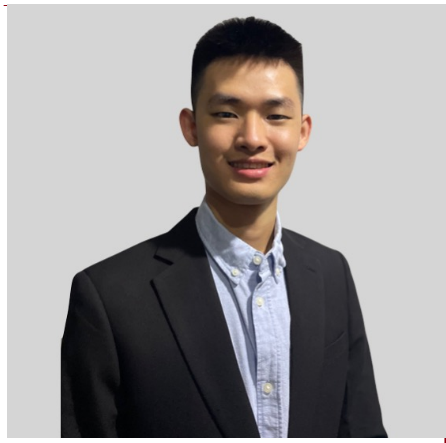
RESEARCH INSIGHTS



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The evaluation of footwear manufacturing transition from China to Vietnam

There is a trend of foreign footwear capital withdrawing from China to other countries, like Vietnam. We took a closer look to assess whether Vietnam would replace China's manufacturing position in the global footwear industry for the next 10 years.

1.0 Introduction

Shoes are necessary apparel in daily life. The footwear industry has 2 segments, athletic and non-athletic. Athletic footwears are for different sporting activities. They include shoes with flexible soles that are lightweight and suitable for jogging long distances or other sports activities, such as tennis, basketball, gym, and training. For athletic shoe brands, most consumers purchase from Nike, Adidas, Reebok, and Under Amours. The non-athletic shoes are sandals, open-toe/heel shoes, any other type of footwear that does not completely enclose the foot as the exemplars above do, or slip-on shoes without a fastening system to keep them on foot. China's footwear market classifies footwear as leather shoes, leisure shoes, slippers, and children's shoes are non-athletic footwear.

The global market revenue of leather, athletic, athleisure, and other town footwear reached 346.54 billion USD in 2021. Asia Pacific was the major player in this market, consuming and exporting goods to other regions. In 2021, China was the top 1, and Vietnam was the top 3 footwear manufacturing countries worldwide. The rapid growth of footwear made in Vietnam in recent years is remarkable. There is a trend of foreign footwear capital withdrawing from China to other countries, like Vietnam or Indonesia, in this industry. Will China soon lose the global top 1 position in the footwear industry?

Consumers step into the Nike or Adidas outlets today. They can find those shoes are primarily made in Vietnam, which is unusual because people subconsciously think those shoes might be made in China. The top international brands, such as Nike and Adidas, are the major pioneers in diversifying their suppliers into different countries. The footwear industry is gradually transiting from China to Vietnam. The transition will not be easy, facing the supply-side obstacles encountered in a new country, the high Made in China raw materials dependency. The question is whether Vietnam will be the following world shoe factory. This research paper aims to explore the causes and impacts of the footwear manufacturing transition and assess whether Vietnam will replace China's manufacturing position in the global footwear industry for the next 10 years.

2.0 Analysis of China's and Vietnam's athletic footwear manufacturing

2.1 Overview of footwear manufacturing

2.1.1 China

Footwear manufacturing is one of the labor-intensive industries. China's reform and opening-up policy and Asian 4 tigers' labor-intensive industry shifting allowed China to undertake footwear manufacturing for the export processing purpose in the 1980s to 2000s. World Trade Organization (WTO) granted China the Most Favored Nation (MFN) access, which stimulated footwear manufacturing to export from the 2000s to 2010s. Dongguan, Jinjiang, Wenzhou, and Chengdu are China's 4 most influential footwear production clusters. Among these, Dongguan, Jinjiang, and Wenzhou are in the coastal regions and presentative of the China's footwear industry development since reform and opening-up in 1978.

Foreign capital drove the development of footwear production in Dongguan. Dongguan locates in between Hong Kong and Guangzhou. The location attracted the clothing industry from Hong Kong, followed by the Taiwanese shoe manufacturers, who produced shoes for Nike and Adidas in the 1990s. Dongguan has stuck with OEM mode to manufacture shoes for foreign brands and peaked at the footwear export of 3.5 billion USD in 2011. Yue Yuen is the world's largest OEM footwear manufacturer from Taiwan and used to have more than 100,000 employees in Dongguan and exported shoes for Nike and Adidas. Yue Yuen is a classic example and the tip of the iceberg of foreign-funded OEM manufacturers in Dongguan. The high dependency on foreign investment is vulnerable for the Dongguan economy while the foreign brands are relocating to other countries.

Jinjiang brands itself as the shoe capital of China. Jinjiang locates opposite Taiwan and is the home of millions of overseas Hokkiens. In the 1980s, people produced shoes as a family workshop and imitated the shoes given or smuggled by overseas relatives. The OEM mode of making shoes for Nike and Adidas once thrived in Jinjiang in the 1980s. The local shoemakers also acquired advanced management and production method from those famous international brands. In the 1990s, the municipal government of Jinjiang launched a brand-building strategy to address the low awareness by encouraging the shoe manufacturers, in the family business style, to cultivate their brands and quality. Jinjiang has 5,000 shoe producers and the 3 most giant shoemakers in China, specializing in sports shoes. Starting with OEM, the Jinjiang footwear industry has rooted firmly with OBM now. The resilience of the local footwear industry to the foreign brands' impact is, therefore, formed.

