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Pietra Rivoli

THE TRAVELS OF
A T-SHIRT IN THE
**GLOBAL
ECONOMY**

SECOND EDITION

An Economist Examines
the Markets, Power, and
Politics of World Trade

Revised
and Updated

International Praise for
Travels of a T-Shirt, 2nd Edition

"This charming, intelligent narrative debunks myths on both sides of the globalization debate. Mixing historical perspective with current events, the book highlights that it's not market forces but avoiding them that creates winners in world trade ... a rich tapestry of globalization past and present that focuses on real people to rip fabrications on all sides of the debate ... a great read."

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"... thought-provoking ... Regardless of your stance on global economics, you will find a lot to agree with and a lot to think about in *Travels of a T-Shirt*."

—*The China Daily*

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For Dennis, Annalisa, and Denny



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PREFACE TO THE SECOND EDITION



How Student Protests Sent a Business Professor around the World

On a cold day in February 1999 I watched a crowd of about 100 students gather on the steps of Healy Hall, the Gothic centerpiece of the Georgetown University campus. The students were raucous and passionate, and campus police milled about on the edge of the crowd, just in case. As speaker after speaker took the microphone, the crowd cheered almost every sentence. The crowd had a moral certitude, a unity of purpose, and while looking at a maze of astonishing complexity, saw with perfect clarity only the black and white, the good and evil. Corporations, globalization, the International Monetary Fund (IMF), and the World Trade Organization (WTO) were the bad guys, ruthlessly crushing the dignity and livelihood of workers around the world. A short time later, more than 50,000 like-minded activists had joined the students at the annual meeting of the WTO in Seattle, and by the 2002 IMF-World Bank meeting, the crowd had swelled to 100,000. Anti-globalization activists stymied meetings of the bad guys in Quebec, Canada, and Genoa, Italy, as well. At the 2003 WTO meeting in Cancun, the activists were joined by representatives from a newly energized group of developing countries, and world trade talks broke down across a bitter rich-poor divide. Anti-globalization activists came from college campuses and labor unions, religious organizations and shuttered textile mills, human rights groups and African cotton farms. Lumped together, the activists were named the globalization "backlash."

At first, the backlash took the establishment by surprise. Even the left-leaning *Washington Post*, surveying the carnage in Seattle, seemed bewildered. "What Was *That* About?" they asked on the editorial page the next day. From the offices on the high floors of the IMF building, the crowd below was a ragtag bunch of well-intentioned but ill-informed obstructionists, squarely blocking the only path to prosperity. According to conventional economic wisdom, globalization and free trade offered

salvation rather than destruction to the world's poor and oppressed. How could the backlash be so confused?

The backlash seemed to quiet by about 2005. "Phew," the business establishment seemed to say, "Glad that's over with." But a closer look reveals that nothing was really over with, and that, in fact, the reverse had happened. While some of the craziest slogans ("Capitalism is Death") had faded away, the backlash was not gone, but had gone mainstream. Surveys showed that Americans were markedly less supportive of trade and globalization in 2008 than they had been at the beginning of the decade: while 78 percent of Americans surveyed had a positive view of international trade in 2002, by 2008, only 53 percent were broadly supportive. Americans were also less supportive of trade than citizens of virtually every other industrialized country.¹

In Washington, Congress responded to this popular discontent by stymieing further trade liberalization, and the 2008 presidential candidates responded with sound bites strangely similar to those of the 1999 protestors. By 2008, the WTO talks that had been stalled by protestors in Seattle and Cancun were still stalled—after nearly eight years of mostly fruitless negotiations. While the negotiations had been difficult in the best of times, the severe economic downturn that began in late 2008 left little hope for the revival of the trade tasks.



Back at Georgetown in 1999, I watched a young woman seize the microphone. "Who made your T-shirt?" she asked the crowd. "Was it a child in Vietnam, chained to a sewing machine without food or water? Or a young girl from India earning 18 cents per hour and allowed to visit the bathroom only twice per day? Did you know that she lives 12 to a room? That she shares her bed and has only gruel to eat? That she is forced to work 90 hours each week, without overtime pay? Did you know that she has no right to speak out, no right to unionize? That she lives not only in poverty, but also in filth and sickness, all in the name of Nike's profits?"

I did not know all this. And I wondered about the young woman at the microphone: How did she know?

