

# *Export Strategies for Guangdong Shoe Industry*

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**Abstract:** Guangdong Province is an important part of China's shoe manufacturing industry and a major exporter of shoe products. However, due to rising production costs and the relocation of many shoe companies, local shoe manufacturers in Guangdong have weak independent innovation capabilities and outdated production methods, resulting in weak international competitiveness of their products. As a result, the growth rate of Guangdong's shoe exports is declining year by year. Although the COVID-19 pandemic has led to a large number of orders being returned to Guangdong, local shoe companies can only achieve minimal profits. Therefore, it is an urgent task for Guangdong shoe companies to find ways to develop under increasingly challenging production environments. In recent years, the government has introduced a series of policies to support Guangdong's foreign trade development. Guangdong shoe manufacturers can enhance their competitiveness through product innovation and technological upgrading, and expand their sales channels through emerging trade methods such as cross-border e-commerce. They can also take advantage of Guangdong's free trade zone and the "Belt and Road" initiative to explore new markets and benefit from the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, thereby overcoming the current difficulties faced by Guangdong's shoe industry.

## **1. The Current Situation of Guangdong's Footwear Industry**

China is the largest piece of the puzzle in the global footwear industry. Of the annual production of 15 billion pairs of shoes worldwide, "Made in China" has surpassed 10 billion pairs. According to Chinese customs data, in 2021, the overall export volume of sports shoes from China showed a downward trend, with a year-on-year decrease of 27.55%, totaling only 57,784 tons. Under the pressure of global industrial transfer, both domestically and internationally, the Chinese footwear industry has gradually shifted to Southeast Asia, resulting in a decrease in domestic production of sports shoes in China. Coupled with the competition from Southeast Asian countries, the export volume of sports shoes from China has ultimately declined. In the future, the trend of global industrial transfer will become more evident, and with the increasing production costs of domestic shoe companies, the center of China's footwear industry will further shift overseas, leading to a further decline in the export volume of sports shoes from China. [1]

### **1.1. Downsizing of Shoe Companies**

As the forefront of China's reform and opening up, Guangdong province has a history of more

than 3,000 years in the development of leather products industry and is recognized as a major producer of leather products. However, with the rising labor costs in coastal areas, many shoe companies in Guangdong have been forced to close down, including the once largest shoe factory in the world, Dongguan Yue Yuen Shoe Factory. The factory, which had over 120,000 employees at its peak, now has only 12,000 employees and only 50 production lines out of over 200, representing a 90% reduction in the company's size. Idle factories have also been rented to other companies. This is just a microcosm of Guangdong's footwear industry.

## **1.2. Large-Scale Relocation of Factories**

For labor-intensive industries like shoemaking, the biggest cost is labor and factory rent. With the constant increase of various costs and the escalating US-China trade friction, some shoe companies in Guangdong choose to move to inland areas with lower production costs in order to reduce labor and land costs and avoid reduced orders due to trade barriers. More shoe companies choose to move to Southeast Asian countries in order to obtain tax benefits and avoid trade disputes.

## **1.3. Obsolete Production Modes**

Many insiders of Guangdong's footwear industry started from scratch thirty years ago and established many family workshops that mainly produce OEM products. They lack scientific management skills and continuous learning ability. With the rise of labor, land, and other input costs, their cost advantages based on low-cost competition are facing severe challenges. The old production mode of labor-intensive footwear manufacturing can no longer meet the current development level of the industry. Guangdong's footwear industry generally lacks independent research and development capabilities, and has low levels of production line mechanization, automation, and intelligence, which greatly restricts its development. [2]

## **1.4. Lack of strong Domestic Brands**

Although Guangdong has thousands of shoe companies of various sizes, and the annual export value of footwear products ranks among the top three in the country, Guangdong's footwear industry has not yet created any strong domestic brands of its own, with only one well-known brand in the leather footwear category in the entire province, compared to 31 in the country. The lack of well-known brands means that domestic and foreign clients can only use Guangdong's shoe companies for OEM and ODM manufacturing, which only allows Guangdong's footwear industry to obtain profits from the bottom of the value chain and reduces its competitiveness in domestic and foreign markets.

