

FREE TRADE . . . WHAT KIND OF YARN ARE WE SPINNING?

**Anderson D. Warlick
Parkdale Mills
Gastonia, NC**

Thank you for that kind introduction. I appreciate the opportunity the National Cotton Council has given me to speak this morning. What a year! Who would have thought:

- That cotton would break 30 cents per pound;
- We would use less than 8 million bales; or
- That we would be attacked on September the 11th.

The title of my presentation, “Free Trade.....What Kind of Yarn Are We Spinning?,” characterizes what I want to talk about today as it relates to our industry, and free trade as it is practiced on us today. Hopefully, you will recognize at the end of my remarks that free trade and protectionism are misunderstood in many industries – not just farming and textiles.

It is easy to talk to this group because I have always believed that cotton farmers and yarn manufacturers have a great deal in common. For example:

- You manufacture cotton. We manufacture yarn from your cotton.
- Cotton farmers are capital intensive. Spinners are capital intensive.
- Your success depends on being able to control input variables just like ours. Just the right amount of rain, fertilizer, etc.
- Like yarn spinners, your best market and customers are here in our own market.

These markets are under attack and if we don’t respond, then I will be speaking to you in 2005 saying, “Can you believe we only consumed 5 million bales?”

Being in this industry for 21 years has afforded me an opportunity to see “free trade” as it has been practiced. My first exposure to the term taught me that we were exporters who demanded that foreign markets open for our goods in exchange for access to our markets. Over the years, this definition started to change. Today these changes are very dramatic. Free trade means we open our markets, subsidize foreign producers in some cases and not demand that they open their markets. If you complain, you are immediately called a “protectionist” – an inefficient producer who wants a government handout! Are we not the most productive and efficient farmers and spinners in the world? Yes, we are. During the 1990’s, figures by the Bureau of Labor Statistics show that productivity gains expressed as output per hour for broadwoven fabric, yarn and thread, and knitting mills outpaced motor vehicles, machinery, paper, steel, printing, and a host of other industries. Man-made broadwoven fabric and yarn and thread mills improved output by more than 50%, outpacing aerospace, plastics, engines and appliances, and ranking 11th and 13th among 199 industrial categories.

Overall, a decade ago, the textile industry shipped \$39.40 worth of product for every hour an employee worked. Last year, the comparable figure was \$54.20, adjusted for inflation, a productivity gain of 38%. This gain in productivity was 30% larger than the average for all manufacturing.

We do pay good wages, though. Perhaps this is what Washington should advise us against to be free traders. We do have complex and civilized worker safety laws that require additional investment. Maybe this is what Washington should advise us not to do. We do pay taxes unlike many of these “free trading” Third World countries. Maybe this is what Washington would advise against.

If this is going to be what free trade represents, how do we compete? Many open-end spinners only have \$.04 to \$.06 per pound in labor cost. Are they inefficient? How can a spinner 5,000 miles away transport yarn by dusty pot-holed roads to a port, have it placed in a container shipped here, unloaded, then shipped to a customer at a lower price than we can offer? How can a farmer 5,000 miles away use 500 people to pick cotton cheaper than 1 man on a 6-row cotton picker here? I want to know! I also need to know what free trade is so I can see where we are coming up short. What kind of yarn are we spinning here?

My college professor couldn’t explain it to me 23 years ago. He said that free trade helped all people increase standards of living. “A rising tide raises all ships.” May have worked back in Adam Smith’s day (1775) when he wrote The Wealth of

Nations. Today, is there one product worldwide not overproduced by subsidized loans and devalued currency? This isn't my professor's rising tide. This has created tidal waves and some get drowned! My professor was a free trader all right, until I asked him how tenure and state certifications as to who could teach could be interpreted as free trade? After all, under his definition, the consumer (my parents) would do better not having to pay more for his protection. In fact, today why not get an Indian in New Delhi with a PHD and perfect English to teach our students via live internet teleconferencing? Just think, we could cut the cost of education in half. Now we don't want to do that, but is this what they call free trade?

