SHIFT

GLOBAL SHOE SOURCING
2021 SNAPSHOT

US—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 7.4 billion pairs of footwear in 2020 worth ~$35.4 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 and 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 $4.79 per pair, the average cost of Chinese footwear exports is one of the lowest in the world, due in part to low labor costs and the higher proportion of rubber and 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 36% in just six years. This drop came as shipments to America declined each of the last several years to 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 fallout from the global pandemic. 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.

Shoe Sourcing Snapshots

A Look Outside China for Brands Looking to Diversify Over Tariff Increases

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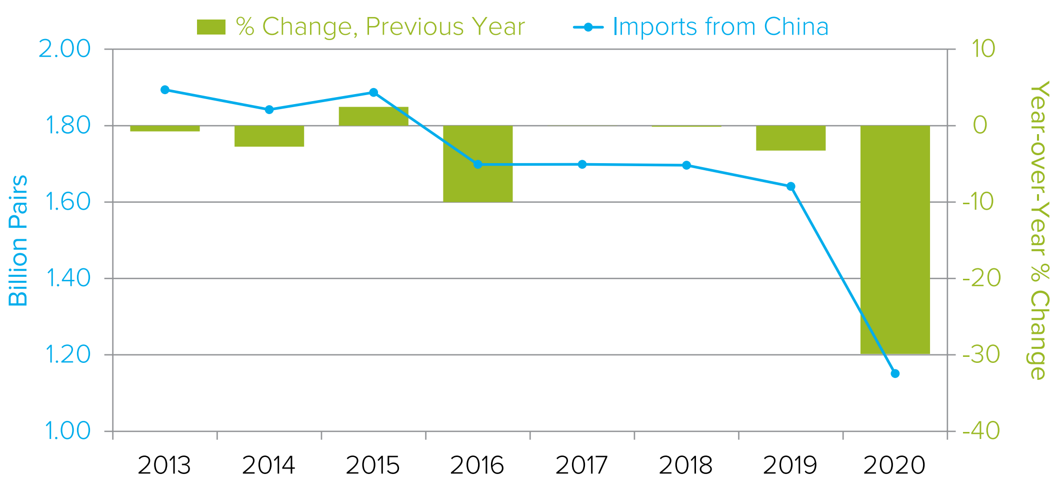
US FOOTWEAR IMPORTS FROM CHINA PLUNGE TO A 22-YEAR LOW IN 2020



Source: USITC

EU—Chinese Shoe Production Snapshot

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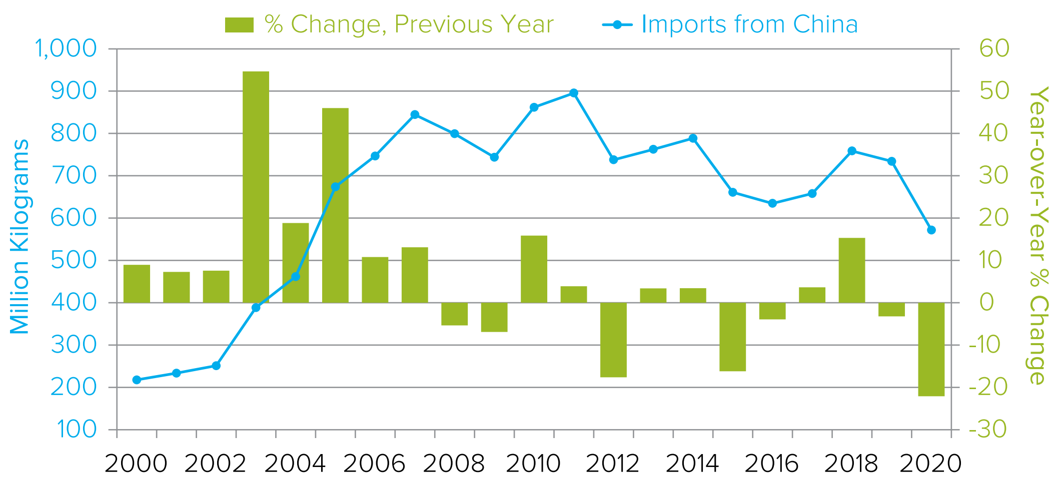
Despite these dominant signs, the Chinese footwear industry is seeing its own struggles that are hindering business. The rise of local labor costs and coastal land rents are leading many producers to look for alternative production locations. After peaking at more than $56 billion in 2014, its footwear exports fell more than 36% in just six years. This drop came as the volume of shipments to Europe have struggled each of the last several years and may plumb the lowest in fifteen years in 2020. The struggle comes as higher wages and coastal land rents, new environmental restrictions, and a waning availability of younger, willing workers raised costs for local manufacturers, coupled with the 2020 fallout from the coronavirus. On balance, we see China remaining—by far—Europe'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 origins, particularly Germany.

EU FOOTWEAR IMPORTS FROM CHINA EXTEND EROSION IN 2020



Source: Eurostat

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GLOBAL SHOE SOURCING
2021 SNAPSHOT

US—Vietnamese Shoe Production Snapshot

Before the pandemic, US footwear imports from Vietnam climbed nineteen straight years, making the country America's second-largest foreign supplier. While shipments to US shores sank modestly in 2020, they declined *slower* than did imports from the rest of the world, implying Vietnam's share into the US market grew again. Indeed, the country now provides an unprecedented 24.3% 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 ($14.39/pair) is well above the average world cost ($11.02), let alone China ($7.58). Factory wages average 6.8 million dong per month (~$294), are increasing rapidly, and will soon match China's.

The average duty rate of shoes imported from Vietnam is 13.6%, 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 from China.

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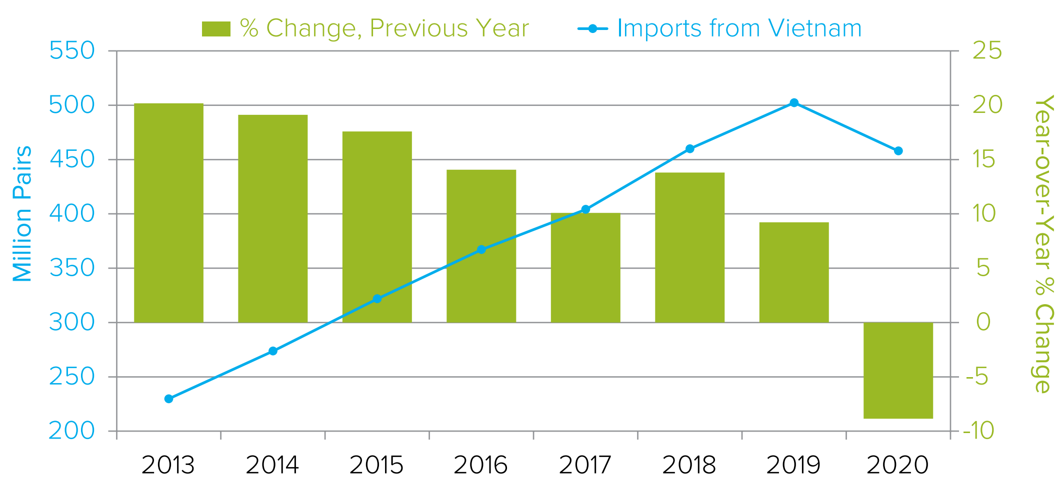
Some brands are clever in having certain components made in China, shipped to Vietnam and fully assembled to bypass any COO issues should duties jump on Chinese imports. There are rules to this—FDRA members should use FDRA's guidance. US Customs is very specific on "substantial transformation" and if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

Vietnam is a great option to move some of your production outside China IF you can find capacity.

US FOOTWEAR IMPORTS FROM VIETNAM SINK FROM A RECORD IN 2020



Source: USITC

EU—Vietnamese Shoe Production Snapshot

Before the global pandemic decimated demand, European footwear imports from Vietnam had climbed each of the last seven years to a 2019 record, making the country the continent's second-largest foreign supplier. Growth in Vietnamese shipments to Europe over the last several years has been impressive, rising 70% from a near-term low of 116 million kilograms in 2012. In 2020 shipments from Vietnam to Europe fell at a double-digit clip. But with European imports from the rest of the world falling faster, Vietnam expanded its import penetration into the continent, now supplying 8.7% of all footwear imported into Europe.

