

FINAL EXAM

BUF 4300: Global Sourcing & International Trade Policy

Final Essay Exam

Spring 2020

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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. Please cite in-text APA appropriately.

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)? (50pts) Please cite APA.

Emergence of department stores led to bankruptcy of many small businesses. Rosen notes that, “the intense new competition made retailing a dangerous game for all but the most powerful retailers”. (Rosen, 2002, page 189). Here she is basically referring to the idea of “survival of the fittest”. A department store is a retail foundation offering a wide run of customer products with totally different item categories known as "departments". It used to be very popular when it started as it was a one stop shop store but over the recent years we have noticed that department store businesses have declined in the US along with department store business in England, Germany, and Italy. The reason behind this decline is that over the years these department stores have hurt many small businesses and in way this kind of backfired these retail conglomerates as now in the age of customization the consumers are looking for products that are built in specifically for catering their needs rather than a general product option sold at these department stores for everyone. For example, if you need some workout supplements for gym, you would choose to go to a special store that specifically sells supplements for gym goers such as The Vitamin Shoppe, or GNC rather than going to a department store like Target and buy the general body supplements sold there. The “one size fits all” approach does not work for every consumer, so this has slowed the demand for products sold at these department stores and due to this the department store business is declined.

The profitability paradox affected this decline in profits of department stores as there was too much competition, especially the discount stores stealing the customers of department stores by selling them the same products at a cheap price. Researchers contend that the excess number of stores and the slow growing “consumer demand” made it difficult for deals development to keep up with working costs since efficiencies of scale had diminished as competition proceeded

to increment. Intensified competition drove retailers to go up against the “productivity paradox”: High working costs challenged profitability, however as competition constrained retailers to diminish prices, reduced edges required them to extend deals. Retailers were included in a battle to diminish working costs whereas looking for more prominent showcase share. They utilized an assortment of modern methodologies to do this: for case, decreased labor costs, modern technological innovations, key organizations, private-label stock, and modern niche-marketing methods. (Rosen, 2002, page 188, paragraph 2).

Issues such as the retailers proceeding endeavors to decrease “operating costs, higher interest rates” made it more difficult to manage with the profitability paradox as these exacerbated the ability to borrow cash and tended to crush profits. Hence a way that profitability paradox changed the way retailers do business was through the idea of “global expansion”. Other techniques that the retailers used “to capture consumer dollars” was “by focusing on changing demographic patterns, by carefully scrutinizing consumer wants, and by reducing prices”. (Rosen, 2002, pages 195 and 196). Personally, as a consumer, I don't buy many products as soon as they launch as I have worked in retail and I know very well that those high prices at the launch are going to plummet in a few weeks and the items will be pushed in the sale section, so what's really the point of buying right away? And as many consumers think like me, the “retailers now expect that only about 25 percent of their apparel will be purchased at the “full retail value.” To deal with this lagging buying behavior of consumers, retail executives came up with another strategy where they “set prices artificially high in order to discount them”. (Rosen, 2002, page 196). Through this technique they create an illusion of giving a deal of discount when they are costing just as much as they should during the sale.

The coronavirus pandemic has hurt many retailers as before they did not care much about maintaining their online presence. Now that the doors of these department stores are closed, the business of stores like JCPenney, Macy's and Marshalls have been significantly affected. The industry is prevailing during this time of retail flux (instability) through going online! If you go to any of these stores' websites, the very first thing you will notice is that they are giving discounts on major departments as they care about their consumers during this pandemic. Sanford Stein, a Retail Consultant and the author of *Retail Schmetail* argues, “price will always be a factor at some level, but value is going to mean so much more than price going forward. Things that have more meaning to people, things like how these retailers treated their people, are going to ring true.” (Howland, 2020). Through these COVID-19 deals, retailers are expressing sympathy toward their customers, creating value for their brand and as well as continuing a relationship with their returning customers. “E-commerce was 17% of U.S. shopping,” said Goldberg, “now it's 25%.”. Here we see how the retailers are shifting online to make their sales. (Weissman, 2020).

Based on my further research, I can predict this percentage ranking much higher even sometime after this pandemic is in control and physical stores reopen as consumers will still be sort of afraid of going out and shopping in large crowds as they once did before. “According to a Morning Consult study, which surveyed 2,200 U.S. adults between April 7 and April 9 and found that 24% of consumers said they wouldn't feel comfortable shopping in a mall for more than six months, 16% said they would feel comfortable in the next three months and only 4% said they would in the next month”. (Jansen, 2020). And due to this John Lincoln, CEO of Ignite Visibility, a digital marketing instructor at UCSD and author of the book *Digital Influencer*, A

Guide to Achieving Influencer Status Online, suggests that, “with customers staying indoors—and presumably online—digital marketing may well be a brand’s best defense against coronavirus.” Furthermore, he says that since people are not going to travel any time soon, it’s a waste of money on offline marketing tools such as those big billboards and small pop ups rather these businesses should be spending all that money on online / digital marketing to generate more sales and gain more customers. (Lincoln, 2020). Which is absolutely true as it is exactly what I see happening. I keep getting ads on Facebook and other social media about shopping from these department stores online - more than ever!

