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*The dynamics of the footwear sector in four Latin American countries:
Argentina, Brazil, Chile and Mexico*

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Summary

Following the structural reforms, the industrial sector in Latin and Central America has faced a new competitive regime and an unstable macroeconomic environment. Differences among countries and sectors require for a deeper analysis, which takes into account also meso and micro states and trajectories. In the present paper we analyse the dynamics of the footwear sector in Argentina, Brazil, Chile and Mexico.

The four countries have followed similar macro paths, though not identical and with some differences in timing. Nonetheless, the performance of the sector differs strongly among them, with Argentina and Chile lagging well behind the international competition, while Brazil and Mexico become 'world competitors'.

Hence, after focusing on macro reforms and the sector-specific factors at the international level, we deeply analyse the interaction with micro and meso forces. The formers are related with the particular behaviour of 'different' economic actors in managing, investing, learning and innovating. In particular we focus on their reaction to strategies adopted confronting the challenges of liberalisation. The latter regard the analysis of the institutional environment in which firms operate, and the peculiarity of the 'technological regimes'. In particular, we concentrate on the industrial organisation of the sector, which in a number of successful cases is characterised by strong vertical linkages, spatial concentration and institutional support. Controlling for different industrial and trade policies, those micro and meso conditions provided to be a positive determinant of sector competitiveness, even in unstable environments, with a sudden increase in foreign competition.

JEL: O54, O14, L67, L16

KEYWORDS: Latin America; Industrialization; Other Consumer Nondurables: Clothing, Textiles, Shoes, and Leather; Industrial Organization and Macroeconomics

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1. Introduction

This paper analyses the dynamic behaviour of the footwear sector in four Latin American countries - Argentina, Brazil, Chile and Mexico - after their opening up to foreign competition. In order to understand the changes occurred, identifying similarities and differences among the countries considered, the role played by macroeconomic, meso and micro forces and their co-evolution is investigated adopting a framework of analysis put forward by Katz (2000 and 2001) in a recent study on structural industrial changes in Latin America.

As far as the macro level is concerned, trade liberalisation and deregulation of a vast array of markets have induced major changes in the structure and behaviour of the economic systems under investigation. Particularly, the domestic footwear sector in Latin America countries has been generally hit by a huge increase in cheap imports mainly coming from Asia and, at the same time, imports of capital goods and components have become cheaper and increased substantially.

Nevertheless, although the four countries studied went all through trade liberalisation, the structural changes occurring in their shoe industries are peculiarly diverse: in Argentina and Chile the sector is rapidly declining while in Mexico after an initial crisis the domestic shoe industry is recovering and increasing its competitiveness and finally, before liberalisation Brazil was already a shoe super-power in the international market. Therefore looking for an explanation about those different behaviours, besides the macroeconomic environment we also need to focus on meso-economic conditions and micro forces.

Considering the meso forces we want to stress the sector specificity, namely the different competitive and 'technological regime' in which each industry operates (Katz, 2000; Malerba, Orsenigo 1997). In the shoe sector, factors such as changes in the international demand, the coming up of new very competitive producers, mainly located in Asia, and the organisational pattern of the industry often characterised by strong ties with backward and forward suppliers and by spatial concentration of the whole 'filière' in industrial clusters are considered.

Finally, the micro level is related with the particular behaviour of each economic agent in managing, investing, learning and innovating. Here, we investigate the strategies adopted confronting the challenge of liberalisation, focusing on the different opportunities faced by firms according to their size and their location within or outside specialised clusters.

Differences and similarities in macro, meso and micro forces and their interactions influence how the shoe sector behaves in front of liberalisation in each country under analysis, gradually giving rise to a 'country-and-sector-specific' technological and managerial culture that cannot be thought to be a carbon copy of that attained by any other country or industry (Katz, 2000 and Saxenian, 1994).

Bearing this framework in mind, the paper is structured as follows. In the second section we briefly describe the macroeconomic dynamics of the region, considering the recent major changes and how they affect the shoe sector. Then, an overlook on the footwear industry and its world-wide dynamics is presented to identify the sector-specific forces affecting the countries under analysis. In the fourth section, the shoe sector in Argentina, Brazil, Chile and Mexico is considered, stressing the changes occurred after the deregulation process and also focusing on the industrial organisation of the sector in each

country, therefore considering its structure, the intensity of horizontal and vertical linkages within the shoe 'filière' and the importance of local and national, private and public institutions. Finally, some conclusions are drawn to identify the different adopted entrepreneurial strategies, industrial policies and organisational structures facing the challenge of liberalisation.

2. Macroeconomics and structural changes

All the four countries under analysis went through a profound process of trade liberalisation. In Chile the process began a first time in the '70s, much earlier than in the rest of Latin America, while in the other countries the beginning was in the second half of the '80s (Table 1). The process of market opening went together with structural reforms aimed at market deregulation and privatisation, strongly affecting the industrial structure of the countries investigated.

Table 1 - Trade liberalisation in some Latin American countries

COUNTRY	Beginning of programme	Maximum tax (%)			Medium tax (%)		
		Starting period	End of 1993	Half of 1996	Starting period	End of 1993	Half of 1996
Argentina	1989	65	30	33	39	15	14
Brazil	1988	105	35	35	51	14	13
Chile	1973	220	10		94	10	
	1985	35	11	11	35	11	11
Mexico	1985	100	20	35	24	13	14

Source: Ffrench-Davis, 1999

Trade liberalisation lowered the costs of imports, causing a huge increase both in imported consumer goods and intermediate and capital goods. In the footwear sector, the opening up of the domestic market led to a huge increase in imported shoes, mostly very cheap and low quality shoes produced in China and other low-waged Asian countries such as Vietnam.

Table 2 and Graph 1 show the rather similar impact of trade reforms on the footwear industry in every country under investigation. In Argentina, a first increase in imports was registered between 1978 and 1979 when some reforms were initially implemented. Afterwards, imports of shoes fell back when, due to the debt crisis, the trade barriers went up again and then in 1989 the liberalisation programme started for a second time, causing a further increase in footwear imports.

Table 2 – Imports and exports of footwear (thousand US \$)

