Textile Nation: Tar Heels and Asian Tigers
Why North Carolina should drop its protectionist mantra
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The seeds of today's textile trade disputes were sown in 1994 with the completion of the Uruguay Round of trade negotiations, which created the World Trade Organization (WTO) and set in motion the end of textile quotas in four steps.[i] The move was heralded as a clear embodiment of free-trade principles, but instead of applying laissez-faire principles to sound policy and action, the world has seen a slow erosion of the free-trade agreement.

Fearing a deluge of cheap, or potentially below market value clothing, the WTO in 2001 enacted the China Textile Safeguard (CTS) provision, which caps the import growth of textiles from China at up to 7.5% of the previous year's volume.[ii] China, in order to gain entrance into the WTO, agreed to the provision.

Capping the imports of another country means placing a quota on those goods. North Carolina, the largest textile state (33%) and 4th largest apparel state in terms of employment,[iii] has a key stake in the competition opened to China.

The purpose of CTS was to gradually allow the textile industry to adapt to the global market expanded by the Uruguay Round. But instead of evolving, the industry has fought to maintain the status quo.

U.S. Senator Elizabeth Dole, (R-NC), referred to the dying U.S. industry as "heartbreaking."[iv] Since generations of citizens in the Tar Heel state have been raised in mill towns, many will need retraining and remedial education, said Dole. And the more rural the climate, the more likely posterity follows familiar patterns of employment. Despite rapid population growth in larger N.C. cities, much of the state is still rural. The four-step quota phase-out was designed to give time for a much needed directional change. But legislation buttressed by anecdotal evidence, barred the way.

Senator Robert Byrd (D-WV) inserted the "Continued Dumping and Subsidy Offset Act of 2000" as an amendment to Title X of the Agriculture Spending bill, ostensibly known today as the Byrd Amendment.[v] Designed to protect domestic producers from cheaper imports in the steel industry, the language within the bill is broad enough to include, among other things, textiles.

The amendment imposes duties on allegedly "dumped" imports and redistributes the funds to U.S. competitors as reimbursement for the harm done by dumping.

To see why this is unfair, let's imagine that there are two groups of children selling lemonade in the same neighborhood. One group of children is from another neighborhood. This group of children, all the product of lemon farmers, has access to a plentiful supply of lemons. And, a local grocer down the street will give them a good deal on sugar. By selling lemonade for fifty cents, they turn a good profit.

The second group, all from the local neighborhood, has the ingredients for lemonade, only they must purchase each ingredient at the store. To make a profit, they must charge a dollar a cup.

Parents of the local children, fearing that their kids won't be able to make money, force the children from the other neighborhood to pay their children fifty cents for every cup they sell. Because of their easy access to ingredients, the children from the other neighborhood agree to the demand. They figure locals will still buy their lemonade, and the availability of ingredients allows them to turn a profit. All the lemonade consumers, if they want to buy from any neighborhood stand, must pay a dollar, instead of having the choice to buy cheaper.

This simplistic analogy represents the affects of the Byrd Amendment on foreign products. At the global level, the Byrd Amendment forces importers to charge a higher fee to play in a market that subsidizes the very product they are competing with.

In March of 2004, the Congressional Budget Office responded to the Congressional Ways and Means Committee's request for an economic impact analysis of the Byrd Amendment. Aside from the unfair penalty imposed upon foreign competition and the lost savings for the domestic consumer, the Budget Office concluded that the law has a strongly negative impact on the *U.S. economy*: "The law subsidizes the output of some firms at the expense of others, leading to inefficient use of capital, labor, and other resources of the economy."[vi]

This is a remarkable conclusion. The tariff imposed on the imported good raises the price of that good in the market. The higher price discourages consumers to buy the imported good. Consumers then move to buy the domestic product, thereby artificially bolstering an industry that might otherwise fail if left to market forces alone.

One consequence of this is that a dying industry, such as U.S. textiles, continues to grow because of skewed demand for the product.

The Next Step for N.C.

Instead of punishing China through quotas and tariffs, North Carolina, and the nation, should embrace the free market principles first invoked in the quota-phase-out. This includes understanding the value of China's competitive advantage as a country driven by the textile and apparel industry. China, with its large, cheap labor force and easy access to relevant raw materials, is perfectly suited for labor-intensive activities such as sewing complicated clothing articles. Allowing China to keep its textile machine well-oiled will bolster its global production, instead of dampening it to where it stands today (only 16.9% of U.S. imports[vii]).

Giving China the opportunity to participate in the global market will result in a net benefit. Not only will clothing prices drop for consumers world-wide (thereby letting consumers put that saved dollar to another use), the Chinese workers themselves will eventually experience a rise in their political freedom.[viii] As a whole, countries that benefit from the global market feel the social pressure of individual workers demanding the fruits of their labor. This has the tidal effect of revolutionizing freedoms and rights within the work force, and eventually throughout the country. Already, China is starting to allow property ownership.

Meanwhile, it is important to remember that bolstering a failing industry is inefficient. We're stifling innovation, not playing to our strengths. With a selective and specialized labor force, the U.S. textile industry is better suited for high-end textiles of complex fiber combinations. Of course, this requires less manpower, so consolidation is necessary. The steel industry has already moved in that direction.

Through the purchase and merger of Burlington Industries Inc. and Cone Mills Corp., Wilbur L. Ross formed a large, successful conglomerate, the International Textile Group. The merger, while cutting costs, also allowed for more innovation.[ix] The new company has changed its business strategy, funneling more into R&D for such exploratory ideas as nanotechnology treatments for fabrics, including stain and water resistance, areas yet to be reaped in the industry.

Consolidation, of course, is an immediate action that can be taken to save the industry by rerouting its function in the global market. We should keep in mind the importance of educating or re-educating a domestic workforce whose skills are not worth what they once were. Encouraging the continued value of low-skilled textile workers through quotas and tariffs is not beneficial to North Carolinians or the country as a whole. However painful, economic growth comes from innovation and competition.

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[i] See, http://www.wto.org/english/news_e/pres01_e/pr243_e.htm and http://www.cato.org/research/articles/ikenson-041223.html
[ii] Ibid.
[iii] See, http://www.soc.duke.edu/NC_GlobalEconomy/textiles/overview.php.
[iv] See, http://www.news14charlotte.com/content/special_edition/in_depth/?ArID=90158&SecID=125
[v] See, http://www.ebearing.com/legislation/2000act.htm
[vi] Ibid.
[vii] "Textile 'Disruption'." *The Wall Street Journal*, 11 April, 2005: A22.
[viii] See, source: http://www.mtholyoke.edu/acad/intrel/ipe/friedman.htm
[ix] See, http://www.utexas.edu/centers/nfic/natnews/archives/2004/Sep.2004.nat.htm#CONSOLIDATION%20SWEEPS%20TEXTILES