"...has all the makings of an economic classic."—*The New York Times*

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

New Preface and Epilogue with Updates on Economic Issues and Main Characters

WILEY

International Praise for
Travels of a T-Shirt, Second 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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"Don't miss this unusual book on economics."

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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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Cover image and design: Wiley

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
Published simultaneously in Canada.

ISBN 978-1-118-95014-2 (pbk); ISBN 978-1-118-95015-9 (ebk); ISBN 978-1-118-95016-6 (ebk)

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

In memory of my parents, Betty and Peter Rivoli.

CONTENTS

PREFACE

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 meetings, 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?

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?

I decided to investigate. During the following 6 years, I traveled the world to investigate the story of the people, politics, and markets that created my cotton T-shirt. 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 first and second editions of this book were published in 2005 and 2009, respectively, and I continue to speak with academic colleagues, factory owners, policymakers, activists, and students about the complex and important issues illuminated by the life story of this simple product. As I write this in June 2014, I am both amazed and humbled by the continued interest in this story.

What can the biography of a simple product contribute to current debates over global trade? When I began this project in 1999, I was pulled in one direction by my wish to tell this story but in another direction by my concern that the story was a lesser mode of inquiry, a methodology that was somehow not up to the task of illuminating the complex issue of global trade. In general, stories are out of style today in business and economic research. Little of consequence can be learned from stories, the argument goes, because they offer us only "anecdotal" data. According to accepted methodological wisdom in academic research, 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. Yet I now believe that while impersonal engagement with data and statistical models is a critical component of knowledge creation, critical as well is personal engagement and observation. The continued interest in *Travels of a T-Shirt*, and especially its adoption for a variety of university courses, has validated my early hope that biographies and stories can illuminate questions in economics and politics that data and statistical analyses cannot.

I remain inspired by the esteemed role of stories and biographies in scholarship in many disciplines outside of business and economics. 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 process of 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, might not merely reveal a life but illuminate the bigger world that formed the life. This remains my objective for the story of my T-shirt. And while economic and political lessons emerge from my T-shirt's story, the lessons are not the starting point. In other words, the point of my T-shirt's story is not to convey morals but to discover them, and simply to see where the story leads.

Of course there is no such thing as an objective storyteller, and I brought to *Travels of a T-Shirt* my own biases. Because I have spent my career teaching in a business school, and because of my academic background in finance and economics, 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 this book—to explain things. But after following my T-shirt around the world, and after 15 years spent talking to farmers, politicians, factory owners, and labor activists, my biases aren't quite so biased anymore.

Trade and globalization debates have long been polarized on the virtues versus evils of market forces. 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 upon workers. Free trade in apparel, in particular, critics worry, leads only to a downward spiral of wages and working conditions that ends somewhere in the depths of a Charles Dickens novel. A primary lesson to emerge from my T-shirt's life story, however, is that the importance of markets is often 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 market competition. Even those who laud the effects of competitive markets are loathe to experience them personally, so the winners in my T-shirt's life are adept not so much at competing in markets but in avoiding them. The effects of these avoidance maneuvers can have more damaging effects on 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 in which the markets are embedded. In peeling the onion of my T-shirt's life—whether in 1999 or 2014—I kept being led away from traditional business topics and instead to history and politics.

Many once-poor countries (Taiwan or Japan, for example) have become richer due to globalization, and many still-poor countries (China or India) are nowhere near as poor as they once were. The poorest countries in the world, however, many in Africa, have yet to benefit from globalization in any sustained way. My T-shirt's life reveals the wealth-enhancing possibilities of globalization in some settings, but a "can't-win" trap for the world's poorest countries, a trap where both markets and politics 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 Polyani 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.[1] Polyani 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.[2] My T-shirt's story comes down on Dougherty's side: Neither the market nor the backlash alone presents much hope for the poor the world over 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.

In 2014, the echoes and effects of the anti-globalization protests of 1999–2005 are heard in many settings. Perhaps most importantly, the WTO-led "Doha Round" of global trade negotiations remains stalled more than a decade after the early talks were disrupted by protestors in Seattle. The Doha Round negotiations began with high hopes that developing countries and their concerns would finally be welcomed into the club of the Western countries that had historically written the rules governing world trade, and that the 159 member countries would agree to a broad new set of rules that would prioritize the concerns of poor countries. In 2014, however, I was not able to find anyone who was optimistic that the round would get back on track in the foreseeable future. "Doha is comatose," was the common judgment in 2014.

A second echo of the earlier globalization protests is the prominence of the inequality debate in today's moral and political discourse. This debate had a special parallel to the earlier globalization protests during the "Occupy" protests that took place in the United States during 2011–2012. Since the 1970s, both income and wealth inequality have increased sharply in the United States and in many countries, and the theme of economic justice permeated the Occupy movement as it had the anti-globalization protests. Whether the target was Wall Street bailouts and the financial system or the WTO and the trade regime, the common theme of the protests was that both power imbalances and market forces led to outcomes that rewarded the few—particularly the "1 percent"—at the expense of the many. A 2014 Pew Survey found that 62 percent of Americans—and an unlikely left–right alliance—believe that the U.S. economic system unfairly favors the powerful.[3] The root causes of growing wealth and income inequality have attracted large volumes of research in recent years, and there is some evidence that liberalizing trade and economic globalization have been contributing factors. While liberal trade boosts average incomes, it often has particularly deleterious effects for lower-skilled workers.[4] In 2014, the themes of economic security and justice that sparked the anti-globalization protests in 1999 were alive and well. A central conclusion of the T-shirt's story—that winners often avoid competition by "writing the rules" rather than competing in business—was steadily gaining currency in the political debates of 2014, and the ability of some interest groups to write the rules of the game is clearly one contributing cause of growing inequality.[5]