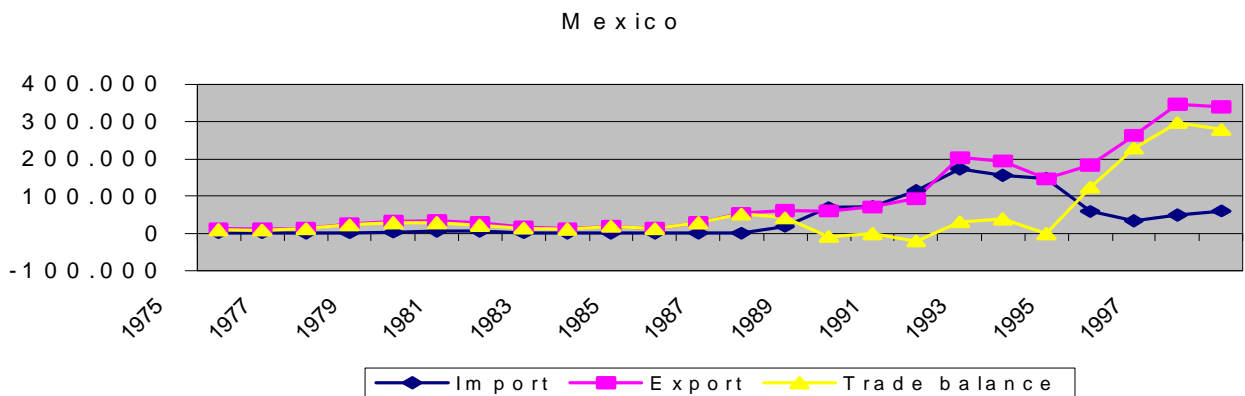
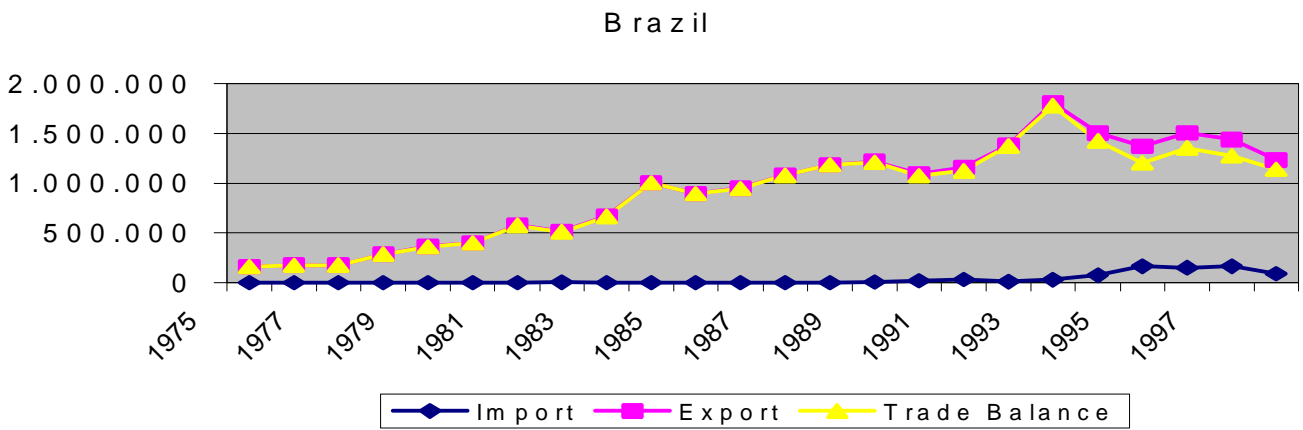
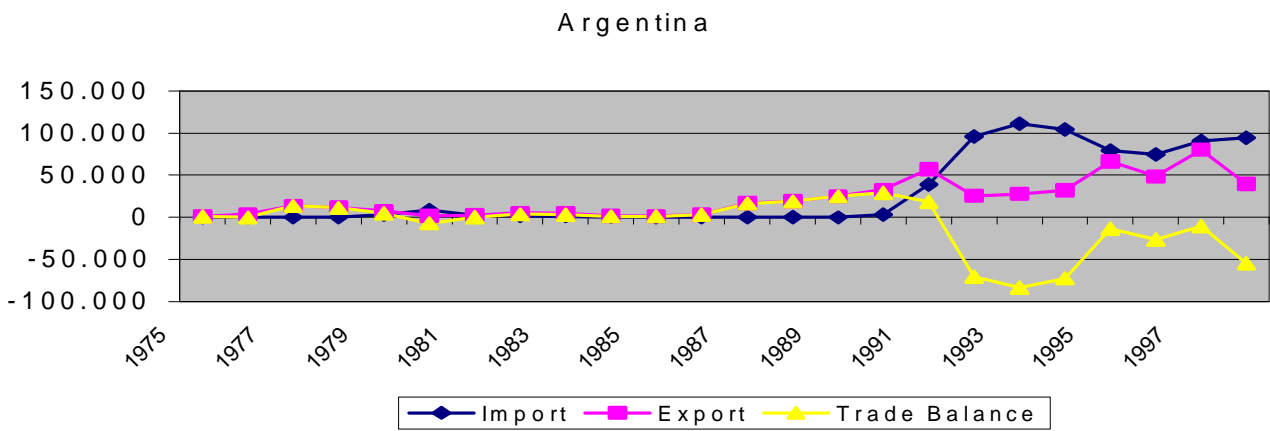
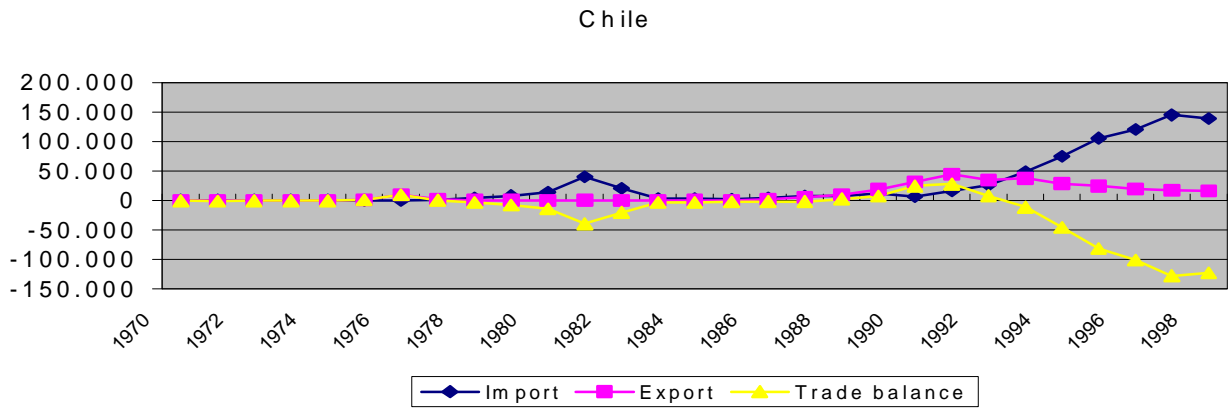
YEAR	ARGENTINA		BRAZIL		CHILE		MEXICO	
	Import	Export	Import	Export	Import	Export	Import	Export
1970					360	11		
1971					657	14		
1972					480	10		
1973					522	185		
1974					388	9		
1975	ND	756	434	163.152	449	1.262	2.146	12.213
1976	ND	3.839	571	176.192	398	10.383	1.848	10.787
1977	89	13.654	829	177.610	1.363	1.700	1.360	13.796
1978	279	11.700	1.004	288.040	3.776	667	2.474	26.096
1979	3.029	7.627	1.626	365.884	7.973	591	3.881	32.595
1980	8.829	1.693	2.109	403.605	14.578	263	5.710	33.976
1981	2.264	2.470	2.215	579.651	40.178	473	5.916	28.246
1982	1.416	5.231	5.695	518.960	20.382	283	1.919	16.304
1983	1.211	4.683	2.284	668.399	3.076	179	355	12.394
1984	652	1.781	1.157	1.004.607	3.577	362	421	19.983
1985	324	1.521	1.413	896.977	2.194	182	1.092	14.455
1986	219	3.410	3.285	951.781	3.786	2.160	679	29.067
1987	288	16.658	3.363	1.082.757	7.198	5.774	609	53.581
1988	134	19.159	3.686	1.187.858	7.160	9.838	18.917	61.307
1989	84	25.017	9.344	1.220.859	11.503	19.105	69.395	60.941
1990	3.324	32.477	20.399	1.093.724	6.983	31.496	71.995	70.927
1991	38.930	57.422	34.578	1.159.366	16.223	44.288	114.458	93.940
1992	95.970	25.575	11.643	1.387.148	26.647	34.585	172.992	204.303
1993	111.067	27.806	32.213	1.811.652	49.024	37.620	156.333	195.055
1994	104.197	31.863	76.931	1.504.071	74.616	28.951	147.364	146.861
1995	79.656	66.367	166.206	1.371.888	106.119	24.376	58.793	183.368
1996	74.845	48.320	152.250	1.507.227	120.518	19.491	34.077	262.910
1997	90.553	80.280	165.409	1.439.261	145.166	17.324	49.422	347.478
1998	94.634	39.932	93.858	1.234.610	138.818	16.033	60.661	339.759

Source: PADI; Anuario estadístico de America Latina y el Caribe 2000, CEPAL.

In Chile, the reforms undertaken in 1973 had some consequences on the footwear sector from 1977 and then, as in Argentina, between 1982 and 1986 during the debt crisis, there was a slow down in imports. From then, with the beginning of the second liberalisation programme, imports started again to increase at very high rates, raising from 3.800 thousand to 139.000 thousand US \$.