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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? (50) Cite APA.

The Caribbean Basin Initiative or the CBI, was crucial for Reaganomics because it “promoted economic development and stability” in the Caribbean, including the Central America region by opening new markets and fostering free trade. Other than this Reagan also made sure that through this act of CBI the United States “can monitor the communist interference or spread” that can be stopped. (Rosen, 2002, page 129, paragraph 2). The relationship between the US and the Caribbean and the Central American Nations, much of Latin America was an economic one. These regions were suffering from crimes, corruption, and violence so to keep them from turning to communists for help, the US offered them trade opportunities and gave them economic aid.

Manuel Noriega was a Panamanian general and he was significant because he had long standing ties with the CIA (Central Intelligence Agency). He was the CIA’s one of the most valuable asset as he helped the Contras get even with the Sandinistas by “offered to help U.S. officials by assassinating the leadership of Nicaragua's socialist Sandinista government, training Contra fighters and letting Panama serve as a staging ground for U.S. operations”.(Forde, 2017). But soon after that, with the Iran - Contra scandal, the U.S. eventually overthrows him with an invasion of Panama as his crimes of drug trafficking and other dirty crimes.

Both the Contra Army and the Sandinistas were also significant. Nicaragua was called a "Banana Republic" because they were relying on fruit production in contributing towards most of their country’s sales form exports. Nicaragua was ruled by the Somoza family for 43 consecutive years and these people were immensely powerful and always rigged the elections and came into power. Cesar Augusto Sandino was a Nicaraguan revolutionary who protested the U.S. occupation and Nicaragua and was assassinated in 1934. There was a group of people who were inspired by Cesar Augusto Sandino and wanted to overthrow the Somoza dynasty and end the decades of U.S. imperialism in Nicaragua these people call themselves "Sandinistas". These Sandinistas loved the idea of socialism and the liked socialist leaders like Fidel Castro and Che Guevara as they were inspired by their democratic socialism. Their Sandinista Revolution successfully overthrows the Somoza dynasty and eventually Daniel Ortega became a new Nicaraguan president. The Sandinista agenda was simply having the Somoza family wealth and property nationalized and redistributed among the Nicaraguans. They wanted a mixed economy which had socialism and private enterprise. The Sandinistas wanted literacy, healthcare, and gender equality. During the 1980s Ronald Reagan was elected as a president and he saw Nicaraguans as a threat because he saw them as socialism spreaders and therefore wanted to destabilize Nicaragua and therefore, he puts a trade embargo against Nicaragua. He feared that Nicaragua will spread socialism, in fact he even saw Nicaragua as another Cuba.

In 1981, beginning with some 19 million dollars as the Reagan administration feared a Caribbean "domino effect", Regan CIA aided and funded a rebellion group named the "contras". The contras were guerilla rebels determined to overthrow the Sandinista government. They were trained in Honduras and Costa Rica. Most of the contras were Samosas loyalists and former Somoza military. The United States secretly funds the contras to terrorize Nicaragua. The contras

undermined the acts of reforms such as building a bridge. They committed atrocities an act of terrorism did engage in sabotage operations, disrupt shipping by planting underwater mines do blow up Nicaraguan ships. The Republicans covered up for the contras by saying they are not terrorists they are freedom fighters when this covert funding news got leaked in the Congress.

Lastly, Fidel Castro was significant because he was a Cuban revolutionary and lawyer with socialist ideas who showed up to protest all the decadence acts happening in Cuba with the help of U.S. involvement. Since he defeated a U.S. supported dictator and became the leader of Cuba, the United States was mad at Cuba and therefore it boycotted trade with them, stopped providing them military equipment and crude oil so when Soviet Union offered a helping hand, Castro accepted the offer. This was a main reason for Cuba turning communist. "The Bay of Pigs Invasion" in 1961 was a CIA operation approved by the US President John F Kennedy miserably failed. "Operation Mongoose" also failed and then it brought us to the "Cuban Missile Crisis" in October 1962.

Nicaragua was a country who was a former U.S. protectorate and a victim of overt U.S. imperialism. It was occupied by U.S. Marines from 1912 to 1933, this area was occupied along with Panama with the plan to make it a canal. The significance of the Panama Canal was that it was that it would make the shipments between the Pacific and Atlantic oceans quicker than ever, by saving both the time and money - two most valuable possessions of any business owners.

