"This is part of being in a global environment."

Oded Shenkar, Ohio State University

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Photos by JOE DON BUCKNER/Special Contributor

John Berg reloads spools of cotton at the Plains Cotton Cooperative Association's denim mill in Littlefield, Texas.

Woven fortunes

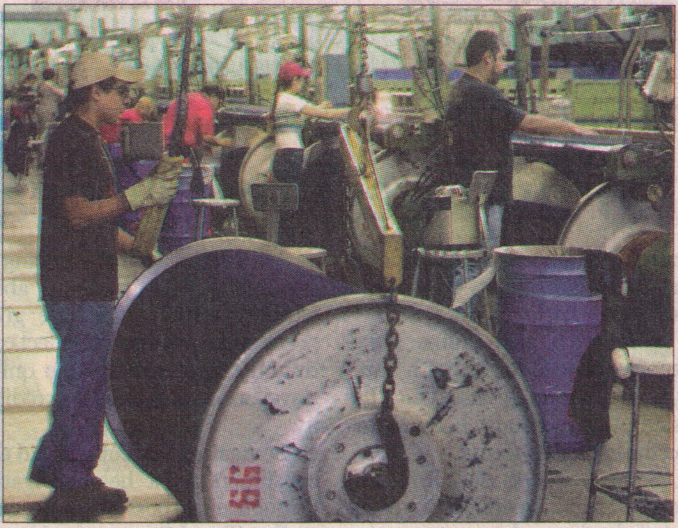
For cotton co-op, China is both a partner and a threat

By KATHERINE YUNG
Staff Writer

LUBBOCK — Towering bales of cotton bound for China lay stacked under the shifting gray skies of the High Plains, evidence of a record harvest.

The 29,000 members of the Plains Cotton Cooperative Association count China among their top three export markets for the 3 million to 5 million bales of white fluff they produce annually.

But this year, China poses a competitive threat as much as an opportunity.



Jeffery Flores is among 650 employees at the Littlefield mill, which faces pressure from Chinese imports.

On Jan. 1, the World Trade Organization lifted all quotas on apparel and textiles in a move that's expected to unleash a flood of low-priced clothes made in China.

The onslaught of Chinese imports could endanger the cooperative's denim mill, one of only eight left in the United States and the only one in Texas. Jeans makers in Mexico and Central America, the mill's customers, may be forced to move to lower-wage Asia to compete. At stake: 650 mill jobs in Littlefield, a tiny town northwest of Lubbock.

The cooperative's balancing act — selling to and competing with China — shows just how complicated relationships with the Asian giant have become in an increasingly integrated global economy.

China ranks as the United States' third largest trading partner, and Chinese purchases of U.S. Treasury bonds, commodities and services help fuel the American economy.

Yet China's ability to churn out billions of dollars of products at extremely low prices is costing U.S. jobs.

"This is part of being in a global environment," said Oded Shenkar, an Ohio State University business professor and au-

See **CHINA** Page 8D

thor of *The Chinese Century*. "It is radically different from what we had in the past."

These days, the shrinking U.S. textile industry means the West Texas cooperative relies on export sales like never before. China ranks alongside Mexico and Turkey as its top overseas markets.

The Littlefield mill, a sprawling, beige complex that lies next to cotton fields and a gin, holds a special place in the cooperative's 52-year history.

Apparel companies in the Southeast had long spurned West Texas cotton, believing it was inferior in quality. But with its opening in 1976, the mill proved to the textile industry that the region's cotton could be used for more than heavyweight fabrics such as mattress ticking and canvasses.

And the mill, which consumes 5 percent of the cooperative's output, often supplemented farmers' income during periods of low cotton prices. It had long thrived by delivering millions of yards of basic denim to its only customer, Levi Strauss & Co., with its network of factories around Texas.

"It's very important to us," said Wallace Darneille, the cooperative's chief executive. "We should be able to compete as well as anyone because we do produce our own cotton."

Recent struggles

The mill has struggled in recent years, hurt by low denim prices and weak demand.

Although the cooperative has been consistently profitable, its textile division, which also includes a plant in New Braunfels, lost money in three of the last six years.