Wenzhou is the prominent and pioneer leather-shoes cluster in China. The early stage of development was family workshops in the 1980s. Since the 1990s, the Wenzhou municipal government has played an active role in the market to improve local-made footwear quality and reputation and to regulate the clustering of the whole footwear supply chain. Nevertheless, the footwear industry is officially listed as 1 of 5 local pillar industries. The government has strategized and supported the future development of the local footwear industry. The supportive government and cluster have led the footwear industry to expand to other parts of the world till the present. In 2019, Wenzhou accounted for one-eighth of global shoe production, exported to more than 160 countries, and collaborated with foreign clusters, such as Italy. The relocation of Wenzhou footwear to other countries is negligible. Instead, it tends to be the Wenzhou capital investing in other countries with a firm root in Wenzhou.

2.1.2 Vietnam

Vietnam has made impressive progress in the role of the global footwear industry. After exporting the first shoes to eastern Europe in 1992, Vietnam had 1 million employees in the footwear industry and earned more foreign currency in international trade. The large scale of footwear manufacturers is from foreign direct investment, and FDI is a critical player in the Vietnam footwear industry. In 2010, 819 companies were making shoes, with 235 of them being foreign-owned (28.7%), 77 being state-owned (9.4%), and 507 being private (61.9%). The share of Vietnamese businesses exporting shoes fell from 2014 to 2015. In 2021, the footwear industry had more than 2,200 enterprises, mainly in the south, where Adidas had 40% of the global production volume and Nike had more than 100 suppliers. China and Vietnam produce more than 70% of the world's footwear, with the majority going to international markets. However, foreign capital contributed to over 80% of the exporting made in Vietnam footwear in 2021. Generally, Vietnam's footwear industry has a similar development path as Dongguan. The FDI is the engine of industry and economy, but the domestic footwear enterprises and market have low involvement in economic growth and are vulnerable to external risks.

2.2 The beginning of relocation

The shift in the footwear supply chain started in the early 2010s. As Dongguan has a high concentration of foreign investment, those FDI manufacturers exploit the comparative advantage and low cost to specialize in export-oriented footwear production. Once the advantage diminishes, the cost-sensitive manufacturers will migrate somewhere else. For example, Yu Yuen started withdrawing from China to other lower-wage countries; Yu Yuen employed 413,000 people at the end of 2013, with 14% working in Mainland China, of which about 10% were in Gaobu Dongguan and more than 20% in Ho Chi Minh City, Vietnam. The footwear giant Yu Yuen left China for other countries because it could not bear the rising cost, which would spark other FDI producers to follow up the industry's top 1 strategy. Compared to the corporation size of Yu Yuen, those FDI manufacturers had fewer resources to cope with rising costs.

After 2013, the relocation pace is faster than the stage of 2010-2013. According to table 1, Yu Yuen sharply shifted the production volume from China to Vietnam and Indonesia after 2013. Even though the production volume decreased in Vietnam during the pandemic, the volume did not return to China. International brands, such as Nike and Adidas, sourced production from Vietnam and Indonesia to gradually replace China. Referring to table 2, the net growth of Nike footwear production in China from 2010 to 2013 was -4% and -6% from 2013 to 2020, a combined -10%. The net growth for Nike footwear production in Vietnam is 5% from 2010 – 2013 and 8% from 2013 – 2020, with a total of 13%. Adidas is the important global competitor of Nike, but it reduced the production volume in China significantly after 2013 (table 3).

42% of the largest footwear manufacturers in Dongguan have changed their production to other countries. 25% of firms in 2016 surveyed by the American Chamber of Commerce in China and 19.1% of firms in 2018 surveyed by the German Chamber of Commerce in China planned or already moved to other countries where South East Asia was the primary destination. Notably, the relocation happened in Vietnam, but Nike and Adidas balance the production volume share between Vietnam and Indonesia. However, the relocation trend demonstrates that FDI enterprises did not favor China doing labor-intensive jobs in this period.

	China	Vietnam	Indonesia
2013	34%	34%	31%
2017	17%	45%	36%
2018	14%	46%	37%
2019	13%	44%	39%
2020	11%	46%	39%
2021	12%	35%	48%
2022 (9M)	11%	37%	46%

Table 1 Yu Yuen shoe volume by region, data from the 2017 – 2022 annual report

Nike Footwear Manufactured			
	Vietnam	China	Indonesia
2010	37%	34%	23%
2011	39%	33%	24%
2012	41%	32%	25%
2013	42%	30%	26%
2014	43%	28%	25%
2015	43%	32%	20%
2016	44%	29%	21%
2017	47%	27%	21%
2018	47%	26%	21%
2019	49%	23%	21%
2020	50%	24%	22%

Table 2 Nike shoe volume by region (Nguyen, T., 2021)