The significance of Noriega extradition to Paris, France is that he "laundered \$7m (£4.5m) in drug profits by buying luxury apartments with his wife in Paris. Noriega was convicted in absentia, but France agreed to give him a new trial if he was extradited." (The Guardian, 2010). This relates to the time when he was a dictator of Panama, because he was the most feared man in Panama in his time. He was the de facto leader of Panama and was known for his crimes such as money laundering, racketeering, and smuggling of drugs.

This relates to the more recent and political situation in Nepal as the country is facing a Nepalese Civil war against the Maoist revolutionary (communists). Just as the United States feared back in the day that they would lose other nations in Latin America as Fidel Castro turned Cuba into a communist nation, the Caribbean Domino effect will turn other nations like Nicaragua and Guatemala into communist countries, now we see a communist threat in the Indian subcontinent (Nepal). Not to forget how close Nepal is from communist China hence they are having Maoist revolutionaries in their country. Nepal is a neighboring country to India, and Pakistan so this is an issue bigger than what it seems. Both India and Pakistan are highly agricultural countries and we all know that communism best suits agricultural countries, so it is a profoundly serious threat of communism spreading in Southern Asia.

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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)

Rosen states, back in the day the People's Republic of China was becoming a danger to the U.S. textile industry. Nixon had "reopened" China within the early 1970s. The PRC had not joined the Multifibre Arrangement, but China in any case had marked an exchange understanding with the United States in 1980 and a moment one in 1983, treaties that switched thirty-year period of cold war threatening vibe and revived U.S. markets to Chinese trades. A significant parcel of these trades was made up of textiles and apparel. Undoubtedly, China presently competed with the Big Three to get to U.S. markets. By the 1980s, China had been investing intensely for a long time on modern material innovation, making its material and attire businesses progressively competitive with those of the United States. (Rosen, 2002, Page 122, 1st paragraph). Therefore, due to the technological advancements in the field of textiles and apparel in China in the past four decades, today China is considered as a major player in the apparel production.

The quite simple reason why China devalued its own currency against the USD was "to boost exports and take it a step nearer to becoming an official reserve currency." (Inman, 2015). Think about it, if the value of the Yuan falls, it automatically makes Chinese goods of a cheaper value in the eyes of the countries who import goods from China. This will motivate the importers to take advantage of China's fallen currency and import from China even more than ever. This move made by China is remarkably similar to the "Sale" approach which we see businesses using to attract more customers to their stores. In this way more countries would want to import from China compared to other countries. Other than this due to the coronavirus pandemic, China's economy is severely hurt. The reason why China inflating the yuan is an advantage for china and hurts the importing / exporting countries is as through this currency manipulation, China manages to "flout global trading rules by conferring unfair competitive advantages" and it is "designed to make exports more competitive, to avoid inflation or reduce capital inflows." (BBC news, 2019).

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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 and lower wages benefits the consumers who purchase apparel goods as they get to buy these apparel goods at a cheaper price if they are made in some underdeveloped country as compared to a developed nation like the United States. Rosen sheds light that, “economists have argued that low-wage developing countries have a comparative advantage in their natural abundance of low-wage labor.” and “industrialized countries on the other hand” have a comparative advantage with their “advanced technology”. In this way, textiles and apparel ought to be delivered in low-wage nations and traded for higher-value-added made merchandise from created nations, making both the developing and industrialized nations way better off financially. (Rosen, 2002, page 20, paragraph 3).

On the other hand, the factor of pressure for retail profitability makes the retailers think of all the ways they can use to cut their costs and to make more profits. According to the idea of economies of scale, the more the good you produce, the cheaper it will cost you to produce them. This also hurts the demand of apparel goods as when there is surplus in the production of apparel goods, the demand for those goods automatically goes down. And when the demand goes down, the retailers are left with no choice but to offer these apparel goods at cheaper prices which benefits the consumers who buy apparel goods.

The idea of trade liberalization is the heart of global sourcing as it not only benefits the textile and apparel producers but also benefits the consumers who buy apparel products. The textile and apparel producers benefit through trade liberalization, as it allows them to trade with other countries efficiently and make their products at a cheaper cost. Trade liberalization

exempts the producers from tariff and other barriers of trade and grants them a duty-free exchange or trade. This automatically benefits the consumers who buy apparel goods as now since the producers can cut down their costs, they will be able to set affordable prices that would not hurt their consumer's pockets. Moreover, in spite of the developing work misfortunes, wage misfortunes, and number of sweatshops, supporters of the "neoliberal paradigm" proceed to contend that "trade liberalization has reduced the cost of clothing for consumers". (Rosen, 2002, page 203, paragraph 2).

