

BUF 4300: Global Sourcing & International Trade Policy
Final Essay Exam
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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.

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.

Department stores have seen a decline in the United States as disposable income saw a decline. When looking over the priorities of a middle-class family, apparel was simply not a necessity, so the demand dropped (Rosen, 2002, pg. 179, p. 1). When the money was present to shop retail again, department stores did not connect with the new consumer buying behaviors. There were no quick responses to what consumers were looking for and the stores were stocked with costly inventory of unsold merchandise (Rosen, 20002, pg. 181, p. 2). Even with a reliance on the sales of brand-name items, the prices for these items were seeing drastic changes compared to what was occurring prior to the mid-1970s (Rosen, 2002, pg. 185, p. 1). Fair trade laws that put manufacturers in control of the prices retailers sold these products for, were no longer in effect (Rosen, 2002, pg. 185, p. 2). Executives of national department stores were not in tune with what went on at the regulation hearings and therefore tumbled as another segment of

retailers heeded the update: discounters (Rosen, 2002, pg. 185, p.3). Majority of apparel manufacturers were from Eastern Europe and southern Italy (Rosen, 2002, pg. 96, p. 2). The growth of private-label clothing was now making retailers the manufacturers, which made old manufacturers competitors (Rosen, 2002, pg. 183, p. 3). Thus, Germany, Italy, and England also saw a fall in their department stores. British department stores were known for their military garb in World War II and maintained the aesthetic post-war (Clark, 2013). Shopping was becoming more modernized as it was now peace-time and style was being demanded by the new and younger consumers. This took a toll on London's old-fashioned department stores as the latest in fashion was now desired (Fowler, 2011). Germany's moderate sector also took damage as buying everything from one roof of an ordinary department store no longer fit the shopping experience of the times (Wenkel, 2008). For Italy, prêt-à-porter rose as global overconsumption gave the opening to high-end mass marketing (Cruz, 2004). However, designers of this rising ready-to-wear era wanted to sell in their own boutiques, rather than department stores (Levy, 2015). Overall, there was a devaluing of chain stores in different parts of the world.

The profitability paradox gave to a decline in profits as competitive advantages from other categories of retail had the right positioning immediately. Department stores struggled as the excessive number of stores with unmatched consumer spending and a forced reduction in margins gave an insignificant playing field for market share (Rosen, 2002, pg. 188, p. 3). To stay afloat, retailers had to observe the changing demographic patterns of consumers and effectively price what they wanted (Rosen, 2002, pg. 195, p. 4). New ways of doing business were also implemented, such as partnerships, niche-marketing, and the integration to private-labeling to name a few (Rosen, 2002, pg. 188, p. 3). It was becoming a given that a productive industry had

lesser individual profits (Rosen, 2002, pg. 188 p.4- pg.189). Despite the estranged truth, the industry did find ways to eventually see increases in stability. Global expansion was among the paths taken (Rosen, 2002, pg. 195, p. 2). Another, was the merging and acquisition done between small department stores to larger chains and department stores to discount or specialty stores (Rosen, 2002, pg. 179, p. 4). The industry put up an endless fight to stay a contender in the economy.

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 somewhat recent political situation in Nepal and the Maoist revolutionaries? (50)

The Caribbean Basin Initiative (CBI) was crucial for Reaganomics because the “second act” of trade liberalization was in effect as the Caribbean and Central American countries under this economic recovery act needed support which being given by the United States would align with the political conduct that was coveted for their interest in world affairs through world trade. The debt that was present in CBI countries made them endangered to falling to communist policies, which was against those of the U.S. (Rosen, 2002, pg. 139, p.2). The economic and geographic locality put forth an immediate pressure of involvement from President Reagan to assist in the developing and stability of these countries.

El Salvador, a CBI country, was not safe from communism as civil wars were in public view and the democratic sides were in jeopardy. President Reagan pledged to be the backbone for anti-communist insurgencies (“Iran-Contra Affairs”, 2020). But, the clashing amendment made by Congress to restrict the country’s participation in foreign conflicts made helping the

Contras be executed stealthy (“Iran-Contra Affairs”, 2020) Manuel Noriega, former dictator of Panama, was first a CIA informant for the United States whom got himself appointed under Panama’s military ruler that was responsible for signing a treaty to reinstate their canal zone to Panamanian sovereignty (Tran, 2010). After gaining full general power in 1983, he allowed the U.S. to set up listening posts in Panama to fight against the communist Sandinista government during the contra wars in Nicaragua (Tran, 2010). Noriega allowed the U.S. to use Panama as the “middle-man” to send U.S. weapons and money to the contra army (Tran, 2010). The Soviet-Cuba regime was strengthening as Sandinista leadership formed an alliance with Fidel Castro to have all means of his support in guerrilla warfare ("The Soviet-Cuban Direction in Central America and the Caribbean", 1985). Castro’s destructive nature also influenced Grenada, another CBI country as their government matured a relationship with Cuba and its dictator (DeCastro, 2017). The left-wing controllers were going at a pace for steady infiltration.

The significance of the Panama Canal was in its coordinates. Almost half of U.S. trade, minerals, and oil imports passed through the canal (Rosen, 2002, pg. 131, p. 2). As China re-entered global international trade, their unmarked goods also advanced at this location (Rosen, 2002, pg. 208, p.4- 209). With it being a common destination for both democratic and communist parties, it was vital to monitor what was done around it so that it was sure to be kept in favor of relations to the U.S.

