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The Travels of a T-Shirt in the Global Economy

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





A February 07, 2007 *Management Forum Series* presentation by

Pietra Rivoli, Ph.D.

Synopsis by Rod Cox

The Travels of a T-Shirt in the Global Economy, Dr. Rivoli's path-breaking study of globalization, was written with three goals in mind: first, to report rather than to advocate; second, to connect management and global issues in today's economy; and third, to avoid the bad rap of other business books by being a *want-to-read* book rather than a *should-be-read* book. By choosing an everyday object – a T-shirt – that in its life story symbolizes a lot of the ongoing debate about global economics, she accomplished all three.

Dr. Rivoli began her investigation with a \$6 T-shirt she found in the bargain bin at Walgreen's, tracing its story step-by-step. To her surprise, she found that the story includes global travels spurred less by manufacturing, shipping and retail interests than by domestic and global economics, politics, protectionism and trade agreements:

Cheap short-fiber cotton was harvested near Lubbock, Texas (the eighth largest cotton exporter in the world) and  to textile mills in Shanghai, China where it was spun, woven and sewn before being  back to Miami to be imprinted with logos and graphics by the importer and then  to Walgreen's and sold to Dr. Rivoli who, after getting tired of it, is likely to give it to a charitable organization which will bale it up and  to Africa to be resold for local use or (if damaged) shredded and recycled as furniture padding.

But this just skims the surface. *"Why does a t-shirt's life unfold as it does? Why are there so many travels? Why was the cotton from Texas? Why was the T-shirt manufactured in China? Who are the people involved at each step? Why does trade policy look the way it does? Why do the U.S. and Europe sell their used clothing to Africa?"* By addressing the social issues related to international business and globalization, including justice in international trade and labor standards, Rivoli's presentation and book provides an intriguing, eye-opening look into the complexities of global economics and their effect on our business and personal lives.

Pietra Rivoli, Ph.D. has been on the faculty at Georgetown University since 1983 where she teaches finance and international business in the undergraduate, graduate, and executive programs, and regularly leads MBA residencies to China. She received her Ph.D. in Finance and International Economics from the University of Florida. Dr. Rivoli's academic research has been widely published in numerous national journals. *The Travels of a T-Shirt in the Global Economy*, has received numerous awards, and has been cited by the American Association of Publishers as the best scholarly book of 2005 in the category of Finance and Economics. The book has been translated into 12 languages.

This synopsis includes concepts and quotes Dr. Rivoli's Portland, Oregon *Management Forum Series* presentation as well as from her informative, thought-provoking, and highly engaging book.

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Dr. Rivoli did not choose to tell the story of her Walgreen's T-shirt on a whim. Her action came after watching and talking with polarized activists who ranged from her Georgetown students to Seattle WTO protestors who saw globalization with only black-and-white, good-and-evil clarity. Were the charges true? And if so, how come they knew about it and she didn't? She decided to find out.

"I have written this book not to defend a position but, first of all, to tell a story . . . not to convey morals but to discover them, and simply to see where the story leads." Recognizing that she and all people have biases that lead them to conclude that anyone with dissimilar biases *"doesn't get it"*, Rivoli elected to follow the path of a T-shirt, start to finish. She found that the 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."*

But let's start at the beginning, with cotton.

First Stop: Texas

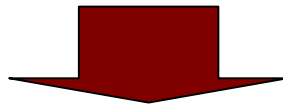
What is there about West Texas and cotton? Is it good land? Good weather? Room to grow? The real explanations are cultural and political, not natural.

- In the U.S., cotton growing has a strong historical base. Colonization of the U.S. South was organized to supply cotton to British mills. From its inception, the American cotton industry has been strongly protected by the government.
- Public policies are friendlier to agriculture than to any other industry. Said another way, the U.S. government takes care of Texas cotton farmers. If cotton prices drop, subsidies kick in at a floor that is regularly above the world price. Unlike other industries, government insurance payouts protect the farmers when natural disasters or other normal business risks occur.
- Cotton enjoys impressive scientific support funded with public dollars. University studies, labs, and subsidies create a protective cocoon for Texas cotton farmers. Without this cocoon, nothing would be growing in West Texas because it is not a natural agricultural place. These protectionist laws date back to pre-Civil War days, originally implemented as guarantees to plantation slave owners. Over the years, they have changed in detail, but not in intent.
- *"While subsidies, of course, are a boon to U.S. producers, their success is a much more complex phenomenon. The American growers' remarkable adaptability and entrepreneurial resourcefulness have their roots in character but also in the institutions and governance mechanisms that are lacking in many poor countries. In the US, 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 of the world."*

