Fashion Economics: FM 4339
Quiz #6: The US Textile Industry
Chapters 6 & 7

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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. **In relation to the textile industry, where was the apparel industry located? When was the formation of the Apparel industry? What were considered "inside-shops" versus "outside shops"? (2 pts)**

In the context of the textile industry, the apparel industry was developed afterwards in the Northern states of the U.S particularly within New York City. As Rosen stated, the U.S. apparel industry developed during the end of the 19th century and beginning of the 20th century in New York City (Rosen, 2002, p. 96, par 1). The influx of immigrants particularly Jewish and Italian immigrants established small manufacturing firms that allowed for their sewing and tailoring cultural traditions to develop this new industry. The apparel industry was composed of small, family owned firms predominantly in urban centers such as New York City. As the textile industry who also commenced in the North and later transitioned to the Southern states, the apparel industry would face similar developments with the growth of the industry amongst other factors.

"Inside shops" referred to apparel manufacturing facilities that were located within these urban hubs. These inside shops were producers who designed, manufactured and sold the garments out of one establishment (Rosen, 2002, p. 97, par 1). "Outside shops" on the other hand, were factories that were run by contractors that performed specific tasks such as sewing or assembly hired by the manufacturers (Rosen, 2002, p. 97, par 1). The inside shops were one stop shops where the garments were produced entirely within the facilities and also sold by the same manufacturers. Outside shops on the other hand were helping hands and smaller shops that specialized in specific tasks in the manufacturing process of these garments to later be combined or sold from the main factory.

b. **Define *runaway* shop. How did *runaway shops* affect the apparel industry? How did the International Ladies' Garment Workers' Union (ILGWU) make union contract shops honor their contractual obligations? (2pts)**

As the industry developed and as labor unions fought and won better working conditions and working wages for its members, manufacturers sought out new ways to lower cost and increase profit margins. *Runaway* shops refer to the relocation of a factory or company of its operation in one location to another, particularly pursuing lower labor costs, less regulations and avoiding unions. As Rosen states, the clothing manufacturers found new opportunities and incentives to seek out this move into the non-unionized South with lower-wage labor and business incentives (Rosen, 2002, p. 98, par 3). The runaway shops significantly affected the apparel industry by undermining the efforts of unions such as the International Ladies Garment Workers Union (ILGWU) and the progress it had gained in the North like in New York City for their union members. It created a loophole for manufacturers to avoid the progress made for better working rights and labor wages by moving to states offered a business environment that would lead to more profits at the expense of workers and unionizing efforts.

The International Ladies' Garment Workers' Union (ILGWU) was essential in fostering rights for apparel workers especially women who made up the vast majority of the labor force. The ILGWU had to respond to these radical moves by manufacturers that impacted their workers drastically. Pursuing better wages for its members, the union called for a strike in the northern states in November 1958, seeking 15% wage increases, settling at increases of 8% for its members after threating to shut down the manufacturer's shops (Rosen, 2002, p. 99, par 3). The ILGWU incorporated provisions into union contracts with employers that would prevent the shops from relocating and subcontracting their work without the union's consultation or compensation for workers. The ILGWU used various tactics to pressure union contract shops to honor their contractual obligations, organizing campaigns, threatening labor strikes as well as legal challenges that would hold the employers accountable for their mistreatment or exploitation of its members.

c. **What was the result when U.S. importers, retailers, and manufacturers decided to contract work to East Asian producers? Why did U.S. importers, retailers, and manufacturers decide to contract work to the East rather than to U.S textile mills if foreign competition was already problematic? (2pts)**

The decision by U.S. importers, retailers and manufacturers to contract work to East Asian producers created a shift in the global apparel markets that impacted many involved. East Asia, including countries like Japan, Taiwan, Hong Kong and later the PRC would become a major hub for the production of the apparel industry and many consumer products. The apparel industry was impacted especially in the U.S as the production and rise of free global trade created competitors that was hard to contend with. Contracting work to East Asian producers however enabled the U.S. and its companies to expand into new markets, especially with the growing demand from industrializing nations in East Asia, allowing for a greater reach of markets and influences that would generate more sales. “Low tariffs for consumer products also meant lower cost goods for American workers” (Rosen, 2002, p. 103, par 1). Despite the challenge that would be faced by U.S. factory workers and their displacements, U.S. companies benefited from this strategy to offshore production in remaining competitive in the global apparel markets.

The decision to contract work to these countries in East Asia rather than to U.S textile mills was due to several factors. The first reason would be the lower production costs that manufacturers would endure, thus creating higher profiting margins due to the cheap labor and more lenient businesses environments. As the apparel and textile industries faced challenges from competition globally, the U.S. textile mills, and apparel factories would continue to struggle in trying to match the anti-competitive pricing that the imported products were produced at. Free Trade allowed for apparel manufactures to offshore operations into Hong Kong and Taiwan, benefiting from even lower wage labor, avoiding unions across national boundaries (Rosen, 2002, p. 105, par 2). Trade policies that reduced trade barriers such as tariffs and quotas as well as free trade agreements further facilitated the movement of production into East Asia by incentivizing trade and investments into these regions. The development of these now industrialized countries also created environments where the technology and infrastructure would benefit large scale manufacturing, allowing for economies of scale and costs saving methods that would be hard to achieve in the U.S.