During the next several years, I traveled the world to investigate. I not only found out who made my T-shirt, but I also followed its life over thousands of miles and across three continents. The result of this investigation was the first edition of *Travels of a T-Shirt*, published in 2005. The book

was—and is—a story about globalization and about the people, politics, and markets that created my cotton T-shirt.

It is fair to ask what the biography of a simple product can contribute to current debates over global trade. In general, stories are out of style today in business and economics research. Little of consequence can be learned from stories, the argument goes, because they offer us only "anecdotal" data. According to today's accepted methodological wisdom, what really happened at a place and time—the story, the anecdote—might be entertaining but it is intellectually empty: Stories do not allow us to formulate a theory, to test a theory, or to generalize. As a result, researchers today have more data, faster computers, and better statistical methods, but fewer and fewer personal observations.

The story, of course, has a more esteemed role in other disciplines. Richard Rhodes, in his Pulitzer Prize-winning book, *The Making of the Atomic Bomb*, peels back, layer by layer, the invention of the atomic bomb. In the process, he illuminates the intellectual progress of a community of geniuses at work. Laurel Ulrich, in *A Midwife's Tale*, uses the diary of a seemingly unremarkable woman to construct a story of a life in the woods of Maine 200 years ago, revealing the economy, social structure, and physical life of a place in a manner not otherwise possible. And in *Enterprising Elites*, historian Robert Dalzell gives us the stories of America's first industrialists and the world they built in nineteenth-century New England, thereby revealing the process of industrialization. So, the story, whether of a person or a thing, can not only reveal a life but illuminate the bigger world that formed the life. This is my objective for the story of my T-shirt.

"Does the world really need another book about globalization?" Jagdish Bhagwati asked in the introduction to his 2004 book on the topic. Well, certainly the world does not need another tome either defending or criticizing globalization and trade as abstract concepts, as the cases on both sides have been made eloquently and well.² I wrote *Travels of a T-Shirt* not to defend a position but to tell a story. And though economic and political lessons emerge from my T-shirt's story, the lessons are not the starting point. In other words, I tell the T-shirt's story not to convey morals but to discover them, and simply to see where the story leads.

I brought to the first edition of *Travels of a T-Shirt* my own biases, and I surely harbor them still. Because I have spent my career teaching in a business school, and no doubt because of my academic background in finance and economics, I know that I share with my colleagues the somewhat off-putting tendency to believe that if everyone understood what we

understood—if they “got it”—they wouldn’t argue so much. More than 200 years after Adam Smith advanced his case for free trade in *The Wealth of Nations*, we are still trying to make sure that our students, fellow citizens, and colleagues in the English department “get it,” because we are sure that once they understand, everyone will agree with us. When I happened by the protests at Georgetown and listened to the T-shirt diatribe, my first thought was that the young woman, however well-intentioned and impassioned, just didn’t “get it.” She needed a book—maybe *Travels of a T-Shirt*—to explain things. But after following my T-shirt around the world, and after nearly a decade spent talking to farmers, workers, labor activists, politicians, and businesspeople, my biases aren’t quite so biased anymore.



Trade and globalization debates have long been polarized on the virtues versus evils of competitive markets. Economists in general argue that international market competition creates a tide of wealth that (at least eventually) will lift all boats, while critics worry about the effects of unrelenting market forces, especially on workers and the environment. Free trade in apparel, in particular, critics worry, leads only to a downward spiral of wages, working conditions, and environmental degradation that ends somewhere in the depths of a Charles Dickens novel.

My T-shirt’s life suggests, however, that the importance of markets might be overstated by both globalizers and critics. While my T-shirt’s life story is certainly influenced by competitive economic markets, the key events in the T-shirt’s life are less about competitive markets than they are about politics, history, and creative maneuvers to avoid markets. Even those who laud the effects of highly competitive markets are loathe to experience them personally, so the winners at various stages of my T-shirt’s life are adept not so much at competing in markets but at avoiding them. The effects of these avoidance maneuvers can be more damaging for the poor and powerless than market competition itself. In short, my T-shirt’s story turned out to be less about markets than I would have predicted, and more about the historical and political webs of intrigue in which the markets are embedded. In peeling the onion of my T-shirt’s life—especially as it relates to current debates—I kept being led back to history and politics.

