

**FDRA**

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**Shoe  
Sourcing  
Snapshot**

**2020**



FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA

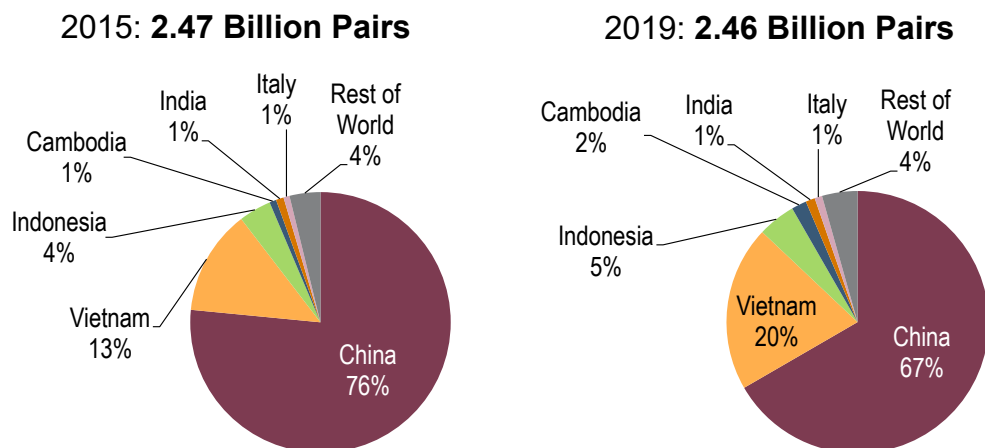
## Overall Sourcing Trends of Note

- A ‘one-two’ punch of Trump tariff hikes late last year and fallout from the coronavirus is weighing heavily of US footwear imports in 2020.
- In fact, May 2020 footwear imports fell to the lowest monthly total since 1997, pegging YTD imports off at a double-digit rate, by far the biggest tumble on record.
- At this rate, 2020 US footwear imports may collapse to the lowest in nearly 20 years.
- While the *volume* and *value* of US footwear imports are sharply lower in 2020, average duties per pair are poised to surge at a double-digit rate to a record this year.
- In turn, the average landed cost of US footwear imports similarly is poised to rise to a record in 2020.
- However, retail footwear prices are on track to sink this year, resulting in an unsustainable divergence between rising import costs and sharply lower retail prices. This divergence implies footwear retailers also may face tighter margins as the industry struggles to rebuild lost demand.

## Interesting Shoe Snapshots

- China remains—by far—the largest footwear supplier to the US market and largest supplier in several key categories—bootwear, childrenswear, menswear, womenswear, leather footwear, sandals, house slippers, etc.
- While footwear imports from Vietnam have increased each of the last nineteen years, the average landed cost of footwear from Vietnam has easily exceeded the average landed cost from the rest of the world, reaching \$13.38/pair vs. \$10.43/pair from the world.
- Additional capacity in Vietnam—in the forms of land, fiscal resources, port capacity, and labor pool/labor costs—remains key constraint for Vietnamese footwear.
- US footwear imports from Indonesia climbed each of the last twelve years to a record high in 2019 of more than 114.0 million pairs, making the country America’s third-largest foreign supplier of footwear.
- After climbing to a fifteen-year high in 2018 of more than 20.5 million pairs, Mexican footwear exports to America retreated at a double-digit rate in 2019 to an eight-year low and are poised to sag further in 2020, perhaps dipping to a nine-year low.
- Cambodia is America’s only top-8 footwear supplier this year to see shipments to the US *growing*—in fact at a double-digit rate again this year.

