

BUF 4300: Global Sourcing & International Trade Policy
Final Essay Exam
Summer 2021
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. Use outside sources and cite APA appropriately and add references. Split paragraphs for each questions ask and write your own thoughts except when citing in quotations. Use Purdue Owl as a reference.**

1. Why has department store business declined in the US along with department store business in England, Germany, and Italy? Please cite an outside source for these country's retail decline. How has the *profitability paradox* affected this decline in profits? How has the *profitability paradox* changed the way retailers do business in the US? List and describe at least two ways the industry has prevailed during *this time* of retail flux (instability) in the text? Please cite Rosen and one outside source. (50pts). Please cite APA.

There has been a decline in apartment store business in the United States, England, Germany, and Italy. The reason there has been a decline in the apartment stores is due to E-commerce and the decline in the need to go shopping in a mall and dressing up for work or occasions. Don't department stores are now a part of the E-commerce game, they are facing more competition than ever before (Howland, 2020). The German department chain called Karstadt has been on to decline for many years. First in the 1990s they took over arrivals Hertie and mail order giants Quelle who are also struggling to get market shares. Karstadt even tried to hire an Ikea manager name Eva-Lotte Sjostedt but it didn't work as she stepped down five months after obtaining full knowledge of the economic fundamentals. Eventually Karstadt fell to their demise (Sky, 2014). Most department stores are going out of business due to people shopping online more than they shop in store.

The profitability paradox is when does success of a retailer depend on their ability to sell to their consumers through a variety of channels in personalized ways (Massachusetts Institute of Technology, Sides, & Skelly, 2021). The profitability paradox affected the decline in profits by forcing retailers to find other ways to sell to their consumers. What

retailers struggling to reduce their operating expenses they could not raise the prices of their goods and instead had to cut operating expenses reduce labor cost (Rosen 2002, p. 188, para. 3, 4*). Retailers got stuck in a productivity loop where the more productive they are the less profitable each individual retailer was. This loop led to deflation, bankruptcy, and industry consultation for those retailers (Rosen 2002, pp. 188-189, par. 4).

The profitability paradox has changed the way retailers do business in the United States by forcing them to produce more. Due to post war expansion of retail space the apartment stores in the 1980s started to face a profitability crunch.

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 was crucial for Reaganomics because the countries in the Far East were facing communism. The initiative went into place in 1983 at first, then 1986 under President Reagan. The 1986 initiative helped accelerate the growth of production in Caribbean Basin countries (Rosen 2002, p. 129, par. 0). The United States and the Caribbean and Central America had an unbalanced relationship formed between them. United States exported raw goods from these nations (Caribbean and Central American countries) such as coffee and sugar. These countries started to become dependent on the United States economy and government (Rosen 2002, p. 130, par 1).

Manuel Noriega was a Panamanian military leader. He was the leader of Panama's military and the commander of the Panamanian dance forces in the years 1983 to 1989. He was also the actual power behind the civilian president. In the 1970s he became the most feared man in Panama after captain Omar Torrijos died. Before Torrijos died Noriega was instrumental in defeating the coup that tried to unseat Torrijos. In 1983 Noriega succeeded in commanding a National Guard and gave himself the rank of general. Later in 1989 he cancelled the presidential election in order to rule the government. Eventually the United States invaded Panama in order to stop Noriega, but he was able to escape to the Vatican Embassy located in Panama and seek refuge. His refuge only lasted 10 days as he surrendered himself on January 3rd, 1990, to the US Army psychological warfare team. After being transported to Miami do U.S. Federal court in 1992 charged Noriega with cocaine trafficking, racketeering, and money laundering (The Editors of Encyclopaedia Britannica, Manuel Noriega).

The Iran-Contra affair took place in the 1980s and was a political scandal in which the United States was involved. It was found out that the National Security Council (NSC) have been transporting weapons secretly into areas prohibited by US Congress. This

scandal is related to boat Iran and Nicaragua. Both countries went under a revolutionary regime change in 1979. In Iran Ayatollah Ruhollah Khomeini had taken over the pro-western government that was led by Shah Mohammed Reza Pahlavi (The Editors of Encyclopaedia Britannica, Iran-Contra Affair). The United States started selling arms to Iran in the 1980s. The national security adviser McFarlane was the one that devised a plan to sell the arms to Iran. The original plan was for Israel to sell the weapons to Iran to create friction and the regime of Khomeini and later the US would replace the weapons that Israel sold. President Reagan was introduced to the plan on July 18th, 1985. In December of that year McFarland resigned and was replaced by John Poindexter and Reagan modified the original plants. This time instead of sending the weapon to moderate Iranian groups they sent the weapons to the moderate Iranian army leaders. This was illegal due to the US having an embargo on Iran. (Wikipedia contributors, Iran-Contra Affair, 2021)

Sandista National Liberation Front or Sandista for short is a Nicaraguan group that threw over the president, Anastasio Somoza Debayle. They overthrew the president in 1979 the same year as the Iran Contra affair. This overthrowing ended a dictatorship that was held by the Somoza family. The Sandista were in control of Nicaragua's government for 11 years from 1979 to 1990. Later on in 2006 the leader of the Sandista, Daniel Ortega, was elected for president. He was later elected again in 2011 and in 2016. Nicaragua became dependent on the Soviet Union and Cuba for support under the Sandista leadership (The Editors of Encyclopaedia Britannica, Sandista).

