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Trade information Brief

Leather

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Participation in international trade has become one of the most important factors in increasing the prosperity of countries. Yet for many developing countries, perhaps particularly for those in Sub-Saharan Africa (SSA), trade is viewed primarily from a defensive perspective, with a focus on the disruptive effects of imports rather than on the opportunities presented by increased access to world markets. A key reason is the existence of information market gaps that are often associated with trade facilitation and development in developing countries – information on the export performance and potential of many developing countries remains incomplete.

The TRADE INFORMATION SERVICE series of market briefs aims to contribute to bridging this information gap for existing producers in the Southern African Development Community (SADC) who may not have the financial resources to generate a fully fledged market research process. The briefs are not intended to act as the detailed export market intelligence that successful exporting requires, but rather as a basic first-cut analysis of export prospects, to allow enterprises to make the decision on whether to initiate further market research.

Each Trade Information Brief will cover a product cluster of particular interest to members of SADC. The cluster may represent an existing key set of export products with potential for expansion, or a relatively new set where there is an indication of competitive advantage for the region.

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1. Introduction

The aim of the Trade Information Brief (TIB) is to highlight potential export markets to SADC producers who may not have the financial resources to engage in preliminary market research activities. The TIB is not a detailed market intelligence report but rather highlights potential lucrative business opportunities in a market. A TIB should not be used to determine whether one enters a particular market but rather to ask questions about a market and stimulate further research. A series of TIBs has been produced that covers a range of product clusters. These clusters represent an existing key set of export products with potential for expansion, or a relatively new set, where an indication of a competitive advantage for the region is apparent. This TIB showcases opportunities for SADC's producers in the leather industry. To avoid confusion arising from different terminology, for the purpose of this TIB, skins and hides include tanned or incrusted leather and leather products are a manufactured product intended for end-users' usage, such as gloves, etc.

This TIB is geared towards exploring trade opportunities for SADC's producers in the global and regional market for leather articles. Over the past five years global trade in leather products grew by 7% on an average annual basis to be worth US$38,067 million dollars, which is comparable to 20% of South Africa's GDP in 2004 of US$ 213 000 million. Given this market's lucrative nature, countries have invested considerable tangible and intangible resources to establish themselves as a market leader in a specialised market segment. Commodity type products are generally produced in China, while branded luxury products are supplied by the Italians, French and Spanish. The market's bi-polar structure provides an opportunity for SADC's producers to produce goods that fuse African cultural designs, colours, beading with the functionality of western products. SADC has access to supply and demand side resources to build its leather industry. On the supply side, the region has access to a large livestock population, abundant labour and skilled "ethnic" artisans. To productively employ these resources; a few minor supply side bottlenecks must be addressed. SADC's producers do not have to venture far a field to tap into a growing market for their products as demand in the region outstrips supply. Imports of leather products into the SADC region grew by 18%, on an average annual basis from 2000-2005, off a base of US$ 153 million. Trade and production data illustrate that the benefits derived from economic activity tend to stay within the regional economy. As a consequence this sub-sector is capable of supporting small-scale production that can offer the comparative advantages of cheap labour, low capital requirements and relatively simple technology (FAO, 2002).

This TIB is divided into five broad sections. The first section sets the scope for the paper by defining the product cluster. The second section discusses the industry's supply chain, which is necessary to identify where possible production constraints may lie, and identifies which regions and countries have the largest affect on global production. The production of leather goods is "globalised" as activities along the supply chain occur in different countries. Although activities are geographically dispersed there is a regional bias. Developed countries tend to produce and export hides to developing countries that import them and produce leather products based on contracted design specifications. The finished product is then imported by developed countries. The third section touches on the variables that affect consumers' demand for leather products. The fourth section of this TIB investigates whether the global market for leather and leather products is a viable and sustainable market for SADC's producers by analysing the market's trade flows, growth rate and the pattern of growth. This section analyses trade patterns on a regional and country basis. This knowledge is used to identify where prospective export opportunities lie for SADC's farmers. Once markets have been identified the next issue to assess is whether a producer can place his/ her products in that market. The last section explores strategies that can be used by producers to improve their supply side capacities to serve a market. This section provides information about major trading blocks tariffs and non-tariffs barriers that affect a producer's ability to place his/her product into a market.

2. Rationale for selecting leather products

Based on the following reasons, which will be explained in greater detail in this TIB, leather and leather products were selected as a potential tradable product for the SADC region:

- Opportunity to move into the production of value-added processed goods as developed countries are outsourcing labour intensive production processes to improve their price competitiveness to compete against Asian imports;

- Opportunity to capitalise on SADC's competitive advantage to produce cheaper products than developed countries due to lower labour costs and less stringent environmental regulations;

- Opportunity to build on SADC's current strengths, such as established institutions that have the capacity to reinforce quality standards, developed databases, parties' recognition that in the medium term environmentally friendly production techniques will become an important source of competitive advantage and the development of trade promotion strategies (FAO, 2002b: 8);

- Opportunity to participate in a growing market: Value of export earnings from raw hides and skins, processed leather and leather products dramatically increased during the 1980s and mid 1990s, and as a result the market for leather manufactured products is considered to be one of the fastest growing export markets, in terms of value, in the world (FAO, 2002a:33);

- Opportunity for developing countries to participate in world markets: Over the past two decades developing countries have doubled their share of global export earnings in a rapidly expanding market;

- Opportunity to participate in a substantial market: Leather and leather products are the most widely traded and universally used commodities in the world; during 1994-1996 the value of trade was close to three times that of meat and three times more than sugar (De Buckle, 2001:19);

- Opportunity to capitalise on SADC's surplus productive capacity: Available production falls short of Africa's resource base due a low off-take ratio, poor handling in the field and price policies, for example, from 1994-1996 Africa had 10% of the world's cattle but only contributed 4.5% to total hide output (De Buckle, 2001:11);

- Opportunity to be a "general" or "specialist" producer: The value chain for leather products is fragmented which gives SADC's producers, manufacturers and traders the flexibility to participate in the industry at different levels, at different times.

3. Product definition

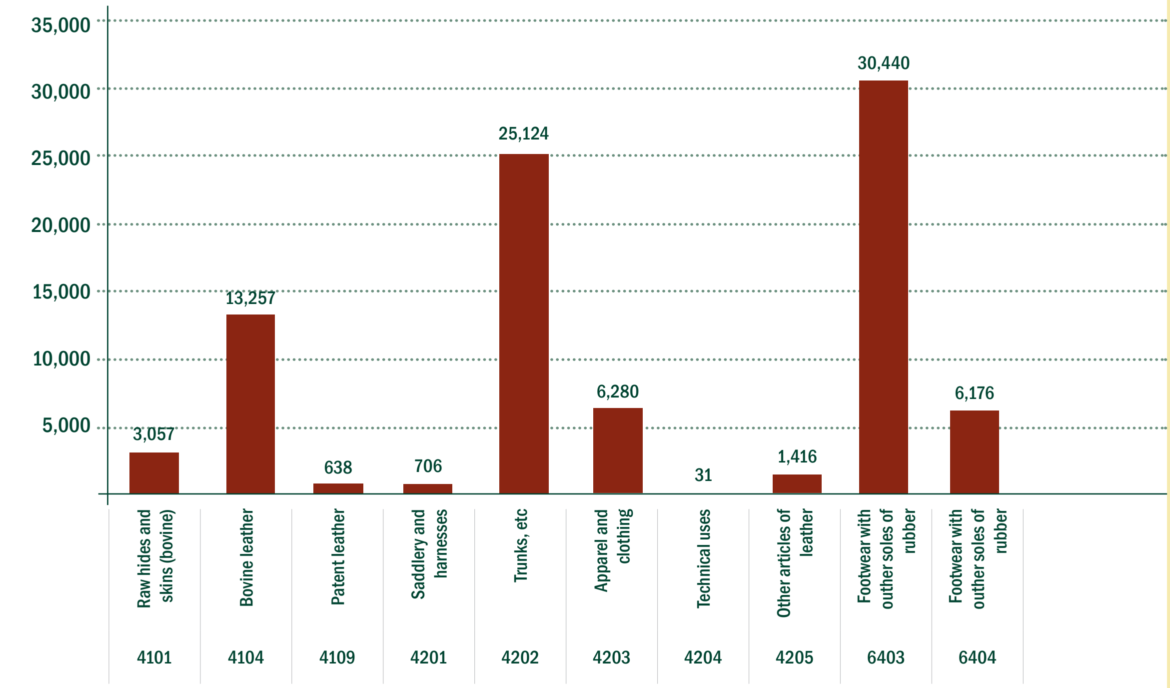
This TIB's discussion of leather products covers the articles listed in Chapters 41 and 42 of the Harmoinised Customs Classification System (HS1996). The table below contains a summarised version of the articles that fall into the above chapters. For more detailed information refer to http://www.customs.gov.au/site/page.cfm?u=5669.

Chapter 41	
4101	Raw hides and skins of bovine (including buffalo) or equine animals (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment-dressed or further prepared), whether or not dehaired or split:
4102	Raw skins of sheep or lambs (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment-dressed or further prepared), whether or not with wool on or split, other than those excluded by note 1(c) to this chapter:
4103	Other raw hides and skins (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment-dressed or further prepared), whether or not dehaired or split, other than those excluded by note 1(b) or 1(c) to this chapter:
4104	Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on, whether or not split, but not further prepared:
4105	Tanned or crust skins of sheep or lambs, without wool on, whether or not split, but not further prepared:
4106	Tanned or crust hides and skins of other animals, without wool or hair on, whether or not split, but not further prepared:
4107	Leather further prepared after tanning or crusting, including parchment-dressed leather, of bovine (including buffalo) or equine animals, without hair on, whether or not split, other than leather of 4114:
Other	4108: Chamois Leather, 4109 Patent Leather, 4110 Leather Parings and Waste Products and 4111 Leather Slabs, Sheets and Strips
Chapter 42	
4201	Saddlery and harness for any animal (including traces, leads, knee pads, muzzles, saddle cloths, saddle bags, dog coats and the like), of any material
4202	Trunks, suit-cases, vanity-cases, executive-cases, brief-cases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers; travelling-bags, insulated food or beverages bags, toilet bags, rucksacks, handbags, shopping bags, wallets, purses, map-cases, cigarette-cases, tobacco-pouches, tool bags, sports bags, bottle-cases, jewellery boxes, powder-boxes, cutlery cases and similar containers, of leather or of composition leather, of sheeting of plastics, of textile materials, of vulcanised fibre or of paperboard, or wholly or mainly covered with such materials or with paper
4203	Articles of apparel and clothing accessories, of leather or of composition leather (e.g trousers, waist coats, belts, gloves)
4204	Articles of leather or of composition leather, of a kind used in machinery or mechanical appliances or for other technical uses
4205	Other articles of leather or of composition leather
4206	Articles of gut (other than silk-worm gut), of goldbeater's skin, of bladders or of tendons

Source: www.customs.gov.au

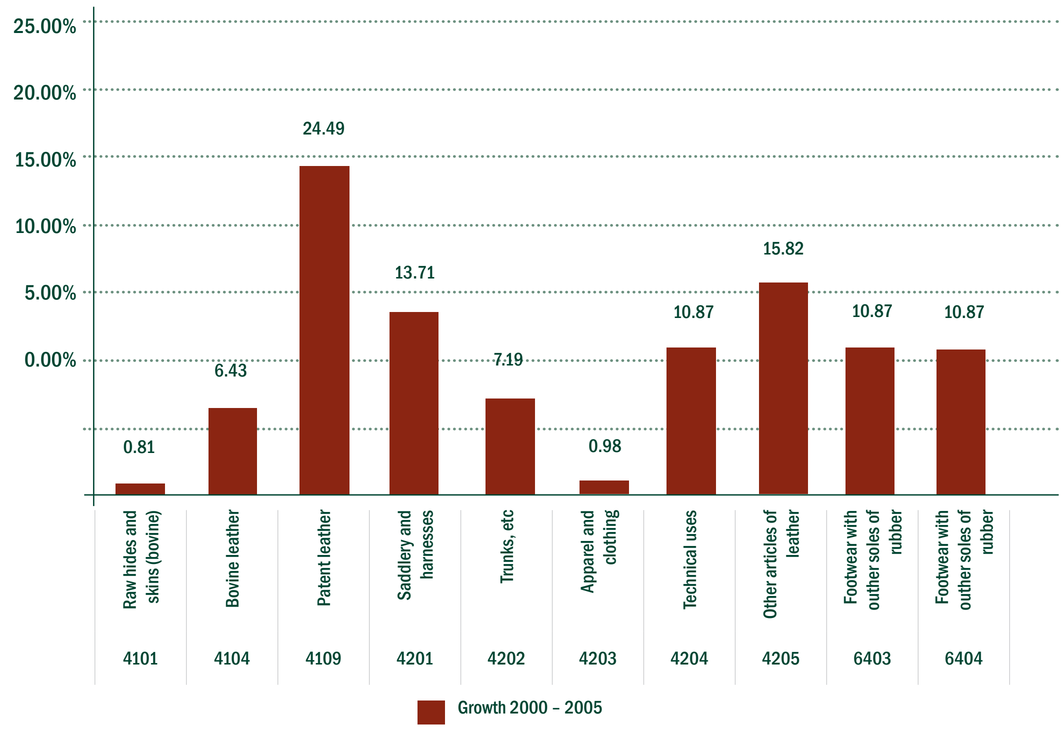
Based on the product definition it becomes apparent that this TIB does not discuss footwear, which falls under Chapter 63 of the HS system in sub-section 6403 and 6404. The author is aware that the principal end-market market for leather products is footwear (FAO, 2001) and thus excluding this sub-sector could be considered an oversight. Based on research the author maintains that the market for "other" leather goods provides more lucrative market opportunities for SADC's producers than footwear. The value of global trade is not equally distributed between the various sub-product groupings covered in chapter 41 and 42 (refer to Figure 1). Trade in terms of value in 2005 is dominated by sub chapter 4202 but in terms of annual average growth from 2000-2005 is led by patent leather. However this growth was achieved if a small base, if the market's size is taken into account then chapter 4202 was the best performing sub-sector in terms of relative growth (refer to Figure 2). If these trends are considered as a whole than the demand for leather clothing, accessories, furniture and automotive upholstery is growing at a faster rate, but off a lower base, than the demand for footwear. Furthermore the future demand for leather accessories is expected to grow with the development of new products, such as the i-pod and notebooks. In addition, the Asian countries' competitive advantage in respect to producing low-cost footwear is undisputed. Even though Asian countries do produce leather accessories and clothing they do not have a stranglehold over the market, giving SADC's producers space to move into the market. Of particular interest to SADC's producers could be the emerging, growing market for exotic leather that is mostly used by the fashion industry to produce garments, handbags, small leather goods, and luggage (MacNamara et al, 2003:6).

