

BUF 4300: Global Sourcing & International Trade Policy
Final Essay Exam
Spring 2021
Dr. Adomaitis

_____Danielle Daniel-Ramsey_____ (name)

Rosen, E. I. (2002). *The Globalization of the U.S. Apparel Industry: Making Sweatshops*. University of California Press.

Please answer the following essay questions to the best of your knowledge illustrating critical thinking skills. Use detail where appropriate. Be tight and concise in your essay answers. Organize your thoughts. Remember grammar, punctuation & spelling count as 65% of your final examination grade.

1. Why has department store business declined in the US along with department store business in England, Germany, and Italy? How has the *profitability paradox* affected this decline in profits? How has the *profitability paradox* changed the way retailers do business? List and describe at least two ways the industry has prevailed during this time of retail flux (instability)? Please cite Rosen. (50pts) Please cite APA.

There has been a decline in department store businesses due to the growth of private labels and exclusive stores. Private label clothing was being sold in places like Florence, Hong Kong, Singapore, Budapest and India. “The growth of private label clothing blurred the lines between different segments of the apparel industry, between large corporate retailers, merchandisers, importers and manufacturers” (Rosen, 2002, pg. 183, par. 4). Businesses like Levi Strauss, Nike and Rebook are beginning to open their own retail stores apart from the department stores as their main place of distribution. “By eliminating the profits of merchandisers and other middlemen, retailers can sell at lower prices, potentially increasing their sales volumes and profit margins” (Rosen, 2002, pg. 184, par. 1). Department store businesses are finding it difficult to maintain some of their brand name items, shoppers have become attracted to the idea of having merchandise that was purchased from an exclusive store.

During the mid 1980’s, department stores experienced a huge probability crunch. This led to the expansion of retail space and retailers having the oversupply of merchandise. It was difficult for department stores to maintain its probability levels and keep them stable enough to appease the corporate shareholders. Though there was an increase in sales gross margin levels had fallen a bit. “They argue that the excess number of stores and the slow growing consumer demand made it difficult for sales growth to keep up with operating expenses because efficiencies of scale had decreased as competition continued to increase” (Rosen, 2002, pg. 188, par. 3). Due to the competition intensifying retailers have productivity paradox; high operating cost yet retailers reduced prices due to competition and reduced margins led to an increase in sales.

Retailers were confronted with more risk that led to problems that weren't easy to remedy. Retailers found it wasn't feasible to stop operating expenses or to expand sales to make up for margins being reduced. During the productivity cycle, a percentage of sales got to a point of decrease in returns. "...intense new competition made retailing a dangerous game for all but the most powerful retailers" (Rosen, 2002, pg. 189, par. 1). The paradox is if the industry is more productive, the less money you can make off the individual players. This plague retailing at the heart currently. Retailers have become more efficient in their market positions that were chosen, doing so has led to deflation, bankruptcy and industry consolidation.

Two ways the retailing industry has prevailed and seen success is through lean retailing and sourcing abroad. Offshore sourcing has cut the cost of labor and made it necessary to find a more efficient way to transport goods of apparel from point of production to sale. "Lean retailing is not a response to the demands of sourcing abroad but a new strategy for solving the problem with inventory control in today's retail environment" (Rosen, 2002, pg. 197, par. 2). Lean retailing is linked to retail success in today's competitive market. Those companies who employ lean retailing methods are more profitable than those who don't.

2. Why was the Caribbean Basin Initiative crucial for Reaganomics? Explain the significance of (1) Manuel Noriega (2) the Contra Army (3) Sandinistas and (4) Fidel Castro? What was the significance of the Panama Canal? What is the significance of Noriega extradition to Paris, France? How does this relate back to the time when he was the dictator of Panama? How does this relate to the more recent political situation in Nepal and the Maoist revolutionaries? Please use Rosen and outside sources to defend your answer. (50)

The United States has an interesting and complex relationship with the Caribbean and Central American countries, much of Latin America. "...the economic relationships between the United States and Latin America have traditionally involved trade and investment patterns in which Latin America has suffered economically while producing commodities for export to the United States primarily raw materials such as coffee, sugar, tin and minerals" (Rosen, 2002, pg. 130, par. 2). America has exported product to the region and in turn manufactured goods. This is crucial because this made Latin American countries politically and economically dependent of the United States government and economy.

