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Will Tariffs Force Footwear Manufacturing's 'Center of Gravity' Away from China?

By Kate Nishimura

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The trade negotiations between the U.S. and China have devolved into an intensely convoluted

drama. For those affected, the tiresome saga smacks of a soap opera that's slogged on well past its narrative prime.

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Still, the central question at the heart of the trade war persists for brands caught in the crosshairs: what will happen to China's share of footwear manufacturing?

The past 10 years have represented a slow yet steady migration away from China to countries like Vietnam, which has become a true No. 2 in the footwear space. Now, in the face of extreme uncertainty, Chinese manufacturers are being met with tough choices about how to keep their factories afloat.

One option being chosen by some is to hit the eject button, launching their operations outside of Mainland China toward greener pastures.

"With the trade war, we've seen some Chinese companies aggressively moving to Vietnam, Cambodia, Laos and Burma," Siva Yam, president of the U.S.-China Chamber of Commerce, told Sourcing Journal. It's a strategy that manufacturers began deploying even before the trade war, he said, knowing that China was becoming a less competitive option for manufacturing.

Yam wouldn't call the movement an exodus, but it's more pronounced than a trickle. One tactic he's seen by Chinese and Taiwanese manufacturers is to engage in short-term leases on factory space in other desirable countries.

"The strategy is to wait and see," Yam said, referencing the hope felt by many that trade talks will be resolved quickly, and that operations can be moved back to China. "My observation is that we have seen movement to avoid the tariffs, but there's also the uncertainty that a policy could change overnight."

If the tariffs persist, Chinese manufacturers will hold onto their foreign factories—perhaps permanently. "They'll ship almost-finished goods to those factories for final assembly, and then ship goods to America from those countries," he said.

"Certainly there's a potential violation when it comes to the country of origin," Yam admitted, opining that the situation is an open secret, of which American border control is undoubtedly aware.

Still, he said, it's not easy for the U.S. to allocate the considerable resources needed to catch violators—particularly for mass-market, low-value items.

When it comes to Chinese manufacturers investing real money into building factories from scratch in other countries, Yam said it isn't a prevailing practice.

"For a small to medium-sized company, going elsewhere to build a factory is not easy," he said. "If you're Motorola or Nike, that's one thing. Small manufacturers will have challenges, and most Chinese companies are not in the right position. They need to have a large American customer before they can do it."

Yam also feels there are other factors keeping manufacturers mostly rooted in China, like the fact that many other countries lack the infrastructure to manage a substantial flow of goods.

"China has the best infrastructure in the world, and you can go anywhere by high-speed rail," he said, adding that transportation is imperative to move products quickly from the factories to the ports, where they're loaded up to be ocean-freighted to the U.S.

Yam pointed to India as an example of a potential prospect that faces "limitations," highlighting the country's sub-par network of highways and railroads. "They're trying to build things up fast, but they're not there yet," he said, and that fact makes India a less desirable option for Chinese investment.

Other suitors face their own setbacks. "Vietnam, Cambodia and Laos—their supply chains aren't perfect; they're nothing compared to China. It poses a lot of challenges," he said.

FDRA president Matt Priest agreed that countries like India—as well as others outside of Asia, like Ethiopia—present hurdles for Chinese investment or the migration of factory operations.

"There's indigenous domestic production in these countries that doesn't totally preclude foreign direct investment, but it doesn't necessarily create the best environment for that investment, either," he said.

Priest also sees India as a country where potential is hampered by logistical limitations.

"It's difficult investing in India—there's a lot of red tape," he explained. "That, coupled with a really robust local industry, makes it less likely to be successful, knowing what U.S. brands want in terms of types of shoes."

India is known for its woven leather sandals and boots, while American consumers have demonstrated a healthy appetite for the sport shoes and athleisure styles, like sneakers, that are produced largely in China and Vietnam.

Some countries, like Ethiopia, welcome foreign investment but also feel the need to protect local industry from being overrun. "There's a push and pull between how much investment they let in from Asia—China in particular—versus how much they prop up their indigenous production," he said.

Priest recalled a time nearly a decade ago when it looked like Ethiopia might be a contender for some of China's footwear manufacturing business. "The prime minister at the time traveled to Dongguan and saw firsthand what was needed to develop an industry," Priest said.

While Ethiopia ultimately was open to Chinese investment, the country is still wary of its domestic businesses losing ground to the country's influence, almost 10 years later.

Ultimately, Priest said, a frontrunner has yet to emerge as the potential recipient of China's manufacturing interest—outside of Vietnam, where resources are tapped.

"We're looking at trying to move about a billion pairs of shoes in a short amount of time. That's a lot of production and there's not one country that can take that on," he explained.

Priest predicted that in the long run, footwear production will be diversified across a host of different countries, eliminating China's role as the world's "one-stop shop."

But, he hedged, "With uncertainty in policy and business comes uncertainty about what's ahead of us."

Only time will tell how much of China's manufacturing actually leaves the mainland. "Some are heading for the door, but a year from now we'll have better data on who actually left. We're just at the start of the great migration, if that's what actually comes to fruition," he said.

Michael Zakkour, principal of China business strategy and implementation at Tompkins International, agreed that it's "too early to say if the current situation is the first step to a major re-domiciling of the footwear production industry."

But, he said, in the same way that the industry and others left the U.S. for lower-cost destinations, "It is not unreasonable to think the center of gravity for footwear production could be someplace other than China in the near future."

Should that reality take hold, though, Zakkour predicted it will take years for other countries to "build the capacity, infrastructure and labor force absorb a significant percentage of China's capacity and output."

"To date, a combination of efforts being made by Chinese producers, global distributors, and U.S. brands and retailers has blunted the full impact of the current tariffs," he said—among them the fact that Chinese companies are "accelerating their own off-shoring."

But despite the shifting headwinds, Zakkour believes Chinese-made products will remain a significant economic driver in the U.S.

"I don't foresee any situation or devolution of trade relations between the U.S. and China ending in Chinese-made products being shut out of the American market," he said.

"That would take a complete uncoupling of the trade, economic, and political relations of the world's two largest economies. It would mean a world-changing disruption of the global economy, global supply chains and technology infrastructure," he concluded.

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