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The panorama looks problematic for Guanajuato. Mexico's main shoemaking state lost 2,000 footwear jobs in 2008.
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South of the border

Mexico's footwear industry has high hurdles to climb in 2009, but companies that can survive may find they have obvious and powerful advantages over Asian competitors as sourcing and supply chain strategies begin to change in the US.

It would be foolish to predict an easy year ahead for the footwear manufacturers of Mexico, but 12 months after they took to the streets of the country's shoemaking capital, León, to demand government action to help them compete against illegal imports, there are a few early signs of optimism amid the general gloom.

Mexico's 4,100 footwear manufacturing firms (most of which are small businesses) will be glad to see the back of 2008. The federal economics department has confirmed that, along with textiles, footwear was the industry that endured the greatest amount of suffering last year at the hands of illegally imported products. This confirmed what footwear companies across the country had been saying for some time, and justified in the eyes of many a new set of tariffs that the Mexican and Chinese governments managed to agree to in October 2008 after many months of heated debate. Tariffs on 204 categories of imports will come into force on 15 October 2009 and will remain for two years; 26 of those categories are relevant to the footwear industry. While the negotiations were taking place, Mexico continued to apply the existing tariff regime (which imposes an import tax of 35% on all affected goods), which should have ended at the start of 2008.

Job losses

Mexico is a big country with a large and growing population (more than 105 million), and with an economy that, by any method of calculation, is in the top 15 in the world. Footwear industry leaders are working desperately hard to instil a 'buy Mexican' mentality among the people when it comes to shoes, but many households are on low incomes, and it's easy to understand why cheaper, imported shoes from Asia will often represent the best, possibly the only, option.

In the state in which León is the biggest city, Guanajuato, the footwear sector lost 2,000 jobs last year, with the only comfort being—according to the president of the local footwear manufacturers' association, José Antonio Abugaber— that there would have been even more job losses but for the action the government took on tariffs. Economics experts in Mexico believe that, if growth ground to a halt in 2008, "a deep and lasting" recession will kick in during 2009. That, at least, is what the Confederation of Mexican Chambers of Commerce said in a report at the start of January. "Mexican industry has begun its passage through the most severe recession in recent history," the

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report said, pointing out that industrial output fell six times in the first ten months of last year, with October's fall, the most recent for which figures are available, showing a drop of 2.7%. It predicted that sales of shoes and a long list of other goods would fall this year, and that Mexico would experience an overall contraction of its economy of 1.2% for the full year, and an overall decrease in industrial output of 3.6%.

Perhaps that will open the door for even more imports. In the first ten months of 2008, Mexico imported 17.8 million pairs of shoes from Vietnam. It seemed to take some business commentators in the North American country by surprise that, having paid so much attention to China (5.2 million pairs legally imported into Mexico over the same ten-month period) another giant Asian footwear producer had come onto the scene, but Vietnam is now the biggest source of imported shoes with a 37% share of the total. If the November and December figures stay in line with the rest of 2008, Mexican footwear traders will have imported more than 21 million pairs of shoes from Vietnam. Mexicans now appear to be buying 54 times more shoes made in the Asian country than they were only seven years ago, when the annual total was 364,000 pairs.

Another Asian player to have made inroads in the Mexican market is Indonesia. Its ten-month total of 5.9 million pairs pushes China into third place, bearing in mind, of course, only consignments that entered Mexico legally, with all the prerequisite paperwork and tariff payments in place. Vietnam has made no secret of the fact that it believes its willingness to play by the rules will give it an advantage in the ongoing battle for Mexican feet. On a recent visit to León, Vietnam's ambassador to Mexico, Phan Van Quen, said footwear producers in his country were very hopeful of further increasing their share of the Mexican market. He commented: "One of the advantages Vietnam has is that we comply with and respect international requirements.



Producers in Mexico are most famous for making cowboy boots, but they are capable of making a whole range of footwear, using leather and synthetic materials, for women, children and men. CREDIT: RENE TILLMANN/MESSE DÜSSELDORF

For example, we make an effort to oppose the practice of dumping [whereby governments offer incentives that allow manufacturing companies to charge falsely low prices for exported goods]. Vietnamese firms are well thought of in the international market and we are proud of Vietnam as a brand."

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Variety, flexibility, proximity and membership of NAFTA could give Mexican footwear manufacturers a big advantage in the US market in 2009. RENE TILLMANN/MESSE DÜSSELDORF

Watchful eye

However, Mr Abugaber has also said that his association, and its counterparts in other parts of Mexico, will keep a close eye on the number of shoes coming into the country from Vietnam and other Asian nations. A new Centre of Competitive Intelligence that the footwear industry in Guanajuato is preparing to set up will enable local industry to keep tabs on imports, to make sure they don't exceed quotas, that they pay the correct amount of import tax and that everything is above board. "We'll be going over everything with a magnifying glass," he explained, "to see what Mexico is doing, but also to see what Asian countries—Vietnam, Indonesia and whichever other ones you care to name—are doing. And, if there is evidence of unfair trade, we will ask the government to take action. It's not that the footwear industry in Mexico wants protectionism. All we want is to be able to compete on a level footing."

If it sounds as though Mr Abugaber is in a defensive mood, more optimism is on offer from his counterpart in the neighbouring state of Jalisco. The president of the footwear manufacturing association there (Cicej), Carlos Raúl Martínez Barba, has said Mexico must also think carefully about its footwear exports, estimating that the country as a whole will have exported 10 million pairs in 2008, of which companies in his state will have contributed 20%. He is of the opinion that demand for Mexican-made footwear is increasing, especially in the biggest market of them all, the US.

Wave of optimism

"This is my personal view and is the one I am offering to my colleagues," he said in Guadalajara's main newspaper, *El Informador*, towards the end of last year. "Footwear exports are increasing, as are contacts with international clients who are looking to Mexico; there are very prestigious international companies that are knocking on the doors of Mexican footwear factories again."

He speculates that demand in the US for footwear made in China could fall by 50% this year. Across the board, orders will be smaller, and buyers in the US will demand a good price and greater speed to market. According to Mr Martínez, this could put Mexico in the best possible position to take advantage. "I still think 2009 is going to be a very, very difficult year," he adds. "But it could be a good year for Mexico to consolidate its position in the global footwear market by taking advantage of the changes that are taking place."

When money is tight and credit hard to come by, smaller orders are easier to win than big-money, big-volume mega-deals. Fast fulfilment, which Mexican manufacturers can offer to big customers north of the border, is going to be another important factor for sourcing professionals in the US in 2009. Mexican companies still have the capacity to make shoes of many different kinds—leather upper with synthetic sole, or synthetic upper with synthetic sole, for women, men and children—as well as the advantage of close proximity to the US, access to good and improving road, rail and short-sea links to major distribution hubs there. It also has membership of the North American Free Trade Agreement. Taking all this, and the mood in the global economy, into consideration, it looks as though Mr Martínez's message could be one that makes a great deal of sense to US footwear buyers.