### US FOOTWEAR IMPORTS: STILL DOMINATED BY CHINA...FOR NOW



Source: USITC

### FOOTWEAR PRODUCTION POWER RANKINGS

Based on US Full-Year 2019 Footwear Imports

2019 RANK	COUNTRY	TREND	2018 RANK	COMMENTARY
1 <i>unchanged</i>	 CHINA 1.6B pairs	↓	1	Still the dominant supplier to US, but shipments the lowest in 16 years; US import share at just 69.2%, a 24-year low.
2 <i>unchanged</i>	 VIETNAM 502M pairs	↑	2	19 straight years of impressive growth in shipments to US; avg. landed cost still high; record 20.4% US import share.
3 <i>unchanged</i>	 INDONESIA 114M pairs	↑	3	12 straight years of gains; record shipments in 2019; avg. landed cost still above world average.
4 <i>unchanged</i>	 CAMBODIA 46M pairs	↑	4	Shipments to US up 683% over last 6 years; country rivals China as a key low-cost supplier. Record 1.9% US import share. Fastest % gain among top-10 suppliers.
5 <i>unchanged</i>	 INDIA 28M pairs	↑	5	Shipments to US rebound in 2019 to a record as average landed cost falls to 9-year low behind a record-low rupee.
6 <i>unchanged</i>	 ITALY 23M pairs	↑	6	By far, the highest average landed cost among key US suppliers, but 2019 volume to US still reached a 12-year high.
7 <i>unchanged</i>	 MEXICO 18M pairs	↓	7	2019 shipments sagged to an 8-year low as average landed cost climbed to a 4-year high, well above world average landed cost.
8 <i>unchanged</i>	 BRAZIL 13M pairs	=	8	Shipments little changed over last 8 years near lowest in 25 years despite real pluming a record low vs the dollar.
9 <i>unchanged</i>	 DOMINICAN REPUBLIC 10M pairs	=	9	Volume and average landed cost to the US little changed in 2019.
10 <i>unchanged</i>	 THAILAND 8M pairs	↓	10	Thai shipments to US slipped in 2019 as average landed cost rebounded to a 3-year high, due in part to the baht reaching a 6-year high vs the dollar.

Source: USITC

Find all country sourcing data at [shoesourcingsummit.com](https://shoesourcingsummit.com)

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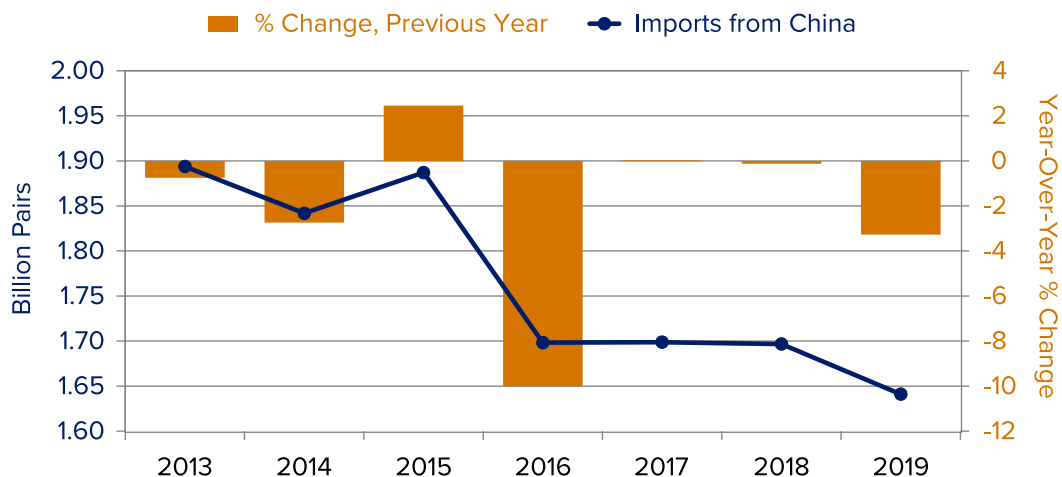
### Chinese Shoe Production Snapshot

As the world’s largest footwear producer, consumer, and exporter, China’s influence on the global footwear market cannot be understated. Boasting an annual turnover of some 13.5 billion pairs, China’s footwear industry is mainly located in the coastal provinces of Guangdong, Zhejiang and Fujian.

Much of that production is destined for foreign markets. The country exported 9.5 billion pairs of footwear in 2019 worth ~\$44.7 billion, effectively accounting for four out of five pairs of shoes exported by Asian countries. In fact, the country leads the world—by far—in exports of waterproof footwear (a 51.5% share), rubber & plastic footwear (79.1%), leather footwear (32.5%), textile footwear (66.3%), and other footwear (63.4%). This dominance is due in part to generally lower costs. At an average export cost of just \$4.68 per pair, the average cost of Chinese footwear exports is one of the lowest in the world, due in part to low labor cost and the higher proportion of rubber & plastic footwear in its product mix.

Despite these dominant signs, the Chinese footwear industry is seeing its own struggles that are hindering business. The rise of local labor costs and trade tensions with the US are leading many producers to look for alternative production locations. After peaking at more than \$56 billion in 2014, its footwear exports fell more than 18% in just four years. This drop came as shipments to America declined each of the last several years and may plumb the lowest in more than two decades in 2020. The declines came as higher coastal land rents and wages, new environmental restrictions, the Sino-US trade war, and waning availability of younger, willing workers raised costs for local manufacturers, coupled with the 2020 fallout from COVID-19. On balance, we see China remaining—by far—America’s dominant footwear supplier for the foreseeable future. But these issues are likely to cause the country’s production and export dominance to continue to recede further in coming years, largely cannibalized by other Asian origins, particularly Vietnam.