Key competitive advantages supporting the Vietnamese footwear industry include an influx of foreign direct investment, a young and sizable workforce, diversified foreign markets, new trade agreements, and low—but rising—wages. Ratified by the Vietnamese National Assembly in June 2020, the European Union-Vietnam Free Trade Agreement (EVFTA) and the EU-Vietnam Investment Protection Agreement (EVIPA), 71% of exports from Vietnam to the EU—including footwear—will become duty-free. Factory wages average 6.8 million dong per month (~$294), but are increasing rapidly, and soon will match China's.

The challenge for European footwear brands who do not currently have a foothold in Vietnam 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 and limited land available for industrialization. Further, that workforce is now being split among several 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 should duties jump on Chinese imports. There are rules to this—FDRA members should use FDRA's guidance.

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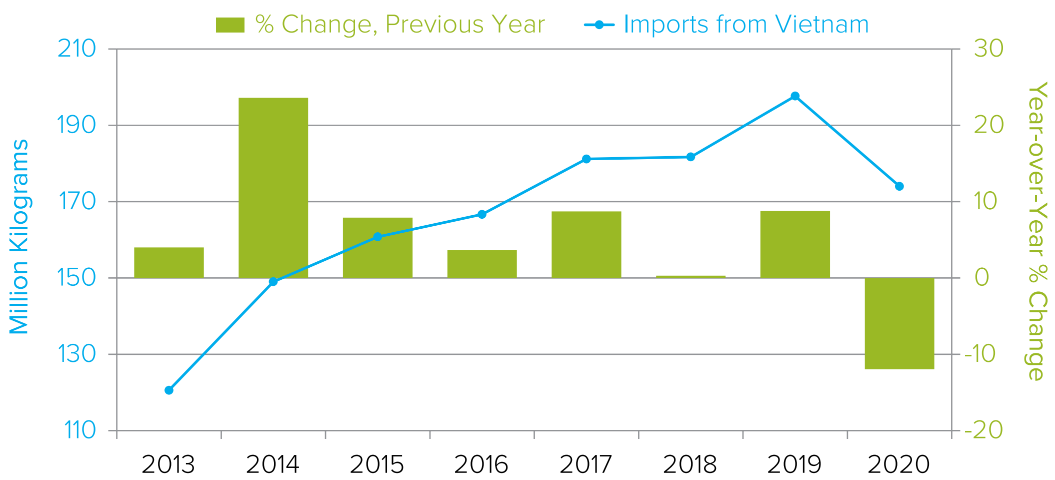
EU FOOTWEAR IMPORTS FROM VIETNAM SAG FROM A RECORD IN 2020



Source: Eurostat

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 benefiting 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. While shipments to largest-market America also retreated in 2020 due to the pandemic, shipments declined slower than from the rest of the world, implying Indonesia's share of US footwear imports rose in 2020, reaching a 23-year high of 5.2%.

Interestingly, as its shipments to America have climbed over most of the last decade, its average annual landed cost at US ports has 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 nine years and currently averages 14.6%, well above the world average 13.0%.

The average monthly earnings of factory workers in Indonesia are 2.8 million rupiah (~$197), 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.

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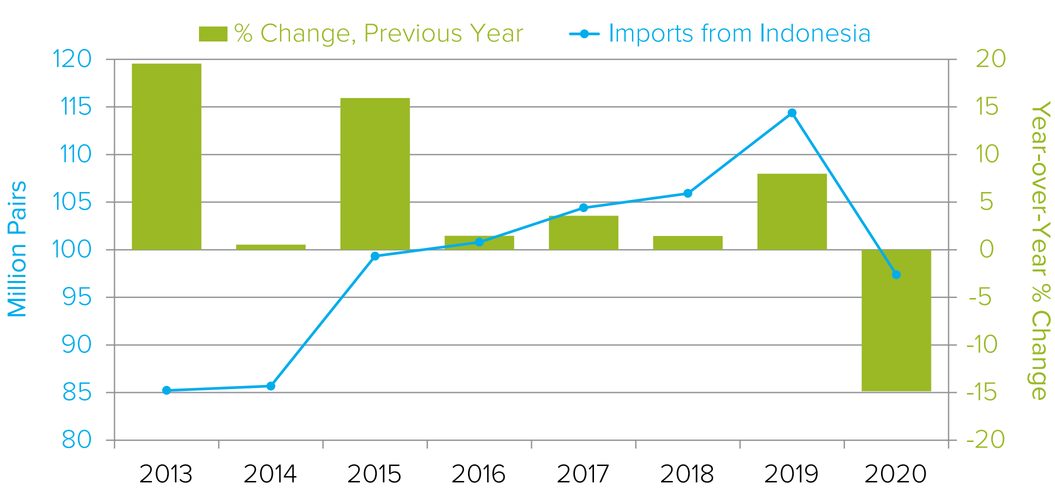
US FOOTWEAR IMPORTS FROM INDONESIA SINK FROM A RECORD IN 2020



Source: USITC

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GLOBAL SHOE SOURCING 2021 SNAPSHOT

Cambodian Shoe Production Snapshot

For over two decades the garment and footwear sector has been the backbone of Cambodia's economy, with exports mushrooming in recent years. US footwear imports from Cambodia have climbed each of the last thirteen years, with shipments ballooning from effectively none in 2005 to more than 53 million pairs in 2020, making the country America's fourth-largest foreign supplier. In fact, the country is the only top—8 supplier to the US to boost shipments in 2020, despite the pandemic. Cambodia now provides a record 2.8% 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 $9.58/pair, the average landed cost into the US in 2020 remained less than the average world cost landed at the US port ($11.02/pair).

Footwear and garment workers in Cambodia earn a minimum wage of $192/month, one of the lowest rates in Asia. This minimum wage is up 212% in nine years, crimping local competitiveness in labor-intensive industries like footwear. The average duty rate of shoes imported from Cambodia is 11.0%, less than the average duty rate from the world of 13.0%, also helping competitiveness.

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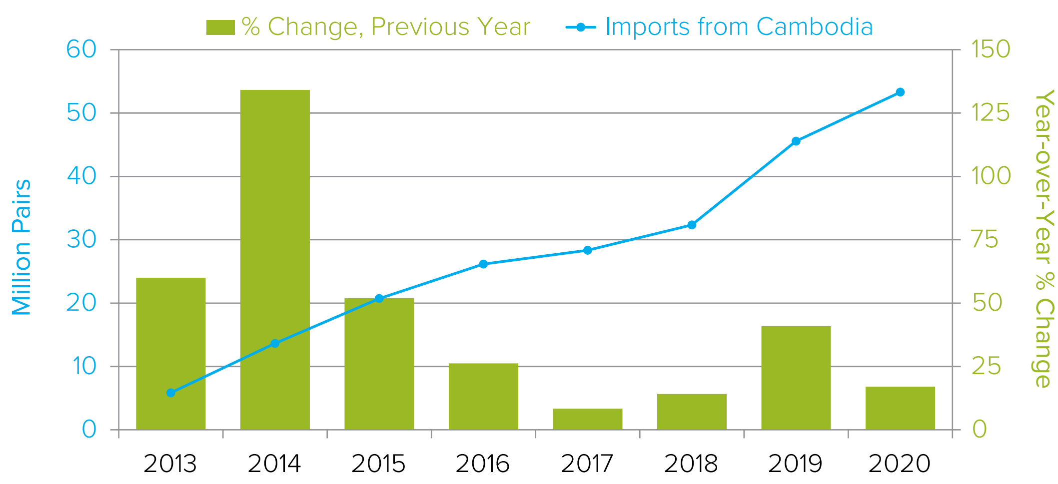
The EU continues to be the most important market for Cambodia's garment and footwear products, accounting for 46% of the sector's exports in 2020, while the US accounts for 22%. In 2018 Cambodian authorities approved 148 investment projects from foreign investors worth $5.8 billion. By the end of 2018, 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 26.4 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 2020



Source: USITC

Indian Shoe Production Snapshot

Boasting an annual production and consumption of some 2.6 billion pairs, India is the second-largest footwear producer and consumer in the world. The country exports about 11% of the footwear it manufactures each year, roughly 286 million pairs, still enough to be among the world's top ten exporters. About 19 million pairs shipped to American shores peg the country as the fifth-largest supplier to the US, *despite* having average landed costs at the US port well above the world average cost every year for the last quarter century. The country's large and young workforce, relatively low wages, and abundant cattle herd make it a viable competitor in the global footwear market.

