**MARKET RESEARCH REPORT**
FEBRUARY 2017

TPSA | CANADA–INDONESIA TRADE AND PRIVATE SECTOR ASSISTANCE PROJECT

# Footwear

Canada
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IN PARTNERSHIP WITH
KEMENTERIAN PERDAGANGAN REPUBLIK INDONESIA
MINISTRY OF TRADE

TFO CANADA
Experts in trade for developing countries

**Market Research Report: Footwear**
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**About the TPSA Project**
TPSA is a five-year C$12-million project funded by the Government of Canada through Global Affairs Canada. The project is executed by The Conference Board of Canada, and the primary implementation partner is the Directorate General for National Export Development, Ministry of Trade.

TPSA is designed to provide training, research, and technical assistance to Indonesian government agencies, the private sector−particularly small and medium-sized enterprises (SMEs)−academics, and civil society organizations on trade-related information, trade policy analysis, regulatory reforms, and trade and investment promotion by Canadian, Indonesian, and other experts from public and private organizations.

The overall objective of TPSA is to support higher sustainable economic growth and reduce poverty in Indonesia through increased trade and trade-enabling investment between Indonesia and Canada. TPSA is intended to increase sustainable and gender-responsive trade and investment opportunities, particularly for Indonesian SMEs, and to increase the use of trade and investment analysis by Indonesian stakeholders for expanded trade and investment partnerships between Indonesia and Canada.

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## Introduction

This report provides an overview of the trade between Indonesia and Canada for four sub-segments of the footwear industry. (See box "Footwear Sub-Segments Included in Report.") The report describes the research methodology and data that inform it, then provides a brief overview of the global market, followed by an analysis of the Canadian market for Indonesian footwear, including historical trends and growth potential going forward. (See box "Methodology and Data Sources" for details on the approach and data used.) It also outlines the key regulations Indonesian exporters will need to consider for the Canadian market. An analysis of the Indonesian context follows. The report ends with a discussion of the role of voluntary frameworks and standards, and a summary of key factors in the market for footwear exports.

***Footwear Sub-Segments Included in Report***

This report focuses on four target footwear sub-segments defined using six-digit codes from the Harmonized Commodity Description and Coding System (HS). The HS is an international system used to classify traded products using standardized names and numbers.

The footwear market was analyzed at the HS-6 level for the following codes:

640299: Footwear with outer soles and uppers of rubber or plastics, not covering the ankle, not sports shoes
640391: Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather, covering the ankle, not sports shoes
640411: Footwear with outer soles of rubber or plastics and uppers of textile materials: sports footwear
640419: Footwear with outer soles of rubber or plastics and uppers of textile materials: not sports footwear

***Methodology and Data Sources***

Analysis at the global level was conducted using the United Nations Comtrade database on both an import and export basis. These data allow for analysis of overall global value and volume trends, global and Indonesian implied price trends, market shares, and rankings.

Comtrade database: https://comtrade.un.org/

Additional historical data on Indonesian exports came from the International Trade Centre (ITC) trade statistics database.

ITC database: http://www.intracen.org/itc/market-info-tools/statistics-export-product-country/

At the Canadian level, the footwear market was analyzed at the HS-6 level using the Canadian International Merchandise Trade (CIMT) database produced by Statistics Canada. This information was used to examine value and volume trends of Canadian

footwear imports, projected growth in the Canadian market, implied Canadian footwear price trends, market shares, and rankings.

CIMT database: http://www5.statcan.gc.ca/olc-cel/olc.action?objId=65F0013X&objType=2&lang=en&limit=0

In addition, concordance matching was done to connect HS codes to North American Industry Classification System (NAICS) codes so that official (such as Canadian Industry Statistics database) and private databases (such as IBISWorld Canada) could be used.

In addition to the quantitative sources, the examination of the Canadian market includes an analysis of relevant legislation, regulations, and policies for footwear. This includes information from Environment and Climate Change Canada; Canada Border Services Agency; Innovation, Science and Economic Development Canada; and the Department of Justice Canada. These sources provided information on tariff rates and sector regulations, including for product standards and labelling.

The analysis of sector dynamics in Indonesia is grounded in a literature review. Primary resources came from mainstream and grey literature, as well as technical reports and websites of relevant organizations, including from the Government of Indonesia (Ministry of Trade, Ministry of Co-operatives and SMEs [small and medium-sized enterprises], State Statistics Office), private companies and industry associations, intergovernmental organizations,[3] regional and national associations and research centres,[4] news sources (including official press releases), academic research papers, and studies by non-governmental organizations.

There are a number of limitations to the methodological approach outlined above. The report is largely the product of a desk-based review. Nevertheless, the range of academic and policy literature available, as well as support from interview data, ensures that the report is relevant and timely.

Multiple codes made querying and analyzing certain data difficult or impossible. For example, import concentration rates are specific to codes and cannot be added up or averaged. In the case of tariffs, the number of tariff schedules is significant, and resource constraints in preparing this report made it impossible to showcase the schedules in their specificity.

Inconsistency of the data made price analysis difficult and potentially misleading. On the global side, volume data are reported inconsistently by countries and this variation is inadequately corrected for by the UN, which manages the Comtrade database. Some countries only report footwear data on a weight-equivalent basis (kilograms), while others report it as the number of pairs, and still others as the number of units. After some analysis of the various permutations, the number of pairs was concluded to be the best unit of measure. However, this is necessarily a compromise, as data reported in other units had to be dropped (both on the volume and value sides). This affects the price analysis, though not the overall global market size analysis, which uses total value of exports or imports to calculate the global tradable market size for the specific sub-segments of footwear analyzed in this report. While some global price analysis was conducted and is presented below, this should be interpreted with caution. Loss of data in selecting a unit of measure

to conduct the analysis on the volume side means the data may over- or under-estimate price.

Moreover, the method of normalization to allow for price analysis across multiple HS codes was to take a volume-weighted average price, which may be misleading. Even at this granular level, the price analysis shows there is clear differentiation. Some footwear sub-segments are higher-margin than others. The characteristics of these sub-segments of the footwear market clearly show important differences that an average price using volume data (even if weighted) may obfuscate. This may not matter if the price trend at the normalized level approximates the underlying mix—that is, if volumes are higher in higher-margin/higher-price sub-segments. This is not necessarily the case, however, and therefore normalization can be flawed and misleading. This report takes the next best approach by visualizing specific sub-segment price trends in the Canadian import market (for average imports, for Indonesia, and for the main competitors).

Footnotes:

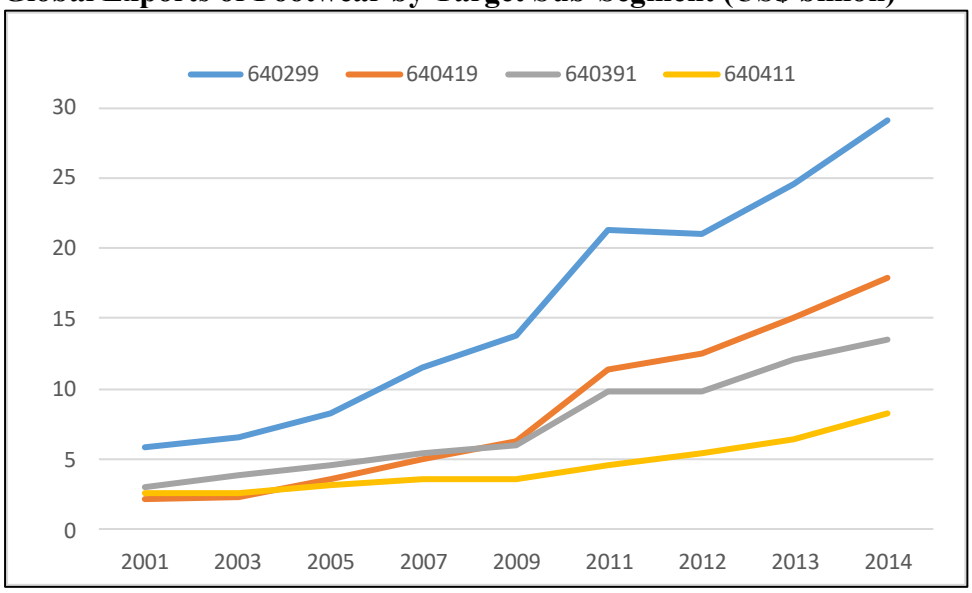
1. Trend analysis was done using the compound annual growth rate (CAGR), which calculates the constant rate of growth over a specific time period.
2. The implied price was calculated as value (US$)/volume unit (kilograms). It is a nominal figure, meaning it has not been adjusted for inflation.
3. The World Bank, International Monetary Fund, Asian Development Bank, World Trade Organization, International Labour Organization, UN Industrial Development Organization, UN Women, UN Conference on Trade and Development, United Nations Environment Programme, and United Nations Development Programme.
4. Economic Research Institute for ASEAN and East Asia, National Bureau of Asian Research, Indonesian National Institute of Sciences (INIS), Centre for Strategic and International Studies, and SMERU Research Institute.

## Global Footwear Market

The total global export market for the four target footwear sub-segments considered in this report (640299, 640391, 640411, and 640419) stood at approximately US$68.8 billion in 2014. In that year, sub-segment 640299 accounted for $29.1 billion, sub-segment 640419 for $17.9 billion, sub-segment 640391 for $13.5 billion, and sub-segment 640411 for $8.3 billion. (See Chart 1.)

