

**Actual Comments Delivered by
Henry L. (Skip) Kotkins, Jr. , President, Skyway Luggage Co.
To the USTDRC, November 16, 1999**

Good Afternoon,

By way of background, my company, Skyway Luggage Company, is an 89 year old wholesaler of luggage products. For 88 of those years, we operated factories in the US, including a Maquiladora factory in Mexico. Today, our factories are all in Asia. We ship products from those factories in Asia to the US, Canada, Mexico, Europe, the middle East, Africa, Australia and New Zealand, and some other Asian Countries.

I have previously submitted written testimony to the Commission's offices. I had prepared a statement to read today, but was advised by one of your staff representatives that because that statement was included in the materials submitted in advance, I could be assured it was on the record.

Therefore, I would like to just highlight four main points from the written materials I have submitted.

First, we have a terminology problem. "Deficit" or "imbalance" are, in and of themselves, negative terms. Their common connotations automatically color any conversation that looks at the topic. Those of us who are importers are often put in the position of having to be defenders or apologists for what we know to be activities that in fact benefit parties at home and abroad, and hurt no-one.

The second point I wish to make is the importance of understanding the role of the consumer in all of our discussions. Our imports, whether finished goods or inputs into US - made products, ultimately result from the desire of the consumer to purchase the best value available. In the very best application of the principles of free enterprise, imports are the result of choice on the part of consumers. My company, with a long history of manufacturing in the US did not reach its present 100% import situation as the result of some grand strategy; we did not reach it as a result of some external mandate. We became an importer as a result of the need to continually supply consumers with products that deliver the kind of value they demand. The number one beneficiary of the trade deficit is our own consumers. It is their quest for value and their exercising of freedom of choice that has created the demand for imported products. I have heard and read many accounts that ascribe incredible power to the government, to the big corporations, and recently here in Seattle, to the WTO. In my experience, none of that power comes even close to the power of the American consumer. They have proven remarkably resistant to efforts to get them to behave in ways that are not in their own interests. They have proven brutally willing to reject products and services which they do not perceive as worth their money. If I have only one overpowering message to pass along to the commission, it is to never forget that the international trading economy is driven by consumers making daily choices with their money.

The third point harkens back to the old adage: "Give a man a fish and you feed him for a day; teach him how to fish and you feed him for a lifetime." Our country is committed to foreign aid. Whether it is out of humanitarian concern, out of political expediency, or any other reason, we spend billions to help other countries help themselves. Our government gives people fish, every day of the week. As an importer, however, I am also engaged in foreign aid. I have provided the funds by which people work themselves up out of poverty. Let me tell you about Mr. Luo, one of our suppliers. When I first went to his place in Changhwa Taiwan more than 20 years ago, it was literally a shed with one grimy metal stamping machine. Mr. Luo and his kids and his wife and the pet monkey all worked there. At the end of the day they took the vats of chemicals they used to nickel plate the metal parts and dumped them in the stream

that ran behind the shed. Today, Mr. Luo has a modern building, well lit, air-conditioned. He has clean machines, his workers wear matching uniforms, they provide free meals, and they have a state of the art environmentally sound system for handling their effluents. His son is a university graduate. He did that with the money we provided. So I am also in the foreign aid business. But there are differences. First, my foreign aid costs US taxpayers nothing.....in fact, it benefits US taxpayers because they get high value products as a result of the money I send overseas to purchase luggage. Second, my foreign aid happens on a people to people basis, not government to government. I have looked in the faces of the people that are employed making our products. I have seen the improvement in their working conditions over the years. My foreign aid is teaching people how to fish.

The last point is that it is very easy to oversimplify global economics. There has been a lot of sound-byte "Exports good, imports bad" rhetoric over the years. Ross Perot predicted the giant sucking sound when we signed the Nafta agreement. Reality, however, has proven Ross wrong. You cannot employ simplistic analysis to the complexity of trade. We do know for a fact that our country has engaged in the highest levels of trade in our history over the past decade. We also know that, prophets of doom notwithstanding, we are today at record low levels of unemployment, we have sustained low inflation and sustained economic prosperity. I know that not one person in my company lost a job as a result of our transition from domestic manufacturer to importer, and my employees today are making a third more in wages, in constant dollars, distributing luggage than they earned when they were making luggage. So, how do you explain it. Well, the State of Washington commissioned the first ever State study of the economic impact of imports, and it is perhaps the first such study anywhere. The study makes some very important comments about the importance of imports in the overall economy. The study points out the role of imports in keeping inflation low. It points out the role of imports in providing the funds needed for overseas trading partners to purchase our exports. It points out the role of imports in providing higher paying jobs in transportation, distribution, finance and wholesale and retail trades. It points out how import competition has provided the impetus for domestic companies to become more productive, become more efficient and become more innovative.

I urge the commission to read the narrative portions of the study which are appended to my written submissions. I also have copies of the entire study here for those who may want a copy.

Finally, as a small businessman whose business is alive and well after almost 90 years because of our ability to be an importer, I want to thank the commission for inviting me to share my experience and perspectives.

*ORAL STATEMENT OF HENRY L. KOTKINS, JR.
PRESIDENT & CEO OF SKYWAY LUGGAGE COMPANY
TO BE DELIVERED BEFORE THE
U.S. TRADE DEFICIT REVIEW COMMISSION **HEARING**
NOVEMBER 16, 1999*

My name is Skip Kotkins and I am President and CEO of Skyway Luggage Company. We are perhaps unusual in that we are a third generation family owned and operated business that has managed to evolve and thrive for 90 years. Since my grandfather started the business in 1910, we have always been located in Seattle and have always been in the wholesale luggage business. We build luggage for consumers, but sell only to retailers. Because private companies do not disclose figures, we don't know for sure, but believe that we are the second largest wholesaler of luggage after Samsonite Corporation, which includes Samsonite, American Tourister and Lark luggage companies. Today, Skyway has sales in the United States, Canada, Mexico, Europe, South Africa, the Middle East and Asia.

