

Istituto nazionale
per il Commercio Estero

Guida pratica



MALAYSIA
**Overview on Malaysian
Footwear Industry**
(updated November 2011)

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1. MALAYSIAN FOOTWEAR INDUSTRY

Malaysia has transformed from a commodity-based economy to industry-based in the recent years, and it has strategised itself to reduce dependence on imports of raw commodities and increase its imports of processed or finished products, boosting value-added exports. As such, in the recent years, this phenomenon has taken effect on the fashion industry including the footwear sector. As more and more foreign investors are penetrating the market, the local manufacturers are taking smaller shares of the cake. As a result, local manufacturers are trying to compete aggressively by using high quality materials .

In a bid to protect the local industry, the Government has in the last few years imposed import duty of 30% coupled with sales tax of 10%. However, following its objective to promote the local tourism industry and Malaysia as a shopping paradise, the import duties for majority of the product groups have been abolished (see page 9). Certain type of footwear accessories as well as leather are also free of duty.

In understanding the local market scenario, foreign exporters should take into consideration a few characteristics :

- ❑ The Malaysian market is dominated by local manufacturers, a few large scale retailers and major department stores, whereby most of the concentration is in the state of Selangor and Federal Territory, the capital of Malaysia.
- ❑ In general, although some Malaysians (mostly elites and affluent people) can afford the finest footwear made anywhere, a significantly large number buy low priced footwear. These are the middle income earners.
- ❑ In order to attract buyers attention, foreign exporters should be flexible and be prepared to accept smaller minimum orders than is the case in the other markets. This is especially true for the first few seasons. Depending on the designs and styles, buyers would like to try out the market for at least the first 6 months.

2. IMPORT AND EXPORT DATA FOR MAJOR FOOTWEAR CATEGORIES

Table 1 - MALAYSIA FOOTWEAR IMPORT DATA SUMMARY

(Value in Euro Million)

Note - Exchange rate used for all conversion is Euro 1 = RM4.2606)

HS Code	2009		2010		09/10 % change	Jan-Aug 2011	
	RM	EURO	RM	EURO		RM	EURO
6401	11.61	2.72	8.29	1.94	(28.60)	8.96	2.10
6402	108.08	25.37	253.23	59.43	134.30	182.55	42.85
6403	287.66	67.52	284.73	66.83	(1.02)	203.87	47.85
6404	110.97	26.05	104.43	24.51	(5.89)	80.69	18.94
6405	90.82	21.31	68.26	16.02	(24.84)	48.33	11.34
6406	43.86	10.29	29.38	6.89	(33.01)	26.43	6.20
Total	653.00	153.26	748.32	175.62	14.56	550.83	129.28

Source : Department of Statistics, Malaysia

Table 2 - MALAYSIA FOOTWEAR EXPORT DATA SUMMARY

(Value in Euro Million)

Note - Exchange rate used for all conversion is Euro 1 = RM4.2606)

HS Code	2009		2010		09/10 % change	Jan-Aug 2011	
	RM	EURO	RM	EURO		RM	EURO
6401	43.68	10.25	44.43	10.43	1.72	28.26	6.63
6402	169.45	39.77	290.44	68.17	71.40	167.28	39.26
6403	239.57	56.23	173.27	40.67	(27.67)	153.12	35.94
6404	105.14	24.68	79.06	18.56	(24.80)	42.42	9.96
6405	153.37	36.00	112.84	26.48	(26.43)	66.33	15.57
6406	17.03	4.00	12.38	2.90	(27.30)	4.90	1.15
Total	728.24	170.93	712.42	167.21	(2.18)	462.31	108.51

Source : Department of Statistics, Malaysia

TERM OF REFERENCE :

6401 (SITC codes : 851.110.000 – 851.319.000)

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

6402 (SITC codes : 851.210.000 – 851.329.000)

Other footwear with outer soles and uppers of rubber or plastics.

6403 (SITC codes : 851.220.100 – 851.489.190)

Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather.

6404 (SITC codes : 851.250.100 – 851.520.000)

Footwear with outer soles of rubber, plastics leather or composition leather and uppers of textile materials.

6405 (SITC codes : 851.490.100 – 851.700.999)

Other footwear

6406 (SITC codes : 851.910.100 – 851.999.990)

Parts of footwear (including uppers whether or not attached to soles other than outer soles); removable in-soles, heel cushions and similar articles; gaiters, leggings and similar articles, and parts thereof.

