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Dilemma and Opportunities of My Country's High-end Leather Manufacturing Industry under Economic and Trade Frictions

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Abstract

With the great changes in global geopolitics and the frictions in Sino-US trade, the uncertainty of global economic and trade operations has increased. In a risky and unstable economic and trade environment, my country's leather industry has reached a critical decision point. Based on the current situation of imports and exports in my country's leather industry, this paper analyzes the difficulties faced by China's leather industry today, deeply understands the internal and external factors that have caused difficulties and challenges in China's leather industry, and discusses the opportunities in China's leather industry at this stage. It provides a path and strategy for my country's leather industry to accelerate green transformation and improve its international competitive advantage.

Keywords

Green Transformation; Trade Friction; Leather Industry.

1. Introduction

Data shows that by the end of 2023, my country's leather production will account for more than half of the world's total, and it will rank first in the global share in the sub-industries of sofa leather, automotive leather, clothing leather, and special leather. my country's leather industry has a complete range of products, complete supporting facilities, and a huge industrial foundation. After years of precipitation, my country's leather and related technologies and industrial chains are mature. At present, as an industry that is highly dependent on exports, more than 50% of leather products in my country's leather industry are exported each year. However, in the first 11 months of 2023, my country's total leather exports fell by 8% year-on-year, and the export of leather products has reached a bottleneck. For a long time, my country has become the world's largest leather production and manufacturing country with its low labor costs, complete industrial chain advantages, and convenient transportation environment. According to data released by the Leather Industry Association, from 2016 to 2021, the leather sales revenue of my country's enterprises above designated size decreased from 1.52 trillion yuan to 0.48 trillion yuan, and continued to decline for five years. It rebounded in 2022, but it is expected that sales revenue in 2023 will decrease by 9% compared with the same period in 2022. Although my country's annual leather output still ranks first in the world, its market share in the world is constantly decreasing. Since 2013, the United States has begun to implement the "manufacturing repatriation policy", and a large amount of funds and high-end manufacturing industries have begun to return to the United States. my country's leather manufacturing industry is highly dependent on the US market. With the intensification of Sino-US trade frictions, my country's leather manufacturing industry faces severe challenges. In addition, with the outbreak of the global COVID-19 pandemic and the continuous conflicts in the international situation, many countries have realized the importance and urgency of industrial chain and supply chain security, and the resilience of the manufacturing industry has

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become a dashboard for testing the stability of the industrial chain, supply chain and even national security [1]. Countries around the world have begun to pay attention to and develop the manufacturing industry. High-end manufacturing production centers such as the United States and Europe, as well as developing countries such as India, Vietnam and Brazil, have formed new production centers for leather manufacturing, which pose a threat to my country's leather manufacturing industry, so that the international market competitive advantage of my country's leather industry has gradually decreased [2-4]. In addition, the intensification of trade frictions and the reversal of globalization have increased the uncertainty of global economic and trade operations. Against this background, China's leather manufacturing industry faces unprecedented difficulties and opportunities.

2. The Dilemma of China's Leather Manufacturing Industry under the New World Pattern

2.1. At Present, My Country's Leather Industry Faces the Challenge of "Double Squeeze"

In 2008, the US domestic economy showed a trend of "de-materialization" and "industrial hollowing out". However, an economic crisis made the United States realize the importance of manufacturing. In 2013, Kearney released the report "US Manufacturing Reshoring Index", which has been 10 years old. Today, developed countries have implemented the "re-industrialization" strategy to reshape the new competitive advantages of the manufacturing industry and accelerate the promotion of a new round of global trade and investment pattern [5-6]. In 2022, the leather trade volume of the United States increased significantly and returned to the level before the epidemic, but the leather trade volume with China decreased, and the trade volume with traditional European leather producers such as Italy increased. Data shows that Italy's leather exports increased by 12% in 2022. Faced with policy factors that make supply chain resilience uncertain, geopolitical tensions, tariffs, and China's continued increase in labor costs, many developing countries are constantly planning and laying out, actively taking on the transfer of industries and capital. In 2022, foreign capital continued to withdraw from my country's leather manufacturing industry and invested in Vietnam, Brazil, Africa and other countries. In the leather products industry, the increase in China's labor costs and supply chain bottlenecks have accelerated the speed of the leather industry leaving China. These companies have accelerated their transfer to the Altasia region, and some have even returned to the United States [7]. More and more leather production companies have moved their finished product assembly lines to Mexico, and Chinese companies have promoted the development of this trend to a certain extent. In order to circumvent the US trade sanctions against China, many Chinese leather manufacturing companies have entered industrial parks in Mexico dominated by Chinese companies. So far, China's leather industry is facing the dual pressure of being suppressed by developed countries such as Europe and the United States in the high-end products and being gradually "eaten away" by developing countries in the middle and low-end products.