Once again Mexico confirms the impact of liberalisation on the footwear industry. The interesting peculiarity of the Mexican shoe industry is related with the return to import protection (at least partial) that followed the first dramatic increase in imports. In fact, in 1993 the Mexican government placed anti-dumping tariffs (varying from 60 to 1000 %, according to the type of shoes) on imports from China, and in 1995 also the tariff on shoes imported from the rest of the world was put back at 35 % for a period of five years (Rabellotti, 1999). This temporary protection had a clear impact on imports, which decreased suddenly by 60%. According to Rabellotti (1999), the return to higher (temporary) market protection has provided the breathing space and time for Mexican shoe firms to restructure and ameliorate their position toward international competition.

Graph 1: Import export and trade balances (thousand of \$US)



Finally, in Brazil it is also evident the coincidence of liberalisation and increase in imports. Besides, from 1994 imports were further boosted by the monetary policy adopted, fixing the exchange rate in order to curb inflation, which has generated an over-evaluation of the *Brazilian real* (Bazan and Navas-Aleman, 2001).

In addition to trade reform and the following increase in imports, other characteristics of the macroeconomic system had important consequences on the performance of the industrial structure in the countries investigated. As explained by Katz (2000) the opening up to foreign competition, together with the structural reforms undertaken aimed at macro stabilisation, had in Latin American countries a generalised initial effect of increasing interest rates, decreasing local investments and reducing the internal demand.

The impact of macro conditions has been substantially different within the productive structure with manufacturing sectors, such as textile, clothing, leather and footwear, generally losing share in total industrial production and being replaced by natural-resources processing industries in Argentina, Chile and Brazil or by 'maquiladoras' in Mexico (Peres and Stumpo, 2000). The process of industrial restructuring led to a significant reduction in internal production and employment in those sectors most affected by the change in the macro environment. Small and medium enterprises appear to have been the group most seriously affected by liberalisation and structural reforms. Considering the case of Chile, Katz (2001) reports that following trade liberalisation in 1973, some 7000 industrial firms (corresponding nearly to 15 % of the total number of companies of more than 10 employees registered by the local industrial census) exited the market, being most of them in the above-mentioned industrial sectors.

Focusing on the footwear sector, Argentina reported a very strong contraction both of value added (reducing from about 500 million US\$ in the first half of the '70s to 177 million in 1996) and employment (from 50000 employees to 13600) (Tables 3 and 4), while in Chile the performance is more stable, although according to Kassai (2000) a huge number of micro firms exited from the market.

Very differently is performing the shoe sector in Brazil, registering a huge increase of value added since the 70's and some recent contraction during the '90s. Employment grew from about 50 thousands in 1970 to more than 200 thousands until 1990 and then decreased to 100 thousands in 1996. Section 4 explains the reasons for this different performance focusing on the impressive growth of the Sinos Valley cluster. Finally according to Tables 3 and 4, Mexico also reported some reduction both in value added and in employment although, as it is shown in Rabellotti (1999), the footwear sector is recently recovering from contraction and beginning to increase exports mainly to USA.

From what has been said so far it appears that, although the four countries under investigation have all undertaken liberalisation and structural reforms, the performance of the footwear industry has been rather different: in Argentina and Chile there was a decline, in Mexico initially a contraction and then a recovery and in Brazil a huge increase with some recent tightening. This variety in performances is confirming the necessity to take into account other factors, besides macro conditions, in order to explain the behaviour of the shoe sector in the four countries. In the rest of the paper we are therefore analysing micro and meso forces characterising the shoe industry in Argentina, Brazil, Chile and Mexico in order to understand reasons for decline and recipes for success.

Table 3 - Value Added (at constant 1985 prices) of the footwear sector (million US\$)

YEAR	ARGENTINA	BRAZIL	CHILE	MEXICO
1970	612,57	251,17	48,50	480,85
1971	590,13	257,81	54,95	496,94
1972	457,03	301,55	70,00	547,45
1973	474,71	468,62	49,04	587,15
1974	534,28	497,68	40,46	573,08
1975	470,82	515,26	26,66	626,79
1976	399,65	648,51	28,72	656,57
1977	372,54	704,51	40,08	598,15
1978	315,94	758,19	34,59	706,85
1979	318,72	975,01	43,38	808,77
1980	307,21	1.002,13	42,60	810,80
1981	275,96	842,60	48,11	932,61
1982	252,68	1.018,18	34,77	894,58
1983	259,97	1.036,06	27,16	722,32
1984	267,85	1.036,40	27,62	719,79
1985	216,86	1.202,31	27,83	739,05
1986	206,59	1.295,85	31,19	696,66
1987	186,52	1.146,52	35,22	602,10
1988	171,84	1.300,75	41,00	587,65
1989	151,73	1.384,00	48,53	609,53
1990	162,83	1.142,39	49,29	597,30
1991	179,26	986,80	55,35	579,90
1992	194,91	940,06	63,72	534,72
1993	161,70	1.002,97	62,62	517,67
1994	174,83	980,19	59,59	509,56
1995	152,13	928,54	52,32	
1996	176,95	892,27	50,54	

Source: PADI; Anuario estadístico de America Latina y el Caribe 2000, CEPAL.

Table 4 - Footwear sector employment

Year	ARGENTINA	BRAZIL	CHILE	MEXICO
1970	55174	50985	9040	75000
1971	53961	56083	8830	77000
1972	48751	46507	8880	77000
1973	50572	74294	8750	80000
1974	51887	80556	8430	82000
1975	50067	101197	8030	80000
1976	45818	102589	7430	84000
1977	38232	106555	6800	86000
1978	32366	121270	6560	90000
1979	33277	128687	6250	94000
1980	29635	143813	5810	99000
1981	28472	143388	5430	114000
1982	23871	172313	4610	107000
1983	23596	176611	4710	99000
1984	26133	204121	6010	97000
1985	27224	227193	6573	101720
1986	23446	244040	7444	96050
1987	21195	197664	8459	97970
1988	20633	217207	9588	94130
1989	18819	237452	10843	87400
1990	18943	203221	11338	81640
1991	17609	166912	11883	77000
1992	17147	142755	12557	80219
1993	16488	145909	11676	76822
1994	16272	142261	10976	74577
1995	13925	132303	10293	
1996	13602	107217		

Source: PADI; Anuario estadístico de America Latina y el Caribe 2000, CEPAL.

3. The international dynamics of the shoe sector

3.1 The supply side

The analysis of the international dynamics of the footwear industry shows the typical features of many traditional, labour-intensive manufacturing sectors: in the most developed countries production and exports saw a radical reduction during the last 50 years and in the second half of the past century new leading competitors appeared in the world market.

The first important changes emerged in Europe during the 1960s with the outstanding growth of the Italian shoe industry. Indeed, at the beginning of the 1960s the Italian footwear industry ranked only fourth in Europe after France, Great Britain and Germany. At that time in Italy the production was mainly directed towards the domestic market and the shoe sector was dominated by small, craft enterprises. In the following decades there was a severe reduction of activity in France, Great Britain and Germany and an impressive growth of the sector in Italy, mainly led by an export boom. At the beginning of the 1950s, exports represented a mere 3.7 % of total Italian shoe production, in 1970 the proportion of exports increased to 63 % and in 1985 it was 83 % (ANCI, 1994).

After the appearance of Italy as a shoe leader in the international market, more recently during the 1980s, other European countries, like Spain and Portugal, became very competitive and greatly increased their production, exploiting a labour cost advantage in comparison with Italy. From 1981 to 1999, in Spain there was an increase of 53 % in the number of pairs produced and in Portugal of 227% (ANCI, 2000).

Besides, in the world market competition did not come only from inside Europe but mainly from Asia: initially from newly industrialising countries like Taiwan and South Korea then from China and some very recent comers like Vietnam. Outside Asia and Europe, in the world market the only really important producer and exporter is Brazil, although Mexico has very recently increased its export share in the large U.S. market.