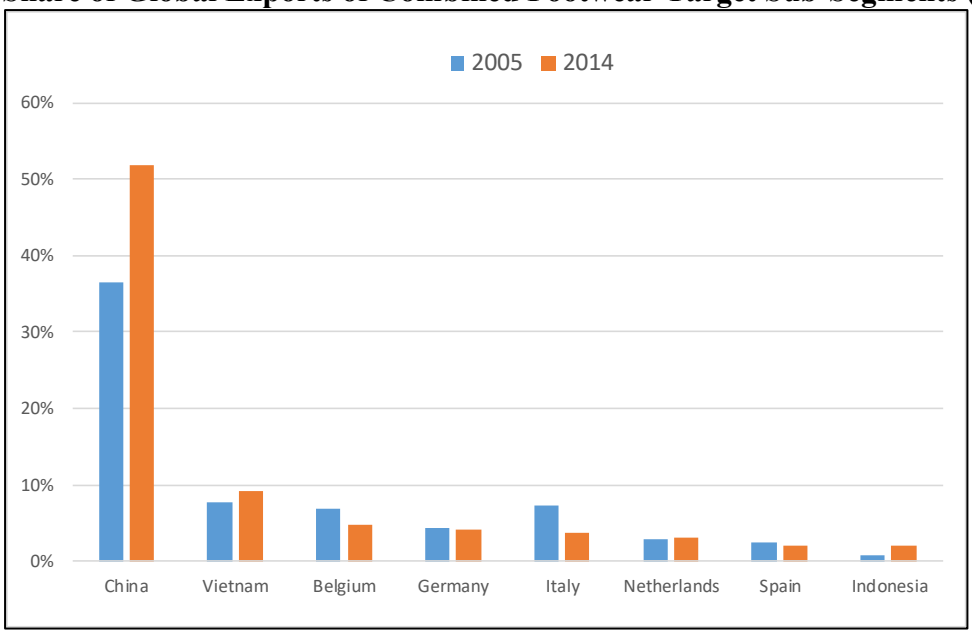
China is by far the largest exporter in these footwear sub-segments, accounting for about 54 per cent of global exports in 2014, and has grown its market share significantly since 2005 (see Chart 2). The other major player is Vietnam, which accounts for 9 per cent. Belgium, Germany, Italy, the Netherlands, and Spain follow Vietnam, but with significantly lower shares. Indonesia is the eighth-largest global exporter in this footwear segment (four sub-segments combined) with 2 per cent of global exports, higher than the 0.8 per cent share it had in 2005.

**Chart 1**
**Global Exports of Footwear by Target Sub-Segment (US$ billion)**




Source: United Nations.

**Chart 2**
**Share of Global Exports of Combined Footwear Target Sub-Segments (per cent)**



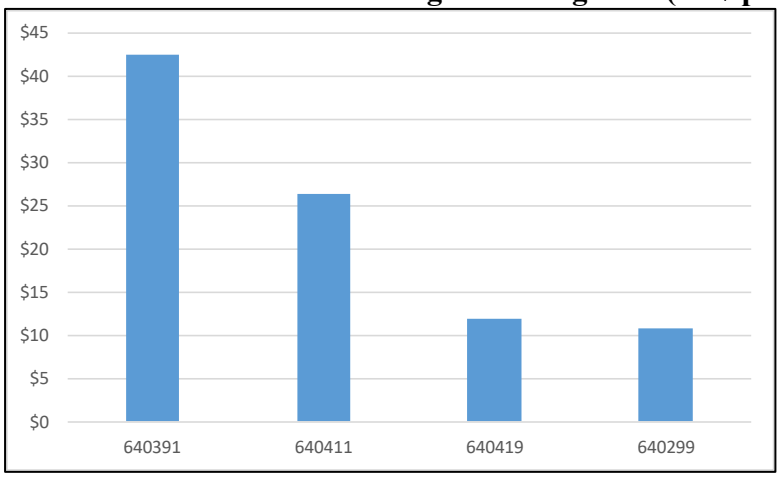

Source: United Nations.

The U.S. is the largest import market (or export destination) for this segment of footwear, accounting for 24 to 25 per cent of imports, followed by Germany, Japan, France, the U.K., and Italy. Canada is the 12th-largest import market and accounts for just under 2 per cent of global imports. Its share has remained steady in recent years.

The global price of these sub-segments varies. The highest price is for HS 640391 (footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather, covering the ankle, not sports shoes), followed by HS 640411 (footwear with outer soles of rubber or plastics and uppers of textile materials: sports footwear), HS 640419 (footwear with

outer soles of rubber or plastics and uppers of textile materials: not sports footwear), and HS 640299 (footwear with outer soles and uppers of rubber or plastics, not covering the ankle, not sports shoes).[1] ( See Chart 3.)

**Chart 3**
**Global Price Per Footwear Target Sub-Segment (US$ per pair)**




Source: United Nations.

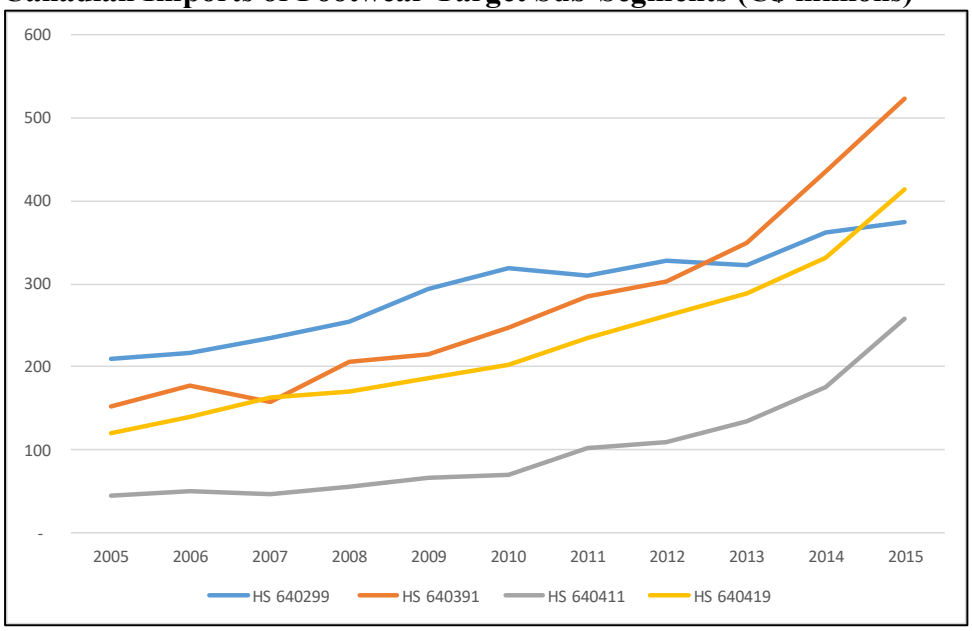
## Canadian Footwear Market

### Canadian Import Market for Footwear

The total Canadian import market for the footwear segment (four combined HS codes) stood at C$1.57 billion in 2015. This combined segment has grown at an annual rate (CAGR) of 11.5 per cent since 2005. The largest sub-segment is "footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather, covering the ankle, not sports shoes" (HS 640391), followed by "footwear with outer soles of rubber or plastics and uppers of textile materials: not sports footwear" (HS 640419), "footwear with outer soles and uppers of rubber or plastics, not covering the ankle, not sports shoes" (HS 640299), and "footwear with outer soles of rubber or plastics and uppers of textile materials: sports footwear" (HS 640411). (See Chart 4.)

[1] While global price analyses must be interpreted with caution, Indonesian exports generally command prices that are similar to the global average in all sub-segments.

**Chart 4**
**Canadian Imports of Footwear Target Sub-Segments (C$ millions)**



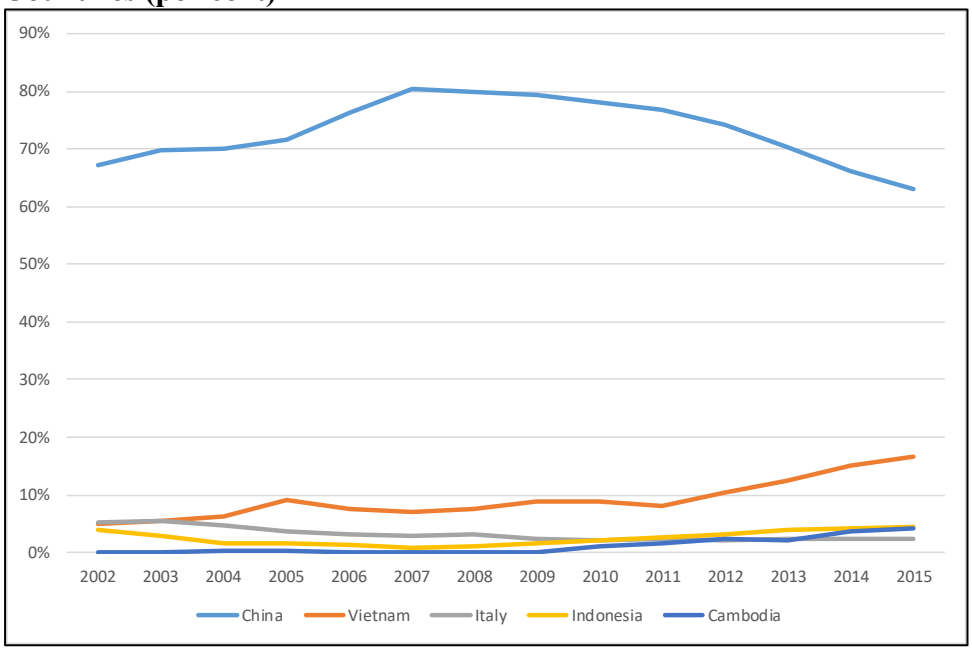

Source: Statistics Canada.

A more relevant period to use to estimate future growth is the last five years, 2010–2015. During this time frame, the Canadian import market for the combined footwear segment grew at a CAGR of approximately 13.4 per cent. Assuming this rate going forward, this combined segment could be worth C$2.7 billion by 2020.

The Canadian import market for these footwear sub-segments indicates trends similar to the global trend. China dominates the market, with its share of the Canadian import market ranging between 63 per cent and 80 per cent over the past decade, which is higher than its share in the global market. (See Chart 5.) Again, virtually identical to global market trends, the second major player in the Canadian market is Vietnam at approximately 17 per cent. Vietnam has been increasing its market share more aggressively than any other among the larger players. Indonesia is the third-largest player with market share of around 4.3 per cent, which is far higher than its share in the global market.