Later, doing graduate work, got myself tossed out of class when I demanded to know who in the world practices free trade. Was told Hong Kong, Taiwan, and Korea. When I asked how that could be free trade if they didn't have a free floating currency, I got tossed out of the class. Today, Argentina has a currency pegged to the dollar. The problem is that it isn't pegged low enough for them to be competitive but it will be. It has dropped 30% this week.

Are we protectionists when we ask our government not to give a foreign competitor duty-free access to our markets for geopolitical reasons? For example – Pakistan, our ally and rightfully so in our war on terrorism, may be the only government to profit from the unfortunate events that happened on September 11th. They have had debt forgiven, quota relief, been given cash, promised money for their economy, had risk insurance eliminated, and the proof is their debt has been upgraded by Moody's after September 11. We need to help them, but there are a lot of more productive ways to accomplish this without hurting ourselves. If the war were somewhere else, they would be suffering just like we are as a result of the bad economy. But they have been excellent negotiators and you cannot blame them for that. In fact, they are only doing what is best and serves their own interests. What kind of yarn are they spinning?

Are we protectionists when we demand that we have non-manipulated currencies that allow us to plan and invest? In 1997-98, the currencies of almost all the major textile exporting countries in Asia collapsed, causing a shock wave of artificially low-priced textile and apparel products to hit the United States. Textile imports from Asia, which had shown relatively little growth over the past ten years, jumped 80% over the next four years as Asian currencies dropped by an average of 40%.

Because of pressure from abnormally low priced Asian imports, prices for U.S. textile products have plummeted since 1997. In turn, U.S. textile profits have evaporated and, last year, turned sharply negative. Over the last 12 months, the textile crisis has intensified as Asian currencies have continued to fall: over 100 textile plants in the United States have been closed and 60,000 textile workers, more than 10% of the industry workforce, have lost their jobs. The industry is now suffering its worst downturn in 50 years.

Prior to Asian devaluations, the U.S. textile industry has proven itself a global competitor. Faced with ever increasing imports, lower tariffs and the phase-out of textile and apparel quotas, the industry has spent billions of dollars on new plants and equipment, garnered record increases in productivity, developed innovative new products and dramatically expanded its export base.

As a result of the industry's commitment to quality, innovation and productivity, U.S. textile sales and shipments increased steadily from 1977-97 as did textile fiber consumption, an important indicator of industry health. Textile plants in the U.S. today are characterized by computerized looms that consume a mile of yarn a minute and by yarn spinning plants which are completely automated and can run 24 hours a day, seven days a week.

However, textile imports from Asia have increased 80% since 1996. A strong U.S. dollar policy has contributed to an unprecedented three-year period of deflationary price cuts for U.S. textile products.

As of June 1, 2001, the following currencies are at record (post 1996) lows: India, Indonesia, Pakistan, Philippines, Sri Lanka and Taiwan. China has matched these currency declines by a de facto devaluation through increased use of its export tax rebates; in 2000, China reported that its rebates had hit record levels. At the same time, the U.S. maintained a strong dollar policy in order to boost Asian economic recovery by way of increasing exports to the United States. The currency devaluations have caused sharp price declines for imports of Asian textile products.

According to data from the International Trade Commission, from 1996 – 2000, the average price of Asian yarn imported into the United States fell 30%, from \$3.67/kilogram to \$2.56/kilogram, while the average price of imported Asian fabric fell 26%, from \$1.10/square meter to \$.81/square meter.

The Producer Price Index for processed yarns has declined for 4 consecutive years and, in 2000, stood nearly 7% below its 1996 level.

The index for broadwoven greige fabrics fell during each of the past 3 years and now stands more than 8% below its 1997 level. The index for finished knit fabrics has also dropped for 3 straight years and stands 9% below its 1997 level.