At nearly 1.4 billion, the current population is second to only China, but growing much faster. The median age is just 28.7 years old. The country's footwear industry employs over 1.1 million workers, dwarfing the industries in most other countries around the world.

While India has no national minimum wage per se, minimum wages may be set by state or sector of industry. Typical wage rates in the domestic footwear industry--adjusted for currency differences--are near the low end of the scale witnessed across Asia.

With more than 303 million head of cattle, India has the world's biggest livestock herd. Unsurprisingly, leather footwear makes up 48% of the volume of Indian footwear exports. The Indian footwear industry is highly fragmented with almost 15,000 small and medium-sized enterprises operating with at most several dozen people each. With government support (i.e., Make in India and the Indian Footwear, Leather & Accessories Development Program) and growing foreign direct investment in the country's footwear manufacturing sector, the country is increasing its presence in the global footwear export market. Indeed, a growing number of international footwear and fashion companies are manufacturing footwear products in India and shipping them abroad.

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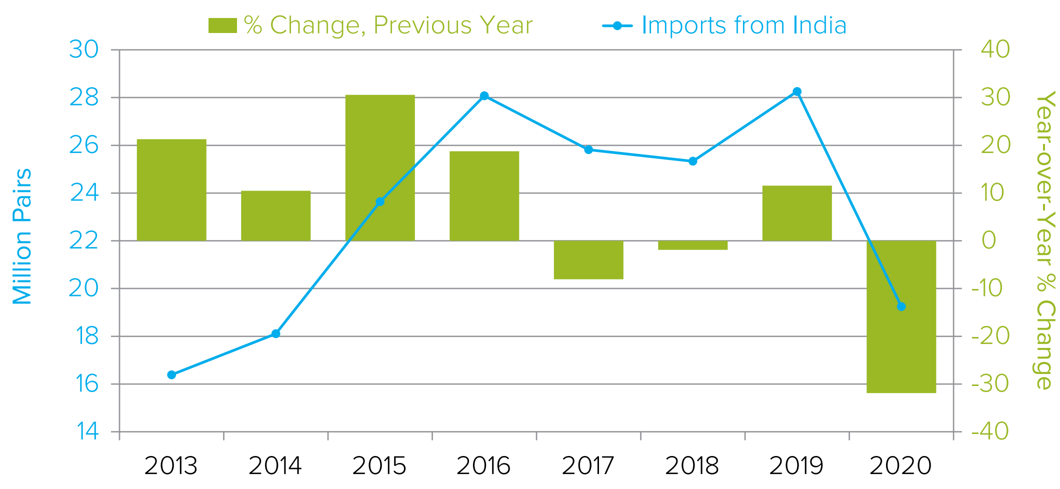
US FOOTWEAR IMPORTS FROM INDIA SINK FROM A RECORD IN 2020



Source: USITC

US—Italian Shoe Production Snapshot

One of the world's most revered manufacturers of high-end footwear, Italy also is one of the biggest producers and exporters of total footwear. Shipments destined abroad in 2019 reached $11.5 billion, pegging the country as the third-largest exporter in the world behind lower-cost suppliers China and Vietnam. Indeed, Italy has achieved this lofty global status despite having an average export cost of $57.11 per pair, more than *four times* the world average export cost. Before the pandemic, the domestic sector enjoyed more than €14.2 billion in annual turnover, employed 76,600 people and exported 85% of its production. But domestic and international sales of Italian footwear plunged in the first nine months of 2020, 17.8% and 20.1%, respectively.

Key markets are spread across Europe and the United States, where shipments to the latter in 2020 reached 15.8 million pairs worth a record $1.34 billion, implying an average landed cost of $84.68 per pair, also several times the average landed cost from the rest of the world. These trends are not new, as Italy has been a top-7 footwear supplier to America—in volume *and* value terms—every year for the last quarter century, all while shipping products with an average cost well above the world average. Indeed, Italy's dollar share of total US footwear imports rose to a fifteen-year high of 6.5% in 2020.

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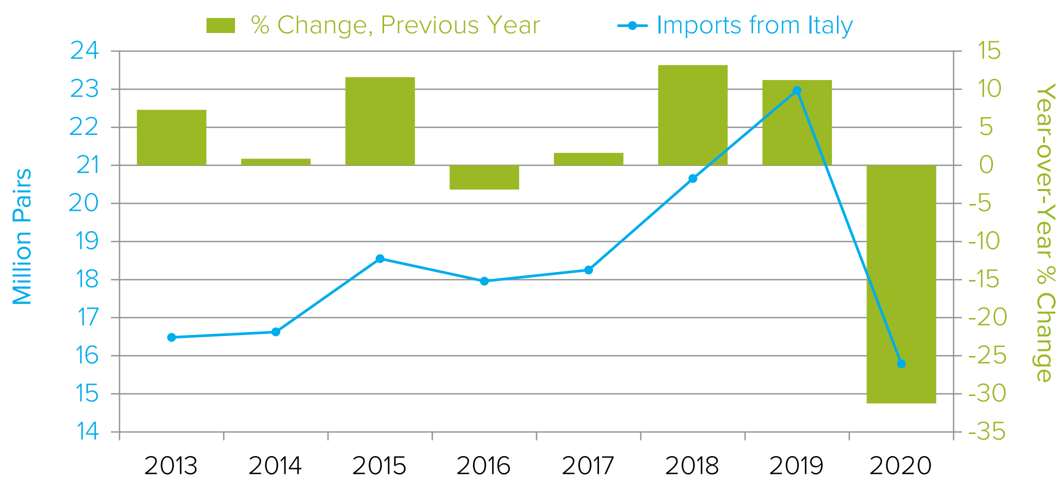
One way the country has managed this remarkable feat is through its long-standing reputation in craftsmanship and specifically in leather footwear. Indeed, Italy reportedly has the highest density of bespoke shoemakers for any country in the world, often combining the best materials, techniques, fit, and finishing available. In a global industry of often commoditized products where cost often is the main driver, Italian footwear naturally cannot compete with cheaper Asian rivals. Instead, Italy has managed to grow to become *the* dominant supplier—by far—of high-end footwear to markets in America and around the world.

US FOOTWEAR IMPORTS FROM ITALY TUMBLE FROM A 12-YEAR HIGH IN 2020



Source: USITC

EU—Italian Shoe Production Snapshot

One of the world's most revered manufacturers of high-end footwear, Italy also is one of the biggest producers and exporters of *total* footwear. The domestic sector enjoyed more than €14.2 billion in revenue in 2019, employed 76,600 people and exported 85% of its production. But sales of Italian footwear plummeted in the first nine months of 2020, falling 17.8% domestically and 20.1% internationally. Indeed, shipments to European customers mirrored this trend, sinking -11.4% in 2020 to a thirteen-year low. Even so, in value terms the country remains the third-largest exporter in the world behind lower-cost suppliers China and Vietnam. Indeed, Italy has achieved this lofty global status despite having an average export cost of $57.11 per pair, more than four times the world average export cost.

Key markets are the United States and Europe. Interestingly, while the *volume* of Italian footwear shipments to Europe slid in 2020 to a thirteen-year low, the euro value retreated at a slower pace from a 2019 record of €482 million. These trends of a continued erosion in the volume of shipments but a near-record value of shipments are not new, as Italy has been a top footwear supplier to European buyers every year for the last quarter century, all while shipping products with an average cost well above the world average.

