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President Enrique Peña Nieto's administration claims some success in reducing imports of footwear from Asia and the Pacific Rim, particularly from China, Indonesia, and Vietnam. In mid-February, the Servicio de Administración Tributaria (SAT) reported that an average of 4 million shoes were imported per month in the fourth quarter of 2014, a sharp decline of 45% relative to the average monthly increases in previous quarters. While industry sources agree that the reduction is impressive, they remain concerned that their industry might not survive unless illegal imports are reduced further.

The SAT, a unit of the Secretaría de Hacienda y Crédito Público (SHCP), said the Mexican government was able to reduce the imports through a program that promoted increased domestic production and cracked down on the practice of undervaluation on imports, which made shoes from Asian countries cheaper to sell in Mexico. The SAT addressed the problem by imposing special taxes on imported shoes that were considered undervalued.

Undervalued imports hurt domestic shoe industry

SAT director Aristóteles Núñez Sánchez said estimates indicate that more than 70% of the footwear coming from China and other Asian countries was valued below the cost of production in Mexico, which includes the price of raw materials. Some shoe industry officials had been concerned that the massive Dragon Mart exhibition center that had been planned for Quintana Roo state would have made it easier for Chinese shoes to enter the Mexican market (SourceMex, May 1, 2013). That complex has been postponed indefinitely, and might not come to fruition (SourceMex, Jan. 28, 2015).

By imposing import taxes on the footwear, the SAT was able to raise about 62 million pesos (US$4.2 million) in new revenues during the October-December quarter. The measures also had the effect of reducing the number of imports per month during that period to 4 million pairs of shoes, compared with 7 million pairs previously.

The number of shoes coming in from Asia had increased in recent years to the point that a pair of imports had been selling at the equivalent of US$6, compared with about US$12 in 2008, Núñez Sánchez said at a press conference in mid-February to announce the results of the SAT actions.

Representatives of Mexico's shoe industry said they are grateful for the actions taken by the SAT and the SHCP, which they said are bringing a sense of order to the domestic footwear industry, which is centered in Guanajuato, Jalisco, and México state. The city of León in Guanajuato and the municipality of de San Mateo Atenco in México rely extensively on the shoe industry to drive their economies. Guadalajara, Mexico's second largest city, also accounts for a large share of the 245 million pairs of shoes produced annually in Mexico.

"The government took this measure in the interest of ensuring that the footwear industry consolidates itself as the engine of economic development, supporting increased productivity

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among more than 11,000 shoe manufacturers," said Ysmael López García, president of the Cámara de la Industria del Calzado del Estado de Guanajuato (CICEG). "This industry generates around 240,000 jobs."

Núñez Sánchez said the SAT is in the process of auditing 102 importers who have been importing shoes at a cost below the reference price established by the Secretaría de Economía. Furthermore, authorities have significantly reduced the number of importers allowed to bring footwear into Mexico. Before the changes, 2,700 businesses were registered to bring shoes into the country, but that number has been reduced to 278 importers.

Some observers praised the SHCP for taking a proactive stance to support the Mexican shoe industry, which is increasingly under threat. "A concrete action taken by the SHCP during the past year was to boost the tariffs on footwear," said economic researcher Jesús Valdés Díaz de Villegas of Universidad Iberoamericana in Mexico City.

The import tariffs helped counter the practice of relabeling imports as a Mexican product. "The practice of relabeling is very difficult to detect, which had allowed contraband to thrive," Valdés Díaz de Villegas told the daily newspaper Excélsior.

Contraband remains a major problem

While the shoe industry is appreciative of the actions taken by the government, footwear manufacturers and economic experts are concerned about the continuation of contraband, which still accounts for about 30% of the shoes sold in the Mexican market at a cost of US$850 million to the industry.

"In 2013, a total of 85.5 million pairs of shoes entered Mexico, of which 45% to 50% were priced at a level below the cost of raw material," said López García. "It is impossible to compete under these conditions."

"The price of these undervalued imports does not cover the actual cost of soles," added the CICEG executive." There were some cases where the price of those shoes was the same as the cost of shoelaces. We often joked about special sales where shoelaces were being sold and the shoes were free."

"We are not trying to eliminate foreign competition. We do not want to compete with the importers of contraband," added López García.

The CICEG official noted that tariffs on illegal imports allow the Mexican manufacturers to remain productive, which in the end is good for the government tax system. A viable industry, he said, will continue to pay taxes to the federal treasury. At the same time, the import-control measures allow the government to collect the appropriate taxes on undervalued imports.

Valdés Díaz de Villegas said the Mexican government could also help stem the flow of illegal imports by modernizing the country's Customs operations, allowing agents to use the latest technology to detect illegal shipments.

The Universidad Iberoamericana expert said Mexico must also address another structural problem if the government is going to combat contraband effectively. "We have a broad market where there is a high level of poverty and a large number of low-income families," said Valdés Díaz de Villegas. "This means that consumers will continue to buy products in the informal economy, which

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is precisely where the smugglers sell their merchandise." [Peso-dollar conversions in this article are based on the Interbank rate in effect on Feb. 25, 2015, reported at 14.93 pesos per US$1.00.]

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