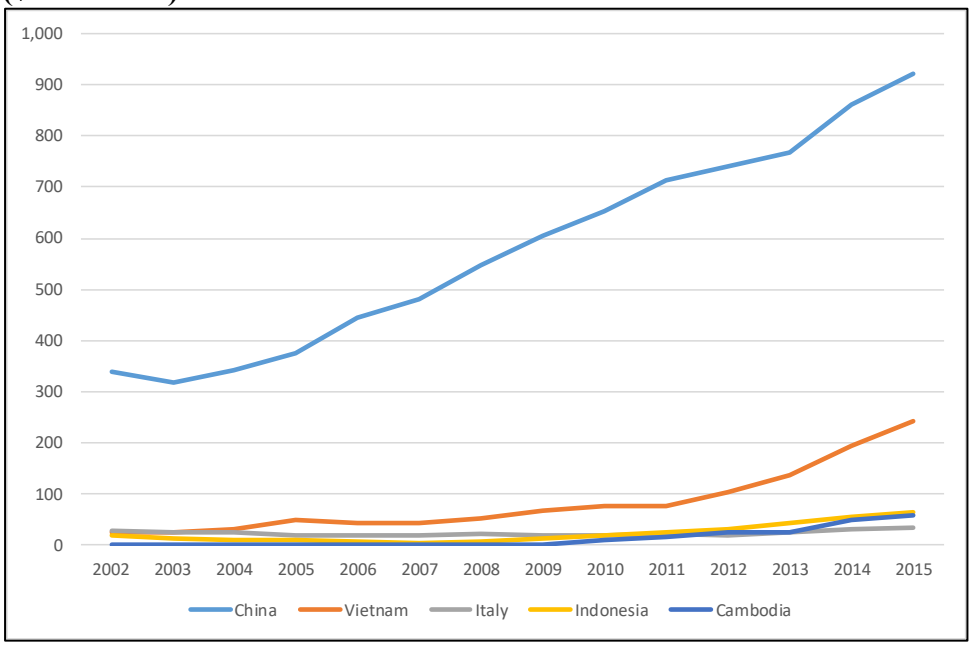
In absolute terms, imports by value are significant in this combined footwear segment, with China at approximately C$912 million, Vietnam approximately C$243 million, and Indonesia approximately C$64 million in 2015. (See Chart 6.)

**Chart 5**
**Canadian Market Share of Combined Footwear Segment Imports from Top 5 Countries (per cent)**




Source: Statistics Canada.

**Chart 6**
**Value of Canadian Combined Footwear Segment Imports from Top 5 Countries ($C millions)**



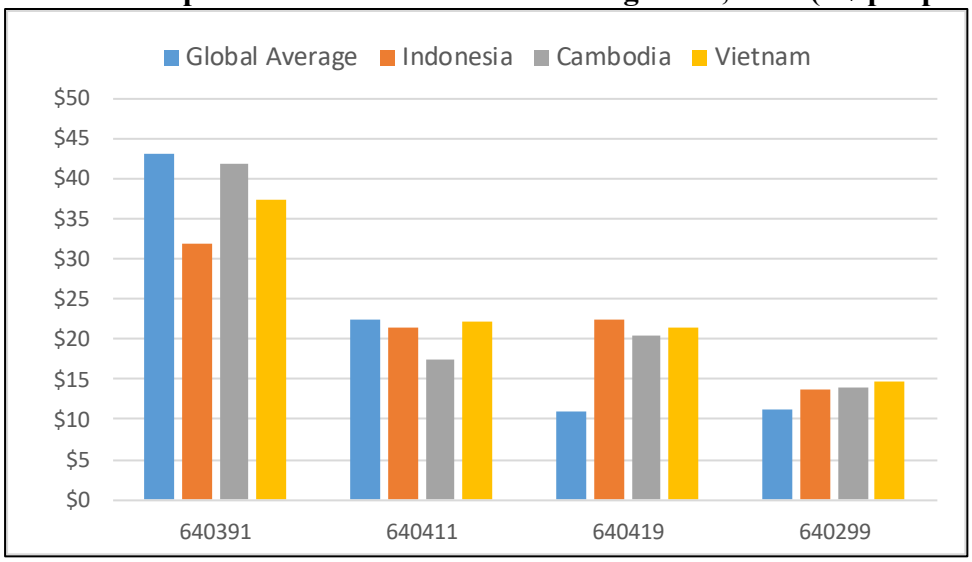

Source: Statistics Canada.

However, competition from new players is already significant and is expected to increase. Since 2002, imports from China have been growing in line with or slightly faster than the overall market, at an average annual rate of 8 per cent. Imports from Vietnam have been growing at an average annual rate of 19 per cent, and imports from Cambodia (an increasingly important competitor for Indonesia in the Canadian market) have been growing

at an average annual rate of 45 per cent. Indonesia's exports have been growing by 9.4 per cent per year on average, which is faster than the overall market and the reason why Indonesia has been able to increase its market share in the Canadian market from just 0.7 per cent in 2007 to 4.3 per cent in 2015.

Chart 7 shows the import prices to Canada for each footwear sub-segment imported from Indonesia, Cambodia, and Vietnam, as well as the global average. Within each sub-segment, the prices commanded by major competitors are similar, and generally very close to the average import price. Sub-segment HS 640391 (footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather, covering the ankle, not sports shoes) is clearly a higher-price/higher-margin sub-segment. Indonesia's prices are very close to those of its major competitors, and in most cases very close to or higher than the average import price in the Canadian market.

**Chart 7**
**Canadian Import Prices for Footwear Sub-Segments, 2015 (C$ per pair)**




Source: Statistics Canada.

## Canadian Footwear Industry

Like many consumer-goods manufacturing industries in Canada, the footwear manufacturing industry faces rising input costs, slow growth in per capita disposable income, and intense competition, which has contributed to the industry's decline over the last five years (IBISWorld Canada 2016). Volatility in the prices of rubber, leather, and synthetic fibers, coupled with high labour and utility costs, have made the domestic footwear manufacturing industry uncompetitive with foreign manufacturers (IBISWorld Canada 2016). Domestically produced footwear tends to be higher-priced. As a result, imports satisfied 91.3 per cent of domestic demand in 2015 (IBISWorld Canada 2015).[2] The industry is a net importer with a large and growing negative trade balance.[3]

The domestic industry in Canada has been growing at an average of only 2.5 per cent per year over the past five years (2011–2016). The projected growth rate in this industry for the next

[2] Expected to be 91.2 per cent in 2016.
[3] Overall imports, using NAICS concordance, were upwards of C$3 billion (2015).

five years (2016–2021) is expected to decline by 1.1 per cent per year (IBISWorld Canada 2016). Industry revenue for domestic manufacturers has been falling for the past two decades.

The Canadian footwear industry bears all the characteristics of a mature-to-declining sector: the contribution of industry value-added to GDP is low and declining; revenue growth is slower than the rate of growth of the economy; large firms dominate and the number of both total firms and new firms is declining; per capita consumption of the product is declining; technology and process change is limited; and products and brands are stable and clearly segmented (IBISWorld Canada 2015).[4]

Boots, sandals, and casual/dress shoes make up the largest market share and are expected to provide 60 per cent of industry revenue in 2016. The second-largest product segment is comprised of work and utility-type boots and shoes, and accounts for 24.7 per cent of revenue (IBISWorld Canada 2016), while other shoes and footwear products account for the remainder (these include sports shoes, slippers, and shoes for extreme weather).

Wholesalers are key players on the import side, and imports, as mentioned, dominate the market. Canadian wholesalers purchase shoes from manufactures and resell them to retailers with minimal or no further processing. These include athletic shoes and shoes made of leather, rubber, and other materials. Wholesalers tend to assume the bulk of the risk associated with the supply of imported goods to the domestic market, with shoe stores comprising a major downstream market for the footwear industry (IBISWorld Canada 2015). Market segmentation by revenue indicates retailers account for 40 per cent while wholesalers account for 32 per cent. Key retailers in Canada include Aldo and Foot Locker.

As mentioned, domestic manufacturing has declined substantially over the years and continues to do so. Data are only available for market shares of two domestic producers: Genfoot, which operates under the brand name Kamik, accounts for 15 per cent, while Dayton Boots accounts for 1.8 per cent.

## Regulations

The Footwear Manufacturing industry is regulated under the *Canada Consumer Product Safety Act*, which stipulates that "no person shall advertise or sell a consumer product that they know is a danger to human health or safety." Section 13 of the Act also contains requirements for preparing and maintaining necessary documents:

- **13** (1) Any person who manufactures, imports, advertises, sells or tests a consumer product for commercial purposes shall prepare and maintain
    - (a) documents that indicate
        - (i) in the case of a retailer, the name and address of the person from whom they obtained the product and the location where and the period during which they sold the product, and
        - (ii) in the case of any other person, the name and address of the person from whom they obtained the product or to whom they sold it, or both, as applicable; and
    - (b) the prescribed documents.

[4] See also Canadian Industry Statistics (CIS).

Under Appendix E of Canada's Textile Labelling and Advertising Regulations, "overshoes, boots, shoes, indoor slippers, footwear liners, [and] insoles" are all exempt from the labelling requirements of the *Textile Labelling Act*. The Act and Regulations also do not require that the name of the country of origin be identified on an imported textile product unless it is explicitly stated that the item is "made from imported fabrics/materials;" in this case, the country of origin of those inputs must be stated.

Canada's Competition Bureau leaves the decision on care labelling to businesses, since the practice is voluntary in Canada. The Canadian Care Labelling Program of Textiles under the Canadian General Standards Board provides standards for care labelling, and the Office of Consumer Affairs (OCA) is the only government website displaying a comprehensive list of approved symbols used in the latest standard.

## Export Considerations: Indonesian Context

Indonesia is the fourth-largest footwear exporter in Asia after China, Hong Kong, and Vietnam. Its top export destinations are the United States and the European Union, followed by Brazil, Mexico, Panama, South Africa, and Russia. Sports footwear accounts for 79 per cent of exports. Investments topped Rp11.3 trillion (US$859.5 million) in 2014, and the industry employed 643,000 workers nationwide (Yulisman 2015).

The footwear industry accounted for 4.5 per cent of manufacturing jobs in Indonesia in 2013, employing 400,000 people in direct labour and 210,000 in indirect labour (EIBN 2014). It has become an attractive investment sector for companies from China, Japan, India, and South Korea. The footwear industry maintains its good prospects due to the country's self-sufficiency in terms of raw materials, competitive labour and, to some extent, modern logistical facilities for this sector.

The supply chain is well integrated, with Indonesia also producing raw materials, such as leather, rubber, and fibres. Indonesia has a reputation and tradition for creating quality footwear with competitive labour, from formal and traditional styles to sports and casual shoes (Global Business Guide Indonesia 2014).

The value chain includes inputs (wood, leather, batik, lace, woven fabric, water hyacinth) that are available from local suppliers. Soles made of rubber or plastic are supplied by large companies or imported from China.[5] Many small and medium-sized enterprises (SMEs) are unable to independently produce soles and must rely on large suppliers, but lack strong supplier- producer linkages.

Production takes place through sports shoe producers (large companies), SMEs producing rubber, leather, and wooden footwear, SMEs producing custom or footwear designed with Indonesian influence (e.g., using mahogany, batik, or woven fabrics), and larger companies producing components. SMEs produce mostly for the domestic market and are less likely to export. There are export-oriented SMEs, however, with SME clusters in Cibaduyut, East Jakarta, Garut, Bogor, and Sidorajo, for example.