2.2. China's Traditional Manufacturing Industry is Highly Dependent on the US Market

For a long time, the United States, as China's largest leather exporter, has benefited from China's accession to the World Trade Organization. The scale of trade between the world's top two economies has continued to expand, and the degree of mutual dependence and economic integration has continued to increase. In 2022, China's total leather exports to the United States increased by 6.8% year-on-year, accounting for 19.9% of the total exports. At the same time, thanks to the United States' developed animal husbandry, the United States is the largest

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importer of leather raw materials in my country. Therefore, in the process of the United States implementing the "manufacturing repatriation" strategy, it will cause great damage to the leather manufacturing industries in China and the United States, and will also affect the interests of consumers to varying degrees. According to the recent survey of the China Leather Association, some leather product orders have begun to shift or decrease. In the long run, the impact on China's leather industry cannot be underestimated. The effects of rising raw material prices, price increases of end products, and corporate order transfers may continue to ferment, and their impact will inevitably affect the entire industry chain.

2.3. The Production Cost of China's Leather Manufacturing Industry Continues to Rise

In the 200 billion tariff list announced by the United States in 2020, the products involved in the leather industry mainly include finished leather, semi-finished leather, travel goods and luggage, leather clothing, other leather products, fur clothing, tanned fur, other fur products, and leather seats. In the second round of counter-products list announced by my country's Ministry of Commerce in 2020, a total of 110 tax numbers of leather products were included in the tariff list, covering most of the leather industry's imports from the United States. The tariff rates are 25%, 20%, 10%, and 5%, respectively, which have a large impact. From the product perspective, the tariff rate for whole raw cowhide weighing more than 16 kg among imported products is 5%, accounting for 52.4% of the total imports. Based on the value of imports last year, my country's leather enterprises have to pay an additional tariff of 44.594 million US dollars. The increase in tariffs between China and the United States has greatly increased the production cost of my country's leather manufacturing industry. In addition, with the rapid development of my country's economy for decades, my country's demographic dividend has gradually turned into a talent dividend, and my country's basic labor costs have risen, leading to higher manufacturing costs for leather production. In addition, my country's constraints on resources and the environment have been continuously strengthened, further increasing the production costs of the leather industry. my country's leather manufacturing has long had a competitive advantage of "good quality and low price" in international competition, which will continue to disappear. Therefore, the extensive management model that mainly relies on resource input and scale expansion will be difficult to maintain. Compared with South American and South Asian countries, traditional leather production and manufacturing that does not have technological content and low added value will not have an advantage in my country, and the low-end leather industry will gradually shift outward.

3. Development Opportunities for China's Leather Manufacturing Industry

3.1. Unswervingly Promote the "Belt and Road" Initiative

Faced with major adjustments in the global manufacturing landscape and a complex international situation, China is unswervingly promoting trade globalization. In response to the US trade sanctions and "anti-globalization" policies against my country, my country should actively strive to expand its trade partners. The "Belt and Road" initiative has built a platform with huge development potential, and more and more countries are participating in economic and trade with China[8]. In terms of leather industry exports, my country's exports to the "Belt and Road" countries continue to maintain a good momentum, and the scale of trade continues to expand. In 2022, the total export volume of China's leather industry to the countries along the "Belt and Road" reached US$38.22 billion, a year-on-year increase of 35.0%, accounting for 35.5% of the total export volume of the leather industry. Among them, my country's leather exports to ASEAN increased by 62.4%. In addition, due to the Russian-Ukrainian war, my

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country's commodity exports to Russia have gradually increased. From January to November 2023, on the basis of an overall decrease of 8% in my country's leather exports, my country's leather exports to Russia increased by 25.4%. Through the development opportunities of the "Belt and Road Initiative", we can change the problem of China's leather export trade being too dependent on the United States, and ease the US economic and trade sanctions against China.