From 1910 until January of 1998, we produced suitcases in our factory in Seattle. Beginning in the late 1960's, we started to augment our Seattle production with goods produced in Asia, and gradually that balance shifted until today 100% of the luggage we sell is produced in Asia. Design, sales, marketing, merchandising, and other commercial functions have not changed; only the location of the manufacturing has. Over the years, we have produced product in most Pacific Rim countries. It is extremely important to realize that our job as a wholesaler is to provide value for consumers. They have many choices and will spend their money where they perceive they are getting the most bang for the

buck. Our decisions on where to build our product have been driven exclusively by the economics of which factories and which countries can create the greatest value for consumers who buy our suitcases. Whether we were producing in our Seattle factory, or our Mexican Maquiladora factory when we had it, or our leather goods plant in Philadelphia, or off shore, we have always given the consumer reasons to buy our product, which is why we are still in business today. This is the essence of customer orientation. I should point out, however, that over the years, many, if not most, of our competitors who were manufacturing oriented stayed committed to their domestic factories, but are no longer in business.

I raise this point because it is essential that the Commission recognize that imports, which certainly are at the root of the trade deficit, are not the result of discretionary choices. Today, we have worldwide over-supply of consumer goods, which means it is a buyer's market. Like water seeking its own level, consumers will purchase what they perceive to be the best value for their money. The decision to go off shore was not a strategic one. It was one of survival. The Commission must recognize that consumers call the shots. Like Washington State residents who go to Canada to buy prescription medicines at half the cost, consumers will find ways to access products produced by those who are able to do so best, regardless of where they are in the world.

The subject of today's hearing is US-Asia trade and market access. Because we produce all of our products in Asia, we are, obviously, active in Asia trade. While we are not an exporter from the U.S., we are an exporter from our factories in Asia. In addition to the U.S., we ship our own branded product

directly to Canada, Mexico, the UK and Europe, South Africa, the Middle East and other Asian countries. I can say that of all the destinations for our product, access is most difficult to the markets of the United States of America. The U.S. has the highest duty rates of any of the countries, we sell to and is the only country in which our products are subject to quota restrictions. The U.S. is the only country into which we cannot ship merchandise produced in Vietnam because of the absence of normal trade relations (NTR, formerly known as MFN - Most Favored Nation status). I know that there are market access issues for some U.S.-produced products, but from the standpoint of a U.S. company shipping from off shore factories, our own country is the most difficult to access with our products.

I want the Commission to know that imports have a far more complex role in our economic picture than is usually portrayed. Political rhetoric, such as Ross Perot's giant sucking sound, or some of organized labor's complaint of exporting jobs, fails to take into consideration the positive aspects of imports. The commission should know that the Washington State Department of Community Trade & Economic Development released a landmark import study in July of this year. It is the only state study of the economic impact of imports, and we doubt that there is any comparable study on a national level. It is essential that the commission be familiar with the study's findings of the vital role that imports play in the overall economic equation. For example, the fact that low cost imports are a prime reason for continued low inflation in the U.S. economy and that low cost imports most benefit low income working class people, is often overlooked. The fact that without imports, foreign countries would lack U.S. dollars to purchase our exports is often overlooked. The fact that trade exists on

a people-to-people basis rather than government-to-government basis makes trade **one** of the most important contributors to a global society, to global understanding, and, hopefully, global peace. Please refer to pages iii through v and pages 5 and 6 of the study. (attached)

Finally, I would like the Commission to know that in our own Company's history not one person lost their job as a result of the cessation of our U.S. manufacturing. Today, we have people **making** higher wages, enjoying better benefits, and with greater job security than when we were producing luggage in the U.S. We still have the same union representing our workers. That union recognizes that their members have good jobs and are engaged in respectable and honorable work. The union has been a good partner as we shifted production off shore, and re-deployed luggage makers to become luggage distributors.

While trade opponents may be able to cite specific examples of **trade**-related problems, it is very dangerous to extrapolate those specifics to incorrect generalizations. It is important that the Commission be objective and do its own research, rather than being persuaded by well-intended, but perhaps overly emotional and factually weak arguments. One in, three jobs in Washington State is related to international trade and it is probably higher than that when you consider the fact that trade in services is often not counted. Globalization is happening. Isolationism in today's world of transportation and communications will not work. The United States must be a player in the global economy because that's the only real economy that exists.

Thank you very much for the opportunity to share some thoughts today.

***FOREIGN IMPORTS
AND THE
WASHINGTON STATE ECONOMY***

Prepared for:

Washington State Department of
Community, Trade & Economic Development

By

Robert A. Chase
Chase Economics
223 Tacoma Avenue South
Tacoma, Washington 98402
(253) 593-4530

and

Glenn Pascall
Institute for Public Policy & Management
Graduate School of Public Affairs
University of Washington
Seattle, Washington 98195
(206) 783-3735

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PREEACE

THE IMPORTANCE OF IMPORTS

This study documents the role of imports in the Washington State economy. Large and positive impacts on jobs are strong arguments for the value of imports. Yet the case for imports is by no means obvious. Consider these political facts:

- ◇ Every nation believes it must have an export **strategy** but no nation has an import strategy.
- ◇ **An** excess of exports over imports is defined as a “positive” balance of trade while an excess of imports over exports is defined as a “negative” balance of trade.
- ◇ Exports are seen as “good” because they create an inflow of capital from abroad while imports are seen as “bad” because they require an outflow of capital to foreigners.
- ◇ Exports are reassuring as proof of **national** productivity and competitiveness while imports are perceived as stealing jobs from the workers of one’s own nation.

