic suppliers possess the advantage of low cost/price, although the quality of their product is not as good as that of Italian ones;
- Low cost operate their plant and distribution channel;
- Domestic manufacturers have improved their manufacturing capabilities, posing greater challenges to foreign competitors.

Competition among Foreign Companies from Other Countries

- Statistics shows that Taiwan is the major competitor to Italy in the field of the shoe-making and tanning machinery;
- Although Italy is still the market dominator, its market share has showed a decrease trend in recent years due to the rapid growth of Chinese local manufacturers.



The following comprehensive SWOT analysis, based upon the research and analysis into the market-industry environment in this specific machinery sectors in China, has been compiled in support of the Italian leather, tanning and shoe machinery manufacturers and industry players' interests in the local market.

<p>Strengths</p> <ul style="list-style-type: none"> ✓ Italian machinery owns the highest market reputation on brand in local market. ✓ High quality equipment products, advanced production lines and managerial understanding ✓ Long history of operation in the local market, with strong success credentials 	<p>Weaknesses</p> <ul style="list-style-type: none"> ✓ Decline in market presence and performance since the Y1990's, with only fluctuating levels of local market shares in recent years ✓ Significant pricing disadvantage as compared to domestic industry and some local competitors (Taiwan, etc.) ✓ Difficulty in after sale servicing due to logistics/cost, and cultural differences
<p>Opportunities</p> <ul style="list-style-type: none"> ✓ High governmental and market-oriented pressure to upgrade machinery and product output, and improve energy efficiency and environmental friendliness ✓ Strong and growing demand from consumer sectors for larger quantities and increased quality of leather products ✓ Large technical gap between growing demand segments and domestic industrial capacities 	<p>Threats</p> <ul style="list-style-type: none"> ✓ Quality competition from Europe (Germany) and price competition from Asian countries (Taiwan, Korea,) ✓ Growing technology level of the domestic tanning machinery industry. Imports are increasingly being replaced by domestically produced machinery ✓ Rising logistical and production costs due to increased prices of fuel and raw materials

Main competitors in China

- Top tanning machinery manufacturers

Company name	Website	Main products
浙江湖州二轻机械总厂 Huzhou Er Qing Machinery General Factory	www.cnlilm.com	Samming machine, buffing machine, stretching machine, dryer machine, etc
扬州扬宝机械有限公司 Yangzhou Young Pearl Machinery Co., Ltd	www.young-pearl.com	Fleshing machine, samming machine, set out machine, dryer, through-feed staking machine, etc
辛集巨龙皮革机械有限公司 Xinji Julong Leather Machinery Co., Ltd	www.xjjulong.com	Milling drum, through-feed samming machine, through-feed polishing machine and etc
南通市思瑞机器制造有限公司 Nantong Sirui Engineering Co., Ltd	www.springmake.com	vacuum dryer, staking machine, samming machine, embossing machine and etc
泰立皮革机械有限公司 Taili Leather Machine Co., Ltd	www.tailipj.com	auto spray-dry machine, milling drum, Hang-up Drying Line, Measuring Machine, etc
江苏省如皋市东兴机械有限公司 Jiangsu Rugao Dongxing Machinery Co., Ltd	www.dx-jx.com	Wet buffing machine, buffing machine, Water stretching machine, Polishing machine etc
烟台龙益皮革机械有限公司 Yantai Longyi Tanning Machinery Co., Ltd	www.yantailm.com	precision splitting machine, embossing machine, polishing machine etc