## **1.5. Differentiation between Domestic and Foreign Markets**

As the forefront of China's reform and opening up, Guangdong has enjoyed the economic dividend of this policy and has experienced growth without many challenges. Faced with the new trends of industry development and the shallow understanding of the transformation of business models in the Internet age, Guangdong has lost many markets. In addition, the COVID-19 pandemic in 2020 has led to restrictions on foreign entry and exit, causing unprecedented shocks to Guangdong's footwear industry. In order to resist the sluggishness of foreign sales, many shoe companies that specialize in exports have also started to shift to domestic sales. [3]

## 1.6. Export Pressure

Global financial crises, rising raw material prices, fierce international competition, and environmental factors have intensified export competition, putting great pressure on Guangdong's footwear industry. If the industry continues to develop according to past patterns, Guangdong's footwear industry will be completely uncompetitive in the face of rapidly rising labor costs.

## 2. Challenges Facing the Shoe Manufacturing Industry in Guangdong

Due to the impact of the COVID-19 pandemic, orders that had previously flowed out of the country are gradually returning to China. However, despite the abundance of orders, shoe companies are not resting easy. Rising costs of raw materials, labor and social security, international logistics, financing, and other negative factors have made it increasingly difficult for shoe companies to operate. Large volumes of orders can only bring minimal profits, which is a dilemma faced by many shoe companies. In recent years, the rising production costs for domestic enterprises, the accelerating shift of the global footwear industry's focus, and the upgrading of international trade protection measures have greatly hindered the export of footwear products from Guangdong Province. [4]

### 2.1. Lack of Independent Innovation Capability

Guangdong shoe companies have inadequate research and development and a weak patent awareness. The traditional OEM mode of the sports goods industry in the Pearl River Delta is in the low-end of product processing and manufacturing, with less research and development investment. The intelligent manufacturing of leather products and shoemaking is still in its infancy. A considerable number of shoe companies in Guangdong are small and medium-sized enterprises responsible for low-end processing in the industrial chain, mainly relying on OEM production. In addition, small and medium-sized enterprises are reluctant to invest significant amounts of money in improving production technology, leading to low technological content and product added value. Since enterprises do not have their brands, foreign production entrustment merchants receive high profits and part of the high added value of the final product. Although this traditional processing and production mode has made Guangdong one of the largest shoe manufacturing regions in China, it cannot enable Guangdong's shoe companies to obtain high profits. Many small and medium-sized enterprises are unable to reform their business models for various reasons, which has caused many shoemaking companies to fall into a development dead end. [5]

### 2.2. Single Sales Model

The single distribution model of Guangdong shoe companies is closely related to the traditional production mode of the shoe industry in Guangdong. The shoe industry in Guangdong still follows the sales and management model of traditional manufacturing industries and has not yet transitioned to a new retail model. Compared with Zhejiang and Fujian, which are also major shoemaking provinces, most shoe companies in Guangdong carry out production and sales through the processing and trade model (OEM), lacking cross-border e-commerce marketing methods for independent brands. This significantly reduces the number of consumers that Guangdong shoe companies directly face, thereby restricting the export of their products.

### **2.3. Slow Progress in Industrial Transformation and Upgrading**

Currently, the growth of Guangdong's shoe export volume mainly relies on an increase in production factor inputs and investment, rather than on improving their technology and production management. Although "Guangdong manufacturing" is integrated into the global value chain, most shoe companies are still at the bottom of the production value chain, with low technological content and low added value production modes still dominant. They heavily rely on processing trade for the export of their products, thus lacking independent innovation capability. Unlike Fujian, which has many well-known domestic and foreign sports shoe and boot brands, Guangdong does not have a famous brand that can compete with the world's best products, resulting in weak international competitiveness. The key to whether Guangdong shoe companies can stand firm in the future lies in how they can achieve industrial upgrading before they completely lose their advantages in the shoemaking industry. [6]

### **2.4. Trade Barriers are on the Rise**

The shoe industry in Guangdong mainly exports to markets such as North America, Europe, the Middle East, and Africa, accounting for half of the world's production. In recent years, with the escalation of the subprime mortgage crisis and the European debt crisis, the external trade paths of Guangdong's shoe industry and even China's shoe industry have been full of twists and turns, and various trade policies against Chinese shoe products have emerged internationally. Many laws and regulations involve environmental issues, human health, animal welfare, and sustainable development, and strictly limit the use of chemicals. Subject to foreign green trade barriers, foreign notifications and returns of Guangdong shoe products are frequent. Various stringent environmental management thresholds, strict environmental standards, and social responsibility audit restrictions have greatly increased the production costs of China's shoe industry and increased the difficulty of entering international markets. [7]

