

'Trump's 'trade war' -- What's Next?'

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Overview

- *Trump's presidency: trade and economics*
- *Outlook for US trade action: Trump's unilateral agenda*
- *Implications for shoes/leather sectors*
- *US economy and consumer trends/demand*
- *Global shoe sourcing challenges*
- *Takeaways*



'America First' -- Make America Great Again



What can we say about Trump?

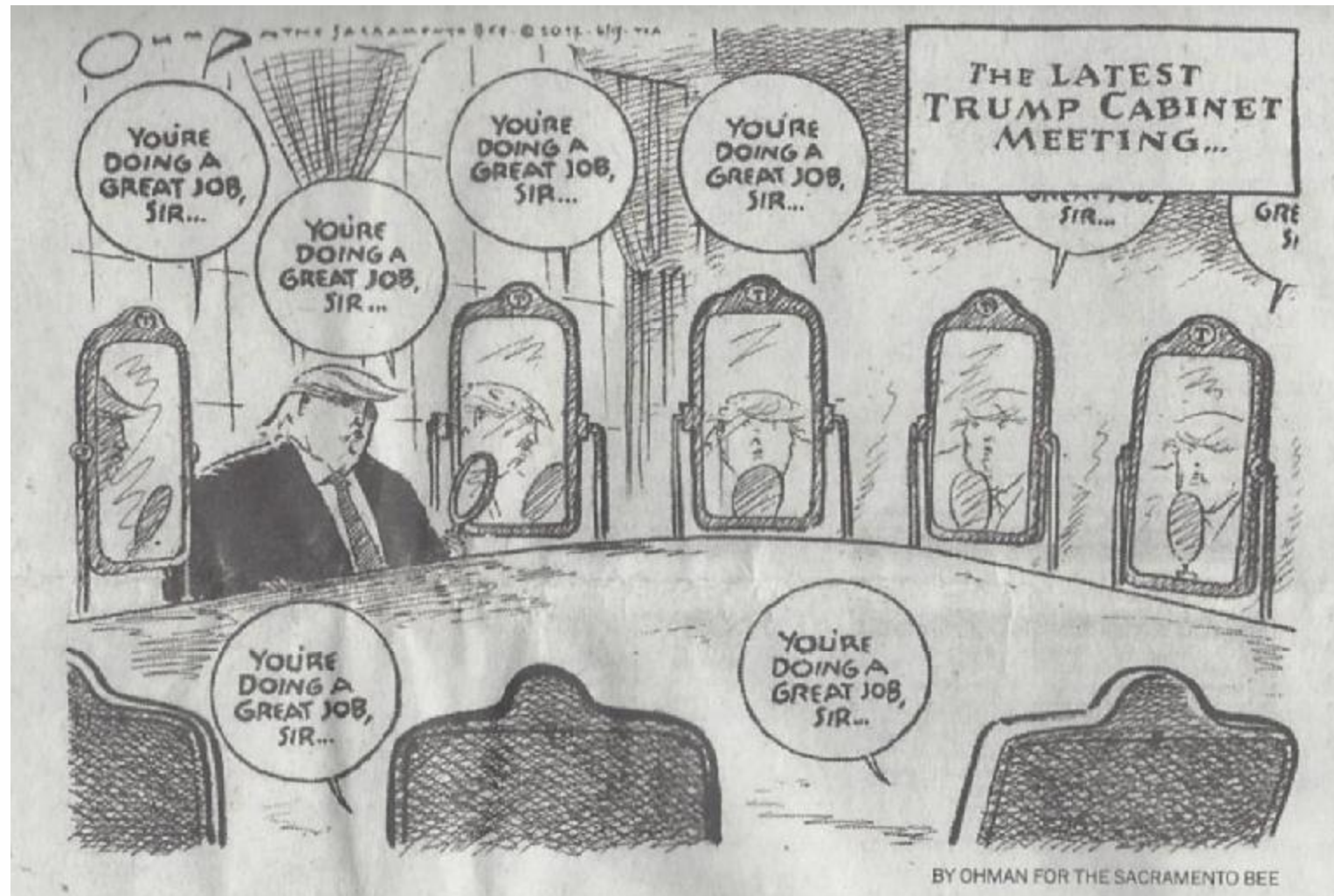
His impulsive and erratic style undermines his credibility at home and abroad – an oaf and a bully -- the perfect blend of ignorance and confidence!

- His philosophy is nationalistic/'America First' – more like "America Alone"*
- Rejects multilateral pacts like TPP, Paris, Iran nukes, NAFTA, and WTO in favor of bilateral deals that he says favor US leverage, but has it produced?*
- 'In your face' style, confrontational and thinks public brinkmanship is effective negotiation*
- But will it work with Beijing? Game of 'chicken' – who blinks first?*

'He is terrible – and so proud of himself!'



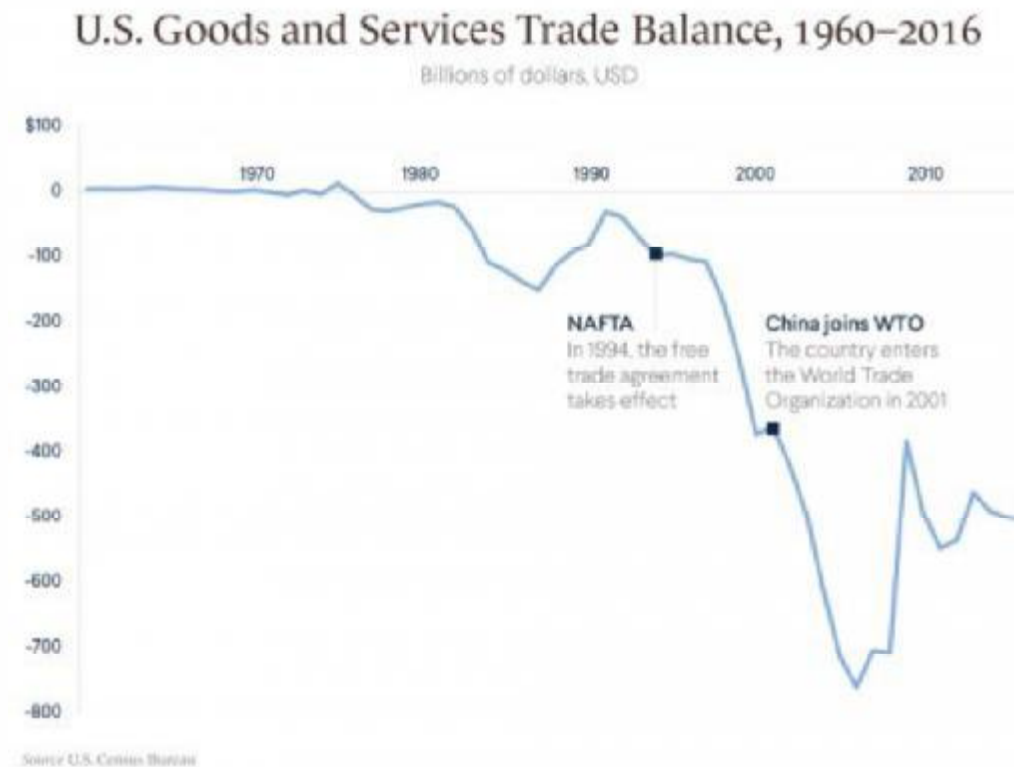
Trump: Narcissistic, Self-congratulatory, Mendacious, Conflicts of Interest, Media Wars, Tweets, Law Suits – But Popular (42% approval)



Trump's Main Goal – Faster Growth

- **Cut taxes** by \$1.5 trillion – his one legislative ‘success’ -- helps business and wealthy
- **Big spending budget:** ignores the \$20.0 trillion fiscal deficit with higher interest rates and huge retirement obligations coming
- **Loosen regulations on business** – Trump’s biggest success to date after the amazing tax cut
- **Negotiate bilateral trade deals that leverage US interests** – but so far -- none!
- **Reduce bilateral trade deficits by restricting ‘unfair’ trade** – a ‘crackpot’ economic theory
- **‘Trade wars are good and easy to win’**
- **Protectionism hurts** ‘down stream’ companies like steel using companies (6.5 million jobs vs. 1.4 steel making jobs) and drives retaliation against US exports, farmers and services (which accounts for 104 million of 148 million total workers in US – manufacturing about 15 million workers)
- **Protectionism is not compatible with growth** – retaliation always follows and hurts exports negating any benefit from restricted imports
- **Retaliation by China, EU, etc.** have stunned Trump -- agriculture, Harley Davidson moving abroad – may finally be adding some reality to his approach? Not so far!

US Trade Balance Declines – Sharply



US Trade Balance 2017 vs 2016

2017

- Deficit -- \$566.0
- Goods Deficit -- \$810.0
 - Imports -- \$2,361
 - Exports -- \$1,551
- Services Surplus -- \$244.0
 - Exports -- \$778
 - Imports -- \$534
- US total imports from China \$500, and US exports to China \$125 for deficit of \$375 billion

2016

- Deficit -- \$500.6
- Goods Deficit -- \$749.9
- Services Surplus -- \$249.0



Trade Deficit Facts

- A trade deficit is the difference between a country's imports and exports.
- They arise when a country's **investment exceeds its savings**—often reflecting a strong and healthy economy.
- Countries in recession almost always run trade surpluses – the natural effect of weak consumption and growth.
- The deficit is balanced by the excess savings (including any trade surplus) of its trading partners: capital outflows and inflows must always balance.
- The US buys much more from China than it sells to China – China must use that surplus to buy dollar denominated assets – Treasuries, stock, companies, etc. or it could use the dollars to paper its walls!
- There is **no connection between protectionism and reducing trade deficits** – Brazil and India have tough trade barriers and yet run large deficits – their savings/investment are much less than their consumption.
- Germany, by contrast, has low import barriers but runs a huge trade surplus – savings/investment outpace consumption.
- Unfair trade practices or improvident trade terms are harmful, but the effect of them is not well reflected in the trade deficit, which is the function of other more potent macro economic factors.



US Growth Drives Higher Trade Imbalance: Spurring Protectionism

Trade Deficit May Only Worsen

President Donald Trump hates the trade deficit. He will probably have an even bigger one to hate in the year ahead.

The news that Gary Cohn will resign as Mr. Trump's top economic adviser, just days after Mr. Trump announced plans to impose steel and aluminum tariffs, rattled financial markets Wednesday. Stocks fell as investors took the departure of the pro-trade aide as a sign that protectionist trade policies will spread, with Mr. Trump more likely to impose additional tariffs and pull out of the North American Free Trade Agreement.

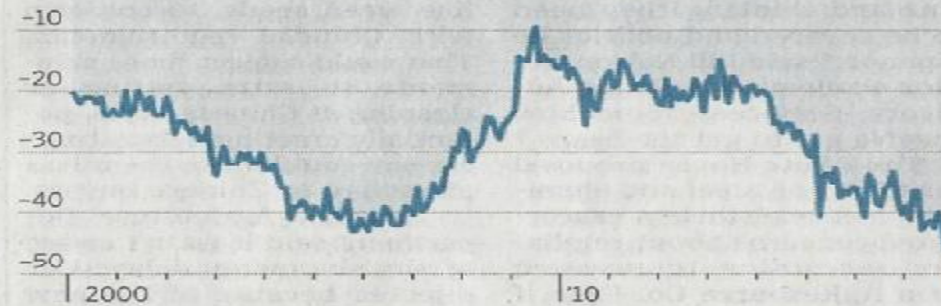
"Cohn's departure should be read as an indication additional and more aggressive protectionist trade policies are likely in the coming months," wrote Cornerstone Macro strategist Andy Laperriere in a note to clients.

Investors generally view tariffs and other trade barriers as the equivalent of a tax. To the extent that companies are able to pass those higher costs on to consumers, tariffs

Balancing Act

U.S. monthly trade balance, excluding petroleum goods

\$0 billion



Source: Commerce Department

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are also inflationary, making the Federal Reserve more likely to raise interest rates aggressively. And trade disputes can sow uncertainty. It is harder for multinationals to know what parts of their operations might face protectionist policies, while exporters don't know what retaliatory measures their products might face.

