

*The globalization of manufacturing has produced cheaper goods for everyone,
but the trend has cost hundreds of thousands of jobs in the Fifth District*

GLOBAL GAIN LOCAL PAIN

BY KARL RHODES

Willie Robinson worked at the textile mill in Newton, N.C., for 28 years. Most recently, she drove a forklift, and before that she operated several different machines that turned cotton into yarn. In the mid-1990s, Robinson was working six or seven days a week, but by late 1999, the plant began to slow down.

“In 2001, it really started getting slack,” she recalls. “We started hearing rumors. Then, the first of April, they had a large layoff. ...They told us then, point-blank, that within three months our plant would be closing.”

The plant was owned by Pillowtex Corp., a large textile company based in Kannapolis, N.C. Two years after Robinson lost her job, the company closed nearly all of its operations and

filed for Chapter 11 bankruptcy. More than 7,600 people lost their jobs that day, including 4,800 in North Carolina.

It was the largest single layoff in the state’s history, but Pillowtex is just one example. Manufacturing employment in the Fifth District declined 16.9 percent from 1993 to 2002, more than double the 7.5 percent decrease that the entire United States experienced during those years. And while manufacturing employment in the rest of the nation has shown some signs of stabilizing, manufacturing employment in the Fifth District remains weak.

The region’s top two manufacturing sectors—textiles and apparel—have struggled to compete against cheaper foreign imports, particularly from China and other developing nations.

The rest of the United States has the same problem, but textile and apparel manufacturing is highly concentrated in the Fifth District. In 1993, these two industries accounted for more than 23 percent of all manufacturing jobs in the Fifth District, while nationwide they accounted for just 9.2 percent of manufacturing jobs. By 2002, those percentages had fallen to 14.1 percent in the Fifth District and 5.7 percent in the United States. Nationwide, more jobs have been lost in textiles and apparel than in any other seven manufacturing industries *combined*.

Meanwhile, nearly everyone in the United States has benefited from the globalization of manufacturing. It has provided cheaper products to American consumers, and it has freed up



resources for the creation of entire new industries. But globalization also has eliminated hundreds of thousands of jobs in the Fifth District, particularly in the Carolinas and Southside Virginia. The economic pain has been highly focused on small towns where one or two textile plants were the primary employers. Many people in those towns have lost their livelihoods, and they face futures overflowing with uncertainty.

“The last day [at Pillowtex] is when I think it really hit,” Robinson recalls. “I think we all cried together that day. ...I knew that I wouldn’t be getting up every morning and getting ready to go to work. ...It was like, ‘Well, God, what am I going to do with my time now? Where will I find another job?’”

Manufacturing in the Fifth District goes all the way back to Jamestown, but the Civil War severely stunted its development. Following Reconstruction, most of the growth occurred in resource-processing industries such as food, lumber, and wood products. This was primarily a resumption of Southern manufacturing that had occurred before the Civil War, but it soon was supplemented by growing production of textiles, apparel, and cigarettes.

These industries continued to grow rapidly in the Fifth District during the early and mid-20th century, along with furniture making and chemical manufacturing. Attracted by lower wages, lower overheads, lower taxes, and weaker unions, manufacturers from the Northeast and Midwest migrated south

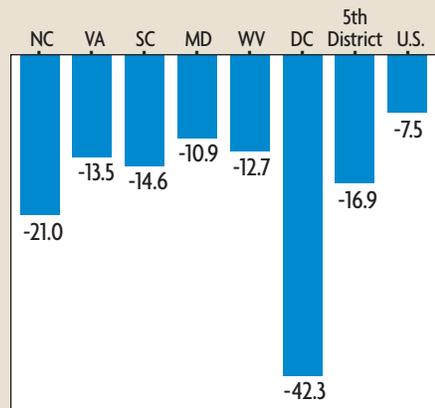
in the 1960s and 1970s, bringing a wider variety of labor-intensive industries to the Fifth District.