Figure 1: Gross imports of leather products per selected sub-category in 2005 (US$ Millions)



Source: World Integrated Trade Solution (Wits)

Figure 2: Growth in gross imports of leather products per selected sub-category from 2000-2005 (average annual growth)



Source: Wits

This TIB analyses the market for leather and leather products by category based on HS chapters and not sub-chapters and not at the product level (handbags, belts and purses). The implication is that when the TIB discusses trade statistics, it is assumed that the commentary relates primarily to sub-category 4202 and 4203. The author selected this approach due to information constraints and to avoid producing a complicated report. Conducting a product analysis would have unnecessarily complicated the TIB as products are differentiated on the basis of function (handbag, wallet), leather type (crocodile, bovine) quality of leather and style (branded versus a commodity product). Hides and skins can be procured from a variety of animals (e.g bovine, ostrich and crocodile) which creates different products. A multitude of leather and leather products exists as at each stage of the value chain different activities can be pursued that changes a product's characteristics. For instance the manner a hide is processed affects its quality, and there does not exist a universal standard technology to prepare hides and skins and then convert them into leather. This implies that various product grades of the same product are inevitable (FAO, 2001).

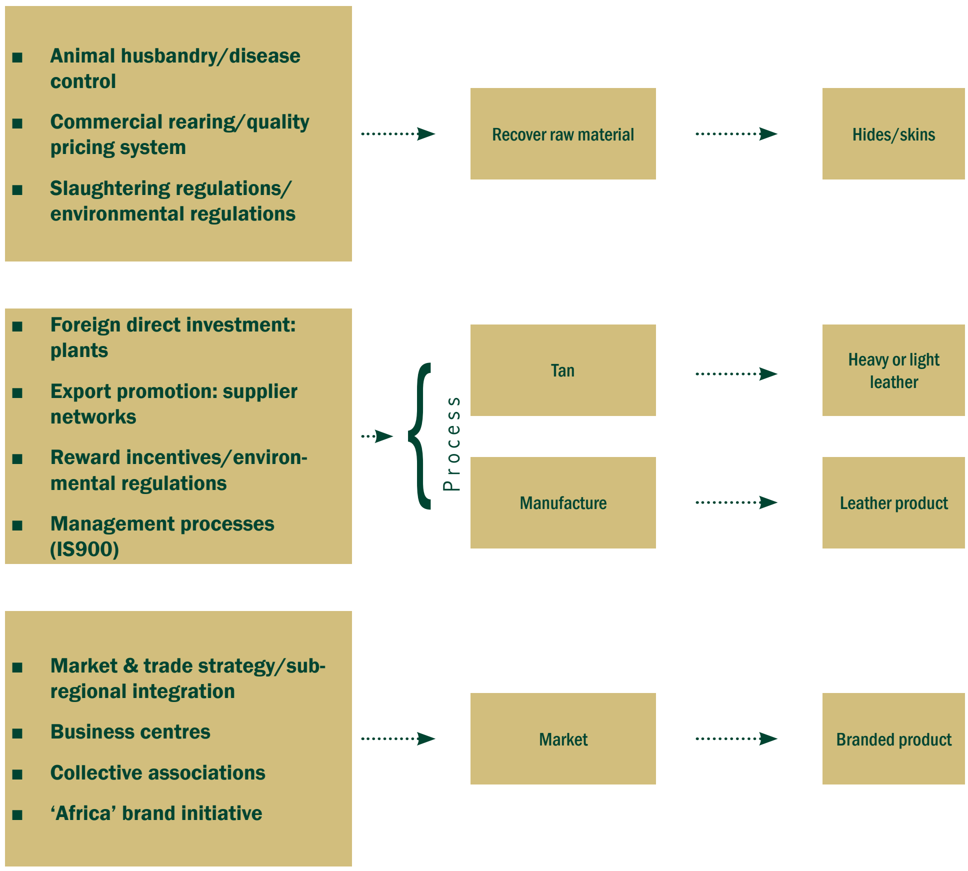
Although synthetic substitutes for leather have encroached on traditional markets for leather products, leather has remained largely unchallenged as a high-quality, fashion material in its principal end-uses. As a consequence this TIB does not discuss the potential impact that synthetic products could have on the demand for leather products.

4. Leather products' value chain

The value chain for leather products comprises four broad stages (refer to Figure 3). The first three stages cover core industrial processing functions and the last stage concerns product placement activities. The various stages require different combinations of material inputs, labour and capital. The first stage is obtaining raw material, in this case recovering hides from the slaughter industry. The second stage involves tanning hides to convert them into leather and is a capital intensive process. The third stage is manufacturing of leather products which is a labour intensive activity. The final stage is marketing the product which involves packaging and managing distribution channels. Product placement has become "the core of the modern leather product business and the principal main marketing agents have the necessary information and established a wide network of sales channels that allow them to contract production, provide finance and serve the customer "(De Buckle, 2001:9). It should be noted that even the "processing stages" are "linked to key commercial components in the value chain: the marketing of intermediate outputs, components and end products and trade and consumption" (De Buckle, 2001:9). Therefore it is important for a producer to decide at the outset whether he/she will specialise in producing low price, commodity goods or high quality, branded goods as marketing a "reasonable" priced, quality product is more difficult (CBI, 2005).

Globalisation has affected the manner in which activities in a value chains are divided and managed amongst parties. Leather products is classified as a buyer driven commodity chain because it is orgnaised around labour intensive industries, where manufacturers and marketing agents have established global production networks to relocate production to take advantage of developing countries' cheaper cost base (De Buckle, 2001:8). Manufacturers located in developing countries produce semi-finished or finished goods under specifications, guidelines and technical advice provided by principal buying agents (De Buckle, 2001).

Figure 3: Essential oils value chain



4.1. Production activities

Hides and skins are produced as a by-product of the meat industry's activities. This implies that the production of hides and skins is driven by the meat market's fortunes and is virtually inelastic to changes in the price and demand for leather products (FAO, 2001).

The quality of hides and skins is affected by the methods and practices prevalent in a country's animal husbandry, slaughter and curing sub-sectors. Over the past decade African countries production of leather and leather products has been lacklustre compared to other regions' performance (refer to Table 1).The region's production of good quality hides and skins is poor, which is reflected in its poor recovery rate of skins and hides compared to animals slaughtered. This is due to a host of bottlenecks in the value chain such as the non-collection of hides and skins, damage arising from poor livestock management practices, inadequate slaughtering facilities, poor preservation methods, poor handling, limited grading techniques, defective processing measures and insufficient putrefaction activities (FAO, 2001).

Studies suggest that these bottlenecks are not insurmountable as they are largely attributable to two issues. Traditional livestock practices in Africa are not "geared towards commercial livestock rearing and often provide a poor base for industrial production of meat and hides and skins" (FAO, 2001:5). Another factor is a haphazard pricing system that does not give producers an incentive to improve the quality of their output. Prices paid for skins and hides do not take into consideration the grade of material. For example prices are set unpredictably, with high prices paid for all grades when supplies are short, but with lower grades finding no market at all in other years.

Table 1: Bottlenecks affecting African producers

Value Chain Element	Performance	Reason for the Bottleneck
Recovery of raw materials	20% of world's resources but produces 14.9% of skins and hides between 1984 and the late 1990s.	Breeding constraints, low recovery rate of hides, poor pricing system
Exports of skins and hides	Africa's share of global exports fell from 4% to 2% between 1984 and the late 1990s.	Inefficient recovery of hides/skins, export restrictions, growth in the region's tanning capacity.
Imports of bovine hides	The continent's share of global imports increased from 4.1% to 5.1% between 1984 and the late 1990s.	Retailers and manufactures in developed countries have relocated the production of leather (i. tanning process) and the manufacture of leather articles to developing countries to take advantage of cheaper production costs due to less stringent environmental regulations and cheaper labour.
Tanning capacity	Africa's share of the world's tanning capacity declined from 9.2%-6.8% between 1984 and the late 1990s.	In absolute terms Africa's tanning capacity increased by 42%over the period, however the region's relative tanning capacity fell. This is due to the Far East and Latin America's phenomenal growth in tanning capacity arising from the globalisation of the leather value chain.

Source: FAO, 2002b: 20

4.2. Marketing activities

The slicing up of the leather value chain has affected the manner in which goods are distributed and marketed, in turn impacting on SADC producers' ability to access international markets. Distribution and marketing activities have become more complicated as the fragmentation of the value chain has opened up possibilities for various contractual relationships. However this process also provides greater opportunities for SADC's producers to access international markets as there are a multitude of "routes"/ contact points. A good starting point to gather information and assess these various "routes" is attending trade fairs and contacting trade associations. Trade associations are useful as they could refer a potential exporter to importers and manufacturers (CBI, 2005).

In its most abstract form, marketing and distribution activities tend to follow a generic format and involve producers, a range of middlemen (agents, importers, wholesalers and buyers) and an "intermediate" consumer (retailer). The craving up of the value chain amongst global suppliers has created a market for various types of middlemen who provide different services. For SADC's producers to gain access to international markets it is imperative that they use a middleman. Leather and leather products purchased in Africa have a poor international image due to a range of issues concerning the quality of products, delivery times and packaging (CBI, 2005). In a bid to reduce their risk purchasers in developed countries contract with middlemen to serve as responsible intermediaries between African suppliers and themselves (FAO, 2002b:48). Although the use of middlemen, especially brokers, facilitates trade it is expensive and increases transaction time (FAO, 2002b:48). Given the above "requirement" the most effective way for SADC's producers to gain entry into developed markets, over the long-term, would be to familiarise themselves with developed countries' regulations by forming trade associations and business contacts between leather producers in SADC. These institutions would interact with industries and commercial organisations in the target developed market (FAO, 2002b:49). However in the short term SADC producers' ability to select a connected middleman is an important strategy.

5. Consumption

Leather products are considered to be luxury goods. Consumers' purchasing decisions place greater emphasis on quality and branding than price because these goods tend to be status driven purchases. This does not infer that consumers do not take price into consideration when they purchase a leather product. Rather price forms part of a basket of the product's attributes, which includes quality, materials, workmanship, finish and styling (CBI, 2005). Although leather products' status as a luxury good is entrenched, these products are making inroads into other market segments. Supply side efficiencies have reduced the cost of production which in turn has reduced the price of "commodity type" leather products, making them more affordable. Improvements in infrastructure have facilitated the creation of distribution networks that make it simpler to place products within consumers' reach in remote areas, in turn opening up new markets for traditional products.

Given consumers' motivation for purchasing leather goods; a relationship exits between per capita income levels and consumers' demand for leather products. As a consequence the demand for leather and leather products is elastic as it moves in line with the performance of the global economy. Therefore circumstances that depress economic growth such as a hike in oil prices, raising interest rates, inflation and growing unemployment will negatively affect consumers' demand for leather and related-product markets. The industry is aware that demand for traditional based leather products is influenced by a countries' macroeconomic performance. To reduce its exposure to economic downturns, the industry is developing new products to create organic growth. This product development strategy has two strands: Capitalising on the rise of consumerism to design better, more attractive products using a mix of materials to create "must-have" fashionable accessories, and creating a plethora of new products by tying its products to the development of new technologies in growth industries, such as ipods, cellphones and notebooks.

Supplying fashionable items tends to be the most lucrative market for leather products. A positive aspect of supplying this market is that quality or technical imperfection is of minor importance compared to other markets. However to participate in this market requires flexible production runs as lead times from design, manufacturing and shipping a product are tight. This becomes especially complicated when materials, colours, designs and sizes change every 6 months. For a supplier to participate in this market access to infrastructure and logistics management is essential. Furthermore given the relatively low unit price of these products being geographically close to one's primary markets is a clear advantage. Based on these factors the high street fashion market does not seem particularly attractive opportunity for SADC's producers.

6. Global trade patterns

Greater competition for shares of end-product markets in developed countries has intensified rivalry between retailers causing them to exert downward cost pressure throughout the value chain. In a competitive market a seller's ability to reduce costs is important, provided it does not negatively affect quality. Sellers in developed countries have outsourced production activities such as tanning leather and manufacturing leather products to developing countries to take advantage of less severe environmental regulations and cheaper labour, respectively, which reduces production costs. A caveat in the above statement needs to be stated to avoid confusion. Although developed countries have relocated tanning activities to developed countries, they have strategically outsourced the type of goods that they have outsourced produced in developing countries. Manufacturers in developed countries realise that they cannot compete in the mass produced market segments as their cost base is too high. Instead they have focused their attention on producing and marketing high value, quality leather goods that require large investments in technology, design capabilities, excellent quality control procedures and the ability to shape and anticipate fashion trends (CBI: 2005).

The decline in developed countries' production activity is most prominent in the production of high volume, low value items. The production of these products has moved to developing regions, in particular China, India and Vietnam, to take advantage of cheaper labour and environmental costs. The majority of the world's middle quality branded goods is produced in developing countries under a franchise or licensing agreement from developed suppliers. The difference between input costs makes it worth suppliers in developing countries while to invest time and effort to work with low cost manufacturers in developed countries to create a product that meets their specific requirements. Trade statistics confirm this trend as this indicate that developing countries exports of manufactured leather articles to developed countries has steadily increased over the past two decades in terms of volume but not value, as activities associated with branding and marketing leather goods have remained in developed countries.

This sub-section discusses the production, imports and exports of light leather as it is used in the uppers of leather shoes and for a variety of other applications in the apparel and upholstery. The rapid expansion of tanning capacity in developing countries is reflected in the growth of output of light bovine leather during the nineties (refer Figure 4). Developing countries' production over this period is mostly attributed to the Far East and in particular China. Over the same period, developed countries production of light bovine leather declined in both absolute and relative terms due to the relocation of manufacturing activities to take advantage of cheaper production costs in developing countries.

Figure 4: Global production of light bovine leather ('000SqF)

Source: Food and Agriculture Organisation (FAO)

The relocation of the manufacture of leather products to developing countries stimulated domestic production of processed leather in these countries and also had a considerable effect on trade flows for processed leather. The early nineties signifies a turning point in the global industry for processed leather's development, as developing countries become the world's largest exporters and importers of processed leather. Before 1994 developing countries were net exporters of processed leather. From 1996-2003 developed countries' status as a net exporter of processed leather grew in terms of volume, year-on-year. Developing countries position as the world's dominant manufacturers of leather products is indicated by their growing consumption of cured/tanned leather. In 2003 developing countries' share of global production and imports of processed leather was 64% and 73%, respectively (refer to Table 2).

