

Global manufacturing update

by Stuart Cleaver

In summarising the global shoe sector at end of 2014 (*World Footwear* January/February 2015), questions were asked as to how the industry was faring in the early post recession period and how it was expected to develop in 2014 to 2015 and beyond.

Global production of finished footwear rose by 1.2% in 2014 to breach the 20 billion pairs mark, an increase of 1.06 billion. This represents a smaller relative increase than in 2013 but does not include part finished footwear or components such as closed uppers.

Of course, with the overwhelming importance of the leading five countries of China, India, Vietnam, Indonesia and Brazil, whatever happens in these countries is pivotal to the global situation. Together, these five represent 81% of global shoe production with a combined output of 16.4 billion pairs. China alone is responsible for 56% of world footwear production. They are however in many ways all very different.

The top five

China is the all powerful giant which has been able to dominate most export markets. However, it has not had, of late, an entirely smooth upward rise. The Chinese economy whilst

still the envy of almost everyone else, has been advancing less strongly. The rise in wages has caused some concern and increasingly made careful buyers look at possible alternative sources, whilst the Chinese themselves have been exploring other areas of their country to see if costs can be reduced. The much heralded switch from exports to domestic consumption may be taking longer than expected, but the 2015 announcement of the relaxing of the one child per family rule, may give an added impetus in the longer term to this development.

India has the potential to rival China and has been making some strides to overcome its traditional obstacles to increasing efficiency in production and trade. Shoe exports, however, still only amount to 6.4% of global production and domestic consumption is barely two pairs per capita. Even another extra one pair would add over a billion pairs to the level of production. So, although progress is being made, there is still an untapped market both internally and externally that the Indian shoe industry can exploit. The portents that much progress can be made in the next decade are therefore fairly positive. China and India together are the powerhouse of global shoe production as they are responsible for 69% of world output.

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The other three leading producers, Vietnam, Indonesia and Brazil are all important in their own right but on nothing like the same scale as the 'big two', mostly due to scale of population.

Vietnam has, for some time, been touted as the heir apparent to China in the footwear exports sector. This feeling has gathered momentum particularly with China rumoured to be switching to a domestic focus from an export driven one. Has this manifested itself? The fact is, Chinese footwear exports rose by 'only' 1.3% in volume terms, as compared, for example, with a 4.5% rise in 2013. Vietnam, by contrast, achieved a rise of 16.1% in 2014 compared with 7.9% in 2013. Thus, in percentage terms, Vietnam made greater strides.

In absolute terms, however, China exported 113 million pairs more than in 2013 and Vietnam 79 million pairs more than the previous year. Furthermore, the gap between them in volume of exports is very large, with China at 8.78 billion pairs and Vietnam at 569 million. To put it in perspective, it will therefore take some years before Vietnam is really in a position to challenge China in terms of export volume.

Indonesia had a steady 2014 in that both output and exports rose by 3%. The latter increased by 10 million pairs to a total of 354 million, so the country fell further behind both China and Vietnam. With the pressure on for wage increases, it again looks like a long term struggle if Indonesia is ever to seriously threaten the hegemony of China or Vietnam in volume exports.

The last high volume shoe producer and, the only non-Asian one, is Brazil which at one time promised more but, for various reasons, has not made the progress once predicted. In 2014 its results were mixed. Shoe production actually fell by 2.5% to 877 million pairs. Exports, on the other hand, did increase and by no less than 5.4% or almost 7 million pairs. Nevertheless, its 129 million pairs of exports do not in any way challenge the 8.78 billion pairs of China, and their value fell by 2.6%.

On the basis of these statistics, there is little likelihood that the 'pecking order' in volume exports will change any time soon and with China only allowing a few crumbs to fall from its table.

India's footwear industry could well grow to rival China in terms of exports. CREDIT: FARIDA GROUP

Longer term alternatives

Due to the rapidly rising costs in China's traditional shoemaking areas, there is always a possibility that production will move to ever lower cost regions of the country. Even so, higher labour costs could well start impacting more on the country's exports from 2014 onwards. Organisations such as the FDRA (Footwear Distributors and Retailers of America) and AAFA (American Apparel and Footwear Association) in the United States have been considering possible alternative low cost sources of supply for the US market.

The most cited names have been Nicaragua, Cambodia, Ethiopia and Bangladesh. We can look at these four countries in terms of 2014 to make an assessment as to their progress in absolute terms and to evaluate if they are making any inroads into the share of the top five producing countries.

In 2014, Bangladesh achieved a 7.6% increase in shoe production and, perhaps more importantly, a 19.4% upturn in shoe exports. However, as both of these increases amounted in either case to a rise of less than 10 million pairs, it is still not taking share from the top producers. What is positive for the future is the development of large scale initiatives such as the 30 million pairs coming on stream from Young One and Blue Ocean. There are in fact now over 100 Bangladeshi shoe companies said to be exporting.

