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Don't cotton to China fears

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If scary headlines and newspapers, and know-nothing politicians have caused you anxiety about the U.S. trade deficit and foreign ownership, relax and stop worrying. Here is why. A little know fact: China imports about 40 percent of the world's traded cotton, and the United States exports an almost identical 40 percent of the world's traded cotton. Thus, when you go to a Wal-Mart and buy a pair of cotton slacks with a "made in China" label, there is a good probability the cotton in those slacks was grown in the United States.

If you paid Wal-Mart $15 for the slacks, some of that money may have ended up with a Texas cotton farmer, a U.S. cotton broker, a U.S. cotton exporter, a Norwegian shipping company, and a Chinese textile firm.

If Wal-Mart buys directly from the Chinese firm, it must pay an international shipping company to bring the slacks to the U.S., pay its own distributors and truck drivers in the U.S. to get the slacks to its stores, and then pay the store personnel for displaying and selling the merchandise; in addition, pay for the warehouse and store structures, the office overheads, the trucks, etc. But that is not all; the Chinese tax authorities and the U.S. federal, state and local tax authorities will each take a piece of that $15 you paid for the slacks. As a result, the Chinese textile firm may have not received more than $5 out of the $15 for obtaining the cotton, preparing the cloth and cutting and sewing the slacks.

Assume Wal-Mart pays the Chinese firm $5 for the pair of slacks, while the Chinese firm needs to pay the U.S. cotton supplier $2 for the cotton. The Chinese firm then takes the remaining $3 to the bank in China to obtain local Chinese currency to pay its workers and local expenses.

The Chinese bank then has $3 U.S. One dollar may go to buy U.S. government securities (U.S. debt). Another $1 may be part of a loan to a Chinese airline to help it buy a 737 airliner from Boeing. And the last $1 may be part of a loan to a Chinese hotel company to help it buy and refurbish an American hotel in Miami Beach. The U.S. dollars are ultimately only useful to buy U.S. goods and services, or for investing in the U.S.

The Chinese banks use U.S. government securities (bonds and notes) to back up or serve as the reserves for their own currency. The Chinese now own about $420 billion or 8 percent of the public debt of the U.S. government. The Japanese hold about 12 percent.

All other countries combined hold another 20 percent. U.S. individuals and institutions hold the other 60 percent of the U.S. debt.

Many U.S. companies, institutions and individuals have large holdings of other countries' debt, and, in fact, many countries have far higher foreign ownership of their own debt than does the U.S.

Contrary to some scaremongers, the Chinese won't suddenly sell all their U.S. government bonds, since those bonds provide much of their bank reserves. If they engaged in massive sales, they would drive down the price of the bonds, thus destroying their own banking system -- and they know better than to do that. When the Chinese buy U.S. bonds, U.S. investors can put more of their capital into higher rate of return productive investments in the U.S. because there will be less U.S. government debt they need to finance. Thus, the Chinese holding U.S. government bonds benefits both China and the U.S.

The Chinese are also very big customers of U.S. businesses, and when they buy products, such as Boeing jets, they create many high-paying jobs for Americans (that tend to be higher-paying than the lost textile worker jobs). The Chinese are also big direct investors in the U.S. And when they do something like update an old Miami hotel, they create many more jobs for Americans in the construction and hotel industries, and give America a better hotel stock, which benefits everyone from the customers to the taxman.

Despite the political demagoguery, tens of millions of Americans -- whether they be Texas cotton farmers, Boeing airplane workers, Miami hotel and construction workers, or American homebuyers who can get lower cost mortgages -- are all better off due to the hard-working people in China. Yes, a few American textile workers have lost their jobs, but when Americans spend $15 for a pair of slacks that would have cost them $25, they have another $10 to spend in restaurants and on other goods and services that create many more jobs than were lost.

America now has close to full employment, and real wages are rapidly rising -- proving what good economists have known for more than 200 years that freer trade and investment create more and higher-paying jobs, while reducing the costs of goods and services. China wins, American wins, the world wins -- so stop worrying.

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