- **Top shoe machinery manufacturers**

Company name	Website	Main products
WENZHOU DALONG MACHINE CO.,Ltd 温州大隆机器有限公司	www.wzdalong.com	toe lasting machine, heel lasting machine, heel upper-binding machine, sole attaching machine etc
Wenzhou Oujiang Hydraulic Machinery Co., Ltd. 温州瓯江液压机械有限公司	www.china-ouye.com	PVC Directly Injection Upper Machine, PU pouring forming machine, PU high press machine etc
温州大顺机械制造有限公司 Wenzhou Dashun Machinery Manufacture Co., Ltd	www.dashun.com	Molding machine, series machines for upper, series machines for sole etc
青岛环球集团 Qingdao Over-world Group	www.overworld.cn	Cutting machine, lasting machine, pressing machine
Wenzhou yongyu machinery & Enterprise Co., Ltd 温州永裕机器有限公司	www.yongyumach.com	Swing arm cutting press, travelling head cutting press, plane cutting press, four-columns cutting press etc
浙江巨光机械设备有限公司 Zhejiang Juguang Machinery Co., Ltd	www.kinglight.cn	EVA Injection molding machiner, TR extraction molding machine
zhongtai shoes material and machinery Co., ltd. 中泰鞋机鞋材发展有限公司	http://ztj.b2b.hc360.com	EVA Injection molding machiner, TR extraction molding machine, toe lasting machine, sole attaching machine
宏业精机 Hongye Precise Machinery Co., Ltd.	www.china-hongye.com	Toe part machine, bottoming machine, heeling machine, toe cap former, heel lever etc
奇峰制鞋机械(制造)有限公司 Qifen Shoes Machine Co., Ltd	www.dgqifeng.com	Molding machine, toe lasting machine, sole attaching machine, in sole series, cutting machine etc
Hongye machinery Co.,Ltd 闾业机械有限公司	www.hongyejixie.com	Thermo-Cementing Edge Folder M/C, cementing machine etc

5. Market access - Distribution channels

Distribution Channels

Distribution is the key to success in China's markets. Since economic reforms began in 1979, the government has shattered the closed distribution system of the control-economy and allowed free market forces to develop systems that meet true market needs instead of bureaucratic ends. The gradual dispersion and decentralization of trading rights has taken the place of top-down leadership, central authority and monopolistic position. Now, independent, private and government importers are spreading all over China. Foreign exporters are further finding more opportunities to establish direct contacts with buyers and sellers in the country. Determining which Chinese enterprises or institutions that should be dealt with is sometimes difficult. Due to the long-standing problems existing in the management system, such as divorce of production from marketing and separation between internal and external trade, China's gap in distribution service is much bigger than the gap in production technology.

Currently, a well-established distribution system for tanning machinery has not yet formed in China. This is largely due to the fact that the Chinese end-users of leather, tanning and shoe machinery usually buy domestic-made machinery directly from local manufacturers or the foreign machinery directly from local agents, representative offices or joint venture of the foreign manufacturers. Direct business contacts are important, as Chinese people prefer to have first-hand information about their purchase products, as well as on-site inspection of product quality and face-to-face negotiations on the price and other contract terms, etc.

While the system of sales agents in China has a history of over 100 years, China's current system is still relatively immature. Local commercial law does not have all-encompassing provisions for this fast changing system, such that the activities of sales agents lack effective legal bounds, making it difficult for both sales and production sides to establish a fair and stable working relationship. So far, this kind of partnership has been built on the basis of mutual trust and mutual benefit, rather than upon solid legal precedent.

There are not many sales agents for foreign tanning machinery in China, and one agent may often be found selling different machinery from different countries.

Some suggestions given here are about how to establish the effective distribution channels in China and which aspects should be taken into consideration.

- Most large machinery companies use a mix of distributors and direct sales force in the key markets
- Distribution networks have to cover the Yangtze River Delta (YRD), Pearl River Delta (PRD), and Bohai Bay regions – where most key customers are located
- In addition, rapidly growing cities such as Chongqing, Chengdu, are also important sales locations for machinery manufacturers
- machinery manufacturers are increasingly shifting their focus from low pricing to service
- Large machinery suppliers now provide training, design and installation of plants, and turnkey solutions
- Comprehensive training is important to educate leather and tanning companies on machinery operation, and minimize malfunctions caused by mishandling
- In general, it is also important to have a Chinese local maintenance team to respond to machinery problems; a few machinery distributors may be able to provide such services on behalf of the foreign supplier
- Customers prefer local maintenance over foreign ones due to the faster response time and lower costs

Investment Mode

Foreign companies have many options to consider how to enter the Chinese market:

- Establish a local representative office, wholly owned foreign enterprise branch, or joint venture enterprise with local investment partners to localize the customer services, sales, production and distribution;
- Form the partnership with a local distributor or agent for sales and after-sale service;
- Enter bids on domestic projects.