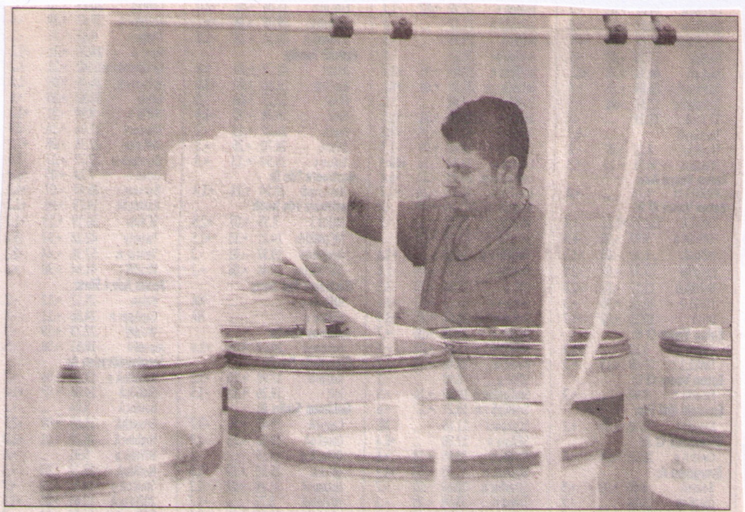
The mill's world began changing during the 1990s, when Levi Strauss started shifting its production to low-wage countries. In January 2004, the jeans maker shuttered its last two U.S. factories, in San Antonio.

Officials at the Littlefield mill knew they had to make drastic changes to survive.

The mill began concentrating on producing more fashionable types of denim, using different dye shades, finishes and weaves. One popular product: stretch denim, something it didn't manufacture five years ago.

This so-called value-added denim now accounts for 70 percent of the mill's production. It costs more to manufacture than basic denim but commands higher prices.

The mill has also diversified its customer base. Levi Strauss still ranks as its biggest buyer, but the mill also supplies denim for nine other large customers and 40 smaller ones.



JOE DON BUCKNER/Special Contributor

The Littlefield denim mill, where Jeffery Caudillo works, made drastic changes after customer Levi Strauss started shifting production to low-wage countries in the 1990s.

But these efforts weren't enough. With denim prices falling, cutting millions in costs and improving efficiency became critical.

The mill whittled its workforce from 800 workers to 650 through attrition. It replaced its 300 rapier looms with 160 more efficient and less costly air jet ones. And it's consolidating its denim operations, moving ring spinning and finishing work done at the New Braunfels plant to Littlefield.

Employees also took a 6 percent wage cut and are paying more for their health care. They can earn back 10 percent of their pay but only if they meet certain goals for production, quality and safety.

"We've had to change the way we look at business," said Bryan Gregory, the mill's general manager. "They [the employees] recognize it's a life or death deal."

Too soon to tell

So far, it's too early to determine what effect the elimination of the apparel and textile quotas is having on the mill, said Mr. Darneille, who is as apt to rail against competition from China as to woo its buyers.

He and several apparel experts are betting that jeans makers will opt to keep some factories in Mexico, Central America and the Caribbean. Workers in these countries sew most of the jeans U.S. consumers buy.

"Some jeans production will shift to Asia, but we believe a lot will remain in this hemisphere," said Nate Herman, an international trade specialist at the American Apparel & Footwear Association, a trade group in Washington.

But he cautioned that this prediction is based on Congress passing a proposed free-trade agreement with Central America. If the trade pact fails to win approval, jeans manufacturing could move to the Far East, he said.

Other experts say jeans making won't completely exit the Western Hemisphere because manufacturers will want to avoid the risks of producing solely in Asia.

"There is always going to be the need for nearby suppliers," said Pietra Rivoli, an associate business professor at Georgetown University and author of a new book about the apparel and textile industry.

Location advantage

In an era of rapid inventory turnover, the close proximity of Mexico, Central America and the Caribbean to U.S. retailers could also give them an upper hand.

Whether that's enough to offset China's formidable cost advantage remains to be seen. As Mr. Darneille notes, it costs $3 to produce a pair of jeans in China, compared with $8 using Central American or Mexican labor.

That kind of disparity troubles the workers at the Littlefield mill. These days, they are focusing on keeping their plant running at full capacity. The mill, with its giant vats of dyed cotton yarn, is selling more denim than it can make and hopes to turn a profit this year.

"Twenty years ago, we were playing checkers," Mr. Gregory said of the challenge facing employees. "Now we're playing chess."