By the mid-1980s, some of these companies—including many of the textile and apparel manufacturers—began moving production capacity to other countries. And in the 1990s, concerns about the North American Free Trade Agreement were trumped by growing competition from Asian nations, most notably China. Waves of low-cost, high-quality imports have forced many manufacturers to close factories in the Fifth District. Others have upgraded their equipment to require less labor, consolidated their operations, or focused on producing niche products.

Many Americans blame the job

Manufacturing Employment Falling Fast

Percent change from 1993 to 2002



SOURCE: U.S. Bureau of Labor Statistics

losses entirely on foreign trade, but higher productivity and lower demand are major factors as well, says Phillip J. Kirk Jr., president of the North Carolina Citizens for Business & Industry.

"I'll tour plants and there'll be expensive machinery in there, and I'll ask, 'How many people does it take to operate that?' And they'll say, 'One or two.' And it took the place of 40 to 50 workers," Kirk says. "Companies had to automate to become more efficient to keep from closing down entirely. ... Then, with the recession, people are just buying less."

In the past 10 years, the most dramatic job losses have been in textiles and apparel, but Fifth District employment is down in the vast majority of its manufacturing industries. The six exceptions are computers, fabricated metals, wood products, plastics, food, and transportation equipment (see automotive sidebar on page 17).

States in the Fifth District do not break down manufacturing employment numbers for every industry, so precise job counts are not available in each industry, but broad trends are clearly visible. In Virginia and North Carolina, for example, furniture-making jobs are down 18.8 percent, while in West Virginia, South Carolina, and North Carolina, chemical-manufacturing jobs are down 13.5 percent. Machinery manufacturing jobs also are down 14.4 percent in North Carolina, South Car-

olina, and Maryland. Employment in primary metals and tobacco is down significantly on a percentage basis, but these industries aren't nearly as large as those listed above.

"If there are people out there saying, 'Hey, that's a textile-only problem,' they're wrong," says Lewis Gossett, president of the South Carolina Manufacturers Alliance. A prime example, he says, is KEMET Corp., a large manufacturer of capacitors based in Greenville, S.C. Capacitors are electronic components that accumulate and hold electrical charges. They fall into the manufacturing category of electrical equipment and components, which is down 13.3 percent in South Carolina and North Carolina in the past 10 years.

In mid-2001, KEMET cut its U.S. work force by 675 and its Mexican work force by 1,130. "In my 42 years in this industry, the rapidity and depth of the current correction is unprecedented," said CEO David E. Maguire. More layoffs followed in December 2001, and another round hit in July 2002.

As the market for capacitors began to recover, KEMET prepared to manufacture them overseas. In January 2003, the company reported plans to open a plant in China by the end of the year, while it announced more work force reductions in South Carolina.

"It's almost like the reports from Iraq, where you hear about a soldier or two being killed each day," Gossett agonizes. "You pick up a newspaper and you read about a facility closing. ... The problem with these textile mill closings in particular is that oftentimes they are the mainstay of that community's economy. ... When you take that tax base out of the community, a number of other things die with it."

Globalization makes strange bedfellows. American manufacturing executives and union leaders both blame U.S. trade policies for the loss of American manufacturing jobs. On the day Pillowtex declared bankruptcy, Bruce Raynor, president of the Union of Needletrades, Industrial, and Textile Employees (UNITE) issued the following statement: "The responsibility for this

tragedy lies squarely at the feet of government officials in Washington, in both Democratic and Republican administrations, who have created trade policies that are destroying the textile industry and manufacturing as a whole throughout America. Those elected officials who have supported FAST TRACK, NAFTA, and permanent normal trade relations with China have placed American workers and U.S. companies in an impossible position of competing with poverty wages and sweatshop conditions."

