

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

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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.

The growth of technology has aided in the decline of department store businesses in the U.S. along with department store businesses in England, Germany, and Italy. During Covid-19, this was further proven. Department stores such as Macy's reduced the number of stores they had around the country. Macy's continues to have weekly sales to make a profit, due to the toll it took during the pandemic. Companies such as Amazon and Uber-eats highly benefitted during the pandemic. They and their employees became essential workers. They provided goods and services that customers needed while not being able to leave their homes. Other companies such as JCPenny and Neiman Marcus had to file for bankruptcy. The pandemic had affected the revenue in the apparel industry. Technology or in other words, e-commerce has altered the way businesses in the U.S., England, Germany, and Italy move forward.

The decline in profits or revenue has been affected by the profitability paradox. The profitability paradox has encouraged intense competition. According to Rosen, "*high operating costs challenged profitability, yet as competition forced retailers to reduce prices, reduced margins required them to increase sales*" (Rosen, 2002, p. 188, par. 3). In other words, as the retail industry becomes profitable, the less profitable the retail business is. Retailers are having to reduce their expenses and use new strategies to find new markets. The profitability paradox is changing the way retailers do business because they're now open to new strategies such as "*reduced labor costs, new technologies, strategic partnerships, private-label merchandise, and new niche-marketing techniques*" (Rosen, 2002, p. 188, par. 2). Coming up with these strategies helped retailers remain profitable.

Two examples of how the retail industry has prevailed during times of retail reflux (instability) are during the Covid-19 pandemic and the recession of 2008. During the pandemic, the retail industry prospered with online ordering, along with curbside drop-off and pickup. They knew customers were afraid of in-person contact and provided customers with goods from afar. This made contactless delivery a secure option to shop. The recession of 2008 caused companies such as Everlane to emerge. Companies such as this one used marketing strategies that evoked customers to start shopping again, although that was one of the last things on their minds. In both situations, the retail industry had to adapt to what the market needs. During Covid-19, Uber was providing contactless ordering. By providing this service, Uber expanded their app to allow people to buy and/ get their medical products delivered straight to their doors.

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 Caribbean Basin Initiative (CBI) also known as the Caribbean Basin Economic Recovery Act was a new trade and investment program introduced by President Reagan. This program was created to increase economic development and create political stability in Central America. The program helped monitor and slow down the spread of communism by the Soviet-Cuban influence. The Caribbean Basin Initiative allowed the U.S. to produce apparel in the Caribbean and thus allowing Reagan's administration "to meet the needs of powerful segments of the U.S. textile and apparel industries" (Rosen, 2002, p. 129-130, par. 1). Business within the Caribbean allowed the U.S. to secure a place for trading and investments. Allowing the U.S. to meet the needs of the industry as Rosen states.

Manuel Noriega was a military leader in Panama. Noriega helped in a coup to take power away from Captain Omar Torrijos, which named him the chief of military intelligence. Noriega didn't stop there, he also helped President Richard Nixon in obtaining "the release of two American freighter crews from Havana—was colored by persistent reports of his involvement in drug trafficking" (Manuel Noriega, 2021). During Noriega's life, there was extradition, called the Noriega extradition. The Noriega extradition to Paris, France was to serve Noriega with an arrest warrant for laundering drug money. Noriega was also charged with murdering political opponents, and for embezzlement and corruption in Panama. According to the NYTimes, "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 and into French accounts in 1988 and 1989". While being convicted, "he was serving a 30-year sentence for drug trafficking, racketeering and money laundering in a federal prison in Miami" (Sayare, 2010). This is significant to depicting the time when he was the dictator of Panama. Noriega's history displays when

he got rid of his competition and made himself the leader of Panama. Being an informant for the U.S. and practicing shady unjust practices, allowed Noriega to play two sides. Noriega's history relates to the more recent political situation in Nepal and the Maoist revolutionaries. The Maoists had "*developed military capacity but it is subordinated to political control. They use terror tactics and coercion, but they are not simply terrorists. They maintain links to other communist revolutionary groups on the subcontinent, but they are neither Khmer Rouge clones nor is their campaign part of any global terrorism*" (Kathmandu/Brussels, 2005). Again, this restates what was said before. By playing two sides, they gain from both. It can be said that Noriega and the Maoists are both the same because they're playing both sides to gain something.