These views are so widespread that they often pass unchallenged when expressed by leaders in government, business, and labor. Yet, an equally valid set of statements exists on behalf of imports. Consider these economic facts:

- ◇ Without imports, there can be no exports. **In** fact, the two must be of equal value for world trade accounts to balance.
- ◇ “Export-only” strategies can easily backfire on nations that adopt them. They risk the hazards of currency devaluation, falling wages and depressed domestic demand.
- ◇ “Export-only” strategies worldwide would bring on a global depression, as they did in the 1930s when tariff walls were erected to discourage imports.
- ◇ US. willingness to run a large “imbalance” of trade has become the major stabilizer in the world economy-crucial to the recovery in Asia and Latin America.

Yes, there is concern about the imbalance between U.S. imports and exports. Our “trade gap” is currently running at more than \$200 billion a year, a pace that does not seem indefinitely sustainable. But if the US. erected trade barriers that suppressed imports the consequences would be felt worldwide. The world trade picture is a puzzle made of over 300 pieces—the imports and exports of each nation. The global economy could adjust to the removal of almost any piece except one—U.S. imports. In the debate about trade policy and amidst concern about the trade balance, this simple fact must be kept in mind.

Global concerns aside, imports benefit the U.S. economy in many ways:

- ◇ **Most** obvious, imports allow U.S. consumers to buy a wider selection of the goods they want at lower prices that stretch the purchasing power of the average paycheck.
- ◇ Low-priced imports help hold down inflation. This allows the Federal Reserve Bank to reduce interest rates and keep credit affordable—a key ingredient in our long boom.
- ◇ As much as 40 percent of U.S. imports are producer goods—inputs to products that U.S. firms export or sell at competitive prices to consumers here.
- ◇ Our purchase of foreign imports assists the economic recovery in other nations and boosts their ability to purchase our exports—the reverse of a depression spiral.
- ◇ In states with major ports, the import trade is a major source of economic vitality. Washington is an outstanding example. Seattle and Tacoma are often called “the Port of Chicago.”

It is these benefits and impacts of imports that this study documents.

EXECUTIVE SUMMARY

THE GROWING ROLE OF TRADE

- ◇ The two most significant trends in post-war U.S. economic development have been the rapid expansion of the services sector and the growing importance of international trade.
- ◇ Between 1970 and 1998, U.S. gross domestic product grew at an average annual rate of 2.9 percent while U.S. exports and imports grew at annual rates of 6.9 percent and 6.5 percent, respectively (all numbers adjusted for inflation).
- ◇ Washington State leads the nation in per capita exports, and the export trade directly or indirectly supports one out of every four jobs in the state, according to 1997 research by economist Dick Conway.
- ◇ Washington State handles 6 percent of America's trade flows (exports and imports) although the state accounts for only 2 percent of U.S. population.
- ◇ The largest single category of trade through Washington's marine ports and airports is not exports produced in this state but foreign imports that are landed here and then shipped from Washington to purchasers elsewhere in the U.S. and Canada.
- ◇ Similarly, while Washington ports handle a large volume of exports from other states destined for foreign markets, a greater trade is in foreign imports for purchase within the state of Washington.

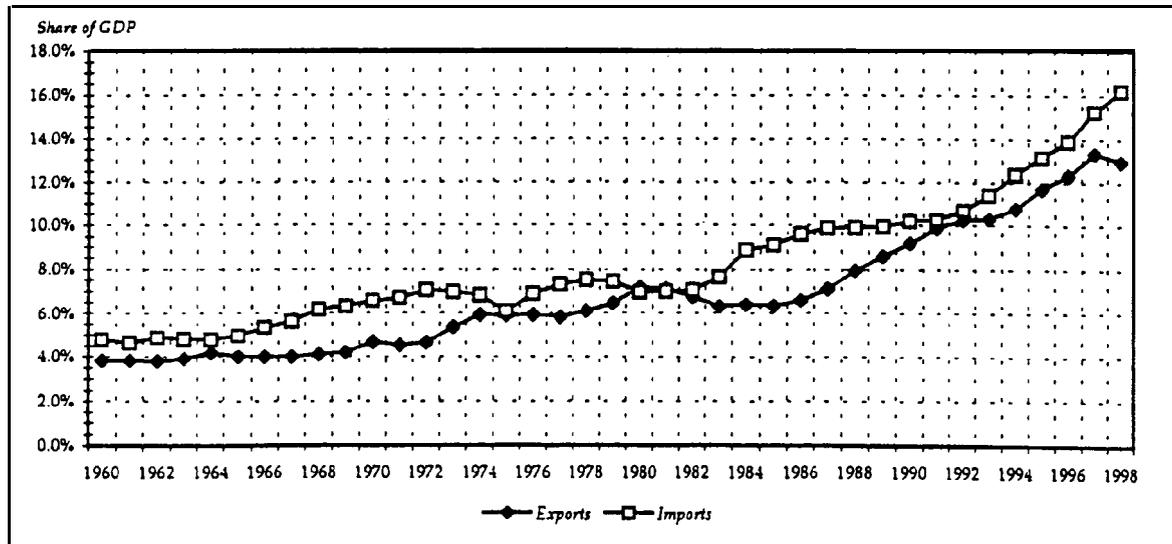
EXPORTS AND IMPORTS: THE LINKED EQUATION

- 0 Since 1960, growth in U.S. exports and imports has been comparable. Exports have risen from 4 to 13 percent of national product, while imports have climbed from 5 to 16 percent.
- 0 Trade is founded on comparative advantage: each nation's production of goods and services in which it enjoys a cost and/or quality edge, and use of income from sales of these products to purchase exports from other nations in their areas of comparative advantage.
- 0 Wide variation exists in the ratio of dollars spent by Americans on imports versus dollars we receive through exports to our trading partners. The ratio ranges from a 20 percent return with China and a 54 percent return with Japan, to a 259 percent return with The Netherlands and a 244 percent return with Australia. The overall ratio is a 77 percent return on exports per dollar of imports.