Trade data released Wednesday did nothing to alleviate investors' unease. The

Commerce Department reported that the seasonally adjusted trade deficit rose to \$56.6 billion in January from \$53.9 billion in December, marking its highest level since October 2008. If not for America's reduced dependence on foreign oil since the shale revolution, the deficit would have been even larger. The goods deficit with China, which Mr. Trump has singled out for its trade practices, rose to \$35.5 billion from

\$29 billion a year earlier.

The trade deficit will likely continue to grow, and Messrs. Trump and Cohn have something to do with that. The tax-cut and spending plans they helped usher in are likely to raise demand for goods and services among both consumers and companies this year. Some of those goods and services are going to come from abroad, so the increase in demand will likely translate into an increase in imports as well. Exports should rise, too, since more U.S. imports should help out overseas economies, but the effect won't be as pronounced.

The tariffs are unlikely to move the needle by much on trade, especially with U.S. trading partners threatening retaliatory measures if the tariffs are enacted. So the trade deficit, which Mr. Trump has long argued the U.S. should reduce, will likely continue to expand instead. How his administration might respond to that is yet another thing for investors to fret about. —Justin Lahart

The Trump Trade – Aggressive Protectionism Driven by ‘crack pot’ Theories and Narrow Interests – Bound to Fail – Focus Should be on Opening Markets not Closing the US

- Trump trade team is divided but **protectionists are in the ascendency**
- Economic nationalists: ‘crack pot’ team of extremists -- **Ross** (Commerce), **Lighthizer** (USTR), and **Navarro** (NTC)—all have close business ties with US steel industry; **John Bolton**, national security advisor, seasoned operator
- Internationalists: overall, weak -- **Larry Kudlow** (NEC) TV economist, free trader but inexperienced, **Mnuchin** (Treasury) capable but inexperienced, **Mike Pompeo** (State) former head of CIA, conservative military leader, no strong views on trade
- Trump sees trade as a **‘zero sum’ game** determined by bilateral trade surpluses (US ‘wins’) or deficits (US ‘loses’) -- an absurd tool to measure trade – completely out of touch with reality
- He has a lot of **power to take unilateral actions** restricting trade but retaliation against US exports hurts Trump a lot – farm exports
- Historically, **all US presidents become free traders** in office, only the rhetoric changes, but with Trump the world looks different!

Trump's Anti-trade Arsenal

- **Unfair Trade Practices**, sec. 301, 'unjustifiable' restrictions on US trade, country specific: across the board duties can be imposed without WTO approval; since 1974, only Obama used it for beef into the EU (unresolved). Trump has a huge investigation on China's abuse of IP, requiring foreigners to turn over trade secrets to China partners – 25% duty on \$60 billion in China electronic exports on the table.
- **National Security**, Sec. 232, applies to items that adversely affect security following DOC and DOD investigations; wide discretion to restrict, used on oil during 1970s embargoes. Trump used this investigation to impose global duties on steel and aluminum imports and now is looking to do the same on autos!.
- **Safeguards**, sec. 201, following ITC finding of 'serious injury' to a US industry, president has wide authority to impose duties, quotas, etc. without WTO approval; typically used on an industry level, not across the board; used against steel imports from all countries in 2003; many other cases.; now: solar panels, washing machines on which Trump slammed steep duties.
- **Rescind FTAs**, sec 125, covers withdrawal from NAFTA , allows withdrawal within six months of notice to leave; all on president's own discretion, but Congress would need to change all the implementing laws it enacted to implement NAFTA. Also, trade negotiating authority (TPA) or 'fast track' that allows FTAs to clear Congress in an orderly fashion needs to be extended by Congress soon; barely made it through initially.
- **WTO cases**; US can bring claims of violations of the agreement to Geneva, and has many pending cases both seeking relief and many against US trade practices. Takes years and enforcement is voluntary
- **Discrimination**, sec. 338, up to 50% additional duties on imports from country that discriminates against US commerce without duration limit; never used since 1930 enactment.
- **National Emergency**, IEEPA, must declare 'national emergency'; authority to impose duties on a single country or more broadly, to deal with an 'unusual and extraordinary threat to national security, foreign policy, economy, etc.' Obama used it to control certain exports when export control law was not renewed.
- ***Retaliation against unilateral US trade restrictions*** is all but guaranteed under normal WTO rules.
- ***It appears that Trump will press this counter productive agenda -- once retaliation starts, he may have second thoughts about a mutual destructive 'trade war.'***

Trumps 'topsy turvy' Trade Agenda – All Wrong!

- *Bilateral trade surplus/deficits: 'winners and losers' -- not an accurate barometer of reciprocity; competitive advantage is the most important driver – **bilateral imbalances would still proliferate even if all 'unfair' trade was eliminated***
- *Multilateral deals diminish US leverage – 'one on one' deals better for the US – bullying and bluster outweigh pursuit of mutually beneficial outcomes – so far: no takers, Japan declines*
- *'Rule of the jungle' better than rule of law*
- *Where 'widgets' are made determines 'fair' trade – services and agriculture irrelevant?*
- *Only US sovereignty matters – foreign leaders apparently have no constituencies and will do what Trump wants to keep access to the great US market*
- *Unfortunately, Trump's trade views have not evolved since the 1980s – US is not the world's sole economic powerhouse – world trade today is so vast that trade with the US with the US is not worth sacrificing a nation's sovereignty.*
- *Confuses cozy personal overseas relationships with foreign policy progress – countries do not have 'relationships' they have only 'interests' – flattery gets you everywhere with a narcissist like Trump!*

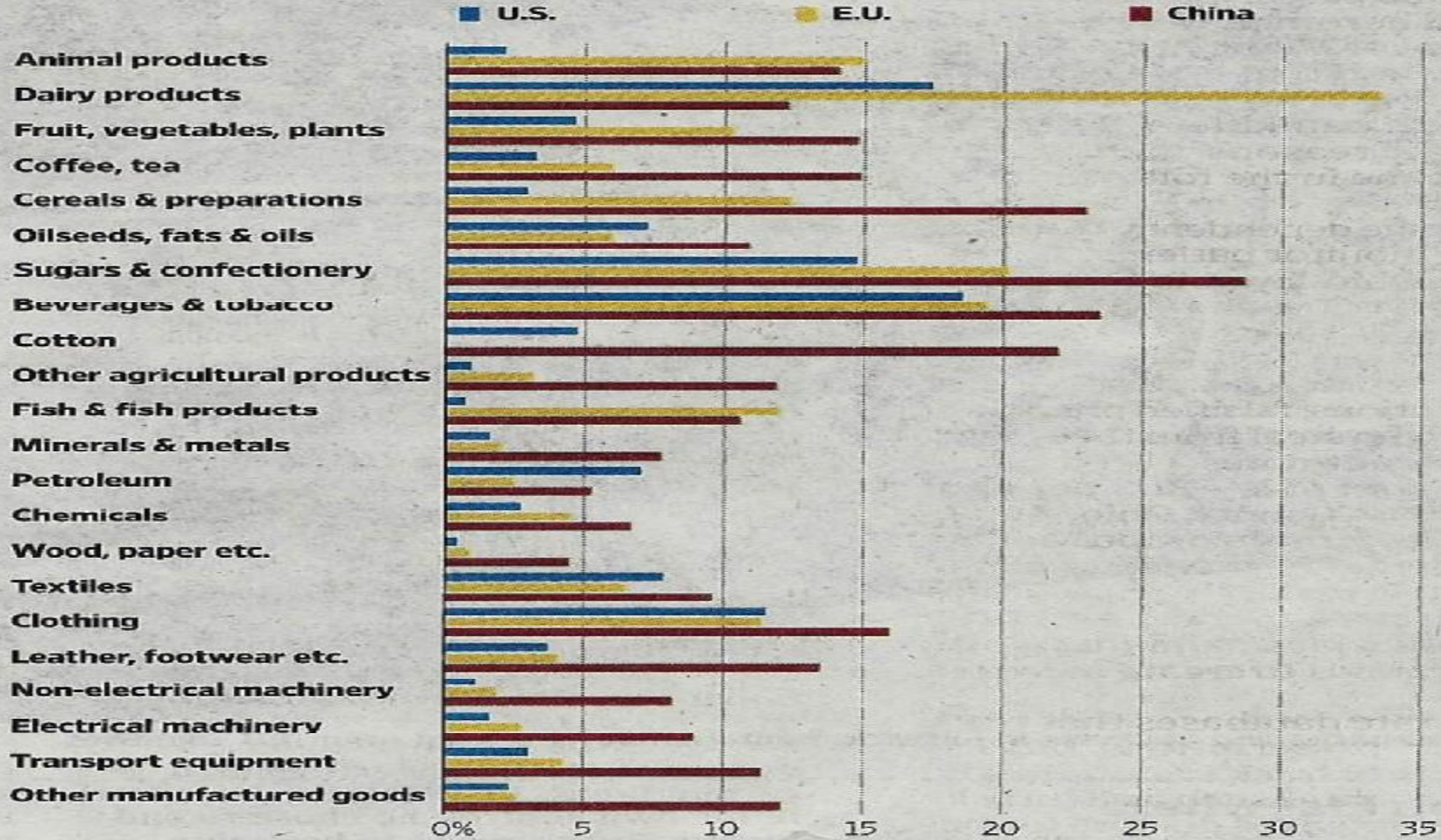


But is there method to Trump's trade madness?

- *Priorities: Obama – all sacrificed to global warming agenda; George W. Bush – after 9/11 all focus on terrorism; Trump – US economy is top focus, unlike his predecessors; trade reciprocity essential for US growth*
- *Global trading system was in bad shape before Trump: US open market but others way behind:*
- *EU (managed trade, ossified, over regulated): T-TIP failure*
- *Japan, India, Brazil, etc. (highly protected despite some openings)*
- *China (implemented WTO accession commitments but aggressively pursuing state sponsored monopolistic and oligopolistic industrial policy, hampering foreign competitors, accelerated under Xi's total control society, 'Made in China 2025': WTO not designed to interdict vast industrial state control*
- *Failure of Doha round 2005: WTO 'death knell'; without liberalizing agenda, WTO is only weak judicial entity*
- *TPP good start on liberalization but not ambitious enough on key government involvement and limited to only 40% of global GDP; EU, China, Brazil, India, etc. outside*
- *An alternative is Trump's 'go it alone trade agenda' – pursuing by a strange protectionist approach, nothing less than the drastic realignment of the dysfunctional WTO global trading order – he intends to open up the world trading system much like the WTO tried with Doha*
- *His unilateral protectionism has gotten the attention of all the key players who are lining up to make deals: NAFTA, EU, Japan, India, and probably China*

Who's Protectionist?

