

WORLD FOOTWEAR

Globalisation has had a huge impact on the world economy. While consumers have generally benefited, manufacturing in developed countries has been turned on its head. Some say it has gone too far too fast and that it is storing up serious problems for the future. While one might expect complaints from those who have lost or are losing either their businesses or jobs, there is growing criticism from many other backgrounds.

The main target is inevitably China and 'China bashing' is now very much in vogue in the United States of America, not least among politicians. The two leading Democratic candidates for the 2008 presidential election are among those who have hit out at the quality of many imports from China and the manner in which they are produced. While both may well be seeking to attract the blue-collar vote, they have nevertheless struck a chord with many across the country.

The US Congress is only being prevented from passing a number of bills attacking China by the intervention of President Bush, a longstanding champion of free trade. There is fear of the financial strength that China is amassing at the expense of the USA. Joe Biden, a senior Democratic Senator, summed this up succinctly when he alleged that China "holds the mortgage on our house" by supporting America's debt and allowing the administration to go on spending on things the country cannot really afford. If either Hillary Clinton or Barack Obama were to replace Bush as President, things might start to look very different.

World Footwear takes no sides in this debate but feels it is an issue that must be aired. Kevin Burke, president and CEO of the American Apparel & Footwear Association (AAFA) has strong views on the subject and argues that, despite opinions to the contrary, globalisation is essential to the world's long-term well-being and cites the footwear industry as a leading example of how beneficial globalisation has been.



Footwear in the global economy

Today's global economy is a vast, dynamic and complicated system of inter-dependent trade. Talk of trade relations in the United States today often takes on a protectionist tone and I believe this attitude is symptomatic of an increasing worldwide problem. This growing mistrust threatens the global economy, ultimately hurting the very same consumers around the world who have given voice to this protectionism. Fair, two-way international trade allows for a wider variety of goods to be imported at more affordable prices, while ensuring exports access to growing markets around the world.

As an industry which has adapted and thrived in this increasingly difficult global environment, the footwear sector needs to come forward as a vocal, internationally influential force in support of growing—not restricting—international trade through trade liberalisation, promotion agreements and preference programmes, before governments, responding to the genuine but, I believe, misplaced concerns of their people, stunt global trade, significantly impacting the footwear industry and their consumers.

Footwear is a basic human necessity that must be purchased by everyone. According to the World Footwear Markets 2007 report by the UK-based SATRA Technology Centre, over 13 billion shoes were bought in total in 2005 (the most recent data available), when the world population was 6.6 billion people. Overall global production that year increased to more than 14.5 billion pairs, up 6% on the previous year. Fashion comes and goes, but footwear is here to stay because it is a staple item that is needed by every man, woman and child in the world.

Even as energy prices sky-rocketed in the USA last year, retail sales of clothing and footwear were 4.9% higher than in 2005. The citizens of the world like their shoes, and it shows. In 2006, the USA consumed 2.4 billion pairs, more than any other country, at an average of eight pairs

The other top consumers (pairs)

	Total	P/P
China	2.100 billion	1.6
India	0.852 billion	0.8
Japan	0.650 billion	5.1
Brazil	0.555 billion	3.0
Indonesia	0.480 billion	2.2
United Kingdom	0.397 billion	6.6
France	0.369 billion	6.0
Germany	0.351 billion	4.3
Italy	0.333 billion	5.6
2005 data (P/P = pairs per person)		

for every person. US consumers also spent a record \$359 billion on apparel and footwear, an average of \$1,200 for every man, woman and child.

The truth is that, despite whatever economic pressures they face, people still buy new things to wear, not only because they need to but because they want to. Consumers, however, are picky and continually want an ever-wider variety of higher quality shoes at lower prices and made under socially responsible conditions. The footwear industry has responded successfully.