I could not have predicted when I began work on the first edition of this book that my T-shirt's story would be relevant for some of the most significant economic events of our time. The 45-year-old regime governing textile and apparel trade—first put in place following a John F. Kennedy election promise—expired in 2005 to leave a brave new world of many losers, a few big winners, and an uncertain future. At about the same time, in a stunning David–Goliath maneuver, the poorest countries of the world held global trade talks hostage over U.S. agricultural subsidies, particularly those on cotton, the main (or indeed the only) ingredient in my T-shirt. And in the days following September 11—below the public's radar screen—T-shirt sales and military support were bundled up in a bizarre negotiation between the Bush administration and Pakistan, a negotiation that revealed the surprising power still held by the U.S. textile industry. China, where my T-shirt spent much of its life, assumed center stage as the world's second largest economy. As I wrote the 2005 and 2009 editions of this book, China's strange capitalist police state swelled up like a balloon and flooded the United States with low-cost imports, forcing virtually every American company of any size to devise a "China strategy," meet the "China price," or manage the "China threat," while both Democrats and Republicans struggled to explain their position on the "China issue." By 2010, however, rising costs in China were dampening the "Made in China" phenomenon, and production of many goods began to gravitate to even lower-cost locations. Finally, in April 2013, the early student protestors at Georgetown proved to be tragically prescient. The collapse of Rana Plaza, a building housing dozens of garment factories outside the capital of Bangladesh, killed more than 1,100 garment workers. The Rana Plaza collapse was the single worst tragedy in the global history of the apparel industry. Virtually all of the production at Rana Plaza was destined for Western consumers. The Rana Plaza disaster reignited the "sweatshop" dialogue among activists, Western apparel companies, workers, and governments that had permeated the global textile and apparel industries from the Industrial Revolution in the 1800s to college campuses in the 1990s.

Shortly after I 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 poor conditions under which Georgetown T-shirts and other licensed apparel were produced. Similar protests went on at dozens of universities across the country. During the next several years, the students and their compatriots around the globe made remarkable progress in changing the rules in the race to the bottom, in particular by engaging Western apparel companies to assume greater responsibility for working conditions in supplier factories. Following the Rana Plaza collapse in 2013, a new generation of students at Georgetown and a number of other schools quickly pressured their universities to require their suppliers to sign "The Accord," which obligated Western firms to assume responsibility for not only working conditions but also building structural integrity and fire safety.[6] In 2014, Polanyi's double movement is alive and well: As market forces push apparel production to lower and lower wage locations, forces of conscience and politics push back in the cause of safety, higher wages, and worker rights.

I thought, when I began this book, that I would in the end have a story that would help the students to see things my way, to appreciate the virtues of markets in improving the human condition. I do have such a story, I hope, but it is not the whole story. Economic and social progress is enabled not only by competitive markets but also by the forces of conscience that continue to rewrite the rules of global commerce.

In 2005, I spoke about the first edition of this book at the IMF in Washington. Hans Peter Lankes, one of the commentators, said that reading *Travels of a T-Shirt* 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." If reading *Travels of a T-Shirt* is like "circling a stone garden," writing this book has involved circles, too. As I have continued to circle during recent years, I still have not met any villains. Every aspect of my T-shirt's life has become more and more complex, and each of the actors seem to be running a faster and more complicated race. Cotton farmers, lobbyists, seamstresses, textile mill owners, clothing recyclers, and politicians—each responds to competition in the global economy every day, and I hope to convey even a fraction of their experience and what it means for the rest of us.

Nearly a decade after the first edition of *Travels of a T-Shirt* was published, I still typically hear from a few readers each week. The most common question I have received during the past several years has been about my plans for a new edition. The second edition of the book covered events through 2008, and I am delighted by readers' interest in what has happened since that time. However, after much consideration, I decided against writing a 3rd edition. *Travels of a T-shirt* is a story that took place at a certain place and time about a particular T-shirt. I fear that a "new edition" of this narrative risks losing too much of the essence of the original story. At the same time, I did want to be responsive to the continued interest in what has happened in the world of my T-shirt since 2008. The compromise: An epilogue is now included at the end of the book. The epilogue provides updates through mid-2014 regarding many of the central themes, issues, and characters from the 2005 and 2009 editions of the book. I hope that readers will enjoy catching up with the places and people of *Travels of a T-Shirt* as much as I have. Updated ancillary materials, including data and graphs for the 2009–2014 period, are also now available at www.wiley.com/rivoli.

In 2013, the Planet Money team at NPR produced exceptional multimedia reporting inspired by this book. An extensive collection of videos, radio stories, and articles from the life of the Planet Money T-shirt is available at http://apps.npr.org/tshirt/#/title.

I now know who made my T-shirt: I am honored to know Nelson, Gary, Yuan Zhi, Geofrey, Yong Fang, Ed, Auggie, Julia, and so many others. I wish that everyone interested in international business and global trade could meet them, and see globalization through their eyes and experiences. This book is the next best thing.

PROLOGUE

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 rifled 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.