Adidas shoe production volume by region			
	China	Vietnam	Indonesia
2011	35%	29%	26%
2012	33%	31%	26%
2013	31%	35%	24%
2014	27%	39%	23%
2015	23%	41%	24%
2016	22%	42%	24%
2017	19%	44%	25%
2018	18%	42%	28%
2019	16%	43%	28%
2020	15%	42%	29&
2021	15%	30%	36%

Table 3 Adidas shoe volume by region, data from the 2011 – 2021 annual report

2.3 Reasons

2.3.1 Cost

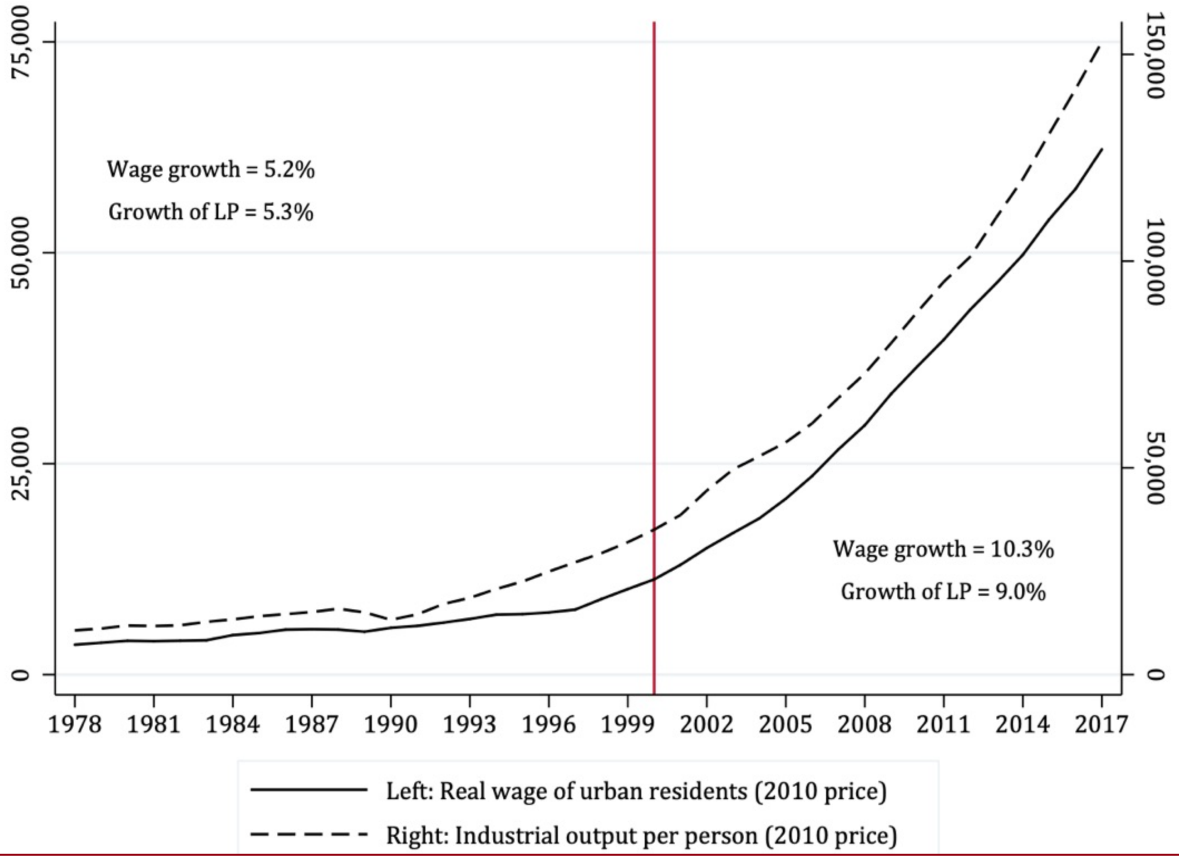


Figure 1 Comparison of wage growth and labor productivity growth in China (Chen & Li, 2019)

The first driving force for footwear manufactures to relocate is cost. In 2005, the footwear industry in China ranked top 1 in labor intensity, top 6 in FDI inflow, and 27th in R&D. This implies the FDI takes advantage of cheap labor to reduce the manufacturing cost so that retail prices can be more competitive in a market without high entry barriers. The buyer-driven value chain in the footwear industry pressures contract manufacturers to lower manufacturing costs, which mainly cuts down the expense of line workers on the factory floor. The factory owners will exploit workers to minimize costs and offer competitive prices in bidding for contracts from international brands like Nike and Adidas. However, owners cannot quickly decrease the line workers' salaries below the sticky wage .

The minimum wage in China has pushed up the cost. Since 2004, the provincial governments in China have adjusted the minimum wage based on local economic growth and imposed regulations with larger penalties. Enterprises have significantly improved their compliance with it. In figure 1, between 2002 and 2017, the wages of urban residents in China overgrew by more than 10% per year, while labor productivity only increased by approximately 9%. This means that labor costs increased as wages grew faster than productivity. Nevertheless, in 2008, the new Labor Contract Law in China required employers to pay employees social security proportionally. The scarce labor forces in China due to low fertility resulted in rising costs. In response to it, more traditionally labor-intensive industries, like footwear, would relocate to countries with lower labor costs, where countries nearby China with cheaper labor will be the less-developed countries in South East Asia.