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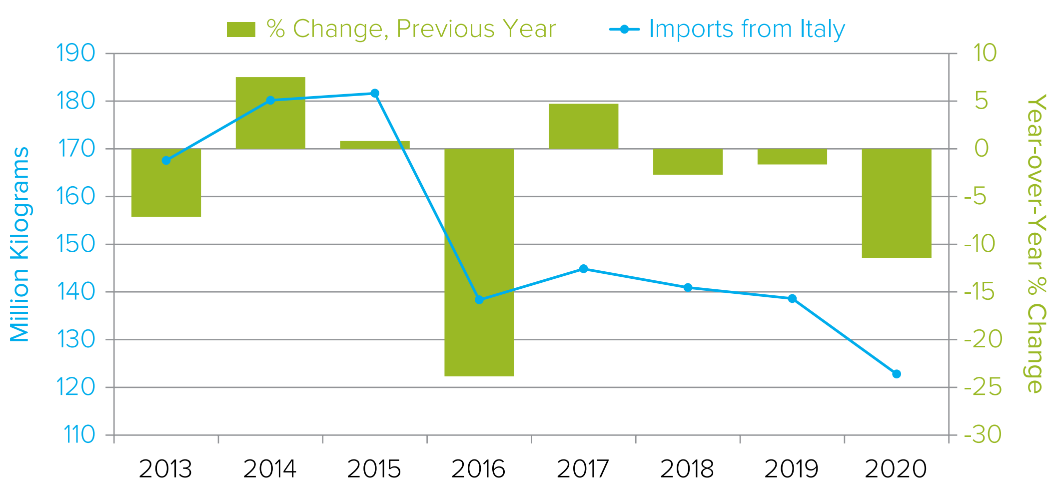
EU FOOTWEAR IMPORTS FROM ITALY SLIDE TO A THIRTEEN-YEAR LOW IN 2020



Source: Eurostat

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GLOBAL SHOE SOURCING 2021 SNAPSHOT

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 6% 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 now the USMCA. Indeed, shipments to the US account for 92% of Mexican footwear exports, perhaps a potential disadvantage, given the concentration. After climbing to a fifteen-year high in 2018 of more than 20.4 million pairs, Mexican footwear exports to America retreated at a double-digit rate each of the last two years to plumb a ten-year low in 2020.

Interestingly, as its shipments to America surged through 2018, landed costs at US ports have far outpaced the world average over this period. In fact, in recent years the average annual landed cost into the US typically was at least *twice as expensive* as the average world cost landed at the US port. This curious issue is due to almost half of Mexico's footwear exports to America are concentrated in HS #6403, footwear with uppers of leather, typically a more expensive, higher-end product.

Weakness in the local currency in 2020 did little to ease higher average landed costs from Mexico. The peso sank to a multi-decade low of 25 per dollar last year before recovering somewhat in the second half of 2020. A still-weak peso makes Mexican exports relatively more cost-competitive against other suppliers. Monthly earnings of factory workers in Mexico average 6,867 pesos (~$336), 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, shared suppliers, educational infrastructure, and trained labor.

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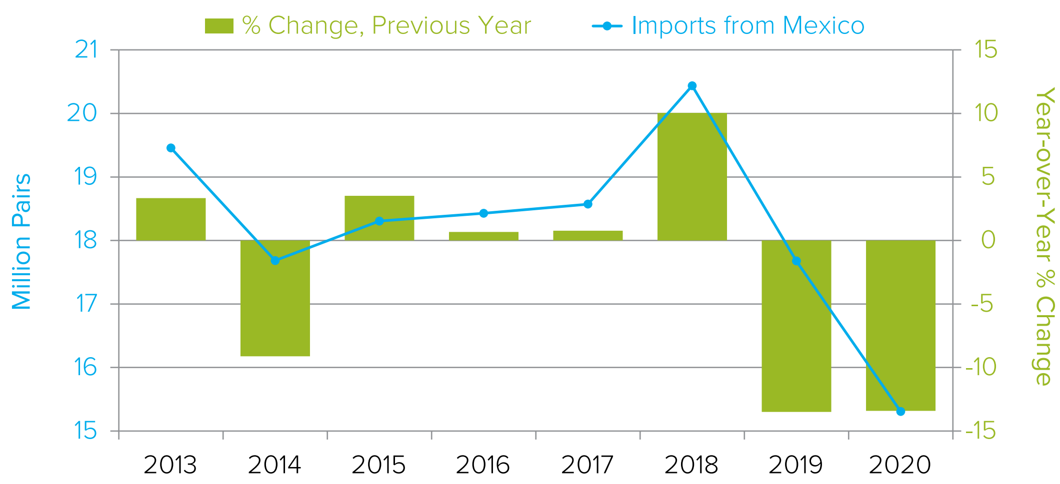
US FOOTWEAR IMPORTS FROM MEXICO TUMBLE AGAIN IN 2020 TO A TEN-YEAR LOW



Source: USITC

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GLOBAL SHOE SOURCING 2021 SNAPSHOT

Brazilian Shoe Production Snapshot

With an annual production capacity of some 908 million pairs, Brazil remains—by far—the largest footwear manufacturer and exporter in the Western Hemisphere. The country exported roughly 115 million pairs in 2019, making Brazil the 5th largest producer and 14th largest exporter in the world.

Key foreign customers are the US (21% of exports), Argentina (11%), and France (7%), and Bolivia (5%). Rubber and plastic shoes account for about three-quarters of the volume of footwear exports. The country also has a competitive advantage in leather footwear, as Brazil has the world's largest commercial cattle herd, 310 tanneries, is one of the world's five largest leather producers, and has a leather industry that employs over 40,000 people and exports more than $2 billion annual to more than 80 countries.

But the troubles that have afflicted the Brazilian economy in recent years have led to a reduction in production and exports from the local, primarily domestically owned, footwear industry. Indeed, shipments to the US plunged from more than 100 million pairs as recently as 2003 to less than 10 million pairs by 2020, the fewest in well over a quarter century, owing in part to average landed costs well above the world average.

The country sources relatively little footwear abroad, implying domestic consumption--some 821 million pairs--primarily is supplied by domestic producers.

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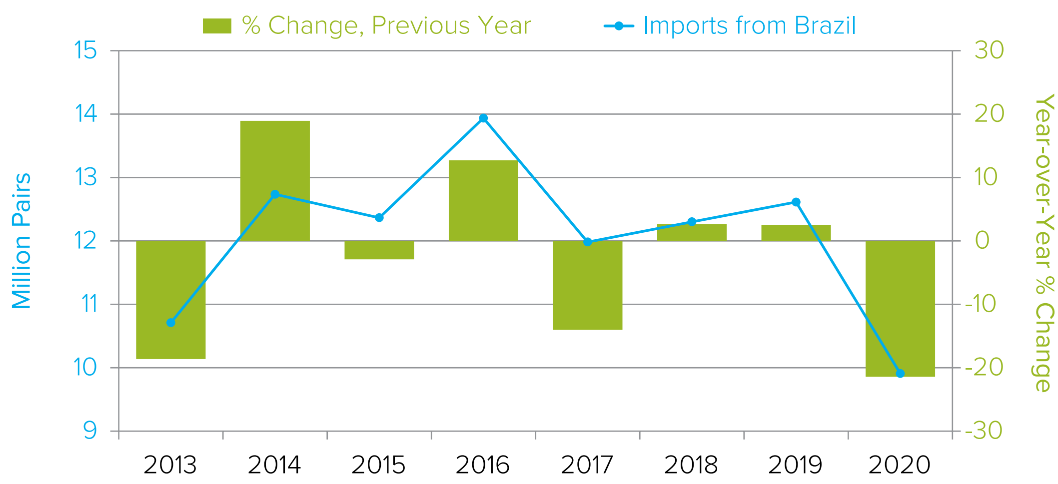
The industry in centered in the northeast and southeast of the country, particularly in the states of Rio Grande do Sul, Santa Catarina, São Paulo, Minas Gerais, and Ceará. Average monthly earnings of Brazilian employees totaled 2,380 reais (~$998) in 2019, relatively higher than in several Asian competitors. Countering these high costs, Brazilian footwear has a world-renowned reputation, especially relating to high quality, relatively cheap leather, and unique designs of its products.