In Cambodia, shoe production rose by 14.6% and exports by 17%, with the US, UK and Germany amongst the leading markets. However, we are again speaking of an increase of less than 10 million pairs in absolute terms. Whilst incidents such as the Wing Star fire have not helped, there is certainly a more positive aspect with the growing presence of large sports shoe developments such as Maruchen, Pou Chen and Can Sports.*

Great expectations have been heaped on Ethiopia as a template for what it is possible to achieve in an African country. Again there has been progress during 2014 but, needless to say, the relative progress made has not created great inroads into Chinese, Vietnamese or Indonesian large scale exports.

Shoe production achieved a 10% increase and exports a more limited 4.8% rise, with little exported to European countries. The German shoe producer Ara had looked at manufacturing in the country but it did not make any progress. On the more positive side, the development of the Chinese shoe company Huajian looks promising whilst companies such as Anbessa and Tikur Abay are trying out the safety footwear market.*

The opportunity for a low cost supplier close to the large scale United States market is still there and it was felt by some informed shoe people that Nicaragua could fit this bill, helped by the active ProNicaragua organisation. Studies have shown, as indicated in last year's article, that costs in Nicaragua are amongst the lowest in the global footwear industry. For women's dress shoes, Nicaraguan costs at \$10.95 compare favourably with Chinese, for example, at \$14.02 (2012). The arrival of two Brazilian shoe companies, Schmidt and Aniger, seems to lend substance to these claims. However, rumours as to the long term viability of one of these has dampened down expectations somewhat. Actual results were again modest with exports barely registering compared with the Chinese, etc.

Free trade

Apart from the dominant influence of the five leading shoe countries and the possible rise of others to take up any slack, there is the question of what effect increasing economic blocs could have on global trading. The seemingly constant introduction of more and more Free Trade areas has been a feature of global trading over the past few years. Perhaps the one that has been causing most concern is the TPP, the Trans-Pacific Partnership, and, with Japan having joined in 2013, covers 12 countries with a total population of 792 million and a combined GDP representing 40% of the world economy (see separate article in this section).

An important step was taken in October 2015 when an agreement was reached after five years of working towards a goal of lower trade barriers such as tariffs, enhanced trade and investment, the promotion of innovation, economic growth and development, and the creation and retention of jobs. The countries covered are the United States, Canada, Australia, Mexico, Malaysia, Singapore, Chile, Peru, New Zealand, Vietnam, Brunei and Japan.

At present China is an obvious omission but the Chinese have stated that they are interested in joining if issues such as intellectual property rights and standards on trade and investment can be resolved. Other countries to have registered an interest include Colombia, Philippines, Thailand, Indonesia, Taiwan and South Korea. It is viewed by some as a companion agreement to the Transatlantic Trade and Investment Partnership (TTIP) between the United States and the European Union but is, in fact, an expansion of the Trans Pacific Strategic Economic Partnership Agreement of 2005.

There is substantial resistance to TTIP, however, with fears that, for example, multinationals could sue governments and become over dominant. Opposition has come from global health professionals, internet freedom activists, environmental organisations, organised labour, advocacy groups as well as elected officials. At present, therefore, the countries in the TPP do not include the leading five shoe producing nations with the exception of Vietnam. Vietnam is also the only significant shoe exporter in this group of countries.



Leather inspection at PrimeAsia China. The Chinese footwear industry is well supported by modern tanneries. CREDIT: WTP

There are many other regional free trade areas as, for example, ASEAN, the Association of South East Asian Nations. This was set up in 1967 and has 10 members including Vietnam, Thailand, Indonesia, and Cambodia. These and other developments are all pointing to stronger regional free trade which may well affect the global footwear industry over the next few years.

Conclusion

There is little evidence as yet that China is being seriously challenged in terms of its export performance as, although its exports to the United States for example fell in 2014, its overall volume increase was still greater than its competitors. The small emerging nations such as Nicaragua and Ethiopia have potential but their export results are still relatively modest.

Of the much vaunted BRICS, Brazil has had its problems, Russia is embroiled in economic and political stand-offs, China is frightening the world's economists with its slowdown such that the threatening words 'global recession' are again being heard.

India, meanwhile, is heading to becoming the third largest economy in the world by 2040 with its population not set to peak until after that point in time. If it succeeds in attracting more foreign direct investment (FDI) it will be in a strong position to produce and trade in high volumes. Of course, it also needs to improve infrastructure, reduce red tape and the chronic inequality of living standards which, if not addressed, could cause social problems at some stage even greater than at present. It could well emerge as a rival to China in the export of footwear, especially as its labour costs are lower, although that again may have to change as expectations rise.

China and India are also scheduled to become larger importers of footwear than at present as the middle classes in these countries are on the increase and are starting to demand brands from the West in ever greater quantities.🔗

This article is based on extracts from the author's 7th annual World Shoe Review.

**Full details to appear in the author's upcoming World Sports Shoe Review 2016 and World Safety Footwear Review 2016.*