Russell Roberts, professor of economics at George Mason University, agrees that U.S. manufacturers are more regulated than their global competitors, but he's not ready to pull the plug on safety codes, pollution limits, or child labor laws. "Most of those standards...are good things for our people," he says. "The Chinese people can't afford most of them. ... That makes it harder in some areas for American manufacturers to compete, but most Americans would say that's OK: Americans shouldn't be doing those jobs in those particular ways."

Eventually, economists expect the employment pendulum to swing in a different direction. As China becomes more prosperous, its manufacturers will have to pay higher wages and provide better working conditions, and their primary competitive advantage will be gone or significantly diminished.

"China has been the recipient of a great many manufacturing jobs over a great many years," says Ray Owens, a vice president and senior economist at the Federal Reserve Bank of Richmond. "But at some point that will change, and the people in China will be complaining about the loss of manufacturing jobs to some new hot spot."

Gossett agrees with that prediction in the long run, but he worries about what will happen to U.S. manufacturers in the meantime. "I'm not sure that a couple of generations worth of losses just to see the [invisible] hand work things out eventually is worth it," he says.

But one recent study suggests that it may not take that long. Economists at Alliance Capital Management L.P. studied manufacturing employment in the world's 20 largest economies, and

they concluded that China lost manufacturing jobs faster than the United States from 1995 to 2002.

“Contrary to popular belief, the global push to relocate facilities to countries with lower production costs has not caused an increase in manufacturing employment in those areas,” wrote Joseph Carson, a senior vice president in Alliance’s global economic research department. “In fact, since 1995, the reduction of manufacturing jobs in China has been as large as that of any other country.” Carson concluded that the primary reason for the loss of manufacturing jobs worldwide is increases in productivity — not globalization.

Many American manufacturers embrace the global economy, but they say that “free trade” doesn’t necessarily mean “fair trade.” “We have trouble taking a protectionist position as an association because many of our companies source components or manufacture completely in Asia,” says Brett Vassey, president of the Virginia Manufacturers Association. “It would be short-sighted to...close our borders and throw up all the tariffs. ...But we do have an underlying sentiment, even among our multinational members, that there’s a difference between free trade and fair trade.”

Economists typically don’t think much of that distinction, though. When people call for “fair trade,” usually what they’re really after is special protection of their industry.

“Let’s suppose that China is pursuing a deliberate strategy to underprice its exports,” says Roberts, the economist at George Mason. “My first thought is: Great! Cheap goods for us! I understand that leads to challenges for people in those industries, but for Americans overall, the real issue is: Will that lead to some future where we’re suckered into losing all of our textile and apparel [manufacturing capacity] and then the Chinese can take advantage of us by jacking up prices later? I don’t know of any historical examples of where that has happened in international trade.”

Americans also accused the Japanese of cheating in the 1980s, Roberts

remembers. “They said, ‘Japan cheats. They’re keeping out our industries. They’re not importing anything from us. They’re building up expertise in industries that we’re good at. They’re going to destroy those industries, and we are going to be at their mercy.’ That [conspiracy theory] was wrong. One: They didn’t destroy our industries, although they did take a bite out of a bunch of them. And two: The net result for Americans was higher-quality, lower-cost goods and innovation on the part of American firms now in a more competitive marketplace. ...That’s probably what’s going [to happen] with China.”

Still, there is strong sentiment among manufacturing officials that China and other countries just aren’t playing by the rules.

In a September speech to the Detroit Economic Club, U.S. Commerce Secretary Don Evans acknowledged that China has not kept some of the promises it made when it joined the World Trade Organization in 2001.

“China agreed to let nonbank entities establish financing arms so their consumers could purchase automobiles. We’re still waiting. They also promised free access to established distribution systems for American goods. We’re still waiting. But we won’t wait idly. We will work to ensure that China honors the commitments it makes.”