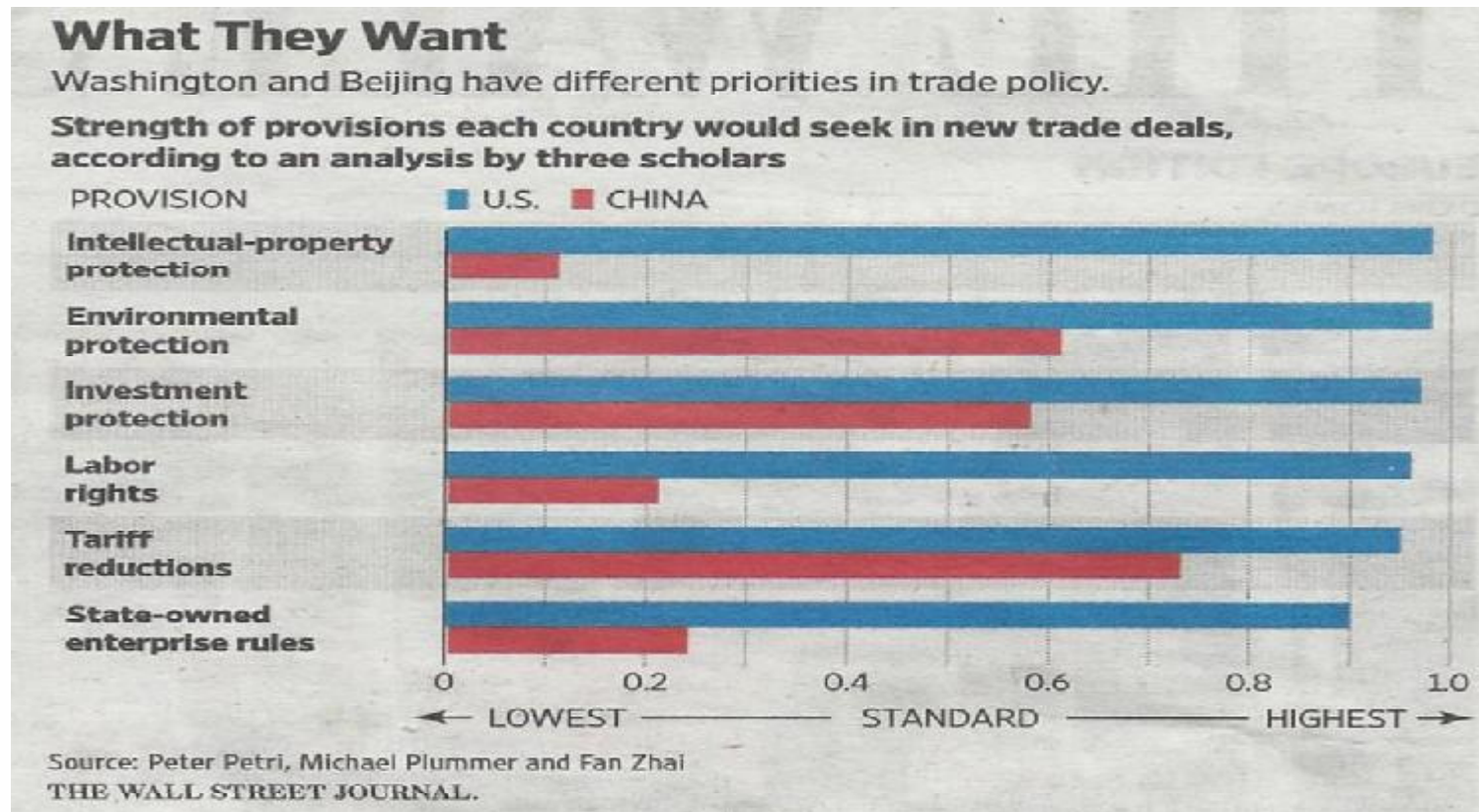
Average applied tariffs for the U.S., the EU and China



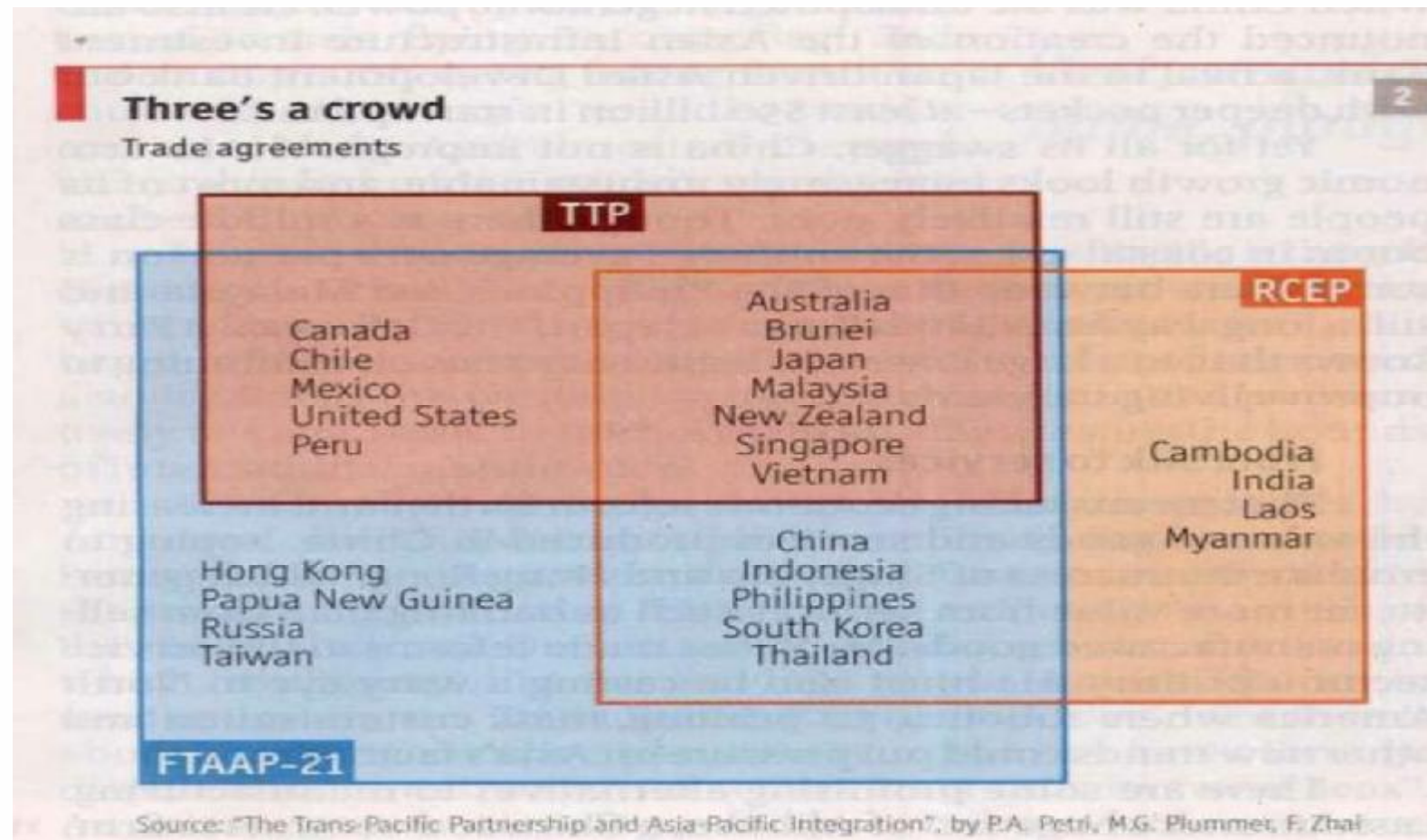
Sources: World Trade Organization, U.S. Department of Commerce

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Why China is not in TPP



TPP and China



Trump's Trade Deals – 'bluster and compromise'

- **EU 'tariff truce':** hit by 'national security' 25% duty on metals and facing 25% on autos EU made White House deal: end EU retaliation duties and buy more soy beans while pursuing a broad free trade deal. Trumps 'blinks' but outcome uncertain as broad deal may fissile in Brussels
- **NAFTA deal close.** Mexico agrees to new restrictions on duty free autos, while Trump 'blinks' on tough 'sunset' and arbitration rules; gives Canada only three days to come on board and to fix dairy, lumber issues outstanding for decades; Trump threatens withdrawal if Canada balks
- **China fight.** Trump's 'mo' is to take extreme position but compromise in the end to get a deal: he is likely to hit China with the full range of extra duties (well into next year) to maximize leverage before he makes concessions and ends the 'blood letting'; shoes will hit in last round



US/China Trade: Vital to Both!



What does Trump want from China? 'Unconditional Surrender'

Stop unfair practices (like IP theft), restructure economy to be more market driven (end subsidies) and reduce bilateral trade deficit by \$200 billion!

So far Trump has been trying surgery using a 'chain saw in making threats and demanding unconditional surrender' by China, asking it to 'boil the ocean'!

The more Trump drives growth with tax and spending, the more Americans will buy – driving up the trade deficit with China!

Despite all the furor, there is little prospect that Trump can do much about the \$375 billion trade imbalance with China.

- Americans want the best of everything and have the income to buy; foreign investors in China just help fill the demand; almost nothing the China government can do about it.*
- His insistence that China abandon its heavy government involvement with business and economic decisions is unrealistic given China's internal politics and growth imperatives. He can expect very little in this area except more minor changes and revised rhetoric – 'Made in China 2025' will move forward.*
- So, Trump will either have to*
 - settle for some cosmetic concessions and declare victory or*
 - hammer China with extra duties and face the consequences of retaliation on his important supporters in the farm and high-tech sectors.*
 - He has left himself with no other alternative.*

Thus, the outlook is worrisome – we may be in for a prolonged 'trade war' with extra duties – possibly on all shipments indefinitely.



Trump's China War – US Extra Import Duties

- **Solar Panels** (4 years at 50-20%)
- **Washing machines** (3 years at 50-16%)
- **Metals: Steel** 25% and **Aluminum** 10% (Sec. 232 'national security' case, applies to all suppliers with no time limit; Retaliation: China 25% on US pork, poultry, fruits, etc.; EU hits motor cycles, whisky, etc.; Canada and Mexico (could be free with NAFTA deal), Japan also hit US exports; Trump/Juncker deal would free EU, but negotiation of details just beginning; duties doubled on Turkey due to crash devaluation of the lira.
- **Autos: Sec. 232** case being investigated; Trump threatens extra 25% duty on all motor vehicles
- **Intellectual Property Theft: Sec. 301**: 25% on \$50.0 billion of China exports of industrial, chemicals, aero space, etc. (China push back: 25% on planes, soy beans, autos, etc. about 40% of US exports to China) all duties effective August 23; US limits China investment in US
- **\$200.0 billion more threatened at 25%**: list being finalized: all bags (HTS 4202), leather (41), textiles (50-60), plastic and rubber apparel (3926.20, 4015); comments due by September 6; China threatens 25% extra duties on the remaining \$60 billion in US imports to China and action against US investors
- **\$200.0 billion more (presumably at 25%)** if first round of \$200 billion does not produce results; probable items to be included: \$70 billion cellphones, \$45 computers, \$36 garments, \$27 toys/sports gear, \$20 furniture and \$15 shoes.
- If no deal is made, likely that all imports from China to the US will be subject to extra duties of 25% – indefinitely



US/China Trade Talks Resume – No Progress

- *Mid-level, late August talks: Vice Minister Wang Shouwen and Treasury Undersecretary David Malpass*
- *A welcome suspension of the ‘bomb’ throwing, but no breakthrough*
- *Higher level talks ended in stalemate in May*
- *China confused after good liberalization offer was shunned*
- *Failure reflected dimension of the issues and the inability of the US to present a unified position – Trump’s team is hopelessly divided – some want aggressive tariffs and others want incremental improvements – only Trump can decide and he seems to follow the last person he talks to!*
- *Incentives for compromise: Trump wants ‘wins’ for November election and President Xi needs to offset slowing economy, scandals and questions about his leadership monopoly*
- *Outcome will depend on which Trump shows up and what he says to President Xi at their sideline meetings at APEC, mid-November, and G-20 at end of November*



Export Opportunities/Challenges

US Economy, Sourcing and Consumer trends



Growth Accelerates – For How Long?



