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Global manufacturing update

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2015 was a year which may well be remembered for not all of the right reasons, as it witnessed several potential or real threats to the world order. The scourge of ISIS, the situation in Syria and consequent escalation of refugees into Europe and elsewhere, has had a disruptive effect; the European Union through the UK's Brexit decision and worries regarding the surprise outcome of the US Presidential election are other concerns.

It ought perhaps to have been a year when people relaxed more after seemingly coming out of several long years of recession. Instead there were alarms that austerity was still the name of the game for some, though not all. We were barely getting back to pre-recession levels of GDP and there was a feeling that belts were still being

tightened perhaps for political purposes. So how did all this impinge on the global shoe sector?

A CHANGE OF MOOD

No survey of the global shoe sector can be complete without a sharp focus on China, as that country has so dominated the shoe landscape for the last few years. Within the country itself there was a change of mood in so far that, with a slowing down of economic growth as measured by GDP—and indeed the population itself as enforced by the one child per family ruling—a new approach was needed.

This did not necessarily mean that China would suddenly cease exporting or that, in volume terms, even the likes of its nearest rival in the export market Vietnam, would eat too much into

China's lead. However, there were some signs at least that alternatives were available. Adidas for example was by 2014, sourcing 39% of its footwear from Vietnam as against 31% from China. Furthermore, the total shoe production and total shoe exports of China both fell in volume terms in 2015.

Production of footwear fell in 2015 by over 3% in the country. This was partly due not only to fewer sales on international markets but also a fall in domestic sales as well. The volume of exports in 2015 fell by almost 440 million pairs or around 5%. Sales to the country's major market, the United States, actually continued a downward trend which has been evident for the last five years with a 4.4% decrease to 1,760 million pairs. Not all markets were showing downward trends

however and the UK, for example, witnessed an apparent rise of 12.7% to 450 million pairs, although this may have been partly attributable to re-exports.

Vietnam has been the rising star in footwear production in recent years and has seen its exports to the United States more than double since 2010 such that they were approaching 300 million pairs in 2015. Total shoe exports actually increased by 8.4% in volume in 2015 and by a slightly higher amount in production. There were also continuing signs of growth in shoe exports in 2016 which will also be boosted by the progress of trade agreements such as the Trans Pacific Partnership and the Free Trade Agreement with the European Union. Although most things seem to be in the favour of Vietnam at the moment, there is still some considerable way to go to reach the level of China.

REGIONAL SHARES

The importance of the Far East in global shoe production can be seen by reference to the table which indicates the share of total world footwear production by regional output. The Far East, which includes the four 'powerhouses' of China, India, Vietnam and Indonesia, has been responsible for around 82% of global output for virtually the past 10 years. The major losers have been Eastern and Western Europe with their higher costs (Western Europe) or their shake out from previous state run or supported industries (Eastern Europe). Not too much should be read into Africa as since 2011 basic footwear has been included.

With China experiencing slower growth, albeit at rates which most countries would willingly take on, the

question arises in regard to a potential gap in the global market and, if that is indeed the case, which countries would fill it. With the exception of Vietnam, as already discussed, other contenders have included old favourites Indonesia and the newer 'kids on the block' namely Cambodia, Bangladesh, Ethiopia and Nicaragua.

Indonesia is the 'other' established low cost producer on a large scale, but even so it lags behind Vietnam which appears to be pulling away and probably has greater prospects with the free trade agreements which are opening up. The other countries mentioned cannot yet be called contenders. Even when all are grouped together, they still export less footwear than Brazil.

Cambodia and Bangladesh have achieved the most so far, with both exceeding 50 million pairs of exports each and both have attracted some overseas investment and the presence of influential Chinese, Taiwanese, Korean and other companies such as Young One, Pou Chen and Tata in Bangladesh and Huey Chuen, Kingmaker and Maruchen in Cambodia. The future will no doubt see an expansion in these two countries driven by companies such as these.

Nicaragua has the proximity of the giant US market and Brazil as a stimulus. However, attempts by Brazilian companies to start up shoe production in the country have so far achieved mixed results. Ethiopia was seen as a possibility to tap into a continent with great sources of low cost labour and undeveloped markets. As yet, the shoe industry there is a work in progress but overseas assistance is seeping through and the potential does exist for the future.

A SLEEPING GIANT

Perhaps the greatest long term competition for China on the global markets is not a new kid on the block after all, but one that has been around for many years but has not fulfilled its export potential. That country is India. As the second largest shoe producer and the second largest consumer of footwear, India has not been mentioned too often as an exporter. This is because it has not exported in large quantities and even now barely exports 200 million pairs which is around the same level as Italy. With a production of over 2.5 billion pairs, this means less than 10% is exported.