China, for example, agreed to limit its exports of certain types of apparel to the United States, says Gossett of the South Carolina Manufacturers Alliance. But China has not kept that promise, and the result has been devastating to apparel manufacturers in the Fifth District. “As I understand it, those safeguards were put in place in return for a number of industries dropping their opposition, or at least tempering their opposition, to China’s entry into the WTO,” Gossett says. “If those safeguards are not enforced...it really diminishes the amount of trust that American industry has for these trade agreements.”

Fifth District Manufacturing Jobs By Industry (Jobs in Thousands)

Industry	1993	2002	% Change	States Reporting Data ^a
Apparel	120.6	40.1	-66.7	NC, SC
Textile Mills	255.4	141.8	-44.5	NC, SC, VA
Textile Product Mills	40.4	27.6	-31.7	NC, SC
Primary Metals ^b	27.1	21.3	-21.4	MD, SC, WV
Furniture	107.7	87.5	-18.8	NC, VA
Beverage & Tobacco Products	22.3	18.2	-18.4	NC
Chemicals	111.5	96.5	-13.5	MD, NC, SC, WV
Machinery	77.3	66.2	-14.4	MD, NC, SC
Electrical Equipment	48.3	41.9	-13.3	NC, SC
Nonmetallic Mineral Products	27.7	24.4	-11.9	NC, WV
Paper	30.3	26.8	-11.6	MD, NC
Printing	34.7	32.0	-7.8	MD, NC
Computer & Electronic Products	78.9	82.5	4.6	MD, NC, SC
Wood Products	33.7	35.4	5.0	NC, WV
Food	87.1	91.5	5.1	MD, NC, SC, WV
Plastics & Rubber	67.9	72.5	6.8	MD, NC, SC, WV
Transportation Equipment	106.6	116.1	8.9	MD, NC, SC, VA, WV
Fabricated Metal Products	66.9	74.1	10.8	NC, SC, WV

^aStates in the Fifth District do not break down manufacturing employment numbers for every industry, so precise job counts are not available. The numbers in this table are compiled from the states listed that report separate employment numbers for these industries.

^bSome of the job loss in primary metals has occurred in the northernmost portion of West Virginia, which is not part of the Fifth District.

SOURCE: U.S. Bureau of Labor Statistics (Annual Averages)

Gossett concedes, however, that the United States is bargaining from a weak position because of nuclear proliferation in North Korea. "This administration is in a tough position right now," Gossett says. "How much pressure can the Bush Administration put on the Chinese when the Bush Administration needs the Chinese for influence on the Korean Peninsula? The Chinese are such a significant player there, and nothing they do is unrelated. So I can imagine that trade policies come up in those [disarmament] discussions." (*At presstime, the Bush Administration announced plans to impose temporary quotas against select textile products from China, including bras, bathrobes, and knit fabrics.*)

Another item that comes up in discussions with China is currency manipulation. China deliberately undervalues its currency to gain unfair competitive advantages, according to William Primosch, director of international business policy for the National Association of Manufacturers. Testifying before the Congressional-Executive Commission on China, Primosch said: "Economists have estimated that China's currency could be undervalued by 40 percent or more. The Chinese yuan has remained pegged to the dollar at 8.28 [yuan per dollar] for the past

eight years despite an extended period of robust economic growth."

Prompted by numerous complaints about China, the Bush Administration has been talking tough. U.S. Treasury Secretary John Snow recently told Chinese leaders face-to-face that currency values should be determined by free-market forces. And Evans has pledged that the Bush Administration will aggressively target unfair trade practices, including dumping, counterfeiting and piracy of intellectual property.

"American manufacturers can compete against any country's white collars and blue collars," Evans said. "But we will not submit to competing against another country's choke collars."

Many economists, however, say that type of rhetoric is unwarranted. "I see no evidence that China has cheated or is not living up to its obligations under the World Trade Organization," says Douglas A. Irwin, professor of economics at Dartmouth College. Still, Irwin understands the desire to block goods from coming in from abroad. "Whenever we're in a recession and whenever our firms are facing import competition, they are going to complain because they are hurting. ...So I don't blame them for trying to stop imports."