Analysing production statistics, the growing importance of Asia in the footwear industry is very clear: from 1982 to 1999 the Asian share of world production has increased from 41 % to 77 %, with China producing more than 50 % of the 11,500 million of pairs of shoes totally produced in the world (Table 5). In the same period shoe production has decreased substantially in Eastern Europe (from 20 % of total world production to 2 %) as well as in the rest of the world. Production data at country level confirm the continuous rise in China and the contraction of the footwear industry in countries like the ex-URSS, the U.S.A. and Japan. Within Asia, besides the China leading role, the geography of shoe production changed a lot during the period considered: in countries like Taiwan and South Korea the sector lost importance because their industrial structures moved up along the technological ladder towards less-labour intensive, more sophisticated sectors and countries with very low labour cost such as Vietnam recently increased their production share. In Latin America, from 1989 to 1999 Brazil remained among the ten main world producers, although losing some positions in the league. While in 1999, Mexico appeared among the ten largest world producers for the first time. Finally, Italy is the only industrialised country to maintain a position among the top ten world producers in 1999 (Satra, 2000).

Table 5 - World production (millions of pairs)

	1982	%	1989	%	1994	%	1999	%
Asia (excl. Ex-URSS)	3,243	40.7	5,539	53.7	6,604	67.6	8,920	77.3
• Middle East							392	3.4
• China							5,930	51.4
• Rest of Asia							2,598	22.5
Eastern Europe (incl. CSI)	1,609	20.2	1,722	16.7	390	4.0	269	2.3
Western Europe	1,259	15.8	1,111	10.8	1,134	11.7	967	8.4
• Italy			407	3.9	471	4.8	381	3.9
South America	805	10.1	901	8.7	870	8.9	757	6.6
• Argentina							80	0.7
• Brazil			625	6.1	590	6.0	499	4.3
• Chile			26	0.2	27	0.3	21	0.2
Central and North America	725	9.1	696	6.7	449	4.6	431	3.8
• Mexico			270	2.6	172	1.8	275	2.4
Africa	287	3.6	315	3.1	287	3.0	174	1.5
Australia & New Zealand	40	0.5	29	0.3	22	0.2	16	0.1
Total	7,968	100.0	10,313	100.0	9,756	100.0	11,534	100.0

Source: Satra, 2000

The geography of world shoe production is somehow confirmed by the export figures: Asia and, within it China, maintain its dominant position with respectively 78 % and 51 % of world exports in 1999 (Table 6). Adding up Honk Kong exports to Chinese ones, their joint share of the world shoe market reaches 65 % in 1999. From 1989 to 1999 exploiting a very low labour cost and in many cases practising a dumping policy, Chinese exports went up of 422 %, increasing from 656 to 3,426 million of pairs (Table 7). Among the top ten world exporters, in 1989 Taiwan and South Korea were respectively the second and the fourth largest exporters after China and in 1999 both countries are not anymore in the league; while Vietnam appears at the fourth place in 1999. In Latin America, Brazil maintains a place in the top ten league during the decade '89-'99 and Mexico appears as the tenth largest world exporter in 1999, confirming the recent recovery of its shoe industry.

Table 8 presents exports in value and the listing of the main exporters is somehow changing: in 1998 China stays at the top but the distance with Italy, which is the second largest exporter, is reduced. Besides, many European producers appear in the list: Spain, Portugal and Belgium² are respectively the third, fourth and fifth main exporters, Germany is the seventh and France and U.K. close the list. In addition to China, the only other two developing countries remaining in the league of the top ten world exporters when export value is considered, are Brazil and Indonesia.

Therefore, the picture coming out from the analysis of the international dynamics of the footwear industry is a rather complex one because data on production and exports in pairs show the image of a typical traditional manufacturing sector, in which international competition is based on labour cost, technology is firmly established and Asian countries are the main leading actors. Whereas, if exports in value are considered the picture is more differentiated: China with its massive low-priced production is still the main world exporter but in the league of the top ten there are also countries like Italy, Spain, Portugal and Brazil competing more on quality than on price. These countries, unable to face price competition from Asian countries, have strengthened their advantage in terms of fashion content, design and branding and managed to increase their exports in the medium-high and high segments of market.

² The impressive growth of Belgium exports is explained by an increase in shoes imported to be re-exported.

Table 6 - World exports (millions of pairs)

	1989	%	1994	%	1999	%
Asia (excl. Ex-URSS)	2,487	70.0	4,555	78.6	5,225	77.8
• China	656	18.5	2,060	35.5	3,426	51,0
Eastern Europe (incl. CSI)	137	3.9	63	1.1	151	2.2
Western Europe	697	19.6	923	15.9	906	13.5
• Italy	340	9.6	405	7.0	347	5.2
South America	180	5.1	201	3.5	149	2.2
• Argentina					1	0.0
• Brazil	169	4.8	165	2.8	137	2.0
• Chile			3	0.1	1	0.0
Central and North America	50	1.4	45	0.8	236	3.5
• Mexico	19	0.5	5	0.1	83	1.2
Africa	3	0.1	5	0.1	49	0.7
Australia & New Zealand	1	0.0	4	0.1	3	0.0
Total	3,555	100.0	5,796	100.0	6,719	100.0

Source: Satra, 2000

Table 7 - World main exporters (millions of pairs)

1989		1994		1999	
China	656	China	2,060	China	3,426
Taiwan	578	Honk Kong	1,401	Honk Kong	970
Honk Kong	491	Italy	405	Italy	347
South Korea	380	Thailand	277	Vietnam	221
Italy	340	Indonesia	268	Indonesia	217
Thailand	180	Brazil	165	Brazil	137
Brazil	169	Spain	131	Spain	133
Spain	95	South Korea	126	Thailand	124
Portugal	69	Taiwan	108	Portugal	95
Indonesia	57	Portugal	85	Mexico	83

Source: Satra, 2000

Table 8 - World main exporters (value US\$ millions)

1995		1998		Rate of growth 95-98 %
China	6,662		8,390	25,9
Italy	8,099		7,764	-4,1
Spain	1,960		2,188	11,6
Portugal	1,847		1,723	-6,7
Belgium	194		1,446	645,4
Brazil	1,499		1,387	-7,5
Germany	1,449		1,469	1,4
Indonesia	2,055		1,206	-41,3
France	1,134		1,040	-8,3
U.K.	791		892	12,8

Source: UNCOMTRADE

Given these differentiated patterns of competitiveness, the analysis of the international dynamics of shoe demand may shed some light on future prospects and growth potentials of the different producing countries.

3.2. The demand side

Shoe consumption depends on the size of population as well as on the people's purchasing power and therefore, as it could be expected, Asia is the main area of footwear consumption in the world market with an increasing weight in the last decade explained by both increasing population and, at least in some part of the continent, rising per capita income. After Asia, the main shoe markets are the U.S.A. and Western European countries, which, given the reduction of their domestic production, are also the main importers.

As a matter of fact, Table 9 shows that North America and particularly the U.S.A. and Western Europe have remained the main importers during the decade 1989-99. It is also evident that most of Asian imports can be attributed to Honk Kong to be re-exported. Moreover when import values are considered, there are not significant differences.

Table 9 - World main importers (millions of pairs)

1989		1994		1999	
U.S.A.	1,050	Honk Kong*	1,450	U.S.A.	1,636
Honk Kong *	531	U.S.A.	1,426	Honk Kong *	1,004
Germany F.R.	278	Germany	386	Japan	557
France	202	Japan	339	Germany	344
U.K.	177	France	244	U.K.	290
Japan	157	U.K.	216	France	254
URSS	149	Netherlands*	145	Italy	182
Italy	92	Italy	128	Netherlands*	110
Canada	79	Canada	87	Canada	107
Netherlands	77	Belgium*	85	Belgium*	85

*re-exported
Source: Satra

The data presented above clearly demonstrate the leading role of the U.S. as importer in the world market of footwear. In the U.S. the domestic footwear industry has gone from one of the largest employers in manufacturing to one of the smallest. Since the 1960s the U.S. shoe industry has contracted massively and the vast majority of firms closed in the face of foreign competition, due in large part to a dramatic reduction in U.S. tariffs on imported shoes starting in the mid-1960s. Direct tariffs dropped by over 50 % over a 15-year period and in the 1980s, as a result of the Tokyo Round of Trade Negotiations, tariffs were reduced even further, with low-priced shoes showing the largest reduction in duties (Freeman and Kleiner, 1998). Table 10 provides a picture of the decline in the U.S. shoe sector and of the increasing import penetration from 13 % of consumption of shoes to over 90 %, with most of the increase occurring between 1976 and 1986.

