



China's footwear exports continue to fall.

IMAGE: HUMPHERY / SHUTTERSTOCK

Turbulent times

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Just when the world appeared to be at last coming out of the global recession which hit it in 2008, events during the past two years conspired to make people once again have doubts as to future prospects. The possibilities of a Trump administration and a Brexit victory became realities and divided communities. Europe and elsewhere suffered ISIS terror attacks and North Korea added to the flames by its nuclear threat, thereby antagonising South Korea, Japan, the USA and many other countries. It cannot therefore be said that the world in 2017 has looked like a place that was truly open for business.

President Trump's avowed stance to put the USA first and be more protectionist, has made other nations wary. For instance, the cancelling of TTP may effect many nations who were hoping to take advantage of a free trade deal with the United States. None more

so, perhaps, than Vietnam, which has made some strides in catching China as the 'go to' country for value for money footwear, although it still has some way to go to reach that position. Trump's other stated intention to look seriously at NAFTA (North American Free Trade Agreement) with the option of cancelling it, would be a blow to Mexico.

In Europe, the UK was scheduled to start talks about withdrawing from the EC (European Community) in 2017. Until it actually happens in 2019, there will be a protracted period of uncertainty and the UK itself will be literally flying around the world looking for trade deals to bridge the gap. Despite all these potential problems, economies had nevertheless already started to improve in many countries, as indeed they inevitably would after such a long global recession. How has all this impacted on the footwear industry and what may happen in the next few years?

China

Global footwear production in 2016* reached almost 21 billion pairs excluding the production of shoe parts such as closed uppers. This equated to a rather modest rise over 2015 of 0.6%. Given the global increase in population, this suggests that the industry was more or less marking time. The main driver of the industry remains of course China, which alone produced 54% of the total. Any change in the Chinese level of output is therefore always likely to have a sizeable impact on the fortunes of the industry as a whole.

The stated policy of the Chinese in recent times has been to shift somewhat their former emphasis on shoe exports to one giving more attention to the domestic market. It is a fact that Chinese shoe exports fell in 2016 as they had also done in 2015. In 2015 they fell by 5.3% and in 2016 the decrease was 3.6%. These results were due in part to the USA switching some of its imports to other

GLOBAL OUTPUT PER REGION

REGIONAL SHARE (%)	2012	2013	2014	2015	2016
Far East	81.7%	82.1%	82.2%	82.0%	81.9%
Middle East	1.4%	1.3%	1.3%	1.3%	1.5%
Eastern Europe	2.7%	2.6%	2.5%	2.5%	2.6%
Western Europe	2.2%	2.1%	2.1%	2.1%	2.1%
South America	6.3%	6.3%	6.2%	6.4%	5.9%
North & Central America	1.9%	1.8%	1.7%	1.8%	1.8%
Africa	3.7%	3.8%	3.8%	3.9%	4.2%
Oceania	0%	0%	0%	0%	0%

countries such as Vietnam. In the event, Chinese exports to its largest market, the USA, fell in 2015 by 4.6% and in 2016 by 3.6%.

This does not yet bring the likes of Vietnam into the ballpark of China as a volume exporter but it does give some indication that China is proving to be a little more expensive than some of the competition, although costs do vary across such a huge country. The upshot of this was that shoe production in China in 2016 actually fell by 1.8%, or some 206 million pairs.

The domestic Chinese market on the other hand, rose by 3%. The reversal of the one child only rule may also lead to added demand in the future. Any upturn in demand has not necessarily been supplied by the traditional sales channels however. Huge retailers, especially of women's shoes such as Belle and Daphne, have actually suffered through having a surfeit of stores and a delay in reacting to the threat (or opportunity) presented by on-line retailing which has made significant growth in the country.

Global output

The top five shoe producing nations of the world in 2016 taken together manufactured 16.5 billion pairs or 80% of total output. These were China, India, Vietnam, Brazil and Indonesia. They are all essentially still developing countries with relatively low labour costs. Nevertheless, there is talk of some production coming back to Europe as costs rise in China.

Manufacturing techniques are being developed that might make it possible to produce near the point of consumption and hence be able to react quicker to demand, particularly where fashion is concerned. The 'made in...' cachet also becomes a greater selling point. Some

companies have promoted the fact that they are producing again in Europe but as yet is there any evidence that this is happening on any great scale and will it increase in the future?

In Western Europe, output decreased to a level of between 2.1% to 2.2% in the period between 2013 up to and including 2016, when 425 million pairs were manufactured. This was slightly down on 2015 and significantly so on 2008, which saw 471 million pairs being produced. The reality is that only three countries produce more than 40 million pairs each and these are Italy, Spain and Portugal. These three are still able to offer craftsmanship, traditional expertise, a support industry and a cost advantage over other parts of Western Europe.

Whilst there are companies which have indicated that some degree of their production is being brought back to be nearer the markets by using advanced technology and robots as, for example Clarks, the volume is likely to be modest to say the least. There is indeed a certain cachet in being able to claim made in Italy, Spain or UK, but it may depend on the market sector, product type or use, such as with safety or military footwear, Goodyear Welted or Alpine mountain boots. It may be less relevant to other more mass market sectors.