With time, a lot of things done under the rug became exposed and conniving officials were at an aim to be stopped, as what did occur with Noriega. After being convicted of racketeering, drug trafficking, and manipulating the States’ policies in Panama for personal gain

of nearly dictatorship, he was sentenced to 40 years in 1992 (Tran, 2010). However, after being released in 2007 due to good behavior, he flew to France where he eventually faced extradition (Tran, 2010). It relates to his time as dictator of Panama due to shady activity done on his part, this time for money laundering through purchasing property in Paris (Pilkington, 2010).

Alike Manuel Noriega, Netra Bikram Chand had his transition from government ally to foe as one reviews the current political situation in Nepal with Maoist revolutionaries. Chand's Communist Party of Nepal bombed the office of a company for not paying taxes (Bhattarai, 2019). However, his Maoist party abused this situation and evidently put in motion a 10-year insurgency (Bhattarai, 2019). A process of peace is to begin, but Chand refuses to join the other Maoist parties and does not plan on changing his agendas (Bhattarai, 2019). With more violence and undermining on behalf of his Maoist splinter group, Chand and his comrades were ruled as criminals in Nepal who must be indicted (Bhattarai, 2019). The similarities are present as individuals or groups are finding ways to exploit the government through exclusive corruption.

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)

Apparel production owes great tributes to China as they have changed the competition tremendously through their contributions. Their innovative stature and quick thinking in all areas of business have given them competitive advantages throughout retail history. By artificially devaluing and inflating the Yuan, they have given themselves power in world trade. To expand trade in their exporting countries, China took to producing what was not tied to quotas of import

thus giving them more exports in the U.S. market and an edge on foreign exchange (Rosen, 2002, pg. 208, p.3). Devaluing the Yuan lowers the price of their exports, while increasing the price on their imports (“The Impact of China Devaluing the Yuan”, 2019). This also limits the level of exports to China ("China's Currency Policy: An Analysis of the Economic Issues", 2020). Inflating its currency, however, changes the pace of production, which must be kept a certain level in correspondence to the needs of international consumers for Chinese products (Keidel, 2007). The fluctuations can therefore cause harm to foreign trade if executed in ways to see China win and the rest of the world lose.

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)

Consumers are affected by different economic situations that can alter the benefits of purchasing apparel goods. One example, job loss, can take away from their disposable income and the taxes paid which accumulate the GNP (Gross National Product) (Rosen, 2002, pg. 224, p. 2.) Without extra money to spend, there is no place for pleasurable purchases, such as apparel when necessities of life are for example: food and shelter. In the instance of a job loss converting to a job gained that creates more disposable income, however, more spending can be expected from the consumer in different areas of purchasing (Rosen, 2002, pg. 224, p. 4). The apparel industry being globalized has reduced the costs of clothing for consumers (Rosen, 2002, pg. 9, p. 1). Having low-waged developing countries create apparel make room for the more industrialized nations to focus on goods and services that are capital-intensive (Rosen, 2002, pg. 20, p. 4). Apparel being produced at a lesser cost, and thus sold for less, gives consumers

available funds for other goods and services, investments, or to save which all adds to their standards of living (Rosen, 2002, pg. 21, p. 1). The pressure of retail profitability with overexpansion and demands from shareholders of the industry also lead to reduced prices for consumers to maintain market share (Rosen, 2002, pg. 188, p. 3). Trade liberalization is responsible for the reduction to consumer's clothing the costs (Rosen, 2002, pg. 230, p. 3). Tariffs and quotas on the other hand were responsible for the high costs of clothing as the taxes imposed were excessive (Rosen, 2002, pg. 230, p. 3). Eliminating or minimizing these nuisances better serve the economy as production of wealth can be created with market efficiencies due to export zoning (Rosen, 2002, pg. 18, p. 2).

It is indeed true; consumers are paying lower prices for apparel than they were over 25 years ago and are also able to buy more at a lower cost per item (Rosen, 2002, pg. 231, p. 4). In the case with high fashion apparel being so expensive, there are other factors to consider for the price point. Clothing labeled to this prestige are intended for selective consumers. One is not only paying for fabric; but for a statement to lifestyle and belongingness to exclusivity. Fashion has shown a relevance to society, both for economic and personal sake.

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)

Women have significance in the history of the apparel industry and its global development. Despite this proven fact, women still struggle with for fairness in wages compared

to her male counterpart. Women in developing countries are seeing conditions even more harsh and inhumane than women in the U.S. ever experienced. In Singapore, the women factory workers are paid the lowest in their economy (Rosen, 2002, pg. 241, p. 4). Women in Japan during 1956 were earning only 48% of the wages that men did with expectations of it being lower (Rosen, 2002, pg. 52, p. 1). Hong Kong in the 1960s also showed a gender wage gap as women in textile factories made an average of \$1.40 an hour to men's \$1.49 (Rosen, 2002, pg. 83, p. 2).

When one goes further in time to the Lowell Model, it sheds *some* light on the strains that women in low-wage industries face. Back in the 1830s, American "farm girls" were enrolled for labor services at new textile mills in Lowell, Massachusetts (Rosen, 2002, pg. 240, p. 2). The women took board at the mills, working over 70 hour, six days a week with only an hour a day to break for supper (Rosen, 2002, pg. 240, p. 2). Nonetheless, these women could send money home to pay their family mortgages and prepare for their futures post-marriage (Rosen, 2002, pg. 241, p. 1). Although the conditions at Lowell mills were still severe and dissonant, its scrutiny does allow for some endurance when compared to similar situations. One can conclude there is still work to be done for women workers in low-wage countries to receive proper compensation for their performance in employment, but the more it is made aware, the deeper it would go into application.

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