II. RATIONALE FOR IMPORTS

International trade has become more important to the U.S. economy in recent decades. Figures for 1998 indicate that exports of goods and services (measured in constant 1992 dollars) were equivalent to 13.0 percent of Gross Domestic Product (GDP), nearly 3.4 times the share in 1960 (Figure 2). Imports were equivalent to 16.2 percent of GDP, about 3.4 times the share recorded in 1960. Exports clearly play a vital role within the nation's economy. Foreign exports now account for more than one-quarter of the output of U.S. goods-producing industries. Imports, as a share of total goods consumption, have increased over time and now account for about one-third of total consumption. Quite clearly, the international sector has become progressively more important to the U.S. economy since 1960. The U.S. economy's transformation into an international market has blurred the distinction between domestic and foreign markets for producers and consumers.

Figure 2
Ratio of Exports and Imports to US. Gross Domestic Product, 1960-1998



Note: Based on real gross domestic product using the chained (1992) dollar index.

Source: U.S. Bureau of Economic Analysis, Survey of *Current Business*.

There are several reasons for trading between regions and nations. These reasons include:

Comparative Advantage. International trade between regions or nations has been a major source of economic growth and improvement in standards of living. A region or nation specializes in producing goods or services for which it has a “comparative advantage”; that is, the region or nation focuses on products it can make better or more efficiently than others can. That region can then trade those goods or services for other goods and services produced by regions that have a comparative advantage in those other

products. By specializing and trading, the range, **quality**, and quantity of goods and services produced in the economy as a whole is vastly increased. **An** underlying implication is that because nations specialize in what they are comparatively best at producing, they must import goods and services that other countries produce best. Thus, nations are mutually better *off* in trading goods and services in which they enjoy a comparative advantage in exchange for goods and services that they can purchase more cheaply from others.

Imports and U.S. Competitiveness for Businesses. Related to comparative advantage is competition and competitiveness. Competition is the process by which regions and nations sort out their comparative advantage and **identify** their specialties. Invariably, competition encourages innovation, improvements, and gains in efficiency and productivity. Within an increasingly global market, an industry must also be competitive in domestic markets. The provincial view that these two markets are separate, at least for tradable goods and services, is no longer appropriate. Importation of capital goods, industrial **suppliers and** materials used in domestic production reduce costs and spur innovation for U.S. ~~businesses~~ *suppliers*

Interdependence of Exports & Imports. The United States is the world's largest exporter of goods and services; concomitantly, the U.S. generally imports even more than it exports. In an international environment of open trade, the size of the market increases and all trading countries gain. If the United States did not import, exporting would be difficult because ~~other~~ *services* countries would not have the dollars needed to purchase U.S. goods and ~~dollars~~. Table 1 shows that overall 77 cents of every dollar spent by Americans ~~on foreign~~ goods (i.e., imports) returns to the United States when foreign countries purchase U.S. goods (i.e., exports). For example, Canadians use about 90 cents of every dollar they earn from selling goods to American producers and consumers to purchase U.S. goods. For some trading partners, **the** return rate is significantly higher.

Export Assistance at the Sub-national Level. Exporters from individual states benefit from import trade flowing into and through their borders. For instance, Washington State exporters enjoy reduced freight rates shipping their goods to foreign customers due to an efficient multi-modal transportation system coupled with the volume of imports passing through Washington ports to inland destinations. A specific impact is lower **backhaul** rates on westbound cargo containers, estimated to save Washington exporters \$150-\$500 per container.

HENRY L. KOTKINS, JR.

Skyway Luggage Coipany
30 Wall street
Seattle, WA 98121- 1392
Telephone: (206) 441-5300
Fax: (206) 441-5306 E-Mail: skibip@aol.com

Date of Birth: September 11, 1948

Married: November 20, 1976 to Jacqueline

CHILDREN

son: Joseph Henry - Born August 28, 1985
Daughter: Katherine Marion - Born March 14, 1982

EDUCATION

Lakeside School, Seattle, WA; Graduate, 1966
 Williams College, Williamstown, MA
 BA American Civilization, 1970
 Harvard University Graduate School of Business Administration; Boston, MA
 MBA, 1972

MILITARY SERVICE

Washington Army National Guard, 1970 - 1976
 First Lieutenant, Ordnance Branch
 Washington Military Academy; Graduate, 1972

EMPLOYMENT

Skyway Luggage Company
 Numerous summer jobs in manufacturing, warehouse and
 administration, 1964 - 1971
 Director of Planning, 1971 - 1974
 Vice Resident, 1974 - 1980
 president & CEO, 1980 - Present

PAST CMC ACTIVITIES

President, Harvard Business School Club of Puget Sound, 1976 - 1978
 Member, Harvard Business School Association Executive Council, 1983 - 1985
 Member, Lakeside School Alumni Board
 Member, Secretary and Vice President Big Brothers of Seattle/King County Board
 Member, Greater Seattle Chamber of Commerce Board of Trustees
 Member, Luggage & Leather Goods Manufacturers of America Board
 Founder/President, The Lake Investment Fund
 Recognized as a "Newsmaker of Tomorrow". Seattle Chamber of Commerce & Time
 Magazine, 1978
 Member, Business Volunteers for the Arts Board
 Member, The Bertschi School Board