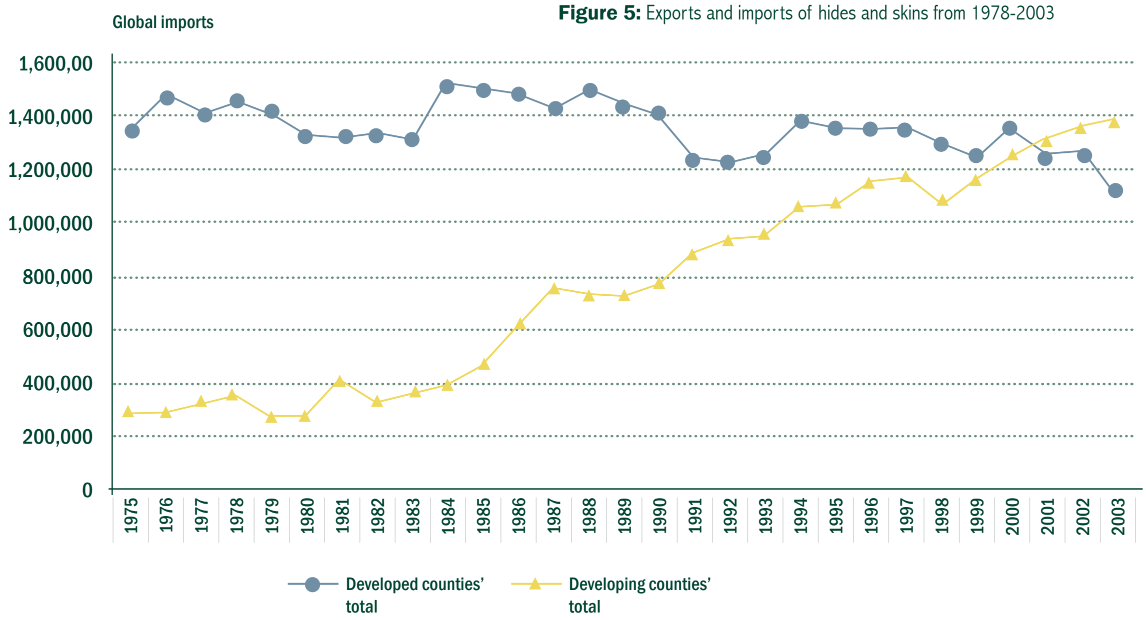
Table 2: Developed and developing relative position in processed leather

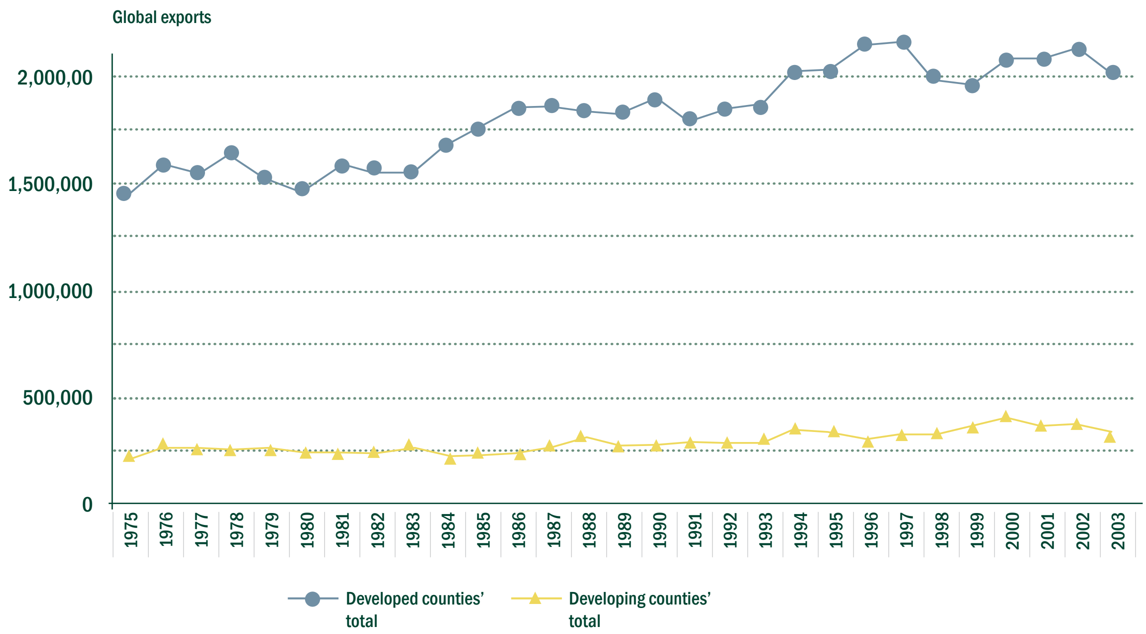
	Year			Average annual growth%		Percentage of total%	
	1990	1996	2003	90-96	96-03	1990	2003
Production (000SqF)							
Developed countries	6,845,407	5,774,909	6,430,897	-2.79	1.55	51.78	35.57
Developing countries	6,373,531	8,977,436	11,648,793	5.88	3.79	48.22	64.43
Imports (000SqF)							
Developed countries	3,451,654	3,660,080	3,988,970	0.98	1.27	61.44	27.26
Developing countries	2,165,949	8,198,737	10,669,324	24.84	3.83	38.56	72.74
Exports (000SqF)							
Developed countries	2,848,871	3,851,952	4,611,096	5.16	2.60	46.28	33.71
Developingd countries	3,307,155	7,702,691	9,068,671	15.13	2.36	53.72	66.29

Source: FAO

The movement of tanning activities from developed countries (North America and Europe) to developing countries (Asia, Latin America and Eastern Europe) has affected the flow of trade in skins and hides (refer to Figure 6) with respect to the volumes traded, in absolute terms and as a percentage of production, and the movement of goods between regions. Globally, around 40 percent of the output of raw bovine hides enters international trade, an increase from 33 percent in the early eighties, and world shipments rose on average by 2.1 percent per year during the eighties and nineties (FAO, 2001:3).

Figure 5: Exports and imports of hides and skins from 1978-2003





Source: FAO

Over the past 20 years developing countries have expanded their tanning and leather manufacturing sectors at a faster rate than their ability to increase their production of raw hides (FAO, 2001).This is despite developing countries' production of skins and hides in terms of volume overtaking developed region's production in 1995. To meet surplus demand developing countries have on average become net importers of raw bovine hides and skins. Developing countries' status as net importers of skins and hides was largely driven by the rapid expansion of China's apparel and footwear industry which required access to raw materials. Given the potential impending bottleneck the Chinese government plagued substantial resources during the 1990s to improve and develop its tanning sub-sector. Supply and demand side factors led to China becoming the world's largest importer of skins and hides, on a volume basis, since 2001.

Given the shortage of raw materials in developing regions as production is concentrated in these regions, developed countries have strengthened their position as being a net exporter of cattle hides (refer to Table 3). The United States was the largest producer of skins and hides in 2003; however its share of global production is steadily falling. This is due to countries banning imports of beef from the United States amid fears about contaminated BSE meat, and limited availability of animal to slaughter due to the continuation of the ban of imports of live animals to the US from Canada (FAO, 2006:3)

Since the 1980s growth in developing countries' production of hides and skins has outpaced developed countries growth in production and this trend should continue. This trend is linked to higher per-capita income levels in developing countries that have stimulated the demand and consumption of meat, which has increased beef prices (FAO, 2006:3). Domestic producers' access to a larger, growing consumer base allows them to exploit economies of scale, making their operations more profitable, encouraging new entrants into the industry. Domestic demand has been a key factors driving growth in the following countries slaughter industries: China, Indonesia, Philippines and Vietnam. South America's industry has also enjoyed rapid growth which was driven by exports.

Table 3: Developing and developed countries' position in the market for raw hides and skins (metric tons)

	Year			Average annual growth%		Percentage of total%	
	1990	1996	2003	90-96	96-03	1990	2003
Production (000SqF)							
Developed countries	3,352,973	3,107,976	1,108,727	-1.26	-13.69	56.49	21.71
Developing countries	2,582,384	3,072,199	2,998,190	2.94	3.84	43.51	78.29
Imports (000SqF)							
Developed countries	1,404,122	1,345,327	1,108,727	-0.71	-2.73	64.17	44.57
Developing countries	784,136	1,153,544	1,379,099	6.64	2.58	35.83	55.43
Exports (000SqF)							
Developed countries	1,896,509	2,166,892	2,028,460	2.25	-0.94	87.33	86.28
Developing countries	275,224	297,859	322,512	1.33	1.14	12.67	13.72

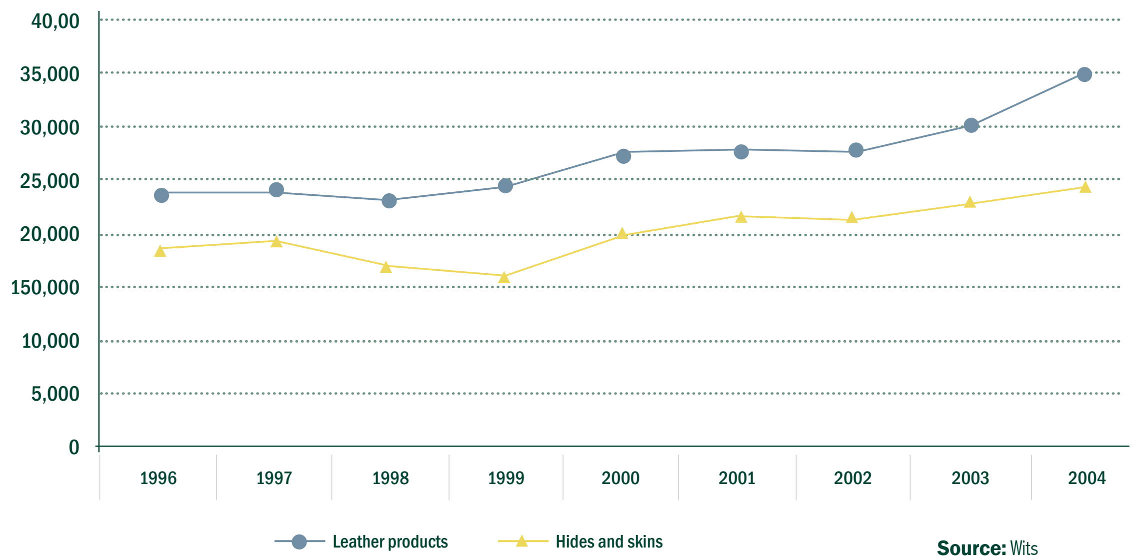
Source: FAO

Developing countries on average have managed to make significant inroads into international markets; however this does not imply that all developing countries have been equally successful. Developing countries in the Far East are the largest exports of leather products because of the cost competitiveness of their processing and manufacturing functions. In particular China managed to gain most from the "globalisation" of the value chain as it developed its productive capacity in its textile industry to serve a complementary market. Unfortunately Africa and the Near East's relative share of total exports declined over this boom period due to supply-side bottlenecks. The lesson for SADC's producers is that it is possible to use existing infrastructure in one market to serve a complementary market and capitalising on market timing is important. Producer and market associations are essential in providing support to parties along the value chain to take advantage of market changes. SADC already has these structures in place; however they are not being used to their full advantage. Going forward the benefits derived from broad based industry cooperation should be explored.

7. Trade in hides and skins

This section briefly discusses the trade in hides as the author does not advocate that SADC's producers should specilaise in trading skins and hides. First, international trade in skins and hides has a lower value (refer to Figure 6) and is growing at a lower rate than trade in leather products. Second, the price for skins and hides are more volatile due to supply-side fluctuations. The supply of skins is price inelastic and is determined by the demand for meat products and the amount of livestock that is available for slaughter, which is effected by the out-break of dieses and quarantine regulations. The author recognises that SADC's ability to establish itself as a trader of leather products requires a steady progression along the value chain. As a result trading skins and hides should be a means to progress up the value chain and not an end in itself.

Figure 6: Gross global imports from 1996-2004 (US$ millions)



Source: Wits

Developed countries retailers' strategy to reduce costs has globalised the production of leather goods as the various components of the value chain are conducted in geographically specialised hubs. The output of the slaughter industry in developing countries is larger in absolute terms and is increasing at a faster rate then the slaughter industry in developed countries. By the late nineties approximately 70% of the world's skins and hides were produced in developing countries and five of the world's top ten producers comprising 74% of global production were China, Brazil, India, Argentina and Mexico. According to studies conducted by the FAO (2002) as a country's per capita income increases, its population's diet includes more fresh fruit, vegetables and meat products. Over the past decade increases in country's per capita income has been substantial in Asian and South America countries, in particular China, Thailand, Brazil, India and Argentina. In the future developing countries' global leadership position in the production of skins and hides should become more entrenched reflecting the improvements in animal husbandry practices and the emergence of a growing middle class. Since the late nineties approximately 60% of processed leather was produced in developing countries, mostly notably China, Korea, Brazil, Mexico, India and Thailand.

From 2000-2005 global trade in hides and skins increased by a meagre 4% on an average annual basis. This low growth rate is due to a host of problems affecting the animal husbandry industry, especially the BSE outbreak. Over the period a stark difference exists between regions' propensity to trade in hides and skins, which has an important consequence on future trade patterns. Given the magnitude of its demand and the rate of its growth, East Asia is fuelling overall trade in the commodity on the back of the explosion in China's manufacturing sector. However the region's propensity to import is growing at a faster rate and off a larger base then its propensity to export: 6% annual average growth off a base of US$ 9,723 million compared to 3% growth off a base of US$ 3,496 million. South Asia's participation in international trade, which is mostly driven by India and Pakistan, is rapidly increasing, but off a low base, as the region's propensity to import and export hides achieved double digit growth from 2000-2005, however the region is a net exporter. Central America's demand for imported hides and skins substantially increased over the period posting double digit growth but off a small base, while its propensity to export experienced negative growth. This indicates the region's movement into producing leather products. Alternatively South America's entrenched its position as an exporter as it grew by 6% off a substantial base of US$ 2,023 million, while its importers contracted by 4% off a base of US 332 million. South America's presence in this market is due to Brazil and Argentina which are among the top ten largest global exporters of skins and hides. NAFTA's propensity to import skins and hides decreased by

3% while its exports increased by 3%, off a larger base than its imports. NAFTA's performance is due to the United States which is the world's second largest global exporter. The EU 25 experienced a similar trend but its relative decline was less pronounced as both its imports and exports grew by roughly 2% off a similar base.

At a superficial level trade in hides and skins has a geographical dimension. Asia, mostly China, imports hides and skins from the EU 25, in particular Italy, Germany and France, to process into value added products. From 2000-2005 the composition of the global import and export market for skins and hides has changed. Over the period both the EU 25 and NAFTA's, in essence the United States, share of global imports have declined by a larger percentage than their share of global exports. Furthermore, these regions' growth in exports, calculated on an average annual basis, was larger than their growth in imports. These trends indicate that these regions are consolidating their position as net exporters. In contrast, over the period East Asia's percentage of global imports has increased from 37% to 40% and it percentage of global exports decreased by 1%. Furthermore its annual average growth of its imports was 6% which is greater than its growth in exports of 3%. This movement reflects the relocation of polluting tannery activities and labour intensive production to developing regions.