Many once-poor countries (e.g., Taiwan or Japan) have become rich due to globalization, and many still-poor countries (e.g., China or India) are nowhere near as poor as they once were. The poorest countries in the

world, however, largely in Africa, have yet to benefit from globalization in any sustained way, and even in rapidly growing countries such as China, many are left behind. My T-shirt's life is a story of the wealth-enhancing possibilities of globalization in some settings but a "can't win" trap in others, a trap where power imbalances and poorly functioning politics and markets seem to doom the economic future.

My T-shirt's story also reveals that the opposing sides of the globalization debate are co-conspirators, however unwitting, in improving the human condition. Economist Karl Polanyi observed, in an earlier version of today's debate, his famed "double movement," in which market forces on the one hand were met by demands for social protection on the other.³ Polanyi was pessimistic about the prospects for reconciling the opposite sides. Later writers—perhaps most artfully Peter Dougherty—have argued instead that "Economics is part of a larger civilizing project," in which markets depend for their very survival on various forms of the backlash.⁴ My T-shirt's story comes down on Dougherty's side: Neither the market nor the backlash alone presents much hope for the world's poor who farm cotton or stitch T-shirts together, but in the unintentional conspiracy between the two sides there is promise. The trade skeptics need the corporations, the corporations need the skeptics, but most of all, the Asian sweatshop worker and African cotton farmer need them both.



The second edition of *Travels of a T-Shirt* is very much the product of reader reactions to the first. During the past several years I have had the opportunity to speak with fellow academics, students, businesspeople, and policymakers around the United States and the world about the myriad issues raised by the biography of this simple product.

My basic conviction that the biographical approach can illuminate complex economic and political issues in a unique way has only been strengthened by these many conversations, and the second edition of *Travels of a T-Shirt* remains loyal to this conviction. While the biographical facts of my T-shirt's life are unchanged, as is the approach I have taken, my many conversations with readers have also illuminated a number of ways in which the story of my T-shirt can evolve to continue to engage a variety of debates.

First, much has happened in the world of international trade since the book's publication in 2005. While the major lessons of my T-shirt's

life are unchanged, or perhaps even strengthened, much has evolved in the manner in which the relevant industries operate, in the competitive dynamics, and in political developments related to trade and globalization. I hope in this edition to provide an update of this changing landscape and to answer the many questions I have received from readers regarding what has happened in the world of my T-shirt since 2004.

Second, during the 2005 to 2008 period I have also made return trips—often multiple trips—to most of the locations in my T-shirt's life story, and I have continued to learn from these visits as well as from my continuing correspondence with the many people involved in each stage of the T-shirt's life. I hope in this edition that the reader can learn as well from these visits and continuing correspondence. I have also benefited tremendously from the hundreds of e-mails and many conversations that have helped me to sharpen the arguments, review new research and evidence, and expand on several topics that have been of special interest to readers.

The third change was born in 2006–2007. I was visiting many colleges and universities during that period, and at Wellesley College and University of Iowa, at Colby College, and at UC Santa Barbara and at Texas Tech—in other words, at universities across the geographical and political landscape—readers were interested in the environmental implications of my T-shirt's life story. During the same period, the book was also being released in translation, so I found myself in Tokyo, Vienna, and Milan as well. Again, around the world readers wanted to talk about environmental sustainability. Indeed, by 2008, it seemed inconceivable that a book about globalization would fail to address the related environmental issues.

Of course, an entirely new book could be written to tell the environmental story of my T-shirt's life. I make no claims that I have written such a book. I have, however, illuminated a number of the debates that relate environmental issues to both my T-shirt and to broader issues of trade and globalization.

Though I did not write *Travels of a T-shirt* for the "college market," I have heard from many university faculty who have used this book for a variety of purposes and courses, and I especially hope that the updates provided in this edition will be useful in these settings. To that end, some teaching resources are now available at www.wiley.com/college/rivoli.

Needless to say, I enjoyed some reviewers' and commentators' views of the first edition of this book more than I did others. Sometimes, however, I have heard a reviewer or commentator explain a point in the book, or an argument, better than I did. More than once, I have thought, "I wish I had

written that," when I heard a particularly insightful or evocative comment about what I actually did write. In late 2005 I spoke about *Travels of a T-Shirt* at the IMF in Washington. There, Hans Peter Lankes, one of the commentators, explained his reaction to the book in language that not only has stuck with me, but which has helped me in this revision. Hans Peter said that reading the book was "... sort of like circling a Buddhist stone garden. One slips into every conceivable perspective on this issue and there are no villains, only actors in what I call an epic struggle and a fantastically complex, forward-driving, and culture-transforming enterprise."