Transforming an industry

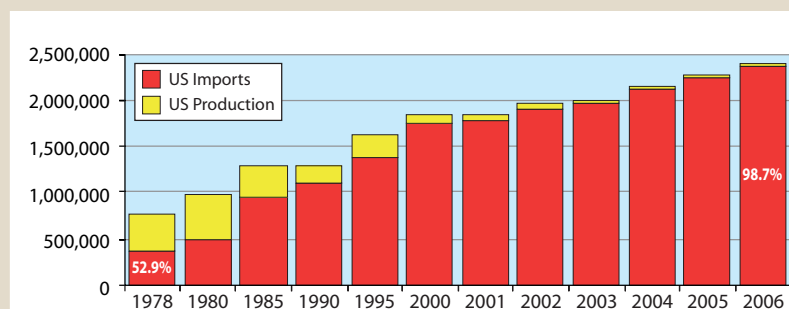
US footwear firms have done this by transforming themselves from manufacturers into brands which, today,

are leaner and more competitive than ever. According to research firm The NPD Group, there are 6,000 footwear brands in the country, with an additional 600 new brands launched each year. Their goal is to provide the consumer with what they want; the right brands at the right prices at the right time, while still making a profit in a socially responsible way. By adapting to today's market demands, US footwear companies are thriving and making profits that can be invested back into the economy.

The brand model of business has become even more crucial to succeeding in the footwear industry as firms compete in an ever-changing retail environment that has seen the advent of online sales, the rise of the mass merchants, the spectre of private labels and continual mergers and consolidation within traditional retail channels. Constant change has become endemic in the global footwear market and today's successful brands are those best able to adapt and respond.

In 2005, more than 14 billion pairs of shoes were produced on six continents according to SATRA. China alone produced more than half of the world total at 62%. The other leading producers were India, Brazil, Indonesia, Vietnam, Thailand, Pakistan, Italy, Mexico and Turkey—primarily countries with lower cost production capabilities. ➤

US Footwear Consumption by source (in thousands of pairs)



Source: AAFAs Annual 2006 Trends, from US government and other available data.

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Labour-intensive footwear manufacture is seen as a stepping stone for many countries on the road to economic development. For example, 30 years ago Taiwan and Korea were leading footwear producers whereas today China is dominant—its manufacture of footwear provided countless millions of people with jobs that allowed them to support their families and, in many cases, provide their children with schooling. Furthermore, the advent of footwear manufacturing has led to development of an industrial infrastructure.

The industry also helped to develop the economies of countries such as Taiwan and Korea, which now have thriving middle classes that buy footwear rather than export it. The process is repeating itself today in China, India, Vietnam and elsewhere. The globalisation of the footwear industry has turned China and India into footwear manufacturing powerhouses, creating jobs, lifting millions out of poverty, fuelling fast-growing middle classes and creating new consumer markets for international brands.

Implications of change

These changes have led to a dramatic transformation in the composition of workers in the global footwear industry. Critics of globalisation claim that the migration of the footwear industry to China, India, Vietnam and other developing countries has led to the loss of millions of footwear jobs in the United States, Europe and elsewhere. It is misleading, however, to state that it has led only to job losses. It is true that, despite the stiff protectionist tariffs and restrictive quotas on footwear in place in most countries, millions of manufacturing jobs have also disappeared in these countries.

On the other hand, it is also true that those jobs have given way to millions of good-paying new ones in such varied activities as design, research and development, marketing, distribution, sourcing, warehousing, management, administration and sales. In addition, the industry directly supports countless



Kevin Burke

millions of retail jobs worldwide. And let us also not forget that the migration of footwear manufacturing has created millions of jobs for workers, who might otherwise have none, and has pulled millions out of abject poverty in other parts of the world.

In the USA, it is consumer spending which spurs the economy to new heights and contributes to global economic growth. According to the Department of Commerce's Bureau of Economic Analysis, the percentage of the average American family's Personal Consumption Expenditures (PCE) spent on clothes and shoes has almost halved since 1977, from 6.6% to less than 3.9% today. Although the world is buying more shoes than ever, the proportion of American household budgets dedicated to this staple has decreased. It is the industry's commitment to international trade which has led to its ability to deliver these basic necessities to consumers at ever-lower prices.

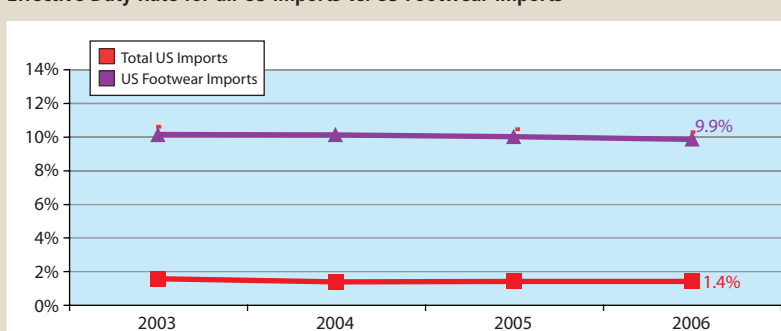
Greater affordability

As a result of the industry's transformation to the 'brands' model, footwear retail prices in the USA have declined some 5.8% since 1998, despite a more than 27% increase in overall retail prices during the same period. In America, a penny saved on footwear purchases is a penny spent elsewhere in the economy. With consumer spending driving over two-thirds of US Gross Domestic Product (GDP), the decline in US footwear prices has been a helpful factor in the overall economy.