Dongguan Monthly Minimum Wage

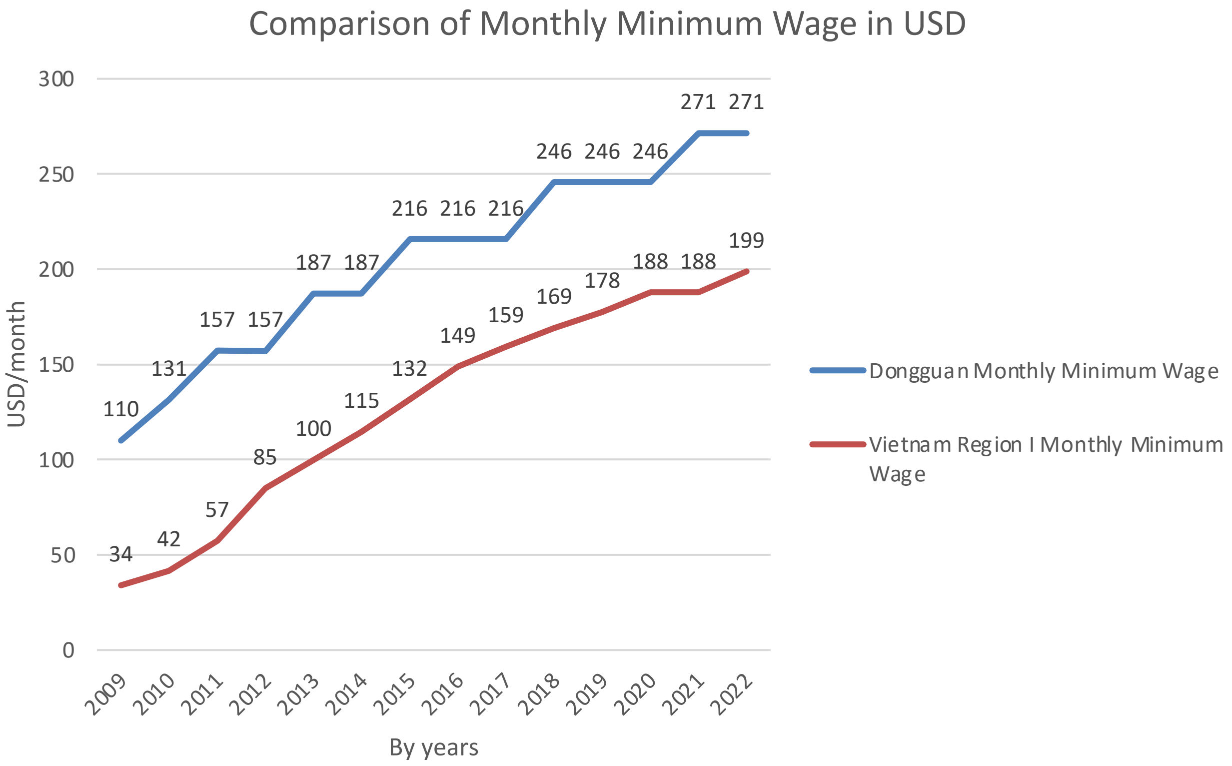
	Chinese Yuan	USD (1 USD = 6.91 CNY)
2009	770	110
2010	920	131
2011	1100	157
2012	1100	157
2013	1310	187
2014	1310	187
2015	1510	216
2016	1510	216
2017	1510	216
2018	1720	246
2019	1720	246
2020	1720	246
2021	1900	271
2022	1900	271

Table 4 Source: Dongguan Municipal People's Government Office

Vietnam Region I Monthly Minimum Wage

	VND	USD (1 USD = 23,535 VND)
2009	800,000	34
2010	980,000	42
2011	1,350,000	57
2012	2,000,000	85
2013	2,350,000	100
2014	2,700,000	115
2015	3,100,000	132
2016	3,500,000	149
2017	3,750,000	159
2018	3,980,000	169
2019	4,180,000	178
2020	4,420,000	188
2021	4,420,000	188
2022	4,680,000	199

Table 5 Source: Vietnam's National Salary Council



Vietnam has a lower cost than China. FDI manufacturers, like Yu Yuen, Nike, and Adidas, mainly retreated from Dongguan and then relocated to Ho Chi Minh City in Vietnam. In tables 4 and 5, the comparison of monthly minimum wage in the 2 cities illustrates the vast difference in labor cost, which enterprises are willing to take the risk to relocate to Vietnam. The rising minimum wage in China and lower wages in Vietnam correspond to the relocation period from 2010 to 2020. From the managerial perspective in footwear manufacturing, the relationship between line workers and top management is vital for the company's operation because the employees' strike will affect the contract delivery time. Vietnam and China are highly similar in power distance, individualism, and uncertainty avoidance. Managers can apply the style in China and Vietnam without significant adjustments, which reduces the resources in changing management style and cost. Yet, FDI manufacturers left China at a wage of 131 USD/month, and now HCM city has a salary of 199 USD/month, which is more expensive than China back then. The footwear enterprises are likely to migrate somewhere else sooner or later.