In 2005 East Asia and the EU25 were the largest global importers of skins and hides comprising 40% and 34% of global imports, respectively, while NAFTA trailed behind in third position with 9% market share (refer to Table 4). In 2005 intra-trade between East Asia, the EU 25 and NAFTA comprised 29%, 60% and 33% of these region's imports. By implication it follows that in 2005 the largest regional exporters of hides and skins were the EU 25, East Asia and NAFTA with 39%, 16% and 14% of global exports, respectively. Generally, skins and hides' value will be lower than leather products as the latter is a commodity product. For producer's of commodity products, the price is determined by the market and thus profit is determined by one's ability to manage costs. As a result producers prefer to export commodity products to closer markets to reduce their transportation costs and take advantage of preferential trade agreements. Therefore it is not surprising that the three largest importers of hides and skins engage in considerable intra-trade. EU 25 members' intra-trade activity is substantially greater compared to other top five importing regions. East Asia's intra-trade activity is driven by China and Hong Kong, which serves as greater China's "trading port". The EU 25 intra-trade activity reflects former EU 15 countries exporting raw material to Eastern European countries. NAFTA 's intra-trade reflects the US exporting raw materials to Mexico.

Another import feature that is masked when trade data is analysed on a regional basis is the emergence of Eastern Europe producers,

such as Romania and Poland. This trend is due former EU 15 members moving their production activities to newly incorporated Eastern European countries to take advantage of cheaper production costs. Another advantage of this arrangement is that Western European buyers can exercise greater control over the production of their goods due to geographically proximity, and these goods are not subject to the EU's tariffs and NTB. As a result goods produced in these regions have better market access then goods produced by other developing countries that want to capitalise on their cheaper production costs.

Table 4: Regional trade in hides and skins in 2005 (US$'000)

	Exports		
	2005	Average annual growth 00-05 (%)	Percentage (%) 2005
EU 25	8,831,901	2.28	39.22
East Asia	3,496,205	2.85	15.53
NAFTA	3,199,743	2.55	14.21
South America	2,702,304	5.96	12.00
South Asia	954,233	19.43	4.24
South East Asia	607,183	5.22	2.70
Middle East	282,555	8.61	1.25
SADC	203,767	-5.79	0.90
Central America	39,092	3.55	0.17
Regions' total	20,316,984	3.45	90.22
Global exports	22,518,484	3.79	100.00

Source: WITS

Table 4: Regional trade in hides and skins in 2005 (US$'000)

	Imports		
	2005	Average annual growth 00-05 (%)	Percentage (%) 2005
East Asia	9,723,055	5.74	40.19
EU 25	8,233,525	1.98	34.03
NAFTA	2,058,838	-2.58	8.51
South East Asia	847,185	-.0.05	3.50
Middle East	502,493	3.96	2.08
South Asia	387,787	14.82	1.60
South America	272,686	-3.85	1.13
SADC	93,490	-3.14	0.39
Central America	75,570	16.45	0.31
Regions' total	22,194,630	3.05	91.74
Global exports	24,192,827	3.89	100.00

Source: WITS

Table 4: Regional trade in hides and skins in 2005 (US$'000)

	Regions trading partners			
Exporter	**First**		**Second**	
EU 25	EU 25	55.12	East Asia	16.03
East Asia	East Asia	71.47	South East Asia	17.98
NAFTA	East Asia	56.39	NAFTA	24.61
South America	East Asia	32.71	EU25	28.35
South Asia	East Asia	50.38	EU25	28.89

Source: WITS

Table 4: Regional trade in hides and skins in 2005 (US$'000)

	Regions trading partners			
Importer	**First**		**Second**	
East Asia	East Asia	28.98	NAFTA	22.18
EU25	EU 25	59.30	South America	8.95
NAFTA	NAFTA	33.05	South America	28.61
South East Asia	South America	33.05	East Asia	21.84
Middle Asia	EU25	23.54	Middle East	6.39

Source: WITS

In 2005 East Asia was a net importer of hides and skins, recording a trade deficit of US$ 6, 227 million. In the future East Asia will probably consolidate its status as a net importer of skins and hides. In 2005 East Asia's imports were largely driven by China, Hong Kong and Korea's demand for skins and hides. China was the world's largest importer of skins and hides in 2005 with an 18% share of global imports and the world's third largest exporter; however it is a net importer. China's status as a net importer should not change in the future, even though it is the world's largest producer of light bovine leather and its slaughter industry's capacity should increase. The important issue is that the growth in demand for hides and skins due to the surge in productive capacity of its manufacturing sector should continue to outpace supply. The majority of China's imports were sourced from the United States in 2005 .Hong Kong was the second largest importer of skins and hides in 2005 with a 12% share of global imports. Hong Kong serves as primarily an import processing zone for China.

In 2005 the EU (25) was the second largest importer of hides and skins, however on average it is a net exporter. This region's imports can largely be attributed to Italy, Germany, Romania, Spain and Poland's demand for raw materials. The role of former Eastern European countries in increasing the region's imports should not be ignored; even though on an individual basis these countries' imports are small, in aggregate they are substantial. This is due to manufacturers in EU 15 countries relocating their primary activities to Eastern Europe countries to take advantage of cheaper production costs. Italy is the region's most active trader of hides and skins, as in 2005 it was the world's third largest importer with a 14% share of global exports and the world's largest exporter accounting for 19% of global exports, therefore it is a net exporter. Furthermore Italy dominates the export market as it closet rival the United States had an 11% share of global exports in 2005. Italy imports high quality leather to produce luxury branded goods and exports its lower grade leather. In 2005 Italy's leading trading partner was France with a 10% market share. Italy's trading partners are diverse, for example, its top six suppliers comprise 40% of its imports. This reflects Italian importers discerning attitude towards only importing quality leather products. The implication is that SADC's producers should form leather cooperatives to improve their quality or specialise in producing exotic leather. The EU's other leading importers share of global imports tend to fluctuate around 3.5-2.3% of global imports.

In 2005 NAFTA was the world's third largest importer and exporter skins and hides, but overall it was a net exporter. NAFTA's position as an importer has steadily declined from 2000-2005, while its relative position as an exporter has remained constant, indicating a relative improvement. These trade patterns reflect the demise of the United States' tanning industry and the relocation of polluting and labour intensive manufacturing to Mexico, Korea and China.

Table 5: Top ten trading countries of skins and hides in 2005 (US$'000)

	Exports		
	2005	Average annual growth 00-05 (%)	Percentage (%) 2005
Italy	4,325,087	3.25	19.21
United States	2,580,193	2.06	11.46
China	1,565,809	23.53	6.95
Brazil	1,401,129	13.00	6.22
Germany	970,584	1.67	4.31
Korea, Rep	863,547	-8.72	3.83
Taiwan, China	818,008	-1.79	3.63
Argentina	814,359	0.00	3,62
Australia	769,892	4.40	3.42
France	647,442	-0.15	2.88
Top ten exporters	14,756,433	3.28	65.53
Other exporters	7,762,433	4.82	34.47
Total global exports	22,518,484	3.79	100.00

Source: WITS

Table 5: Top ten trading countries of skins and hides in 2005 (US$'000)

	Imports		
	2005	Average annual growth 00-05 (%)	Percentage (%) 2005
China	4,396,133	8.71	18.17
Hong Kong, China	3,620,762	9.17	14.97
Italy	3,265,443	0.24	13.50
United states	940,774	-4.90	3.89
Mexico	936,760	2.72	3.87
Germany	885,841	5.53	3.66
Korea, Rep.	867,989	-5.77	3.59
Romania	787,858	17.88	3.26
Spain	522,452	-1.06	2.57
Poland	560,266	13.85	2.32
Top ten total	16,884,278	4.38	69.79
Other importers	7,308,549	2.82	30.21
Global imports	24,192,827	3.89	100.00

Source: WITS

Based on a combination of a country's growth rate, value of its imports and its share of the global import market, the following countries have been identified as emerging importers of skins and hides and thus could be a potential market for SADC's imports. Slovenia, Slovak Republic, Croatia, Malaysia, Bulgaria, Yugoslavia, Moldava,Costa Rica and Albania.

Based on a combination of a country's growth rate, value of its exports and its share of the global export market, the following countries have been identified as emerging exporters of Hides and Skins and thus could be SADC producers' potential competitors: India, Thailand, Poland, Slovak Republic, Saudi Arabia, Croatia and Belarus.

8. Trade in leather products

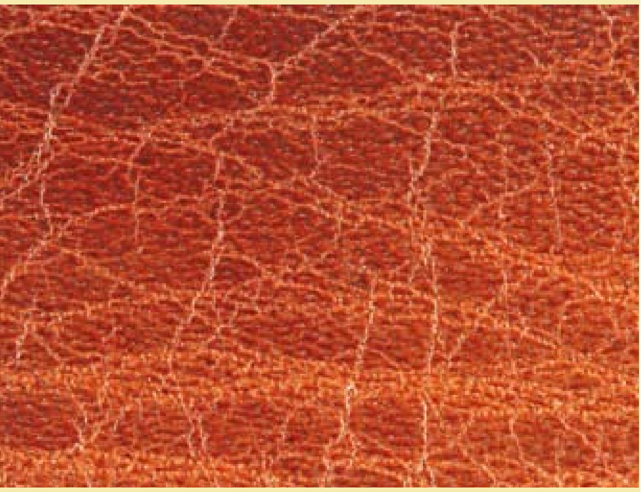
8.1. Regional trade patterns

Leather articles are classified as a luxury goods and thus by definition it follows that consumers' demand for leather products is related to their disposable income. Developed countries tend to have a larger GDP per capita than developed countries and this income tends to be more equitably distributed among the population. This implies that the absolute demand for leather products is greater, but also, the market for leather products is more broad based in developed compared to developing countries. Trade statistics support this view as the largest regional importers of leather goods tend to be developed regions such as the EU 25 and NAFTA.

Although developing countries participation in trade throughout the value chain is significant, developing countries' progress is most felt in the area of manufactured leather products, where their share of global exports has increased twofold over the past two decades (CBI, 2005:6). The manufacture of low value commodity leather products and upper market, high street fashion branded goods are predominately produced in developing countries. The former are produced under license from developed countries' retailers/ buyers in accordance to their specifications. Most notably high-value components of the value chain have remained in developed regions; the styling of goods, creating fashion trends, designing capabilities, branding and marketing activities. The slicing up of activities in the value chain and the geographical placement of high value compared to low value activities has affected the volume, value and movement of trade between regions and countries.

In 2005 the three largest regional importers of leather products comprised approximately 90% of global imports (refer to Table 6). In 2005 the EU 25 was the largest importer with a 36% share of global imports in leather products followed closely by NAFTA and East Asia with 29% and 25% share, respectively. In 2005 eighty percent of the world's exports of leather products originated from East Asia and the EU 25. These two regions dominate the export market for leather goods as respective percentage share of global exports is 40% (refer to Table 8).

Intra-regional trade for leather products is prolific compared to trade in hides and skins (refer to Table 7 and Table 9). This trend is due to developed countries outsourcing polluting and labour intensive production processes to developing countries that create products under licensing agreements to meet buyers' specifications. In 2005 the largest three regional importers of leather products dominant trading partner was East Asia. Leather products are regarded as a luxury product and thus countries with a higher GDP per capita should demand more leather products. Given the market's demand side drivers and the relocation of



manufacturing capacity, intra-trade between regions should be limited, except for the EU 25 and NAFTA. Both these regions have the ability to shift production to internal developing centres within the regional, such as Mexico, Romania, etc and also have access to the world's largest consumer nations, such as the United States, United Kingdom, Germany and France. Furthermore, Intra-trade between NAFTA is large as American retailers have created global supply chains to take advantage of low cost production in Mexico.

In 2005 the EU 25 was a net exporter of leather products. From 2000-2005 the EU 25's propensity to trade leather products has increased. Over the period the region grew its imports by 10%, on an average annual basis, to US$ 13, 629 million in 2005 representing 36% of global imports, making it the world's largest importer. Alternatively over the same period it grew its exports by 13% to US$ 11, 601 million, representing 40% of global imports in 2005, placing it in second position behind East Asia. The EU 25's export growth was largely driven by emerging Eastern European exporters such as Poland, Hungary and Romania. The EU 25 exports high value, luxury goods because its competitive advantage is its tradition of craftsmanship, design capabilities, ability to set trends, accurate knowledge of emerging fashion trends, ability to manufacture fashion items and is capacity to deliver consistent supply (CBI, 2005). The EU 25 exports high value, luxury goods because its competitive advantage is its tradition of craftsmanship, design capabilities, ability to set trends, accurate knowledge of emerging fashion trends, ability to manufacture fashion items and is capacity to deliver consistent supply (CBI, 2005). The EU 25's export performance is primarily driven by Italy and France that are the world's second and third largest exporters of leather articles. Other countries that have a significant impact on the region's performance and fall into the world's top ten exporters include Germany, Belgium, United Kingdom, Spain and The Netherlands. This region's trade is value driven

The majority of the EU 25's imports were destined for Germany, France, United Kingdom, Italy, Spain and Belgium. In 2005 the above countries were amongst the top ten largest importers of leather articles in the world. Within the EU 25 member states consumers' preferences are remarkably different and thus certain member states are more receptive to products from developing countries. Generally The Netherlands, Belgium, United Kingdom and Germany offer lucrative trade prospects for producers from developing countries, while opportunities in Italy, France and Spain are limited (CBI, 2005:6). This is due the divergent nature of consumers' preferences and the relative productive capacity of these countries. (CBI, 2005:6).

Germany, the United Kingdom and Belgium are amongst the world's largest top ten importers and exporters of leather products but their domestic production of leather products is limited. Germany and the United Kingdom were net importers of leather products in 2005 while Belgium was a net exporter. As consequence when a producer from a developing country exports his/her product to one of these markets, his/her product indirectly has access to a third market. Therefore one of the benefits of exporting to these markets is that a producer's global reach is extended, providing exposure to other markets, which is vital to improve the perception of the quality of goods originating from developing countries. Therefore one of the advantageous for a developing producer to export to these countries is the ability is to improve his/her market access. The second advantage concerns access to technical and financial assistance, which remains a bottleneck for producers in developing countries. For example the production of leather products has been outsourced to developing countries under the "supervision" of German buyers (CBI, 2005).This type of arrangement should be pursed by SADC's producers as it will allow them to supply a market and thus generate revenue, while gaining access to capital, a severely constrained resource, and improving their intangible knowledge. SADC's competition for this market will predominately be from Eastern European producers (CBI, 2005).

In 2005 NAFTA's was the second largest global importer and fourth largest global exporter of leather products. On average NAFTA was a net importer of leather products in 2005 with a trade deficit of US$ 9, 771 million, which should continue to increase in the future. This is assessment is based on the fact that manufacturing capacity has been relocated to developing regions, which is reflected in trade statistics. From 2000-2005 NAFTA's imports grew by 5% on an average annual growth while its exports only grew by less than 1% off a substantial smaller base, indicating that the region's trade momentum is in favour of imports. In 2005 the United States was the largest importer of leather articles and comprised 86% of the region's imports.