Job Growth Continues

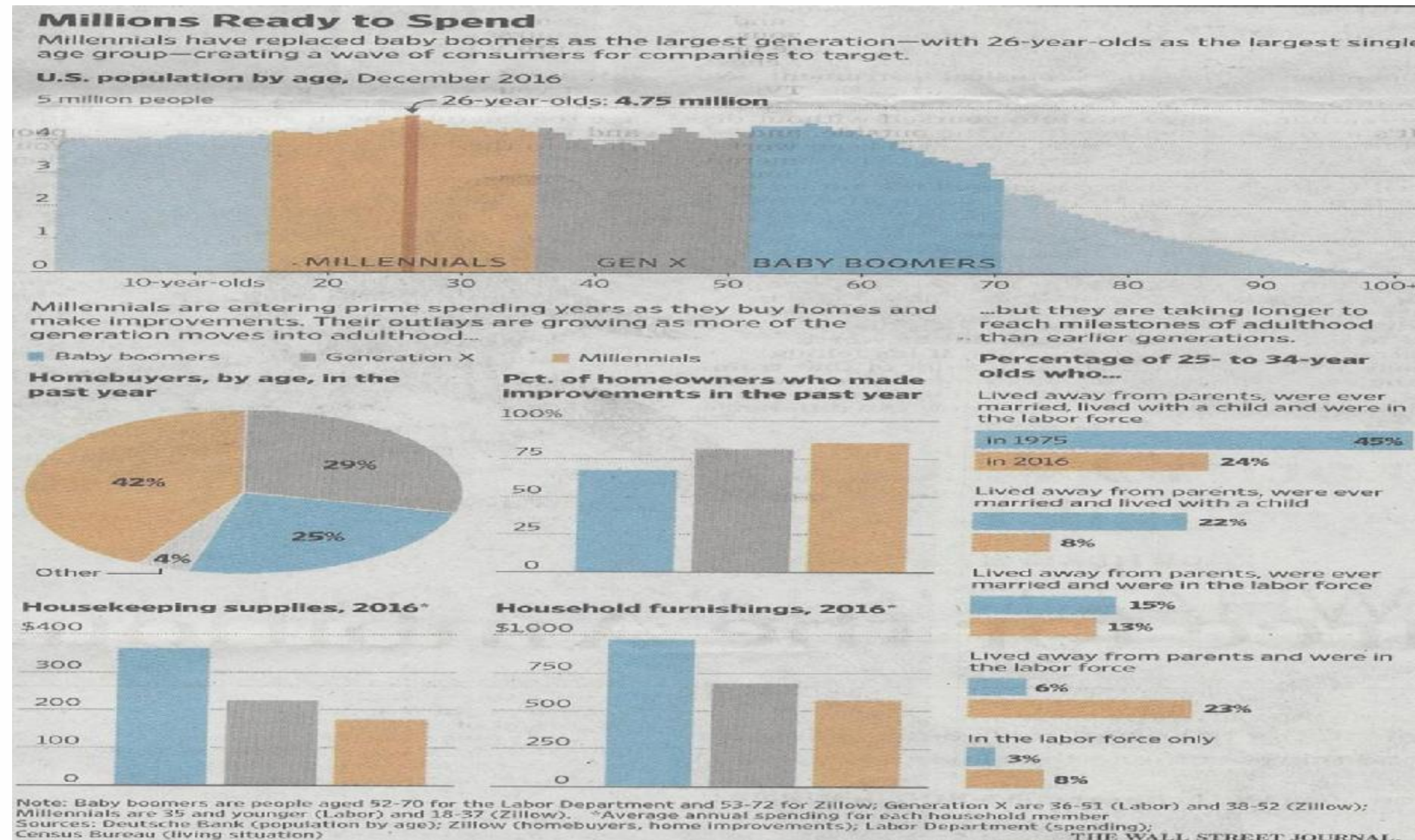


Consumer Demand

US Consumer Life Style Trends: Traditional Products and Channels Challenged



Boomers Decline

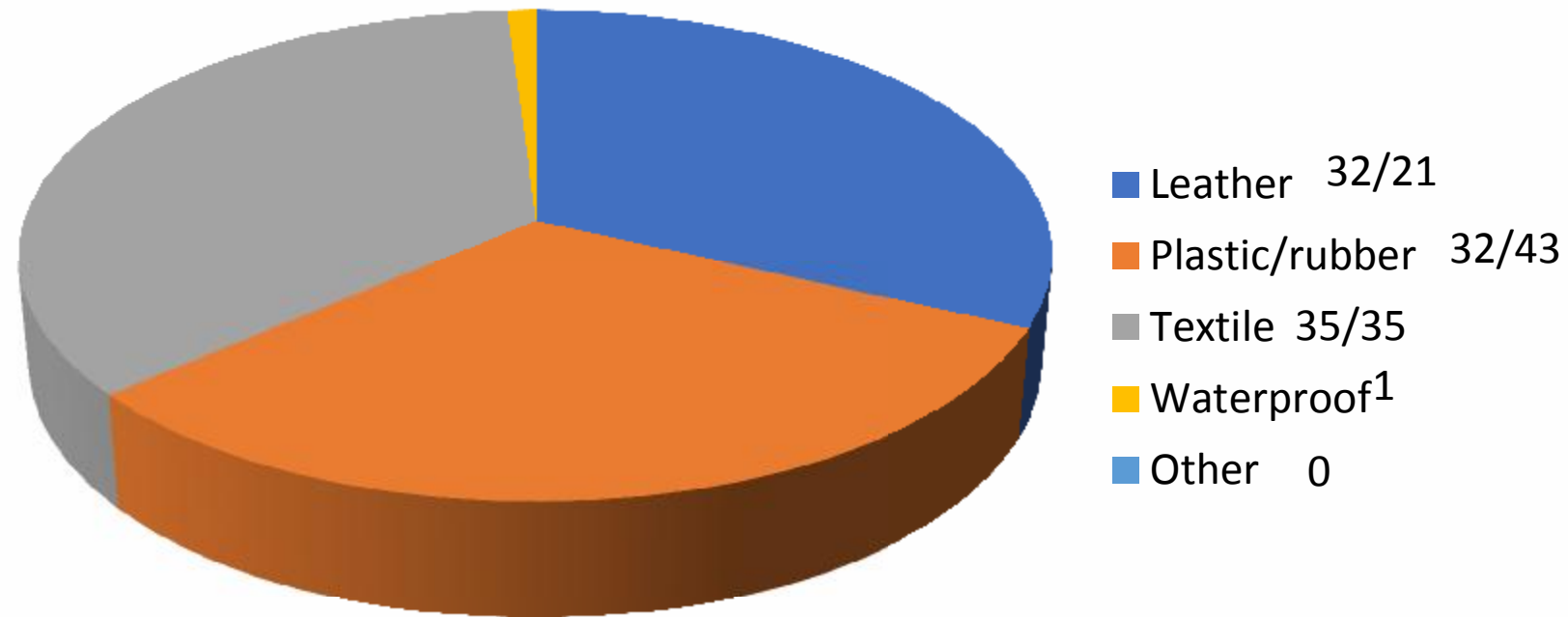


US Consumption Trends

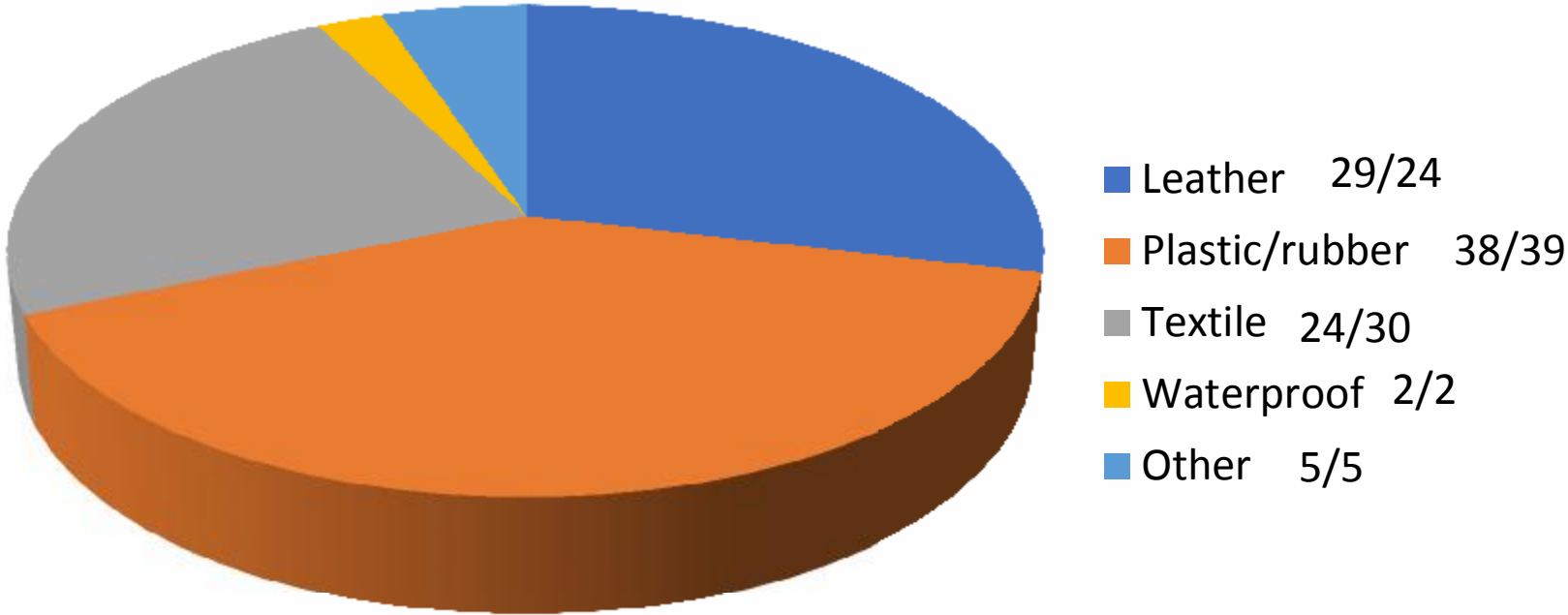
- **'Leisure'/comfort** is king: NPD – not a trend – fundamental shift in US lifestyle and dress, redefining the apparel and shoe sectors
- **Athleisure** driving women's business at the expense of traditional fashion items
- US workplace moving from 'dress casual' to 'casual' even to 'leisure'
- Is there any end to the 'sneaker' surge? Recent weakness?
- **Women's fashion shoes:** signs of renewed life
- Footwear consumer sales grew by 2% in 2017, with internet sales increasing by 6%, now accounting for 28% of total sales, but growth rate has slowed; leather items are especially weak



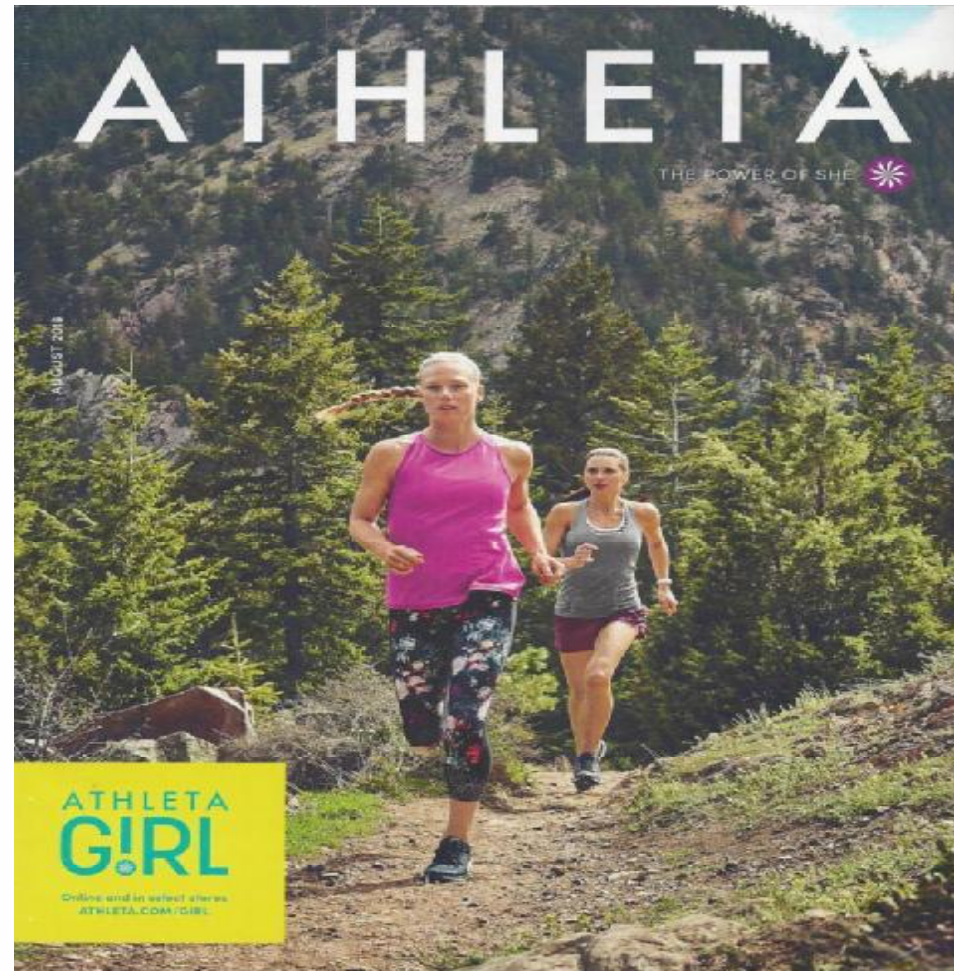
US Consumption by Upper Material 2011/2017 (Market Share in Pairs)



EU 27 Consumption by Upper Material 2011/2016
(Market Share in Pairs)



'Athleisure' Drives Women's Sales



Social Exercise Drives Fashion Slacks and Blue Jeans are Gone



Even Bankers Abandon Formal

Dress Like a Banker
J.P. Morgan updated its dress code to allow employees to don "business casual" clothes.

