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 effect apparel trade between the United States and Mexico? (2 pts)

NAFTA is the acronym for the North American Free Trade Agreement, ratified in the fall of 1993 in congress (Rosen, 2002, p. 153, par 1). Implemented in 1994, NAFTA, promoted economic growth between the North American countries, the United States, Canada and Mexico by eliminating trade barriers and incentivizing trade.

The NAFTA agreement impacted trade between the three member parties including having a major effect on the textile and apparel industries. The agreement facilitated the trade particularly in these industries between the United States and Mexico by removing tariffs and other barriers to trade. NAFTA also promoted and incentivized foreign investments from the U.S. into Mexico, stimulating offshoring operations by American companies to take advantage of low wage labor in Mexico to increase profits and remain competitive in the industries. The agreement allowed for duty free trade of goods between the countries, increasing competition in the industry as manufacturers could access all three countries to find the best, low costs production and manufacturing locations. American apparel companies took advantage of the lower labor costs in Mexico, relocating production facilities into Mexico to lower production costs, increase profits and compete against the Asian apparel productions with a location closer to home. NAFTA facilitated the growth of textile and apparel complex in Mexico increasingly owned and controlled by U.S. transnationals (Rosen, 2002, p. 153, par 1). American producers took advantage of the conditions created by the agreement at the expense of Mexican domestic apparel producers who got decimated as they couldn't compete with the advantages and investments from the U.S. competition.

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? (2pts)

A Mexican *maquiladoras,* can be defined as subsidiaries of U.S. transnationals, manufacturing plants first established in northern border regions of Mexico that provided for alternative employment for Mexico's seasonal workers (Rosen, 2002, p. 154, par 1). American companies took advantage of duty-free imports of materials and machinery to set up offshoring operations in Mexico that also benefited from the low wage labor of the country. As NAFTA incentivized trade efforts between the countries, these companies would relocate their production facilities to Mexico, leading to job losses at home but growing the *maquiladoras* factories along the border.

Due to the low wage labor that existed in Mexico, the American companies were taking advantages of the NAFTA agreement trade benefits while also benefiting from the labor rights of the country. Although *maquiladoras* are similar to the working conditions of sweat shops and disadvantages that workers faced, they are not exactly sweat shops as some factories may operate with better working conditions adhering to working standards from the country. While similarities may exist, sweatshops are known from violating workers' rights and pay for the benefits of the manufacturer's profits. Workers in sweatshops experience long working hours, unsafe working conditions and low wages that exploit the workers labor rights. *Maquiladoras* on the other hand benefit manufacturers from the low wage labor that Mexico provides but not all provided unsafe and exploit the workers like sweatshops do. These factories may provide better working conditions and labor practices that may actually follow the Mexican working standards but simply pay lower wages than American industries. The author doesn't use the words interchangeably to highlight the difference between the exploiting and abusing nature of sweatshops, while the *maquiladoras* factories may be seen better and provide standardized conditions for workers. Both can exists simultaneously but they are also different in nature when the *maquiladoras* follow the standards they are supposed to and treat workers with better labor rights.

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)

The devaluation of the Mexican peso had significant impact on the apparel and textile industry, trade arrangements and the labors of the country. "During the 1970s, Mexico's discovery of oil and its robust petroleum export market allowed the country to borrow extensively" (Rosen, 2002, p. 154, par 2). However, after prices dropped in oil markets, the country suffered through an economic recession. With oil exports dwindling and with the debt enlarging, a crisis was created that lead to the devaluation of the Mexican peso.

Through the help of foreign trade investments and *maquiladoras,* the country recovered but quickly experienced another currency devaluation in the 1990s. After NAFTA was implemented in 1994, the promise of NAFTA progress led to a massive flow of U.S. capital into Mexico, speculating on Mexico's success (Rosen, 2002, p. 161, par 2). After revelations of political corruption by the governing Mexican administration were revealed, the foreign capital quickly left the country due to the risks and created a crisis for Mexico once again. Dealing with continuing inflation and pressures on its currency the country decided to devalue the peso to remain competitive and stabilize their economy (Rosen, 2002, p. 163, par 2). Most Mexican workers and citizens bore the effects of this devaluation, impoverishing individuals in a country that was already underdeveloped with some of the blame due to the NAFTA agreement as well.