3.2. Promote the Tripartite Cooperation of "Industry, Academia and Research" to Enhance the Innovation Capacity of the Leather Manufacturing Industry

my country is the world's largest leather producer, but not a leather power. With the improvement of living standards, people's health awareness is getting stronger and stronger, and they pay more and more attention to green, natural and pollution-free products. Not only that, in domestic and foreign trade, green consumption has gradually become a consumption trend and will become a mainstream in the future. The concept of eco-leather includes the following four aspects: first, eco-leather does not pollute the environment during the production and manufacturing process; second, it is harmless in the process of processing it into leather products; third, the product is harmless to the human body and does not pollute the environment during use; fourth, it can be biodegraded, and the degradation products will not cause new pollution to the environment. At present, the overall R&D and design capabilities of my country's leather industry are relatively low, and the development concept urgently needs to be improved. Insufficient innovation investment has aggravated product homogeneity competition and seriously restricted the innovation and development of enterprises. In addition, due to the continuous improvement of the innovation capabilities of Chinese universities in recent years, based on the country's vigorous development of education and emphasis on talent cultivation, my country's current high-quality talent resources are increasing. However, there is a situation that high-quality talents are concentrated in colleges and universities, while there are few high-quality R&D talents in enterprises. On the one hand, it is related to the insufficient innovation ability of the enterprise R&D innovation platform, and on the other hand, it is related to the fact that enterprises do not pay enough attention to or have a fear of product upgrading and product innovation, which leads to low treatment of high-quality talents in enterprises. Compared with colleges and universities, enterprises are less attractive to high-quality talents. Faced with the current situation that the innovation ability of colleges and universities is enhanced, but the ability to transform results is weak, and enterprises have market advantages, but insufficient innovation ability and weak attraction to innovative talents. Vigorously strengthen the "industry-university-research" cooperation between colleges and universities and enterprises, combine the technical advantages of colleges and scientific research institutions with the market advantages and product advantages of enterprises, realize resource sharing and complementary advantages, and continuously improve the innovation ability of my country's leather manufacturing products. It is conducive to improving the competitive advantage of my country's leather manufacturing products with advanced countries in the world.

3.3. Based on the Background of a Unified Large Market, Optimize the Domestic Market Environment

The concept of a unified large market was first proposed in Europe, aiming to reduce the difficulty of trade between European countries and expand the scope of trade. Based on the current domestic economic situation in my country, the concept of a unified large market was proposed after 2013, with the goal of reducing our internal friction and significantly reducing domestic loss costs. Then, in the complex environment of the international market, my country's competitiveness can be enhanced. Since the Chinese government generally used GDP as the assessment standard before, it is inevitable that different local governments will introduce relevant local protection policies in order to protect the local economy, which has

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increased trade frictions between various places in the country. There is not much consideration for the overall industrial chain of the leather industry. This requires the country to conduct unified regulation from a global perspective. Nowadays, the concept slogan of a unified large market is proposed to tackle the final difficulties [9]. Based on the background of a unified large market, the market allocates resources, promotes competition, and deepens the division of labor. The important requirements put forward by accurately assessing the important role of the market in allocating resources, promoting competition, and deepening division of labor are of great significance for various places in the country to combine local characteristics and give play to their own advantages, which is of great significance to promoting the high-quality development of the leather industry and accelerating the construction of a new development pattern.

3.4. The Government Leads the Development Direction and Fully Stimulates Market Vitality

In the process of leather industry development, the institutional advantages of socialism with Chinese characteristics have played a role. In the process of transformation and upgrading of the leather industry, the government has formulated major directions through incentive policies and support policies, while enterprises continue to innovate in market competition [10]. Both government macro-control and market regulation are achieved. However, in the face of the current economic downturn and insufficient market driving capacity, the government needs to increase its support for leather enterprises to ensure that my country's leather manufacturing enterprises can gain a foothold in the global market faster and more steadily, enhance the overall brand influence of the leather industry, and have core competitiveness in global trade.

4. Conclusion

This paper mainly focuses on the difficulties and current situation faced by my country's leather manufacturing industry in the export process, analyzes the current situation, and proposes countermeasures and opportunities for the leather manufacturing industry. First of all, from the perspective of global economic trade, this paper analyzes the dilemma faced by my country's leather industry in international trade, namely "sanctions from developed countries such as the United States and the dual pressure of accelerating industrial layout in developing countries". This paper analyzes in detail the essential situation of my country's leather industry facing large but not strong, weak innovation ability, and weak core competitiveness, and analyzes the domestic pressures such as green transformation of the domestic leather industry, increased labor costs, and stricter environmental requirements. Then, this paper discusses the countermeasures and solutions for my country's leather industry in response to the current situation, including the "Belt and Road" to expand export paths, industry-university-research cooperation to improve scientific and technological innovation, and "unified large market" to reduce domestic losses. Finally, it is recommended that the government increase incentives and regulation for leather enterprises in the process of market regulation.

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