Schmél (2000) suggested that merely low direct labor cost is not attractive for footwear manufacturers, especially multinational companies, to relocate, even though manufacturing costs are essential. Other factors such as physical and financial infrastructure, labor force conditions, industrial climate, fashion and market trends, and international logistics are just as important when sourcing shoes from developing or transitional countries. Vietnam meets several qualifications above to increase the chance of being chosen as the destination.

2.3.2 Infrastructure, international logistics

The physical infrastructures in Vietnam are supportive enough to receive footwear manufacturing. The production lines cannot run without electricity, water, and transportation networks. It is costly for FDI manufacturers to build up infrastructures from nothing. Anwar and Nguyen (2010) argued the availability of international standards infrastructure in the host economy affected the decision of FDI and then proved the positive impact of infrastructures on FDI. The Socio-Economic Development Strategy 2010-2019 highlights that Vietnam's transportation infrastructure is remarkably booming, with the size of the road network soaring to 668,000 km, about three times larger than at the end of 2004. Nguyen T. (2021) mentioned that Vietnam's road networks, coastal ports, and airports are connected with China's infrastructures. The Vietnam government continues investing in improving those infrastructures and reducing goods lead time. As a result, the well-established physical infrastructures in Vietnam attracted the FDI manufacturers. Investing in infrastructure increases the economy of Vietnam, and the economy will grow faster with FDI factories moving in.

The limited financial infrastructure in Vietnam is an obstacle for the FDI footwear manufacturers, but not every manufacturer. The set of regulations, organizations, and systems that agents use to conduct financial transactions make up the financial infrastructure, which promotes financial market growth and efficient investment decisions. The four roles of financial infrastructure (1) Systems for credit reporting (public credit registries and private credit bureaus); (2) Systems for collateral and insolvency; (3) Standards for accounting and auditing; and (4) Systems for payment and settlement. Access to capital enables companies in the footwear manufacturing industry to invest in new machinery, recruit additional employees, and grow their operations. Insurance products also assist footwear manufacturing companies in managing risk. Vietnam is a developing economy with little financial progress. The limited financial infrastructure in Vietnam somewhat rejects the small and medium-sized FDI footwear enterprises that need finance to expand or operate. Although the financial infrastructure in Vietnam is less developed, physical infrastructure is more like the lifeblood of the footwear manufacturers, especially those international brands with sufficient capital. So, well-established physical infrastructures and limited financial infrastructures are attractive enough for those wealthy FDI footwear companies to relocate.

The logistics in Vietnam are satisfactory for the needs of FDI footwear industry relocation and export. The complexity of logistics conditions and the geographical distance between consumer and supplier will impact transport costs, affecting the relocation decision of production plants. Vietnam is in a favorable location with a long coastal line. However, the government regulations and strategy on the current seaway logistics situation are not optimal. The logistics costs are somewhat comparable to those in China. Physical infrastructures, including seaport systems, airports, railroads, highways, storage systems, and facilities for loading and unloading cargo, etc., are the vital stage in Vietnam's logistics supply chain, which further affect the cost, time, reliability, and safety of supplying services. As mentioned in the physical infrastructure section, the Vietnam government's continuous improvement can support logistics development. Further reduced logistics cost is also the consideration of the FDI footwear industry to relocate production plants in Vietnam, especially in the south with a developed logistics industry.