Are we protectionists if we ask our government not to allow foreign governments to compete against us? Example, Egypt – we compete against state-owned Egyptian factories. We took the business here in the U.S. for Egyptian cotton yarn 3 years ago because of better quality. Three years later, the Egyptian government has cut our pricing to where it is \$.60 per pound (30%) less while simultaneously raising our cotton price. They take care of their industry. They also give their mills a \$.10 per pound discount below where we can buy it, and then they have export rebates for another 10 cents. That is \$.20 per pound to overcome. These are tough competitors and it is difficult to compete with them. They are also the 2nd largest recipient of U.S. aid. You cannot blame them; they are only doing what is in their best interest. That is why we need to do what is in our best interest. What kind of yarn are they spinning?

Pakistan, China, Egypt, Bangladesh, Sri Lanka, Indonesia, Brazil, and Thailand all have closed markets, either through tariffs or non-tariff barriers. We have been promised by our government that barriers in these countries would be reduced. These markets are still closed. This means that almost two-thirds of the world's population is closed to U.S. products. Are we protectionists for pointing this out?

Are we protectionists for asking that the U.S. government enforce the trade laws that we have? Widespread customs fraud totals billions of dollars annually and represents lost sales and jobs for not only the U.S. textile industry but for apparel manufacturers in the United States, Mexico and the Caribbean Basin Initiative countries. U.S. Customs has proven unable to significantly affect the flood of transshipped and smuggled goods – an intensive three-year effort by Customs to stem transshipments through Hong Kong was recently characterized by Customs itself as a “failure.”

More recently, illegal textile and apparel shipments, in the form of outright smuggling and false declarations, have been uncovered along the U.S.-Mexico border. Not only are illicit goods, primarily Asian, being misrepresented as Mexican and gaining quota-free and duty-free entry into the United States, but Asian goods are being imported into Mexico as the products of the United States.

U.S. Customs' own investigations have revealed that hundreds of millions of dollars of Asian textile and apparel goods are being smuggled directly into the United States through southern U.S. ports, posing as “in transit” goods to Mexico. This illegal trade seriously undermines American producers' efforts to export legitimate goods to Mexico.

In order for President Bush to win fast track authority before the Senate and House, he promised to hire 74 more customs officers and enforce our laws. Is this a concession? Seventy-four more officers? Seems that part of the job is to enforce our laws, not garner support from Senators and Congressmen with a promise to do what we are elected to do! Spending money to hire more customs officials should have a nice payback when you consider all the monies in duties and tariffs that the U.S. taxpayer is cheated out of every year. I am convinced that if our laws were enforced, we could consume as much as 1 million more bales.

Many in the media, industry and Washington are quick to point out inaccurately how protected textiles or farming is. Some are just lobbying for companies who benefit at the taxpayer's expense for the imports they sell. They are spinning a better yarn than all of us. Others are just misinformed. They haven't asked, “What is free trade?”

Many journalists have been derogatory about our industry since September 11. They feel it is our duty to support Pakistan as an ally – and rightfully so. But they write, “It isn't fair that 10,000 Pakistani textile workers have been laid off since September 11.” That is unfortunate. But they don't write that they are concerned about the 22,000 Americans in the U.S. textile and apparel industry that have been laid off as a result of September 11. Now, many congressmen want to help importers. For example, following September 11, major shipping companies assessed a ‘wartime surcharge’ on shipments not only from Pakistan but on many other countries in the region as well. The assessment amounted to \$150 per container – about 0.15 of one percent of the typical value of a container of foreign-made textiles and apparel. This surcharge would only amount to \$2.7 million out of \$1.9 billion in shipments in terms of total textile and apparel imports. Recently, citing a desire to contribute to the war effort, the shipping companies revoked the surcharge. Is this not a part of a risk reward strategy for sourcing in foreign countries? If there is no risk and only reward, maybe that is a subsidy. U.S. importers and retailers have cited the need for the elimination of textile tariffs in order to counter “business uncertainty” regarding the future events in Pakistan. They argue that businesses need an incentive to counter the increased risks associated with sourcing from Pakistan at this time, and that duty eliminations would provide that incentive. The average U.S. duty on a Pakistani textile and apparel product last year was 12%. As a result, in 2000, importers and retailers paid more than \$230 million dollars in duties to the U.S. Treasury on imports of \$1.9 billion worth of textile and apparel goods from Pakistan.