Lubbock, the cultural and financial center of West Texas, has developed into a mono-culture. "Cotton" listings in the yellow pages are extensive, and many jobs in the area are directly or indirectly supported by cotton at a subsidy cost in 2005 of \$6B. This subsidy outstrips the \$5B revenue generated by cotton; it's the highest cost-per-acre support for any U.S. crop.

You might expect Lubbock to be an economic oasis, but that isn't the case. The cocoon has merely lengthened the time the West Texas cotton industry – and Lubbock – remains alive. Without these protections, Lubbock would almost certainly become a wasteland.

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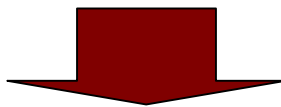
Second Stop: China

Much of the short-fiber cotton grown in Lubbock goes to China. (60 years ago, most went to mills in the American South.) Why China? Low labor costs would be the reflexive answer, but not the correct one. Wages of 50 cents an hour are common in China, but are even less in India, Pakistan, Sri Lanka and other Asian countries. The story of "why China?" is not so much about labor cost as it is about politics and history, and it's not a happy story even though some of the negative things in China are the source of its competitive strength.

In China, *"hukou is a place of household registration that specifies where you live, no matter where you actually are."* In effect a rural/city apartheid system, hukou was initiated in the 1950s as part of the economic development plans of the new Communist China. To support urban populations and factories, and supply raw materials and foodstuffs, rural China had to remain rural. This huge supply of potential labor was not invited to share in Chinese economic growth.

More recently, some rural workers have been allowed to come to the cities, but with restrictions to full citizenship. The men who go from the farm to the city are relegated to jobs in construction. Rural women coming to the city are placed in textile or other low-tech factories, stitching (you guessed it) T-shirts. Most of these young women can read so they are more productive than illiterate workers would be. But their rights are limited. They form an immobile, captive pool of labor in a hukou system that is based not on the market but on Communist party controls.

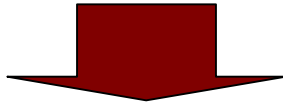
This discrepancy is not immediately evident to Western eyes because of a Chinese penchant for making the negative look positive; i.e., for airbrushing the dirty bits. For example, the port of Shanghai is spiffier than anything in the U.S., constructed to allow ease in buying, selling, and shipping. But it is built on land formerly occupied by low-income citizens who were literally bulldozed out of their homes. In democracies, squatters have political power that comes from their right to vote. Not so in China where cheap production is supported by autocratic rule as well as by the cruel and corrupt political system.



Third Stop: Miami or New York City

Because of complicated trade rules that affect clothing and trade with China, the T-shirt is shipped back to the U.S. without graphics. These are added by the wholesaler or retailer. Why not put them on in China? Finished items are likely to be more quota-restricted than unfinished items.

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Fourth Stop: Washington, D.C.

D.C. is a virtual stopover for the T-shirt, but nonetheless a vital chapter in its life. It's here and in other governmental centers where things get complicated due to trade policies, politics and incredibly complex special-interest rules. *"Simply put, the rules are nuts, as even the people who made them readily agree."*

"Under the widely accepted doctrine of free trade, the best course of action is for everyone to clear the ring and let the best T-shirts win. For the United States, access to the best T-shirts at the best prices will boost incomes. For developing countries, exports of textiles and apparel provide a route from rural poverty and a first step onto the development ladder. But free trade may not be the best course – at least in the short run – for Kannapolis, NC, where nearly 5,000 textile workers lost their jobs in a single day in 2003. Trade in T-shirts is not (yet) a contest of "faster better cheaper" on the part of competing businesses, but is instead a contest played out in the realm of politics."