In a recent paper, Dan Ikenson, a policy analyst at the Cato Institute's Center for Trade Policy Studies, notes that U.S. textile and apparel manufacturers have enjoyed "decades of protectionist exceptions." Most of that protection will evaporate on Jan. 1, 2005, when the WTO's Agreement on Textiles and Clothing comes to a close. But "getting to this point has been difficult," Ikenson writes. "The United States is widely perceived to have obstructed implementation of an agreement that was intended to achieve incremental liberalization in four stages over 10 years. To this day, most products that were to be liberated from quotas remain under quantitative restrictions."

Owens, the economist at the Federal Reserve Bank of Richmond, also warns against China bashing. He points out that much of the manufacturing capacity in China is owned or controlled by U.S. companies. "The capital is coming from us," he says. "We

are the people who are putting production capacity in China. It's popular to blame 'them.' It's not popular to admit that 'they' are 'we.'"

The impact of multinational free trade boils down to global gain versus personal pain, according to Roberts. The macro question is: What's the impact on the U.S. economy in the long run? The micro issue is: What's the impact on people who are losing jobs right now?

"It's very tough on the people in those industries who have very narrow skill sets or very low skill sets," Roberts concedes. "Their opportunities to find alternatives are very limited. They also have typically low education levels. ...For the rest of us, it's good news. It means lower prices for the textiles and apparel that we wear."

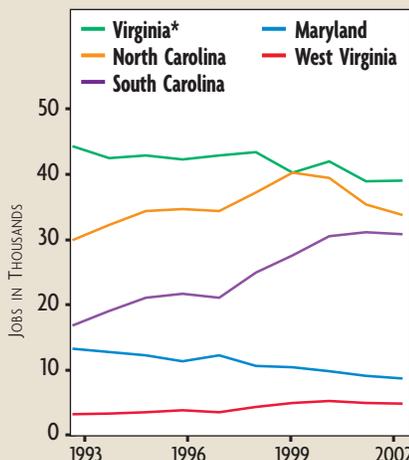
Roberts also notes that the decline of America's textile industry frees up resources to produce other goods and provide new services. "Industries have been started because we have been able to be more productive in the manufacturing area," Roberts says. "We've been more productive in two ways: We are more productive in the obvious sense that the amount of resources it takes to produce a particular amount of manufactured goods has gone down, and we are also importing more goods from overseas, which is just another way of being more productive."

Both of these trends have significantly reduced the demand for manufacturing manpower in the United States and in the Fifth District. But manufacturing output continues to rise, even as manufacturing employment continues to fall. That trend is at least 50 years old, Roberts says, and it mirrors America's transformation from an agrarian economy to an industrial economy in the preceding 50 years.

"In 1900, 40 percent of the U.S. economy was in agriculture. Today it's about 2 percent," Roberts says. "That was a very challenging transition for lots of farmers who saw that their farms were no longer productive because larger farms and technology were crowding them out. ...A lot of people lost their farms and had to suddenly

Built to Last

Transportation equipment jobs steady the manufacturing sector



*Nearly all of Virginia's decline in transportation equipment manufacturing jobs has occurred in shipbuilding employment, which fell from 27,200 in 1993 to 20,200 in 2002.

NOTE: Annual averages in thousands

SOURCE: U.S. Bureau of Labor Statistics

From Model Ts to Z4s

Auto Manufacturing Accelerates in the Fifth District

While other manufacturing industries have cut their work forces in the Fifth District, the automotive segment has created thousands of new jobs in the past 10 years.

Employment in the transportation equipment category increased 8.9 percent in the Fifth District from 1993 to 2002, and the automotive portion of that category has grown even faster. Not every state in the Fifth District breaks out employment numbers for the automotive industry, but a closer approximation of automotive manufacturing jobs can be achieved by subtracting Virginia's substantial shipbuilding employment from the Fifth District's total for transportation equipment. The remaining transportation equipment jobs—mostly automotive—jumped 20.8 percent in the Fifth District from 1993 to 2002.