YES	NO
 Sweaters and polo shirts	 Athletic clothing like yoga pants or sweatpants
 Casual pants, capris, dresses and skirts	 Sneakers, unless approved by manager
 Dress slacks and dress sandals	 Flip-flops, clogs or slippers
	 Shorts

PHOTOS: ISTOCK

J.P. Morgan Swaps Pinstripes For Capri Pants and Khakis

By Emily Glazer

J.P. Morgan Chase & Co. is loosening its collar, adopting a more casual dress code as the bank tries to stay in step with the tastes of clients and technology upstarts.

In a break from tradition, the largest U.S. bank by assets is allowing employees to wear business-casual attire on most occasions, according to an internal memo reviewed by The Wall Street Journal.

The move—trading pinstripes for pullover sweaters—is relatively unusual for a Wall Street bank, in which suits are typically required for men and women due to longstanding industry customs and the etiquette involved in dealing with wealthy clients.

It also reflects the ever-changing world of banking, in which big financial institutions are constantly evolving to stay relevant as financial technology firms attempt to take away business and as many bank clients, including in Silicon Valley, continue to shun formal wear.

Though most other big banks haven't changed their dress codes, some have casual summer Fridays, and other financial-services firms are beginning to let employees know it is all right to dress down.

Accounting-and-consulting firm PricewaterhouseCoopers moved to a more casual dress code a few weeks ago, allowing employees to wear jeans so long as there are no client meetings.

"This is all part of a pivot as large organizations like ours try to do more and more listening to our employees," said PricewaterhouseCoopers Vice Chairman Tim Ryan. "The banking industry has similar challenges...we are in a war for talent."

Please see DRESS page B2

Fly-knit: Nike's Latest Running Shoe





U.S. Footwear Retail/Brands

Percent of Change 2018 - 2017

Company	4th/ 3 rd /2 nd /1 st Q 2018	2017 4th Q/3 rd Q	2017 2nd Q/1 st	Total Stores	Sales 2017
DSW*	9.7/2.2	1.3/-0.4	0.6/-3.0	512	\$2,799.8
Famous*	2.6/-0.8	2.8/0.9	2.8/-0.6	1,055	\$1,637.6
Genesco*	9.0/5.0	9.0/3.0	1.0/-4.0	1,539	\$2,127.0
Shoe Carnival	6.7/1.3	4.4/-0.5	0.4/-3.9	408	\$1,019.0
Footlocker*	0.5/-2.8	-3.7/-3.7	-6.0/0.5	3,363	\$7,782.0
Brands					
Nike+	13.0	7.0/5.0	0.0/5.0	384	\$32,376.0^
Under Armour+	8.0/6.0	5.0/-4.5	9.0/6.6	241	\$4,976.0
adidas+	4.0/2.0	12.4/9.0	20/19	3,446	\$26,098
Caleres ()	1.9/1.4	13.8/14	16.8/1.1	234	\$1,148.0
Steve Madden+	5.8/6.2	8.3/8.0	15/11.2	169	\$1,550.0
Skechers+	10.6/16.5	27/16.2	16.9/9.6	204	\$4,164.2
WWW+	-5.3/-9.7	-5.8/-3.7	-3.3/-4.6	444	\$2,350.0

Leading US Department Stores – Same Store Sales

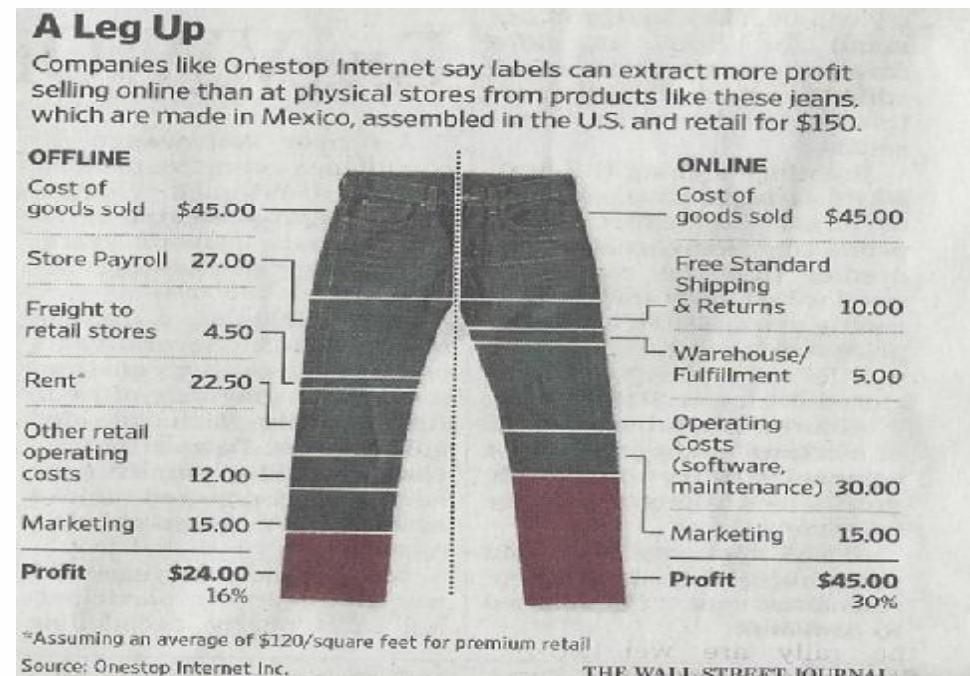
	4/3/2/1 Q 2018 % of Change	4/3/2/1 Q 2017 % of Change	Average Square Footage	Shoes % of Total Sales	Store Count	Sales 2017/2016 Total
Nordstrom's	4.0/0.6	2.6/-0.9/1.7/0.8	130,000	21%	349(215)	\$15.1/14.5
Macy's	0.5/4.2	1.4/-3.6/-2.5/4.6	182,000	36%*	833	\$24.8/25.8
Dillard's	1.0/2.0	3.0/-1.0/-1.0/4.0	171,000	14%	268	\$6.3/6.3
Wal-Mart US	4.5/2.1	2.6/2.7/1.8/1.5	180,000	1-2%	4,203	\$319/308
TJ Maxx	6.0/3.0	4.0/0.0/3.0/1.0	24,000	5%	3,812	\$35.9/33.2
Target	4.9/3.0	3.6/0.9/1.1/-1.3	160,000	2-4%	1,790	\$71.9/69.5
Kohl's	3.1/3.6	6.3/0.1/-0.4/-2.7	100,000	4-5%	1,154	\$18.1/18.7

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Why do stores still exist?



Export Opportunities/Challenges

Shoe Sourcing Scramble



Footwear Supply

'Supply follows demand!' – Women's fashion shoes rebound?

Global Footwear Supply – Big Picture

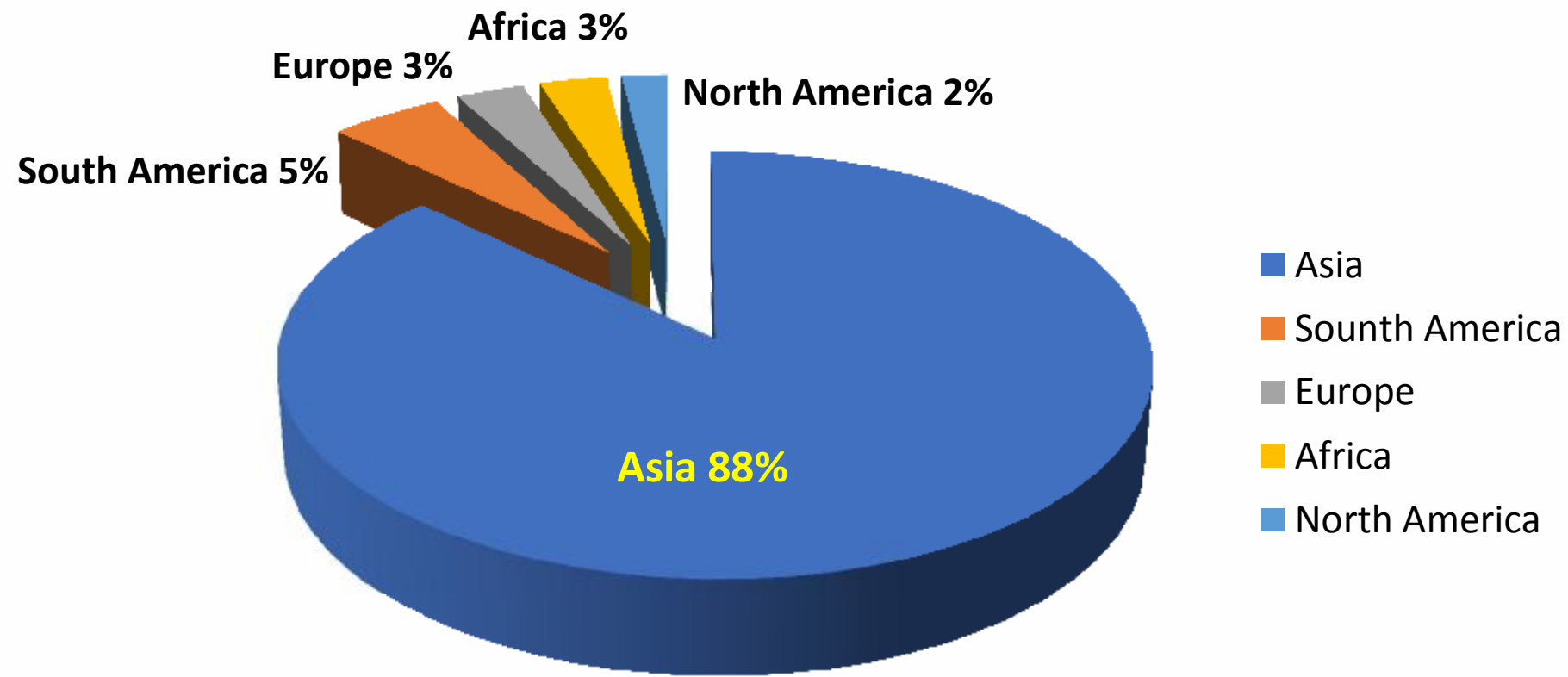
China's Dramatic Decline -- But who gains?

Lead time and local supply chain

How will Trump's extra duties on shoes affect China?