A major factor in the advantage of imports is the cost of labour. Of the top ten exporting countries to the U.S., five are low-waged less developed countries (LDCs), including China which constitutes 60 % of all shoes sold in the U.S.; three are newly industrial countries (NICs), whose wages in manufacturing remain considerably below those in the U.S. (Table 11).

Table 10 - US consumption and imports of non-rubber footwear (millions of pairs)

	1966	1976	1986	1992	1994	1998	1999
Total US consumption	735	786,298	1,182	1,118	1,242	1,325	1,360
Imports	96	370	941	974	1,101	1,230 (11,412*)	1,278 (11,384*)
Import penetration rate	13.1 %	47.8 %	80.2 %	87.1 %	88.7 %	92.8 %	94.0 %

*million U.S. dollars

Source: US International Trade Commission (2000)

Table 11 - Hourly compensation for footwear production workers in 1992 in US \$ for the top ten importing countries in USA

LDCs		NICs		DCs	
Brazil	\$ 2.00	South Korea	\$ 3.33	Italy	\$ 14.99
China	\$ 0.50	Taiwan	\$ 3.70	Spain	\$ 8.90
Indonesia	\$ 0.19	Honk Kong	\$ 3.38	USA	\$ 9.41
Thailand	\$ 1.50				
Mexico	\$ 2.10				

Source: Footwear Industries of America

But, as already stressed in the previous section, wage costs are not the only elements for success. The hourly compensation for footwear production workers in one of major exporting country, Italy, is over 50 % above that in the U.S. and in Spain it is comparable to U.S. compensation. Naturally, these countries are exporting mainly medium to high quality shoes to U.S., as it can be deduced from the average price of their imports which is 23.6 US\$ for Italian shoes and 16.8 \$ for Spanish footwear.

Then providing some information on the dynamics of U.S. demand composition, a first consideration is the increase in imports of athletic shoes and the second fact is the increasing share of low market channels, like price discount retail chains and self-services, at expense of high market department stores and shoe stores but above all moderate market channels like factory outlets and moderate market department stores.

Going back to the country profiles presented in the previous section, some considerations on future prospects of the different main competitors in the U.S. shoe market can be put forward. If low price discount retail chains will continue to increase their market share this could imply a reduction of opportunities for countries like Italy and most of all Brazil, specialised in medium quality shoes, the market segment which is more squeezed from the expansion of low market chains.

A further very significant trend characterising the U.S. shoe market and increasingly large part of the European market is the growing importance played by large buyers. While the number of producing firms and countries has increased rapidly during the last decades, on the demand side there has been a concentration amongst buyers. These buyers are global in the sense that they source from producers all over the world (Knorrington and Schmitz, 1999). They play a central role in shaping decentralised production networks in a variety of exporting countries and from them the survival and growth opportunities of many

enterprises and countries depends very strongly³. Buyers control market distribution but they often also supply producers scattered around the world with design, product development, raw materials and components. Therefore, shoe firms located in developing countries are often only responsible for the manufacturing phase and they do not develop an independent capability to create new products and do not have any direct contact with market. For instance, this is happening in the Sinos Valley cluster in Brazil, as discussed later in the paper, showing how important buyers can be initially for the successful entry into the international market and how much they can then restrain the upgrading attempts of domestic enterprises.

From the analysis of the international dynamics of shoe supply and demand, the picture which is coming out is rather differentiated: the remarkable rise of Asian countries, particularly China, shows an evolutionary pattern of a typical traditional low-skilled, low-waged industry but the glorious survival of countries like Italy among the world leading exporters also proves the existence of a different model of competitive advantages based on high quality, fashion content, branding, flexibility and high specialisation in the organisation of production.

The analysis undertaken in the rest of this paper considering the main structural characteristics of the footwear industry in the four countries investigated with regard to technological, organisational and cultural factors, backward and forward linkages with related industries and institutional frameworks helps to better understand the possible future trends of the industry and to elaborate on which strategies shoe firms may more successfully adopt to face future competitive challenges.

4. The shoe sector in Argentina, Brazil, Chile and Mexico

This section describes the structure of the shoe sector and its importance in the national economy of the four countries investigated. Secondly, the local concentration of firms, the deepness of the 'filière' and the undergoing horizontal and vertical linkages are taken into analysis. Thirdly, the forward linkages with the external market, international buyers, export agents and foreign investors are considered. Finally, the role of local private and public institutions and the national industrial policies impacting on the sector are analysed. Table 12 provides a comparative summary of the four different shoe sectors⁴.

4.1 The structure of the sector

Argentina. In the shoe sector SMEs and micro firms are the large majority, representing almost 98% of the whole industry and absorbing 50% of the total workforce (Table 12). Nevertheless, the six largest enterprises employ about 50% of the workers and manufacture about the same of the total production (Lugones and Porta, 2000).

³ There is a very vast literature on buyer-driven global commodity chains as a typical pattern of industrialisation in labour-intensive consumer goods such as garments, footwear, toys and housewares. The main reference is Gereffi (1994 and 1999).

⁴ Data reported in Table 12 have different sources and are referred to different years; some of them are estimates provided by business associations or presented in the papers quoted as sources. Consequently, they should be taken with a lot of care. The aim of the table is to provide a qualitative, descriptive picture, useful for the comparative exercise.

As previously said, the shoe sector was heavily hit by trade liberalisation and it suffered a strong reduction in employment. According to Lugones and Porta (2000) the number of firms reduced from 2500 to about 1000, with some further decline expected by the national business association in the next future.

Most of the production is sold locally and exports are mainly to Mercosur countries (Bekerman and Sirlin, 1999).

Brazil. To describe the Brazilian shoe industry it is essential to make a distinction between the Sinos Valley cluster and the rest of the country. In fact, this cluster is the main responsible for the impressive growth of the domestic shoe industry started in the 1980s. Our focus is therefore more on the Sinos Valley than on the rest of the Brazilian shoe industry.

Nonetheless to present a general picture, also in Brazil large firms are a minority, being the sector dominated by SMEs and micro firms (in 1995 there were only 176 firms with more than 250 employees over a total of 8500 firms). Even so, in 1995 large firms employed more than 50% of the total footwear workforce, medium firms (100 to 249 employees) employed 20% of total workers and micro and small enterprises 25% of total workforce (Bekerman and Sirlin, 1999).

Considering the Sinos Valley, the cluster is also dominated by micro and small firms although the export boom favours the growth of some very large enterprises which were small firms twenty years ago. A large part of the production in the Sinos Valley is exported, being the cluster responsible for 85% of total Brazilian footwear exports, corresponding to about 5 % of total manufacturing exports in the country and 2 % of world footwear exports (Table 6).

As already stressed in section 3, Brazil is the only Latin American country belonging to the list of the ten world main exporters both in value and in millions of pairs exported (Table 7 and 8). Thanks to the Sinos Valley cluster, Brazil is among the world shoe super powers together with countries such as China, Italy, Portugal and Spain. The U.S. are the main foreign market, where the Sinos Valley manufacturers export mostly leather women's shoes (Bazan and Navas-Aleman, 2001 and Schmitz, 1995a).

Chile. The footwear sector is very small: 161 firms employing about 10000 people. As we said before, the industry suffered from trade liberalisation with some 350 enterprises closing down (Kassai, 2000). Nevertheless, after a reduction during the 1980s, the number of employees came back in the 1990s at a similar level of the 1970s, suggesting a process of vertical integration in the surviving enterprises.