The comparison of Mexican wages to those in apparel or textiles industries in Hong Kong, Korea, and Taiwan has changed especially after NAFTA. Prior to the peso devaluations and NAFTA, Mexican wages were higher than those of the Asian counterparts such as Hong Kong, Korea and Taiwan. Before the crisis, Mexican wages were higher than the average industrial wage in Hong Kong, Korea and Taiwan (Rosen, 2002, p. 155, par 2). As Rosen stated, the workers in the *maquiladoras* earned better wages while also experiencing better working conditions and benefits. However, fueled by the 1982 crisis and the expansion of *maquiladoras,* Mexican workers wages dropped drastically, plummeting below those found in the Big Three (Hong Kong, Korea and Taiwan) in 1982 (Rosen, 2002, p. 155, par 2). In order to remain competitive as well as dealing with economic crisis in the country, the Mexican workers bore the consequences of earning wages lower than their counterparts in the Big Three.

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

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

Both the Special Regime with Mexico and the Special Access Program with the Caribbean were United States agendas with goals of promoting trade and economic development in their respective regions. The Special Access Program with the Caribbean gave full trade benefits to importers of apparel produced in the Caribbean Basin countries when the apparel was assembled from fabrics cut and formed in the United States (Rosen, 2002, p. 164, par 3). Through preferential trade agreements with the United States, the countries from the Caribbean region could promote their economic developing while also being able to compete with the low-cost production of the Asian competitors. The benefits from the Special Regime with Mexico further incentivizes foreign investments while giving preferential trade benefits such as having the ability to develop vertically integrated textile and apparel facilities. "NAFTA has made Mexico a serious competitor to the Caribbean Basin countries as a site for production of apparel for export to the U.S.

markets (Rosen, 2002, p. 164, par 1). The NAFTA agreement allowed for duty free and quota free trade on goods as long as the raw material was made in any of the three members countries. Mexico benefited more than Caribbean Basin countries with preferential trade agreements that made investing and producing products in Mexico slightly better and lower costs to compete in the global markets.

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

The NAFTA trade agreement had both positives and consequences that altered industries and lives of many within the three members societies. The first positive would be the increase of trade and market access for the U.S., Mexico and Canada, allowing for all three countries to benefit from the trade barriers being lifted. Facilitating trade opportunities between the countries, companies could more easily access the United States, Canadian and Mexican markets, leading to increased opportunities for sales and revenue. The free trade agenda promoted economic growth and economic liberalization as it had on the Eastern countries prior. NAFT rules of tariff and quota free exports and imports made it possible for transnational textile and apparel manufactures to build full package operations in Mexico to sell across the new markets (Rosen, 2002, p. 168, par 1). Another positive is the costs savings and impact it had on apparel and textile prices. By eliminating tariffs and incentivizing foreign trade investments, apparel and textile producers moved to locations offshore that made the bests economic sense that allowed for better margins and more profits This subsequently also lower priced apparel and goods for consumers that could compete with Asian competitors.

While lower pricing and better profits are positives for American producers and investors, this came at a price of marginalizing and exploitation of workers. With the rise of *maquiladoras* and its quick expansion, workers in Mexico were exposed to almost sweatshop like factories that benefited from their low wage labor and non-union aspects that allows for worse working condition and labor rights. As Rosen stated, Mexico was a poor country before NAFTA, Yet NAFTA intensified that poverty by helping to create inflation and contributed to the peso devaluation that has impoverished many Mexicans (Rosen, 2002, p. 163, par 2). A second consequence from NAFTA was the depleting of the industries domestically, displacing many apparels and textile works at the expense of profits, completely eliminating some jobs and industries at home. The American South would experience heavy loss of manufacturing jobs in the decade to follow along with the dramatic rate of job loss in the apparel production industry (Rosen, 2002, p. 176, par 1). As companies offshored operations from the United States to Mexico, complete industries were destroyed at home while also having to compete with the low wage nature of Mexico that suppressed wages in the industries that did survive to be able to compete.

Works Cited

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