### **2.5. Shift of the Global Shoe Industry Focus**

With the development of the Chinese economy, the manufacturing industry is facing increasing pressure. Environmental pressures and relative resource scarcity have led to higher labor costs, rising raw material prices, and other factors that have significantly increased production costs for leather shoe manufacturers in Guangdong, resulting in reduced profit margins for shoe companies. As a result, the migration path of the shoe industry is also quite apparent, with global industrial outsourcing areas shifting from Japan and South Korea, Taiwan, to China's coastal cities, China's northwest region, and now to Vietnam, India, Laos, and other places. Although China is still the world's largest producer of shoes, factors such as labor costs, trade wars, and Southeast Asia's accelerating investment have led international sportswear brands to implement a "China plus one" strategy in order to create more agile production mechanisms, and to move production bases from the Pearl River Delta region of Guangdong to Southeast Asian countries with lower labor costs. According to data, the labor costs in India, Vietnam, and other countries are only equivalent to 38% of those in China. Moreover, while goods exported from China are subject to a 9% import tariff in Japan and a tariff of over 10% in the United States, they can be exported with near-zero tariffs to many countries in Southeast Asia. [8]

## **3. Research on Countermeasures for Export of Guangdong Footwear**

As the industrial and supply chains gradually recover, how should the government and

enterprises work together to accelerate the pace of transformation, introduce effective support policies, promote the digitalization and intelligence of production processes for Guangdong shoemaking enterprises, and encourage them to focus on research and development, design, brand promotion, and digital marketing, in order to achieve the transition from labor-intensive to capital-intensive.

### **3.1. Building Local Brands**

Most of the shoemaking enterprises in Guangdong Province are small and medium-sized enterprises, with uneven product quality and production technology, and no uniform standards, resulting in uneven product quality of Guangdong shoes, greatly affecting the development of Guangdong shoe industry towards high-end. In this situation, it is an attempt for shoe companies to integrate resources of all sizes of shoe factories through the Guangdong Footwear Association and establish development alliances to form a more unified industry standard. At the same time, Guangdong shoe companies need to improve their ability to innovate independently, cultivate local sports brand, and develop consumer demand in domestic and foreign markets. If the government can encourage the construction and development of local brands and allow local shoe companies to develop their own brand, from OEM to ODM, and finally to having their own brand, forming a regional brand alliance, enterprises can form a concerted effort, which will give the shoe industry a greater voice internationally.

### **3.2. Developing Domestic and Foreign Markets**

To retain returning orders, it is more important to be able to face consumers directly. Adding digital capabilities will speed up development. Under the new pattern of "dual circulation", Guangdong shoe industry, which relies mainly on foreign trade, should make use of e-commerce channels, integrate Internet, 5G big data, logistics network, artificial intelligence, and other resources, connect online and offline, short video channels, actively explore domestic and foreign markets, and symbiotically interact with the external environment. It should be bold enough to be a pioneer in digitizing global trade, find new growth space, and achieve the dual purpose of foreign trade and domestic sales. [9]

### **3.3. Actively Coping with Trade Barriers**

Guangdong shoe companies should organize specialized manpower and material resources to study the foreign trade technical trade barrier system, collect, sort out and track the status of foreign technical trade barriers in a timely manner, actively apply for various environmental label certifications from authoritative agencies, closely follow the environmental standards designated by international standardization organizations in the sports equipment industry, and improve the production level of shoe-making enterprises. In addition, at the certification level of the industry, it should deepen cooperation with ISO's professional technical committees (TC) and major national standard certification agencies, establish a certification mutual recognition mechanism with them, and improve the efficiency of international standard certification recognition. Relevant Guangdong organizations should improve the legal system and product standards for the export of sports equipment, listen to the opinions of enterprises appropriately, jointly participate in the formulation of international standards for sports equipment, and promote the conformity of enterprise's independent technical parameter standards with international standards.