US FOOTWEAR IMPORTS FROM BRAZIL TUMBLE IN 2020 TO LOWEST IN >25 YEARS



Source: USITC

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US—German Shoe Production Snapshot

Perhaps the biggest sleeper among the list of the world's top suppliers of footwear is Germany. While the country's economic stature as the world's fourth-largest economy is well known, Germany also is the world's fourth largest exporter of footwear, in both units *and* value terms. In fact, German footwear imports and exports both have climbed eight of the last ten years to records in 2019, all while shipping footwear abroad with an average cost ($24.78 per pair) well above the world average.

The dynamics are similar in supplying the US market. While the biggest buyers of German footwear are spread across Europe, Germany has grown to become a top-ten supplier to the US market as well with record shipments in 2019, all while supplying product with an average landed cost *more than twice as high* as from the rest of the world. What's more, in a year ravaged by fallout from the coronavirus when total US footwear imports tumbled sharply, shipments from Germany declined only modestly. As a result, Germany's share of total US footwear imports—while still relatively small—expanded to a record in 2020.

Germany has a relatively small footwear industry, with production at roughly 48 million pairs. But as the world's second-largest importer and fourth-largest exporter, the country has become a major hub for global footwear trade. adidas AG is by far the largest player in Germany, with its 56,438 employees and annual turnover of $26.2 billion dwarfing others in the domestic industry.

Germans' appetite for footwear is almost ten times the country's domestic production capacity, implying the county remains—by far—a net importer of footwear. At some 443 million pairs, annual German consumption of footwear is the eighth largest in the world. Nearly half of that demand is met by China, but—similar to the US market—shipments to Germany from second-place Vietnam have been growing much faster in recent years, cannibalizing China's dominant but eroding share.

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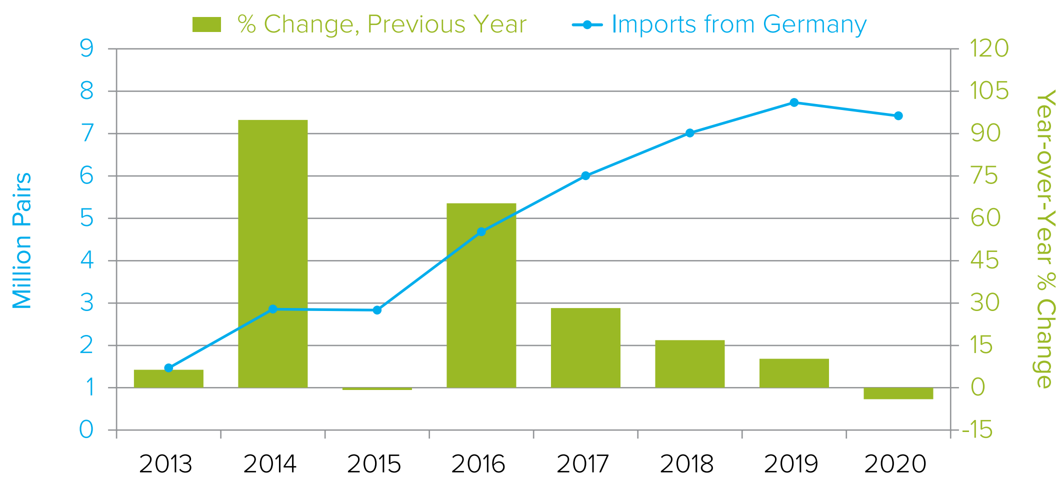
US FOOTWEAR IMPORTS FROM GERMANY EASE FROM A RECORD IN 2020



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EU—German Shoe Production Snapshot

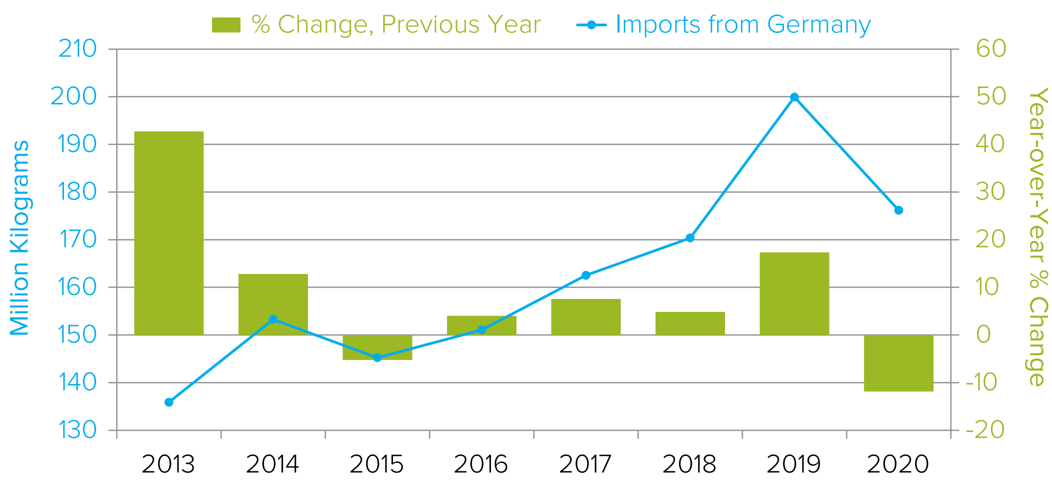
Perhaps the biggest sleeper among the list of the world's top suppliers of footwear is Germany. While the country's economic stature as the world's fourth-largest economy is well known, Germany also is the world's fourth largest exporter of footwear, in both volume *and* value terms. In fact, German footwear imports and exports both have climbed eight of the last ten years to records in 2019, all while supplying footwear with an average cost ($24.78 per pair) well above the world average.

The dynamics are similar in supplying the European market. German exports to the European Union rose eleven of the last thirteen years to a record high in 2019, all while supplying product at an average cost well above other suppliers to the continent. But similar to Vietnam, shipments from Germany to the rest of Europe tumbled at a double-digit rate in 2020 as the pandemic crimped demand. Still, Germany's share of total EU footwear imports rose again in 2020 to a record 8.8%. Germany's footwear exports are well diversified across type and destination, with no country having more than a 14% share.

Germany has a relatively small footwear industry, with production at roughly 48 million pairs. But as the world's second-largest importer and fourth-largest exporter, the country has become a major hub for global footwear trade. adidas AG is by far the largest player in Germany, with its 56,438 employees and annual turnover of $26.2 billion dwarfing others in the domestic industry.

Germans' appetite for footwear is almost ten times the country's domestic production capacity, implying the county remains—by far—a net importer of footwear. At some 443 million pairs, annual German consumption of footwear is the eighth largest in the world. Nearly half of that demand is met by China, but—similar to the US market—shipments to Germany from second-place Vietnam have been growing much faster in recent years, cannibalizing China's dominant but eroding share.

EU FOOTWEAR IMPORTS FROM GERMANY SAG FROM A RECORD IN 2020



Source: Eurostat

Burmese Shoe Production Snapshot

Whether known as Burma or Myanmar, one issue that is undisputed is the country's rapid ascent as a footwear powerhouse. In just eight years its footwear exports to the US surged from effectively none to a record of more than 7.5 million pairs, making the country a top-ten US supplier and only the second top-ten supplier to boost shipments to the US in 2020.

This recent explosion in shipments followed decades of military rule and civil wars that hindered economic growth and curbed foreign direct investment. But since the country began its transition to a civilian-led government in 2011, the country initiated economic reforms aimed at attracting foreign investment and reintegrating into the global economy. And in 2013 the US and Burmese governments agreed to a bilateral trade and investment framework agreement, whereby the two governments work together to identify initiatives that support The country's ongoing reform process and related development activities.