A top-secret document called the NSDD-17 was signed off by President Reagan. This document gave the CIA the power to recruit and support Nicaraguan rebels to take action against the Sandinista regime. According to President Reagan gives the CIA authority to establish the Contras article, the "*NSDD-17 marked the beginning of official U.S. support for the so-called Contras in their struggle against the Sandinistas. The decision came several months after President Reagan directed the CIA to develop a plan to stop what his administration believed to be a serious flow of arms from Nicaragua to rebels in neighboring El Salvador. The administration also believed that the Sandinista regime was merely a cat's paw for the Soviet Union*". This Nicaraguan revolution was ongoing for over 10 years. During this revolution, the Sandinistas forced President Debayle of Nicaragua to step down from his presidency, while they took over the country in 1979. The United States continued supporting the Contra Army until the program received public criticism.

Fidel Castro was the communist political leader of Cuba who altered Cuba into a communist country. He made trade agreements with the Soviet Union. The Soviet Union provided weapons such as missiles to Cuba. Cuba's relationship with the Soviet Union was one of the factors that powered the Cuban Missile Crisis. The Cuban Missile Crisis "*ended when the Soviet Union agreed to withdraw its nuclear weapons from Cuba in exchange for a pledge that the United States would withdraw the nuclear-armed missiles it had stationed in Turkey and no longer seek to overthrow Castro's regime*" (Fidel Castro, 2021). Communist movements, such as this one throughout history are what makes the U.S. join in the war.

The significance of the Panama Canal was that it expanded trade. The Panama Canal was one of the world's global trade routes. The Panama Canal has become one of the "*seven wonders*" of the world. The "*Hay-Bunau-Varilla Treaty was signed with Panama, granting the U.S. exclusive and permanent possession of the Panama Canal Zone*" (History.com). The Panama Canal allowed the movement of goods such as the apparel industry between the Atlantic and the Pacific Sea. This also allowed the U.S. to transport these goods at a faster pace, which aided trade, and therefore the U.S. economy. The Panama Canal is significant in providing the U.S. with trade protection and its success.

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 remains a major player in apparel production. China is highly concentrated and vertically integrated allowing it to be one of the major players. According to Rosen, the “*U.S. textile producers making fabric for clothing increasingly found themselves in direct competition with not only the Big Three but also Chinese and other Asian textile makers*” (Rosen, 2002, p. 207, par. 2). The U.S. has been in direct competition with China for years. The relationship between China and the U.S. provides inexpensive goods for purchase, allowing for growth that is then used to promote new trade and investment relationships. This relationship has kept both countries in an increase of competition. As Rosen states on page 211, paragraph 4, “*China will continue to be a player in this global industry*”. That is with or without the involvement of the U.S. because China has 15-million of its workers in the textile industry in order to provide low-wage production. This has allowed China to continue to profit and remain a player in apparel production.

Artificially devaluing and inflating currency such as Yuan in China, has provided China with an advantage while hurting the country that exports/imports with them. One example of China devaluing the Yuan is by closing the textile industry for the government to advance in the construction of creating a private textile industry. The closing of the textile industry allows the increase in exports. By doing this, the Yuan devalues and the “*Chinese government has been able to amass large foreign exchange reserves and, at the same time, to promote its exports and discourage imports*” (Rosen, 2002, p. 211, par. 1). This benefits China but directly affects any country trying to import. One example of China inflating the Yuan is during this recent Covid-19 Pandemic. China’s choice to inflate its currency has helped them hold up “*better than almost every other Asian peer*” (Kondo, 2019). This is coming from “*its exports of goods from electronics, appliances, and clothing’s to medical products*” (Kondo, 2019). Inflating the Yuan creates an advantage for China because it allows them to reduce deflation, in order to try and create a cash flow and economic growth. This way, China provides the much-needed aid to their companies and stimulates the economy by doing so.

