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Fashion Economics: FM 4339
Quiz #7: The US Textile Industry
Chapters 8
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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?

Answer: The acronym NAFTA stands for the North American Free Trade Agreement. This agreement which went into effect on January 1, 1994, has contributed to a drastic increase in the development of low-wage clothing in Latin America, leading to the decline of the indigenous clothing industry in Mexico. Efforts are now being made to create "full pack" clothing capability, which includes all clothing manufacturing processes, from fiber to processing, to the final packaging of the ready-to-send product to the retailer. Mexican production, like that in countries in the Caribbean Basin, offers a way to compete with Asian suppliers to the clothing and apparel industries (Rosen, 2002. pg. 153, para. 1).

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

Answer: A Mexican maquiladora's goal was to develop manufacturing plants in Mexico's northern border regions to provide alternative sources of employment for Mexican seasonal migrant workers. The aim of this program was to provide alternative jobs in Mexico to prevent illegal migration of seasonal workers who crossed the border to work in the agricultural economy of California.When the value of Mexico's oil exports plummeted, the nation was unable to maintain its high debt burden, and the crisis resulted in a peso devaluation in 1982. As a result, Mexico's maquiladora system became a much more important feature in the economy of the country. Maquilas had generated 200,000 jobs by the early 1980s and added $2 billion to the balance of payments in Mexico. Such plants were the second-largest foreign-exchange outlet in the late 1980s, after oil exports, and are more significant than tourism (Rosen, 2002. pg. 154, para. 1,2).

The Mexican maquiladoras are not the same as a sweatshop, so the author does not use the words interchangeably.

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.**

Answer: The fall of oil prices in Mexico led to the devaluation of the Mexican peso, leading to another economic recession and a new debt crisis (Rosen, 2002. pg. 154, para. 2).

Prior to the crisis, Mexican salaries were higher than the average industrial wage in Hong Kong, Korea, and Taiwan: they had risen to $1.69 an hour in the maquiladoras, with fringe benefits. This was 15% of the US $11.52 hourly wage, but 26% more than the Korean and 17% more than the Taiwanese. Expansion of the maquiladora, driven by Mexico's 1982 peso devaluation, took Mexican workers' average earnings in 1983 to around 57 percent of the 1981 level (Rosen, 2002. pg. 155, para. 1).

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

Answer: The Special Regime with Mexico and The Special Access Program with the Caribbean are both programs Reagan implemented.

Until leaving office in 1988, Reagan initiated a new plan to increase Mexico's exports of clothing to the United States by forming a textile and clothing deal, called the special regime. The new trade agreement allowed U.S. producers to extend their production-sharing system for USTS 807 in Mexico by $240 million per year. The Special Regime was not intended to restructure the Mexican textile and apparel sectors, the Special Regime was structured to promote the growth of Mexico's export-processing sector and expanding maquiladoras, at the expense of their domestic producers (Rosen, 2002. pg. 157, para. 2).

The system was designed to meet the Mexican economy, allowing for automatic quota changes at the request of the exporters. Mexico was authorizing nearly unlimited quotas unless there was a possibility of market disruption (Rosen, 2002. pg. 157, para. 3).

The Special Access Program (SAP): a new initiative to promote 'open trade and free markets' in Central America and the Caribbean. SAP assured the participating nations that a trade expansion under HTS 807 will contribute to economic growth by promoting export clothing assembly. The SAP described as a trade-liberalizing program for textile and apparel manufacturers was essentially a quasi-protectionist measure designed primarily by and for the vertically integrated transnational textile companies. This was a market-opening program designed to increase the quantity of apparel sold to US markets by developed countries. (Rosen, 2002. pg. 143, para. 2).

The Special Access Program established a new trade system in which the specific Caribbean and Central American nations could engage in bilateral agreements with the United States on unrestricted quotas for apparel shipped to the United States for guaranteed access levels (GALs) (Rosen, 2002. pg. 143, para. 3).

e. **Discuss at least two pros and two cons of NAFTA. Defend your answer with citations from the text.**

Answer: Pros:

- Many who support free-market ideas point to evidence showing that the rise of US exports to Mexico since NAFTA has contributed to the creation of high-wage employment in the United States (Rosen, 2002. pg. 160, para. 1).
- The Clinton administration and skilled economist found evidence that the program was successful, claiming that the US and its NAFTA partners had substantial trade surplus between 1994 and 1999. U.S. exports of goods to NAFTA partners during the first five years of NAFTA rose by $93 billion, or 66 percent, to a total of $235 billion (Rosen, 2002. pg. 162, para. 2).

Cons:

- With NAFTA, Mexico experienced a loss of trillions of dollars in capital investment, followed by a new peso devaluation, both of which led to wage cuts and living standards for Mexican employees (Rosen, 2002. pg. 163, para. 2).

Supporters of the neoliberal stance point out that U.S. exports to Mexico, as well as other low-wage nations, are required by U.S. transnational companies to be converted into finished goods by cheap labor and re-imported into the U.S. (Rosen, 2002. pg. 162, para. 3).

- NAFTA proponents argue that Mexican jobs produced in new maquiladoras and export-processing zones benefit. But all those workers are now earning well below the cost of purchasing the products they manufacture for export. NAFTA has upped Mexico's poverty by helping to establish ongoing inflation and devaluation of the currency, which has impoverished most Mexicans. Wages have shrunk significantly since NAFTA came into practice (Rosen, 2002. pg. 163, para. 1).