About 90% of total enterprises are micro, supplying very local markets and producing 6 % of the overall value of production. The rest of the sector is mainly composed by SMEs, absorbing most part of the employment and producing about 60 % of the national value of production. Finally, there are only 5 large firms, corresponding to 20% of the national production, which increasingly play a very crucial role as importers and distributors of foreign shoes (Kassai, 2000).

Mexico. There are about 6000 firms and 95 % of them are micro enterprises (less than 15 workers) and SMEs (between 16 and 100 workers), employing more or less 30 % of the total footwear workforce. Medium firms are 163 and employ about 20% of the workforce

and 63 large firms employ the remaining 50% of the people (Grossman and Domínguez-Villalobos, 1996; Rabellotti, 1997).

For many decades the Mexican footwear industry produced mainly for the protected domestic market. Then, since 1988 with the opening up of the economy to foreign competition there was a drastic increase in imports. The impact of trade liberalisation on the sector was initially quite strong, although more recently there was some recovery helped by a partial and temporary return to market protection. The category of firms mostly hit by liberalisation were again small and micro firms.

With regards to exports, although in 1991 these accounted only for 7 % of total production, during the last decade there was a continuous increase and in 1999 for the first time Mexico appeared in the league of the ten world main exporters (Table 7). Several factors contribute to this increase in exports: the peso devaluation in 1994, the increasing integration with the US market followed the Nafta agreement and, as explained in greater detail later in this section, the re-organisation undergoing in the Mexican shoe industry, stimulated by the increasing competitiveness in the domestic market and facilitated by the existing concentration of firms in specialised agglomerations.

In the rest of this section the Mexican shoe industry is analysed with a focus on Guadalajara, the second most important local concentration of footwear firms in Mexico, absorbing 16% of the overall sector employees and 27% of the national footwear production.

From what has been said so far in terms of their shoe sector, the four countries under investigation can be split in three groups:

- Brazil is a world shoe champion, thanks to the export boom recorded by the Sinos Valley cluster during the last two decades;
- The Mexican shoe sector suffered an initial contraction after the liberalisation of the domestic market but, thanks to several macro and micro factors, it was able to benefit from trade reform, increasing exports;
- Both in Argentina and Chile the shoe sector was always devoted to supply domestic needs. In both countries trade liberalisation impacted very strongly on the footwear industry, reducing firms and, particularly in Argentina, employment and dramatically increasing imports.

4.2 The importance of clustering

Given the diverse performances of the footwear sector in the countries analysed, a closer look on how the industry and its 'filière', composed by subcontractors, component makers, producers of raw materials, service and technology providers, buyers and export agents, are organised may add some useful information to the comparison.

A first very evident difference concerning the organisation of the sector in the four countries is the existence of specialised agglomerations of firms in Brazil and Mexico and the spatial dispersion of the industry in Argentina and Chile. In Brazil, the predominant role of the Sinos Valley cluster in the state of Rio Grande do Sul, responsible for 85 % of the country shoe exports was stressed in several studies by Schmitz (1995a and 1999) and in a more recent work by Bazan and Navas-Aleman (2001). Schmitz in his 1995 article proved the existence of what he called a 'supercluster', where there are about 700 firms

belonging to the shoe sector and related industries such as tanneries, suppliers of inputs (e.g. soles, heels, accessories) and machinery producers. In his article he acknowledged the role played by low wages and by export incentives provided during the 1960s by the federal government in explaining the Sinos Valley export boom but he also stressed that the clustering of these initially small producers was critical to their ability to grow and export.

In Mexico, the shoe sector is mainly concentrated in three areas and in two of them there are some real clusters characterised by a critical mass of shoe firms and suppliers. The two clusters of Leon in the state of Guanajuato (north of Mexico City) and Guadalajara in Jalisco (north-west of Mexico City) have been the focus of several studies by Rabellotti (1997 and 1999). Leon is the largest concentration with more than 2500 enterprises specialised in the shoe sector and in related industries and in Guadalajara there are about 1000 firms but with a lower density of input suppliers and tanneries if compared with Leon. Similarly to the Sinos Valley, the large majority of shoe firms are micro and small-sized.

On the contrary, in Chile there are not significant agglomeration of specialised enterprises in the shoe industry and in Argentina, although the footwear industry is mainly concentrated around Buenos Aires and the two other large towns of Cordoba and Rosario, there are not specialised shoe clusters, characterised by a high density of footwear firms and input suppliers.

The advantages of clustering have been stressed in the very wide literature on industrial districts and clusters both in developed and developing countries⁵. Rabellotti (1997) and Schmitz (1995b) have identified two different collective effects whose interplay is supposed to bring about efficiency gains for firms in the district and to increase the capability of the system, as a whole, to innovate, grow and compete in the global market: Marshallian external economies and the effects of deliberate joint action or co-operation.

Regarding external economies, spatial proximity facilitates the development of a specialised local market for skills, the growth of numerous subsidiary sectors, providing ready available supply of inputs, machinery, raw materials, specialised services and permitting a fine division of labour and finally an easy access to specialised knowledge and rapid dissemination of information (Marshall, 1920).

External economies are the unintended by-product of the economic activities undertaken within the cluster. In addition to incidental external economies, within clusters there is sometimes a deliberate force at work, namely the conscious pursuit of joint action requiring active and deliberate inter-firm co-operation. Joint action can occur at different levels (Nadvi, 1999): within vertical linkages with suppliers, subcontractors, export agents and buyers; within bilateral horizontal linkages between two or more local producers jointly purchasing inputs, marketing products, sharing orders or exchanging information and finally within multilateral horizontal linkages among a large number of firms through cluster-based institutions.

⁵ In the 1980s, Italian scholars were the first ones to go back to the Marshallian notion of industrial district for explaining the growth of many concentration of sector-specialised small firms in some parts of Italy. Among them the pioneer was Becattini (1979). The first two collections of papers on industrial districts in developed countries in English are Goodman and Bamford (1989) and Pyke, Becattini and Sengenberger (1990). More recent is the debate on districts and clusters in developing countries. For one of the first collection of papers see Rasmussen, Schmitz and Van Dijck (1992) and in Italian see Di Tommaso and Rabellotti (1999).

In what follows, we go back to the footwear sector in the four countries under investigation and analyse if and to what extent the Brazilian and Mexican shoe clusters have taken advantage from the external economies and the effects of joint action described in the literature, comparing them with the dispersed industry in Argentina and Chile.

4.3 *Backward linkages*

Emblematic examples of shoe clusters characterised by very developed backward linkages both with suppliers and subcontractors are the Italian ones. Most of the Italian footwear industry is organised in specialised areas where there are mainly small and medium shoe enterprises, together with their suppliers and subcontractors.

The high specialisation of the Italian footwear system, based on the division of the production cycle among several enterprises, specialised in the different phases of production and on the existence of a very well-developed network of backward-linked firms, producing components, machinery and raw materials for the sector is one of the main comparative advantages of one of the world shoe 'super-powers', which among the few developed countries still maintains a position as leader producer and competitor in the industry.

The advantages of this very decentralised system are many: first, small and medium firms do not need to vertically integrate, internalising phases of production characterised by different economies of scale, but they can externally subcontract part of the production cycle to specialised firms. This decentralised system allows high specialisation and savings on investments in machinery and capabilities, reducing sunk costs and deepening technological capabilities. Secondly, there is a very wide availability of components and raw materials, easy to obtain in the market, and often the possibility to develop inputs jointly with suppliers⁶. Linkages within these networks are facilitated by spatial proximity and by continuity and are based on trust and reciprocity among interacting firms. Moreover, the intense interaction within the districts facilitates learning and diffusion of knowledge about technology, fashion trends, product innovations also among small firms which usually have limited resources to invest in such activities.

