

HOW TAMIL NADU WOODED TAIWAN'S SHOEMAKERS

In the last few years, the state has become India's non-leather footwear capital. The inside story

N. Madhavan

madhavan.n@livemint.com
CHENNAI

For P. Jayalakshmi, a native of V Kalathur village in Perambalur district of Tamil Nadu, life seemed like a disaster till about 15 months ago. Her husband, a tailor, did not earn enough to run the family. They were dependent on their extended family and that came at a cost. Her mother-in-law routinely ill-treated her and not a day went by without a fight. In her mid-30s, she had given up all hope of a better life.

Early in 2024, Jayalakshmi got to know of a shoe factory coming up at Eraiur, 10km away. The factory was looking for women workers.

She applied, unsure if she could be recruited—Jayalakshmi had studied till the 9th standard and had no work experience. But the shoe factory welcomed her, giving her a vocational pathway she hadn't known of.

Today, Jayalakshmi handles raw material at JR One Kothari Footwear Pvt. Ltd, a contract manufacturer for the American footwear brand Crocs, earning ₹9,000 a month.

"My family is now financially independent; I get a lot of respect," she said, turning a tad emotional and recalling all the years of stress. Along with her financial fortunes, came a change in her mother-in-law's attitude. "She adores me these days," she added.

A. Jaya, also from V Kalathur, was shunned by her neighbours as she invariably ended up asking them for a loan every now and then. Being farm labourers, she and her husband barely managed to earn ₹5,000 a month, far less than the needs of her six-member family. She now works at JR One Kothari Footwear's canteen and earns ₹10,000 a month. Her neighbours, she said, now make eye contact with her and speak with more respect. A few of them even ask her for money.

The empowerment Jayalakshmi and Jaya feel is because of industrialization spreading to Tamil Nadu's hinterland—while the state is a manufacturing powerhouse, not all its districts have benefited. Today, electronics, automobile and textiles manufacturing are mostly concentrated around Chennai and Coimbatore.

Now, the state government has doubled down on its efforts to diversify its industrial landscape. Non-leather footwear manufacturing, or footwear that is made from synthetic materials, has emerged as an area of focus.

"While Tamil Nadu has made significant progress in attracting cutting-edge industries like advanced electronics and electric vehicles, some pockets still need industrialization and for that we need jobs that do not require a high degree of skills but are created in large numbers. The non-leather footwear is one such sector and that is why we are focusing on it in a big way," T.R.B. Rajaa, Tamil Nadu's minister for industries, investment promotion and commerce, told Mint.

Foreign non-leather contract manufacturers are investing about ₹17,550 crore in the state; this has the potential to create 230,000 jobs. Non-leather footwear, thereby, is one sector where India's 'China+1' strategy appears to be working.

"Tamil Nadu is now a key global player, supplying to leading brands such as Nike, Puma, Crocs, Adidas and many more," the minister added. Non-leather accounts for 86% of the footwear used globally today.

But the path to becoming the non-leather footwear capital of India was not easy for Tamil Nadu. It was an uphill task to convince reticent foreign

investors to invest. It was also a challenge to shift the focus of local entrepreneurs away from leather. Tamil Nadu, after all, accounts for 47% of India's leather exports. It now faces an even bigger challenge as it works to build the ecosystem needed for non-leather footwear production.

BOOT UP

JR One Kothari's factory in Perambalur district commenced operation in November last year and currently employs 2,500 workers, 90% of them women. It has so far produced 2 million pairs of Crocs for the Indian and global markets. The facility is still expanding with the overall investment at ₹1,700 crore.

"When all the investment is deployed, the factory will employ 15,000 workers and produce 40 million pairs of Crocs every year," J. Rafiq Ahmed, executive chairman, Kothari Industrial Corp. Ltd (KICL), said. JR One Kothari Footwear is a joint venture between KICL and Shoe Town Group, a \$5 billion Taiwan-based



Workers pack footwear made for Crocs, at the factory of JR One Kothari Footwear, at Eraiur in Tamil Nadu's Perambalur district.