As a result, the country has enjoyed a flourish of new investment and a jump in exports including apparel, petroleum, leather products and footwear, and precious metal and stone that has helped raise standards of living for millions of Burmese. With a population of 54.4 million, a median age of 28.2 years, and a nationwide daily minimum wage of 4,800 Myanmar kyat (US$3.60) or K600 per hour for an eight-hour day, the country has a relatively young and large labor force and some of the lowest average wage rates in Asia. But we caution the Burmese government has been slow to address impediments to economic development such as unclear land rights, a restrictive trade licensing system, an opaque revenue collection system, and an antiquated banking system, all issues that can hinder investment in new footwear manufacturing. And protests continue early in 2021 following the military's detention of deposed leader Aung San Suu Kyi. On balance, the future is bright for Burmese footwear exporters, but only if the country adopts reforms that satisfy global trading partners.

Shoe Sourcing Snapshots

A Look Outside China for Brands Looking to Diversify Over Tariff Increases

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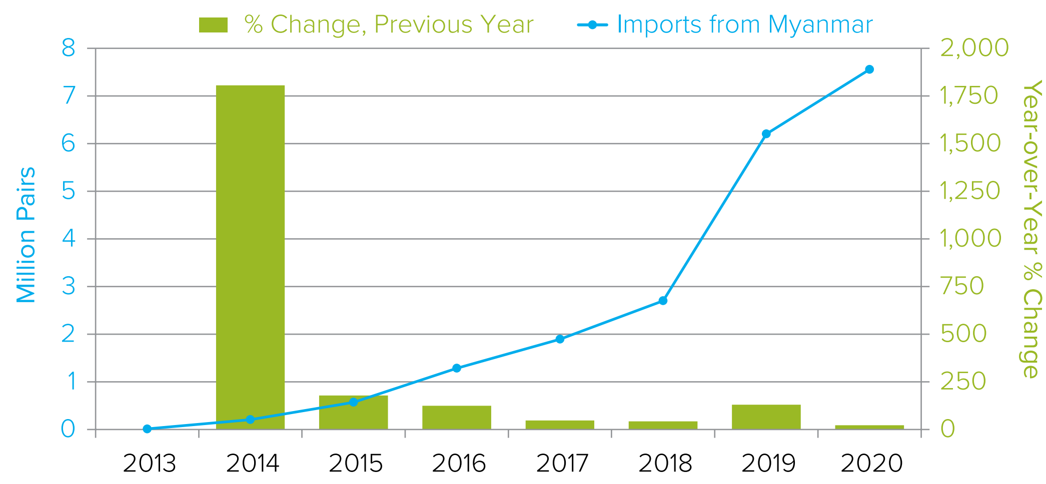
US FOOTWEAR IMPORTS FROM MYANMAR SURGE TO A RECORD IN 2020



Source: USITC

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SHIFT
GLOBAL SHOE SOURCING
2021 SNAPSHOT

Bangladeshi Shoe Production Snapshot

US footwear imports from Bangladesh have risen fourteen of the last sixteen years, with shipments climbing in 2020 to more than 6.8 million pairs, making the country America's eleventh-largest foreign supplier, its highest rank on record.

Interestingly, as its shipments to America have surged, landed costs at US ports have far outpaced the world average in recent years. In fact, at $23.21/pair in 2020, 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 seventh straight year.

This curious issue is because Bangladeshi footwear exports to the US are concentrated in higher-end leather footwear. More specifically, while Bangladesh accounts for less than 0.4% of the volume of *total* US footwear imports, the country supplies a record 1.4% of the volume of *leather* footwear.

The average duty rate of shoes imported from Bangladesh is just 8.3%, well below the average duty rate from the world of 13.0%, boosting competitiveness. The average monthly earnings of factory workers in Bangladesh are 12,061 taka (~$143), one of the lowest rates in Asia. At 8,000 taka/month, the minimum wage also is one of the lowest in Asia but is up 51% from the last increase granted in 2013.

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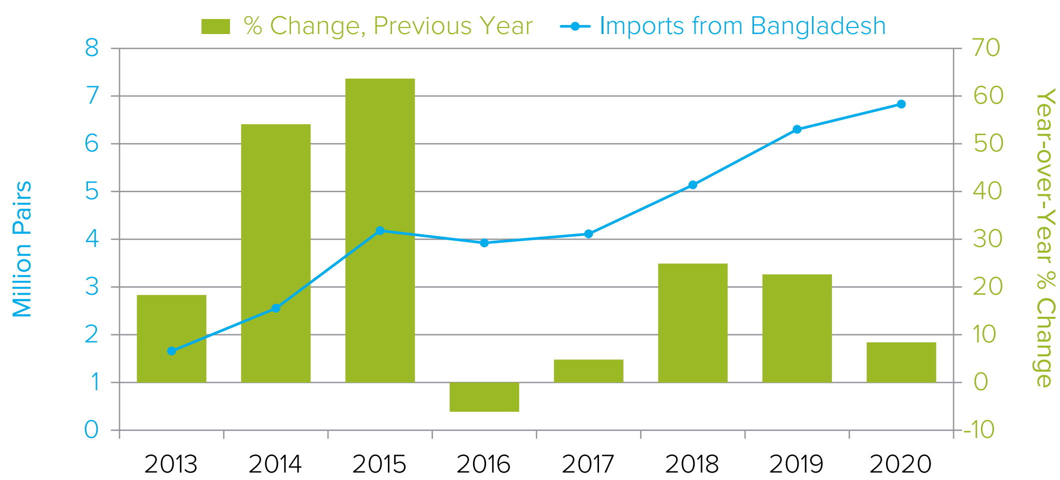
The domestic leather industry employs some 180,000 workers, across 3,500 firms, with 70% of the workforce women. Foreign direct investment in the sector is estimated at some $210 million. In addition to the pandemic, the biggest challenges facing the country's leather and footwear sector continue to revolve around environmental and sustainability concerns, as well as capacity modernization and expansion.

US FOOTWEAR IMPORTS FROM BANGLADESH CLIMB AGAIN TO A RECORD IN 2020



Source: USITC

Dominican Republic Shoe Production Snapshot

With a young and highly literate workforce and a preferential trade agreement with America, the Dominican Republic is—by far—the largest Central American/Caribbean supplier of footwear to the US market, and the third-largest Western Hemisphere supplier behind Mexico and Brazil.

The country benefits from the Dominican Republic–Central America Free Trade Agreement (CAFTA-DR) and predecessor agreements, effectively eliminating tariffs on footwear shipped to the US. Proximity to the US is another strength, as the DR is just one time zone ahead of Eastern Daylight Time and freight takes just three days to reach many US ports instead of weeks from Asian suppliers. While the population of the Dominican Republic is mostly Spanish-speaking, English and French are mandatory foreign languages in both private and public schools, and the literacy rate is more than 93%.

After showing strong growth in the first half of the decade and peaking close to $400 million in 2014, footwear exports from the Dominican Republic have tapered since to less than $300 million. The US accounts for roughly three quarters of DR footwear shipments. Until 2020, US footwear imports from the DR have been fairly steady over the previous eight years, averaging about 10 million pairs annually. But shipments dropped to a ten-year low of 6.7 million pairs in 2020.