Some of these advantages were also identified in the Brazilian and Mexican shoe clusters studied in the literature. In the Sinos Valley, backward linkages with subcontractors, suppliers of components, raw materials and technology are rather well developed and they contribute to the cluster competitiveness. However, one of the effects of the export boom was the growth of some very large firms, strongly linked with the US buyers, which adopted a strategy of internal vertical integration, making themselves independent from the rest of the cluster. Nevertheless, also these firms were originally small and their belonging to the cluster contributed to their initial success.

The Mexican case is particularly interesting because it shows the evolution occurred from cluster advantages mainly based on external economies to a more active attitude towards co-operation required after the trade liberalisation. In her first study (1997) both in Leon and Guadalajara, Rabellotti stressed the existence of external economies deriving from the easy availability in the local market of components and raw materials but she also

⁶ For a seminal theoretical explanation of the advantages of users-suppliers relation refer to Lundvall (1988).

emphasised that most of the backward linkages within the clusters were market-based; there was very little vertical co-operation undergoing within the clusters.

In a more recent study (1999) on Guadalajara, the same author found an evolution of these linkages toward co-operation as a result of the opening up of the domestic market. Both shoe manufacturers and suppliers learned that co-operation was needed to improve quality of products, design and fashion contents and the speed of the production process, in order to be able to sustain international competition in the domestic market. Since the opening of the domestic market and the increase in imports of shoes and components, according to a survey carried out among firms the relationship between footwear producers and suppliers have been improving and becoming more collaborative. Testing the relationship between increase in co-operation and performance Rabelotti found a positive and statistically significant association.

Very differently from the Brazilian and Mexican clusters, in Argentina and Chile backward linkages are very weak. In Chile, most of the components and raw materials are imported. In Argentina backward-related industries are very weak, the only exception being the leather industry. Here there is a missed opportunity of strengthening the relationships between shoe producers and tanneries. The Argentinean leather industry is in fact very strong and internationally competitive, dominated by few large firms producing and exporting high quality leather. These firms buy up all the local supply of good quality raw hides and the remaining of the tannery sector is therefore left with very low quality raw materials and produces low quality leather. Hence, the local shoe sector can either buy locally produced low quality leather or import it from abroad, but it does not have a strong relationship with the most competitive segment of the domestic leather industry.

From what has been said so far it appears a clear difference between Brazilian and Mexican clusters on one side and the dispersed shoe industry in Argentina and Chile on the other side: in the clusters the presence of backward suppliers and subcontractors has generated spontaneous external economies and facilitated the setting up of co-operative linkages, like recently in Guadalajara. These opportunities for improving quality, product reliability and time-to-market are not open to shoe firms in Argentina and Chile, due to the weakness of the local network of suppliers.

4.3 *Forward linkages*

In the Sinos Valley cluster forward linkages with export agents played a very relevant role in developing the local capability to export mainly to the U.S. market. The existence of a very well developed cluster, characterised by shoe firms and by a local supply industry including tanneries, the full range of component makers, machinery producers and transport companies attracted the attention of foreign buyers. Besides, there was also some joint action in the 1960s and early 1970s which helped shoe producers to break into the international market and attracted buyers from the U.S. Once connected to the international market, foreign buyers became the critical actors in the Valley, supplying knowledge on technology, design and quality standards and raising the cluster competitiveness in the international market (Schmitz, 1999). At the beginning, export

agents were mainly foreigners, but later some Brazilian, often ex-producers, took their place with the advantage of knowing better the environment in which they were working⁷.

Nevertheless, if in the past export brokers contributed to the growth of the cluster, helping firms to improve their production skills in order to satisfy the requirements of the international market, they are now limiting export-led firms to develop their own independent capability to create new products (Bazan and Navas-Aleman, 2001). In fact, the majority of enterprises are only responsible for the manufacturing phase of exported shoes, they work mainly as subcontractors, without the possibility of developing their own sample set and brand and without a direct contact with the market (Schmitz, 1999). According to Bazan and Navas-Aleman (2001), in the Sinos Valley large exporting firms have been able to reach a very high quality standard in their production capabilities but this does not help them in obtaining a better price from their buyers because they depend on them, specially with regards to design and marketing.

Rather different is the position in the market of those firms which have traditionally produced for the domestic market because they have developed their own independent capabilities in design, to create new products and sell them in a large market such as the Brazilian one. This part of the cluster has recently succeeded in increasing exports towards neighbouring countries and in a few cases even the U.S. and Europe, without the brokerage of export agents.

Something similar to what has happened in the Sinos Valley is recently occurring in Mexico because, since the second half of the 1990s a number of factors, such as the peso devaluation, the Nafta agreement, an improvement of local production capabilities and market proximity, have attracted the interest of U.S. buyers. Some of the largest firms, mainly located in the Leon cluster, have begun to export and U.S. brokers have set up their offices in the district in order to assist their subcontractors to improve production skills. In short, the export model is very similar to what succeeded in the Sinos Valley, with its advantages and disadvantages: domestic firms are learning about production requirements in the international market with a positive impact on the quality standards of the whole 'filière' but learning from export will probably remain limited to production skills with no possibility to learn how to create new products and sell them directly in the market.

Regarding market linkages in Argentina and Chile, one of the main effects of trade liberalisation and the import boom which followed is the metamorphosis of some of the largest manufacturers in importers of foreign shoes, exploiting their existing distribution networks. These commercial strategies are definitely not helping the local industry to increase its competitiveness in the domestic market.

Nevertheless, in Chile some domestic firms have made a lot of efforts in improving their flexibility, reducing time-to-market and differentiating their sample set. In fact, they have clearly realised that increasing flexibility is the only way to beat Chinese competition, based on low price but also very standardised products and large orders.

Some important lessons can be drawn from the case studies presented: first, the role of foreign export agents is crucial in order to succeed in the international arena; second, both in the case of Brazil and Mexico, a number of factors - macro (i.e. export subsidies in

⁷This is both an advantage and a disadvantage for local footwear producers because the transmission of knowledge is facilitated, but export brokers also know very well profit margins and use their knowledge to impose prices to shoe manufacturers.

Brazil, peso devaluation and partial temporary protection in Mexico), meso (i.e. joint action in the Sinos Valley, critical mass of producers) and micro (production skills at firm level) – jointly contributed to the success in the international market; third, learning from export is very much restrained to the production phase while foreign buyers do not have any interest in transmitting knowledge about market, design and fashion. In other words, global chains in the cases of Sinos Valley and Mexican clusters are led from buyers who are not available to share their competencies and therefore their rents with shoe producers⁸.

4.4 *Local institutions*

One of the characteristics of some industrial clusters stressed in the literature is the presence of a network of local institutions supporting the local enterprises. Part of these institutions are often the expression of horizontal linkages undergoing among local firms. Those linkages are sometimes facilitated by a common social and cultural background characterising the clusters.

An interesting story is the development of the Sinos Valley cluster, originated from a community of German immigrants moving to Brazil from the early nineteenth century until the 1930s and initially specialising in small-scale peasant agriculture and handicraft and later, from the 1940s, transforming themselves in shoe entrepreneurs. Between 1940 and 1950, the number of shoe firms in Rio Grande do Sul more than doubled, increasing from 219 to 471. A large part of this increase was concentrated in the Sinos Valley (Bazan and Schmitz, 1997).

Bazan and Schmitz (1997) on their study on the Sinos Valley interestingly analysed how the original social and ethnic ties slowly evolved in a new sense of identity among shoe entrepreneurs functional to shaping economic outcomes. This explains the emergence of a very rich institutional network supporting the development of the local footwear industry. Several organisations were created by the joint action among entrepreneurs including: the SENAI School for Shoe Design and Manufacturing (established in 1947); FENAC, the shoe fair (1963); the SENAI Tannery School (1965); a technical school for chemistry and mechanics (1966) and the CTCCA, the Technological Centre for the Leather, Shoe and Related Industries (1972). Although most of these organisations were created in order to provide specific services, such as training, technological support and marketing, they all sought to promote growth throughout the sector as a whole (Klein, 1991). A particularly important role was played by the shoe fair organisation, FENAC, in bringing foreign buyers and foreign journalists to the Sinos Valley during the 1970s when exports were at the same time aided by the export incentives introduced by the Brazilian government.