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 actually 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)

Job loss, low wages, pressure for retail profitability, and trade liberalization affect an overall benefit to consumers who purchase apparel goods. These four, all correlate with one another. During the pandemic in 2020, these things did happen and were seen. Job

loss affected wages because people couldn't earn and provide for themselves. Many small businesses found it difficult to see profitability because many weren't deemed as essential.

Considering there's an instability in the economy, consumers could be paying lower prices for apparel or the same market price. Considering this to be true, high fashion apparel is expensive because of tariffs. If consumers are paying the same price and not higher or lower than that, could be due to marketing strategies in place.

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)

Throughout the apparel industry history, women have been a part of the apparel workforce seeing through its development that has transitioned into a global entity. Two examples in history when women's wages were not equal to those of equal value to those work wages of another industry or her male counterpart were in Chapter 5 "The U.S. Textile Industry" in Rosen and the Triangle Shirtwaist Factory fire. The first example of unequal wages is on page 83, "At least 85% of the employees in the Far East textile industries are women. Girls are paid 10,000 yen per month (\$28)" (Rosen, 2002, p. 83, par. 1). "In 1960, the year Walter Forbes visited the Hong Kong textile factory, women employed in the U.S. textile industry earned an average wage of \$1.40 an hour, or 94 percent of men's wages, which averaged \$1.49 per hour" (Rosen, 2002, p. 83, par. 3). Men were better off than women workers, but women in the U.S. were better off than those overseas, such as girls and women in Hong Kong, they were also more experienced. The amount of work done did not amount to the pay they were getting. The second example is the Triangle Shirtwaist Factory fire in New York. This fire caused the harsh sweatshop conditions to be evaluated and regulated. In 1911, "one hundred forty-one workers, 125 of them women and girls, mostly immigrants, were burned to death or died after jumping from a window in the building, in which there was only one fire escape; the elevator was broken" (Rosen, 2002, p. 1, par. 1). "This disaster, like similar ones that have happened since, called attention to employers who lack concern for the lives of their workers, who allow these conditions to continue despite the toll in suffering and human life" (Rosen, 2002, p. 1, par. 2). Innocent people trying to earn money for a living had to die and work in poor conditions in order to open reforms for better treatment of apparel workers (women). These two examples depict women's involvement in the apparel workforce as well as their unequal work wages to those of another industry or her male counterpart. Events or situations such as these have led up to the passing of the Civil Rights Act. This act addressed the wage gap between women and their counterparts and declared "compensation decisions based on race, color, religion, sex, or national origin" to be against the law (The History of the Gender Wage Gap in America, 2021).

The *Lowell Model* was a manufacturing company that became the first completed cotton spinning and weaving mill in the U.S. built by Francis Lowell. It provided an alternative to the child labor system put into place by shedding light on the difficulties of being a woman in a low-wage industry. The *Lowell Model* “often serves as a grid through which these economists perceive parallels between the experiences of women in today’s export-led apparel industry and those of the women textile workers”, (Rosen, 2002, p. 240, par. 1). The Lowell Model was an experiment in the 1830s. The “*Lowell System, or the Waltham System, farm girls and young women who came to work at the textile factory were housed in supervised dormitories or boardinghouses and were provided with educational and cultural opportunities. Lowell believed that by providing safety in the workplace, comfortable living conditions, and a socially positive living and the working environment he could ensure a steady supply of labor*” (Lowell System of Labor, 2021). These women worked 73 hours a week in good conditions while receiving high wages. The *Lowell Model* displays support for better working conditions instead of the current exploitation of young women who lack the experience and education to refuse to work in the labor force and its harsh conditions.

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