Fidel Castro was the president/ prime minister from 1959 to 2008. Under Castro's dictatorship he transformed Cuba into a communist country. Fidel Castro help overthrow general Batista who was the dictator of Cuba before Castro. Castro led a Suicide attack on the military in Santiago de Cuba where most of the men were killed except him and his brother. Castro and his brother were arrested but after they were released they started a new campaign and organized a revolutionary group on July 26th of 1955. On December 2nd of 1956 Castro LED another expedition where most of the men were killed again except for Castro his brother and nine others. Finally on January 1st 1959 Castro was able to overthrow Batista causing Batista to flee the country. From that point on Castro became the leader of Cuba (The Editors of Encyclopaedia Britannica, Fidel Castro).

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)

The Big Three began to subcontract to the People's Republic of China (PRC) making China a major player in the apparel industry. In 1980s the PRC's largest export was textile and apparel goods (Rosen 2002, p. 208, par. 2). The Chinese textile producers were not a part of the MFA. The MFA is the Multi-Fiber Agreement which is a quota regime for textile and apparel from 1974 to the 1994 (Rosen 2002, p. 110, par. 2*). The United States and the PRC signed two bilateral treats in the 1980s, one in 1980 and the

other in 1983. At the time of the treaty signing text salon apparel was already China's largest export to the United States (Rosen 2002, p. 207, par. 3*). Textiles and apparel were accounting for 28% of PRC's foreign export exchange and 43% of that 28% is all exported to the United States (Rosen 2002, p. 208, par. 2).

Artificially devaluing and inflating the Chinese yuan has helped China by encouraging exports to foreign countries and discouraging imports to China. Devaluing the Chinese Yuan help the Chinese government to accumulate large foreign exchange reserves (Rosen 2002, p. 211, par. 1). There was a fiscal crisis in 1997 in Asia due to the devaluing and the Chinese Yuan. It caused the stock markets to fall and devastated families' assets and budgets. The devaluation also caused a reduction of wages in East Asian nations (Rosen 2002, p. 212, par. 2). According to President Obama, "to make sure our goods are not artificially inflated in price and their goods are not artificially deflated in price; that puts us at a huge competitive disadvantage." (Catalan, 2010). By inflating their currency China creates a trade deficit which means that the United states will lose out on money while China gains.

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 an outside citation and be sure to include the significance of tariffs. (50pts). Discuss each job loss, lower wages, etc....each in a separate paragraph to earn credit.

Job loss neutrally affects the consumers who purchase apparel goods. Women apparel workers are the ones suffering the most with the job loses but not the consumers. In 1973 about 2.4 million apparel workers remained and that number has declined even more in 1996 with only 1.5 million still employed (Rosen 2002, p. 223, par. 3*). The reason why I stated that job losses neutrally affect consumers is because the employees were replaced by advanced technology (Rosen 2002, p. 224, par. 1). On the other hand, saving a job cost consumer about \$40,000 per job or \$39,000 to be exact. Therefore, saving a job actually hurts the consumers while helping the employees and their families (Rosen 2002, p. 224, par. 2).

By paying textile and apparel workers less money companies are able to save on cost of production. Mexican apparel workers were making \$1.69 an hour which was 26% higher than Korean textile workers but it didn't last long as Mexican workers started making 57% less than they were before do too an oil export crisis (Rosen 2002, p. 155, par. 1). These lower wages benefit consumers because they don't have to spend as much money as they would if the clothing was made in the US.

The pressure for retail profitability benefits the consumers by the cost of goods being lowered. Due to the pressure that is on them to make a profit, retailers respond by reducing the price they pay to their manufacturers. This reduction of pay leaves the manufacturers with no other choice than to reduce the cost of their goods. (Rosen 2002,

pp. 229-230, par. 3*). The pressure to be profitable drove apparel producers and retailers to consolidation (Rosen 2002, p. 222, par. 0).

Trade liberalization overall benefits consumers who purchase apparel goods. Consumers benefit from trade liberalization because they are able to spend less money on their apparel goods. Clothing made in the United States cost more to create due to unionization therefore companies outsource to save on cost of production. Companies are able to produce more goods for less money which benefits the consumers.

E Are consumers actually paying lower prices for apparel

F If so, then why is *high fashion apparel so expensive*

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 outside* reference. Describe how the *Lowell Model* has shed light on the difficulties of being a woman in a low-wage industry. Please be specific and cite Rosen (2002) (50pts).

Though the apparel workforce had women workers throughout their development historically they are known to make less money than men workers in similar industries. Though the auto workers who are mostly men we're losing their manufacturing jobs they were still being paid 149% more than the average manufacturer wage in the 2000s (Rosen 2002, p. 225, par. 0). In the 2000s textile workers were only making 80% of the average manufacturing wage (Rosen 2002, p. 225, par. 1). Members of the United auto workers who were hired before September 2007 earn a wage of \$28 to \$38 an hour (Marshall, 2021). Currently textile workers in the United States are on average making \$17.15 an hour which is about 61% of autoworkers (\$28/hr) pay (ERI Economic Research Institute, n.d.). POINT NUMBER 2 NEEDED

The Lowell Model shined light on the low wage industry and the difficulties women have in them. Since its development the apparel workforce has been made up of women and young girls. Lowell and Lawrence hired women and girls put them to work in sweatshop like conditions. Most of these women and girls even worked 73 hours a week (Rosen 2002, p. 240, par. 1). This low wage job was better than any other alternative available to women at that time. Many of these girls sent the money that they made to their families to help pay dowries and mortgages. The women workers of Lowell Massachusetts were soon replaced by migrant workers who are willing to work for lower wage and in far worse conditions (Rosen 2002, p. 241, par. 1). In El Salvador the women working in the apparel production exporting zones for Walmart, Kmart, and Leslie Fay worked 11 hour shifts for six days a week. Before entering their place of work, they had to go through barbed wired fences and be searched by guards when they enter and leave the factory. If any of them were found to be pregnant they would be fired from their jobs (Rosen 2002, pp. 241-242, par. 5).

Citations

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