**Fashion Economics: FM 4339**
**Quiz #8: The US Textile Industry**
**Chapter (9)**

**Dr. Adomaitis**

Nargiza Rahmatilloeva

**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)

The acronym NAFTA stands for North American Free Trade Agreement. "It was approved by Congress in the fall of 1993 and took effect on January 1, 1994,"(Rosen, p. 153, par 2.) NAFTA's purpose was to remove trade barriers such as tariffs between the United States, Mexico, and Canada, allowing these nations to freely trade and invest in manufacturing.

Because NAFTA "facilitated the emergence of a vertically integrated textile and apparel complex in Mexico," it influenced clothing commerce between the United States and Mexico by producing additional job possibilities (Rosen, 2002, p.153, par. 3). The fact that "by 1998, textiles and clothing had become Mexico's fifth-largest export, with the United States receiving 97.4% of the country's garment exports" demonstrates how successful the North American Free Commerce Agreement (NAFTA) was in growing apparel trade between the two nations.

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)

Maquiladoras in Mexico are large factories run by foreign companies that "offered alternative employment in Mexico to discourage illegal migration of seasonal laborers across the border to work in California's agricultural industry"(Rosen, 2002, p.154, par. 2)

No, this is not the same as working in a sweatshop since we can observe that these workers in maquiladoras are paid far more than those in sweatshops. "A "sweatshop," as defined above, is not just a company that provides low-wage work under an authoritarian industrial relations structure.

In fact, Rosen mentions in Chapter 9 that employees in these Mexican maquiladoras were "higher than the average industrial pay in Hong Kong, Korea, and Taiwan; in the maquiladoras, they had climbed to $1.69 an hour, including fringe benefits" in the 1980s. (Rosen, 2002, p.155, par.2). Employees in Mexican maquiladoras were paid far more than those in sweatshops, and these workers also received "fringe benefits" - which may be characterized as "extra perks beyond the worker's set hourly income, such as a travel permit, insurance, subsidized lunches, and so on."As a result, the author does not use the terms "maquiladoras" and "sweatshops" interchangeably for these reasons.

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 events that led to the depreciation of the Mexican peso: Mexico's oil disclosure and strong petroleum export advertise allowed the country to borrow widely in the 1970s. (Rosen, 2002, p.154, par 3). As the value of Mexico's oil exports fell, the country found itself unable to meet its large debt obligations, prompting a peso depreciation in 1982.

Yes, Mexican wages were higher than those in Hong Kong, Korea, and Taiwan who worked in apparel or textiles, as Rosen points out: "Prior to the crisis, Mexican wages were higher than the average industrial wage in Hong Kong, Korea, and Taiwan; in the maquiladoras, they had increased to $1.69 an hour, including fringe benefits" (Rosen, 2002, p.156). This was 15% of the $11.52 hourly salary in the United States, but it was 26% more than the Korean and 17% higher than the Taiwanese rates." However, in 1982, the Mexican peso depreciated considerably, causing salaries to plummet in comparison to those of 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)

| The Special Regime with Mexico | The Special Access Program with the Caribbean. |
|---|---|
| President Ronald Reagan signed this bill into law in 1988. | President Ronald Reagan signed this bill into law in 1987. |
| The purpose of creating this program was to “"increase Mexico's garment exports to the United States by developing a textiles and apparel agreement." (Rosen, 2002, p. 157) | The purpose of creating this program was to "satisfy U.S. textile firms hurting from unsuccessful protectionism" (Rosen, 2002, p.153). |
| Both the Special Regime with Mexico and the Special Access Program with the Caribbean are comparable since they were both approved by President Ronald Reagan and were designed to avoid a financial crisis. These projects were overly sponsored and supported by garment and textile manufacturers in the United States. Both programs also made trading easier by eliminating fees and taxes. | |

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

## Pros of NAFTA:

NAFTA made life simpler for American textile and garment manufacturers since it increased output by allowing them to import at a lower cost from Mexico. According to the book, “Yet, by 1998, textiles and apparel had become Mexico’s fifth largest export, and the United States was the recipient of 97.4 percent of the countries apparel exports”(Rosen, 2002, p.153, par.1).

The establishment of maquiladoras in Mexico, as well as the trade gains provided by NAFTA, such as the elimination of tariffs, aided Mexico's devastated economy following the peso devaluation in 1982. She also mentions that "by 1981, the US controlled 90% of all maquila operations in Mexico." (Rosen, 2002, p.154).This demonstrates how the NAFTA helped both the US and Mexico. As Rosen mentions in the book, “As one analyst put it, the maquiladora program had become “one of the few shining stars on Mexico’s economic scene.”

## Cons of NAFTA:

On the agricultural side, the NAFTA caused more harm than good, as Rosen points out: "Between 1975 and 1985, Mexico's debt increased from $1.6 billion, or 58 percent of its GDP, to $97 billion”(Rosen, 2002, p.154, par.2).

The depreciation of the Mexican peso resulted in low-wage jobs for Mexicans, who were therefore exploited. "Mexico's wage decreases were caused by the peso crisis rather than NAFTA”(Rosen, 2002, p.160, par.2).