**US FOOTWEAR IMPORTS FROM CHINA SLIDE TO A SIXTEEN-YEAR LOW IN 2019**



Source: USITC

### Vietnamese Shoe Production Snapshot

US footwear imports from Vietnam have climbed each of the last nineteen years, making the country America’s second-largest foreign supplier. Vietnam now provides 20.4% of all shoes imported into the US, and a majority of athletic footwear imports.

The quality is good but the average landed cost into the US (\$13.75/pair) is well above the average world cost (\$10.87), let alone China (\$8.09). Factory wages average 5.4 million dong per month (~\$231), are increasing rapidly, and will soon match China’s.

The average duty rate of shoes imported from Vietnam is 14.3%, due to the number of athletic shoes made there, as athletic shoes generally have higher duties than non-athletic.

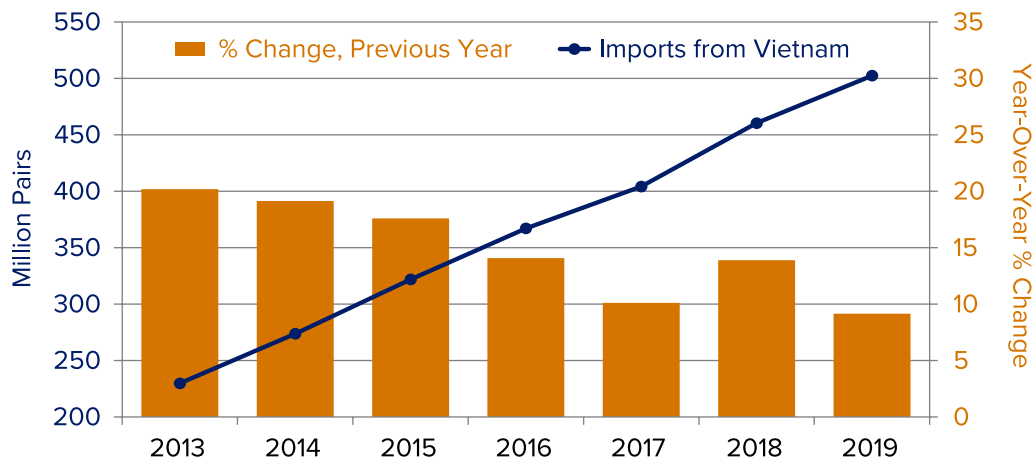
The challenge for footwear brands who do not currently have a foothold in VN is that factory capacity is well over 90%. Many factories are not taking orders from new customers.

Capacity is limited and will remain so in Vietnam due to a limited workforce. Further, that workforce is now being split among a number of industries also moving production outside China.

Some brands are clever in having certain components made in China, shipped to Vietnam and fully assembled to bypass any COO issues as duties have jumped on Chinese imports. There are rules to this—FDRA members should use FDRA’s guidance. US Customs is very specific on “substantial transformation” and if you do it wrong it will cost you.

*Summer 2020 will welcome the implementation of the EU-Vietnam free trade agreement, providing for permanent duty-free access for Vietnamese exports bound for the European market. Vietnam is a great option to move some of your production outside China IF you can find capacity.*

#### US FOOTWEAR IMPORTS FROM VIETNAM CLIMB AGAIN TO A RECORD IN 2019



Source: USITC



### Indonesian Shoe Production Snapshot

Indonesia’s production and consumption of footwear have grown impressively in recent years, propelling the country among the top five in the world. Footwear exports similarly have risen each of the last several years to records, spurred by strong growth to China, Germany, Japan, Korea, and America and benefitting from several government support programs.

Similarly, US footwear imports from Indonesia climbed each of the last twelve years to a record high in 2019 of more than 114.0 million pairs, making the country America’s third-largest foreign supplier of footwear.