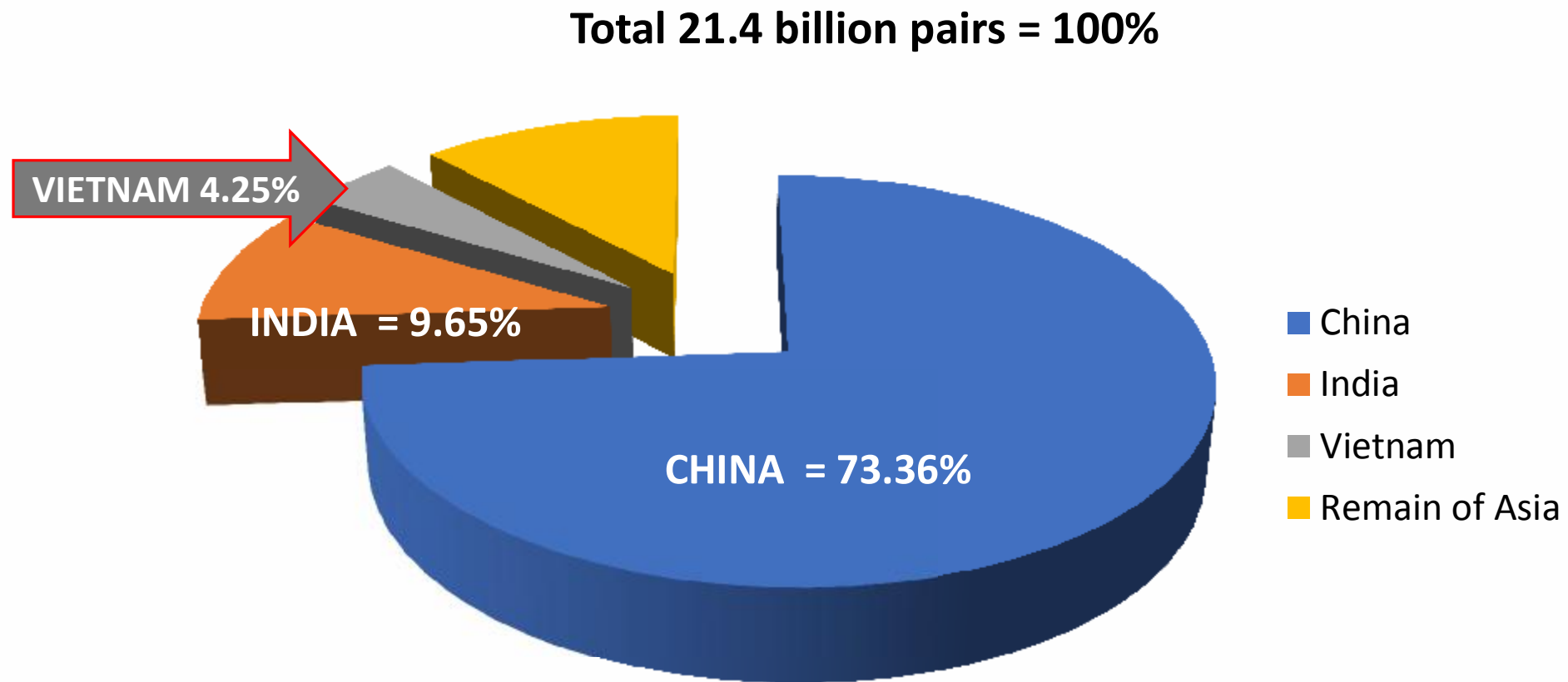


Global Footwear Production



Total 24.3 billion pairs

Footwear Production in Asia



World Footwear Supply, Selected Countries (millions of pairs), 2017

Source: Industry estimates. () % of change

Country	Production	Exports	Imports
China	13,500 (3.8)	9,624.8 (3.6)	115 (3.6)
India	2,257 (NA)	150 (NA)	162 (NA)
Vietnam	1,242 (5.0)	1,104 (5.0)	50 (10)
Indonesia	1,012 (1.0)	250 (-3.0)	20 (15.0)
Brazil	909 (-0.9)	127.1 (3.9)	23.7 (-21.0)
EU	540 (1.0)	229.1 (6.0)	2,533.5 (1.8)
Bangladesh	399 (NA)	48.0 (NA)	24.0 (NA)
Turkey	390 (6.6)	212.3 (6.0)	33.3 (-8.0)
Thailand	260 (0)	100 (-7.0)	60 (17.0)
Mexico	259 (4.0)	26.4 (4.0)	88.1 (7.2)
Russia	114	4.8	354.4
Korea	43 (NA)	4 (NA)	121 (NA)
Japan	57 (-5.0)	1.2 (0)	639 (-1.0)
Taiwan	40 (0)	17.2 (1.5)	95 (20.0)
US	40(0)	43.0 (-3.0)	2,379.4 (1.8)

August 30, 2018



World Footwear Consumption, Selected Countries (millions of pairs), 2016

Source: Industry estimates, () % of change

Country	Consumption	Pairs Per Person	Import Penetration
<i>China</i>	<i>3,807 (-2.9)</i>	<i>2.8 (-6.0)</i>	<i>2.9 (12)</i>
<i>EU</i>	<i>2,803 (-1.4)</i>	<i>5.6 (0)</i>	<i>88 (0)</i>
<i>US</i>	<i>2,335 (-5.3)</i>	<i>7.1 (-5.0)</i>	<i>99 (0)</i>
<i>India</i>	<i>2,078 (0)</i>	<i>1.7 (0)</i>	<i>7.8 (0)</i>
<i>Brazil</i>	<i>825 (6.5)</i>	<i>3.9 (2.6)</i>	<i>3.5 (-16.0)</i>
<i>Japan</i>	<i>695 (-1.2)</i>	<i>5.4 (-3.0)</i>	<i>97 (5.4)</i>
<i>Russia</i>	<i>463.6</i>	<i>3.25</i>	<i>76</i>
<i>Indonesia</i>	<i>782 (0)</i>	<i>2.9 (0)</i>	<i>6 (-10)</i>
<i>Mexico</i>	<i>306 (2.7)</i>	<i>2.5 (0)</i>	<i>26.3 (-2.5)</i>
<i>Korea</i>	<i>200 (0)</i>	<i>3.9 (0)</i>	<i>75 (0)</i>
<i>Turkey</i>	<i>202 (5.8)</i>	<i>2.7 (6.3)</i>	<i>27 (-10.2)</i>
<i>Thailand</i>	<i>195 (0)</i>	<i>3.0(0)</i>	<i>24 (0)</i>
<i>Canada</i>	<i>164 (0)</i>	<i>5.2 (0)</i>	<i>99 (0)</i>
<i>Vietnam</i>	<i>188 (9.0)</i>	<i>2.2 (15)</i>	<i>26 (0)</i>
<i>Australia</i>	<i>100 (0)</i>	<i>4.6 (0)</i>	<i>95 (0)</i>
<i>Taiwan</i>	<i>98 (3.2)</i>	<i>4.3 (4.9)</i>	<i>77 (0)</i>

Sept 2017

Shoe Worker Cost Comparison 2018

Country	Cost per Hour 2018/2017 (all costs included)	Cost % of Change 2018/2017	Exchange Rate USD 2018/2017 (% of change)
<i>Ethiopia</i>	<i>0.38/0.43</i>	<i>-11.6%</i>	<i>27.7/23.35 (18.6%)</i>
<i>Bangladesh</i>	<i>0.66/0.61</i>	<i>8.2%</i>	<i>84.36/80.41 (4.3%)</i>
<i>Myanmar</i>	<i>0.75/NA</i>	<i>NA</i>	<i>1,468/1,360 (7.9%)</i>
<i>Pakistan</i>	<i>0.89/NA</i>	<i>NA</i>	<i>122.6/105.5 (16.2%)</i>
<i>India</i>	<i>0.95/0.91</i>	<i>4.4%</i>	<i>68.5/63.7 (7.5%)</i>
<i>Nicaragua</i>	<i>1.33/1.30</i>	<i>2.3%</i>	<i>31.88/30.13 (5.8%)</i>
<i>Cambodia</i>	<i>1.66/1.50</i>	<i>10.6%</i>	<i>4,069/4,066 (0.0%)</i>
<i>Vietnam</i>	<i>1.66/1.65</i>	<i>0.1%</i>	<i>23,271/22,730 (2.4%)</i>
<i>Thailand</i>	<i>1.72/1.64</i>	<i>4.9%</i>	<i>33.33/33.24 (0.3%)</i>
<i>Dominican Republic</i>	<i>2.20/2.27</i>	<i>-3.0%</i>	<i>47.24/46.16 (2.3%)</i>
<i>Indonesia</i>	<i>2.28/2.16</i>	<i>5.6%</i>	<i>14,431/13,340 (8.2%)</i>
<i>China</i>	<i>2.58/2.46</i>	<i>4.9%</i>	<i>6.7/6.7 (0.0%)</i>
<i>Mexico</i>	<i>2.96/2.65</i>	<i>11.8%</i>	<i>18.5/17.8 (3.9%)</i>
<i>Turkey</i>	<i>3.17/3.52</i>	<i>-10.0%</i>	<i>5.23/3.54 (47.7%)</i>
<i>Brazil</i>	<i>4.05/3.96</i>	<i>2.3%</i>	<i>3.7/3.20 (16.0%)</i>
<i>Portugal</i>	<i>5.74/5.78</i>	<i>0.62%</i>	<i>1.16/1.18 (-1.7%)</i>
<i>Italy</i>	<i>15.70/15.54</i>	<i>1.0%</i>	<i>1.16/1.18 (-1.7%)</i>
<i>Japan</i>	<i>21.71/21.70</i>	<i>0.0%</i>	<i>111.0/110.0(0.0%)</i>
July data, costs in USD August 22, 2018			



Rates of Exchange vs. US Dollar

(Percent of change since January 1, 2018 in parenthesis)

Country	July 1, 2005	August 13, 2018	Percent Change Exchange Rate
CHINA	8.28	6.85 (5.3)	17.3
VIETNAM	15,870	23,277 (2.5)	-46.7
INDONESIA	9770	14,493 (7.5)	-48.3
BRAZIL	2.34	3.86 (16.7)	-65.0
EU	1.21	1.14 (5.2)	-5.8
THAILAND	41.36	33.33 (2.3)	19.4
INDIA	43.60	69.1 (8.2)	-58.5
MEXICO	10.75	19.9 (-3.9)	-85.1
TURKEY	1.34	6.43(69.4)	-379.9

Share of US Market 2017: Billions USDs

Garments

- *Total imports \$80.3 (-0.5%)*
- *Vietnam \$11.6 (7.1%)*
- *Vietnam share 14.4%*
- *China \$27.9 (3.2%)*
- *China's share 34.7%*

Footwear

- *Total imports \$25.1*
- *Vietnam \$5.4 (10.2%)*
- *Vietnam share 21.5%*
- *China \$14.0 (-4.8%)*
- *China's share 55.8%*



Footwear Sourcing

US and EU Footwear Import Trends



US Footwear Imports 2017

Country (2016/2017)	Pairs	% Change	Value	% Change	Unit Value	% Change
China (72.6%)/(71.4%)	1,699.1	0.0	14,020.4	-4.3	8.25	-4.4
Vietnam (15.7%)/(17.0%)*	404.4	10.1	5,416.0	11.4	13.39	1.2
Indonesia (4.3%)/(4.4%)*	104.5	3.7	1,481.9	3.6	14.18	0.0
Cambodia (1.2%)/(1.2%)	28.3	0.8	263.2	6.8	9.30	-1.3
India (1.2%)/(1.1%)	25.8	-8.2	448.1	-8.7	17.37	-0.5
Mexico (0.8%)/(0.8%)	18.8	2.2	384.5	-5.4	20.45	3.0
Italy (0.8%)/(0.8%)	18.3	1.7	1,362.9	1.0	73.27	2.8
Brazil (0.6%)/(0.5%)	12.0	-13.7	204.1	-12.8	17.01	0.1
Dom Rep (0.5%)/(0.4%)	10.4	-9.6	215.5	-24.0	20.72	-14.6
Thailand (0.3%/0.4%)*	8.4	21.7	104.1	10.3	12.39	-9.4
Spain (0.2%/0.2%)	4.7	-2.1	232.6	-3.9	49.49	-1.8
Bangladesh (0.2%/0.2%)	4.1	5.1	113.4	9.4	27.66	3.7
Portugal (0.1%/0.1%)	3.2	12.0	130.0	8.0	40.63	-2.9
Ethiopia (0.1%/0.1%)	2.4	21.0	28.7	23.2	11.96	NA
Burma (.06%)	1.9	47.5	25.4	21.0	13.37	NA
World Total	2,379.4	1.8	25,135.4 ₄₉	-0.4	10.3	-2.6