PAST CMC ACTIVITIES (continued)

Member, U.S. Dept. of Commerce District **Export** Council
Member, Washington *Council on International* Trade Board
 President, **Seattle Rotary** Service Foundation 1991
 Director, Rotary Club of Seattle (Secretary, 1992-93) (V.P. **1994-95**) (**Pres. 1997-98**)
 Trustee, Seattle Repertory Theater, 1976 - 1990
 President, Seattle Repertory Theater, 1986 - 1988
Chairman, Seattle Repertory Theater, **1988-** 1990
 Member of the Board, Security Pacific Bank of Washington, **1988-** 1994
 Member of the Board, Security Pacific Bancorporation Northwest, 1988-1994
 Member of the Board, Seattle First National Bank 1994 - 1996
 Chairman, Seattle Country Day School Capital **Campaign**, 1992
 Honorary Chairman, American Cancer Society Masked Ball, 1992
 Co-chair, Pacific Science Center Festival of the **Fountains** 1992
Laserdirect Communications - Board of Directors 1982-1996
 Member, The Lakeside School Board (1989-1998) (president, 1994-96)
 University of Washington School of Business,
 Chairman - The Marketing Forum (X993- **1997**)
 Trustee Committee, National Association of Independent Schools (Chair 1997-98)
Seafirst Advisory **Board**, Bank of America, NW, N.A. 1996 -
 (Chair, *Organization Committee* 1998 -1999)
 Young Presidents Organization (YPO) 1982-1999 (Chapter Chair 1991-1992)

CURRENT AND ONGOING CMC ACTIVITIES

Member of the Boards of

University of Washington School of Business
 Advisory Board of the School of Business Administration (**1996-**)
 Skyway Luggage Company
 Luggage & Leather Goods **Manufacturers** of America (Vice President 1993 -**1995**),
 (President-Elect **1995-1997**), (Resident 1997) (Chairman 1997 -1999)
ABM Industries Incorporated
Northwest AIDS Foundation (*Honorary*)
 Washington Council on **International** Trade (Executive **Committee** 1998 - ,
 Secretary 1999 -)
 The Rainier Club Board of Trustees
 Board of Governors, Pacific Northwest Association of Independent Schools
 Board of Trustees, **Temple DeHirsch** Sinai

Memberships

Rotary Club of Seattle (President **1997-** 1998)
 Columbia Tower Club
 Harvard Club of New York City
 Rainier Club
 Seattle Tennis Club
 Seattle Yacht **Club**
 Washington Athletic Club
 Chief Executives Organization

Alumni Associations of: **Lakeside** School
 Williams College
 Harvard Business School

Hobbies: Family, jogging, skiing, boating, bicycling

**SUPPLEMENTAL COMMENTS TO THOSE DELIVERED BY
HENRY L. KOTKINS, JR.
PRESIDENT & CEO OF SKYWAY LUGGAGE COMPANY**

**U.S. TRADE DEFICIT REVIEW COMMISSION HEARING
NOVEMBER 16, 1999**

There are many issues surrounding U.S.-Asia trade. Trade opponents have cited some high profile problems to support their isolationist, anti-trade positions. Often human rights violations, labor practices, environmental concerns, exploitation have all been mentioned. As someone who has been actively involved in Asia for almost 30 years, I can only speak from my own experience.

Asia is not a perfect place. Undoubtedly, there are instances of child labor, prison labor, and sweat shops. We know that there have been intellectual property violations. I would point out three things, however.

1. While these violations may take place, they are by no means universal. In fact, I have yet to see, in my own experience, a factory with conscripted labor. I have yet to see sweat shop working conditions, and, in fact, we are anxious to join the Worldwide Responsible Apparel Production (WRAP) Certification Program, a voluntary, self-regulating labor compliance initiative.
2. It is the height of disrespect for individuals and cultures to impose our standards upon them. People forget that in our own U.S. history, we started out in the textile mills of New England, the fields of the South, the steel mills of the Rust Belt, and the coal mines of Pennsylvania with conditions that were not what they are today. Had someone told those enterprising early Americans that they

couldn't work in those conditions, we might never have progressed to where we are today. To deny other countries the ability to bootstrap themselves as we did, is to deny our own history. To impose our current standards on them does not recognize that everything is relative. I am the first to admit that sitting at a sewing machine, sewing all day in an unairconditioned factory would not be an attractive job to me. But, I know that compared to starving on the farm, up to their waist in mud (which is their alternative), workers appreciate sitting down under a ceiling fan with good light, music in the background, a roof over their heads, regular working hours, meals and lodging provided.

3. Asia has more than one-third of the population of the world. The best thing for the world in general is for Asia to be prosperous. A prosperous Asia becomes a contributor to rather than a drain on the rest of the world. In my own experience, I have witnessed the transformation of Korea and Taiwan from relatively backward, poor countries with difficult working conditions and horrible environmental records, to the current, far more advanced countries with much better working conditions, with much more stringent environmental controls. This advancement has come because of an overall elevation of their standards of living; and that standard of living has been achieved by their industriousness and hard work. That industriousness has allowed them to sell what they produce to countries like the United States. Better working conditions and environmental consciousness take money, and money comes from economic prosperity, and, for these countries, economic prosperity comes from trade. By restricting trade due to concerns about working conditions and environmental controls, we would be denying emerging countries the very money they most need to improve working conditions, environmental controls, and their standard of living. This is not theoretical. I have seen the proof.