2.3.3 Business climate

Free Trade Agreements

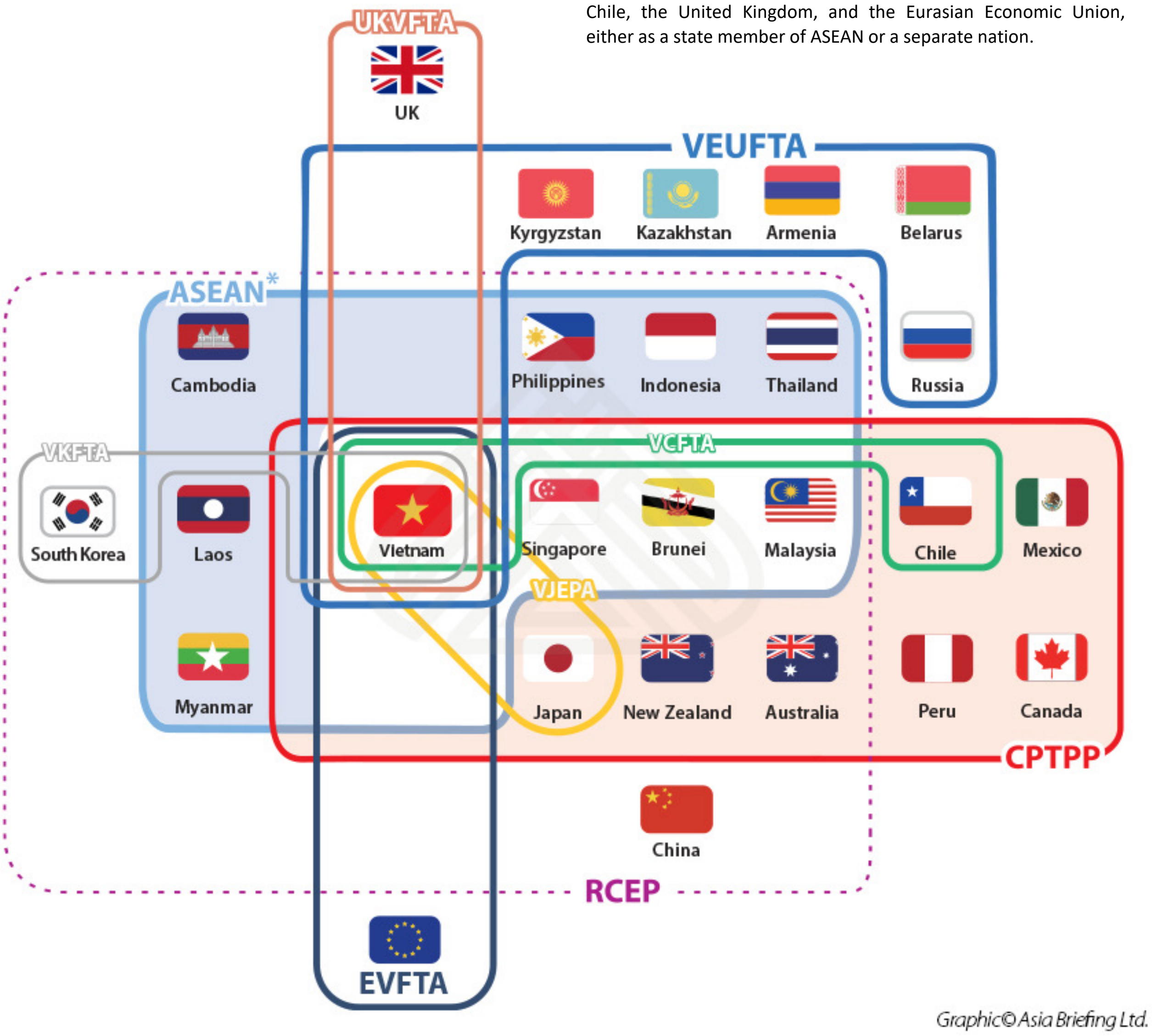


Table 6 Vietnam and its FTAs in 2022 (Asia Briefing, 2022)

The investment climate in Vietnam has transformed Vietnam into a hub of FDI and international footwear brands. The investment climate refers to the atmosphere where all types and sizes of businesses invest and expand. The determinants of this atmosphere are infrastructure, governance, and macroeconomic factors.

A favorable business climate — when doing business is more straightforward, cheaper, and quicker, when there is less corruption, and when the rule of law is widely respected — will lead to a high level of FDI. Since the 1980s, Vietnam also started its reform and opening by absorbing China's experiences to formulate and optimize Vietnam's foreign investment laws and preferential policy to build up an attractive hub for FDI. Vietnam has become a member of WTO since 2007 with the additional international trade benefits provided, such as the most favored nation treatment and reduction of trade barriers. Following China's steps and the success of reform and open-up, Vietnam would acquire the other communist country's experience in developing its mixed economy with the advanced technologies brought by foreign capital and further consolidate the Vietnam communist party regime.

Beyond the domestic policies, the Vietnam government pulls foreign capital to invest by actively participating in the Free Trade Areas (FTAs). A free trade agreement (FTA) is a treaty that allows member states to individually set tariffs on imports from third-party countries while reducing trade restrictions and abolishing tariffs between member states. Governments will likely establish FTA if the benefits surpass the costs. By 2022, Vietnam will be a signatory or negotiator to 17 bilateral and regional FTAs, such as the Regional Comprehensive Economic Partnership (RCEP), the EU-Vietnam Free Trade Agreement (EVFTA), and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), besides other free trade agreements (FTAs) with China, Korea, India, Australia, New Zealand, Japan, Chile, the United Kingdom, and the Eurasian Economic Union, either as a state member of ASEAN or a separate nation.

If the exporting footwear manufacturing is in Vietnam, they can save more money due to the reduced tariffs than exporting from China. It is undeniable that the Vietnam government has a corruption issue with the 87th corruption perceptions index in the world, and García-Bolívar (2020) pointed out that the prevailing corruption discourages investment decisions. On the other hand, the bribery culture in Vietnam allows footwear manufacturers to occasionally conduct unethical business behaviors, for example, license to operate or environmental regulations. Meanwhile, other factors are attractive to draw in the export-oriented footwear companies, and Vietnam is trying to reduce corruption, boosting confidence.

