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## Not much chance for developing countries in the shoe industry

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num of adaptability in this sector of industry in which medium-sized firms are still the rule.

### Choice of Location a Matter for the Manufacturer

This also applies to the choice of sites for factories. When textile firms take investment decisions, the possibility of operating abroad is nowadays examined as a matter of course, especially when capacity extensions are being considered. Many a firm has already "one foot" beyond the border. But a closer look shows that the choice of location does not by any means always depend upon wage differentials. The plentiful supply of cheap labour, which is a characteristic of the developing countries, is only one of several considerations and often

not the decisive one. The investments made in the USA and in European high-wage countries are evidence of this. Crucial is often the wish to surmount tariff barriers or even merely to open up an important market more efficiently from a point near-by.

Incidentally, the term "developing country", simple as it is, has for a long time seemed to me to be a dubious one because it is too indiscriminating, as becomes clear for instance if one looks at the equipment of the textile industry of Hongkong.

It is in any case up to the manufacturer to choose a location for his factory and must remain so. Insofar as the state sets data, it must not be done by means of selective regulations which will, directly or in-

directly, result in discrimination against individual industries. The dirigiste concept of a state intervening in various sectors of industry — helping some and hampering others — is incompatible with the concept of the market economy. The economic constitution of the Federal Republic offers no lever for "translocating" industrial sectors as yet and — it is to be hoped — will not do so in future.

If matters were different, mistaken decisions on a massive scale could well be the result. How could the control authority possibly know what will be the right structure tomorrow or the day after? These are unquestionably matters which we should as before leave to the market and the entrepreneur willing to take the risks.

## Not much Chance for Developing Countries in the Shoe Industry

by Philipp Urban, Offenbach/Main \*

In 1954 — over 20 years ago — Professor Dr Ludwig Erhard, at the time Minister for Economic Affairs, made a prediction: "The time will come when cost factors will make it almost impossible for us in Germany to produce ordinary goods for consumption or use covering production costs, let alone on a profitable basis. Worldwide we shall no longer be competitive enough. To make these kinds of products in low-cost countries would be a way out."

For years all sorts of institutions have been trying to prove in the debate about the opportunities for a more intensive division of labour between the industrialized and developing countries that there are a number of economic sectors, termed "wage-intensive", which are eminently suitable for out-and-out relocation in developing countries. The shoe industry has been mentioned very often in

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this context, together with the textile, clothing and leather industries.

Basic to all these suggestions is the idea that shoe factories could be set up easily wherever there is relatively little capital but sufficient cheap labour. Not only would the domestic market benefit but, even more important, the produced shoes could earn foreign currencies. In support of this argument it is claimed that — as a result of

comparative wage-cost disadvantages, limited opportunities and action for rationalization, and lacking elasticity of demand to income variations — the locational conditions have worsened so much for the shoe industry that it should in future be left to the countries at the lowest stage of development to make shoes. It was also said that shoe factories did not have to make any particularly high demands on their labour force in regard to training and technical qualifications.

### **False Assumptions**

At a first glance this line of argument may sound convincing, at least in theory, but it is too generalized and does not carry conviction on closer consideration.

The shoe industry is a highly efficient industry and has high technical standards. It would be wrong to think that untrained labour and relatively small investments will do for a shoe manufacturing operation. Apart from the factory buildings required — which might not pose too difficult a problem for a developing country — substantial sums have to be invested in machinery. To put down a few sewing machines is not enough. It is a specific feature of the production of shoes that a large number of special machines, each with its own narrowly circumscribed application, are used for over a hundred separate operations. Their performance and output depend to a high degree upon the skill of the operative attending the particular machine.

This specialization in mechanization is contingent on the availability of workers with the proper training and previous experience. As a rule it is not good enough to give somebody a short briefing and hope that he will in time learn how to

handle the machine as the product and the machine require. Outstanding manual skill, as well as first-class machinery, is needed for the manufacture of high-grade merchandise.

It is not without reason that the German shoe industry is currently preparing new job specifications to make sure that the operatives of tomorrow will have the appropriate qualifications. Increasing technization as a result of modern processing methods, increased use of labour-saving machines and introduction of new working materials has not only brought about cost economies but made employment of operatives with proper qualification essential.

### **Highly Heterogeneous Products**

Apart from the high training and investment standards of shoe factories, the heterogeneous nature of their product is a strong argument against the relocation thesis. The shoe industry is an extremely fashion-conscious production sector. It is highly susceptible to the consumer's wishes, to what he has in mind. Its product range covers the whole gamut from largely uniform shoes — a bulk production article which is mostly standardized — to specialized high-fashion merchandise to suit individual requirements and orthopaedic footwear made to fit the anatomy of the foot. That means that the manufacturer must be market-orientated. He must be able to offer a large number of differentiated products which satisfy the wishes of individual consumers and to adjust to the fluctuating demands of the market. There is need for fine-tuning to keep abreast of fashion trends, and this means that the shoe manufacturer must be close to the market and have direct contact with the distributor and consumer so as to keep his production policy flexible.

There are other locational factors which limit the access of developing countries to the international market and militate against relocation, such as the need to meet specified delivery dates and to avoid complaints and claims for refund for faulty delivery.

On the other hand it cannot be denied that the developing countries enjoy considerable competitive advantages in regard to wage costs. For this reason the German shoe industry has taken to the idea of transferring the production of low-quality mass products and especially wage-intensive operations to foreign countries. The many cooperation arrangements made are significant in this respect.

### **No Panacea for Development Policy**

To sum up, it can be said that it would be a fundamental error to believe that the production of shoes offers a panacea for development policy. It requires considerable investments and a high level of training. It follows from the need for direct contact with distributors and consumers and for adaptability to consumers' wishes that shoes must be made on the spot if the consumers' wishes are to be met.

Under the present conditions, unlike those encountered 20 years ago, the shoe industry, faced as it is with a multitude of differentiated consumers' wishes, cannot be recommended as an industrial primer for developing countries — except for a few low-quality products and product groups. There is very little chance for beginners, least of all in developing countries, to secure a position in a market where the necessary know-how changes all the time and international competition is perhaps more severe than in any other.