The reasons for the relative lack of exports have been highlighted many times before and include the bureaucratic nightmares, caste system, restrictions on the use of leather and so forth. It is also a fact that the 'organised sector' accounts for only 30-35% of total output (albeit still a substantial volume) and that just ten companies are responsible for a significant part of it. However, it is a fact that things are improving and exports have increased. The 2015 cut in duty from 12% to 6% on leather shoes valued at over R1000 was welcomed particularly in places such as Kanpur, which claims to produce 60% of leather exports and is home to over 600 shoe manufacturers.

The domestic Indian market is also becoming a challenger for the position of the largest shoe market in the world in volume terms. In 2016 it exceeded 2.5 billion pairs and Liberty, a leading shoe company in India, indicated that if per capita consumption of shoes rose from its present 1.1 pairs (it probably excludes the ubiquitous chappals) to around three to four pairs which is the

REGIONAL SHARE (%)	2008	2009	2010	2011	2012	2013	2014	2015
Far East	83.1%	83.1%	83.2%	81.9%	81.7%	82.1%	82.2%	82.0%
Middle East	1.5%	1.4%	1.4%	1.4%	1.4%	1.3%	1.3%	1.3%
Eastern Europe	2.9%	3.0%	2.8%	2.8%	2.7%	2.6%	2.5%	2.5%
Western Europe	2.8%	2.6%	2.4%	2.3%	2.2%	2.1%	2.1%	2.1%
South America	6.2%	6.4%	6.8%	6.2%	6.3%	6.3%	6.2%	6.4%
North & Central America	1.7%	1.9%	1.7%	1.7%	1.9%	1.8%	1.7%	1.8%
Africa	1.7%	1.6%	1.6%	3.6%	3.7%	3.8%	3.8%	3.9%
Oceania	0%	0%	0%	0%	0%	0%	0%	0%



India has huge potential in the future. CREDIT: SHUTTERSTOCK/INDIA PICTURE

norm in many other countries, a target of five billion pairs could be achievable. The population at 1.25 billion is growing at 1.2% per annum to add impetus to development. Forecasts of the huge potential of India are not new but there are signs that more rapid (or less slow) growth is at last happening and developments such as the expansion of third and fourth tier cities can only help to further the growth of the Indian shoe sector.

GROWTH OF FREE TRADE AREAS

The seemingly constant introduction of more and more Free Trade areas has been a feature of global trading over the past few years. The one that concerns the Pacific Rim countries is the Trans Pacific Partnership (TPP) which, 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.

An important step was taken on the 5th 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, the Philippines, Thailand, Indonesia, Taiwan and South Korea. It was finally ratified on February 2016 in Auckland, New Zealand.

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. It is 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 for example from global health professionals, internet freedom activists, environmental organisations, organised labour, advocacy groups and elected officials.

At present, the TPP countries—with the exception of Vietnam—therefore do not include the leading five shoe producing nations. Furthermore, Vietnam is the only significant shoe exporter in this group. However, Nike has indicated that the TTP would help them to 'develop advanced manufacturing methods' and 'to

support US-based manufacturing'. Moreover, it estimated that it would allow them to create 10,000 jobs in the US over the next 10 years.

ATHLEISURE PHENOMENON

One of the major trends in the 2015 to 2016 period has been that of athleisure which both embraces the current awareness of the need to keep fit on health and appearance grounds, and the more casual approach to work clothes. One benefit of wearing such clothing is not having to change much between the gym and the office. A smart casual appearance at work and indeed for pleasure, can now be viewed as being acceptable and also includes trainers or sneakers. Luxury sneakers have also come on to the market from designers such as Jimmy Choo, Tommy Hilfiger and Lanvin. Previously such products would not have been deemed to be luxury items.

The rise of athleisure footwear is now responsible for over 25% of the sports footwear market and has become a global phenomenon. The likelihood is that the trend will continue and certainly for the next two or three years, with a compound annual growth rate (CAGR) of over 1.5%. Whilst the trend probably began to take off in Western Europe and North America, it has also been embraced in other countries such as China. One study estimates the total athleisure market, including footwear at \$270 billion, with a further 30% increase by 2020. This may be a little high however.

At the time of writing, quite what the future holds for 2017 to 2020 may well have to be reconsidered in the light of the Brexit and Trump results in 2016. The EU may be weakened, the UK looking for non-EU trade deals and Trump battenning down the hatches with moves towards more protectionism if his campaign rhetoric is to be believed. Before these events occurred, forecasts had generally indicated that footwear would continue to grow at CAGR averages of around 1.5% to 3%. There may now have to be a rethink.

This article is based on extracts from the author's 2016 'World Shoe Review', 'World Safety Footwear Review' and 'World Sports Footwear Review'.