East Asia is a net exporter of leather products and its position as a net exporter it should continue to grow in the future. From 2000-2005 East Asia managed to grew its exports by 9% on an average annual basis from US$ 7,458 million to US$ 11,732 in 2005 compared to a 3% growth rate off a base of US$ 8, 143 to US$ 9,660 million in 2005. East Asia is a bulk exporter of low to medium value leather products and production occurs predominately in China. This region specialises in producing low no name, commodity products or medium value, high street fashion branded products under developed buyers' specifications. This region's trade is volume driven. The region's imports of leather articles are mainly driven by Japan and Hong Kong's demand. In 2005 these countries respectively comprised 45% and 44% of the region's imports.

This sub-section has discussed regional trade patterns for leather products in detail. An interesting point emerging from this discussion is that trade in leather products has a regional and product bias. This opens up trade opportunities for SADC producers provided they produce differentiated products and pursue a focused marketing approach. From the above discussion of trade statistics East Asia and the EU 25 are the world's dominant exporters of leather products. However these regions achieved similar results using different strategies. East Asia's export strategy hinges on producing "commodity type goods" in mainly a single country, China. In contrast production of leather goods in the EU 25 is spread throughout member states where a range of quality goods are produced. In essence one strategy is based on economies of scale while the other is based on economies of differentiation. SADC producers' export strategy could be based on the economies of cultural integration, namely incorporating Africa designs into western products

Table 6: Regions' imports of leather products for 2005 (US$'000)

	Year		Average annual growth 00-05	Percentage of total%	
	2000	2005	96-03	2000	2005
EU25	8,317,569	13,628,924	10.38	30.44	35.80
NAFTA	8,610,357	10,954,100	4.93	31.52	28.78
East Asia	8,143,099	9,659,630	3.47	29.81	25.38
South East Asia	355,645	597,848	10.95	1.30	1.57
Middle East	409,686	580,608	7.22	1.50	1.53
South America	276,797	398,655	7.51	1.01	1.04
SADC	66,693	153,351	18.12	0.24	0.40
Central America	33,434	68,302	15.36	0.12	0.18
South Asia	9,439	47,032	37.88	0.3	0.12
Total regions	26,222,718	36,087,449	6.59	95.98	94.80
Global imports	27,320,531	38,066,728	6.89	100.00	100.00

Source: FAO

Table 7: Largest importers' trading partners for 2005 (percentage of a region's total trade)

	Regions trading partners					
Region	First		Second		Third	
EU 25	East Asia	45.57	EU25	33.77	South Asia	9.29
NAFTA	East Asia	45.57	EU25	33.77	South Asia	9.29
East Asia	East Asia	65.48	EU25	28.40	South East Asia	2.15
South East Asia	EU25	42.69	East Asia	41.80	South East Asia	9.25
Middle East	East Asia	17.74	EU25	17.74	South Asia	5.98

Source: WITS

Table 8: Regions' exports of leather products for 2005 (US$'000)

	Year		Average annual growth 00-05	Percentage of total%	
	2000	2005		2000	2005
East Asia	7,458,495	11,731,539	9.48	40.68	40.43
EU25	6,315,311	11,601,322	12.93	34.44	39.98
South Asia	1,033,777	1,938,234	13.40	5.64	6.68
NAFTA	1,131,703	1,183,223	0.89	6.17	4.08
South East Asia	1,440,313	862,286	-9.75	7.86	2.97
Middle East	331,808	348,144	0.97	1.81	1.20
South America	182,794	331,989	12.68	1.00	1.14
Central America	43,307	88,608	15.39	0.24	0.31
SADC	23,229	67,550	23.80	0.13	0.23
Regions' total	17,960,739	28,152,895	9.41	97.96	97.03
Global exports	18,335,363	29,014,593	9.61	100.00	100.00

Source: FAO

Table 9: Largest exporters' trading partners for 2005 (percentage of a region's total trade)

	Regions trading partners					
Regions	First		Second		Third	
East Asia	NAFTA	32.27	EU25	23.19	East Asia	21.55
EU25	EU25	52.56	East Asia	18.83	NAFTA	11.28
South Asia	EU25	58.92	NAFTA	18.00	Middle East	11.32
NAFTA	NAFTA	55.45	East Asia	22.31	EU25	12.69
South East Asia	NAFTA	34.95	EU25	16.82	South East Asia	14.70

Source: WITS

8.2. Country trade patterns

8.2.1. Imports

In 2005 the largest global importers of leather products in descending order were The United States (25%), Japan (12%) and Hong Kong, China (11%). These three countries comprised 48% of global imports amounts to US$9,559 million (refer to Table 10). Six of the remaining seven top ten importers were former EU 25 countries. European markets are diverse and thus should be examined individually due to this TIB's format this is not possible and therefore readers should refer to http://www.cbi.nl for more information about these countries' respective markets. The United States provides potential trade opportunities for SADC's producers due to the extent of its market and the range of goods it imports. Japan is also a lucrative market for SADC's producers as they could tap into South Africa's market reputation as a means to access this market.

The largest importer of leather products in 2005 was the United States, comprising 25% of global imports, and its largest trading partner was China. The United States was also listed among the top ten global exports of leather products in 2005. However its exports were miniscule compared it is imports and as a result it was a net exporter in 2005. This market's consumer culture is broad based and thus it imports a variety of leather goods including mass manufactured goods are lower end mega retail chains and luxury goods prestigious brand names such as Prada, etc. Given the diversity of the country's import basket it creates export opportunities for manufacturers of commodity, high fashion and luxury products. On average, American buyers, excluding luxury items, tend to prefer importing large quantities and therefore suppliers must have infrastructure to handle large production runs of a particular item. Potential exporters are attracted to this market because of its value, but accessing this value is difficult because the market is fragmented (CBI, 2005).

In 2005 Japan was the second largest importer of leather products with a 12% share of global imports (refer to Table 10), and is its primary trading partner was China (refer to Table 11). Japan's import basket is predominately for up market, branded exotic products. Japanese buyers are conservative and thus prefer to import trusted brands and thus are loyal to their suppliers. Furthermore buyers' decisions are not easily swayed by price differentials between competing goods as decisions are primarily governed by the quality aspects of a good. An exporter's ability to gain a toehold into the Japanese market can be difficult as transactions follow established business relationships (Murphy 2001 cited in MacNamara et al, 2003:8). Japanese businessmen are aware of the consequences that their actions could have on other parties throughout their supply chain. As a result a new entrant's ability to break into a supply chain might be hindered if Japanese suppliers perceive that the new entrant could create competition for existing customers down the chain (Murphy 2001 cited in (MacNamara et al, 2003:8). An exporter's ability to break into established chains is difficult but not impossible. In this regard South African firms have been successful. For example, South Africa's Klein Karoo company spent 2-3 months in Japan with local technicians to develop and refine their processes and skills to create a product that suits Japanese consumers' requirements. South Africa is regarded as a preferential supplier of ostrich leather products. Other SADC producers could "piggy-back" on South Africa's status to export their goods into the Japanese market. In fact this is the strategy that Australian producers use to market their goods in the Japanese market, "Australia's products are sold through South African businesses to get a "stamp" of approval" (MacNamara et al, 2003:8).

Countries' relative share of global imports remained largely unchanged from 2000-2005. Notable exceptions include a fall in the United states' market share from 28% in 2000 to 25% in 2005, representing a drop of US$1 743,623,000. Hong Kong's imports also fell over the period by 4% representing a loss of US$ 10, 527,000. Western European countries, represented in table 17, barring Germany, increased their share of global imports. This is due to the growing demand for technology driven gadgets that have created a boom for non-traditional leather products (i.e notebooks, cell phones, ipod).

Table 10: Top ten importers of leather products for 2005 (US$'000)

	Year		Average annual growth 00-05	Percentage of total%	
	2000	2005		2000	2005
US	7,642,771	9,386,394	4.20	27.97	24.66
Japan	3,523,333	4,380,382	4.45	12.90	11.51
Hong Kong, China	4,229,084	4,239,611	0.05	15.48	11.14
Germany	1,830,759	2,294,268	4.62	6.70	6.03
France	1,301,126	2,119,255	10.25	4.76	5.57
United Kingdom	1,402,178	2,115,369	8.57	5.13	5.56
Italy	853,097	1,789,509	15.97	3.12	4.70
Spain	553,977	1,142,717	15.58	2.03	3.00
Belgium	480,630	915,780	13.76	1.76	2.41
Canada	567,179	874,387	9,04	2.08	2.30
Top ten total	22,384,133	29,257,672	5.50	81.93	76.86
Other imports	4,936,398	8,809,056	12.28	18.07	23.14
Global imports	27,320,531	38,066,728	6.86	100.00	100.00

Source: Wits

Table 11: Largest importers' trading partners for 2005 (percentage of a region's total trade)

	Regions trading partners					
Region	**First**		**Second**		**Third**	
US	China	50.73	Italy	6.92	France	3.14
Japan	China	50.73	Italy	20.10	France	16.23
Hong Kong, China	China	82.04	France	6.97	Italy	6.97
Germany	China	50.59	India	8.28	Italy	8.26
France	China	41.63	Italy	22.97	Spain	6.50

Source: WITS

Based on a combination of a country's growth rate, value of its imports and its share of global imports, the following countries have been identified as emerging importers and thus could be a potential market for SADC's imports: Mexico, Singapore, Taiwan, Turkey, Greece, Czech Republic, Poland, China, Russian Federation, Hungary, South Africa and Slovenia. These countries tend to be upper middle income developing countries, except for Greece and the Russian Federation, whose economies have experienced growth, fuelling the development of a middle class. Both Greece and the Russian Federation have changed the structure of their economies which has created a larger, wealthier middle class. As mentioned earlier leather products are luxury goods and are bought by consumers to show their "status" thus newly found economic prosperity in a society will increase the demand for leather products.

8.2.2. Exports

There is a fair amount of overlap between the top ten countries that import and export leather products. In 2005 eight of the top ten exporters were also top ten importers, however only three countries, China, Italy and France were net exporters. From 2000-2005 growth in global exports, calculated on an average annual basis, was driven by the world's top ten exporters. Countries that managed to record particularly impressive growth rates over the period were China, Italy France, Germany, Belgium and Spain. The fact that China, Italy and France; the market's three largest exporters, posted strong growth is remarkable given their large export base. The top three global exporters' ability to achieve double digit growth over the period consolidated their position as market leaders.

In 2005 the top ten exporters of leather products comprised 83% of global exports and the world's largest exporter, China, accounted for approximately 50% of the above percentage. Going forward, over the medium term, China's position as the world's dominant producer of leather products should remain undisputed as its ability to achieve 12% growth, calculated on an average annual basis, from 2000-2005 entrenched its market leadership position. China's leather industry is large comprising 16000 firms that collectively employ two million people, and its activities cover four sub-sectors: beneficiation of hides and skins, leather shoes (including sports shoes), leather goods (including garments) and furs (MacNamara et al, 2003:7). The industry's ability to benefit from economies of scale and good infrastructure has allowed China to become the world's dominant manufacturer of shoes, leather garments and bags. China's productive capacity is reflected in trade statistics. In 2005 China's share of global exports was 39%, in comparison its closet rivals, Italy and France, managed to capture a minuscule 12% and 11% of global exports, respectively (refer to Table 12). Furthermore another indication of China's foothold in the market is that it was the preferred trading partner of the world's five largest importers of leather articles in 2005.

China's dominant market position should not be viewed by SADC's producers as a deterrent to enter the market. Other countries have made significant inroads into this large, profitable market by avoiding direct competition against China. The composition of the top three exporters' trading partners is remarkably different which can be attributed to the type of leather products the respective exporters produce and the scale of their production runs. China has the productive system in place to produce "commodity-type" goods on a massive scale. In contrast Italy and France's leather industry has specialised in crafting luxury goods renowned for their exceptional styling and design. These products are typically destined for sophisticated markets and by implication extra emphasis is placed on adding in design features that cater to consumers' nuisances in a specific country. In essence these are not broad based, generic goods. As a result Italy and France's predominant trading partners are either relatively prosperous "sophisticated" markets, such as Switzerland or Japan, or the top consumer echelons of large multi-faceted consumer markets, such as the United States.

Table 12: Top ten exporters of leather products for 2005(US$'000)

	Year		Average annual growth 00-05	Percentage of total%	
	2000	2005		2000	2005
China	6,571,130	11,420,303	11.69	35.84	39.36
Italy	2,067,229	3,613,389	11.82	11.27	12.45
France	1,655,697	3,201.212	14.10	9.03	11.03
India	1,031,943	1,217,148	3.36	5.63	4.19
Germany	592,565	1,109,730	13.37	3.23	3.82
Belgium	488.445	962,667	14.53	2.66	3.32
US	628,504	789,715	4.67	3.43	2.72
Pakistan	-	692,426			2.39
UK	354,440	535,565	8.61	1.93	1.85
Spain	252,212	494,991	14.44	1.38	1.71
Top ten exporters	13,642,174	24,037,144	12.00	74.40	82.85
Other exporters	4,693,190	4,977,449	1.18	25.60	17.15
Global exports	18,335,363	29,014,593	9.61	100.00	100.00

Source: Wits

Table 13: Largest exporters' trading partners for 2005

	Regions trading partners					
Country	First		Second		Third	
China	US	29.49	Russian Federation	10.32	Japan	9.17
Italy	Switzerland	17.98	Japan	12.64	US	12.04
France	Japan	24.13	US	19.30	Hong Kong, China	9.83
India	US	17.02	Germany	13.89	UK	13.34
Germany	Austria	14.72	France	10.30	Netherlands	7.32

Source: WITS

Based on a combination of a country's growth rate, value of its exports and its share of the global export market, the following countries have been identified as emerging exporters and thus could be SADC producers' potential competitors: Switzerland, Singapore, Poland, Hungary, Romania, Brazil, Czech Republic, Argentina, Slovenia and Croatia

9. Market access

9.1.1. Global imports

SADC's share of global imports is negligible and has steadily declined from 2000-2005. In 2000 the region's imports were valued at US$ 110 million representing 0.55% of global trade which fell to US$ 93 million in 2005 representing 0.39% of global imports. Over the period SADC's largest importers of skins and hides were South Africa, Mauritius and Madagascar. South Africa's is the region's dominant importer of skins and hides, for example, in 2005 the country comprised approximately 93% of regional exports. South Africa chiefly imports skins and hides from Uruguay, Brazil and India to be used by its auto industry to produce car seats. The implication is that there is a shortage of quality hides produced in the region at a competitive price. Provided the region's supply-side bottlenecks are addressed, which is not a formidable task, an opportunity for other SADC member state's producers exist to supply a pre-existing market. Based on the calculation of annual average growth rates from 2000-2005, the region's emerging importers are Angola and Namibia. Tanzania and Malawi's fall in imports over the period reflects is due to the respective government's policy to place an embargo on the importation of skins and hides

9.1.2. Regional imports

In 2005 SADC's largest regional exporters were South America (Uruguay and Brazil) and South Asia (India and Pakistan),which comprised 63% of SADC's imports (refer to Table 14).From 2000-2005 South America, South Asia and NAFTA considerably improved their share of SADC's import basket at the expense of the EU 25. Intra-trade between SADC's member states is growing which is a positive sign. In 2005 intra-trade represented 10% of SADC's imports, compared to 9% in 2000 level. Intra-trade in 2005 was driven by member states imports from Zambia and South Africa. The region's level of intra-trade has the potential to continue growing as the region is endowed with cattle and labour, provided supply-side bottlenecks are addressed. Addressing supply side issues is a worthwhile task as this sector is lucrative and it provides an opportunity to create broad based economic activity. This sector can be used to generate employment activities in urban and peri-urban areas for large and small medium enterprises, as it comprises labour and capital intensive activities. Opportunities for farm-gate/ local community activities arise from slaughtering and cleaning activities required producing skins. These farm gate products could be used by a tannery established in a central town. This type of industrial structure could be used to keep resources within a community instead of escaping to major industrial areas.

