

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 quizzacco

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)? Please cite Rosen. (50pts) Please cite APA.

As the department store business boomed in the late 1960s, the profits were fairly stable during the years that followed after the second World War. However, unsuspecting buyers did not anticipate for the great inflation that took place in the United States during the seventies.

Department store business declined in the US along with department store business in England, Germany, and Italy due to an economic downturn that was brought about by the sudden influx of prices of goods and services. The main reasons behind the economic crisis include: an upsurge in oil prices, the recovery period following the expenses of the Vietnam war, an increasingly competitive global arena, and a sudden decline in the availability of jobs, particularly those in the manufacturing sector. As the economy plunged, so did the average household income. As a result, the department store business suffered a decrease in apparel sales due to the consumers' inability to purchase (Rosen, 2002, page 129, para 1).

Towards the end of the 1970s, discount store chains set up shop, instantly outpricing department stores. With their clientele gone, department stores began to find new target markets. Those that explored a more high-niche market, such as Wal-Mart and Kmart, became more successful in stabilizing their businesses. However, the decline of the department store business did not just affect the United States. 5 to 6 percent of the United States' imports came under the Harmonized Tariff Schedule (HTS) 806.30 and 807. A vast

majority of these products came from major apparel and textile manufacturers in countries such as Germany, Italy and England. Similarly, England was under pressure from former President Eisenhower to accommodate Japan's economic needs by allowing them to tap into textile manufacturing. Japan eventually joined the General Agreements of Tariffs and Trade (GATT) legal agreement, taking over 18% of the United States' textile business. 'Given retailers' continuing efforts to reduce operating expenses, higher interest rates made it difficult to borrow money and tended to squeeze profits' (Rosen, 2002, page 195, para 2).

The profitability paradox affected this decline in profits due to the post war development of retail space and the overstock of merchandise. In fact, the number of shopping centers increased by 70 percent between 1974 and 1984 (Rosen, 2002, page 188, para 2). Over expansion was making it even more difficult for department stores to maintain profit levels high enough to meet the new expectations of the corporate shareholders. This caused the gross margin to decrease, even though department stores increased in sales. Slow demand from consumers made it very hard for departments stores to keep up with their daily expenses.

Profitability paradox changed the way retailers do business through the marking down of prices which was done through pre-seasonal, seasonal, and post-seasonal sales. Another solution was to expand the target market of the apparel and textile industries, and to do so retailers shifted to relying on cheap labor from lesser developed countries. This paved way for retailers to continuously mark down their prices (Rosen, 2002, page 195, para 2).

The industry prevailed during this time of retail flux through global expansion and market segmentation. Apparel and specialty retailers were left with no choice but to respond to the profitability paradox by cutting prices significantly. The industry has managed to survive retail instability by taking advantage of the trade missions that were present in Japan by seeking a lower cost textile industry.

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 in that a large percentage of Latin America supplied the country with raw materials. The raw materials include: minerals, sugar, coffee and tin. Additionally, one fifth of crude oil from Latin America was refined and used by the United States together with half of its petroleum products. The United States also received nearly all of the continents bauxite, averaging at around 90 percent. This was evident until the mid-1970s. In exchange, the United States trades its capital and manufactured goods. As a result, sovereign states in Latin America remain heavily dependent in areas of their political and economic growth and decline respectively.

With this level of heavy dependence, the United States is assured of its economic power among Latin American states (Rosen, 2002, page 130, para 2).

Manuel Noriega was a military dictator and head of state of Panama from 1983 to 1989. His regime largely favored the socio-political and economic interests of the United States under President Reagan's administration, eventually leaving him with too much power. Three years after Noriega won the presidential de facto seat, sudden accusations of drug trafficking, gross human rights violations and money laundering arise, justifying the United States' reasons for wanting him to oust him from his throne of power. In 1988, Noriega was indicted by the United States' federal grand juries of Tampa and Miami for drug smuggling and money laundering. His alleged human trafficking further promoted the growth of sweat shops that prevailed in Panama, further exploiting citizens of Panama (Pilisuk & Zazzi, 2006).

The Contra War lasted for 11 years, taking place between 1979 and 1990. The contra army, comprised of over 500 men and had a budget of \$19 million. It was funded by the United States as a rebel group that fought against the Marxist Sandinista Junta of National Reconstruction Government in Nicaragua. The contra army was specifically formed by the United States' Central Intelligence Agency (CIA) and approved under President Reagan's administration. The army was not only created to stop the flow of guns between Nicaragua and El Salvador, but also to serve as spies for the CIA (Prévost, 1987).

The Sandinistas came into power after the revolutionary war of Nicaragua. Part of the reason behind Noriega's support from the United States was to have enough power to stop the Sandinistas in their tracks. Under this leftist authority, factory workers and peasants were encouraged to unionize and work for the sweatshops that benefited the west and took advantage of the lesser developed countries. The confusion brought about by the guerilla war between the Contra Army and The Sandinistas drove the economy to the ground such that the establishment of sweatshops became attractive. The institutionalization of the sweatshops in Nicaragua was seen as an opportunity for the Sandinistas to work with international companies to make more money through cheap labor, boosting the nation's economy (Wimberley, 2009).

Under Fidel Castro's regime, freedom from external influence was the order of the day. But as Cuba lost Soviet aid, the economy took a downward spiral. Fidel Castro supported socialism among the Cubans, but with his demise came the struggles of extreme cases of poverty and hunger. As a result, international companies and firms set to establish their sweat shops in Cuba. This was justified as the global approach of building Cuba through stable income supply and promotion of its economic strength (Buzzanco, 2017).