As I write this in early 2009, I still have not met any villains. Every aspect of my T-shirt's life is even more fantastically complex than it was earlier in the decade, while the struggles seem even more epic and the actors seem to be running in an even faster race. Yet in this revision I have kept in mind the image of the Buddhist stone garden. My objective, quite simply, has been to continue to circle.



If I learned anything from my travels over most of the past decade, it is that university students represent one of the most powerful forces for change in our society. After I first encountered the protests at Georgetown University in 1999, students peacefully occupied the university president's office and refused to budge until the university and its apparel suppliers agreed to address the alleged "sweatshop" conditions under which Georgetown T-shirts and other licensed apparel were produced. Similar protests went on at dozens of universities across the country. By 2008, the students and their compatriots around the globe had dramatically changed the way the global apparel industry operates, and had completely rewritten the rules for how some of the world's largest companies do business. The life story of a T-shirt made today is a different and better story for both workers and for the environment than the story of a T-shirt made just a few years ago. I thought, when I started to follow my T-shirt, that I would in the end have a story that would help the students to see things my way, to understand the virtues of markets in improving the human condition. I do have such a story, I hope, but it is not the whole story. To the students, I also say, I (now) see where you're coming from. Though I think they see where I'm coming from, too.

Students at Georgetown and elsewhere continue to push corporations and universities to improve labor practices in the global marketplace, but

they are now joined by those concerned with the environmental impacts as well. Already, I see these new footprints in business practices and political debates.

My old friends are still here: Nelson, Ruth, Gary, Patrick, Yuan Zhi, Auggie, Julia, and Gulam, everyone who played a part in my T-shirt's life during my first trip around the world. But new friends are here too: Eric is printing T-shirts with soy-based inks, Yiqi is spinning yarn from corn, and Kelly is marketing organic cotton. In 2008 my simple T-shirt is more complicated and fascinating than ever, a tiny microcosm of creation and destruction in our modern world.



Finding My T-Shirt's Likely Birthplace

*Walgreen's Drugstore
Ft. Lauderdale, Florida
Spring 1999*

The civic leaders of Fort Lauderdale have laid new paint over much of the city in recent years. The stoned surfers and rowdy college students are less visible now, pushed away from the beach with its new cafes and high-end hotels. The college students of the 1970s are parents now, and they have money to spend. The city bends toward the money like a palm tree, polishing, sweeping, painting. Yet, like tourist destinations everywhere, a scratch on the shiny paint reveals a bit of the tawdry underneath. Though the city fathers might prefer art galleries, it is T-shirt shops that line the beach because that is what people want to buy.

A large bin of T-shirts sat near the exit of a Walgreen's drugstore near the beach. The bin was positioned to catch shoppers on the way out, and it worked: Nearly everyone who walked by pawed through the bin, if only for a minute. The bin was full of hundreds of T-shirts, each priced at \$5.99, or two for \$10. All were printed with some Floridian theme, seashells, bright fish, or palm trees.

I reached in and pulled out a shirt. It was white and printed with a flamboyant red parrot, the word "Florida" scripted beneath. I went to the checkout line, and then stepped out into the sun and looked at the shirt through the wrapper.

"You're it," I thought.

Back in Washington, I took the T-shirt out of the poly bag and looked at the label. "Sherry Manufacturing," it said, and underneath, "Made in China." I typed "Sherry Manufacturing" into my search engine. A few minutes later, I had reached Gary Sandler, Sherry's president, on the telephone. "Sure," he said. "Come on down. We don't get many visitors from Washington."



Sherry Manufacturing Company is located in Miami's original industrial district, a bleak landscape of factories and warehouses not far from the airport. Gary Sandler is Florida-tanned and friendly, with a healthy skepticism about college professors. He is completely without pretension, but clearly proud of what he and his family have built. On the wall of his office are pictures of his children and his sales force.