Setting up a local representative office is usually the simplest and most effective approach to penetrate the Chinese market, assuming the strong local partnerships have not yet been made, and that local manufacturing production has not yet become a viable consideration. The establishment of the local office can lead to not only the effective market presence, but also the efficient technical supports and after-sales services for their customers.

Take the size and diversity of the Chinese market into the consideration, some foreign companies succeeded to export and sell by the way of hiring the different local agents or relying on the local distribution partners to cover different market areas.

China can be roughly divided into at least five major regions: the South (including Guangdong), the East (including Shanghai), the North (including Beijing-Tianjin region), the Northeast (Liaoning, Jilin and Heilongjiang provinces) and Central/Western China.

Marketing Strategies

Interviews with local end-users and industrial experts reveal that industry exhibitions and trade fairs are important ways for Italian companies to establish an effective channel to present their business in China.

In addition to exhibitions, advertising on specific industry magazines and websites are also commonly used by the tanning machinery manufacturers, particularly domestic ones. To achieve a long-term marketing effect, the advertising project should be continuous and last for a reasonable duration.

On the institutional level, networking through industry association or institutions is a vital method of tapping into door to the Chinese market. These organizations not only have very good knowledge of local industry, but also the close connection with local Chinese companies, which means the huge potential client resource for Italian companies.

6. Market opportunities/ barriers for Italian companies

Potential opportunities for Italian companies

- **Increasing demand for high quality and higher budget**
 - Due to increasing disposable incomes and purchasing power of consumers, leather and tanning companies are also moving towards higher quality products
 - Upgrading of machinery may provide good opportunities for Italian suppliers
- **Rapid market growth in some segments**
 - Strong growth in domestic demand in China on leather products, especially leather shoes, bags and clothes, etc.
 - Potential to serve large private Chinese groups, foreign-invested manufacturers (and potentially some SOE)
- **Chinese domestic machinery production still weak in some segments**
 - Italian machinery suppliers may have better opportunities in areas that require more advanced technology, which are not easily available offered by Chinese machinery suppliers

Potential barriers for Italian companies

- **Price of imported machinery significantly higher than Chinese ones and those produced domestically by foreign brands**
 - Majority of Chinese leather and tanning companies has limited financial resources and only larger companies purchase imported machinery
 - Some foreign machinery suppliers have already established a manufacturing presence in China
- **Brand awareness and track record in China**
 - Branded machinery is very important both for customers and end users
 - May be challenging for Italian SMEs without a previous track record in China to enter and compete with well-established brands
- **Availability of spare parts & after sales service**
 - Machinery highly relies on the easy availability of spare parts, which is a key challenge for the new entrants, especially foreign ones
 - Also difficult to offer prompt maintenance services without a local presence; major foreign brands not manufacturing in China have local ROs
 - Some good distributors will offer spare parts and after-sales service as well
- **Finding good, committed distributors**
 - Distributors play an important role in the sales process, especially in the key regional market
 - However, most of the good distributors are already representing foreign brands, and some of them have exclusive rights for certain brands, thus it may be challenging to find well-qualified distributors

7. Laws and Regulations

Import Tariff and Taxes

China Customs levies on import and export duties make up an important institutional consideration for market entry plans for the Chinese tanning machinery market.

Following a system of taxation and classification roughly parallel to international trade standards, Chinese import duties involve both general tax rates and preferential tax rates, with the latter being applicable to import goods whose origins are countries or regions which have signed agreements on mutually beneficial tariffs, or for those goods which enjoyed a government supported policy standing. Other kinds of import goods are applicable to general tax rates.

For tanning machinery, the import duties and VAT taxes run at 8% / 8.4% and 17% respectively.