[5] Rico (owner of Bucini), in-person interview by Rony Soerakoesoemah, January 18, 2016. Rico noted that Chinese inputs are available at Tanah Abang market.

Data from the Central Bureau of Statistics (BPS) indicates that growth of small manufacturers of "leather, leather goods, and footwear" was higher compared to that of larger firms. While large and medium-sized businesses expanded by 4.2 per cent in 2013 (after contracting by 7 per cent in 2012), micro and small businesses grew by 9.3 per cent in 2013 (after growing by 8.9 per cent in 2012). Footwear SMEs exported US$3.86 billion in goods in 2013.

Marketing in the supply chain occurs through a number of means, including clusters or *sentra sepatu* (where buyers make business transactions with SMEs and informal players) (Emkamawardi 2011); partnerships where SME production is marketed by larger companies; retail networks in commercial centres (for example, Yongki Komaladi will sell to outlets of the Matahari Department Store); established brands (Niluh Djelantik and Ethree) with marketing networks in a number of countries; and new brands (Kloom Clogs) that use online services such as Alibaba.

Finally, traders and exporters consist of both large companies and SMEs. Some exporters rely on other entities to process exports and handle shipping and customs.

## Location

Footwear manufacturing is concentrated throughout several regions on the islands of Java and Sumatra, especially in West Java, East Java, and North Sumatra. Formal and casual shoe manufacturers are mostly situated in Yogyakarta, West Java, East Java, and North Sumatra. Sandal industries are mostly concentrated in Banten, West Java, and East Java, while designer fashion sandals are produced mainly in Bali. Supporting industries such as leather tanneries are located in the provinces of Banten, Jakarta, Java (West, Central, Yogyakarta, and East), and West and North Sumatra (EIBN 2014). (See Table 1.)

**Table 1**
**Indonesian Footwear Exports by Province**
**($US)**

| Province | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| DKI Jakarta | 1,147,891,878 | 1,237,697,969 | 1,358,403,671 | 1,349,068,832 | 1,666,660,733 |
| East Java | 150,909,339 | 168,609,111 | 182,556,568 | 229,063,383 | 171,046,247 |
| Riau | 854,877 | 3,045,992 | 18,972,813 | 26,528,972 | 33,629,808 |
| Central Java | 9,753,639 | 11,387,466 | 12,822,841 | 14,592,756 | 9,646,146 |
| Bali | 9,990,848 | 7,523,450 | 26,922,746 | 18,662,253 | 4,289,338 |
| East Java | 111,587 | 87,264 | 678 | 3,656 | 128,797 |
| North Sumatra | 797,302 | 103,573 | 69,984 | 35,305 | 72,336 |

Source: BPS–Statistics Indonesia.

Most rubber sole and rubber accessory manufacturers are found in West Java and North Sumatra, while synthetic leather industries are concentrated primarily in Banten, West Java, and Central Java. Makers of textiles and metal accessories for the footwear industry can chiefly be found in the textile industry clusters in Banten, West Java, and East Java (EIBN 2014). Leading footwear design centres are mostly located in the biggest cities, such as Jakarta, Bandung, Yogyakarta, and Bali (EIBN 2014).

Regional Clusters

*Bogor (West Java)*[6]

This footwear cluster is spread out over 14 villages in the Bogor Regency. Each village specializes in a type of product, such as sandals, children's shoes, or sport shoes. By 2001, the cluster numbered 3,800 establishments employing more than 30,000 workers. On average, a small firm in the cluster employs between 5 and 10 workers. The cluster comprises shoe-manufacturing enterprises and various suppliers and showrooms.

The development of the cluster is buyer-driven with wholesalers determining the products, the amount, and the quality. For example, the Cioamas cluster (a district within Bogor) produces lower-quality footwear serving lower-income groups, as compared with the Cibaduyut cluster near Bandung, which produces higher-end products. The cluster is characterized by the existence of multi-tier subcontracting linkages with specific jobs in the manufacturing of shoes performed by selected firms and artisans. Most of the output of the cluster is marketed through wholesalers in Jakarta, who then export to Africa, Central America, and Saudi Arabia, but most of the product is destined for the domestic market.

Available data show that businesses in this cluster have increased from 755 units (1997) to 3,800 units (2001).[7] During the 1997–98 financial crisis, the Ciomas cluster substituted cheaper-quality materials to accommodate lower budgets. Total sales increased because of the depreciation of the Indonesian currency, making the shoes from Ciomas more competitive in the international market.

The cluster concentrates on low-quality output for low-income producers, with little attention paid to technological upgrading that would lead to better products.

*Sidoarjo (East Java) and Yogyakarta (Central Java)*[8]

One success story of footwear industrial cluster development is in Sidoarjo. Located in the East Java Province, close to Surabaya, Sidoarjo has 1.6 million inhabitants and is one of the footwear industry's main centres. The area is being set up by the Indonesian government to become a pilot footwear industry cluster. The footwear industry in Sidoarjo exports approximately 50 per cent of its products. Sidoarjo also hosts the Indonesian Footwear Service Centre, which provides industrial skills training and industrial development for Indonesian footwear makers, especially small and medium-sized businesses. It also provides job training for the footwear-making workforce (Ministry of Trade of the Republic of Indonesia 2009).

The Special Region of Yogyakarta provides technical services in materials essential to footwear making. The province hosts the Indonesian Center for Leather, Rubber, and Plastic as well as the Indonesian Leather Technology Academy.

Wholesalers (considered change agents) are very important to the development of the cluster because they provide credit, inputs, and marketing. So too are government agencies that

[6] This section draws from Sandee, Isdijoso, and Sulandjari (2002).
[7] Note that some countries/organizations report footwear data on a weight-equivalent basis (kilograms), while others report it as the number of pairs, and still others as the number of units.
[8] This section draws heavily from Ministry of Trade of the Republic of Indonesia (2009).

actively provide technical support, such as skills improvement for entrepreneurs and works. However, according to some studies, there has been little evidence that the sessions with the agencies have contributed to the dynamics of the cluster but in most cases were one-offs with no continuation.

## General Sector Characteristics

Indonesia has consistently been one of the world's top 10 footwear producers since 2007. During that period, Indonesian footwear exports grew by an average of 16 per cent each year, from US$1.64 billion in 2007 to US$4.11 billion in 2014.

Since 2012, the footwear industry, like many manufacturing industries in Indonesia, has faced challenges resulting from the global economic downturn. These concerns, however, have proven unfounded as there was an upward trend in investment projects in both the footwear and the leather industries—from 59 projects in 2011 to 73 projects in 2012 (EIBN 2014).

Indonesia is a major supplier to the global footwear value chain. Nike-contracted factories in Vietnam, China, and Indonesia respectively manufactured 43 per cent, 28 per cent, and 25 per cent of all Nike footwear (Soni 2015). Nike's continued investment in the country illustrates sustained investor confidence in Indonesia's footwear industry. In 2013, the company announced plans to increase its global investment, while making Indonesia its biggest production hub. It is noteworthy that Nike's exports in 2012 reached US$1.5 billion, employing around 175,000 local workers in cooperation with 38 manufacturing companies (EIBN 2014). Further investments are also planned (Deal Street Asia 2015).

The major domestic players in sports footwear products are PT. Adis Dimension Footwear, PT. KMK Global Sports, PT. Panarub Industry, PT. Nikomas Gemilang, and PT. Pratama Abadi Industri. The leaders in non-sport footwear products are PT. Sepatu Mas Idaman, PT. Mangul Jaya, PT. Teguh Murni Perdana, PT. Pelita Tomangmas, and CV. Fortuna Shoes (EIBN 2014; Ministry of Trade of the Republic of Indonesia 2009).

## Export Performance

Indonesia was the world's eighth-largest footwear exporter in 2014. Since 2008, footwear has been one of the best-performing export products for Indonesia and its export value continues to grow.

Of the four target sub-segments of footwear analyzed in this report, Indonesia's largest export value was in HS 640411, where it ranked fifth among exporting countries in 2014, behind China, Vietnam, Belgium, and Germany. (See Table 2.) Indonesia accounted for 4 per cent of global exports of this sub-segment in 2014, while China accounted for 45 per cent.

The second-largest target sub-segment was HS 640419, where Indonesia ranked third among exporting countries, behind China and Vietnam. (See Table 3.) China was by far the largest exporter in this sub-segment, accounting for 61 per cent of the total in 2014. Indonesia accounted for 3 per cent.

**Table 2**
**Exports of Footwear Target Sub-Segment HS 640411**
**($US)**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| *World* | *7,368.9* | *8,126.9* | *9,067.7* | *10,348.0* | *10,303.3* | *13,100.8* | *16,604.9* | *18,538.3* | *22,154.8* | *26,781.5* |
| China | 2,380.5 | 2,876.7 | 3,480.6 | 3,997.7 | 4,164.0 | 5,684.9 | 7,219.5 | 8,212.0 | 9,685.9 | 11,942.9 |
| Vietnam | 1,411.0 | 1,484.1 | 996.4 | 1,224.0 | 1,085.8 | 1,493.8 | 1,812.4 | 2,152.9 | 2,865.1 | 3,667.1 |
| Belgium | 680.3 | 629.7 | 624.0 | 721.4 | 781.4 | 793.2 | 964.8 | 1,009.1 | 1,358.2 | 1,930.0 |
| Germany | 248.2 | 301.1 | 364.7 | 445.0 | 402.6 | 461.8 | 700.7 | 686.9 | 898.4 | 1,137.7 |
| **Indonesia** | **221.5** | **184.6** | **199.2** | **275.6** | **297.8** | **398.6** | **527.2** | **671.3** | **905.6** | **1,065.8** |
| Italy | 427.8 | 473.9 | 581.6 | 632.8 | 519.4 | 632.5 | 770.8 | 687.8 | 715.6 | 790.2 |
| Netherlands | 146.1 | 166.3 | 264.6 | 305.6 | 405.0 | 459.5 | 585.3 | 608.8 | 709.9 | 691.1 |
| France | 167.1 | 198.1 | 268.3 | 292.6 | 273.9 | 333.0 | 451.5 | 459.7 | 538.8 | 616.0 |
| Spain | 242.7 | 265.5 | 311.6 | 393.6 | 405.8 | 430.5 | 520.4 | 515.6 | 510.9 | 564.4 |
| Hong Kong | 350.1 | 321.9 | 399.2 | 493.1 | 472.0 | 540.6 | 586.4 | 515.3 | 489.9 | 524.4 |

Source: International Trade Centre.