This becomes even more dramatic when international brands deliver affordable footwear to developing countries around the world. The industry is comprised of international leaders with truly global operations affecting consumers, families and workers worldwide. Like many others, US companies recognise that 95% of the world's population lives elsewhere and also needs and wants shoes.

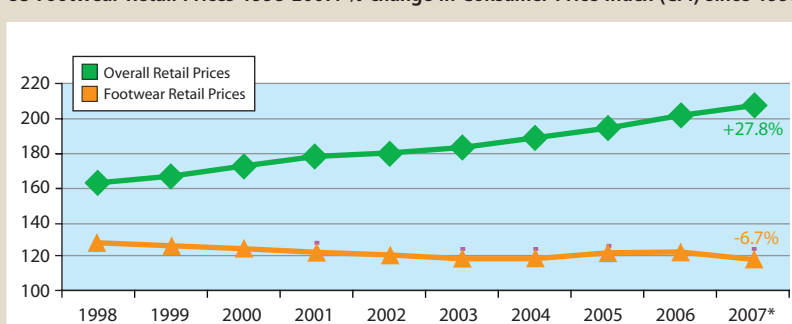
Some of the US footwear industry's fastest growing markets are no longer at home or Europe, but in China, India or

Effective Duty Rate for all US Imports vs. US Footwear Imports



Source: AAFAs Annual 2006 Trends, from US government and other available data.

US Footwear Retail Prices 1998-2007. % change in Consumer Price Index (CPI) since 1998



*CPI for July 2007

Brazil. In countries such as India, where some citizens may struggle to buy even one new pair of shoes a year, inexpensive shoes are empowering the growing middle class with new spending power as less of their household budget is dominated by such basic survival needs as footwear.

Trade agreements and trade preference programmes are intricately balanced and, when examined, the mutual benefits become clear. Win-win trade preference agreements stabilise manufacturing and employment in the countries involved, while creating import opportunities that deliver a wider variety of goods at more affordable prices for all consumers. At the cutting edge of trade, the footwear industry should actively support trade liberalisation, whether through permanent, comprehensive and reciprocal trade programmes, trade preference programmes or unilateral liberalisation and aggressively pursue the opportunities they create.

WTO is a significant force

The US footwear industry is an active supporter of the World Trade Organization (WTO) and regional trade agreements. Always aware of the two-way nature of trade relationships, the industry supported China's admittance to the WTO. Its support was not only because of China's status as a supplier to the US market but, more importantly, for the opportunity to use WTO rules to open up China's huge and growing middle class of 200 million people to US brands. Since China's WTO accession, the industry has worked closely with the US government and the rest of the US business community to ensure that China lives up to its commitment in opening up its distribution and retail sectors to US exports. Similar efforts continue to open other markets around the world from India and Brazil to Korea and Japan.

But, occasionally, this is not enough. The footwear industry must sometimes try new approaches to liberalising trade. With hopes of a successful global trade round failing and over 99% of the US footwear market supplied by imports, the US footwear industry recognised that it needed a new approach to trade liberalisation in its domestic market. As active leaders of the Affordable Footwear Initiative, a coalition of organisations

lobbying the US government to eliminate import tariffs on lower- to moderately-priced footwear and children's shoes, the AAFA is working to eliminate the hidden and regressive shoe tax all Americans pay on footwear.

The growth in international trade has helped the global economy in ways that the footwear industry exhibits every day. Imports allow consumers access to a wider variety of goods at more affordable prices. As life's necessities become more affordable and

demand less from household incomes, both consumer spending and the overall economy grow. While such trade may be portrayed as the scapegoat for job losses, one must examine the whole picture and acknowledge the well-paid new jobs that are being created. Expanding trade through comprehensive, permanent and reciprocal trade relations, and other forms of trade liberalisation, creates mutual opportunities that benefit everyone around the world. 



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