3. IMPORTS

Referring to Table 1, Malaysia's total import of footwear grew at a steady rate of 14.56% between 2009-2010 as compared to 7.55% for the period of 2008-2009 but lower than the 29.37% for 2007-2008.

The lower growth registered few years ago was due to the global crisis that hit almost every country. Business operators then stayed cautious on the future market outlook. However, since then the Asian economy has picked up and importers have started to stock up. The abolishment of import duties announced in year 2010 has also helped imported footwear to enter the market.

However, major supplies still originated from traditional producers of footwear that have so far dominated this market. China's export to Malaysia is going strong with a market share of 55%.

The countries and import values are as such :

Note - Exchange rate used for all conversion is Euro 1 = RM4.2606)

Country of Import	Import Value 2009 (million)		Import Value 2010 (million)		Growth 2009/2010 (%)
	RM	Euro	RM	Euro	
China, Rep..of	317.85	74.60	409.27	96.06	28.76
Vietnam, Soc. Rep. Of	114.78	26.94	107.33	25.19	(0.06)
Indonesia, Rep. Of	55.18	12.95	71.82	16.86	30.15
Hong Kong, SAR	32.26	7.57	23.25	5.46	(27.93)
Italy	19.34	4.54	20.24	4.75	4.63

Source : Department of Statistics, Malaysia

China exported mainly sports footwear to Malaysia simply because the production hub for sports footwear is concentrated there with major brands being contract manufactured in China and several manufacturing plants for sports footwear in Malaysia have shifted to the country previously.

The other major suppliers meanwhile exported other types of footwear with no specific focus.

As for Italy, its major supply to Malaysia was footwear with uppers of leather or composition leather.

Import trend from Italy :

Table 3

(2008) Value Euro Million	(2009) Value Euro Million	Change %	(2010) Value Euro Million	Change %	(Jan-Aug 2011) Value Euro Million
4.50	4.54	0.89	4.75	4.63	4.93

Above shows the import trend from Italy for the past 3 years.

The last three years has seen a steady inflow from Italy despite the sluggish global economic situation. Where image, quality and styles are concerned, Made-in-Italy footwears are still preferred by the Malaysian high society and high-end consumers

Some of the Italian brands that are present in the market are such as Sergio Rossi, Giuseppe Zanotti, Moreschi, Tod's, Roberta Di Camerino, Geox, F.lli Torresin, Damiani, Bruno Premi, Flecs, Gradus, Ciano, Andrea Cammelli, etc. Majority of footwear coming in from Italy are for fashion wear and work wear.

Italian footwear are usually retailed in high-end shopping centers especially in Suria KLCC, Starhill Gallery and Pavilion Kuala Lumpur which are located right at the heart of the city or in the golden triangle. Most of the Italian brands flagship stores are located here as these are the places that cater to consumers with high purchasing power. Apart from that, the brands are carried by major department stores such as METROJAYA, ISETAN and PARKSON, either on consignment basis or through outright. Most of the department stores here prefer to carry foreign brands on consignment basis as it is easier to let the local distributor handle the management of the brand. There are also several other big shopping centers that are located out of the city and in the suburbs. Among them are One-Utama Shopping Centre, Mid-Valley Mall, Bangsar Shopping Centre and Sunway Pyramid Shopping Centre. Apart from these, new ones are coming up together with the rapid development of high-end residential areas.

However, retail outlets in high-end shopping centers are hard to come by for the local distributors these days and many companies need to wait for a long time to get a space. Preference will be given based on the prestige and image of the brand as well as the products uniqueness and marketability.

So far, Italian high fashion brands have been well-positioned in the major shopping centers and have successfully capture its target market.

However, there is also a gap between the high-end and medium to high-end category. Consumers are willing to pay for internationally known brands even though they are expensive but are not willing to pay for a good quality footwear where the brand is not widely known. As such, the unknown brands are moving slowly.

4. LOCAL PRODUCTION

The footwear industry in Malaysia is considered to be one of the oldest manufacturing activities in the country. In its early years and even up to today, a significant number of the industry players comprised of small- and medium-sized businesses, operating from homes and utilizing largely labour-intensive methods.