N. MADHAVAN/MINT

contract manufacturer.

KICL also inked a memorandum of understanding (MoU) with the Tamil Nadu government in February this year to invest ₹5,000 crore to make Adidas shoes in the state. This will also be a joint venture with Shoe Town Group and employment generated will be in excess of 50,000. The factories will come up near Karur town and at Eraiur.

Today, almost all major contract manufacturers of non-leather footwear—be it Pou Chan Group, Hong Fu Industrial Group and Dean Shoes Company—are in various stages of setting up their manufacturing facilities in the state.

Feng Tay Enterprises, one of the largest contract manufacturers for Nike, which had entered Tamil Nadu in 2006 with a factory at Cheyyar (northern Tamil Nadu), has recently expanded its operations by setting up factories at Bargur in Krishnagiri district and at Tindivanam (northern Tamil Nadu).

Tamil Nadu is trying to direct new investments into its southern districts. The state has announced two non-leather footwear parks in Madurai and Cuddalore.

What is largely unknown is that India could have attracted these manufacturers 25 years ago. But it did not.

FOR WANT OF A NAIL

By the turn of the century, major global footwear brands, which had shifted the production of non-leather footwear to China in the 1980s taking advantage of low wage costs and the availability of abundant labour, were in a dilemma. The country's labour costs were spiking.

To keep their margins intact, manufacturers started scouting for other locations—a great opportunity presented itself for India.

But India was not ready. Policymakers and entrepreneurs were still focused on leather, despite its fading aura. Thailand, Vietnam, Indonesia and Cambodia benefited as many brands expanded their operations in these countries. Feng Tay was the lone player to invest in India. However, the company's operations remained limited in scale.

BUCKLE DOWN

A confluence of factors has presented India with a second chance now. With a limited working age population,

wages in Thailand, Vietnam and Indonesia have begun to rise. Today, wage cost in the footwear sector in China is \$3 per hour while it is \$2 per hour in Vietnam and \$1.5 in Indonesia. At 90 cents, India is more competitive. "This wage differential is a big attraction," said KICL's Ahmed.

Also, in the last eight years, there were multiple disruptions in supply chains. The US-China trade war in 2017, during President Donald Trump's first stint, exposed the overdependence on China. Then came the covid-19 pandemic, which disrupted global supply chains like never before.

Meanwhile, India's economy was on a steady growth path. Growing per capita income needed global brands to consider the country seriously. The use of non-leather footwear in India was far lower than similar sized economies and this offered huge headroom for growth.

Among the Indian states, Tamil Nadu was the first to seize the second chance.

The non-leather footwear sector has the potential to drive inclusion and foster distributed growth across the region. Darez Ahmed, managing director and chief executive officer of Guidance, Tamil Nadu's nodal agency for investment promotion, pointed out. Investors wanted to set up factories in rural areas away from large cities and towns. Their only demand was easy access to a port.

"Tamil Nadu is evenly developed, with good infrastructure like roads and power. We could offer investors large parcels of land in rural areas with port connectivity in eight hours or less," said V. Arun Roy, Tamil Nadu's industry secretary. "Labour, especially women workers that the investors preferred, is also readily available," he added.

BIG SHOES TO FILL

Despite compelling reasons, a willing government and good infrastructure, it was not easy to convince global players. Like electronics, almost all non-leather footwear is contract manufactured, and the industry is dominated by a handful of Taiwanese companies such as Shoe Town, Feng Tay, Pau Chen, Hung Fu and Dean Shoes. These family-owned firms had little experience of India. Worse, they had concerns about how well foreign companies would be accepted, the quality of workforce, bureaucratic red tapism and corruption.

"The Tamil Nadu government started wooing Taiwanese contract manufactur-

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WHAT

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NOW

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BUT

Building the component ecosystem will be a challenge. All inputs that go into making non-leather footwear—specialty chemicals, technical textiles, buckles—are imported.

ers in a big way since 2018 and the efforts intensified post-covid," said S. Krishnan, secretary, ministry of electronics and information technology, government of India. Earlier, he was the state's industry secretary and kickstarted the non-leather footwear foray.