Table 14: Regional breakdown of SADC's imports (US$'000)

	Year		Average annual growth 00-05	Percentage of total%	
	2000	2005		2000	2005
South America	26,364	37,053	7.04	24.04	39.63
South Asia	14,246	21,206	8.28	12.99	22.68
EU25	34,347	14,959	-15.32	31.32	16.00
SADC	9,488	9,801	0.65	8.65	10.48
NAFTA	3,715	7,008	13.54	3.39	7.50
South East Asia	1,202	1,508	4.65	1.10	1.61
East Asia	719	414	-10.44	0.66	0.44
Middle East	863	54	-42.46	0.79	0.06
SADC's global trade	109,660	93,490	-3.14	100.00	100.00

Source: Wits

SADC's trade statistics indicate it has not developed established trade links with key importers as the countries SADC trades with and the value of their exports to the SADC region fluctuates year on year (refer to Table 15). This suggests that the market is fluid and provided a SADC producer can produce similar goods at a comparable price, regional manufacturers should be able to use regional raw materials.

Table 15: A selected country breakdown of SADC's imports 2000-2005 (US$'000)

	2000	2001	2002	2003	2004	2005
Uruguay	13,733	16,685	9,919	7,716	7,152	18,596
Brazil	10,514	9,507	10,686	19,659	26,560	17,404
India	14,281	12,802	12,807	11,383	10,643	12,29
Pakistan				5,141	9,699	8,843
Italy	14,758	11,833	11,000	8,720	8,747	8,580
Namibia	1,040	3,105	5,350	2,911	7,324	7,163
US	1,888	9,358	860	3,476	20,716	5,055
Australia	16,414	15,698	17,192	16,267	9,192	3,697
Zambia	978	1,030	638	1,237	1,005	2,160
Mexico	6	248	1	1,006	819	2,925
France	3,149	3,817	2,161	3,417	4,004	1,511

Source: Wits

. The section on SADC uses mirror trade data as certain countries in SADC do not report their trade flows, as a result slight discrepancies exist between trade data covered in this section and the previous section.

9.2. Exports of skins and hides

9.2.1. Global exports

From 2000-2005 SADC's share of global exports fell by 6% from US$ 275 million in 2000, representing 1.47% of global exports, to US$ 204 million contributing 0.9% to global exports in 2005. In 2005 SADC was a net exporter of skins and hides and South Africa was the region's largest exporter comprising 78% of the region's exports to the world valued at approximately US$ 199 million. Zimbabwe and Namibia were a distant second and third comprising 8% and 4% of the region's exports to the world. From 2000-2005 the region's export performance was driven by emerging exporters such as Tanzania and Zambia.

9.2.2. Regional exports

Trade statistics indicate a regional shift in SADC's exports markets from the EU 25 and East Asia to NAFTA, South East Asia and the Middle East. SADC's trade with the EU 25 declined over the period due to the trend among former EU 15 countries to move their tannery operations to Eastern European countries. This trend had a detrimental impact on the region's trade with Italy, which was SADC's primary trading partner in this commodity. Intra- trade between SADC member states was relatively low over the period; however it steadily improved, managing to sustain 6% growth on an average annual basis. SADC's intra-regional trade in 2005 was driven by South Africa and Namibia's propensity to import goods from the region.

Table 16: Regional breakdown of SADC's exports (US$'000)

	Year		Average annual growth 00-05	Percentage of total%	
	2000	2005		2000	2005
EU25	142,067	114,972	-4.14	53.10	46.82
East Asia	73,123	54,890	-5.57	27.33	22.35
NAFTA	31,862	39,800	4.55	11.91	16.21
South East Asia	10,963	14,953	6.40	4.10	6.09
Middle East	4,787	13,542	23.12	1.79	5.51
SADC	3,163	4,210	5.89	1.18	1.71
South Asia	615	2,594	33.38	0.23	1.06
South America	946	610	-8.39	0.35	0.15
SADC's global trad	274,499	203,767	-5.7		

Source: Wits

value of skins and hides they imported from SADC member states. This reflects that SADC's producers have managed to form established trade links with the world's dominant imports of skins and hides and large manufacturers of leather products. For example six of SADC's top 10 importing countries are amongst the top ten global importers of skins and hides. Over the period SADC's producers increased their exports to the following countries: Turkey, China, Poland and Portugal. SADC's exports to Korea, Japan and the United Kingdom significantly decreased over the period.

Table 17: A selected country breakdown of SADC 's exports (US$'000)

	2000	2001	2002	2003	2004	2005
Italy	127,523	124,587	112,867	97,549	102,386	90,437
US	25,533	22,869	23,613	15,333	23,430	25,522
Hong Kong, China	22,557	31,936	22,393	24,619	26,115	21,364
Mexico	6,222	8,747	8,623	7,011	10,773	14,347
Turkey	4,524	2,210	9,798	7,934	9,994	13,620
Japan	31,952	21,701	14,952	17,410	16,962	13,119
France	7,890	9,563	9,682	9,289	12,637	12,097
China	2,382	2,008	1,494	2,415	10,780	11,913
Singapore	9,822	7,743	9,025	7.177	7,698	9,740
Korea, Rep.	17,414	12,445	8,868	8,981	10,861	7,921
Pakistan				3,917	5,854	5,579
Thailand	1,029	6,574	5,749	6,337	2,697	5,481
Germany	2,831	4,838	9,049	7,585	6,359	4,045
Spain	1,473	2,865	1,929	2,412	2,295	2,791
South Africa	2,000	1,587	3,355	3,623	2,269	2,671
Taiwan, China	951	665	1,133	1,813	1,513	1,121

Source: Wits

9.3. Imports of leather products

9.3.1. Global imports

In 2005 the region was a net importer of leather products. Although SADC's share of global imports is negligible; a positive development is that the region's participation in international markets is growing. In 2000 SADC's share of global imports was 0.24%, valued at US$ 67 million. From 2000-2005 the region grew its imports by 18%, calculated on an average annual basis, to US$ 153 million in 2005, representing 0.24% of global trade. This high growth rate was fuelled by eight out of 14 member SADC states achieving double digit growth between 19% and 133%. The increase in SADC's propensity to import coupled with the broad based nature of demand bodes well for the development of a regional leather industry. Fellow regional member states' demand for leather products experienced phenomenal growth since 2000, however it is off a small base. As a result the region's primary market for leather products in 2005 was South Africa which comprised 69% of SADC's global imports valued at approximately US$ 141 million

9.3.2. Regional imports

In 2005 SADC imported its goods primarily from East Asia (China) and South Asia (Pakistan and India) which comprised 67% of SADC's imports (refer to Table 18). During 2000-2005 intra-trade between SADC member states increased from US$ 5 million in 2000 to US$ 36 million in 2005, a growth of 46% calculated on an average annual basis. Intra-trade was largely driven by member states' propensity to import leather articles from Zambia, South Africa and Namibia

An interesting observation is that SADC's imports from the EU 25 were rather small, considering that the EU 25 is the second largest global exporter of leather products. This reflects the nature of SADC's import basket which is predominately for commodity type products and not luxury goods. Likewise, this is precisely the reason underlying the rapid growth of South Asia's imports to SADC. Analysing SADC's trade with other regions indicates that (a) SADC imports commodity type products that do not require sophisticated design (b) SADC's chief importers have a similar comparative advantage to SADC member states, which is low cost production. Therefore there is no reason why SADC's producers cannot supply the region, provided they form associations to benefit from economies of scale and implement programmes to address supply-side bottlenecks.

Table 18: Regional breakdown of SADC's Imports (US$'000)

	Year		Average annual growth 00-05	Percentage of total%	
	2000	2005		2000	2005
East Asia	38,132	82,035	16.56	61.91	40.95
South Asia	4,320	53,119	65.18	7.01	26.51
SADC	5,446	36,273	46.12	8.84	18.11
EU25	9,275	22,778	19.69	15.06	11.37
South East Asia	2,300	2,844	4.34	3.73	1.42
NAFTA	1,247	2,172	11.73	2.02	1.08
South America	385	928	19.22	0.63	0.46
Middle East	491	194	-16.95	0.80	0.10
Central America		6		0.00	0.00

Source: Wits

SADC's imports from developed countries (i.e France, United Kingdom, and the United States) have remained stable over the period. However SADC's imports from Asia (China and Pakistan) and Eastern European countries (Czech Republic and Hungary) have sharply increased over the period (Table 19). After analysing trade data no established trends emerge regarding SADC's trade partners. This is a positive development for the region's producers who wish to become regional exporters, as it potentially shows that retailers are not integrated in global supply chains. Trade data indicates that it would be a worth while exercise for SADC's producers to form an association to investigate whether the region's retailers are part of an established network of international suppliers.

Table 19: A selected country breakdown of SADC's imports (US$'000)

	2000	2001	2002	2003	2004	2005
China	38,727	41,157	45,675	54,776	72,283	84,665
Pakistan				18,812	23,596	46,892
Zambia	34	2	1	136	97	32,782
India	4,392	3,439	2,560	4,036	5,503	6,958
Germany	1,295	2,631	3,814	5,002	12,009	6,870
France	2,026	2,631	2,166	2,741	4,137	4,602
South Africa	1,827	2,502	1,854	2,403	2,347	3,140
Portugal	930	1,928	1,289	2,032	1,883	2,722
UK	1,879	840	1,301	1,762	2,211	2,413
Italy	1,964	1,354	1,571	2,040	1,439	2,232

Source: Wits

9.4. Exports of leather products

9.4.1. Global exports

In 2005 SADC's share of global exports was valued at US$ 68 million, representing less than one percent of international trade. Even though this is negligible, the SADC's share of global exports improved in 2005 compared to 2000 when its exports totalled US$ 23 million. From 2000-2005 SADC managed to grow its exports by 24%, calculated on an average annual basis. In 2005 SADC's global exports were largely driven by South Africa that comprised 72% of the region's exports, valued at US$32 million. Mauritius and Zimbabwe were a distant second and third with a 17% and 6% share of the region's global exports. Madagascar and Mauritius are the region's emerging exporters.

9.4.2. Regional exports

SADC's trading partners are geographically concentrated as over 95% of its exports are destined for three markets: EU 25, SADC and NAFTA. Furthermore, SADC's producers mainly export their goods to developed regions and seem to have ignored developing markets, especially Asian markets. SADC producers' failure to make inroads into the East Asian market, the world's third largest importer of leather products in 2005, might be one of the factors constraining SADC's ability to improve its share of global exports. The level of intra-trade between SADC states is considerable and is driven by Nambia, South Africa and Zambia's exports to the region. The region's growth in intra trade stagnated from 2000-2005, recording less than one percent growth, which indicates that intra trade has reached its plateau. In contrast SADC's exports to the world grew by 24%.

Table 20: Regional breakdown of SADC's exports (US$'000)

	Year		Average annual growth 00-05	Percentage of total%	
	2000	**2005**		**2000**	**2005**
EU25	10,158	21,962	16.67	28.99	48.55
SADC	9,451	9,871	0.87	26.98	21.82
NAFTA	2,223	6,548	24.12	6.35	14.48
East Asia	9,564	839	-38.54	27.30	1.85
Middle East	417	168	-16.62	1.19	0.37
South East Asia	1,246	96	-40.13	3.56	0.21
South America	44	45	0.34	0.13	0.10
South Asia	1	18	70.60	0.00	0.04
Central Americ		14		0.00	0.03

Source: Wits

From 2000-2005 SADC's producers found new markets for their products, such as the Czech Republic, Australia, The Netherlands, Belgium and Mauritius, and also, lost market share in their established markets (Germany, Japan, Italy and Korea). Another feature of SADC's trade is that the region only has a few stable trading partners (Namibia, United Kingdom and the United States). There seems to exist wide year on year discrepancies between the value of goods imported by SADC's top trading partners. SADC producers' ability to create a lucrative regional leather industry hinges on their ability to secure access to stable markets. As a result SADC's producers should pool resources to investigate whether supply-side or demand-side issues are responsible these swings. If supply-side issues are a problem then one of the next issues to investigate is industry wide cooperation to plough resources into infrastructure development.

Table 21: A selected country breakdown of SADC's export (US$'000)

	2000	2001	2002	2003	2004	2005
Czech Republic	49	1	2	1,187	5,582	6,850
United States	2,040	2,037	3,206	3,635	4,761	5,810
Namibia	2,850	2,185	2,062	1,969	4,691	5,387
France	3,406	3,933	3,458	5,829	6,077	5,264
Australia	839	476	1,217	2,402	3,622	3,685
UK	1,129	3,241	1,820	4,735	2,210	3,287
SouthAfrica	1,392	1,442	2,076	2,835	2,815	2,335
Spain	43	92	235	283	570	1,033
Germany	4,578	3,834	4,598	7,154	757	1,000
Austria	3	8	17	8	348	903
Zambia	574	518	442	628	487	890
Ghana				27	397	861
Mozambique	208	129	293	485	304	751
Canada	121	36	244	476	514	681
Japan	3,220	1,748	1,492	921	1,143	567

Source: Wits

10. Tariff and non-tariff barriers

Countries use tariffs barriers and non-tariffs barriers to protect their domestic producers' markets from imported goods. Tariffs increase the price of imported goods compared to domestic goods, thereby giving domestic producers a relative price advantage. Developing countries argue that developed countries tariff peaks are disproportionately applied to labour intensive products that tend to be their high priority export products. This claim is supported by empirical evidence. According to a WTO (2002)study developed countries place tariff peaks on labour intensive products; such as textiles, garments, leather products, rubber products, footwear and travel goods, than other products such as computers and office equipment. Developing countries argue that developed countries tariff peaks are disproportionately applied to labour intensive products. For example in 2002 garments and footwear represented more than 60% of tariff peaks (FAO, 2002:39). An alternative route for developing countries is to pursue South-South trade opportunities. However developing countries should be selective regarding their trading partners as large discrepancies exist between the tariffs rate that developing countries apply to labour intensive manufactured goods. A study conducted by the UNCTAD (2002) concluded that "countries in Africa and lower income countries in Asia have on average, higher tariffs than the middle and high-income developing countries. The first-tier Newly Industrialized countries (NIES) on average apply lower tariffs than developed countries and also tend to be much lower than those applied by Latin America" (FAO, 2002:42).