The biggest single driver of that growth has been BMW's North American manufacturing facility in Spartanburg County, S.C. The company broke ground for the plant in 1993, and it has expanded the facility several times to produce new models, including the X5 sport-utility vehicle and the Z4 roadster.

As of May 2002, BMW had invested \$1.9 billion in the plant, according to a study commissioned by BMW and conducted by the Moore School of Business at the University of South Carolina. The plant, which employs more than 4,300 people, generates \$27.6 million in state and local tax revenues each year after accounting for incremental growth costs incurred by state and local governments.

Those governments provided \$130 million in long-term incentives to attract BMW to Spartanburg County in 1992. "Undeniably, the BMW location decision represented a major achievement in South Carolina's promotion of economic development," the study concluded. "In an area that has witnessed steady job losses in the traditional nondurable goods (textiles and apparel) sector, BMW adds thousands of high-wage, high-value-added, high-skill jobs."

If BMW wins the automotive Oscar for best performance in the past 10 years, then the Ford plant in Norfolk, Va., gets the lifetime achievement award. The plant started making Model Ts in 1925, and its 2,400 workers now produce the popular F-150 pickup truck.

"Although the Ford plant in Norfolk is one of the oldest plants in the Ford system, Ford has always favored it because they claim they have better production there than they do just about anywhere else," says William F. Mezger, an economist with the Virginia Employment Commission. "They tend to keep the Norfolk plant going when they are shutting down other things."

The Ford plant has been the stabilizer of Virginia's auto industry, but most of the recent growth has come from smaller plants that make parts for a variety of vehicles. "Because



The presence of BMW in Spartanburg has provided a boost to the South Carolina economy.

the auto industry contracts out for components now, a lot of firms set up in Virginia because it is a right-to-work state," Mezger says. "I understand that some of those components are shipped to Mexico for vehicles that are assembled in Mexico and then shipped back to the United States."

West Virginia's automotive manufacturing surge also has an international nature. In 1996, Toyota Motor Manufacturing announced plans to build four-cylinder engines in Buffalo, W.Va. And in January 1998, the company unveiled plans to expand the facility to produce six-cylinder engines, too. Three years later, Toyota announced plans to expand the complex again to build engines and transmissions for the Lexus RX300 sport-utility vehicle. This most recent expansion has pushed the company's investment in the plant up to \$950 million. It currently employs about 1,000 people.

Last year, in recognition of the plant's contributions to the state's economy, Gov. Bob Wise named its former top executive, Tomoya Toriumi, an honorary West Virginian.

—KARL RHODES

change their lifestyle from a rural to an urban lifestyle. ...That was hard on a lot of people, but it was glorious for Americans who eat, which is all of us."

Dramatic increases in productivity generated abundant supplies of food at lower prices, Roberts concludes. "The result was land freed up to do other things. The result was all kinds of resources and people freed up to create new jobs and new industries that wouldn't have existed otherwise. There was some hardship, but most of us would say that hardship was a price worth paying."

"I think the economists who talk that way are employed," snorts Kirk at

the North Carolina Citizens for Business & Industry. "They're not drawing unemployment compensation. I think we need to be concerned about any job losses ... and try to prevent them from happening. We also need to look at some new kinds of jobs."

On that point, Kirk and Roberts can agree. "What we really want to do for those folks is to give them the opportunity to get the skills they need to be more successful in a global marketplace," Roberts says.

Willie Robinson, the worker who lost her job at Pillowtex, is a good example. She earned her general education diploma in 1988, and she enrolled

in Catawba Valley Community College when the Pillowtex plant closed.

"Toward the very end...we did assessment tests and placement tests," Robinson recalls. "Some of the placement tests that I had taken said I could be an airline pilot, which I chose not to be," she chuckles.