**Table 3**
**Exports of Footwear Target Sub-Segment HS 640419**
**($US)**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| *World* | *3,575.1* | *4,122.9* | *4,975.2* | *5,779.2* | *6,288.1* | *8,642.9* | *11,388.1* | *12,617.7* | *15,168.8* | *17,972.9* |
| China | 1,503.4 | 1,866.5 | 2,520.0 | 2,860.9 | 3,360.1 | 4,959.6 | 6,374.0 | 7,467.4 | 8,780.1 | 10,991.6 |
| Vietnam | 544.7 | 534.4 | 289.1 | 477.7 | 456.0 | 538.1 | 757.6 | 706.2 | 1,265.9 | 1,461.9 |
| **Indonesia** | **13.6** | **8.4** | **49.8** | **60.9** | **72.6** | **159.8** | **294.1** | **405.5** | **507.6** | **517.4** |
| Italy | 226.2 | 269.5 | 293.7 | 329.3 | 287.0 | 367.4 | 461.4 | 415.6 | 462.3 | 490.3 |
| Netherlands | 71.6 | 86.1 | 114.0 | 154.6 | 223.3 | 241.6 | 325.9 | 356.1 | 410.7 | 490.1 |
| Germany | 148.2 | 177.0 | 215.8 | 238.4 | 218.9 | 274.3 | 409.3 | 369.0 | 430.1 | 435.8 |
| Spain | 156.5 | 182.8 | 224.3 | 265.3 | 268.5 | 277.0 | 337.6 | 338.6 | 375.8 | 411.7 |
| Czech Republic | 16.0 | 31.0 | 80.2 | 68.9 | 65.5 | 97.7 | 164.2 | 295.5 | 340.4 | 356.3 |
| Hong Kong | 168.1 | 166.1 | 195.4 | 222.9 | 210.4 | 248.9 | 305.9 | 291.1 | 270.4 | 288.0 |
| Belgium | 78.0 | 99.0 | 148.3 | 194.6 | 183.3 | 204.2 | 342.4 | 263.4 | 257.4 | 269.7 |

Source: International Trade Centre.

The third-largest target sub-segment was HS 640391. Indonesia ranked 19th in world exports of this product in 2014, accounting for 1.1 per cent of world exports. (See Table 4.)

Of the four target sub-segments in this report, HS 640299 was the smallest; Indonesia exported US$139 million, which represented less than 1 per cent of world exports of this product. (See Table 5.) Indonesia ranked 17th in 2014.

**Table 4**
**Exports of Footwear Target Sub-Segment HS 640391**
**($US)**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| *World* | *4,624.8* | *5,216.6* | *5,480.2* | *6,256.9* | *5,975.6* | *7,504.0* | *9,819.9* | *9,840.1* | *12,169.0* | *13,434.9* |
| China | 507.8 | 591.9 | 661.1 | 780.9 | 770.1 | 1,225.4 | 1,519.8 | 1,697.6 | 2,171.2 | 2,625.6 |
| Italy | 859.6 | 1,001.2 | 1,099.3 | 1,149.7 | 1,024.3 | 1,165.3 | 1,402.3 | 1,296.5 | 1,542.9 | 1,558.7 |
| Vietnam | 3.8 | 14.4 | 89.8 | 53.8 | 197.0 | 276.1 | 398.2 | 562.3 | 838.6 | 1,167.4 |
| Germany | 343.7 | 401.4 | 458.7 | 518.7 | 460.3 | 550.9 | 867.0 | 725.9 | 899.2 | 961.1 |
| Netherlands | 246.8 | 229.5 | 151.5 | 285.8 | 296.2 | 462.8 | 724.0 | 607.1 | 830.3 | 865.0 |
| Portugal | 187.5 | 207.4 | 224.8 | 301.3 | 295.7 | 340.7 | 449.7 | 437.8 | 562.2 | 655.7 |
| Belgium | 141.9 | 142.3 | 167.5 | 221.2 | 215.0 | 311.4 | 387.3 | 539.9 | 627.5 | 548.7 |
| India | 116.5 | 162.5 | 216.8 | 198.6 | 184.8 | 301.6 | 390.9 | 333.6 | 450.2 | 535.4 |
| Spain | 197.0 | 213.1 | 223.7 | 268.3 | 366.1 | 314.3 | 357.1 | 327.5 | 394.9 | 513.7 |
| Hong Kong | 385.6 | 383.3 | 303.0 | 336.0 | 226.4 | 337.1 | 413.6 | 354.2 | 369.1 | 372.6 |
| France | 126.2 | 142.0 | 141.7 | 193.8 | 202.8 | 235.3 | 307.9 | 355.5 | 386.0 | 368.2 |
| Romania | 229.9 | 258.0 | 255.3 | 223.4 | 188.6 | 217.8 | 296.8 | 246.4 | 290.0 | 279.4 |
| Slovakia | 80.4 | 78.8 | 98.8 | 140.0 | 124.9 | 165.7 | 239.8 | 190.8 | 233.9 | 260.6 |
| U.K. | 72.8 | 84.7 | 89.8 | 96.4 | 110.8 | 142.8 | 213.9 | 207.2 | 256.1 | 244.4 |
| Austria | 104.5 | 110.0 | 84.4 | 112.1 | 113.0 | 116.1 | 143.3 | 126.8 | 190.3 | 225.2 |
| Bangladesh | 1.4 | 0.7 | 1.3 | 3.5 | 3.7 | 1.3 | 4.8 | 122.1 | 163.1 | 217.2 |
| Poland | 35.6 | 49.9 | 46.4 | 52.8 | 36.0 | 64.1 | 91.6 | 114.0 | 170.9 | 168.9 |
| U.S. | 42.5 | 50.0 | 47.0 | 74.2 | 73.0 | 97.3 | 128.3 | 143.0 | 156.0 | 167.9 |
| **Indonesia** | **8.6** | **10.3** | **13.1** | **20.9** | **23.5** | **30.1** | **97.6** | **102.8** | **129.8** | **150.9** |

Source: International Trade Centre.

**Table 5**
**Exports of Footwear Target Sub-Segment HS 640299**
**($US)**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| World | *8,215.3* | *9,665.1* | *11,503.9* | *13,415.6* | *13,857.4* | *17,763.9* | *21,451.1* | *21,418.0* | *24,925.5* | *29,331.4* |
| China | 4,302.0 | 5,308.0 | 6,449.9 | 8,231.9 | 8,846.8 | 11,721.5 | 14,285.1 | 14,434.3 | 17,746.0 | 21,317.0 |
| Vietnam | 192.8 | 302.3 | 493.8 | 333.2 | 661.5 | 854.0 | 1,167.7 | 1,185.2 | 1,205.6 | 1,547.5 |
| Belgium | 510.7 | 502.4 | 622.3 | 571.9 | 545.7 | 560.5 | 617.3 | 695.5 | 766.4 | 807.5 |
| Germany | 256.0 | 273.6 | 391.1 | 486.5 | 486.6 | 533.9 | 687.3 | 600.4 | 654.5 | 781.7 |
| Netherlands | 183.7 | 168.2 | 199.2 | 382.6 | 334.5 | 354.5 | 521.6 | 453.8 | 439.0 | 555.2 |
| Hong Kong | 1,502.1 | 1,389.4 | 1,301.9 | 1,070.1 | 815.7 | 866.6 | 780.4 | 719.9 | 586.1 | 459.9 |
| Italy | 255.3 | 254.7 | 330.5 | 340.2 | 273.5 | 292.3 | 367.9 | 312.7 | 318.5 | 354.4 |
| Spain | 94.0 | 92.3 | 159.3 | 197.8 | 179.8 | 184.8 | 234.3 | 229.9 | 263.3 | 326.8 |
| Panama | 0.0 | 309.2 | 285.0 | 321.3 | 299.1 | 386.6 | 402.9 | 372.1 | 296.2 | 295.5 |
| France | 72.9 | 85.5 | 128.9 | 135.0 | 124.1 | 138.5 | 199.3 | 210.8 | 204.7 | 224.6 |
| Brazil | 137.3 | 150.5 | 164.3 | 224.1 | 187.1 | 259.0 | 278.7 | 256.7 | 238.0 | 222.8 |
| U.K. | 44.9 | 49.0 | 63.6 | 86.2 | 86.8 | 101.5 | 131.8 | 152.3 | 181.9 | 200.9 |
| U.S. | 81.8 | 100.9 | 104.7 | 136.4 | 118.9 | 132.0 | 148.7 | 171.8 | 172.9 | 183.1 |
| Slovakia | 15.1 | 12.1 | 12.0 | 30.6 | 72.2 | 87.1 | 125.6 | 92.9 | 158.2 | 174.3 |
| Thailand | 63.8 | 72.0 | 90.8 | 102.4 | 99.3 | 122.5 | 160.2 | 154.3 | 159.6 | 161.4 |
| Poland | 14.8 | 18.9 | 26.0 | 37.3 | 36.4 | 46.0 | 51.8 | 58.8 | 81.0 | 152.4 |
| **Indonesia** | **32.5** | **36.5** | **na** | **na** | **na** | **108.1** | **171.4** | **101.3** | **104.1** | **139.0** |

Source: International Trade Centre.

## Growth Opportunities in Canada

Two growth strategies emerge from analysis of Canadian domestic demand. The first focuses on Canada's domestic footwear producers. It is worth recalling that the domestic industry in Canada is in decline and will continue to lose share to imports that have substantial cost advantages. The segments that are outpacing general industry demand—which is flat, as per capita consumption of the product is not rising—include high-end, high-quality market segments and niche (industrial) segments. In the large mid-market segment, competition is fierce, margins are thin, and competition among importers will increase due to the combined effect of price increases in China (which until now has dominated imports), the impact of rapidly growing competitors (such as Vietnam), and the impact of generous preferential access for competitors active in this market (such as Cambodia).

Domestic Canadian players who remain in this industry will increasingly target niche, higher-margin segments and industrial markets, especially for more durable footwear products including those demanded by the logging and mining sectors, both of which at least until recently were fast-growing. Canadian companies will increasingly lose share in the mass-market (low-margin) segments.

Pursuing growth in the Canadian market therefore either requires a strategy to move up the quality and value chain to higher-end, higher-quality segments—as Canadian manufacturers may be interested in contract manufacturing opportunities—or better positioning for Indonesian exports in the mass-market segment.