A similar institutional richness could be found also in the Mexican clusters analysed in Rabellotti (1997) where an important role is played by the local business associations providing several services in the field of training, fair organisation, marketing. Recently, the local business associations have also significantly contributed to lobbying at federal level in order to reintroduce some temporary protection in the domestic market, which was a crucial measure in the recent revival of the industry. Worth of notice is also the recent establishment in Leon of an institution (COSEC) aimed at co-ordinating the whole shoe 'filière', enhancing co-operation between shoe producers and their suppliers. One of the

⁸ The link between upgrading and global chains is the focus of a research project at the Institute of Development Studies, University of Sussex. In the footwear sector two cases were studied; Brenta in Italy (Rabellotti, 2001) and the Sinos Valley in Brazil (Bazan and Navas-Aleman, 2001b).

first crucial objective of this institution is to eliminate the communication problems within the 'filière', due to the lack of a common measurement system (Dominguez, 1997).

On the contrary, in Argentina and Chile local institutions are very weak and the national sector-specialised business associations have been in the past very distant from firms, as indicated by the very few firms belonging to the associations. Basically, what associations have traditionally done is to lobby without much success to limit imports. More recently, in both countries some restructuring is undergoing within business associations in order to assist more actively local firms in facing foreign competition.

Finally, we would like to draw the attention towards some very recent trends reported in the Sinos Valley (Schmitz, 1999), where local institutions are progressively losing their importance due to the increasing integration of shoe manufacturers in global chains. Particularly, large exporting shoe firms are increasingly investing in their relationships with buyers and are less and less interested in spending time and resources on initiatives promoted by local entrepreneurial associations. Schmitz wrote about the crucial role played by a group of large exporting firms linked with some major international buyers in the failure of a programme (Programa Calçado do Brasil) aimed at strengthening joint action within the cluster to raise the competitiveness of the Brazilian leather-shoe supply chain.

5. Some concluding remarks

All the four countries analysed in this paper went through a profound process of trade liberalisation, which in the particular case of the footwear industry had a very strong impact, consisting in a huge increase in low-priced imported shoes coming from Asian countries, mostly China. Moreover, the difficulties of the domestic footwear industries also came from the high instability of the macro environment which characterised most of Latin American countries along the '80s and part of the '90s. Nevertheless, the performance of the footwear industry is not the same in all the four countries: in Argentina and Chile the sector is declining while in Mexico after an initial turn down recently a recovery is undergoing and finally, Brazil has maintained its leading role in the international market.

In order to find the reasons for these different behaviours we have investigated sector-specific factors as well as structural characteristics and organisational patterns of the industry in the four countries. These are the main findings:

- At macro level we have stressed the existence of a common framework in the four countries characterised by trade liberalisation, deregulation and instability. Nevertheless there are at least two significant differences to observe: first the initial role of export incentives in Brazil as part of the explanation of the export boom begun in the 1980s and secondly, the return to temporary, partial protection in Mexico which contributed to the recovery of the domestic footwear industry, providing the breathing space and time for Mexican shoe firms to restructure and adapt to international competition;
- At sector-specific level, we would like to stress the following points: first price competition is not a successful strategy for any of the countries investigated because of the low wages and dumping policy made by China and other Asian countries like Vietnam. Therefore competition should be more on product quality, specialisation, flexibility and market reliability in the medium segment of market, the same in which Brazil is one the world leader

- In two of the countries analysed, Brazil and Mexico, the footwear industry is concentrated in clusters. These are the main advantages: the existence of a widespread 'filière' and the facility of setting up backward co-operative linkages, the concentration of a critical mass of producers attracting the attention of foreign buyers, the favourable environment to horizontal co-operation among firms and the richness of the institutional framework specifically supporting the sector.
- Nevertheless, the most recent evolution of the Sinos Valley is also showing that some of the firms most strongly linked with the export market are becoming more and more independent from the cluster, investing more on their external linkages with U.S. buyers. These same firms have hampered some initiatives at cluster level.
- Moreover, exporting through foreign buyers like in the Sinos Valley, and increasingly in the Mexican clusters, is an important opportunity for learning how to produce but further upgrading is usually not allowed by the leaders of the chain controlling design, product creation, marketing and sale distribution.
- Probably a more interesting pattern to follow both for the clustered enterprises of Mexico and the dispersed firms of Argentina and Chile is represented by the group of firms in the Sinos Valley which has traditionally produced for the Brazilian market. They have been able to develop their own capability to create products and sell them in the market and some of them are starting to exploit their knowledge to export in neighbouring countries and even in Europe and the U.S. Their future performance should be followed with attention.

Tab 12 – The shoe sector in Argentina, Brazil, Chile and Mexico: a comparative summary*

	Argentina		Brazil				Chile		Mexico			
	Workers	Firms	Total		Sinos Valley				Total		Guadalajara	
			Workers	Firms	Workers	Firms					Workers	Firms
Number of firms	<10	984	<10	6344	<19	237	Total	161	Micro	4502	<15	682
	11-50	366	10-49	1387	20-99	228			Small	1196	16<100	374
	51-100	38	50-99	344	100-499	144			Medium	163	101<250	33
	101-250	18	100-249	259	>500	36			Large	83	>251	11
	>250	12	>250	176	unknown	48			Total	5944	Total	1100
	Total	1418	Total	8500	Total	693						
Number of employees	13602		107217		83800		10293		74577		25000	
Geographic concentration	Most of the enterprises are localised around Buenos Aires, Cordoba and Rosario.		Mostly concentrated in Mina Geiras (18.9% of the firms), Rio Grande do Sul (31.89%) and São Paulo (31.76%). In Rio Grande do Sul there is a cluster in the Sinos Valley.				No geographic concentration		Three main areas of concentration: Leon producing 43% of the national shoe production, Guadalajara 20% and the State of Mexico 7.5%.			
Suppliers of components	NA		790 Firms		63 tanneries (with 107550 employees) and 198 components industries		30		Mostly concentrated in Leon		Some local producers	
Technology	Mostly imported from Italy and Brazil.		86 machinery producers with 4200 workers.		75 firms with 2536 workers		25		Mostly imported from Italy and Brazil.		Mostly imported from Italy and Brazil.	

Business associations and institutions	Weak institutional framework: national chambers of tanneries, shoe producers and other leather products; a R&D centre and a training centre; business associations	NA	Very strong institutional framework: many business associations; 4 technical and training schools.	Very weak institutional framework: 2 national business associations; a national training institute; a national chamber of leather, footwear and leather products established in 1999.	Strong institutional framework: National and local business associations, technological institutes	A local business association, a technological institute, a credit union.
Linkages	Very weak linkages; Some linkages between large leather firms and some chemical firms	Very strong backward and forward linkages in the Sinos Valley.		Very weak linkages in the footwear sector. Some links in the leather sector aimed at solving pollution problems	Quite strong linkages both in Leon and in Guadalajara. Recently increasing co-operation with suppliers.	
Buyers	NA	NA	88 export agencies with 1258 Strong presence of US buyers	NA	Increasing presence of US buyers, mainly in Leon	NA

* Last available data are reported. Some of the data are estimates.

Sources:

Argentina: Bekerman and Sirlin (1999); Lugones and Porta (2000) and PADI, Cepal;

Brazil: ACI (1999); Bazan and Navas-Aleman (2001); Bekerman and Sirlin (1999); Fontenelle Gorini and Gomes de Siqueira (1999); Governo do Estado do Rio

Grande do Sul (1997) and Schmitz, 1998;

Chile: Kassai (2000) and IMSS;

Mexico: Grossmann and Dominguez-Villalobos (1996) and Rabellotti, (1997 and 1999).

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