Gary's father, Quentin, formed Sherry Fashions just after World War II, naming the company for his eldest daughter. Quentin started out as an independent wholesaler, going shop to shop along the beachfront, selling souvenir trinkets to the store owners. He would travel to New York to buy and return to Miami to peddle his wares during the tourist season. Then, as now, people liked to shop while on vacation, especially for souvenirs. Quentin found that trinkets with a tropical theme were especially popular with the visiting Northerners.

In the 1950s, options for "wearable" souvenirs were limited, and vacationers typically brought home trinkets rather than clothing. However, Quentin found that one of his most popular items was a souvenir scarf, a small cotton square printed with a Floridian motif. The scarf, like much of the tourist kitsch of the era, was made and printed in Japan. Before long, Sherry found itself in a classic wholesaler's predicament, with margins being squeezed between the suppliers and the retailers. In 1955, Quentin Sandler dispensed with his New York suppliers and opened his own cloth-printing shop in Miami. Sherry Fashions became Sherry Manufacturing Company.

In the mid-1970s, Gary Sandler quit college to join his father's company, and in 1986 became president. In mid-1999, the presidency passed to the third generation when Sandler's nephew (and Sherry's son) assumed responsibility for day-to-day operations.

Today, Sherry is one of the largest screen printers of T-shirts in the United States. It remains a business focused on the tourist trade. In Key West, Florida, and Mount Denali, Alaska, and many tourist spots in between, as well as in Europe, Sherry has T-shirts for sale. Sherry's artists design motifs for each tourist market, and the designs and locations are printed or embroidered on shirts in the Miami plant.

Sherry's inventory of blank T-shirts (as well as beach towels and baseball caps) fills a two-story warehouse. The blank goods go from the

warehouse to the printing machine, which resembles a Ferris wheel lying on its side. Workers slide each shirt on the flat end of a wheel spoke, which then turns and stops briefly up to 14 times. Each time the wheel stops, a different color is shot through the tiny holes in the screen. When the shirt returns to the starting point on the wheel, a worker slides it off and passes it to another worker, who lays it flat on a drying conveyor belt. The next worker picks it up from the end of the drying belt and lays it flat on a second conveyor belt, which swallows it into a tunnel and shoots it out, neatly folded, from the other end. It's no longer underwear; it's a souvenir.

The shirts piled up in rolling carts tempt with scenes of beaches, mountains, skyscrapers, and glaciers. Each shirt will allow someone to take a bit of a place and wear it home. A walk through the warehouse adjoining the plant is a travelogue, too, but for the more adventurous. Where the shirts are headed you need sun lotion, but where they come from you need shots.

Gary Sandler buys T-shirts from Mexico, El Salvador, the Dominican Republic, Costa Rica, Bangladesh, Honduras, China, Pakistan, Botswana, India, Hong Kong, and South Korea. When I spoke with Gary again in 2008, the T-shirt business was tougher than it had been just a few years before: Competition—especially from abroad—was greater, the Miami labor market was more unpredictable, and overseas sourcing was more complicated. In addition, the economic downturn had severely affected the tourism industry, which had in turn affected Sherry's business.

My T-shirt is from China. It likely departed Shanghai in late 1998 and arrived in the port at Miami a few weeks later. All told, the shirt cost Sandler \$1.42, including 24 cents in tariffs. The shirt was one of about 25 million cotton T-shirts allowed into the United States from China under the U.S. apparel import quota system in 1998. The shirt's journey, as we shall see, is a testimony to the power of economic forces to overcome obstacles. To arrive here, the shirt fought off the U.S. textile and apparel industries, Southern congressmen, and a system of tariffs and quotas so labyrinthine that it is hard to imagine why anyone would take the trouble. But Gary Sandler takes the trouble. Despite the best efforts of Congress, industry leaders, and lobbyists; despite the quotas, tariffs, and Chinese bureaucracy, China has the best shirts at the best price.

But China is a big place. Where, exactly, I asked Sandler, did the shirt come from? Sandler riffled through his Rolodex and pulled out a card. "Mr. Xu Zhao Min," the card read, "Shanghai Knitwear."

"Call him up," said Sandler. "He's a great guy. He'll tell you everything."

"Xu Zhao Min," I tried to read aloud.

"No, no," said Sandler. "Patrick. His American customers call him Patrick."

Patrick Xu and his wife accepted my invitation to visit Washington during their next trip to the United States.