In the higher-end segments, Indonesia would need to overcome potentially substantial quality constraints (which may prevent it from having high-enough quality and differentiated product)[9] as well as constraints posed by competitors, as it may lack the level of access close competitors already get, as with Cambodia. To pursue this approach, potential exporters would need to work closely and directly with wholesalers and potentially even some retailers and contract manufacturers, which is viable because they are a relatively small group. A similar strategy could be pursued to target niche industrial segments where demand is expected to bounce back, although Italy tends to dominate this strategy. Here again, the relatively small number of major players could work to the advantage of potential exporters. To pursue this approach, Indonesian exporters and promoters will need a clear articulation of the value proposition of the country's production base that considers the needs of these niche markets.

A second strategy would be to continue to focus and gain share in the mass market, especially share lost by major players who are already being priced out. To more effectively compete with other developing-country exporters in the mass-market segment, this strategy would require adding capacity, further lowering costs, and advocating for better market access and trade treatment in the Canadian market. This may be viable because Canadian domestic industry players will continue to vacate the mass-market segments. There are indications that price increases in the largest player in this segment (China) may erode its market share and would create opportunities for new players and provide a bigger market for existing competitors, including Indonesia.

[9] This is based solely on the breakdown of data. There is little evidence Indonesia is particularly well-placed in high-margin segments. But reasons for this are not knowable from the data alone, nor is it known if this the case only in the Canadian market, and that Indonesia may be perfectly capable of supplying high-end products in other countries or the global market.

In an interview with the Secretary-General of the Indonesian Footwear Association, he noted that not many footwear companies were aware of Canada as a market, much less have plans to export to the country. Their focus has recently been on a possible free-trade agreement with the European Free Trade Association comprising Switzerland, Norway, Iceland, and Liechtenstein. The association believes that such an agreement would increase Indonesian shoe exports, but does not expect much, given the small size and population of the target countries. However, their relatively high per capita income could be a good opportunity for higher-end shoe products like water-resistant leather shoes and boots.

Nevertheless, there is interest in helping introduce export-ready SMEs to Canadian counterparts, given that footwear is a priority sector under the current government. Indonesian footwear SMEs are internationally known, but most produce for well-known brands rather than promote their own because of the high marketing costs.

Of the many clusters, the area of Tangerang and Bandung, specifically Cibaduyut, has some of the most dynamic SMEs that provide high-quality products in the country. SMEs have the flexibility to cater to different markets both in terms of design and technology. Buyers would introduce the required technology to manufacture specific products. This would also help SMEs obtain necessary certifications and comply with other required specifications.

## Government Policies in Support of the Footwear Industry

The Indonesian government has been highly supportive of the footwear industry.

### Taxation

The government recently eased the requirements to access tax allowance incentives, which are also available for labour-intensive industries like the footwear manufacturing industry. The current tax allowance scheme cuts taxable income to 30 per cent of total investment realized over six years, accelerates depreciation and amortization, charges tax of up to 10 per cent for offshore taxpayers, and carries forward losses from 5 to 10 years. Labour-intensive and export-oriented firms can get an extension of carried-forward losses above five years to a maximum of 10 years. Such a relaxation aims to support the government's target of creating two million jobs annually (Yulisman 2015).

### Technology Development

A number of development programs for small and medium-sized footwear companies have been put into place. Some of the programs offered by the Ministry of Trade facilitate specific market development, assist exhibition and promotion in and out of the country, encourage intellectual property rights and local brand development, improve human resources in production, assist in capital raising, and implement ISO 9000 standards. One notable program is the setup of the Indonesia Footwear Service Centre (IFSC) in Sidoarjo, East Java. In addition, the government has made investments aimed at improving production in four main areas: Regency of Bogor and the City of Bandung (in West Java), the Regencies of Sidoarjo and Mojokerto and the City of Surabaya (East Java), the City of Medan (North Sumatra), and East Jakarta (Ministry of Trade of the Republic of Indonesia 2009).

Technical Service Unit

Another example that illustrates the government's role in developing the industry is in West Java's Cibaduyut area (a sub-district of Bandung, the capital of West Java Province). This area of around 14 square kilometres is dubbed "Shoe Heaven." In the 1970s, the Indonesian government, through the Ministry of Industry and the non-profit Institute for Social and Economic Research, Education and Information, tried to develop the area by assigning a Technical Service Unit for the shoe and leather industry here. The office was later transferred to the West Java Provincial Government and renamed Installation for the Development of Small and Medium Shoe Industry. Since the 1990s, the Ministry of Trade and the Postal Corporation have assisted in logistics and delivery. Meanwhile, the supply of leather raw materials was negotiated by the shoe and leather cooperatives in the area (Ministry of Trade of the Republic of Indonesia 2009).

Footwear Association[10]

The Indonesian Footwear Association (APRISINDO) was established in 1988 on the initiative of the Ministry of Industry who encouraged shoe manufacturers from the Jabotabek area, West and Central Java to form the association as a result of growth in the shoe industry.[11] APRISINDO is a partner to the government, working closely with the ministries of trade, industry, agriculture, and investment. Forum group discussions are held regularly with government to discuss policy related to the footwear industry. They engage with the Ministry of Agriculture and the Centre for Leather, Rubber and Plastic in Yogyakarta on the use of leather as a raw material for their products.

The association is actively involved in public forums with government and trade exhibitions at the local, national, regional, and international levels. Through these events, the association has been able to do business with foreign companies in Germany and Italy to produce their products using Indonesian shoe manufacturers.

APRISINDO also facilitates trainings for SMEs as part of their role to ensure the competitiveness of the industry, and organizes workshops to keep its members updated on government regulations and international issues. In addition, the association assists SMEs with financial and administrative procedures.

Technical and Research and Development Centres

Financial and technical support from government is needed for SMEs on matters of research and development (R&D) and technology innovation. SMEs consider this the government's responsibility (APRISINDO 2016). The government has taken steps to address this issue.

In the R&D and innovation areas, the government operates several agencies including the Indonesian Centre for Leather, Rubber and Plastic (*Balai Besar Penelitian dan Pengembangan Kulit, Karet dan Plastik*) and the Indonesian Leather Technology Academy (*Akademi Teknologi Kulit*) located in Yogyakarta. The Indonesian Centre for Leather, Rubber and Plastic provides technical services in the materials essential to footwear-making. The Indonesian Leather Technology Academy provides job training for workers destined for the

[10] Based on an interview with the Secretary-General of APRISINDO.
[11] See www.aprisindo.or.id.

footwear industry as well as related research and development projects (Ministry of Trade of the Republic of Indonesia 2009).

On the marketing side, the Ministry of Trade organizes Trade Expo Indonesia (TEI) in Jakarta, an annual exhibition to promote Indonesian products. It is the country's largest exhibition of Indonesian products and industries. The agency also conducts trade missions and sends companies to attend international exhibitions in other countries (Ministry of Trade of the Republic of Indonesia 2009).

## Key Challenges for Indonesian SMEs Exporting Footwear Products

Mass footwear manufacturing in the country began in the 1970s. Since then, the industry has continued to grow. In the 1990s, Indonesia was one of the world's premier exporters of shoes and footwear, ranking third in global exports. Benefiting from cheap labour, supportive government policies, and a dose of local ingenuity, Indonesian footwear makers were making a name for themselves in the international market. This position was challenged in the early 2000s as other producers entered the market. Indonesian products had to compete with new producers and brands from other emerging economies. Since the mid-2000s, however, the Indonesian footwear industry has begun a steady recovery. This is in no small part thanks to the determination of the local footwear manufacturers and their ingenuity and creativity in the face of adversity (Ministry of Trade of the Republic of Indonesia 2009).

The footwear industry in Indonesia has benefitted moderately from several larger trends in the world, region, and country since the late 1990s. Still, it is a mature, labour-intensive industry that now has less relevance for the national economy than it did in the past.

SMEs in clusters can develop collective efficiency since they share information, pool labour and capital, and cooperate to anticipate shortages (Mawardi 2014). In the recent past, the Government of Indonesia has provided dynamic support for shoe cluster SMEs in Cibaduyut, PIK-East Jakarta, Garut, Bogor, and Sidoarjo.[12] However, not all clusters work well. The two main obstacles that may erode their performance are lack of access to raw material and competition from China. Moreover, the implementation of the China-ASEAN Free Trade Area (CAFTA), which allows shoes from China to enter the Indonesian domestic market, is leading to the decline of some less-competitive SMEs, and potentially to the decline of the Wedoro footwear cluster in Java.

The Indonesian manufacturing sector has an important potential source of competitive advantage in the large pool of labour available at relatively low wages. Real wage growth has been restrained by inflation, and hourly labour costs in the manufacturing sector remain lower than most competitors.

## Gender Considerations in Footwear Production

### Legislation, Policy, and Regulatory Frameworks

Indonesia has ratified the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW). It has also ratified International Labour Organization (ILO) Convention No. 111, which encourages states to develop measures to provide equal

[12] The cluster exports 50 per cent of its production; they have a training centre for the industry.

opportunities to men and women in education and vocational training and enable women to enter and advance in a wider variety of jobs and occupations, and at senior levels (Haspels, de Meyer, and Paavilainen 2011).[13] Indonesian Law Number 39 of 1999 on Human Right also prohibits discrimination on the grounds of sex.

In 2000, a presidential decree was issued that obliges government agencies to mainstream gender into their work in an effort to eliminate gender discrimination (UN Women n.d.). Moreover, in 2005, the Department of Manpower and Transmigration issued a set of guidelines on equal employment opportunity (EEO), which was adopted by trade unions and employers' organizations. Gender was also a cross-cutting theme in the government's 2010–2014 Medium Term National Development Plan (UN Women n.d.).

## Women in the Sector

Women are well-represented in this labour-intensive industry that relies on skill and craft. Sixty-two per cent of permanent employees are women (Laksono and Gitaharie 2006). Adidas, which sub-contracts to local firms, notes that 80 per cent of jobs in its supply chain are occupied by women. A large domestic manufacturer, KMK Global Sports, notes that 75 per cent of its 14,000 employees are women. One researcher concludes that government promotion of the footwear industry is appropriate because of the industry's "contribution to local poverty reduction, both directly through employment, and indirectly through multiplier effects" (Laksono and Gitaharie 2006).