Footwear manufacturers migrated from China to Vietnam because of the geopolitics. The tension between China and western countries has been frequently in newspaper headlines over the past 10 years. International footwear manufacturers and brands are sensitive to regional politics and unpredictable risk. According to the interview by Zaobao, OEM footwear factories have to follow contract brands' orders to the host country where brands think it is safer and cheaper to produce. The trade war between China and the U.S. in 2018 pushed up the tariffs on imported goods from China and then affected China's export. More and more companies from the U.S. and other countries are mitigating the reliance on China manufacturing by diversifying production in other countries. The trade war has pushed footwear supply chains from China to ASEAN, including Vietnam. Vietnam grasped the opportunity to be the sweet spot for new production sites of MNCs and increased exports to China and the U.S.. Vietnam is the winner in this trade war by combining its advantages to receive FDI footwear manufacturers to relocate and integrating its exporting economy with the global value chain.

2.4 Impacts

2.4.1 China: relocation and upgradation

The footwear industry would opt to relocate and upgrade simultaneously due to the rising labor cost in China's coastal areas. The OEM and export-oriented manufacturers will relocate to Vietnam. Still, the manufacturers, who focus on China's domestic market, will stay in China because the low cost and benefits of FTAs are not attractive enough. China remained the second largest footwear market in the world, with a revenue of 67.5 billion USD in 2021. The top 5 sportwear brands in China were NIKE, ANTA, ADIDAS, LI NING, and SKETCHER in 2021. Among these, ANTA and LI NING are China-native brands. China's high labor-intensity industry, like footwear, is more likely to relocate to lower-cost areas. The number of migrant workers in Dongguan footwear companies is shrinking because they are willing to work in hinterland hometowns nearby, where the difference in salaries is getting smaller. Those migrant laborers can still work for the footwear companies if they return to their hometowns. Domestic-oriented footwear brands' manufacturing process is slowly moving to inland. Hanson (2020) added China's labor force is getting older, more educated, and smaller, and rural-to-urban migration is slowing down. The scarcity of labor and higher education level can also boost manufacturers' pace for innovation.

Top 10 Athletic Footwear Brands in China 2021
ANTA
NIKE
LI NING
ADIDAS
FILA (acquired by ANTA in China)
PEAK
XTEP
PUMA
ERKE

Table 7 Source: GYbrand, 2021

Upgradation is necessary for the footwear industry in China. In general, they are upgrading proceeds from original equipment manufacturer (OEM) technological advancements to original design manufacturer (ODM) product advancements to original brand manufacturer (OBM) function advancements (OBM). Both rising labor costs and strict environmental regulations in China will force manufacturing enterprises to adopt the advanced production method. According to table 7 by China's third-party ranking organization, ANTA, PEAK, XTEP, and ERKE originate from the Jinjiang footwear cluster and are in the OBM stage. Based on the empirical evidence from the Jinjiang cluster, Han, et al. (2018) discovered the informal contract in the Jinjiang cluster has lowered the transactional cost for innovative cooperation and enhanced the success of innovation, which is an essential strategy for brands to maintain market share. ANTA and XTEP had 2.3% and 1.9% R&D input from the total revenue in the first half of 2022. Geng and Fan (2021) added brands can team up in an innovation alliance within the cluster. Then leading companies share the R&D results with upstream and downstream companies so that the cooperation will increase the overall production efficiency. The cluster effects have empowered the footwear brands from Jinjiang to remain competitive in China's market.

Nevertheless, the Dongguan cluster is shifting to innovation-driven footwear production. Though the OEM FDI footwear enterprises left Dongguan because of rising labor costs and other reasons. Local footwear companies have introduced auto robots in the footwear production line, which are more productive than human workers and operated by skillful workers. Companies can focus on fashion design to occupy the top tier of the value chain and achieve functional upgrading. However, Dongguan is moving up to the high-tech industry, such as electronics, giving more value than the footwear industry. The footwear industry once thrived in Dongguan, but now it is getting specialized and upgrading to ODM/OBM.

2.4.2 Vietnam

2.4.2.1 Job creation and economic growth

The FDI footwear industry in Vietnam led to job creation and economic growth. Footwear manufacturing is a labor-intensive process. Instead of upgrading to auto-production, the enterprises migrated to Vietnam because of the cheap labor cost and FTAs, which means they would hire most of the local workforce. In 2019, the footwear industry took up 8.4% of total export, in which 58% of companies were in Ho Chi Minh City and its surroundings, and 80% were female migrant workers. After China, Vietnam is the U.S.'s second-largest footwear and apparel supplier. It is also one of Asia's foremost centers for manufacturing, and it supplies goods to some of the top Western companies in sportswear and apparel. Research and Markets' analysis shows that growth in Vietnam's exports and footwear production is anticipated from 2022 to 2031. The Vietnamese footwear market is expected to be worth a stunning US$38.7 billion by 2031. The footwear production helps the Vietnam government settle unemployment and increase the general standard of living, which is the key to the regime's legitimacy. Moreover, the footwear export has integrated Vietnam into the global supply chain, and Vietnam would develop the economy with increasing foreign reserves. Like China, the economy's growth will increase the price level, and labor salaries need to be compensated more. Vietnam needs to sustain its economic growth with more effort.