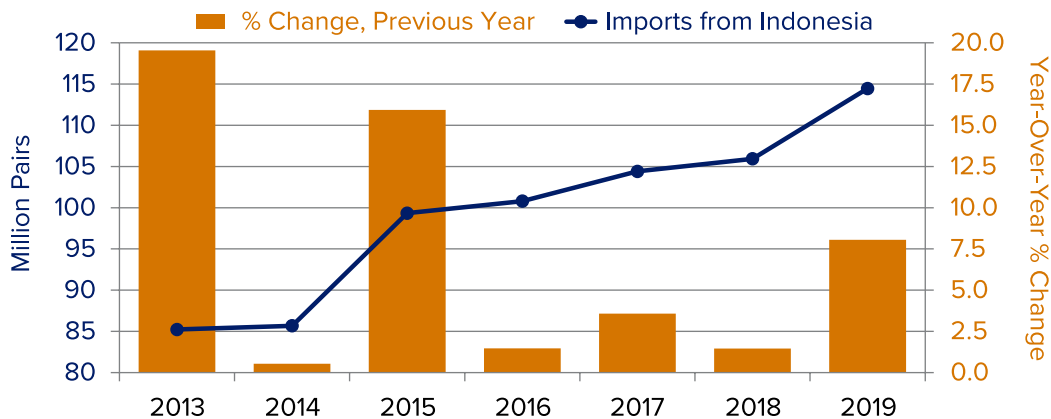
Interestingly, as its shipments to America have grown every year over the last decade, its average annual landed cost at US ports have exceeded the world average landed cost every one of these years, reflecting a higher concentration of relatively more expensive footwear sourced in Indonesia than from the rest of the world.

In value terms, US footwear imports from Indonesia are split between shoes with leather uppers (37.8%) and with uppers of textile materials (37.2%), while all other footwear shipments account for just 25.0%.

As a disadvantage, America’s average duty rate on shoes imported from Indonesia rose seven of the last eight years and currently averages 14.8%, well above the world average 12.3%. This is due in large part to the fact that Indonesia exports a disproportionate amount of athletic footwear to the US marketplace in comparison to other footwear supplier countries.

The average monthly earnings of factory workers in Indonesia are 2.6 million rupiah (~\$188), comparable to other Asian competitors. But we caution nominal wages in the Indonesian garment, textile, and footwear sector have grown an average 12.6% per year each of the last few years, faster than most other Asian competitors.

**US FOOTWEAR IMPORTS FROM INDONESIA CLIMB TO A RECORD IN 2019**



Source: USITC

### Mexican Shoe Production Snapshot

As one of the ten largest footwear producers in the world, the Mexican footwear industry is keenly focused on its domestic market, with exports only about one tenth the size of the domestic market. Mexico retains a key competitive position over other suppliers, given its proximity to US customers and its mostly duty-free status for footwear afforded under the NAFTA and the USMCA. Indeed, shipments to the US account for 82% of Mexican footwear exports, perhaps a potential disadvantage, given the concentration. After climbing to a 15-year high in 2018 of more than 20.5 million pairs, Mexican footwear exports to America retreated at a double-digit rate in 2019 to an 8-year low and are poised to sag further in 2020, perhaps dipping to a 9-year low.

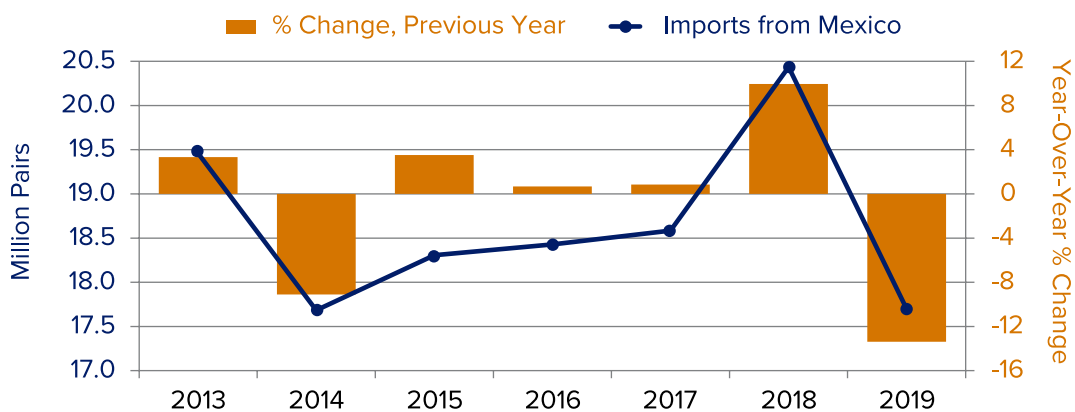
Interestingly, as its shipments to America surged in recent years, landed costs at US ports have far outpaced the world average over this period. In fact, at \$22.80/pair in 2019, the average landed cost into the US was at least twice as expensive as the average world cost landed at the US port for the thirteenth time in the last fifteen years. This curious issue is due to almost half of Mexico’s footwear exports to America being concentrated in HS #6403, footwear with uppers of leather, typically a more expensive, higher-end product.