Table: China Leather, Tanning, Shoe Machinery Customs Tariffs and VAT Rates, Y2009

Customs Code	Leather, Tanning and Shoe Machinery Industry Segment	Tariff	VAT
84531000	Machinery for preparing, tanning or working hides, skins, or leathers	8.4%	17%
84532000	Machinery for making or repairing footwear	8.4%	17%
84538000	Other machineries	8.4%	17%
84539000	Parts	8%	17%

Source: China Customs

Second-hand machinery import regulation

- Second-hand machineries are widely used in China's leather and tanning industry. However most of the second hand machinery are purchased domestically, as import of second hand machinery is costly and complicated
- The import tax for second-hand machinery is "Price (new machinery) \times 60% \times Import tariff"
- The approval process for importing second-hand machinery is also very complex and time consuming
- The import license of second-hand machinery is issued by the Ministry of Commerce; before applying for this license, the machinery has to be registered with the provincial and national Administration of Quality Supervision, Inspection and Quarantine
- The whole procedure takes more than one month and delays are common.

APPENDIX

Useful contacts

- A. Industry Media
- B. Industry Association
- C. Internet Resource
- D. Trading company

A. Industry Media

CHINA LEATHER 《中国皮革》	
Tel	010-64337946
Fax	010-64351739
Email	ad@leather365.com
Website	www.leather365.com
Add	No.18, Jiang Tai Xi Road, Chao Yang, Beijing, P. R. China 北京市朝阳区将台西路 18 号 邮编: 100016

INTERNATIONAL FOOTWEAR NEWS 《世界鞋业》	
Tel	86-21 6289-5533
Fax	86-21 6247-4855
Email	
Website	www.industrysourcing.com
Add	No. 1001 Tower 3, Donghai Plaza, 1486 Nanjing West Road, Shanghai 200040, China 上海市南京西路 1486 号东海广场 10 楼 1001 室 邮编: 200040

Shanghai Leather 《上海皮革》	
Tel	86-21-53073459
Fax	86-21-53073459
Email	sh.pg@hotmail.com
Add	Rm 504, No.336, Hui Hong Building, Xie Tu Dong Road, Shanghai 200011, China 上海市斜土东路 336 号惠弘商务楼 504 室 邮编: 200011

West Leather 《西部皮革》	
Tel	0086-28-86089918
Fax	0086-28-86762822
Website	www.westleather.com.cn
Email	westleather@sina.com; xbpqzz@126.com
Add	Floor 14, Light Industry Mansion, Fu Xing Street, Chengdu, Si Chuan, 610016 China 四川省成都市福兴街轻工大厦 14 楼 邮编: 610016

Beijing Leather 《北京皮革》	
Tel	0086-10-67521621
Fax	0086-10-67251378
Email	bjpgzz@public.bta.net.cn
Website	www.bejingleather.com.cn
Add	No.79 Yong Wai Jiao Men Dong Li, Beijing 100068 北京市永外角门东里 79 号 100068

Leather and Chemicals 《皮革与化工》	
Tel	0086-415-6161315
Fax	0086-415-6161315
Email	leached@tom.com
Add	No.141 Ren Min street, Dan Dong City, Liao Ning 118002 辽宁省丹东市人民街 141 号 118002

B. Industry Association

CHINA LEATHER INDUSTRY ASSOCIATION - 中国皮革协会	
Tel	86-10 65270932
Fax	86-10 85110167
Email	wsp@chinaleather.org
Website	www.chinaleather.org
Add	No.6 Dong Chang An Street, Beijing 100740 China 北京东长安街 6 号 邮编: 100740

CHINA LIGHT INDUSTRY MACHINERY - 中国轻工机械协会	
Tel	86-10 66073257
Fax	86-10 66031224
Email	clima@clima.org.cn
Website	www.clima.org.cn
Add	No.33,Xihuangchenggen South Street, Xi Cheng District, Beijing, 100032, China 北京市西城区西皇城根南街甲 33 号 邮编: 100032

Zhejiang Leather Industry Association - 浙江皮革行业协会	
Tel	86 571 87808777
Fax	86 571 87808777
Email	zjpgxh@yahoo.com.cn
Website	www.zj-leather.com
Add	Room 2-1502, Wan Xin Mansion, No.35 Xi Hu Ave, Hang Zhou, Zhejiang, 310009 China 中国杭州市西湖大道 35 号万新大厦 2-1502 室 邮编：310009