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

d. Define MFA? What was the purpose of the MFA? How did the NIC (Newly Industrializing Countries) of Hong Kong, Taiwan & South Korea keep abreast of the changes in foreign policy and manage an increase in imports? (2pts)

The Multi-Fiber Arrangement (MFA) was an international trade agreement that significantly impacted the apparel and textile industries. Established in 1974 under the GATT agreement, it aimed to regulate and control global trading in textiles and garments. The official stated goal of the MFA was to “achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products” (Rosen, 2002, p. 110, par 3). The MFA agreement-imposed quotas on the export levels of textiles and apparel between developed countries like the U.S and European countries with developing countries like those in East Asia. Its main purpose was to protect the domestic producers of industries like the textile and apparels from increasing global competition that had imbalanced production costs and pricing. In imposing quotas on the exports to these underdeveloped nation as well as managing their import levels, the developed powers could reassure domestic producers an even competitive global markets while also managing the growth of these nations.

The NIC (Newly Industrializing Countries) of Hong Kong, Taiwan and South Korea were creative in adapting to these changes in foreign policy in allowing their countries to still prosper and manage increasing imports. Since the quota levels restricted the amount, they can trade with trading partners like the U.S., these countries expanded their trading networks into countries in Europe and developing Asian countries like the PRC to mitigate the impact of the quotas. While diversifying their exporting markets, they reduced their dependence on the U.S. markets and established new consumer bases while pursuing new innovations for fabrics. "The polyester revolution of the 1970s dramatically increased imports of apparel made with man-made fibers" (Rosen, 2002, p. 112, par 1). They also created export processing zones, offering tax incentives and a great businesses atmosphere to attract foreign investment and offshoring possibilities especially from U.S. companies. These countries also invested heavily into their industries, advancing their workforce through education creating highly educated and specialized workers while also investing into technology and modernity of its factories to hold their competitive edge in global markets.

e. How did the Reagan administration view foreign trade policy? What were some of the social transformations that the U.S. had endured the 1970's that effected foreign trade policy? What was the effect on apparel imports? Imports from The People's Republic of China (PRC)? (2pts)

The Reagan administration and President Reagan refocused foreign trade policy way from prior administrations ideologies and instead emphasized free trade and deregulation. There was a shift from previous protectionist policies and instead an approach that focused on free markets with reduced government interventions. By deregulating industries and incentivizing free trade with lower taxes and reduced trade barriers, the new free trade agenda would drive economic growth and prosperity within the U.S. and abroad. Reducing tariffs and dismantling previous trade restrictive agreements, Reagan promoted economic liberalism both nationality and internationality through "trickle-down economics" (Rosen, 2002, p. 121, par 1). By ending foreign trade policy agreements like the Jenkins-Hollings bill, the Reagan administration ended trade protectionist policies and fostered in a new era of free trade.

Facing social challenges that impacted the U.S. during the 1970s and its foreign trade policies, the Reagan administration had to confront some changes. The U.S was facing its first major trade deficit since 1917 due to declines of exports (Rosen, 2002, p. 120, par 1). The economy was facing stagflation, having have dealt with two oil crises and a worldwide recession that caused high inflation with high unemployment rates. The globalization of the world created new competition while also offshoring and obliterating industries, deindustrializing trades such as textile and apparel manufacturing that once were vital to the U.S. economic growth. The Reagan administration also faced a rise in protectionism once again, as foreign competitors and the imports of their goods were challenging the domestic producers and workers of these industries. These challenges created a new atmosphere within the U.S. with which the Reagan administration had to fix and lead with new foreign policies in the growing international trading system.

This new foreign policy approach had a great impact on apparel imports, especially imports from the People's Republic of China (PRC). The removal of trade barriers such as quotas and easing of taxing allowed for apparel imports to increase from the NIC countries and the PRC. This new influx of imports brought new lower priced goods and clothing into U.S. markets that challenged the U.S. producers but ultimately benefit consumers with lower pricing. These lower priced goods however crushed domestic producers as they couldn't compete with the advantages that producing offshore and imported goods provided. Struggling to compete with increasing competition, U.S. textile and apparel producers were forced to close factories and create job losses for many within these industries. “By the 1980s, the United States was no longer the worlds primary manufacture and exporter of goods” (Rosen, 2002, p. 119, par 3). The rise in imports coupled with the declining exports also created trade deficit concerns with countries like China that could later impact the U.S. economy.

Work Cited

Rosen, E. I. (2002). *Making sweatshops: The Globalization of the U.S. apparel industry*. University of California Press.