Even though the U.S. textile industry is dwindling, it remains very powerful in the form of quantitative limits, high tariffs, and political clout. Recently, President Bush refused Pakistan's request to reduce trade barriers for Pakistani produced textiles even as the country's Prime Minister argued that the employment effects would help the "War of Terror."

An inflexible quota system limits the number of Chinese apparel items imported into the U.S. In fact, Chinese imports are among those most heavily restricted. Thus, the value of Chinese apparel exports to the U.S. is about \$9B as opposed to about \$53B for Chinese exports to the rest of the world.

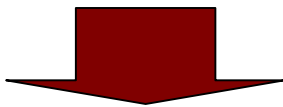
The rules of the game are set by influential world representatives of textile and apparel who band together to use their joint influence to affect trade. They discuss what they have in common, what is going on, what is China's impact, and so forth, and they retain or alter the rules accordingly.

"How did the U.S. – as the self-anointed free trade champion of the universe – end up with such a dauntingly complex and downright silly mass of barriers to the import of T-shirts?"

- The size of the textile and apparel employment base is about 5% of total U.S. manufacturing employment. Strong political voice – *"the groans of the weavers"* – have become louder and more sophisticated.
- Industry alliances give them strong, single-voice access to policymakers. *"When a pack of dogs snarl together, people have to listen."*
- *"The American public is nervous about trade, especially trade with China, and especially when the trade is believed to have severe (negative) effects on small American communities. The 'It coulda been me' syndrome leaves many American voters tolerant of complex trade protections."*

Since Dwight Eisenhower, *"every U.S. president has paid the U.S. textile industry to be quiet so that America could get on with the business of free trade."*

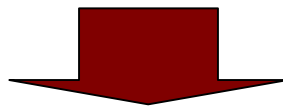
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Fifth Stop: Tanzania

This stage of the T-shirt's life – textile recycling – has positive environmental implications. When U.S. consumers are finished with their T-shirts, they typically donate them to charitable organizations such as Goodwill or the Salvation Army to be recycled. (This happens less often in other countries where there are no charitable tax credits.) U.S. consumers tend to not like used T-shirts. Why would they when a new T-shirt is so inexpensive? So if they are wearable, Goodwill will bundle the T-shirts and other clothing into 2-ton bales to be shipped to Africa to be resold. *"The exploding supply of castoffs from the rich meets the incessant demand for clothing from the poor."*

Used clothing is by far America's largest export to Tanzania where it enters the mitumba (resell) markets. Tanzania continues to be one of the poorest nations in the world, and T-shirts are priced accordingly. Dr. Rivoli's T-shirt – un-torn, un-faded – is likely to sell for about \$1. In less impeccable condition, it might fetch considerably less.



Sixth and Seventh Stops: The World

If torn or otherwise damaged, Rivoli's T-shirt is destined to be shredded and used as raw material for throw rugs and furniture padding throughout the world. And from there, one final stop: a landfill.

Five Live Issues in the Globalization Debate

1. The Stalled Doha Round

Doha Round refers to the current 'round' of trade discussions. The Doha Round is named after the city of Doha, a small port city on the Persian Gulf in Qatar, in which current trade talks are held. (Previous Rounds include the Kennedy Round and the Uruguayan Round lasting 7 and 13 years, respectively.) In the past, the Rounds tended to favor the interests of rich nations at the expense of poor nations. Doha Round was intended to address the interests of developing countries. Unfortunately, it has been stuck since 2001. U.S. industries – finance, high tech, pharma, insurance – want market access without barriers, but poor countries say, "do something about your agricultural subsidies and tariffs first." The political power of U.S. agriculture won't allow that to happen.

Cotton is the poster child for U.S. agricultural subsidies. As mentioned previously, in 2005 cotton subsidies were \$6B while the value of the crop was \$5B. Compare this with the GDP of Mali, Africa's largest cotton producer (\$4.79B) and the USAID assistance to Africa (\$4.6B). U.S. cotton subsidies drive down the price of cotton in the world market. Countries without subsidies – nearly every other cotton-producing country, all of them poor – can't compete. It is not an equal fight, and it affects high tech, financial services and other industries because it indirectly blocks their access. Agriculture subsidies create a hidden lost-opportunity cost for them. This is especially injurious to a U.S. economy where the manufacturing sector is shrinking rapidly.