There is an unfortunately all too frequent tendency in the U.S. to think monolithically in terms of Asia. Asia is not monolithic at all, but, in fact, a highly heterogeneous, large land mass made up of independent, distinct, and unique cultures. To lump all together is akin to lumping the Irish with the Greeks; the Israelis with the Afghans; or the **Guatemalans** with the Alaskans. Generalizations are extremely inaccurate and extremely dangerous. The Commission should be aware, for example, that according to the U.S. Department of Commerce Bureau of Economic Analysis, for every dollar of imports Americans purchase from Hong Kong, Hong Kong purchases \$1.46 in U.S. products, so we have a trade surplus with Hong Kong. While Korea, Taiwan, and Japan export more to the U.S. than they import, Korea, like Hong Kong, imports more than they export - again a surplus. It is **also** interesting to note that Canada and Singapore import 87 cents worth of U.S. products for every dollar they export. Common generalizations would- have assumed that Canada is a "good guy" vis-a-vis the trade deficit, Singapore is a "bad guy"; when the reality is that they are both almost the same. On a similar note, generalizations about Asia as the culprit in the trade deficit may need to be rethought in view of another statistic. For every dollar Americans purchase from Taiwan, Taiwan currently purchases 59 cents of U.S. exports. For every dollar of German goods the U.S. imports, Germany purchases 56 cents U.S. exports. In this respect, Germany is a 3% greater contributor to the trade deficit than Taiwan. All of this only goes to emphasize the danger of generalizations, lumping all Asian countries together; and the further danger of assumptions that "cheap Asian imports" are the source of the trade deficit.

To: U.S. **Trade Deficit** Review Commission

From: H. L. (Skip) **Kotkins, Jr.** President, Skyway **Luggage** Company and panelist at the Commission's Hearing in **Seattle, WA, Nov. 16.1999**

Rc: Copy of an **article** I wrote, originally **published** in the **Puget** Sound Business Journal

What's A Nice Manufacturer Like You Doing in a(n) (Import) Business Like This

Let's make one thing perfectly **clear**. Becoming an **importer of luggage** was not the **result** of a major strategic decision on **the** part of our company, Skyway Luggage Company. In fact, starting in 1910 in the Pioneer **Square** area of Seattle, our history was **deeply** rooted in being a **manufacturing-driven** enterprise. We competed on the basis of product uniqueness that derived from massive "in-sourcing". That is, we did for ourselves what many **competitors** bought from others.

But **our** history as one of the oldest companies continuously operating **as** a wholesaler of luggage, was also one of understanding the consumer. And make no mistake about it, **the consumer** is king (and **queen**, and prince and princess!) And today's consumer **demands** value, and knows how **to** find it. Despite the fact **that we were** really good as a luggage **manufacturer**, **the** consumer made it **clear** that we were not good enough. The **consumer made** it clear that she preferred **the** lighter weight, softer sided, **less** expensive, labor-intensive products produced in Asia over the **more structured**, capital and **material** intensive products that we (and, I might add, our domestic **competitors**) **were good at** making. So, we began to supplement our production of higher **end** product **made** in Seattle with **simpler**, more **mass** market **product produced** in Asia. And slowly, over a period of more than 25 years, the balance **shifted** until, in January 1998, we produced our last suitcase in Seattle.

So, that was the journey. What did we learn along the way?

1. *In looking at trade, you cannot focus **solely** on one segment. It is a **complex**, interwoven, macro-economic picture **that** is wily misunderstood if you only look at a part of it. Example: those who **are** concerned that importing hurts U.S. labor forget that working people benefit most from **imported**, lower priced consumer products.*

2. *Ignore the rhetoric, look at the facts. Over **the** year I have been astounded to see **otherwise** credible public figures, often politicians and **sometimes** the media, hold forth authoritatively on any of a **number** of trade issues about which they have no first hand expericcc. Example: "Trade hurts environmental and labor issues", **goes the rhetoric**. In fact, however, over 25 years of visiting Taiwan I have seen a transformation from a third-world country with little consciousness about labor and environmental **issues** to a **modern** country which has made great strides in both areas. I am frequently in the factories, I have **seen** first hand the **environmental** controls now in **place**. Why did Taiwan evolve to this point? Because they have a basic standard of living **funded** by their exports. Absent trade, **they would likely** still be a labor and environmental backwater that none of us wants to see preserved,*

In 1992, when I went to Vietnam, it was **under a trade embargo** from **the US**. **The rhetoric** was that by denying them trade with our country, we would force them into submission on POW/MIA matters. The reality, however, was that by trading with everyone else in the world, Vietnam was making significant economic progress **without us**. The net result was that US companies were effectively locked out of the

plentiful emerging business **opportunities** in that country. **Instead** of Kodak **film**, they had Fuji film. **Instead** of U.S. contractors competing for infrastructure projects, the business went to Australia and Hong Kong companies. **Instead** of Budweiser, they had Heineken. The Clinton administration wisely lifted the embargo, but the **absense** of Most Favored Nation trading status (now called **Normal** Trading Relations – NTR) has denied U.S. **consumers** access to well made, value **priced** goods produced in Vietnam. **The** rhetoric: **our restrictive** trade policies will **hurt** Vietnam into submission. The reality: our restrictive trade policies hurt primarily our own businesses **and** consumers.