It is widely known that the United States is militarily interested in Caribbean and Central America countries. Those countries shipping lanes are important to American defense and further evolution. "...nearly half of U.S. trade and many strategic minerals pass through the Panama Canal or the Gulf of Mexico" (Rosen, 2002, pg. 131, par. 3). Some other American economic stakes in that region are quite boundless. More than 5.6 billion of American direct investment in the Caribbean and Central America, with U.S. exports reaching 6.8 billion. The political and economic instability of the is region affect the U.S. economy.

Noriega was ruler of Panama from 1983 to 1989, we worked with multiple American intelligence during that time who agreed to ignore the fact that he could be a

drug trafficker. This is in exchange for an anti-communist ally in Central America. Noriega was considered an important asset to the CIA. “Noriega provided information to U.S. officials on guerrilla activities, money laundering and drug trafficking. Protecting the Panama Canal Zone, which was then considered U.S. territory, was also a reason the U.S. allied itself with Noriega” (Forde, 2017). Noriega’s association with the United States began long before he gained power of Panama.

After a six-year long battle, Noriega arrived in France where he was served with an international arrest warrant. He is expected to fight charges of money laundering drug money. “In 1999, a Paris court convicted Mr. Noriega in absentia of laundering \$3 million in drug money through American, British, Swiss and other international banks into French accounts in 1988 and 1989” (Sayare, 2010). Noriega was serving a thirty-year sentence for drug trafficking at the time of his conviction. Noriega’s extradition was requested by France in 2004. He was supposed to be released in September 2007 but couldn’t as he battled extradition.

The Contra Army was against communist and the Sandinistas’ were for communism. Within the year of the Sandinistas gaining power, those who were against the regime engaged in violent behavior. “Crude organizations of fighters were seeking to start a counterrevolution. These disparate groups comprised former National Guardsmen, ex-Sandinista soldiers critical of the new regime and peasants and farmers upset with intrusive Sandinista land policies” (The Counterrevolutionaries, 1984). Nicaraguan exiles and members of the Conservative party came together in Honduras, Guatemala and Miami. They discussed the perspective of armed and unarmed opposition to the Sandinistas.

3. Why is China considered a major player in apparel production? How does artificially devaluing and inflating its currency (the Yuan) help China? Give two examples, one where devaluing the Yuan and one inflating the Yuan has created an advantage for China and has hurt the export/import country. Use a citation from Rosen along with an *outside source* to defend your answer. (50pts)

China is one of a few world’s largest and most efficient producers of textiles in the industry’s current climate, they are also the largest producer of cotton and has the biggest man-made fiber and fabric producing industry. What also makes China major player is that China is also a large producer of silk, fifty percent of global production is from China. “By 1998, textile and apparel products accounted for one fourth of China’s exports worldwide” (Rosen, 2002, pg. 210, par. 4). These two industries employ about one-seventh of the workforce in China, accounting for six percent of the output in China.

By devaluing the Yuan currency, the Chinese government has been able to gather large foreign exchange reserves and promote its export and discourage imports at the same time. With the Yuan being devalued, China had to lower their export prices but did gain a competitive advantage in the international markets. “A weaker currency also made China’s imports costlier, thus spurring the production of substitute products at home to aid domestic companies” (Investopedia, 2020). One advantage of inflation of the Yuan is that it will help increase China’s economic growth and maintain jobs in Chinese manufacturing.

4. Discuss how (1) job loss, (2) lower wages, (3) pressure for retail profitability, and (4) trade liberalization affect an overall benefit to consumers who purchase apparel goods. Are consumers paying lower prices for apparel? If so, then why is high fashion apparel so expensive? Defend your answer with a citation and be sure to include the significance of tariffs. (50pts)

Today, highly concentrated, vertically integrated American retail transnationals like Federal Department stores and the Gap are selling huge amounts of apparel have put many of the smaller stores out of business. The new forms of corporate retailing have played an important role in the globalization of the textile apparel complex. “For the past twenty years, retailing has been driving the thrust of U.S. trade liberalization in textiles and apparel. As a result, clothing stores have gained access to larger supplies of low wage imports from developing countries (Rosen, 2002, pg. 177, par. 2). Trade liberalization made it possible for retailers to improve their power over the textile and apparel manufacturer who supply them and to direct the restructuring of the apparel, textile and retail complex. “The elimination of quotas, the reduction of tariffs and the opening of new markets around the world have not only accelerated the globalization of apparel production...” (Rosen, 2002, pg. 177, par. 3). This has intensified the competition in apparel, textiles and retailing. All players’ objective is now to sell more textiles or clothing to increase market shares.