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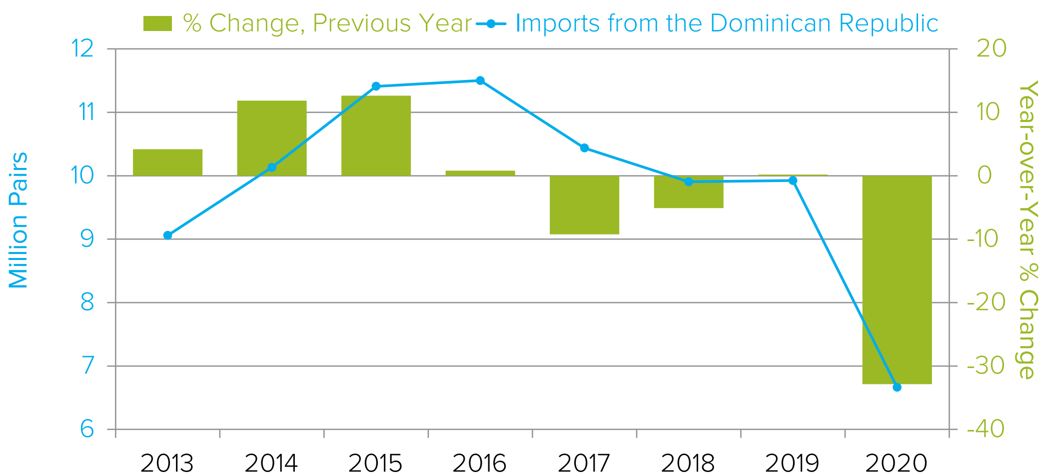
While duty-free treatment of imports is a clear advantage for the country, the average landed cost of footwear entering the US from the DR ($23.12/pair) is more than twice as expensive as from the world ($11.02/pair). Part of this difference is because of the dominance of leather footwear from the DR. Even so, the average landed cost of leather footwear from the DR ($35.00/pair) is still well above the world average cost ($22.04/pair), suggesting other issues are at play. Part of these other issues are relatively higher minimum wages than in other key footwear exporters. The Dominican Republic's government-mandated minimum wage is 8,310 Dominican pesos ($141) per month in the country's Free Trade Zones and between 7,843 and 12,873 pesos outside the FTZs, depending upon the size of the company.

US FOOTWEAR IMPORTS FROM THE DOMINICAN REPUBLIC SINK TO A TEN-YEAR LOW IN 2020



Source: USITC

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GLOBAL SHOE SOURCING 2021 SNAPSHOT

Portuguese Shoe Production Snapshot

With a focus on quality and craftsmanship but with an eye to automation, the Portuguese footwear industry has enjoyed impressive growth over the last decade with output and exports gradually growing, while not having to compete on a cost-only basis.

Before the pandemic, footwear exports stood at $2.0 billion, primarily driven by buyers across Europe, with leather footwear accounting for about 70% of exports. Indeed, the country has grown to become the world's eighth-largest supplier of leather footwear. Nearly 1,500 companies across the country—mostly in the north—employ almost 40,000 workers, producing primarily leather footwear, usually for foreign—and typically European—markets.

A discerning customer demands quality products, so the local industry positions itself among the leading exporters of fashion footwear to meet that demand, typically at a higher price point. Indeed, the export cost of Portuguese footwear in 2019 averaged $26.26, more than double the world cost. The fact the country can grow its exports despite average export costs well above the world average implies foreign buyers of these shoes increasingly are willing to pay for quality.

Shoe Sourcing Snapshots

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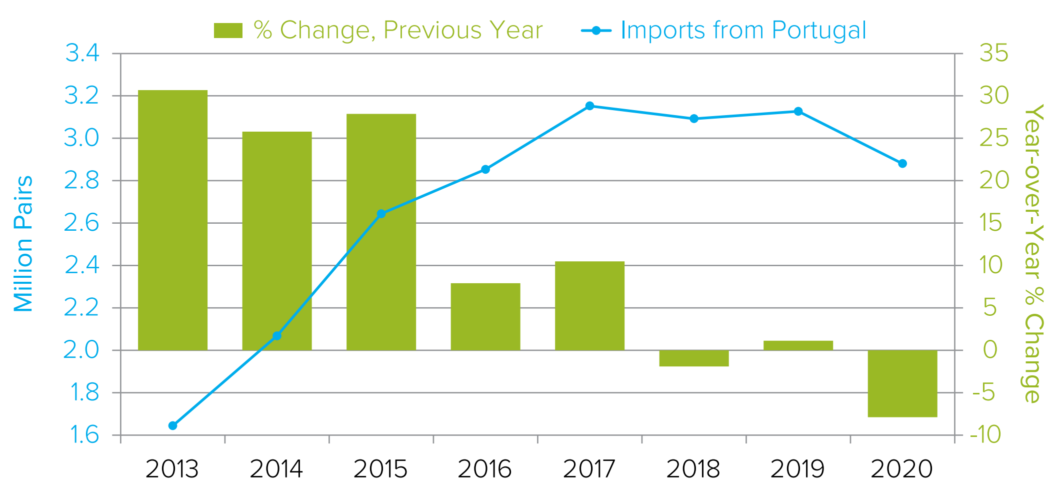
While shipments are larger to several European markets, shipments to America have rebounded sharply over the last decade from just 664,000 pairs in 2009 to more than 3.0 million pairs in 2019. Shipments to US shores sank -7.9% in 2020, slower than the decline from the rest of the world. This difference implies Portugal's share of US footwear imports rose again in 2020, reaching a seventeen-year high. Again, America's average landed cost of footwear from Portugal in 2020 ($43.06/pair) was nearly four times the average landed world cost ($11.02). But with shipments to America growing over most of the last decade despite the substantial price premium, Portugal has proven itself to be a viable option for value-added footwear.

US FOOTWEAR IMPORTS FROM PORTUGAL SHRINK TO A FOUR-YEAR LOW IN 2020



Source: USITC

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GLOBAL SHOE SOURCING 2021 SNAPSHOT

Ethiopian Shoe Production Snapshot

Supported by an influx of foreign direct investment, a preferential trade agreement with America, an abundant cattle herd, and low wages, Ethiopia is—by far—the largest African supplier of footwear to the US market. Footwear exports rose nine straight years to an unprecedented high in 2018 before retreating at a double-digit rate in 2019. In fact, shipments to US shores grew impressively over the 2010s to a record of 2.6 million pairs in 2018 before retrenching sharply each of the last two years.

Drawn by newly built industrial parks and a range of financial incentives, foreign companies have opened footwear manufacturing operations across Ethiopia in recent years. According to UNCTAD's World Investment Report 2020, foreign direct investment inflows to Ethiopia reached $2.5 billion in 2019, making the country the largest recipient of FDI in East Africa. The domestic industry also benefits from the African Growth and Opportunity Act (AGOA), effectively eliminating tariffs on footwear shipped to the US, by far the largest destination for Ethiopian footwear.

Ethiopian footwear producers also benefit from an abundant cattle herd. Home to some 54 million head of cattle, the country has the world's fifth-largest cattle herd, a competitive advantage for domestic tanneries and leather footwear producers. Indeed, leather footwear accounts for more than three quarters of total footwear exports. As a result, Ethiopian leather footwear exports are often cheaper than other competitors without access to such an abundant supply of leather. Indeed, America's average landed cost of Ethiopian leather footwear was just $12.62/pair in 2020, versus an average landed cost from the world of $22.04.

Ethiopia has no national minimum wage, a double-edged sword for the footwear industry. While the lack of a wage floor encourages investment in new manufacturing from abroad, it raises social awareness concerns that workers are not paid a living wage.