State officials, he recalled, made multiple visits to Taiwan to meet with members of the Taiwan Footwear Manufacturers Association (Tafma). A delegation from Tafma was invited to Tamil Nadu; the state's industrial prowess and investor success stories were showcased. The government has even stationed an official full-time in Taipei for the last three years to coordinate investments.

A non-leather footwear policy was released in September 2022. "Our policy offers capital, land and payroll subsidies tailor-made for each investor," industry minister Rajaa said.

The state government's measures were supplemented by the efforts entrepreneurs like Rafiq Ahmed made—he

THE BIG FIVE

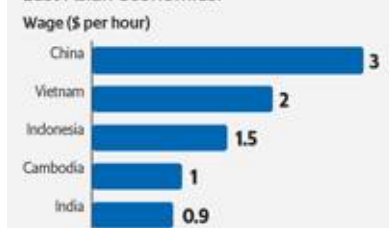
Top non-leather footwear contract manufacturers in Tamil Nadu.

Company	Location	Status
Feng Tay	Cheyyar, Bargur, Tindivanam	In production
Shoe Town	Eraiur, Karur	In production
Pau Chan	Kallakurichi	Construction phase
Hong Fu	Ranipet	Construction phase
Dean Shoes	Jeyankondan	Foundation laid

Source: Government of Tamil Nadu/ company annual reports

The differentiator

Wage cost in India is lower compared to East Asian economies.



Source: Industry data/Kothari Industrial Corporation Ltd

reached out to Taiwanese manufacturers for investment.

"I promised Ron Chang, chairman of Shoe Town Group, that the factory of JR One Kothari Footwear will be up and running in one year. We produced the first shoe on the first anniversary of the MoU—28 November 2023," Ahmed recalled.

Successes like this eased the concerns Taiwanese manufacturers had about Indian bureaucracy.

Shoe Town, which operates 31 factories across East Asia, is adopting a 'China Plus' strategy with India being a top choice due to its lower labour costs and large workforce, the company stated in a press release during Chang's visit to Chennai recently. "We have created a huge value for future business growth in Tamil Nadu," he said in the release.

What also helped was the success of other Taiwanese companies in Tamil

Nadu like Feng Tay, Foxconn and Pegatron—the last two in the electronics manufacturing space.

The state is now trying to direct new investments into its southern districts. "We are looking at locating the new investments in Madurai, Cuddalore, Sivaganga, Ramanathapuram, Theni, Thirunelveli and Thanjavur," Roy said.

In the state budget announced last week, two non-leather footwear parks had been announced in Madurai and Cuddalore with infrastructure investments worth ₹250 crore.

FRONT FOOT

Having drawn in the contract manufacturers, the Tamil Nadu government is now looking to build the ecosystem. It has allocated space for component makers in the Ranipet and Eraiur footwear parks. This will prove to be a bigger challenge as almost all inputs that go into making non-leather footwear—be it specialty chemicals, technical textile, buckles and even adhesives—are presently imported. The raw material needed to make these inputs are not available in India yet.

"Local production will come with scale. We have set a 25% localization target in five years," industry secretary Roy said.

Unlike electric vehicle batteries, which are dependent on rare earth minerals such as lithium, the source raw material in non-leather footwear is petroleum, which is easily available, he added.

Some progress has been made. "Twenty-two component players have signed to locate their production facility at Eraiur," KICL's Ahmed said. Building the ecosystem will happen faster if Chinese investments are allowed and visas are given to Chinese people. A thaw in the India-China relationship should help.

Back at JR One Kothari Footwear's Eraiur plant, multiple training sessions are regularly held to help workers reduce wastage and ensure quality. Initially, the wastage at the factory was at 80%. After four months of training, the wastage dropped substantially to the globally accepted levels of below 10%, according to Ahmed.

One last fear of Taiwanese manufacturers—the efficacy of Indian labour—has been laid to rest.



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