Non-tariff barriers (NTB) take the form of strict sanitary and phytosanitary measures or adherence to stringent, certification measures as such as 1SO 9000 certification. These measures span a product's lifecycle: the raw material a product is made form, the manner the product is fabricated, the management of production process, labelling standards and packaging requirements. Developed countries argue that NTBs are applied to products to ensure that imported products satisfy environmental, consumer health, consumer safely and social concerns (CBI, 2005:7). NTB can either be statutory obligations or determined by the market. Market related NTBs are not compulsory but are growing in importance as consumers become more discerning about the impact their purchases have society and the environment.

Non-tariff barriers potential to hinder exporters' ability to sell their products into foreign markets is greater than tariff barriers. Non-tariff barriers increase a producer's costs throughout the supply chain due to the complexity of the processes that he/she must adhere too and the bureaucratic cost of ensuring that procedures are documented. On average, producers in developing countries face greater supply side constraints than their developed counterparts and as a result NTB tend to have a disproportionate negative affect on developing countries' ability to compete in international markets. Collective organisation and the pooling of resources among SADC's farmers/ producers could be an effective strategy to reduce the burden of ensuring that activities along the supply chain meet regulatory standards. Small-scale producers could also form associations that approach the government and the private sector to help them address complex issues concerning traceability regulation.

10.1. Tariffs

According to the FAO (2001) tariffs placed on raw hides and skins are insignificant as these products are allowed free entry into many countries but tariffs placed on leather products are relativity steep. For example, "trade weighted average tariffs for developed countries have been estimated at 3.5 percent for leather and 7.3 percent for leather products" (FAO, 2001:5-6). The fact that value-added goods are subject to higher tariffs than commodity products should not deter SADC's producers from exporting these products, as the importance attributed to gaining preferential access to a market is overstated. According to Turner (2003) trade preferences are important in the initial phase of trade, with respect to providing entry into a market because they improve the attractiveness of a good, however they do not provide the motivation to choose supplier, especially with respect to serving upper-end, niche markets. As a result trade preferences do not dramatically affect established trade patterns. China's leather and leather products exports do not have duty-free access to the US market, but nevertheless, China's goods have over a 50% market share in virtually every leather and leather product category (Turner, 2003).

In summary the following countries, which are the world's largest importers of leather products, place the following general tariffs on imported goods.

Product	United States	EU 25	Japan
Apparel :420310	4.7-6.0%	4.0%	10.0-16.0%
Clothing accessories (4203.21-4203.40)	0-14.0%	5.0-9.0%	10.0-16.0%
Handbags, Trunks, Suitcases (4202)	10.0-16.0%	2.7-9.7%	2.7-16.0%
Raw hides and skins: Bovine (4101)	0-2.4%	0-10%	214,000m2 Annual Quota: 0-60%
Tanned hides and skins: Bovine : 4104	0-3.3%	0-10%	1,466,000m2 Annual Quota: 0-60%

Source: http://www.thedti.gov.za/econdb/raportt/HsATar41.html and tdctrade.com at http://www.tdctrade.com/main/industries/t2_2_19.htm.

10.1.1. European union

According to the Centre for the Promotion of Imports from Developing Countries (CBI: 2005:90) r imports of leather products into the EU are not subject to quotas. Countries can gain preferential access to the EU's market if they fall under one of the following broad multilateral agreements:

- Renewed Generalised System of Preferences (RGSP) applies to goods from developing countries. A notable exception is leather goods originating from China, Thailand and Malaysia. For an exporter to qualify for privileged access under this agreement he/she must "provide a Customs Authority Certificate of Origin ('Form A') certificate, which is issued by the appropriate authorities in an exporter's country" (CBI, 2005:89). A Movement Certificate EUR 1 must also be completed to show where the products have been produced.

- African, Caribbean and Pacific Countries Trade Agreement (ACP) allows goods originating from 77 countries to enter in the EU at a lower import tariff. For more detailed information about member states, refer to http://www.capsex.og. (CBI, 2005). To qualify for this tariff, an exporter must complete a 'EUR 1' form, which is issued by the exporting country's customs authority (CBI, 2005:89).

- "Everything But Arms initiative allows products, excluding arms, from 48 least developed countries to enter into the EU without being subject to duties and quotas.

Other countries whose goods also enjoy duty free access into the EU are "the Mashraq and Maghreb countries, Turkey, Cyprus, Israel and CEECs like Albania, the Baltic states, Bosnia/ Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia and Fed. Rep. of Yugoslavia" (CBI, 2005:90). The proximity of the CEEC to the EU and their status as emerging exporters makes than SADC producers' competitors. Therefore if SADC producers are interested in supplying low to medium value commodity type leather products to the EU, they should be aware and investigate the conditions of CEEC states' preferential access to the EU market.

For more information on the EU's tariffs, please refer to http://export-help.cec.eu.int or the Central Customs Administration in Rotterdam, the Netherlands (or at Customs of any other EU member state) or from the Internet site http://europa.eu.int/comm/taxation_customs/dds/cgi-bin/tarchap?Lang=EN

10.1.2. Japan

Japan is the second largest importer of leather goods and given South Africa's status in that market as a quality supplier, it is a potentially lucrative market. For detailed information about Japan's tariff rates refer to http://www.apectariff.org.tdb.cgi/ff3235/apeccgi.cgi?JP.

10.1.3. United States

Under the African Growth and Opportunity Act (AGOA), African countries' exports of synthetic and natural leather products and processed / semi-processed leather products enjoy duty free access to the US market (Turner, 2003: 6). It should be noted that certain products have been excluded from the list. This gives African exports an advantage but not an absolute advantage as the US has granted other countries / regional trading blocks similar privileges. These trading blocks are the Caribbean Basin Initiative (CBI), Caribbean Trade Partnership Act (CPTA), Jordan FTA, Israel FTA, Andean Trade Preference Agreement, and the North American Trade Agreement (NAFTA) (Turner, 2003: 7). Many of the countries that receive preferential access to the US market do not produce leather/ leather products. As a result SADC's competitors who also receive preferential access are producers from North America (Mexico) and South America (Brazil, Argentina).

Detailed information can be accessed at http://www.usitc.gov/tata/hts/bychapter/index.htm or the United States International Trade Commission at www.usitc.gov.

10.1.4. China

Detailed information can be accessed at the following websites:

- For hides and skins: http://www.sinoleather.com/eng/news/nwdetail.php?id=DT200702151328333815.
- Detailed spread sheet http://www.sinoleather.com/eng/reference/2006e.xls

10.2. Non-tariff barriers

The following discussion about NTBs deals with the EU's standards. The reason for this approach is the following. First, the EU is the largest importer of leather goods and it is considered to apply stringent NTBs to imported goods. Therefore by implication if an exporter can satisfy the EU's regulation, his/her good is of the mandated standard to potentially satisfy other countries' NTBs. Second, developing countries standards are similar and thus the EU's regulation provides a good proxy for other developed countries' standards. Lastly, information about the EU's standards is easily accessible and simple to understand and thus provides background knowledge to interpret other countries' NTBs. For in-depth information regarding the three largest imports of leather products in 2005, please refer to the following websites:

- The United States: http://www.fas.usda.gov/ and www.le.fws.gov
- Japan: http://www.apecsec.org.sg/
- China: www.export911.com/e911/export/tariff.htm

10.2.1. European standards

Description	Directive
Limits the use of dangerous substances and preparations (azocolourants) in textile and leather products. It should be noted that Germany and The Netherlands have stricter regulation pertaining to the usage of azo dyes Pentachlorophenol (PCP), chromium and disperse dyes.	Directive (2002/61/EC)
Restricts nickel and nickel compounds for metal products in direct contact with the skin	Directive (94/27/EEC)
Streamlines the implementation of CITES in the EU. CITES contains provisions to protect endangered species through controlling international trade in these species.	Regulation (338/97 EC
Assigns liability to a manufacturer, or his representative in the EU, for compensation to person and property caused by a product that turns out to be not as safe as expected.	Directive (85/374/EEC)
Certification schemes have been developed for social management systems. Examples of such schemes are SA8000 which includes basic labour standards based on international ILO Conventions.	Social Market Requirements
Although countries have developed their own standards it would be simpler for an exporter to satisfy two general standards: BS 7750 and ISO 14001. These standards are based on the ISO 9000 series and stipulate the requirements for an environmental management system. Environmental issues pertaining to the production of leather occur in cleaning, tanning, finishing and waste treatment processes.	Environmental Market Requirements
The most important quality management systems are those under the ISO 9000:2000 series.The SG label or Schadstoffgeprüfft label stands for "tested for dangerous substances"	Quality Market Requirements
Establishes common objectives for member countries regarding the recovery and the recycling of packaging. Also the maximum concentrations of lead, cadmium, mercury, and chromium allowed in packaging are set at 250 ppm and 100 ppm, respectively. Given these regulations, exporters should package goods in re-usable and recyclable materials.	Directive 94/62/EC
Lies down requirements for wooden packaging material that is imported in its function of packaging material or dunnage with the import of goods, must be treated and marked according to the international ISPM 15 standard.	Directive 2004/102/EC

Source: CBI, 2005: 82-88

For more detailed information about the EU's requirements refer to http://www.cbi.nl/accessguide.

11. Marketing and distribution channels

As mentioned earlier the globalisation of the value chain has fragmented activities. For example raw hides could be produced in the US, sold to tanner in India, processed into a manufactured good in China and then sold to a retailer in Germany. However the transaction originated in Germany on the request of retailer who contacted a Swiss buyer who contracted with the Chinese manufacturer to produce a product tailored to the retailer's specific requirements. Another scenario also exists; large retail chains, such as Wal-Mart, reduce their costs and cut out middleman by directly purchasing their large scale requirements from a producers or supplier s. The direct selling option is not a preferable route for SADC's producers do not have the economies of scale in place to satisfy these orders and producers' per unit production costs are not low enough to supply bulk, undifferentiated products.

Figure 7 illustrates the relationship between parties involved in a generic transaction. It should be noted that a transaction can skip levels and be between a producer and retailer. Of particular importance, given the market's perception of African goods, is the host of middleman that can be involved in a transaction:

- An agent is an entity that acts as an intermediary between buyers and sellers by facilitating outsourcing deals, typically between overseas manufacturers or larger contractors. An agent's commission is typically between 1 and 10% of the value of the good purchased". (Buckle, 2001:37);

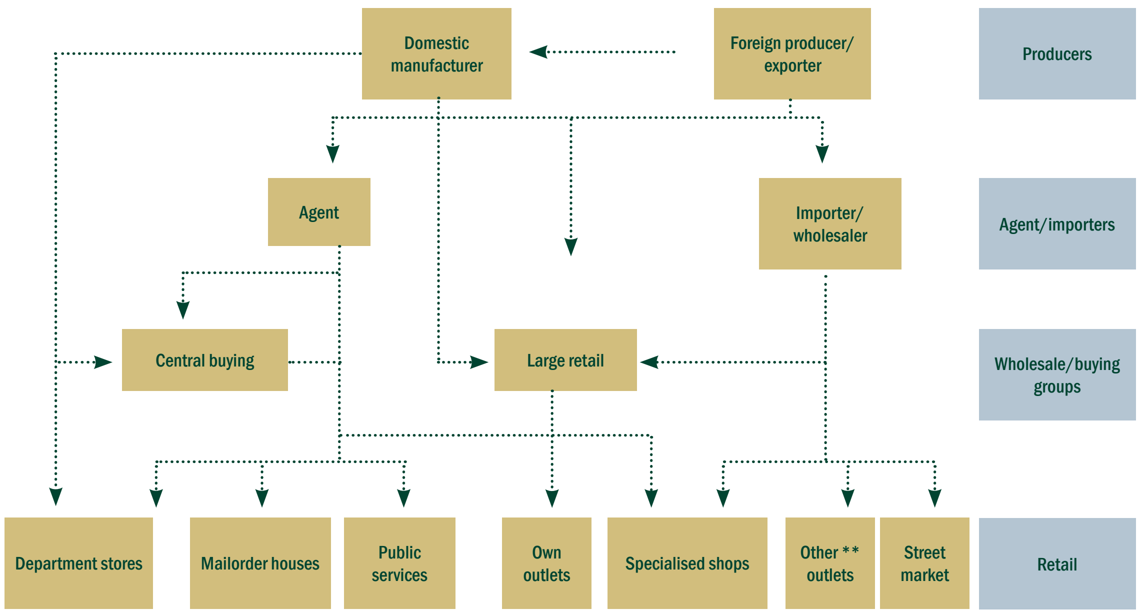
- An importer and wholesaler buy leather products from manufacturers and then they market these goods to retailers;

- A buyer's role is similar to that of an agent except buyers "control the design and specification of the product, as well as the marketing and influence the processing and the implementation of quality systems" (Buckle 2001:37). The market for leather products in developed countries is a mature, competitive market and as a result producing a good at cheaper cost does not give one a competitive advantage. The aim is to produce superior quality, tailored goods at a cheaper cost. To meet these requirements buyers forged partnerships with key suppliers and these parties increasingly share information on processes, quality and specifications. The implication is that SADC's producers should try to gain access into a buyers' network to benefit from accessing intangible capital;

- A buying group is an amalgamation of retailers and middlemen who form a single entity that purchases goods directly from a supplier/

producer to satisfy its large scale requirements at the lowest possible cost. The purpose of the buying group "is to make it possible for their members to compete with chain stores, which have the buying power necessary to get larger discounts from suppliers and to buy under their own private labels directly from abroad" (CBI:2005:76). A buying group does not "function as suppliers for their members, but merely as purchasing agents for individual retailers and as financial intermediaries between producers and retailers"(CBI:2005:76).

Figure 7: Participants involved in marketing activities



Source: Wits

A businessman's marketing and distribution decisions should not be limited to simply delivering a physical product. The type of channel one chooses and the contractual relationship one enters into affects one's ability to progress up the value chain. This is important as, generally, producing value-added compared to commodity products is more profitable, on a per unit basis. According to Schmitz there exists a potential for a conflict of interest to arise between producers and a various types of middlemen. Even though a middleman stands to gain from his supplier upgrading his/her production facilitates and techniques, middleman "are rarely interested in helping producers in acquiring their own design capability, developing their own brand names, or establishing their own marketing channel" (Buckle 2001:37).

Regional preferences can be used as a starting point to assess a market's broad trends, but an export strategy or product placement strategy requires country specific information. The EU, which is probably the most homogenous regional market compared to other trading blocks, has substantial differences between consumers' preferences in member states regarding their tastes, fashion, style preferences and disposable income (CBI, 2005) Therefore when a seller enters into a market it is important to tailor his/her product to suit consumers' tastes in that market.