Yes, consumers actually pay lower prices for apparel in some cases (regular, off brand or cheap branded clothing) but when it comes to high fashion the whole dynamic changes as it is a battle between consumer needs and wants. High fashion is clothing made by renowned designers; couture comes in this category. For example, let's say you need a belt for your work outfit, you going to a Burlington store to buy a belt is a need, but if you wish to have a high end belt, like a designer Gucci belt then that is a want. Needs are priced cheap and wants are priced high as they are on the luxury end. Even if your Gucci belt was made by someone pop in Bangladesh, you won't get it for as cheap as the price of a regular belt that you will get in Burlington store as with the designer wear / high fashion the idea of "brand prestige" comes into play. The brand prestige is basically what value the brand has in the eyes of its consumers. Gucci is a high end designer so obviously just because something has a Gucci logo on it, it automatically raises into its value and when there is a high value, the brands like Gucci can charge as much as they want as that brand prestige is an integral part of the cost of their products. High fashion cannot sell for cheap even if they want to, as it will make the consumers question their quality of goods.

The significance of "tariffs and quotas" is that they "protected apparel jobs" but since they were "too costly for the economy" and "imposed a tax on Americans" they were hurting the consumer pockets as they made the "clothing costs more". (Rosen, 2002, pages 230 -231, last paragraph).

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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) Cite APA.

Research shows that the "pay equity varies by location. In Washington, DC, women average 90 cents to every man's dollar, partly due to transparency in government wages. Ironically, the "Equality State" is the worst, with women in Wyoming earning just 64 percent of what their male counterparts make." (Now.org). Other than this most women have to pay a penalty once they become mothers. An employer would be less likely to hire a woman because

of all the things a woman's body undergoes during her pregnancy. The gap that they have on their resume also becomes a problem for them once they return to work after having a baby. "Time out of the workforce can directly impact women's earning potential. Often mothers returning to the workforce experience a "[motherhood penalty](#)." Employers are less likely to hire moms. If mothers are hired, they tend to be paid less than childless women, a pay cut worth more than their time outside the workforce. Fathers are not punished compared to other men." (Now.org)

The examples in history when women's wages were not of equal value to those work wages of another industry or her male counterpart are as follows:

"The U.S. Census Bureau [reported](#) in their last survey (published September of 2017) that women in most areas of business still earn 20% less than their male counterparts. Though fashion and beauty brands are traditionally considered more women-staffed (and certainly women make up the majority of the consumer base), the industry is far from fault-less when it comes to equal pay." (Matera, 2018). Here we see that even the fashion industry, which is known for hiring a majority of women, pays way less to their female employees as they would pay to their male employees. Here are some of the famous fashion labels that pay less to their female employees as compared to their male employees even though they both put in the same amount of work. "Compared to the already horrendous 20% gender pay gap, The *NYT* [shared information](#) that designers like Karen Millen actually had an even more staggering 49% gap, while beauty brand Benefit Cosmetics reported one that sat around 30.7%. What's more, Burberry not only reports a 26% pay gap, but the men at the company have historically received higher bonuses as well." (Matera, 2018).

Rosen the author of *Making Sweatshops* also confirms that, "in Singapore, "where women export factory workers are the least paid workers in the economy, usually earning less than the men in their families, their total family income puts them in an income bracket where, in 1983, 96.2 percent of the households had a refrigerator, 95.9 percent had a television set, 23.1 percent a video cassette recorder, 12.8 percent a motor car, 17.5 percent a motorcycle, 44.7 percent a washing machine, 3.6 percent an air conditioner, and 3.8 percent a piano/organ."(Rosen, page 241, second last paragraph). Besides the fashion industry, even the tech industry pays women way less as compared to men and here is the evidence of it, "women in STEM jobs are paid less than men and the gap shows no sign of shrinking, according to the latest findings from the **New Scientist**/SRG annual salary survey" (Fleming, 2018).

The Lowell Model has shed light on the difficulties of being a woman in a low-wage industry by stating that, "in the 1830s, American-born "farm girls" were recruited to work in the new textile mills of Lowell and Lawrence, Massachusetts. These young women lived in the dormitories provided privately for them and worked in conditions that would, in twenty-first-century America, be considered exploitative and socially unacceptable" (Rosen, 2002, Page 240). Furthermore, Rosen adds that according to a researcher named Thomas Dublin these "Women worked some 73 hours each week, averaging 13 hours a day Monday through Friday and 8 hours on Saturday. The typical workday began at dawn—or even earlier in the summer—and lasted until 7:00 or 7:30 p.m. with only 30-minute breaks for breakfast and midday dinner". (Rosen, 2002, Page 240, last paragraph). Think about it, 73 hours a week is no joke, is almost as much as working 2 full – time jobs! Moreover, the fact that these women are not even getting at

least an hour-long break as we all get today in any 8 hours a day job compared to their 13 hours a day job is ridiculous!

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