The poiit **here** is that facts often contradict the rhetoric. **While** there is debate over confrontation versus engagement vis a vis China. and other trading nations; **experience**, from **dealing** with a neighbor to our country's own **record with** post war Japan, shows that friendly, well acquainted parties with mutual economic interests are far more cooperative than disconnected, alienated **strangers**. It has **been** said that we never have and never will go to war with a country where there is a **McDonald's**. **Countries** connected on a people-to-people level through active **trade** are far less likely to develop **country-to-country** animosities. It **only** stands to **reason** that when one party needs something from another, or wants another to do something, that is best accomplished when the two parties are well acquainted, **share** commod interests, and have a track record of successful interactions

3. Importing doesn't export jobs, it redeploys people, Over the years that we went from a 100% domestic manufacturing company to a 100% importing company, not one person lost his or her job as a result of that shift! Today, in fact, we employ more **FTE** in **our** warehousing and **distribution** operation, and they receive a better constant-dollar wage than when we were in the manufacturing business. Many of our distribution center employees are former luggage makers. We are proud that the same union continues **to** represent them, as it has for **more** than half a century. That union recognized that it was in everyone's **best** interests to change with the **times**, and supported **our efforts** to **retrain** people. Our sawyer is now driving a forklift. Our sewing lead is now the lead in our small order **fulfillment** area, **One** of our cutting die press operators is in charge of repair **parts**.

Beyond our own company's experience, we have **been** in the most trade-intensive, **highest** import period in our country's history for **the** past decade. And, interestingly **enough**, **we are** at the lowest **unemployment** levels in memory. Once again, facts contradict the rhetoric.

The recently **released CTED** import study goes a long way toward helping us **understand the** complexities of **the** international trade equation, Beyond the data which are the first of **their** kind to **be** researched by any state, **there** are a number of **points made in the narrative section** which help us put imports in their **proper place** and **perspective** in our **economy**. America IS the **greatest** country on **earth**, but we **are not the only country** on **earth**. The global economy is for real. we cannot **ignore** it, and we must make policy decisions based on reality, fact and experience, not **rhetoric**, supposition **and** uninformed public pronouncements.

**ORAL STATEMENT OF HENRY L. KOTKINS, JR.
PRESIDENT & CEO OF SKYWAY LUGGAGE COMPANY
TO BE DELIVERED BEFORE THE
U.S. TRADE DEFICIT REVIEW COMMISSION HEARING
NOVEMBER 16, 1999**

My name is Skip Kotkins and I am President and CEO of Skyway Luggage Company. We are perhaps unusual in that we are a third generation family owned and operated business that has managed to evolve and thrive for 90 years. Since my grandfather started the business in 1910, we have always been located in Seattle and have always been in the wholesale luggage business. We build luggage for consumers, but sell only to retailers. Because private companies do not disclose figures, we don't know for sure, but believe that we are the second largest wholesaler of luggage after **Samsonite** Corporation, which includes Samsonite, American Tourister and Lark luggage companies. Today, Skyway has sales in the United States, Canada, Mexico, Europe, South **Africa**, the Middle East and Asia.

From 1910 until January of 1998, we produced suitcases in our factory in Seattle. Beginning in the late **1960's**, we started to augment our Seattle production with goods produced in Asia, and gradually that balance shifted until today 100% of the luggage we sell is produced in Asia. Design, sales, marketing, merchandising, and other commercial functions **have** not changed; only the location of the manufacturing has. Over the years, we have produced product in most Pacific Rim countries. It is extremely important to realize that our job as a wholesaler is to provide value for consumers. They have many choices and will spend their money where they perceive they are getting the most bang for the

buck. Our decisions on where to build our product have been driven exclusively by the economics of which factories and which countries can create **the** greatest value consumers who buy our suitcases. Whether we were producing in our Seattle factory, or our Mexican Maquiladora factory when we had it, or our leather goods plant in Philadelphia, or off shore, we have always given the consumer reasons to buy our product, which is why we **are** still in business today. **This is the** essence of customer orientation. I should point out, however, that over the years, many, if not most, of our competitors who were manufacturing oriented stayed committed to their domestic factories, but are no longer in business.

I raise this point because it is essential that the Commission recognize that imports, which certainly are at the root of the trade deficit, are **not** the result of discretionary choices. Today, we have worldwide over-supply of consumer goods, which means it is a buyer's market. **Like water seeking** its own level, consumers will purchase what they perceive to be the best value for their money. The decision to go off shore was not a strategic one. It was **one of** survival. The Commission must recognize that consumers call the shots. Like Washington State residents who go to Canada to buy prescription medicines at half the cost, consumers will find ways to access products produced by those who are able to do so best, regardless of where they are in the world.

The subject of today's hearing is US-Asia trade and market access. Because we produce all of our products in Asia, we are, obviously, active in Asia trade. While we are not an exporter from the **U.S.**, we are an exporter from our factories in Asia. In addition to the U.S., we ship our own branded product

directly to Canada, Mexico, the UK and Europe, South Africa, the Middle East and **other** Asian countries. I can say that of all the destinations for our product, access is most difficult to the markets of the United States of America. The U.S. has the highest duty rates of any of the countries, we sell to and is the only country in which our products are subject to quota restrictions. The U.S. *is the* only country into which we cannot ship merchandise produced in Vietnam because of the absence of normal trade relations (NTR, formerly known as MFN - Most Favored Nation status). I know that there are market access issues for some U.S.-produced products, but from the standpoint of a U.S. company shipping from off shore factories, our own country is **the** most difficult to access with our products.

I want the Commission to know that imports have a far more complex role in our economic picture than is usually portrayed. Political rhetoric, such as Ross Perot's giant sucking sound, or some of organized labor's complaint of exporting jobs, fails to take into consideration the positive aspects of imports. The commission should know that the Washington State Department of Community Trade & Economic Development released a landmark import study in July of this year. It is the only state study of the economic **impact** of imports, and we doubt that there is any comparable study on a national level. It is essential that the commission be familiar with the study's findings of *the* vital role that imports play in the overall economic equation. For example, the fact that low cost imports are a prime reason for continued low inflation in the U.S. economy and that low cost imports most benefit low income working class people. is often overlooked. The fact that without imports, foreign countries would lack U.S. dollars to purchase or exports is often overlooked. The fact that trade exists on a

people-to-people basis rather than government-to-government basis makes trade one of the most important contributors to a global society, to global understanding, and, hopefully, global peace. Please refer to pages iii through v and pages 5 and 6 of the study. (attached)

Finally, I would like the Commission to know that in our own Company's history not one person lost their job as a result of the cessation of our U.S. manufacturing. Today, we have people making higher wages, enjoying **better** benefits, and with greater job security than when we were producing luggage in the U.S. We still have the same union representing our workers. That union recognizes that their members have good jobs and are engaged in respectable and honorable work. The union has been a good partner as we shifted production of shore, and re-deployed luggage makers to become luggage distributors.

