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Quiz # 8

a. What does the acronym NAFTA stand for? How did this effect apparel trade between the United States and Mexico?

NAFTA stands for the North America Free Trade Agreement. NAFTA was implemented In 1994 and allowed The United States unlimited access to apparels production from Mexico. Unlimited apparel production included all areas of manufacturing from sourcing, fiber production to exportation of finished apparel goods. (Rosen, 2002 pg. 153 paragraph 2).

As a result the implementation of NAFTA, trade between the United States and Mexico increased. NAFTA allowed The United States to have full access to trade with Mexico with no tariffs. Mexico produced and exported apparel at larger quantities than the country had previously produced. Mexico became one of the largest exporters of apparel for the United States due to the now established mutual trade agreement. (Rosen, 2002 pg. 153 paragraph 2).

b. Define a Mexican maquiladoras. Is this the same as a sweat shop? If so, how come the author does not use the words interchangeably?

Maquiladoras were manufacturing plants of apparel goods located on the Mexican border. These manufacturing plants were built and located on the borders of Tijuana-San Diego, Nogales-Nogales and Ciudad Juarez-el Paso. *Maquiladoras* were mostly owned by The United States for use of production of Apparel goods for the United States. (Harrell, Fischer, 1985)

Maquiladoras was not the same as a sweat shop, however, they shared similarities. *Maquiladoras* were established to provide jobs for migrant workers in Mexico, instead of migrated to the United States to look for work at manufacturing plants, *maquiladoras* were created to discourage illegal workers. The development of *Maquiladoras* benefited the United States as they were able to have increased import production at lower cost than they were produced domestically. *Maquiladoras* were conveniently placed at borders which also made exporting of apparel good faster cutting transportation costs for the United States. (Rosen, 2002 pg. 154 paragraph 3).

c. Describe the events that led up to the devaluation of the Mexican peso. Were Mexican wages higher than those who worked in apparel or textiles in Hong Kong, Korea, and Taiwan? Defend your answer.

The Mexican peso was considered overvalued when the economy was thriving until several events that led to the devaluation of the Mexican peso in 1976. The oil crisis that occurred in the 1970s resulted in Mexico borrowing money to support importing and exports leading to an accumulated massive debt.
Countries were not able to exchange goods as they have previously done resulting in a decrease in foreign exchange with Mexico. The decreased of foreign exchange lead to debt and subsequently a recession. Although Mexican foreign exchange decreased, Mexican imports remained inexpensive and the demand for good increased but the country did not make enough of a profit to balance the country's finances and debt due low exchange rates. (Harrell, Fischer, 1985)

During the time of the devaluation of the Mexican peso, Mexico's wages became mulch lower than apparel workers in Hong Kong, Korea and Taiwan. Mexican apparel wages dropped to about 90 cent and hour compared to countries in East Asia. Although Mexican wages were low, workers that worked in maquiladoras had access to benefits such as social security, maternity leave, educational taxes and day care. These additional benefits made up for the lower wages as East Asian workers did not have privy to these kind of benefits. (Rosen, 2002 pg. 157 paragraph 4).

d. Compare the two United States programs: (1) The Special Regime with Mexico and (2) The Special Access Program with the Caribbean.

The special regime with Mexico and the special access program with the Caribbean were implemented to provide support for Mexico and countries included in the CBI.
The special access program was designed to allow access to apparel and textile production and export from the United States markets . In order to access these benefits, countries had to meet the requirements of the special access program. Only countries within the CBI and ATPA had access to this trade agreement. Textiles being exported had to be manufactured solely in United States markets. The special access program mostly benefited the United States and countries with the CBI. (Harrell, Fischer, 1985).

The special regime with Mexico was mostly beneficial to Mexico and its economy. The special regime with Mexico expanded Mexico apparel exportation between the United States and Mexico. Expansions included creating more *maquiladoras* to support export processing in Mexico. As a result of the expansions, an increase of apparel goods occurred which aided increase of jobs to help the Mexican economy financially. Due to the increase of exports, Mexico had the authority to raise quotas on exports to receiving countries at anytime they saw fit. (Rosen, 2002 pg. 157 paragraph 3).

e. Discuss at least two pros and two cons of NAFTA. Defend your answer with citations from the text.

NAFTA was established to provide a free trade mutual agreement but had its fair share of pros and cons.

One pro of NAFTA. Is the boost of employment that was created since the development of NAFTA. Increase of imported resulted in higher paying jobs in the United States economy. More Americans were employed following the economic crisis of the oil crises which caused unemployment to sky rocket. According to Rosen, "...economists have noted the full-employment economy that emerged in America in the late 1990s, which presumably obviates the distress of domestic job displacement" (Rosen, 2002 pg. 160 paragraph 2).

Another pro of NAFTA are duty and quota free advantages. NAFTA allowed mutual trade agreements between different countries involved. This was particularly beneficial for apparel trade importation and exportation for apparel produced in Mexico, the United States and Canada . This allowed these countries to save on costs on importation tariffs on apparel.

One of the cons of NAFTA was the inability of Mexico to increase tariffs on US goods to help improve the financial debt in Mexico. Mexico was producing large amounts of exports for the United States, Mexico was able to raise tariffs for other countries but not America. These exports did not help the economy much due to the devaluation of the Mexican dollar and the low exchange rate. " NAFTA was a reality it became more difficult, if not impossible, for the Mexican government to take steps to deal with the problems caused by the financial crisis, since it was obliged to uphold its treaty obligations with the United States and Canada" (Rosen, 2002 pg. 160 paragraph 3).

Wages declined in Mexico with the implementation of NAFTA which was another con. Wages of Mexican workers were higher in Mexico than other manufacturing countries in United States and East Asian countries. After NAFTA was established wages decreased due to crises that led to the devaluation of the Mexican peso but production export increased. Lower wages plummeted to Mexican economy even further than it had in the past. " NAFTA has intensified poverty by helping to create continuing inflation and currency devaluations, which have impoverished most Mexicans" (Rosen, 2002 pg. 163 paragraph 2).

References

Harrell. L, Fischer. D. (10 October, 1985). *The Mexican peso devaluation and border area employment.* Retrieved from: https://www.blsgov/opus/more/1985/10/art3full.pdf