12. Prices

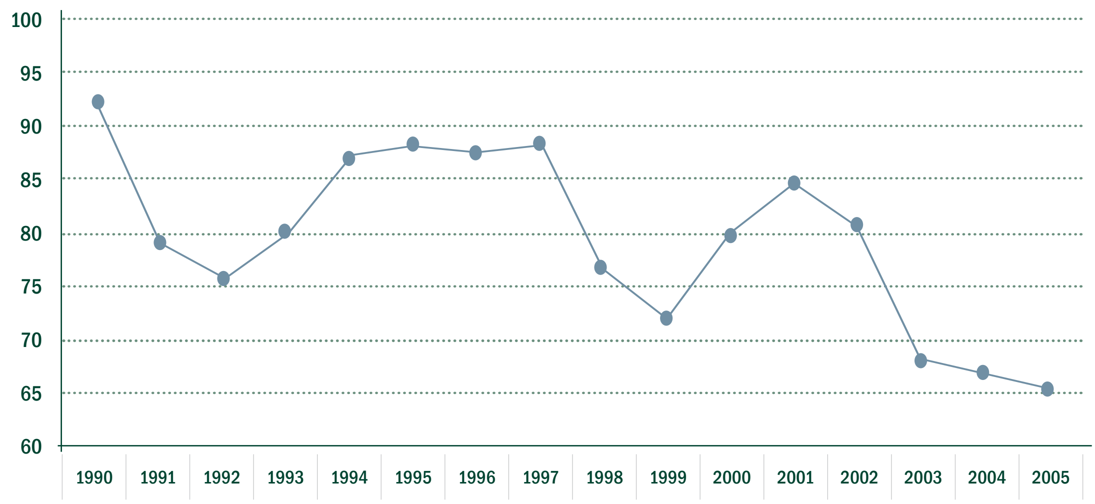
Styles, designs and product branding create a multitude of heterogeneous products, making price comparisons between and within product categories impossible. To analyse prices on a comparable basis, this TIB discusses the price of the most basic commodity product, which in this case is hides and skins. This discussion will aid producers' understanding of price formation in the market and implicitly highlight the potential gains derived from producing value-added goods that are relatively unique.

Figure 8 shows that the price for hides and skins followed a cyclical path from 1990-2001. This trend was broken in 2002, when prices started to decline, largely due to China's slumping demand for hides, especially medium quality raw materials (FAO, 2006). This can be traced back to changes in demand which is influenced by macroeconomic condition. Leather goods are luxury items and thus weaker economic conditions lower consumers' confidence, depressing the demand for leather goods, which in turn, reduces the demand for hides and skins (FAO, 2006:1). The market's ability to adjust to external shocks is fairly limited which creates wide price swings. The demand for leather goods is concentrated in the EU 25 (predominately Germany and France) and NAFTA (predominately the United States) countries. These regions' economic systems are interlinked and thus economic problems in one region spreads quickly and sharply to another region. The supply-side's ability to adjust to changes in demand has been slow. This is due to the capital intensive nature of production, especially tannery operations, that makes it more economically viable for manufacturers to sell goods at a lower cost then significantly reduce production.

Prices for commodity based leather products are driven by the demand side: Retailers and large buyers have the largest influence on establishing prices. The sticky and specific nature of tanners and manufacturers' investments makes them price-takers. Tanners and leather goods manufacturers' production costs have increased because of rising chemical, energy and freight costs. In a bid to sustain their profitability the above parties have reduced their raw material costs and are willing to pay less for hides and skins. Another strategy that manufacturers could use to cut their supply side costs is to reduce transport and logistics costs by pursuing intra-regional trade prospects. This implies that SADC's producers should investigate regional trade.

Another issue that affects the price a tanner or manufacturer receives for his/ her product is exchange rate movements. For example, European tanners and manufacturers costs are quoted in Euros but their sells are based in US dollars, as a result the strength of the Euro compared to the dollar has eroded European tanners/ manufactures' margins. The implication is that SADC's producers should consider the relative strength of their respective countries' currency against their competitors' currency, especially if parties are trading a commodity product.

Figure 8: Price of hides and skins from 1990-2005 (US cents/pound)



Source: Wits

13. The way forward

Trade statistics show that the largest importers of leather products are developed countries. Competition in these markets is intensifying due to supply and demand side changes. On the supply side, an influx of goods from low cost suppliers is forcing established retailers in developed countries to seek lower cost goods, without sacrificing quality. This has affected the manner in which value chain activities are arranged between parties. Marketers and retailers prefer to contract with producers that have the skills to coordinate activities between numerous parties to produce the cheapest, finished product that satisfies stipulated characteristics. For example a producer in a middle income developing country (e.g., Korean apparel firms) shifts some or all of its requested production to affiliated offshore factories in low -wage countries (e.g, Indonesia, or Guatemala).

On the demand side, a growing trend among consumers in developed countries is to consider the social and environmental conditions under which a product is produced. The impact these conditions will have on trade patterns between developed and developing regions is uncertain. One side argues that the impact of environmental legislation and consumers' demand for labelling that attests to the environmental safety of a product pushes environmental costs onto manufacturers, in effect pricing SADC countries out of a lucrative market. The costs of complying with environmental regulations in developing countries are significant as cleaner technologies are expensive, access to capital is limited and capital costs are high. Another side of the argument is that producers' activities can be modified to reduce their negative affect on the environment, and that these changes require little or no capital investment. These changes include strict process control (avoid overdosing of chemicals) water conservation at all stages, recycling of some floats and simple treatment of wastes (De Buckle, 2001:24). The UNIDO estimates that these simple measures can reduce up to 50% of the total pollution load discharged into the environment. The important implication for SADC's producers is that environmental regulation should be viewed as an opportunity to create a competitive advantage and not a barrier to trade. A producer's ability to reduce environmental pollution along the value chain, especially in tanning operations, will become a factor of competitiveness since NTB will restrict imports of non-environmentally friendly goods, and in addition, the use of cleaner production technologies reduces total production costs. (De Buckle, 2001).

The above changes in demand and supply side variables have affected the manner goods are produced and marketed which has broadened producers' role in the value chain. Gaining a competitive advantage in the leather market is about marketing and trading and as a consequence trade contacts, brands, promotion and financial power are far more valuable assets than technology and related knowledge" (Schmel 1998 cited in De Buckle, 2001: 13). Technical knowledge and one's ability to implement innovative technical solutions to solve problems is important, but it is the minimum requirement to participate in the industry, as production systems must have the capacity to meet the challenges of pollution, quality, efficiency, logistics, and cooperation (Schmel 1998 cited in De Buckle, 2001: 13).

For SADC's producers to evolve with the leather industry, the following programmes should be investigated to build regional producers' productive capacity. Retailers are competing in terms of price and quality and thus they require producers to deliver high quality goods on a consistent basis. Inconsistent availability of good quality skins and hides hinders upstream manufacturers' ability to compete, as they lose control over the quality of an end product and production turnaround times. In SADC the availability of raw materials is limited due to poor levels of collection and the quality of raw materials is poor because of slaughtering techniques. This situation could be rectified by implementing a regional grading and pricing system. A project is being financed by the Common Fund for Commodities, in four African countries, to introduce appropriate grading and pricing systems. SADC's producers could use this project as an opportunity to learn from other countries' experience which could then be repackaged to create a regional "exchange". Trade data indicates that SADC's producers are gaining momentum and are moving up the value chain: SADC's imports of raw hides are decreasing but exports of leather goods are increasing. To build upon this momentum, a steady supply of good quality hides is vital. The creation of an institutional pricing exchange will facilitate price discovery in the market and encourage farmers to adopt practices that preserve the quality of their livestock's skins.

Producers' products compete in terms of physical features, price and the manner in which a product was produced. The region's investment in tanning and manufacturing technology is limited compared to other regions because "in most African countries the leather industry was established as an export-based industry of semi-processed raw hides and skins with no consideration given to linking it to the development of a finished leather and leather products industry. Thus there is no incentive for the development of technical tanning skills and for obtaining access to new technologies" (FAO, 2002b:35). Given this historical background, SADC is implicitly placed in an advantageous position compared to other regions regarding its ability to absorb new technology and processes: it can leapfrog technology and gain from other producers' experiences as a late developer. The implication is that SADC provides suppliers from developing countries "virgin" land to install new technology. Furthermore this arrangement will have considerable benefits for SADC as it alleviates one of the region's serious supply-side bottlenecks regarding access to capital and skills. Going forward SADC's producers should rally industrial associations and investment promotion agencies to investigate the various contractual relationships they could form with established suppliers in developed regions (EU 25) and Asian producers (Korea, Taiwan) that are interested in moving their production off-shore to reduce labour costs are also move their production closer to their final consumer markets.

The retail industry has become increasingly competitive over the past decade. To sustain their margins retailers have reduced their costs along the supply chain and provide specialised products to cater for their customers' requirements. As a result of this trend the retail environment comprises a three tired market. Large no frills retail mega –chains, such as Kmart, that target low income customers and thus demand large production runs of commodity type products. Upmarket fashion chain stores, such as Guess, that target middle income consumers, who demand fashionable, high quality branded products. Luxury goods, such as Louis Vutton, that is known for its quality and craftsmanship and is targeted towards super-rich consumers. Producing a product that straddles the first two market segments is problematic, as the good is too expensive to compete against commodity products but relatively unsophisticated to compete against fashion goods. SADC producers tend to manufacture the above types of products making it difficult for them to place their products in regional and international markets. They have priced themselves out of the regional market because second hand articles from Europe are cheaper than domestically produced goods. Alternatively SADC producers' goods cannot compete against commodity type products in international markets as their products are relatively expensive and their production runs are too small. Furthermore these goods cannot compete at the high end of the market because their quality and design lacks sophistication.

To rectify this situation SADC's producers/associations need to adopt a market rather than a product orientated response to markets. Using this orientation SADC's producers should first consider which markets they want to target and then consider developing products for those markets. A good starting point to investigate would be following a two pronged export strategy: Developing no frills products for the regional market and cultural infused leather artefacts for the international market. Based on trade statistics the region's demand for leather products has steadily grown from 2000-2005, representing a pre-existing market for no-frills low priced goods. A project called “Made in Africa” plans to capitalise on Africa’s cultural heritage by creating goods that embody African styles and designs. According to marketing experts, SADC producers’ ability to break into international markets lies in incorporating African cultural icons into the design of leather products. These goods will be for specialised high quality end markets. SADC’s producers should not be expected to create and brand these products, it will require support from the government, banks, lending agencies, producer associations and the provide sector to make capital available at acceptable rates, improve trade procedures and create information networks.

14. Conclusion

Trade in leather products has experienced strong growth of 7% from 2000-2005, off a large base of US$ 27,321 million to be worth US$38, 067 million in 2005. Exclusively considering the market's growth obscures and detracts from the market's attractiveness for SADC's producers. Another aspect which is even more important to consider is the nature and distribution of the market's growth. The global market for leather products is geographically dispersed and comprises a multitude of products. As a result SADC's producers can avoid head-on head competition with other suppliers, provided they capitalise on trading products that infuse cultural design with western functionality. Although trade statistics illustrate that the top ten global importers and exporters dominate global trade, it hides the fact that the bottom end of the market is fairly fluid and sufficiently large in comparison to obtaining similar market shares in other commodity type markets. Furthermore, the demand for leather products in these smaller markets is growing a faster pace than larger developed markets. Given the changes in the global economic structure these smaller markets are on the cusp of consolidating their position in the global economic system. The implication is that SADC's producers could enter these markets and grow with the market, providing opportunities to become an entrenched supplier to a stable, large market. The scope and diversity of products made from leather is increasing. This trend can generically be broken down into three components: the rise of the middle class coupled with the deepening of a consumer culture, the creation of portable micro technologies and the "cocooning" concept that was pioneered by Popcorn. The rise of these trends has created new organic markets for leather products, such as lampshades, storage boxes, couches, notebook bags, ipod cases, sunglass cases, picture frames, cell phone cover, etc.

Developing countries have made significant progress with respect to their ability to participate in international trade. However analysing developing countries' performance, at an aggregate level, obscures important imbalances between these countries' ability to benefit from developed countries outsourcing their production of processed leather and leather products. Asian countries, especially in East Asia, and notably China attracted the majority of investment and Africa the least. SADC's production of raw hides and processed leather was 2% and less than 1% of global production, respectively, in 2004. Not only is SADC's production of raw materials negligible, it is also sporadic and of a poor quality. This supply side constraint has hampered the industry's feasibility and profitability which is reflected in trade data. In 2005 SADC's imports and exports of skins and hides comprised less than one percent of global trade and it was a net exporter. With respect to leather products SADC's share of imports and exports was once again less than one percent of global trade and it was a net importer.

Although SADC's share of global trade is negligible, a positive sign is that the region's trade in leather products achieved double digit growth, on an average annual basis, from 2000-2005, however it is off a small base. This illustrates that there is a demand for leather products and that the local market is growing. To take advantage of the market's growth spurt, which can provide SADC's producers with a platform to serve international markets, the supply side bottlenecks and inappropriate marketing strategies hindering the region's participation in trade needs to be addressed. Addressing these issues is not insurmountable; however it will require industrial cooperation throughout the value chain. Government institutions, including bodies such as the SABS, DBSA, export councils, and entrepreneurs need to form collective bodies to gather resources and apply them in a focused manner to address the industries supply side bottlenecks and create mechanisms to facilitate the creation of a vibrant regional market. The benefits to be gained from engaging in these activities far outweigh the costs. Leather products are easily transportable as they are not perishable or bulky, SADC's conversion rate of slaughtered animals to hides is below average representing surplus capacity, activities throughout the value chain range from simple to complex, different activities require a different mix of inputs and certain activities are labour while others are capital intensive. The above point is important as it demonstrates that the sector has the potential to sustain a broad range of business activities from small-scale processing at the farm gate (raw skins and hides) to medium/ large scale industry that is capital intensive (tanneries) or labour intensive (manufacturing).

Over the long-run SADC's producers should tap into industry associations resources to investigate what type of market they wish to supply and then decide what type suits this market's requirements. Based on trade data there seems to be two broad based alternatives that should be investigated further. Supplying high quality no frills goods to the regional market and producing exotic goods for international markets that incorporate African cultural heritage into their design. The demand for exotic leather products, such as cushion covers, lampshades, picture frames, is experiencing rapid growth, driven by the expansion of the home decorating market. SADC's producers should explore tapping into the resources of the "Made in Africa" project to produce non-traditional leather goods made out of exotic leather.

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Trade and Industrial Policy Strategies (TIPS)

814 Church Street
Arcadia 0083
PO Box 11214
Hatfield 0028
South Africa

t +27(0)12 431 7900
f +27(0)12 431 7910
e info@sadctrade.org
w www.sadctrade.org

Australian Government, AusAID

292 Orient Street
Arcadia 0083
PO Box X150
Pretoria 0001
South Africa

t +27(0)12 342 8267/3781
f +27(0)12 342 4201
w www.ausaid.gov.au