While trade opponents may be able to cite specific examples of **trade-**related problems, it is very dangerous to extrapolate those specifics to incorrect generalizations. It is important that the Commission be objective and do its own research, rather than being persuaded by well-intended, but perhaps overly emotional and factually weak. arguments. One in three jobs in Washington State is related to international trade and it is probably higher than that when you consider the fact that trade in services is often not counted. Globalization is happening. Isolationism in today's world of transportation and communications will not work. The United States must be a player in the global economy because that's the only real economy that exists.

Thank you very much for the opportunity to share some thoughts today.

HENRY L. KOTKINS, JR.

Skyway Luggage Company
30 Wall Street
Seattle, WA 98121- 1392
Telephone: (206) 441-5300
Fax: (206) 441-5306 E-Mail: skibip@aol.com

Date of Birth: September 11, 1948

Married: November 20, 1976 to Jacqueline

CHILDREN

Son: Joseph Henry - Born August 28, 1985
Daughter: Katherine Marion - Born March 14, 1982

EDUCATION

Lakeside School, Seattle, WA; Graduate, 1966
Williams College, **Williamstown, MA**
BA **American** Civilization, 1970
Harvard University Graduate School of Business Administration; Boston, MA
MBA, 1972

MILITARY SERVICE

Washington Army National Guard, 1970 - 1976
First Lieutenant, Ordnance Branch
Washington Military Academy; Graduate, 1972

EMPLOYMENT

Skyway Luggage Company

Numerous summer jobs in manufacturing, warehouse and
administration, 1964 - 1971
Director of Planning, 1971 - **1974**
Vice President, 1974 - 1980
President **&** CEO, 1980 - **Present**

PAST CIVIC ACTIVITIES

President, Harvard Business School Club of **Puget** Sound, 1976 - 1978
Member, Harvard Business School Association Executive Council, 1983 - 1985
Member, Lakeside School Alumni Board
Member, Secretary and Vice President Big Brothers of **Seattle/King County** Board
Member, Greater Seattle Chamber of Commerce Board of **Trustees**
Member, Luggage **&** Leather Goods **Manufacturers** of America Board
Founder/President, The Lake Investment Fund
Recognized as a "Newsmaker of Tomorrow", Seattle Chamber of Commerce **&** **Time**
Magazine, 1978
Member, Business Volunteers for the Arts Board
Member, The **Bertschi** School Board

PAST CMC ACTIVITIES (continued)

Member, U.S. Dept. of **Commerce** District Export Council
 Member, **Washington Council on** International Trade Board
 President, Seattle Rotary Service Foundation 1991
Director, Rotary Club of Seattle (Secretary, 1992-93) (V.P. 1994-95) (**Pres.** 1997-98)
 Trustee, Seattle Repertory Theater, 1976 - 1990
 President, **Seattle** Repertory Theater, 1986 - 1988
 Chairman, Seattle Repertory Theater, **1988**- 1990
 Member of the Board, Security Pacific Bank of Washington, 1988-1994
Member of the Board, Security Pacific Bancorporation Northwest, **1988-1994**
 Member of the Board, Seattle First National **Bank** 1994 - 1996
 Chairman, Seattle Country Day School Capital Campaign, 1992
 Honorary Chairman, American Cancer Society Masked Ball, 1992
 Co-chair, Pacific Science Center Festival of the Fountains 1992
Laserdirect Communications - Board of Directors 1982-1996
 Member, The Lakeside School Board (1989-1998) (President, 1994-96)
 University of Washington School of Business,
 Chairman • The Marketing Forum (**1993**- 1997)
 Trustee Committee, National Association of Independent Schools (Chair 1997-98)
Seafirst Advisory Board, Bank of America, NW, N.A. 1996 -
 (Chair, **Organization** committee 1998 -1999)
 Young Presidents Organization (YPO) 1982-1999 (Chapter Chair 1991-1992)

CURRENT AND ONGOING CMC ACTIVITIES

Member of the Boards of

University of Washington School of Business
 Advisory Board of the School of Business Administration (**1996**-)
 Skyway Luggage Company
 Luggage & Leather Goods Manufacturers of America (Vice President 1993 -**1995**),
 (President-Elect **1995-1997**), (President 1997) (Chairman 1997 - 1999)
 ABM Industries **Incorporated**
 Northwest AIDS Foundation (Honorary)
 Washington Council on International Trade (Executive Committee 1998 - ,
 Secretary 1999 -)
The Rainier Club Board of Trustees
 Board of Governors, Pacific Northwest Association of Independent Schools
 Board of **Trustees**, Temple **DeHirsch** Sinai

Memberships

Rotary Club of Seattle (President 1997-1998)
 Columbia Tower Club
 Harvard Club of New York City
 Rainier Club
 Seattle Tennis Club
 Seattle Yacht Club
 Washington Athletic Club
 Chief **Executives Organization**

Alumni Associations of: Lakeside School
 Williams College
 Harvard Business School

Hobbies: Family, jogging, skiing, boating, bicycling