Fashion Economics: FM 4339
Quiz #8: The US Textile Industry
Chapter (9)
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Rosen, E. I. (2002). The Globalization of the U.S. Apparel Industry: Making Sweatshops. University of California Press.

Please answer to the best of your knowledge the following essay question. Use detail where appropriate. Remember grammar, punctuation & spelling count.

a).What does the acronym NAFTA stand for? How did this affect apparel trade between the United States and Mexico? (2 pts)

NAFTA stands for North American Free Trade Agreement (Rosen, 2002, p.153, line 1). NAFTA helped liberalize trade and investment in the production of several goods such as cars, electronics, textiles and apparel. By 1998 the United States maintained 97.4 percent of Mexico's apparel exports (Rosen, 2002, p.153, para 2). An agreement between the United States and Mexico allowed foreign investors, largely American transnationals, partial or complete ownership of *maquiladoras* in order to assemble United States made elements into finished or semi finished goods for re export to the United States (Rosen, 2002, p.154, para 1).

b).Define a Mexican *maquiladoras*. Is this the same as a sweatshop? If so, how come the author does not use the words interchangeably? (2pts)

Mexican *maquiladoras* are subsidiaries which are owned by U.S. transnationals where products are imported or exported to the United States tariff free (Rosen, 2002, p.153, para 2). The purpose of *maquiladoras* was to establish manufacturing plants in northern parts of Mexico and provide employment for migrant workers in Mexico (Rosen, 2002, p.154, line 2). *Maquiladoras* were also to help cease the illegal migration of these workers who were crossing California borders to work in it's agricultural economy. I feel that *maquiladoras* are the same as sweatshops because both have several workers producing products that are exported to a different country and provide employment opportunities. I feel Rosen does not use the words interchangeably because *maquiladoras* refer to factories specifically located in Mexico.

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. (2pts)

Mexico experienced an oil boom during the years of 1977 and 1982 which raised it's GDP and net exports. This allowed Mexico to borrow heavily. Oil prices began to decrease in 1982 which led to an economic recession and much debt that the country could not pay which led to the devaluation of the peso in 1982 (Rosen, 2002, p.154, para 2). Before this Mexican wages were higher than the average wages of those who worked in Hong Kong, Korea, and Taiwan (Rosen, 2002, p.155, line 4). Wages in the *maquiladoras* had gone up to $1.69 an hour, including fringe benefits, which was 26 percent more than the Korean and 17 percent more than the Taiwanese rates.

The expansion of *maquiladoras* led by the 1982 peso devaluation in Mexico brought the average earnings of Mexican workers in 1983 to around 57 percent of that in 1981. In 1982 wages heavily decreased in comparison to those found in Hong Kong, Korea and Taiwan due to the peso devaluation (Rosen, 2002, p.155, para 2).

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

The Special Regime with Mexico was established In 1988 by Reagan right before he left office. The purpose was to expand Mexico's apparel exports to the United States by establishing an accord on textiles and apparel (Rosen, 2002, p.157, para 1). The Special Regime made it possible for United States producers to expand their USTS 807 production sharing regime in Mexico by $240 million a year (Rosen, 2002, p.157, line 1). The Special Regime was meant to support the growth of Mexico's export processing sector and the country's expanding *maquiladoras,* at the expense of its domestic producers (Rosen, 2002, p.157, para 1).

According to Rosen the The Special Regime is comparable to The Special Access Program with the Caribbean in many ways however it was tailored to fit the Mexican economy (Rosen, 2002, p.157, para 2). The Special Regime allowed an automatic increase in quotas at the exporter's request and Mexico was permitted unlimited quotas, unless there was a threat of market disruption (Rosen, 2002, p.157, para 2).

In 1990 Congress passed the Caribbean Basin Economic Recovery Expansion Act which allowed the Special Access Program, which had been originally set to expire at the end of 1995, a permanent program which reduced several 807 tariffs for a variety of CBI exports to the United States (Rosen, 2002, p.158, line 16).

e).Discuss at least two pros and two cons of NAFTA. Defend your answer with citations from the text. (2pts)

According to Rosen the NAFTA was the first building block and the centerpiece of a larger initiative (Rosen, 2002, p.158, para 1). A pro of the NAFTA is that it made Mexico a more attractive site for apparel production (Rosen, 2002, p.164, para 1). After NAFTA came in effect in 1994 Mexico began expanding its apparel exports to the United States more rapidly which is another pro (Rosen, 2002, p.166, para 3). Since exports increase so does the need for export related workers in the field, giving job opportunities. NAFTA also lowered the prices of several goods and added to the United States GDP.

A con of NAFTA was that with NAFTA, Mexico saw the loss of billions of dollars of portfolio investment, which led to a new peso devaluation, this contributed to reductions in wages and the standard of living among Mexican workers (Rosen, 2002, p.163, para 2). Another con is NAFTA dramatically affected the rate of job loss in apparel production compared to job losses in other manufacturing industries (Rosen, 2002, p.176, line 2). New York in particular went down from 361,196 in 1983 to 151,546 in 1998 (Rosen, 2002, p.175, Table 2). The South had the highest amount of apparel employment in the country at one point. Both the New York and New England region continued to lose apparel jobs at a rapid rate during the 1980's (Rosen, 2002, p.176, line 7). Another con of NAFTA is decline in wages (Rosen, 2002, p.163, para 1). In 1993, compensation for manufacturing workers was 85 percent below costs in the United States and in 1999 this fell to 90 percent (Rosen, 2002, p.163, para 1). Wages in Mexico dropped 20 percent since NAFTA. Most of this was the result of the devaluation of the peso (Rosen, 2002, p.163, para 1). NAFTA also intensified poverty that had already existed in Mexico by creating continuing inflation and currency devaluations, which left most Mexicans impoverished (Rosen, 2002, p.163, para 1).

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