Patrick Xu straddles East and West, rich and poor, communism and capitalism with almost cat-like balance. He travels to the United States two or more times each year, visiting old customers and scouring for new ones, watching the Western fashions and bringing ideas back to the factories. While Patrick is happy to sell white T-shirts to established customers like Gary Sandler, he does not see much of a future in white T-shirts for Shanghai Knitwear. There is too much competition from lower-wage countries and other parts of China, and soon, he believes, his hard-won customers will be sourcing T-shirts far from Shanghai. Patrick is trying to move up the value chain into fancier goods such as sweaters.

"Come to China," Patrick said during our first meeting in 1999. "I'll show you everything."

I wanted the whole story, I explained. Could he show me where the shirts were sewn? No problem. What about where the fabric is knit? Yes, of course. I pushed my luck: What about the yarn the fabric is made of? The spinning factory? Yes, he could arrange it. But this wasn't quite the beginning. What about the cotton? To tell the life story of my shirt, I had to start at its birthplace. I knew that China was one of the world's largest cotton producers. Could I go to the farm and see how the cotton is produced?

Patrick looked at the T-shirt. "Well, that might be difficult. I think the cotton is grown very far from Shanghai. Probably in Teksa."

"Teksa? Where is Teksa? How far away?" I asked. There was a globe on my desk and I spun it around to China. Could he show me Teksa on the globe?

Patrick laughed. He took the globe and spun it back around the other way. "Here, I think it is grown here." I followed his finger.

Patrick was pointing at Texas.

PART I

KING COTTON



Nelson and Ruth Reinsch at Their Farm in Smyer, Texas. (Photo Courtesy of Dwade Reinsch and Colleen Phillips.)



HOW AMERICA HAS DOMINATED THE GLOBAL COTTON INDUSTRY FOR 200 YEARS

REINSCH COTTON FARM,
SMYER, TEXAS

Unlike French wine or Florida oranges, Texas cotton doesn't brag about where it was born and raised. Desolate, hardscrabble, and alternately baked to death, shredded by windstorms, or pummeled by rocky hail, west Texas will never have much of a tourist trade. Flying into the cotton country near Lubbock on a clear fall day, I had a view of almost lunar nothingness: no hills, no trees. No grass, no cars. No people, no houses. The huge and flat emptiness is jarring and intimidating at first, since one can't help but feel small and exposed in this landscape. Though I had traveled to dozens of countries and to almost every continent, during my first visit to Lubbock, Texas, I thought it was one of the most foreign places I had ever been. Somehow, since then, it

has also become one of my favorite places. There is a very good chance that my T-shirt—and yours—was born near Lubbock, the self-proclaimed “cottonest city” in the world.

The people of this forbidding yet harshly beautiful place are well-suited to the landscape. Indeed, they are the product of it. The land has humbled them with its unpredictable temperament and its sheer scale, yet made them proud of each small success in taming and coaxing from it the fluffy white gold of the cotton plant. According to local legend, when God created west Texas, He made a mistake and forgot to fashion hills, valleys, rivers, and trees. Looking at His desolate and barren mistake, He considered starting over, but then had another idea. “I know what I’ll do,” He said. “I’ll just create some people who like it this way.”

And so He did.

Nelson Reinsch, cotton farmer, still stands tall and handsome at the age of 87. He laughs easily but speaks carefully. He calls his wife, Ruth, “Sugar,” and every other woman “Ma’am.” Nelson is a gentleman in the older sense of the word, well-mannered and considerate from the inside. We last met in 2008, and, remarkably, Nelson seemed not to have aged a bit since our first meeting in 2000.

In his 87 years, Nelson has missed four cotton harvests, all of them during his Navy service in World War II. Nelson and Ruth are happy enough (or perhaps just polite enough) to talk about the past if that is what their guests want to hear about. But they wallow not one bit in “the good old days,” and their minds are opening rather than closing as they approach the ends of their lives. The world is still very interesting to Nelson and Ruth Reinsch. Of the many places and people I have visited during the research for this book, among my favorite times have been sitting in the Reinsch kitchen, eating (too much) of Ruth’s cake and learning about cotton. In 2008, Nelson and Ruth remained on their farm in the middle of the west Texas emptiness. However, in that year Nelson scaled back his cotton operation and began to rent out much of his land.