US Footwear Imports Jan – June 2018

Country (2017/2018)	Pairs	% Change	Value	% Change	Unit Value	% Change
China (72%)/(70%)	889.7	-0.9	6,561.9	-2.1	7.38	-1.1
Vietnam (16.5%)/(18.5%)*	234.8	13.7	3,021.0	14.1	12.86	-0.3
Indonesia (4.6%)/(4.5%)	56.7	-0.3	818.2	2.6	14.43	2.9
Cambodia (1.2%)/(1.3%)*	16.4	13.9	149.1	29.3	9.09	12.8
India (1.0%)/(1.0%)	12.3	-5.0	198.8	-7.5	16.16	-3.0
Italy (0.8%)/(0.9%)*	11.3	0.9	741.9	13.0	65.65	-1.0
Mexico (0.7%)/(0.8%)*	10.3	9.3	209.9	29.5	20.38	16.3
Brazil (0.6%)/(0.5%)	6.2	-9.2	86.3	-22.5	13.92	-12.7
Dom Rep (0.5%)/(0.4%)	4.7	-12.7	90.4	-15.3	19.23	-2.7
Thailand (0.3%/0.4%)*	4.4	18.1	51.6	7.3	11.73	-7.7
Spain (0.2%/0.2%)	2.5	-10.3	125.4	7.4	50.16	20.7
Bangladesh (0.2%/0.2%)	2.1	13.3	56.8	16.2	27.04	5.1
Portugal (0.2%/0.1%)	1.4	-2.0	59.3	1.5	43.36	9.2
Ethiopia (0.1%/0.1%)	1.3	5.1	15.7	21.7	12.08	12.3
Burma (.06%/.09%)*	1.2	72.2	14.1	67.9	11.75	-2.0
World Total	1,271.1	1.9	12,527.50	3.4	9.86	1.5



US Leather Footwear Imports 2017

Country (2016/2017)	Pairs	% Change	Value	% Change	Unit Value	% Change
China (56%)/(55.6%)	261.5	-10.1	4,996.2	-10.8	19.14	-0.6
Vietnam (19.2%)/(20.2%)*	95.6	-3.3	1,819.9	-0.5	19.03	-3.0
Indonesia (7.6%)/(7.7%)*	36.6	-6.4	563.1	-4.6	15.38	1.8
India (3.8%)/(3.8%)	17.9	-8.2	365.5	-10.6	20.42	-2.0
Italy (2.2%)/(2.2%)	10.5	-7.1	1,045.9	-6.2	99.61	-0.9
Mexico (1.5%)/(1.5)	7.3	-4.6	288.5	-3.0	39.52	0.8
Cambodia (1.2%)/(1.4%)	6.4	6.7	108.8	0.9	17.00	-5.4
Dom rep (1.6%)/(1.3%)	6.0	-26.8	176.1	-29.1	29.35	-3.0
Brazil (1.5%)/(1.2%)	5.8	-22.7	158.8	-17.8	28.71	-3.7
Spain (0.8%)/(0.7%)	3.5	-10.4	192.5	-8.7	55.00	1.0
Thailand (0.6%/0.7%)*	3.5	5.2	68.0	18.9	19.43	18.7
Bangladesh (.6%)/(.7%)*	3.5	7.3	108.5	12.2	31.00	5.7
Portugal (0.5%)/(0.5%)	2.6	1.5	113.4	1.8	43.62	1.7
Ethiopia (0.3%)/(0.4%)*	1.9	14.2	23.5	18.1	12.37	-0.6
Burma (.07%)/(0.2%)*	.862	29.0	NA	NA	NA	NA
World Total	473.2	-8.2	10,404.9	-7.9	21.99	0.3

US Leather Footwear Imports Jan- June 2018

Country (2017/2018)	Pairs	% Change	Value	% Change	Unit Value	% Change
China (54.6%)/(51.8%)	113.1	-7.9	2,075.1	-8.7	18.35	-0.5
Vietnam (19.5%)/(22.8%)*	49.7	12.7	904.4	15.7	18.19	2.6
Indonesia (7.6%)/(7.4%)	16.1	-13.1	263.2	-12.1	16.35	9.4
India (3.8%)/(3.7%)	8.1	-0.9	158.8	-4.5	19.60	-3.3
Italy (2.5%)/(2.7%)*	5.8	3.5	551.7	6.3	95.12	2.7
Mexico (1.4%)/(1.8)*	4.0	20.4	152.4	29.7	38.10	6.3
Cambodia (1.0%)/(1.7%)*	3.7	45.2	61.5	55.7	16.62	5.5
Dom Rep (1.3%)/(1.2%)	2.6	-13.6	70.1	-17.6	26.93	-8.1
Brazil (1.6%)/(1.1%)	2.3	-30.3	60.1	-30.2	26.09	0.2
Thailand (0.5%)/(0.9%)*	2.0	25.5	36.9	28.6	18.45	2.8
Spain (0.8%/0.9%)*	1.9	-3.2	102.8	7.8	54.11	13.3
Bangladesh (.5%)/(.8%)*	1.8	17.5	53.9	16.7	30.00	-2.6
Portugal (0.5%)/(0.5%)	1.1	-4.0	51.6	3.6	46.91	13.0
Ethiopia (0.4%)/(0.5%)*	1.0	8.2	13.6	23.6	13.60	16.3
Burma (0.1%)/(0.2%)*	0.326	31.5	NA	NA	NA	NA
World Total	218.4	-3.0	4,736.3 52	-0.9	21.69	2.4

EU Footwear Imports 2017

Country	Pairs	% Change	Value/Euros	% Change	Unit Value	% Change
China (69.7/68.3%)	1,729.4	-0.1	8,479.2	-0.8	4.90	-0.7
Vietnam (11.3/11.9%)	302.3	6.5	4,065.9	10.4	13.45	3.7
Indonesia (4.3/4.6%)	117.1	8.3	1,605.0	5.0	13.71	-3.0
India (3.3/3.2%)	81.8	0.1	1,148.1	-1.4	14.04	-1.5
Cambodia (1.6/2.0%)	51.6	30.5	626.9	19.8	12.15	-8.1
Bangladesh (1.4/1.5%)	38.8	13.5	376.1	7.6	9.69	-5.2
Turkey (1.5/1.3%)	32.8	-11.9	201.9	11.9	6.16	27.1
Brazil (0.8/0.8%)	21.1	2.3	154.4	4.7	7.32	2.4
Bosnia & Hertz (.8/.8%)	20.3	6.2	250.8	-0.2	12.35	-6.1
Tunisia (0.7/0.8%)	19.8	7.5	309.7	6.6	15.67	-0.8
Albania (0.7/0.7%)	18.9	7.1	243.9	10.9	12.93	3.6
Morocco (0.5/0.5%)	12.8	-4.7	228.4	-0.5	17.88	4.5
Myanmar (0.2/0.3%)	8.2	80.0	87.2	66.0	10.64	-7.8
World Total	2,533.5	1.8	19,413.5	4.0	7.66	2.1

Footwear Export Opportunities/Challenges

- *Global Competition – China and Beyond*



China – What's Next?



China's Solid Growth

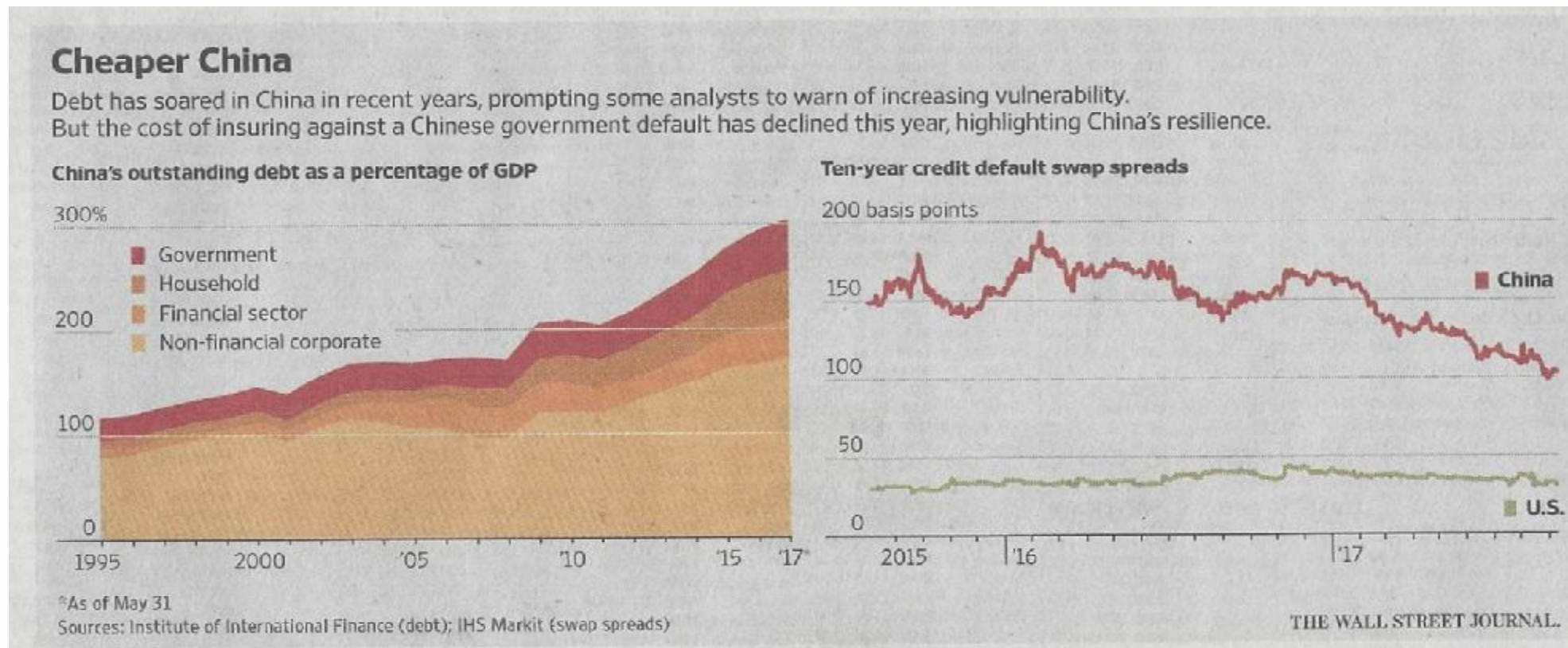


China's Policy Challenges

- *Slowing growth – sustained by credit binge*
- *Aging and declining population – few young workers*
- *Soaring debt – national, local, corporate, etc.*
- *Old investment/export model – thriving; sustainable?*
- *Runaway capital outflows – heavy handed controls*
- *Stable currency management – will it hurt growth?*
- *Squeezed corporate profits – few SOEs are viable*
- *How many zombies? SOEs, real estate*
- *Xi's strategy: more state control of economy, squeeze foreigners out, expand military, fix environment*