In 2017 Clarks announced that it would start producing its Desert Boot at Street in the UK once more, with a projected annual output of 300,000 pairs and 80 employees supported by robot-assisted technology. Further expansion of production in the USA, Europe and Asia using similar technology is also envisaged with the object of ensuring faster response times. The flagship Desert Boot will, however, continue to be produced at the main production sites in India and Vietnam.

Sports shoes

Similar attempts to move production back to Europe and the USA to be closer to domestic markets can be seen in the sports shoe sector where the concept of the 'speed factory' is gaining momentum, with adidas and Nike at the forefront. The production capacity of adidas in Germany has been extended with a such a facility, where intelligent robotic technology will provide increased output moving forward. The idea is that decentralised flexible manufacturing and local customisation can be added to existing volume production in Asia. Adidas needed an additional 30 million pairs annually to advance from its 2015 output of 301 million pairs in order to meet its 2020 target and this new concept was seen as providing the answer.

The Futurecraft MFG (Made for Germany) sneaker has been the first shoe to be produced. 5,000 pairs of Futurecraft 4D will be made with 3D printed soles which also form part of the development. New materials and processes are being used with Boost cushioning technology in performance running shoes. Besides the development in Germany a further speed factory in Atlanta, USA, was due to become operational during 2017, again using the latest technology and local sourcing. In the medium term, an output of 500,000 pairs with 160 employees is envisaged with similar pricing to mass produced versions.

Nike has developed the Flyknit, produced using a form of computerised knitting and has set up an Advanced Product Creation Centre in Oregon. The use of robots is becoming ever more a reality in manufacturing. Predictions, made by Morgan Stanley and others, indicate that robots will be responsible for 20% of output by 2030 with 1.3 million new robots coming on stream in various industries. Lead times could be cut by up to 66%, which will help the bottom line by providing product when it is needed more quickly and reducing the need for discounts on out-of-date stock.

Major brands, especially the big two sports shoe producers adidas and Nike, may also move from outside sourcing to owning their own factories in order to give them greater control of their supply chains. The ILO (International Labour Organization) sees a possible downside that 56% of South East Asian workers' jobs could be at risk over the next 20 years.



Unrest in Myanmar/Burma is affecting the country's footwear potential.

IMAGE: SK HASAN ALI / SHUTTERSTOCK.COM

Global distribution

Distribution of shoe production by region went as expected up until 2015, when there was a slight shift. The Far East had built up such a dominant proportion that it appeared to be untouchable but, from 2015 onwards, there has been a modest percentage decrease in its market share. The Far East is of course a huge region with many shoe producing nations, some of which are still expanding. However, China, the largest shoe producing country by far, has as noted above suffered a real downturn in output.

The vacuum thus created has given other countries the opportunity to at least chisel away at the mass volume of Chinese exports. As stated elsewhere, Vietnam probably has the most to gain even given the TTP setback. Indonesia is also in a position to make further growth and India has enormous, though partly unfulfilled, potential. The next level of countries which have been tipped to expand would include the likes of Bangladesh, Cambodia, Ethiopia, Nicaragua and Myanmar, still also called Burma. It is fair to say that whilst they may be making some progress, in volume terms it still appears to be modest.

Myanmar/Burma is an interesting example. The country has been seen as a possible alternative source of footwear and the entry of Pou Chen, one of the

largest shoe manufacturers in the world in 2014, was seen as a trailblazer. Initial targets were 300,000 pairs per annum by 2016 and 800,000 pairs by 2019. This would add prestige to the 28 factories already exporting. The political problems of recent times have not helped however.

The name Myanmar was introduced by the 1989 unelected military government and both names are still used by different third parties. The 2017 tragedy involving the Rohingya people in Rakhine State resulting in up to a million people fleeing into Bangladesh, suggests the problems are by no means over. Proposals in 2015 to look for overseas investment and training of the required skills seemed to demonstrate that the footwear industry was seen as an industry to support. However, political uncertainty is once again holding back foreign investment and footwear exports.

The future

What can we expect from the years up to 2020? Can we expect the current trends to continue for another four years? One of the areas that has certainly had a significant and rapid effect on footwear sales has been the growth of online or e-commerce retailing, with some people declaring the demise of the bricks and mortar way of doing business. These trends may have caught out those retailers which had not planned

effectively enough for this phenomenon. American children's toy retailer Toys R Us, for instance, filed for Chapter 11 protection in the USA in September. It may reappear but the signs are discouraging for other retailers who have also not read the signs.

In the shoe trade, one of the more obvious probable signs of the threat/opportunity posed by the online revolution, partly due to their sheer size, has been the difficulties experienced by two of the leading women's shoe retailers in China, Belle International and Daphne. Belle claimed to have 25% of the women's domestic shoe market with several leading chains but, experienced such difficulties that, in 2016, it closed a net total of 700 stores in China. It was also taken over by Hillhouse Capital and others with the avowed intention of implementing a strategic shift to a greater reliance on an online business. Daphne had similar problems and closed 805 stores in 2015 and 1,000 in 2016. These examples indicate the need to keep up with shifting consumer demand and retail channels. No doubt over the next four years, with the ever increasing rate of technological change, we will see trends emerge which have not yet even been considered. 🌀

**World Shoe Review 2017 and World Safety Footwear Review 2017, by the author of this article.*