The transformation in apparel retailing began in the 1970’s during the declining couture industry. Some well-known designers of couture have produced custom made clothing for wealthy customers. “As this clientele began to shrink, many designers discovered the advantages of higher volume sales in high niche, ready to wear women’s apparel” (Rosen, 2002, pg. 182, par. 3). High fashion apparel is expensive because these designers license their name to clothing producers. High end fashion designers don’t tend to mass produce their garments. Designers would create a limited number of apparel instead of creating thousands of one garment.

5. Women have been part of the apparel work force throughout its development that has transitioned into a global entity. Give two (2) examples in history when women’s wages were not of equal value to those work wages of another industry or her male counterpart. Please cite each reference. Describe how the *Lowell Model* has shed light on the difficulties of being a woman in a low-wage industry. Please be specific. (50pts)

The garment industry is historically one of the most women dominated industries globally. Currently there are seventy percent of women hired as garment workers in China, eighty five percent in Bangladesh and a high ninety percent in Cambodia. To these women, they want better work conditions and to gain decent pay. Women in these

conditions want reasonable and respectable work conditions and security at work. “It’s about moving out of poverty, being able to provide children with education and to become more independent and grow as an individual” (Fashion Revolution, 2015). That reality for most of those garment workers is far from here in the Global South. These female garment workers are producing for some of the most well off companies in the world but they still are working for poverty wages with horrifying conditions and still must complete overtime. In Bangladesh, the minimum wage for a garment worker is 5,300 taka a month is far below the 8,900 taka needed to cover basic needs. “Many garment workers are working between 60 to 140 hours of overtime per week and it is common to be cheated of the overtime pay” (Fashion Revolution, 2015). These women’s health and safety is often neglected and workers are often denied breaks, this is just a few of the problems in the garment industry.

Many women in the apparel industry are losing their jobs, those that are still employed are experiencing a down turn in their wages and working conditions. Production workers in the industry have experienced deep loss of wages and workers in any other American manufacturing industry. Autoworkers who are often employed by men have suffered some job displacement during the 1960’s. “...In 2000 the smaller labor force that continued to make auto parts and assemble vehicles in U.S. factories were still largely male, despite some employment gains in this industry by women” (Rosen, 2002, pg. 225, par. 2). Auto workers are a part of a strong industrial union, for the part forty years they have enjoyed higher wages than what workers are paid in other industries. Low wage textile workers who are still working have made more earnings than apparel workers in the last forty years. During the 1960’s, textile workers earned seventy seven percent of the average manufacturing wages. By the year 2000 textile workers were making eighty percent of manufacturing wages.

The Lowell mills began as a manufacturing industry who hired women and created a centralized workplace. Though there were a variety of jobs the women of Lowell Massachusetts had fewer options but more experience working in textiles. “The Boston Manufacturing Company founded by Lowell preferred this system since the women could be easily managed and restricted while living and working on factory grounds” (Women’s Labor, 2017). These women were expected to report early in the morning and work the entire day. There were no breaks, one couldn’t leave when they were tired or they will be punished. Those who were late to work were docked pay, just being five minutes late can cost you a third of your days’ pay. Work was also very dangerous sometimes, machines would sometimes catch fire leaving workers hands maimed and severed when caught in the machine. Sadly, the workers who didn’t die from the injuries they received lost their jobs and received no compensation.

Reference

(1984). *The Counterrevolutionaries*. Retrieved from.
https://www.brown.edu/Research/Understanding_the_Iran_Contra_Affair/n-contras.php

Fashion Revolution (2015). *Exploitation or emancipation? Women workers in the garment industry*. Retrieved from.
<https://www.fashionrevolution.org/exploitation-or-emancipation-women-workers-in-the-garment-industry/>

Forde, K. (2017). *Panamanian dictator Manuel Noriega's complex US ties suggest lessons for Trump era historian say*. Retrieved from.
<https://abcnews.go.com/International/panamanian-dictator-manuel-noriegas-complex-us-ties-lessons/story?id=47722429>

Investopedia (2020). *The Impact of China Devaluing the Yuan in 2015*. Retrieved from. <https://www.investopedia.com/trading/chinese-devaluation-yuan/>

Sayare, S. (2010). *Noriega Arrives in France for Charges*. Retrieved from.
<https://www.nytimes.com/2010/04/28/world/europe/28noriega.html>

(2017). *Women's labor*. Retrieved from.
<https://www.khanacademy.org/humanities/us-history/the-early-republic/culture-and-reform/a/women-in-the-workplace-and-household>