Instead, Robinson decided to study health-care technology management, a two-year degree program that she enrolled in with two friends from her years at Pillowtex. They call themselves "the three amigos."

"We haven't separated the whole time that we've been going to the school," she says. "If one is in need, the

other two will help out. ... That's what I call a true, true friend because we've stuck together through the worst times."

Former Pillowtex workers see lots of familiar faces at North Carolina's community colleges. Within six weeks of the company's closing, more than one-fifth of its displaced workers were enrolled in the state's community college system, which has been scrambling to respond to a four-year surge in demand. Overall enrollment is up nearly 10 percent since 1999. The colleges' parking lots are overflowing. Retired teachers and other employees are coming back to help, while high schools and community centers are providing makeshift classroom space.

The intense demand for retraining has challenged the community colleges, but it has been even harder for the new students. The average age of former Pillowtex employees is 46.3, says Stephanie



The three amigos (left to right) are Allison Abernathy, Willie Robinson, and Julie Killian. After losing their jobs at Pillowtex, they hit the books at their community college.

One of the things that makes America strong is its industrial base, says Gossett at the South Carolina Manufacturing Alliance. "It was our salvation 60 years ago, and it has been the thing that has propelled us to the prosperity that we enjoy today. If we stop making things in this country, we are sapping part of our strength."

At the Virginia Manufacturers Association, Vassey agrees, but he argues that all manufacturing jobs are not created equal. Economic developers, he says, should do everything they can to attract and retain technology-intensive manufacturers that pay higher wages.

Perhaps the United States should do nothing to retain industries that chase cheap labor, Vassey suggests. "It was Mexico. Now it's China. It could be India. It could be North Africa. ... This isn't going to stop. It's just going to go from one developing country to another."

But Vassey and Gossett both say that the United States must not abandon its manufacturing sector. "Something has to support service industry. Something has to form the foundation that provides those people with an opportunity to make a living and prosper," Gossett says. "Somebody at some point needs to be making something."

That "somebody," however, will no longer be Willie Robinson. She is sticking with her plan to enter the health-care industry. "I felt like textiles were going to go out because there were so many places around here that had closed," she says. "I was trying to look more toward the future and something permanent that I know is going to be

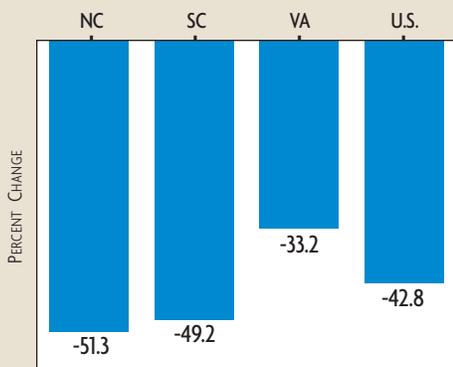
here regardless. There is always going to be somebody sick."

Several new health-care facilities have opened recently near Robinson's home, and she is optimistic that her new skills will command higher compensation than the \$9 an hour she was earning at Pillowtex.

Robinson is making good grades at the community college, but she has one more semester to go and her unemployment benefits are nearly exhausted. After that, she's not sure how she will pay her bills, but she's not about to give up now. "I've just got to pray really, really hard—and keep doing it," she says. **RF**

Ten Tough Years (1993-2002)

Manufacturing employment is down dramatically in textiles and apparel



SOURCE: U.S. Bureau of Labor Statistics

Deese, director of work force initiatives for the North Carolina Community College System. Many of them dropped out of high school, and they are nervous about returning to the classroom.

"When I first started out, it was kind of difficult," says Robinson, who turns 50 in January. But she credits the people at Catawba Valley Community College for helping her make the transition. "I couldn't ask for a better advisor," she says. "He has worked with me and my two friends. ... He's guided us over a lot of humps."

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