Tables 6 and 7 provide an overview of the gender division of labour in a large manufacturer. Table 6 provides an example of sport shoe production, while Table 7 showcases leather shoe production.[14]

**Table 6**
**Participation in Sport Shoe Production at Large Manufacturers by Gender**

| Task | Male | Female |
|---|---|---|
| **Upper Components** | | |
| Cutting into cardboard patterns with cutting machines | √ | |
| Stitching/sewing | √ | |
| **Lower Components** | | |
| Outsole production (choice of plastics, rubber, sponge) | | √ |
| Insole production | | √ |
| Midsole production—matching Phylon and rubber soles | | √ |
| Outsole assembling | | √ |
| Stock fitting | | √ |
| **Assembling** | | |
| "Less/Last" | | √ |
| Matching upper-midsole—toe lasting-heel, lasting machine and heating | | √ |
| Upper-bottom treatment | | √ |
| Pressing | | √ |
| Cooling in the conveyor | | √ |
| Finishing | | √ |

Source: TPSA.

[13] A tripartite task force established by the department initially focused on gender discrimination, though the guides include broader concerns.
[14] See Brand Clozet (2015).

**Table 7**
**Participation in Leather Shoe Production at Large Manufacturers by Gender[15]**

| Task | Male | Female |
|---|---|---|
| **Preparation** | | |
| Cutting into cardboard patterns with cutting machines | √ | |
| Preparing accessories | √ | |
| **Production** | | |
| Forming upper | | √ |
| Sewing/stitching | | √ |
| Moulding | | √ |
| Balancing | | √ |
| Finishing | | √ |
| **Other** | | |
| Packing | | √ |
| Administration | | √ |
| Marketing | √ | √ |

Source: TPSA.

In footwear, women are represented as workers, but also in middle-to-top-level management and in design (in Bali, Sidoarjo, Bandung, and Yogyakarta) (Khotima 2009; Indonesia Entrepreneur 2013). Women are also owners of footwear businesses, including SMEs.[16] A significant proportion of APRISINDO members have women as owners or CEOs. (See Table 8.)

**Table 8**
**APRISINDO Membership**

| Category of Member | Number of Members | Number of Members with Women as Owner or CEO | Share of Women Members |
|---|---|---|---|
| Producer | 30 | 7 | 23 |
| Trader | 12 | 5 | 42 |
| Component | 30 | 6 | 20 |
| Associate Member | 2 | 0 | 0 |

Source: APRISINDO.

A desk review of the profile of members of APRISINDO indicates that most women members are also exporters. (See Table 9.)

Other associations representing women-owned SMEs in the footwear industry include the women-only association Jaringan Perempuan Pengusaha Kecil (JARPUK) and Yongki Komaladi, an association representing 80 SMEs (both men- and women-owned) that produce and market women's shoes (Undercover 2015). (See box "Women Business Owners in Profile.")[17]

[15] Bucini in Yogyajarta has a workforce of 160 employees, of whom 60 per cent are women.
[16] See www.aprisindo.or.id.
[17] Some other well-known women SME owners and exporters include: Reni Pamela; Yusi, (Usee Shoes and Bags) http://finance.detik.com/read/2012/12/27/103633/2127641/480/berawal-dari-iseng-wanita-ini-sukses-jadi-pengusaha-sepatu-kulit; Rizki Meirian (Seeput Shoes) http://bdec.binadarma.ac.id/inkubator/?p=385; Maswati (Cibaduyut Sentra Sepatu and member JARPUK) http://banyulanang.blogspot.co.id/2011/05/sepatu-cibaduyut-dilema-antara.html; and Tanjung Ardi (Lace Made Shoes for Brides) http://www.tasgenit.blogspot.co.id/.

**Table 9**
**APRISINDO Exporting Members, Women-Owned or Run**

| No. | Members of APRISINDO | Business Description | Name of Owner or CEO | Export Status |
|---|---|---|---|---|
| **Producers** | | | | |
| **1** | Arka Footwear Indonesia, Bandung | Athletic shoes, baby booties | Ingnawari | Yes |
| **2** | BePatient, East Jakarta | -- | S Omsina Sibarani (Shina) | Unknown |
| **3** | Betty Brussel Shoemakers, Brada Indah Gemilang | Wholesaler and exporter | Betty Bakur | Yes |
| **4** | Cabletown Bandung | -- | Jessica Lokita | Unknown |
| **5** | Catty Cat Kid Shoes, Bandung | Children's shoes | Tenny Usi Jathy | Yes |
| **6** | Cipta Indah Perkasa Bandung | -- | Kulu Anderson | Unknown |
| **7** | Cipta Kharisma | Leather and canvas shoes | Agnes Lidia Hust | Yes |
| **Traders** | | | | |
| **1** | Ennys Leather Bandung | -- | Enis Yuni Purwati | Unknown |
| **2** | New Era Footwear Indonesia Sidoarjo, East Java | -- | Lina Rosinta | Unknown |
| **3** | Regia Collection Cikarang | -- | Regia Sibarani | Yes |
| **4** | Saga Machine Jakarta–Andre Valentino | Leather shoes | Aulia Singgih | Yes |
| **5** | Saamudra Jaya Jakarta | Sport and non-sport shoes | Djuliawati | Yes |
| **Component** | | | | |
| **1** | Golden Step Indonesia Sidoarjo | Children's shoes | Rany Riniwati | Yes |
| **2** | Ide baru Cemerlang–PT IBC Bandung | -- | Tan Chinvielya Cen Deu | Yes |
| **3** | Indo Shoes | Shoes material | Rina Seriwati | Yes |
| **4** | Jadi Jaya Sidoarjo | Shoes material | Fenny Susilowati | Yes |
| **5** | Kurnia Kulit Abadi Magelang | Shoes leather material | Cicik Iryanti | Unknown |
| **6** | Kurnia Hidup Leather Industry Magelang | Supplier of leather and leather colouring | Cicik Iryanti | Unknown |

Sources: APRISINDO, Indonetwork, Panpage/Facebook.

***Women Business Owners in Profile***

Ni Luh Djelantik, Kerobokan, Bali—Since 2003, Ni Luh has been creating beautiful, crafted, and comfortable shoes for women. She has become an international brand for exclusive footwear, selling in twenty countries (Europe, the U.S., and Japan) with a client list including Julia Roberts and Paris Hilton. Ni Luh employs 40 men and women in a workplace that supports social responsibility. Having grown up in a household of women, Ni Luh learned at a young age the importance of confidence and conveys this value in her product and workplace. She subscribes to the importance of relationship management in business. As a social entrepreneur, she established and supports the Suara Hati centre for survivors of violence against women.

Elly Susilawaty, Bandung—Elly is the owner of PT Ethree Abadi, which produces custom shoes for special needs. Her products sell throughout Indonesia and in Malaysia,

Singapore, and Australia (Indonesia Entrepreneur 2013). Elly works with orthopedists to design the shoes and to ensure both comfort and appropriateness for the user. PT Sucofindo provides certification for quality and workplace management (Sucofindo 2011). Elly has received numerous awards for quality and innovation, including the ASEAN Women Executive Golden Award (2006), the Dji Sam Soe Award (2007) (Indonesia Entrepreneur 2013), and entry into the Indonesia Book of Record (2011).

Nadia Rahma, Yogyakarta—Nadia is a young and passionate designer, and the owner of start-up Kloom Clogs, an upscale wooden footwear and leather products business. She makes western-style footwear with Indonesian influences, featuring Indonesian materials and design such as local mahogany, batik, and hand-woven tenun. Nadia employs 40 artisans and produces 500,000 pairs of shoes annually. She exports to Sweden and England, and can be found on www.alibaba.com (Berindra 2012).

Sarah Atthahirah, Medan—Sarah established Zquinn Shoes Collection in 2012 (Medan Bisnis Daily 2013). With 10 workers, Sarah produces 40 pair of shoes per day in her workshops in Medan and Bogor. She sells in various cities, including Medan, Bali, and Bangka Belitung through department stores (Berindra 2012), and has plans to take advantage of online marketing to expand her reach.

## Environmental Regulations

The legal basis of Indonesia's natural resource and environmental regulations are the 1945 Constitution, which notes that every person has rights to a good and healthy environment and that the organization of the national economy shall uphold principles of sustainability, keeping the environment in perspective. General environmental regulations refer to legislation that applies to all sectors, the most important of which is Law No. 32/2009 on environmental management and protection. This law establishes the basic principles of environmentally sustainable development, including environmental planning, natural resource utilization, development, maintenance, restoration, supervision, and control of the environment, and law enforcement. There are various environmental management tools, such as strategic environmental assessment for policies and programs, ecoregional analysis, and environmental budgets. Environmental impact assessment (EIA or *Analisis Mengenai Dampak Lingkungan*, AMDAL) is the key instrument to prevent environmental damage from new initiatives. Physical activities or businesses that are likely to have substantial impact on the environment are obliged to follow the AMDAL process. Depending on the extent of the project's environmental impacts, a company may be required to issue an environmental impact assessment, an environmental management statement (*Surat Pernyataan Pengelolaan Lingkungan* or SPPL), and/or an environmental management efforts/environmental monitoring efforts report (*Upaya Pengelolaan Lingkungan/Upaya Pemantauan Lingkungan* or UKL/UPL).

## Sector Voluntary Frameworks: Labour, Gender, and the Environment

As of 2009, 50 apparel and footwear factories in Indonesia were certified under the Worldwide Responsible Apparel Production (WRAP, now called Worldwide Responsible Accredited Production) program. WRAP has 12 principles rooted in the spirit of International Labour Organization conventions. These include: 1) compliance with laws and workplace regulations; 2) prohibition of forced labour, 3) prohibition of child labour; 4) prohibition of harassment or abuse; 5) compensation and benefits; 6) hours of work within the country's

laws; 7) prohibition of discrimination; 8) provision of a safe and healthy work environment; 9) freedom of association and collective bargaining; 10) compliance with environmental rules, regulations and standards; 11) customs compliance; and 12) maintenance of security procedures to guard against non-manifested cargo in outbound shipments.[18]

In addition to WRAP, some private initiatives have emerged. For example, Nike and Adidas have developed internal monitoring programs which are supplemented by external audits provided by the Fair Labor Association (though certification is not involved) (Bartley 2010).

Regarding the environment, some measures have been applied by retailers to improve supply chain environmental performance. These include eco-design, product certification, environmental criteria for suppliers, dissemination of better management practices across the supply chain, promoting eco-labelled products/raw materials, application or subsidization of clean technologies, and local or regional sourcing (Kowalska and others 2013). Some of the leading multi-national brands operating in Indonesia such as Nike, Adidas, and Puma have taken some of these measures to make their products more environmentally friendly. Nike, for example, has recently launched a product line which uses fewer and lighter materials, and these materials were produced with less water, energy, and chemicals (Nike 2014).