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How does the U.S. agriculture sector justify the cotton subsidies? From their point-of-view, the subsidies just allow them to stay in business, but not get rich. This is not to say that other industries are without subsidies, but cotton is among the biggest. This may change. Formerly, the negative cost and affect of these subsidies on other industries were largely ignored, but they are now attracting attention.

The point is, *subsidies, tariffs and politics are pushing economics to the bottom rather than supporting them.*

2. “Sweatshops” and Labor Issues

Competitive economic pressure has introduced speed bumps in the economics race for the bottom. In most cases, the pushback against market competition is for political and social reasons, not production, and it is increasing.

Consumer demand is impacting global economics, too. Briefly said, many consumers will pay for certain attributes and processes – environmental sensitivity, social awareness, fair-traded products, and buying locally, to name a few – that have meaning to them. Especially as incomes grow, Corporate Social Responsibility (CSR) and Lifestyle Of Health and Sustainability (LOHAS) have moved up the ladder of influence. Today, there are approximately 50 million LOHAS consumers in the US who are willing to pay a process premium, and this number is expected to continue growing.

Note the difference this makes in the pricing of two T-shirts, one made in America, and one made overseas. The product and utility are the same, yet LOHAS customers are willing to pay more for socially responsible practices:

CSR Attribute	American Apparel	Offshore Apparel
Organic Cotton	Yes	No
Un-timed Bathroom Visits	Yes	No
Wages per Hour	\$10	50 cents
Job Security	Yes	No
Health Insurance	Yes	No
Price	\$15	\$3

Consider the conundrum. About 8 years ago, Nike caught flak, push-backs and speed bumps – warranted or not – about “sweatshop” labor conditions in supplier factories. (To be fair, their high profile made them an easy target.) The criticism was that these factories did not meet U.S. standards. This is true. Nike argued that they met the working standards for that part of the world, and that the alternative was to close down the factories and put people out of work. This is also true.

Market forces are bringing some changes in China, too. Although full citizenship remains curtailed for rural transplants, textile workers can now move from textiles to automobile and high tech manufacturing, industries which have better working conditions. And from a past characterized by pervasive unemployment, Chinese employers now have to look for qualified employees.

Successful organizations need to think about where the economic target is moving. There have been huge changes in a short period of time. Strong counterforces to downward pressure are seen in nearly every industry from office supplies to forests to bleach to eggs, and they continue to move farther back in the supply chain.

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- In the early 1990s, CSR/Supplier relationships were at arms length. Since then, factory employment practices, financial disclosures, third-party monitoring, supplier codes of conduct, and disclosures of findings and remediation have become public and influential.
- US companies once had closed price and product relationships with China, but are now being pressured by activists who seek disclosure about conduct in factories, labor practices, wages, child labor, fire escapes, and so forth. “Where are you buying from?” is affecting the sourcing of apparel, electronics and other goods.

3. “China cheats”

At least 21 China related trade bills are currently before Congress, most of them decrying “cheating” by China. They include charges of currency manipulation (artificially keeping currency low to give China an advantage in world trade), IP violations, and WTO Agreement violations.

With China poised to be the Number Two economic power in the world, what will it take to make the economic linkages work? Why is progress with China so difficult? The obstacles are formidable:

- Communist Dictatorship. Basic US and Western business and social institutions are lacking; i.e., impartial court systems, reliable adherence to contracts, a free press as a source of information, and acknowledgement of intellectual property rights.
- Cultural Chasm. In China, coming up with new ideas is dangerous; in the US, it is expected. In the US, forthrightness is lauded; in China, cultural habits often mean that things should be put in a positive light even when it is not true.
- In the 1950s, Japan was a source of cheap labor and products, and “Made in Japan” was not a compliment. But since then, Japan has grown to be an economic juggernaut with extraordinary product quality ratings. Will China follow that path? Probably not. The two countries have entirely different political systems and controls. China is a one-party dictatorship that is either in control or it is not; there is no middle ground. It is important to note that market economics are different than politics, and they are not necessarily in equilibrium. Pay scales in China might increase, but Chinese politics and control will probably not change considerably under the current regime.