Producing cotton is no longer the backbreaking physical process it once was, but every year Nelson and Ruth still battle both the whims of nature and the vagaries of markets. Each summer they take on the wind, sand, heat, and insects; and each fall, at harvest, they take on the world markets, in which they compete with cotton farmers from over 70 countries. The Reinsches’ 1,000 acres can produce about 500,000 pounds of cotton lint if fully planted, enough for about 1.3 million T-shirts. That Nelson is ending his life in the same occupation in which he

began tells us much about him. It also tells us much about the U.S. cotton industry.

History shows that almost all dominance in world markets is temporary and that even the most impressive stories of national industrial victories typically end with sobering postscripts of shifting comparative advantage. Within the baby boomers' lifetime, preeminence in consumer electronics has shifted from the United States to Japan to Hong Kong to Taiwan to China. Apparel production has moved from the American South to Southeast Asia to the Caribbean and back to Asia. Advantages in steel have moved from the U.S. Rust Belt to Japan to South Korea. But for over 200 years, the United States has been the undisputed leader in the global cotton industry in almost any way that can be measured, and other countries, particularly poor ones, have little chance of catching up. The United States has historically occupied first place in cotton production (though recently second to China), cotton exports (though occasionally second to Uzbekistan), farm size, and yields per acre.¹

On the surface, cotton is an unlikely candidate for economic success in the United States. Typically, American industries compete with those in "like" countries. U.S. firms compete with Japanese automakers, German chemical companies, and Swiss pharmaceuticals. But for climatic reasons, few advanced industrial economies produce cotton. Instead, American cotton growers compete with producers in some of the world's poorest and least developed regions. If our labor costs—among the world's highest—have toppled or relocated industries as diverse as apparel, steel, and shipbuilding, how has U.S. cotton maintained its world dominance?

More broadly, how can an industry so basic and "downstream" as cotton production continue to thrive in an advanced, service-oriented economy? There would appear to be little sustainable advantage in an industry such as cotton. Models of business strategy would predict that dominance in such an industry can only be fleeting and stressful: The lack of product differentiation, the intense price competition, and the low barriers to entry make it scarcely worth the trouble. Business professor and strategist Michael Porter notes that

advantages [are] often exceedingly fleeting [in these industries]... Those industries in which labor costs or natural resources are important to competitive advantage also often have ... only low average returns on investment. Since such industries are accessible to many nations ... because of relatively low barriers to entry, they are prone to too many competitors. ... Rapidly shifting factor advantage continually attracts new entrants who bid down

profits and hold down wages. . . . Developing nations are frequently trapped in such industries. . . . Nations in this situation will face a continual threat of losing competitive position. . . .²

While this description of life on the economic precipice rings true for poor cotton farmers in South Asia and Africa, it does not describe the cotton industry around Lubbock. Year in and year out, American cotton farmers, as a group, are on top. What explains American cotton's success as an export commodity in a country that has experienced a merchandise trade deficit in each year since 1975? And what explains U.S. cotton producers' ability to export such a basic commodity to much poorer countries? Why here? Why was my Chinese T-shirt born in Texas?

Oxfam, the international development organization, believes it has the answer. According to a number of scathing Oxfam reports, the comparative advantage enjoyed by U.S. cotton farmers lies in their skill at collecting government subsidies.³ In the fall of 2003, bolstered by Oxfam's research and resources, the poorest countries in the world cried foul against the richest at the opening of the World Trade Organization (WTO) trade talks in Cancun, Mexico. Tiny, desperately poor countries such as Benin and Burkina Faso stood firm and stared down U.S. negotiators: They charged that U.S. cotton subsidies were blocking their route out of poverty, and that it was impossible to compete with Uncle Sam's largesse to U.S. cotton farmers. In a soundbite that carried considerable punch, the poor countries pointed out that U.S. cotton subsidies exceeded the entire GDP of a number of poor cotton-producing countries in Africa. If the United States was going to champion the case for free trade, Americans needed to walk the walk as well as talk the talk. The stare-down continued for several tortured days until the talks collapsed and both rich and poor gave up and went home.⁴ The point, however, had been made, and several months later the WTO ruled that U.S. cotton subsidies violated global trade rules and unfairly tilted the playing field toward American producers. In the summer of 2004, with the huge subsidies in the public spotlight, U.S. trade negotiators agreed not only to put cotton subsidies on the table, but to tackle the cotton issue "ambitiously, expeditiously and specifically" during the Doha Round of trade negotiations.⁵ As of the fall of 2008, however, the negotiations remained stalled, with most of the subsidies still in place.