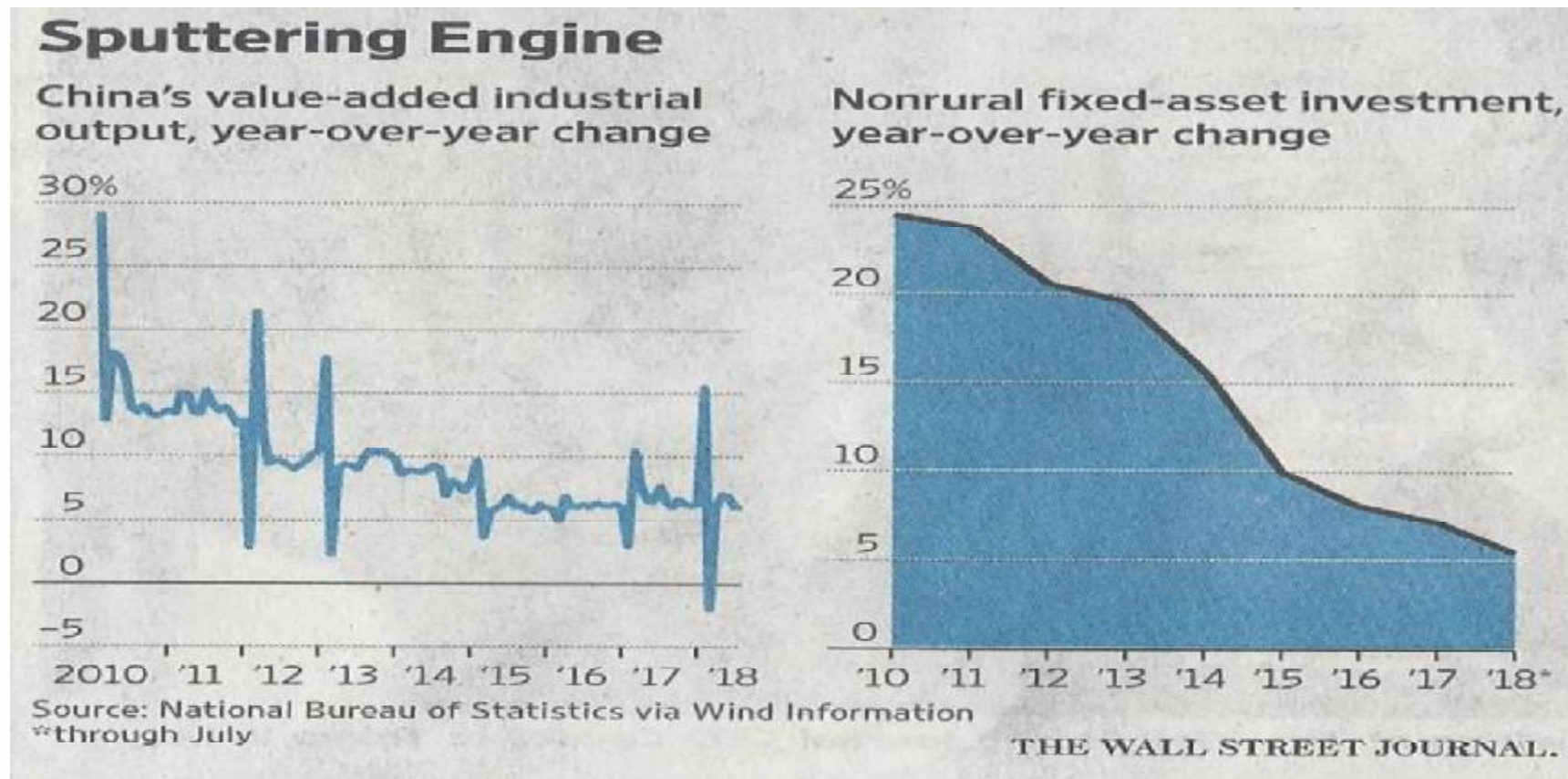
China's Mountain of Debt Sustains Growth



Up and Down RMB 2008-2017



China's Slowdown: Industry and Investment



Global Footwear Supply

Outlook for China Shoes – Even with extra Trump duties

- *Incomparable footwear supply chain*
- *Long lead time items – athletic (move to Vietnam, Indo) and outdoor (shift to Bangladesh) for career labor – can still rely on China supply chain*
- *Short lead time products -- women's fashion and low price – mostly remain in China – both need the speed of supply chain proximity and fashion needs many medium size entrepreneur factories (Little chance for either of these items in Vietnam, Indo, Bangladesh, etc.)*
- *Major comeback in progress following huge export decline*
- *World's leader in leather shoes*



Footwear Supply

Role of Lead Time and Local Supply Chain

- *Time between purchase order and shipment – lead time*
- *Short: women's fashion shoes and low price – 30-45-60 days*
- *Long: athletic brands, outdoor items – 90-120- days*
- *China supply chain: world's most extensive – huge advantage for short lead time items*
- *How does lead time affect Vietnam, Bangladesh, etc. US export potential?*



China SHOE MARKET 2017-2002

Units in millions of pairs.

Year	Production	Imports	Exports
2017	13,500	115.0	9,624.8 (3.7)
2016	13,000	100.0	9,293.2 (-5.9)
2015	13,500	97.0	9,874.9 (-8.1)
2014	14,500	73.0	10,740 (1.5)
2013	14,200	55.5	10,577.2 (5.0)
2012	13,600	50.3	10,071.2(2.0)
2011	13,300	41.4	9,872.7 (-0.6)
2010	13,200	32.9	9,929.9(21.5)
2009	11,500	29.0	8,170.0(0.6)
2008	10,000	34.0	8,120.0(-0.6)
2007	10,000	22.0	8,170.0(6.1)
2006	9,600	13.8	7,700.8(11.4)
2005	9,000	10.6	6,913.6(38.3)
2004	7,000	8.6	5,000.0 (29.3)
2002	6,500	3.8	3,866.0 (NA)



China Shoe Exports Increase -- 2017

Items	Volume	Dec. 2017		Jan. -Dec. 2017		Jan. -Dec. 2016		Change (%)	
	Unit	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Leather shoes	10 thousand pairs	6,702.9	899,125.4	68,232.2	9,301,149.0	69,042.2	9,624,203.8	-1.2	-3.4
Rubber&Plastic shoes	10 thousand pairs	47,101.8	1,998,184.7	565,228.3	22,031,350.4	555,133.8	22,033,781.4	1.8	0
Textile shoes&boots	10 thousand pairs	27,171.9	1,404,069.8	287,561.0	13,400,330.6	266,946.7	12,412,184.7	7.7	8
Other shoes	10 thousand pairs	3,156.2	65,045.5	41,457.9	858,622.5	37,160.4	778,784.2	11.6	10.3
Total	10 thousand pairs	84,132.8	4,366,425.4	962,479.4	45,591,452.5	928,283.1	44,848,954.1	3.7	1.7

Exodus from China: Who, Where, When

- *Surging change in China is driving brands to seek stable, low cost production – the ‘scramble’*
- *Trump’s extra duties on China shoes will accelerate moving out, but will be tempered by capacity realities and the fact that a 10% duty can largely be absorbed by the supply chain without too much disruption*
- *Biggest movers are in athletic and outdoor – brands that have longer led times than fashion and low price, which allows continued access to China’s supply chain*
- *Vietnam is the principal destination; Cambodia is too small, Indonesia too far away, Burma may be too scary, and India too much trouble; Ethiopia and Latin America too far away for China investors, etc.; Bangladesh for outdoor product (long lead time, access to leathers, etc.)*

Moving Out – the ‘scramble’

					Remaining						
	Vietnam		Bangladesh		China		Brazil		Mexico		India
	Nike		Timberland		Steve Madden		Camuto		Caleres		Nike
	adidas		WWW		Wal-mart				Steve Madden		adidas
	Under Armour				Camuto						Caleres
	WWW										Tata
	Timberland										
	New Balance										
	Skechers										
	Caleres										
	Columbia										



Why are brands moving orders to Vietnam?

- *Fundamentals Drive Foreign Investment by OEM Producers*
 - *Ample/steady low cost workforce – more career workers than China's mostly temporary ones – labor shortage in Vietnam?*
 - *CSR better than China – no dormitories, so less overtime/pay issues; wages getting too costly?*
 - *Stable environment – no recurrence of anti-China violence of 2014*
 - *Use of China supply chain: feasible for long lead time items – sports, outdoor, but less so for short lead time items like women's fashion, low price, etc.*
 - *Major sector/government effort to improve local supply chain*
 - *TPP? Now dead; was never the main driving force; future maybe?*



Vietnam

- **Pro**

1. *Large, low cost career work force*
2. *World class, foreign invested shoe making infrastructure; dozens of industrial factories, mostly branded sport shoes, leather casuals*
3. *Increasing local input capacity – still only about 40%*
4. *Hospitable to China entrepreneurs*

- **Con**

1. *Severe labor and land limitations especially in HCHC area; new investment only in rural areas; minimum wage escalation – govt too aggressive?*
2. *Competition for workers from high value added sectors*
3. *Congested infrastructure, uncertain political climate, etc.*



Cambodia

- *Pro*

1. *Ample, but limited, low cost labor.*
2. *Good start up tax incentives.*
3. *Hospitable to China/Taiwan entrepreneurs.*
4. *Zero duties to Canada, GSP for EU.*

- *Con*

1. *All inputs must be imported, lead times several weeks longer than China.*
2. *Active labor unions press for higher wages, new dormitories, and shorter hours.*
3. *Small country (about 15.0 million people) – limited potential for factory expansion, and much competition from higher value added industries.*



Myanmar (Burma)

- **Pro**

1. *Abundant and low cost labor*
2. *Proximity to China and Vietnam*
3. *Other Southeast Asia sources are largely tapped out*

- **Con**

1. *Lacking in foreign investment in production and sector infrastructure – only a few programs to date.*
2. *Weak overall infrastructure – adds buyer costs/challenges.*
3. *Political uncertainties: ethnic cleansing, weak democracy*



Indonesia

- **Pro**

1. *Abundant and low cost labor.*
2. *Large foreign investment in industrial factories, branded athletics, etc., benefits from China exodus.*

- **Con**

1. *Minimum wage up 40% in recent years.*
2. *Labor laws are not flexible enough on hiring/firing; costly layoff rules and union strikes mar productivity.*
3. *Some 65% of materials and components must be imported.*
4. *Political situation somewhat uncertain.*



India

- **Pro**

1. *Abundant and low cost labor.*
2. *Good supplies of local leather.*
3. *Steady growth of leather shoe sales to US*

- **Con**

1. *Lacking in foreign investment in production and sector infrastructure – only a few pilot programs to date, but sports sector expansion coming*
2. *Labor laws are not flexible enough on hiring/firing.*
3. *Shoe clusters are not located near one another – adding buyer costs/challenges.*
4. *Local production is heavily in men's leather and women's is mostly sandals – more experience in tailored women's, athletic or synthetic items would help.*
5. *Sharp decline in EU market, somewhat offset by better US; not hurt much by decline in leather shoes*

Bangladesh

- *Pro*

1. *Ample and low cost career labor, and attractive tax advantages*
2. *Good for long lead time items: men's and outdoor like Timberland, WWW, etc.*
3. *Foreign investment in dedicated export factories leverage local labor*

- *Con*

1. *Infrastructure: traffic, port, electricity, etc. – China investing \$20 billion in new port, roads, etc.*
2. *Concentration on men's leather shoes – a declining specialty*
2. *Lead times: at least 30 days more than China: nearly all inputs must be imported – disadvantage for short lead time items like women's fashion, most important leather upper category for the US market*
3. *Leading US brands ban Bangladesh leather: ETP (Greenpeace, LWG) and Halal slaughter (PETA); Alliance for Bangladesh Worker Safety (garments) – corporate reputation risks (CSR)*
4. *Security/political issues – strikes, demonstrations: some corporate travel bans*
5. *Limited land availability – but still good opportunities*

Connectivity of Bay Economic Zone



<i>Place</i>	<i>Distance from BEZ</i>
Hazrat Shahjalal International Airport	22.67 km
Dhaka	28 km
CTG Sea Port	292 km
Benapole Land Port	266 km
Mongla Port	256 km
Payra Port	359 km



Ethiopia

- *Pro*

1. *Ample, low cost labor, favorable currency, US zero duties.*
2. *Good tanneries and supplies of some leather types especially sheep, some bovine*
3. *Supportive government – new industrial parks, pro-investment regulations, new rail link to port; etc.*

- *Con*

1. *Expensive and long time/distance logistics, but improving with new rail link to only ocean port*
2. *Language and culture require workforce training.*
3. *Inputs other than leather must be imported.*
4. *Foreign investment is essential to competitive production.*
5. *Recent political unrest worrying*



Rail Link Transforms Ethiopia



Takeaways

- *Trump's protectionist regime is now a full scale 'tit for tat' war – all exports from China could be hit including shoes, garments, electronics, etc., probably with a 25% extra duty.*
- *Shifting to other Asian shoe making countries is apt to be substantial but will be tempered by limited capacity and imperatives of the supply chain – short lead time items will be least likely to move out at least in the short run*
- *Athleisure here to stay – the 'Flyknit' revolution is here to stay – some revival in women's less casual fashion may be having a modest comeback, but outlook for leather shoes is still dismal*
- *At least on shoes, China keeps top spot --for women's fashion and low price (supply chain proximity, need many entrepreneurs) -- but loses athletic and outdoor (long lead time items) to Vietnam (and other products if it can develop a competitive local supply chain), Indo, Cambodia, Bangladesh (outdoor); India new leader in men's leather dress and casual; Burma and Ethiopia expanding but small gauge*

Thank you.