2.4.2.2 High dependency

Vietnam's footwear industry has a strong dependency on other economies. In terms of footwear manufacturing, the sector in Vietnam does not have a complete supply chain, especially for raw materials. Leather and synthetic leather are the most crucial raw materials, and Vietnam has a 60% of reliance on imported raw materials for its footwear exports. Raw materials and accessories account for around half the footwear cost. China overtakes other markets as the leading supplier of raw materials and accessories for Vietnam's textile, leather, and footwear sector, which accounts for 53% of global production in the first six months of 2022. The independent contractors and suppliers who produce NIKE-branded footwear buy the raw materials directly. The contract manufacturer needs to afford the expense of purchasing raw materials. The fluctuating raw materials price will offset the labor cost saved and profit earned in Vietnam. So, footwear enterprises in Vietnam participated in low-value-added manufacturing due to the high dependency on imported raw materials.

The footwear export depends on the imported raw materials and overseas market demands. When the demand of the destination market drops, footwear export will decrease as a result. The Vietnam footwear factories have slashed orders in 2022 and future 2023 because of the contracting demands. On the other hand, Vietnam's domestic footwear market is too small to consume the production capacity. In 2022, Vietnam's footwear market revenue was 1.74 billion USD, but it exported 23.896 billion USD. Nearly 23 times difference between domestic and overseas demand reflects the export outweighs the domestic market and the over-reliance. The political risk and anti-dumping accusations are the worst business scenario for the Vietnam government and footwear manufacturers. Since manufacturers are mostly FDI, so they can gradually relocate the footwear factories to other countries, like Indonesia. The Vietnam government's difficulty is settling down massive unemployment after the excessive supply cut.

2.5 Conclusion

Since 2010, big international brands have shifted their significant production volume from China to Vietnam due to high manufacturing costs and political risks. As the host country, Vietnam has comparative advantages in low manufacturing costs, infrastructures, international logistics, preferential policies, and, most importantly, FTAs. It is undeniable that Vietnam has become the second-largest footwear manufacturer in the world. The export-leading footwear industry created remarkable economic success in Vietnam. However, the foundation of the Vietnam footwear industry is unstable. The sector has an incredibly high dependency on raw materials and the demand of other economies. Either supply shock or demand shrink will affect the footwear industry in Vietnam. On the other hand, despite the independent contract footwear factories leaving China, it still retains the local giant footwear brands and their factories because of the enormous domestic market. Those Chinese companies are relocating to the hinterlands and upgrading their production methods with the cluster effects to deal with high manufacturing costs. Lastly, Vietnam has become one of the vital world footwear factories, but Vietnam is unlikely to be the only world footwear factory. Its competitors are not merely China but Indonesia and India. Investors are diversifying their supply chain to increase resilience, and Vietnam still has a long way to go.

Due to time constraints, this research only discussed the significant reasons and impacts of the footwear manufacturing transition from China to Vietnam from 2010 – the present. There are some important and ongoing topics missing in this research paper. Future research can focus on sustainability, including labor rights and environmental protections in China and Vietnam during the transition, Chinese footwear FDI in Vietnam, and whether footwear manufacturers stay in Vietnam or migrate to other countries after the covid pandemic.

Writer's Opinions

China is not the loser in this game. China is upgrading its industries towards the high value-added in the global value chain. It has been a historical pattern that the apparel and footwear industry would relocate to countries with lower costs. For example, Hong Kong, Taiwan, Singapore, and South Korea thrived their economies by receiving labor-intensive industries from developed countries in the 1960s – 1990s. Then, they transferred the labor-intensive industries to mainland China and adjusted the economic strategies to higher-value industries. Now, China has become the second largest economy in the world after undertaking labor-intensive industries from the four Asian dragons. It is time for China to transfer labor-intensive footwear manufacturing to other countries and climb up the value chain. Moving footwear manufacturing to Vietnam seems to be a loss to China's GDP. However, it optimizes the resources for industrial upgradation, and China can specialize in the high-tech industry. Regarding the footwear industry, China's domestic brands should invest more in R&D to develop product performance barriers and export their own branded shoes worldwide. The reward given in the future is worthier than the export of OEM footwear manufacturing.

Vietnam is benefiting from the industry transfer as well. Vietnam can copy and improve based on the example of how communist China is developing its economy. The geopolitical tension also gives Vietnam many opportunities to build its economy. Footwear manufacturing is a low-barrier process on the value chain, and Vietnam has accumulated enough capital to develop other industries by exporting footwear in international trade. Yet, as mentioned in the previous discussion, over-dependency is the time bomb in Vietnam's economy. Vietnam needs to consider how to maximize the footwear industry's value and avoid being the hub for FDI exploiting the benefits of cheap labor and FTAs. Vietnam must be aware of the hidden competitor —— Indonesia, which has had higher and higher penetration in global footwear manufacturing in recent years.

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