### **3.4. Promoting Technological Innovation of Enterprises**

In recent years, China's overall economic construction and development has been very rapid, and the development and application of science and technology have led China into the era of big data and network information technology. Pursuing small-scale, personalized, high-quality, and sophisticated production standards is the future development goal of Guangdong shoe enterprises. The traditional large-scale assembly line production mode is obviously unable to meet the needs of shoe enterprises' future development. In the innovation 2.0 era, the structural mode of traditional manufacturing industry should use information and Internet platforms to integrate the Internet with the shoemaking industry. By utilizing the advantages of the Internet, sales mode and production line should be transformed, so that production concept and production mode are suitable for the new business forms under the innovative and developing trend of the Internet. The application of 5G+ industrial Internet should be expanded. Through big data technology, the footprints and sports data of the vast number of consumers can be analyzed, improved, and innovated to promote product innovation and improvement. [10]

### **3.5. Strengthening Foreign Economic and Trade Cooperation**

With the implementation of the "Belt and Road" initiative, the establishment of the Guangdong Free Trade Zone, and the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, Guangdong's economy and trade have received more opportunities for exchange and development, opening up new paths and opportunities for economic and trade interactions. Guangdong should fully utilize the enormous advantages of the "Belt and Road" in market development, encourage sports goods companies to implement "going global" development strategies, participate in foreign exhibitions and promotional activities, and let more foreign merchants learn about Guangdong's shoe companies. Leveraging China's and Southeast Asia's, East Asia's, and other similar regional geo-cultural advantages, we should cooperate with countries along the "Belt and Road" on projects, increase Guangdong's shoe companies' foreign trade, play the spillover effect of Chinese sports culture resources, enhance Guangdong's shoe products' market influence, and further expand Guangdong's shoe exports. This not only expands and drives the comprehensive development of Guangdong's and countries along the "Belt and Road" shoe products' foreign trade, but also diversifies Guangdong's shoe products' export destinations, optimizing the export destination structure and mitigating the risk of foreign trade barriers.

### **3.6. Leveraging Cluster Effects**

The Guangdong-Hong Kong-Macao Greater Bay Area, where Guangdong, Hong Kong, and Macao are located, is a world-class bay area benchmarked against New York and Tokyo. The Greater Bay Area is not only the closest economically developed area to the South China Sea but also an important starting point for the "Belt and Road" and one of the core regions supporting China's economy. More than 60% of Guangdong's economy is concentrated in the Greater Bay Area. The construction of the Guangdong-Hong Kong-Macao Greater Bay Area is a historic opportunity to promote the integration and innovation of the shoe industry in the Greater Bay Area.

Building the Greater Bay Area into the national and even world's advanced manufacturing center is beneficial to leverage its regional radiation and innovation leadership, driving the development of the leather industry. As one of the world's largest shoe manufacturing regions, Guangdong should seize the historical opportunity of building the Guangdong-Hong Kong-Macao Greater Bay Area, leverage its open and innovative advantages, and create a high-level advanced manufacturing industry chain. Enterprises should adhere to the manufacturing-based approach, fill the gaps in the

industry and supply chain, and the government should increase investment in technological innovation, promote the development of SMEs towards specialized and new areas, and upgrade and transform the high-end industry chain through joint gathering, which will play a significant role in accelerating Guangdong's manufacturing development towards digitization, networking, and intelligence, providing strong support for Guangdong's successful creation of the Guangdong-Hong Kong-Macao Greater Bay Area as an advanced manufacturing center.

#### 4. Conclusions

Currently, the leather and shoe industries that heavily rely on exports have been greatly affected by the COVID-19 pandemic. Although foreign shoe companies have been hit harder than their domestic counterparts, Guangdong Province, as a major producer and exporter of leather and footwear products, must accelerate the transformation of these industries to meet the challenge of the shift in the industrial focus. Against the backdrop of the Belt and Road Initiative, the establishment of Guangdong Free Trade Zone, and the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, Guangdong shoe manufacturers must seize the opportunities presented by the Belt and Road Initiative, actively build a network of free trade zones, and leverage the role of the Greater Bay Area in promoting the "dual circulation" strategy. Large and small enterprises must work together in good faith to create a market, achieve the transformation from "Made in China" to "Created in China," and shift from "Chinese products" to "Chinese brands." This will enable the integration of international cooperation and promote self-rejuvenation.

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