According to the Malaysian Industrial Development Authority (MIDA) there are currently about 1,000 footwear manufacturers, employing workforce of some 30,000. They are mainly located in the states of Perak, Selangor and Johor. The annual production capacity is estimated at 70 million pairs.

The “footwear capital” of Malaysia is actually situated in Seri Kembangan, a suburb 50 Km away from the heart of the city. Of the 1,000 footwear manufacturers in the country, more than 100 of them can be found in Seri Kembangan.

Basically, a large portion of Malaysia’s total production of footwear come from the cottage industry or backyard industry located in Seri Kembangan. It can be said that less than 30% of these manufacturers are licensed. However, there are also a handful of them which operate on large scale basis and equipped with proper manufacturing plant.

Predominantly producing to meet domestic demand, these small-and medium-sized operations remain the backbone of the footwear industry, existing side-by-side the more modern and better equipped manufacturing facilities operated by multinational companies. As the number of footwear manufacturers expanded, so too the industry saw a proliferation of supporting cottage industries supplying various parts, components and footwear-related accessories for the industry.

The Malaysian footwear industry produces a wide variety of footwear ranging from safety and industrial footwear to sports shoes and high fashion footwear. In the quest to create an identity for their products, Malaysian footwear manufacturers have successfully marketed their own brands such as DR. CARDIN, CROCODILE, JOHN BIRD and LARRIE. In addition several Malaysian footwear manufacturers are producing under license, internationally renowned brands like CAMEL, HUSH

PUPPIES, SCHOLL, PUMA, NIKE and LA GEAR. Made-in-Malaysia footwear has indeed become synonymous with quality, style and value for money.

Currently, the Malaysian footwear industry's emphasis is on design and quality. Since China entered the market, with its lower labour and production costs, Malaysia needs to change its marketing strategy. Instead of getting into a price war with China, local producers are placing more emphasis on producing good quality footwear in saleable designs.

5. IMPORTERS' PURCHASING TREND

Basically, local buyers have two buying seasons in a year ; usually in March and September. Foreign exporters must meet a strict on-time deliveries for orders before end of the year to stock up for the festive seasons such as Christmas, Chinese New Year, Muslim Hari Raya and Indian Deepavali. These are the important occasions that buyers always look forward to, to generate sales.

Besides on-going buying trips, the buyers also visit trade fairs mainly the following which are led by the Malaysian Footwear Manufacturers' Association (MFMA) and its members :

- a) GDS Fair in Germany
- b) Micam Modacalzatura Fair in Milan, Italy
- c) Simac Fair in Bologna, Italy
- d) Exporivaschuh Fair in Riva del Garda, Italy
- e) Asia Pacific Leather & Footwear Fair in Hong Kong
- f) BIFF (Bangkok International Fashion and Leather Fair) in Bangkok, Thailand

Efficient handling of export procedures is an important factor in successful business. Buyers usually look for reliability, experience, competence and a determined commitment to a long-term business relationship.

Malaysian importers have reported that a major problem in dealing with new suppliers is that they are often asked to purchase unrealistically large minimum quantities for a market size of Malaysia's. Exporters must bear in mind that the Malaysian market is far smaller than the European market and as such, must be prepared to fulfill small orders.

To get started with new brands, consignment basis is more preferred than out-right.

As a start, buyers will usually purchase a minimal order averaging from 200 pairs – 500 pairs to test the market and consumer preference. Due to the smaller Asian feet, and through sales experience, buyers tend to purchase more of size 5 – 6 which is equivalent to size 36 – 38 of European standard and another factor that should be taken into consideration is that Malaysian fitting includes half ($\frac{1}{2}$) sizes. Suppliers should therefore note that a full size range, including half sizes, is required for medium to higher priced footwear, though not for lower priced shoes.

Apart from attending international trade fairs and promoting the locally designed shoes abroad, the Malaysian Footwear Manufacturers' Association has also started several initiatives such as the annually held Malaysia International Shoe Festival (MISF) which started since 2010 and the Malaysia Footwear Design Competition (MFDC) that was initiated since 2009 to encourage the budding of Malaysian designers. So far, MISF is mainly participated by the local manufacturers and operators from the Asian region. Famous Malaysian-born shoe-maker, JIMMY CHOO has also joined the event to boost the growth and development of the Malaysian footwear sector.