Is the textile industry more protected than Boeing Aircraft? The trillions in defense contracts that are exclusive to U.S. suppliers could easily be viewed as a subsidy. As a matter of fact, during an interview of Senator John McCain by Paula Zahn, which aired on January 8, 2002, Senator McCain stated, “We just saw the most outrageous pork barrel spending in the last appropriations process I’ve ever seen since I’ve been in Congress, including a \$26 billion bailout for Boeing Aircraft Company without a hearing.” Boeing is the largest free-trading exporter in the country. Doesn’t sound like free trade to me...sounds like protectionism.

Are textiles being helped out like the airlines? Our sales are down just like Delta Airlines. The difference is that once we shut down due to lack of business, our business is gone to a foreign producer and those jobs are no longer American. If an airline shuts down, the jobs do not go away. They move to the next acquirer.

What about our banks? Are they not given special protection by the U.S. government and Federal Reserve? Could they make risky loans without government backing and deposit insurance? Is this protection?

And some deride our industries as being protected!

But no one can argue credibly that a market where imports control 90% of U.S. apparel is protected.

To add insult to injury, some of the loudest and most persistent complaints have come from those countries that have benefited the most during the past 6 years.

Besides benefiting from their greatly increased access to the U.S. market – now worth nearly \$14 billion annually to the six countries shown in this chart – these countries have one other notable feature in common -- their domestic markets are essentially closed to U.S. exports.

So, what can we do?

- Educate yourself and your representatives about the importance of U.S. manufacturing jobs and the unfair advantages foreign countries are exercising.
- Demand that trade laws be enforced. Set up a “whistle blowing” system and rewards that enable fraud to be uncovered and perpetrators punished.
- Demand that currency manipulation be compensated for. If currency is devalued 40%, raise duties to equalize.
- Demand that U.S. government remove the 1.25 cent threshold for Step 2 provisions in the current farm bill.
- Provide financing for U.S. textiles and farming through the World Bank like foreign companies receive.
- Ask for definitions of free trade from those who criticize or may be uninformed. Get thrown out of class if necessary.
- When we want to help our allies, let’s help them with infrastructure projects, like roads and dams with U.S. aid. These projects will employ a lot more people and make the country stronger long-term – rather than with direct aid into industries that are already making products that are overproduced which will just continue to create a glut of products on the world market.
- Look for American products as much as possible.

Let me wrap up with this:

Dan was up-and-coming. He never thought he’d be down-and-out when his company shut down and moved to China. Dan was forced to look for a job. Dan started the day early having set his alarm clock (MADE IN INDIA) for 6 a.m. While his coffeepot (MADE IN CHINA) was perking, he shaved with his electric razor (MADE IN HONG KONG). He put on a dress shirt (MADE IN SRI LANKA), designer jeans (MADE IN SINGAPORE) and tennis shoes (MADE IN KOREA). After cooking his breakfast in his new electric skillet (MADE IN INDIA), he sat down with his calculator (MADE IN MEXICO) to see how much he could spend today. After setting his watch (MADE IN TAIWAN) to the radio (MADE IN INDIA), he got into his car (MADE IN GERMANY) and continued his search for a good paying AMERICAN JOB. At the end of yet another discouraging and fruitless day, Dan decided to relax for a while. He put on his sandals (MADE IN BRAZIL), poured himself a glass of wine (MADE IN FRANCE) and turned on his TV (MADE IN INDONESIA), and then wondered why he can’t find a good paying job in.....AMERICA....

Our industry is being harmed – and this is America. Those who are being harmed have a right to be heard. Though we have our problems, I am still very proud to be an American.