Haining Leather Industry Association- 海宁市皮革工业协会	
Tel	86 573 87233271
Fax	86 573 87233271
Email	office@hnleather.org
Website	www.hnleather.org
Add	No.386 Nanyuan Road, Haining, Zhejiang, 314400 China 浙江省海宁市南苑路 386 号 邮编：314400

Hebei Leather Industry Association 河北省皮革工业协会	
Tel	0086-311-3654331
Fax	0086-311-3654329
Add	No.772 Zhong Shan Xi Road, Shijiazhuang, Hebei 050081 河北省石家庄市中山西路 772 号 050081

Fujian Leather Industry Association 福建省皮革工业协会	
Tel	0086-591-7550517
Fax	0086-591-7532744
Add	No. 31 Wu Yi Bei Road, Fu Zhou, Fu Jian 350001 福建省福州市五一北路 31 号 350001

Shanghai Leather Engineering Association 上海市皮革技术协会	
Tel	0086-21-63046043
Fax	0086-21-63046043
Add	No.116 Nan Tang Bin Road, Shanghai 200436 上海市南塘滨路 116 号 200436

C. Internet Resource

http://www.chinaleather.com organized by China Leather Industry Association
http://www.leather365.com organized by China Leather Industry Information Center
http://www.chinashoes.net/ organized by China Leather Industry Association
http://www.shoesmachine.com organized by Dongguan Shoe-making Machinery Association
http://www.wzxieji.com organized by Wenzhou Shoe-making Machinery Association
http://www.shoemachinery.net organized by Zhejiang Ruian Shoe-making Machinery Association

D. Trading company

Anwoo (Guangzhou) Co., Ltd 广州安宇机械有限公司	
Tel	86-20-82170834
Fax	86-20-82170525
Email	anwoo@21cn.com
website	http://www.8-web.cn/b2b/company-113631.html
Add	No.8 Che Pi Industrial Zone, Huangpu Avenue, Tian He District, Guangzhou, Guangdong 广东广州市天河区黄埔大道车陂十一社工业区 8 号 邮 编: 510630

ADINA Machinery Company 艾特拿有限公司	
Tel	86-10-65156268
Fax	86-10-65156270
Email	adina@netvigator.com
Add	Rm.202 Jingtai Mansion, No.24 Jianguomenwai Street, Beijing 100022 北京建国门外大街丙 24 号京泰大厦 202 室 邮编 100022

TAIGE INDUSTRIAL CO., LTD. 泰格实业（上海）有限公司	
Tel	86-21-57443637
Fax	86-21-57443638
Email	mark-gstc@hotmail.com
Website	http://shtaige.b2b.hc360.com
Add	A-B, Floor 24, No.2 Jie Yun Mansion, No.600 Tian Shang, Shanghai 210000, China 上海天山路 600 弄 2 号捷运大厦 24 楼 A-B 座 邮编： 210000

Italequipment (H.K.) Ltd. 意大利设备香港有限公司	
Tel	86-10-66186611
Fax	86-10-66186633
Email:	itqbj@china.com
Add	Room 2016, No.85 Hu Guo Si Street, Xi Cheng District, Beijing 100035, China 北京西城区护国寺街 85 号 2016 室 邮编： 100035

SINOCA TRADING CO., LTD. 中加贸易有限公司	
Tel	86-21-6819 1011
Fax	86-21-5168 6631
Email:	sinoca@sinoca.cn
Website:	www.sinoca.cn
Add	18D No.1 Kangqiaodonglu, Nanhui, Pudong, Shanghai 201319 China 上海市南汇区康桥东路 1 号 18D



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邮编: 200031
Tel/电话: 021 - 62488600 / 62480081
Fax/传真: 021 - 62482169
E-mail/电子邮箱: shanghai@ice.it
Website/网址: www.italtrade.com
www.ice.it/paes/asia/cina/ufficio4.htm?sede