Shoe Sourcing Snapshots

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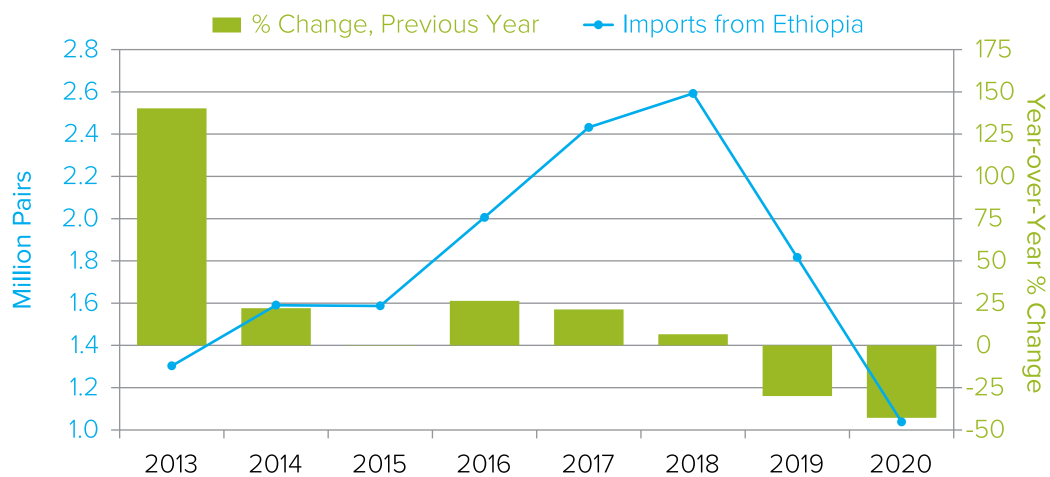
US FOOTWEAR IMPORTS FROM ETHIOPIA TUMBLE TO AN EIGHT-YEAR LOW IN 2020



Source: USITC

Filipino Shoe Production Snapshot

The Philippines consumes more footwear than it produces, implying the country remains a net importer of shoes, but the domestic industry has enjoyed a renaissance over the last decade as foreign buyers have 'rediscovered' the craftsmanship of the Filipino industry. The country is home to a relatively large and vibrant footwear market. This vibrance and outsized domestic demand imply footwear imports are growing, reaching an unprecedented $473 million in 2019, an appetite largely met by shipments from China.

The Philippines is a relatively small but growing exporter of footwear, with shipments climbing each of the last several years to a near-term high of $121 million in 2019. The US accounts for a large share of those shipments, with volume surging at triple-digit rates in 2018 and 2019 to more than 4.4 million pairs worth more than $78 million, both 21-year highs. After flourishing in the mid-1990s, domestic footwear production soon collapsed and languished, shrinking to a near-term low by 2010 before beginning a gradual recovery as exports expanded. Interestingly, as the last four years mark the biggest years for exports since the late 1990s, they also mark a pronounced jump in the average landed cost of footwear reaching US shores, well above the world average. This fact suggests Filipino footwear manufacturers and artisans are succeeding in selling quality footwear abroad that does not have to compete primarily on cost. But shipments to the US plunged -33.9% in 2020 under the weight of the pandemic.

Shoe Sourcing Snapshots

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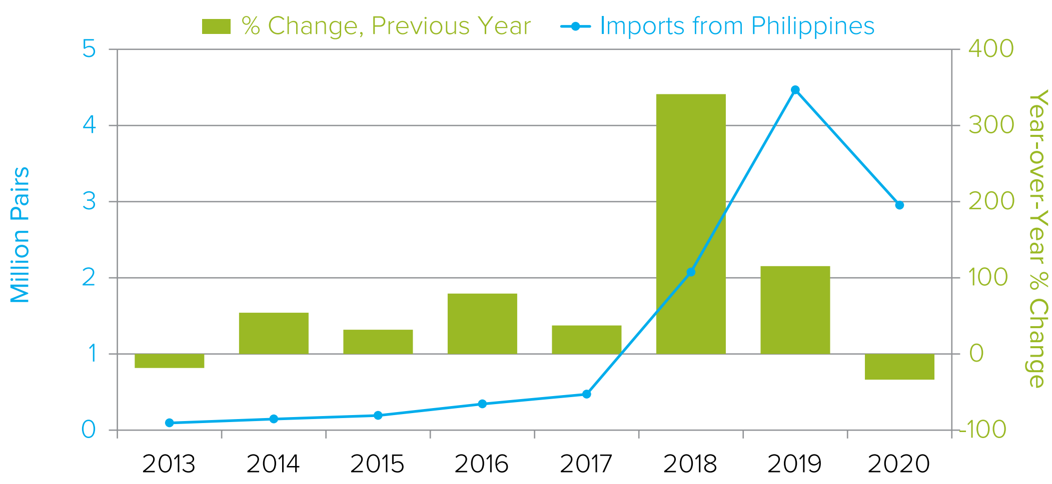
In addition to craftsmanship, higher wage costs and duty costs are other reasons footwear from the Philippines is more expensive than the rest of the world. First, the country's minimum wage ranges across city and industry, generally from PhP243 ($4.60) per day for non-agricultural wages in Ilocos to PhP537 ($10.16) per day for non-agricultural wages in Metro Manila. Second, at a near-record $2.18, average duties per pair on US footwear imports from the Philippines are well above the average $1.43/pair from the world. Despite these obstacles, once COVID-19 passes, prospects remain upbeat for a continued recovery in Filipino footwear exports as the domestic industry moves away from commodity footwear to higher-end craftsmanship.

US FOOTWEAR IMPORTS FROM PHILIPPINES SINK FROM A 21-YEAR HIGH IN 2020



Source: USITC

EU—Belgian Shoe Production Snapshot

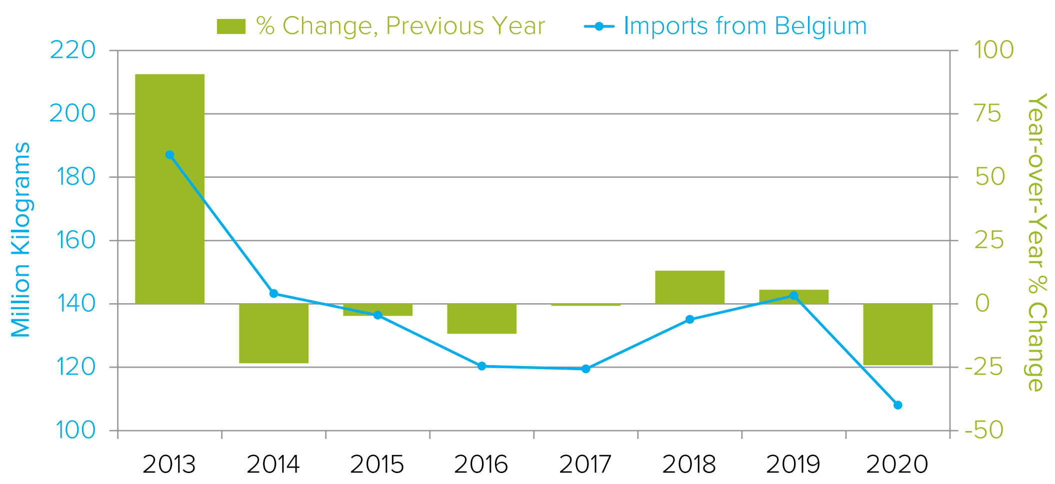
While Belgium has little domestic footwear production, the country is a major hub for global footwear trade, ranking among the eight largest in the world. The country has one of the highest standards of living in the world, and at €1,593.81 per month one of the highest minimum wages in the world, suggesting little opportunity to compete globally in footwear manufacturing. But at some 269 million pairs worth more than $6.6 billion, exports touched a near-record in 2019. But in 2020, shipments from Belgium to Europe reversed course, sinking -24.2% to an eight-year low. Exports are well diversified by type of footwear, led by textile (45%), rubber and plastic (29%), and leather (24%).

Despite the decline in 2020 shipments, Europe remains by far the largest market for Belgian footwear exports, taking well over 75% of shipments. The country's footwear exports are well diversified across the continent, with the biggest share (31%) destined for France, followed by the UK (13%) and the Netherlands (12%).

With scant domestic production but domestic demand of some 88 million pairs, the country is a net importer of footwear to meet this domestic appetite. At 357 million pairs worth some €4.9 billion, Belgian footwear imports climbed to a record in 2019, higher nine of the last ten years, before tumbling in 2020 during the pandemic.

On balance, with little domestic production and the country's status as an international hub of footwear primarily dependent on a jaded European economy battered by the coronavirus, we see little reason to expect these shipments to grow appreciably in coming years. While Belgium is a top-five supplier of footwear to the continent, its prospects for increased share appear limited.

EU FOOTWEAR IMPORTS FROM BELGIUM SINK TO AN EIGHT-YEAR LOW IN 2020



Source: Eurostat