What about India’s future? There, democracy and production are successfully growing. All things considered, democracy is better than autocracy as a foundation for economic success.

4. Rich Country Protection of Textiles and Apparel

The average tariff on all US imports is 3%. The average tariff on US apparel imports is 18% thus adding a substantial competitive burden to the poorer countries who want part of the US apparel marketplace. To keep from being excluded, they must absorb the tariff and reduce their expenses equivalently, or raise prices.

The US also imposes quantitative limits on finished textiles. Thus, during the past 15 years Chinese apparel exports to the US have grown very little while at the same time, Chinese apparel exports to the rest of the world have climbed seven-fold. Because of this, your favorite T-shirt is unlikely to have a “Made in China” label. But it could well have a “Made in El Salvador” or “Made in Honduras” label. (Just for fun, check out the labels in your own T-shirts. How many say “China”? “Honduras”? “Mexico”?)

CAFTA (Central America Free Trade Association) member countries can import garments to the US without the 18% tariff, in effect receiving an 18% price break. This is unfortunate because in effect, CAFTA members can be 18% less efficient or earn 18% more than non-CAFTA countries, and still price their products the same. It has to do with how the rules were written, and this keeps US companies from globalizing because they would have to absorb or charge through to the consumer the 18% tariff difference. The net effect is one of blocked trade, not free trade.

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5. The Perverse Effects and Unanticipated Consequences of Limiting Imports

A common theme in a T-shirt's life is the construction of rules that protect and insulate interested groups and governments at the expense of free trade and competition. They lay open charges of unfairness. They allow self-interest to run over community interest, and they set up conditions that hamper “faster better cheaper” producers.

When we keep goods from flowing in, we wind up with unintended consequences.

- Producers upgrade from low-dollar to high-dollar products, the ones with the most profit. Thus, quota limitations on apparel from China are causing the manufacture of cheap goods to move back to the US.
- Rules are broken with little consequence as referenced in subsection 3, “China Cheats,” above.
- Industries are forced to globalize even further. By trying to stop globalization, restrictions actually promote it.
- “Perhaps the most perverse consequence of all from the U.S. system of apparel quotas is the extent to which it has made the wrong people wealthy.” Competitors and traders who option their selling rights are enriched. In the case of China, the rights are ceded to the government. Thus, our import limits are actually a self-destructive gift to the Chinese government.
- The Chain of people who have a stake in the goods is handicapped. Which segment of the Chain do you protect? At what expense to others in the Chain?

In 2005 there was a brief window of U.S. free trade (or more free trade) in Chinese-produced apparel, but it was quickly revoked when Chinese imports jumped thirteen hundred percent in six months. Even so, the total volume of U.S. imports from all countries did not increase. In other words, the Chinese increase came out of the hide of other countries whose U.S. export numbers dropped proportionately.

Another factor to consider: in a recent experiment, researchers gave bananas to monkeys in exchange for rocks. It did not take long for this to become a patterned behavior: one banana for one rock. But then the researchers began giving a certain monkey two bananas for one rock. The others continued to get one banana for one rock. It wasn't long until the one-banana monkeys discontinued their trading even though the rock/banana trade benefited them. It appears to be an unfairness principle. Monkeys (and people?) stop playing the game if they are not treated fairly.

All in all, world trade is very much stuck because of the ripple-effect of U.S. agricultural subsidies, quotas and politics.

Lessons from the T-Shirt: Implications for Your Company

1. Global economics is only one part economics, and many parts politics, social, special interests, tariffs and so forth. A company that pays attention only to the economics will be scorched.
2. The fringe elements in global economics – the people who don't look at things the same way you do – will often tell you what needs to be fixed. Listen to them. They may have insights, and in ten years, they may be the “new normal.” They are often good predictors of what will be expected in 10-20 years.
3. Unrelated political issues affect most business. Who are your possible political allies? Who are your political enemies? How can you form political alliances to address key issues? Who are the people with whom you can form a “pack of dogs” to gain the ears of politicians?
4. Which process elements might create value for your company?
5. How do monkeys, rocks and bananas apply to your business?