Unlike textiles, there are few third party eco-labels for footwear. Some examples are Euro Ecolabel, Blue Angel, Environmental Choice New Zealand, and Japanese Eco Mark. Constraints to creating eco-labelled footwear include the quick and seasonal evolution of the fashion industry, strict eco-label requirements, high application costs, and the perception that footwear eco-labelling does not provide significant economic advantage. Eco-labels are also available for footwear raw materials. Some examples are Ekolabel Indonesia, Eco-Tox Label, EU Ecolabel, and Oeko-Tex standard 100 (for leather); Global Organic Latex Standard/GOLS and Forest Stewardship Council/FSC (for natural rubber); Blue Angel (for recycled plastics); Global Organic Textile Standard/GOTS, Better Cotton Initiative, and Oeko-Tex (100, 100plus, 1000) (for textiles).

One major initiative to improve footwear environmental performance is the establishment of the Sustainable Apparel Coalition (SAC), a global network comprised of apparel and footwear manufacturers and brands, retailers, government, non-government, academic, and research organizations. SAC members include such major footwear brands as Nike, Puma, Adidas, and Ecco. The SAC's mission is to reduce the environmental and social impacts of apparel and footwear products around the world. It has recently issued the Higg Index, a tool for the apparel and footwear industry to assess the sustainability aspects of a product's lifecycle from raw materials to end of life. Despite increasing attention to footwear sustainability issues, information on the market penetration of eco-friendly footwear could not be found. Many brands communicate their eco-friendly activities, but usually do not provide supporting data, citing confidentiality (Kowalska and others 2006).

Information on eco-friendly footwear produced by Indonesian SMEs is scarce and the market for sustainable footwear is relatively unknown. One company in Bali, Indosole, claims to produce eco-friendly footwear made from recycled motorbike tyres (Indosole 2015). The company also uses other eco-friendly materials such as organic cotton and canvas. Its latest shoe and apparel line, Balifornia, has just launched worldwide. Other SMEs that manufacture eco-friendly footwear exist, such as Flameon Footmate, which uses recycled denim as its

[18] See http://www.wrapcompliance.org/en/12-principles.

main material (Flameon Footmate n.d.). However, these kinds of SMEs are rare and seem to produce only limited quantities.

There have been initiatives by the government to improve the footwear industry's environmental performance. The Indonesian Ministry of Environment has established eco-label benchmarking for various industries, including leather-based footwear, with the hope that industries would comply and self-administer eco-label practices (Tempo 2014). Products entitled to use the eco-label must be biodegradable, recyclable, and very low or free from toxic chemicals. The ministry has also established *Lembaga Sertifikasi Ekolabel* and *Lembaga Verifikasi Ekolabel* to implement the certification process. In addition, the government has established certification bodies for Environmental Management System (EMS) ISO 14000. None of the footwear manufacturing companies has applied for the eco-label (Setyadewi and Widowati 2015).

### Certification in Canada

Though certification schemes for footwear exist for the Canadian market, there is limited information on the most prominent schemes in use. According to the Trade Facilitation Office of Canada (2011), labour rights issues are not currently viewed to be equally important as environmental issues, as most buyers for brands will evaluate those factors as part of the larger picture when deciding to enter new countries. Canadian brands would like to see governments in producer countries improve and enforce environmental and labour standards regulations.

Appendix A provides an overview of all standards that could be applied to Indonesian footwear destined for Canada, according to the International Trade Center's Standards Map.

## Conclusions

Although Indonesia remains an important player on the world market for TPSA's target footwear segment (four combined sub-segments), and has seen an increase in its market share from 0.8 per cent in 2005 to 2.0 per cent in 2014. Indonesia has also managed to increase its market share in the Canadian import market, from 0.7 per cent in 2007 to 4.3 per cent in 2015. The total Canadian import market has been growing rapidly in recent years, creating further opportunities for Indonesian exporters of footwear.

The Indonesian government has clearly made footwear a priority industry for support, including for SMEs. A number of initiatives are in place to promote productivity as well as to address labour-related issues. Smaller firms require additional support in terms of logistics and access to raw materials. The Indonesian Footwear Association also has a number of programs to assist SMEs, including helping them to enter export markets.

The Indonesian footwear industry offers numerous job opportunities for women, who account for roughly three quarters of the workforce. Women are well represented in management in this industry, and there are examples of SMEs owned by women that have enjoyed great success on world markets—especially in the high-quality, niche market segment.

In conclusion, an Indonesian SME engaged in the manufacture of footwear and considering entering the Canadian market will need a clearly defined strategy—focussing on either low-cost, mass-market product or high end, niche market pieces. A strong relationship with wholesalers is also important, if Indonesian SMEs are to meet volume requirements, especially in the mass-market segment.

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# Appendix A: Standards for Indonesian Footwear Exports to Canada

| Full List of Standards for Footwear from Indonesia to Canada According to the ITC Standards Map[19] | |
|---|---|
| **Standard** | **Description and Scope** |
| BSCI (Business Social Compliance Initiative Code of Conduct) | The Business Social Compliance Initiative (BSCI) is a business-driven initiative for supporting retailers, importers, and brands committed to improving working conditions in their international supply chains. BSCI's vision is a world of free trade and sustainable global supply chains, in which factories and farms are compliant with national labour legislation as well as with ILO Conventions protecting workers' rights. BSCI unites hundreds of companies around one common Code of Conduct and supports them in their efforts towards building an ethical supply chain by providing them with a development-oriented system, applicable to all sectors and all sourcing countries. |
| EcoVadis | EcoVadis aims to improve environmental and social practices of companies by leveraging the influence of global supply chains and operates as a collaborative platform providing supplier sustainability ratings. EcoVadis has a methodology for CSR analysis which covers 21 criteria across four themes: environment, fair labour practices, ethics/fair business practices, and supply chain. It offers training and consulting, and aims to find solutions for buyers and suppliers. |
| Ethical Trading Initiative (ETI) | ETI is an alliance of companies, trade unions, and NGOs promoting respect for workers' rights around the globe. The ETI Code is based on the Conventions of the International Labour Organization, and aims to support members in establishing ethical trade strategies within their own supply chains. |
| Fair for Life | Fair for Life aims to ensure fair and positive relations between producers and their cooperatives or contracting companies, between workers and their employer, and between sellers and buyers on the world market, while at the same time ensuring performance of standards. The initiative offers two certification schemes: Fair for Life Social & Fair Trade Certification Programme and Social Responsibility Certification. Fair for Life offers brand-neutral third-party inspection and certification in initial production, manufacturing and trading. It combines strict social and fair trade standards with adaptability to local conditions. The system is designed for both food and non-food commodities (such as cosmetics, textiles, or tourist services). |
| FLA Workplace Code of Conduct | The Fair Labor Association (FLA) is a collaborative effort of universities, civil society organizations, and socially responsible companies dedicated to protecting workers' rights around the world. The FLA Workplace Code of Conduct defines labour standards that aim to achieve decent and humane working conditions. The Code's standards are based on International Labour Organization standards and internationally accepted good labour practices. It has also created an independent monitoring, remediation, and verification process to achieve compliance with this Code. |
| ILO (International Labour Organization) Standards | Since 1919, the ILO, a specialized agency of the United Nations, has maintained and developed a system of international labour standards aimed at promoting opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security, and dignity. International labour standards are legal instruments drawn up by the ILO's constituents (governments, employers, and workers from 185 member states) and set out basic principles and rights at work. They are either conventions, which are legally binding international treaties that may be ratified by member states, or recommendations, which serve as non-binding guidelines. In many cases, a convention lays down the basic principles to be implemented by ratifying countries, while a related recommendation supplements the convention by providing more detailed guidelines on how it could be applied. |
| Sedex Global | Sedex is a not-for-profit membership organization dedicated to driving improvements in ethical and responsible business practices in global supply chains. Sedex was founded by a group of U.K. retailers in 2004 with two main goals: to ease the burden on suppliers facing multiple audits, questionnaires, and certifications, and to drive improvements in the ethical performance of global supply chains. As the largest collaborative platform for sharing ethical supply chain data, Sedex is an effective supply-chain management solution, helping |

[19] Does not include standards identified for other countries, such as the British Retail Consortium Global Standards or the US Department of Agriculture Organic Program for example. Information drawn directly from StandardsMap website.

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|---|---|
| | companies to reduce risk, protect company reputation, and improve supply-chain practices. Sedex also has a best practice guide. |
| Social Accountability International (SAI)—SA8000 | Social Accountability International is a non-governmental, not-for-profit organization that promotes the human rights of workers through the development of a voluntary standard, SA8000. The core normative elements are derived from ILO standards and include issues such as health and safety, right to collective bargaining, and working hours. |
| Verified Carbon Standard—VCS | VCS is a comprehensive quality-assurance system for carbon credits issued in voluntary markets. Projects use Verified Carbon Standard requirements to ensure their carbon reductions meet accepted quality standards and are independently verified, uniquely numbered, and transparently listed in a central database. |
| WFTO Guarantee System | The World Fair Trade Organization (WFTO) is a global network of organizations representing the fair trade supply chain. WFTO is the home of fair traders: producers, marketers, exporters, importers, wholesalers, and retailers that demonstrate 100 per cent commitment to Fair Trade. The goal of the WFTO is to enable small producers to improve their livelihoods and communities through sustainable fair trade. It does this by delivering market access through policy, advocacy, campaigning, marketing, and monitoring. |
| Workplace Condition Assessment (WCA) | In 2010, the largest CSR supply chain auditing and certification body, Intertek, set out to challenge norms on scheduling, tracking, conducting, and reporting on social responsibility audits. Rooted in 20 years of experience in supply chain auditing for CSR performance, the Workplace Conditions Assessment (WCA) is a data-driven, software-based community platform that enables automated data collection leading to ratings-based measurable audit results. Auditors are provided an efficient and streamlined audit format based on Intertek's leading eAudit technology, and brand/retailer users of the WCA have access to invaluable data-mining tools that can help set performance metrics which are capable of being benchmarked against global, industry, and country averages. WCA addresses the following and more: labour (child/forced labour, discrimination, discipline, harassment/abuse, freedom of association, labour contracts), wages and hours (wages and benefits, working hours), health and safety (general work facility, emergency preparedness, occupational injury, machine safety, safety hazards, chemical and hazardous material, dormitory, and canteen), management systems (documentation and records, worker feedback and participation, audits, and corrective action process), and environment (legal compliance, environmental management systems, waste, and air emissions). |