There is no doubt that the subsidies are big and little doubt that they are unfair to poor countries. But anyone who believes that America's competitive power in the global cotton industry reduces to government subsidies should spend some time near Lubbock, Texas. While the

subsidies are, of course, a boon to U.S. producers, the success of cotton growers such as Nelson Reinsch is a much more complex phenomenon.

First, the dominance of the U.S. industry predates by well over a century the implementation of national farm subsidies. As Chapter 2 describes, the U.S. cotton industry passed its competitors over 200 years ago. Therefore, while subsidies may account for some cost advantages today, they cannot be the longer-run explanation for the industry's dominance.

Second, the subsidy explanation for America's dominance gives short shrift to the astounding entrepreneurial creativity of the American growers. In many ways, the American cotton farmers are MBA case studies in adaptability and entrepreneurship. American cotton growers have adapted their production methods, their marketing, their technology, and their organizational forms to respond to shifts in supply and demand in the global marketplace. The shifts in demand and supply that reveal cotton's story as a business were sometimes gentle and predictable trends of ascendancy and decline, and the farmers could see what was ahead; but sometimes changes were sudden and cataclysmic, reshaping the world in front of them. In each case, the cotton farmers responded with a creative maneuver—a new idea, a new technology, a new policy. Whether it occurs by design or necessity, the open-mindedness and forward orientation that struck me within minutes of first meeting Nelson and Ruth Reinsch is a regional trait as well as a comparative advantage, because farmers in poor countries who are tradition bound—for whatever reason—rather than innovation bound, lose.

The American growers' remarkable adaptability and entrepreneurial resourcefulness have their roots in character but also in the institutions and governance mechanisms taken for granted in the United States, but which are lacking in many poor countries. In the United States, the farms work, the market works, the government works, the science works, and the universities work; and all of these elements work together in a type of virtuous circle that is decades away for the poorest countries in the world. In much of West Africa, with or without U.S. cotton subsidies, these institutional foundations for global competitiveness are weak. In addition, the institutions that are in place in many poor countries serve to funnel resources and power away from farmers rather than toward them.

While subsidies alone cannot explain U.S. dominance in this industry, the subsidies are but one example of a much broader phenomenon that has contributed to the U.S. farmers' seemingly immutable spot at the top. For 200 years, U.S. farmers have had in place an evolving set of public policies

that allow them to mitigate the important competitive risks inherent in the business of growing and selling cotton. They have figured out how to compete in markets but also—and at least as important—how to avoid competing when the risks are too high. Put another way, U.S. cotton growers have since the beginning been embedded in a set of institutions that insulate them from the full strength of a variety of market forces.

When we consider the risks that a cotton boll faces on its way to becoming a T-shirt, it is a wonder we have clothes at all. The cotton can't be too hot, and it can't be too cold; it is susceptible to both too much water and too little; and it is too delicate to survive hail or even heavy wind and rain. Cotton plants are easily overtaken by weeds; there are dozens of varieties of pests that can take out a cotton crop; and crop prices are highly volatile. There is labor market risk as well, as workers must be available at a reasonable price when the cotton is ready to be weeded or picked. Every cotton farmer in the world faces these risks. And of course there are the normal business risks associated with falling prices and rising costs, foreign competition, and access to financing. As explained in Chapters 2–4, however, American cotton's story, and its success, have been about excellence in avoiding—or at least cushioning the impact of—these risks.

Today's proponents of markets and globalization can find much to like in the story of American cotton's victory, but the backlash can find support as well. For every noble victory in this industry, and for every case in which the Americans were smarter, faster, and better than the competition, there is a shameful victory as well. The most shameful of all was the cotton slave plantation, where the U.S. cotton industry was born, and where the Americans first trounced their foreign competition. Less shameful but still embarrassing are today's high subsidies. But to understand American cotton's long-run dominance, we should begin by agreeing to neither demonize nor romanticize American cotton farmers. During the 200 years in which the United States has dominated this industry, sometimes it was possible to win on the high road and sometimes it wasn't. My T-shirt's parentage in the fields of the American South has many things to be proud of, but some things to hide.