The 3rd edition of MISF is scheduled for 29th March to 1st April, 2012 and the 5th MFDC will be held from September to December 2012.

6. LABELLING AND TRADE DESCRIPTION

In terms of distribution of products in Malaysia, it is a requirement according to the subsidiary legislation to the Price Control Act, which is the, "PRICE CONTROL (LABELLING BY MANUFACTURER, IMPORTER, PRODUCER, WHOLESALER) ORDER 1980" that the "**Made in Italy**" description to be labeled to the product.

7. IMPORT DUTIES ON FOOTWEAR

However, in the recent announcement of the Federal Government Budget 2011, to promote Malaysia as a shopping haven in Asia by providing branded goods at competitive prices, the Government proposes that import duty on approximately 300 goods preferred by tourists and locals, at 5% to 30% be abolished. Such goods are apparels, handbags, **footwear**, shampoo, suits, children's apparel, wallets, hair colourants, jewellery and a few other product groups.

As such, the current tariff rate for the footwear sector is as follow :

(Note : Only the HS group 64.06 which consists of footwear parts has import duties ranging between 5% to 30%)

DESCRIPTION	IMPORT DUTY	SALES TAX
HS code : 64.01 (6401.10.000 – 6401.99.000) Waterproof footwear with outer soles and uppers of rubber or of plastics, the uppers of which are neither fixed to the sole nor assembled by stitching, riveting, nailing, screwing, plugging or similar processes.	nil	10%
HS code : 64.02 Other footwear with outer soles and uppers of rubber or plastics		

6402.12.000 : Ski boots, cross-country, ski footwear and snowboard boots,	nil	10%
6402.19.000 – 6402.99.000	nil	10%
HS code : 64.03 Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather.		
6403.12.000 – ski boots, cross country ski footwear and snow bound boots	nil	10%
Other 6403.19.100 – 6403.19.300 – riding boots, bowling shoes, sports footwear fitted with spikes, studs, bars and the like (riding boots no sales tax)	nil	10%
Other 6403.19.900	nil	10%
6403.20.000 – footwear with outer soles of leather, and uppers which consist of leather straps across the instep and around the big toe	nil	10%
6403.40.000 – other footwear, incorporating a protective metal toe cap	nil	10%
Other footwear with outer sole of leather :		
6403.51.000 – covering the ankle	nil	10%
6403.59.000 - other	nil	10%
Other footwear :		
6403.91.100 – covering the ankle	nil	10%
6403.91.900 - other	nil	10%
6403.99.100 – other	nil	10%
6403.99.900 - other	nil	10%

<p>HS code : 64.04 Footwear with outer soles of rubber, plastics leather or composition leather and uppers of textile materials.</p> <p>Footwear with outer soles of rubber or plastics : 6404.11.000 – sports footwear, tennis shoes, basketball shoes, gym shoes, training shoes and the like,</p> <p>6404.19.000 - other</p> <p>6404.20.000 – footwear with outer soles of leather or composition leather</p>	<p>nil</p> <p>nil</p> <p>nil</p>	<p>10%</p> <p>10%</p> <p>10%</p>
<p>HS code : 64.05 Other footwear</p> <p>6405.10.000 – with uppers of leather or composition leather</p> <p>6405.20.000 – with uppers of textile materials</p> <p>6405.90.000 – other</p>	<p>nil</p> <p>nil</p> <p>nil</p>	<p>10%</p> <p>10%</p> <p>10%</p>
<p>HS code : 64.06 Parts of footwear (including uppers whether or not attached to soles other than outer soles); removable in-soles, heel cushion and similar articles; gaiters, leggings and similar articles, and parts thereof.</p> <p>6406.10.100 – 6406.10.900</p> <p>6406.20.110 – 6406.20.900</p> <p>6406.91.100 – 6406.99.990</p>	<p>Nil</p> <p>25%</p> <p>Between the range of 5% - 30%</p>	<p>10%</p> <p>10%</p> <p>10%</p>

Source : Malaysian Trade Classification And Customs Duties Order

SOURCES OF INFORMATION :

Department Of Statistics, Malaysia

The Malaysian Trade Classification and Customs Duties Order

Royal Custom & Excise Department Malaysia

Malaysia Budget 2011