Early 2020 trade data suggest this issue of higher landed costs from Mexico may be moderating this year, perhaps as the currency weakens. The peso sank to a multi-decade low of 25 per dollar earlier this year before recovering somewhat in the second quarter. A still-weak peso makes Mexican exports more cost-competitive against other suppliers.

Monthly earnings of factory workers in Mexico average 6,867 pesos (~\$356), more expensive than several Asian competitors. But wages have grown slower than in several Asian competitors over most of the last decade, a welcome indicator when trying to forward contract.

Over 450 years old, Mexico’s footwear industry is heavily concentrated in three main locations around the city of León (~68% of all production), Guadalajara (~18%), and the Mexico City area (12%). The advantages of this concentration are lower transportation costs for raw materials, and shared suppliers, educational infrastructure, and trained labor.

**US FOOTWEAR IMPORTS FROM MEXICO TUMBLE TO AN EIGHT-YEAR LOW IN 2019**



Source: USITC



### Cambodian Shoe Production Snapshot

The garment and footwear sector has been the backbone of Cambodia’s economy over the past two decades. US footwear imports from Cambodia have climbed each of the last twelve years, with shipments ballooning from effectively none in 2005 to more than 45 million pairs in 2019, making the country America’s fourth-largest foreign supplier. Cambodia now provides 1.9% of all shoes imported into the US.

As this volume has surged, economies of scale have enabled the country to compete aggressively on cost with China and other key suppliers. At \$10.41/pair, the average landed cost into the US is less than the average world cost landed at the US port (\$10.87/pair).

Footwear and garment workers in Cambodia earn a minimum wage of \$190/month, one of the lowest rates in Asia. This minimum wage is up 4% from last year and 211% in eight years, crimping local competitiveness in labor-intensive industries like footwear.

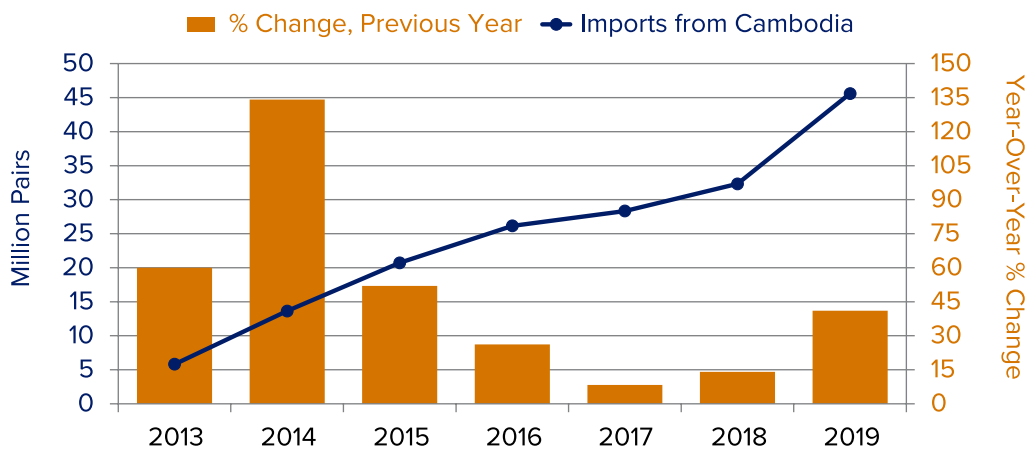
The average duty rate of shoes imported from Cambodia is 11.9%, slightly less than the average duty rate from the world of 12.3%, also helping competitiveness.

The EU continues to be the most important market for Cambodia’s garment and footwear products, accounting for 46% of the sector’s exports in 2017, while the US accounts for 24%. This advantage is due to the fact that the EU includes Cambodia in its GSP+ program and allows for duty free access to the European market for footwear under GSP+.

In 2018 Cambodian authorities approved 148 investment projects from foreign investors worth \$5.8 billion. By the end of 2018, there were 83 exporting footwear factories in Cambodia in effective operation, six more than a year earlier.

With a population of 16.7 million and a median age of 25.6 years, the country’s people are young, vibrant, increasingly urban, and poised for continued growth. Cambodia employs some 113,000 in its footwear factories.

#### US FOOTWEAR IMPORTS FROM CAMBODIA CLIMB TO A RECORD IN 2019



Source: USITC

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