The Panama Canal was important because it linked the Atlantic and Pacific Oceans. This provided a new route for military transportation as well as international trade. The creation of the Panama Canal made transportation of goods a lot easier for cargos travelling between the two oceans, further expanding and allowing provision for the move of apparels and textiles among other goods. As retailers saved time, they also saved money. The apparel and textiles industries could now survive and incorporate annual cuts in prices without falling as an industry all together (Rosen, 2002, page 131, para 3).

The significance of Noriega extradition to Paris, France was to showcase the power of the two governments, serving as an example to other heads of states that may try to go against the rulings of the super power country. Noriega's arrest of 1992 marked the first time in history that the United States' jury convicted a foreign leader. The former de facto leader of Panama sentenced in absentia seven years later for laundering money in French bank accounts and properties during the 1980s.

Noriega's three 20-year sentences may be reduced or reversed as he is extradited to Panama. The extradition served as victory against the United States, as Noriega and his lawful associates pleaded that the Geneva Conventions were violated by their refusal to send Noriega back to Panama. As Noriega enjoyed ruling with an iron fist, he got entangled in illegal businesses that he does not plead guilty for even after several years of incarceration.

Relating back to the time when he was the dictator of Panama, his extradition back home does not offer much relief for its citizens, as they do not particularly understand what this could mean for them; whether he will regain power through the use of another puppet president, or put the country into more political and economic turmoil through the issuing of sanctions (Millet, 1988).

In 1996, the Maoist revolutionaries took place in effort to overthrow the Nepalese monarchy, replacing it with the establishment of a people's republic. During the 1960s, the French had a similar movement known as the French Maoism.

This relates to the more recent political situation in Nepal and the Maoist revolutionaries in that the revolutionary shift from Marxism to democracy during this time frame allowed for Noriega's possible extradition to his home country in 2011. As Panamanians struggled to endure the authoritative fist of Noriega's rule prior to the United States' invasion, the Nepalese similarly ousted the Nepalese monarchy with the aid of the U.S government for the establishment of a more democratic state (Corn & Finegan, 2010).

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)

China is considered a major player in apparel production because they spent an enormous amount of money on advanced technology and reduced the amount labor needed to complete a task. This method alone made China a global force and allowed their apparel and textile industries to be competitive worldwide. China's capacity in textile and apparel became integrated vertically and heavily concentrated. Producers of textile in the United States that were making clothing fabric started to see themselves in direct competition with other Asian and Chinese textile makers and not just the 'Big Three.' The only thing that protected these producers of textiles were that China wasn't a member of the MFA (Rosen, 2002, Pg. 207, Para 3).

Artificially devaluing the and inflating the Yuan helps China because it allows them to have the prices of their exports lowered while gaining an advantage competitively over others in the international markets. This means the Asian Giant gets to increase the amount of products they export to the U.S. while having consumers pay for them at a lower price. This allows their consumers worldwide the ability to afford their goods causing China to make money and have that advantage over their competitors. Although America has had their own trade agendas with doing business with China, this is a major reason why China has been able to over export to the U.S and continuously take advantage of trading rules like the MFA and WTO (Rosen, 2002, Pg. 209, Para 1). China has completely manipulated the rules so that they can make as much money as possible within foreign exchange.

One example where devaluing the Yuan has created an advantage for China and has hurt the export/import country is when People's Bank of China (PBOC) had three different devaluations of the Yuan in a row in which they totally caught the markets and their competitors totally off guard on August 11th, 2005. This decreased the value of the yuan by 3 percent and increased the values of the Asian giant's currency by 33 percent against the U.S dollar. To add on to this, stock markets in Latin America, Europe, and the United States all fell when the devaluation happened. This allowed China's exports to stand out to consumers and this is what many critics believed as well. Many people also believed that China did this as an attempt to bring in more exports since they were going through their slowest pace of exports in China's history. The PBOC's excuse of the drop was that devaluation of the Yuan was a part of its move to become more market oriented (Investopedia, 2020).

One example where inflating the Yuan has created an advantage for China is when they inflated their rates in 2010. At the time people had stop buying their goods and a rise in inflation meant higher demand by consumers for their products/goods. To go along with this the price for food increased by 11 percent and this caused an increase in agricultural wages. A big reason for the inflation was because of Beijing's \$586 billion stimulus package that was announced in 2008. This led to a lot of money to be poured into the economy which has led to a domestic increase in asset prices. Although keeping the Yuan undervalued has allowed China to improve its high position in exports globally, inflation has allowed them to raise prices and make more money off of goods sold (McDowell, 2010).

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 affects an overall benefit to consumers who purchase apparel goods because employees must now perform at a high level since there isn't any job security. This in turn favors consumers because they're dealing with employees who know they must put forward their best performances while at work or they will lose their jobs. The elevated amount of pressure on employees to do well creates a better shopping experiences for consumers. They're not coming into stores where employees don't seem eager to work or are having attitude problems. Job scarcity force employees to put in effort, while also pushing them mentally and psychologically to work hard and deliver products of good quality. This in turns helps consumers and the business the employees work for.

Lower wages affect an overall benefit to consumers who purchase apparel goods because it allows manufacturer owners to make more profit on goods sold and helps owner sale apparel and textile goods at lower prices within the market. In turn, this gives consumers the opportunity to get textiles and apparel at a fairly low price, while also helping owners receive a large net profit. When employees are being paid low wages for their work/labor, manufacturers can sell goods at desired prices for consumers, being that their profits are being tampered with. Lower wages in thus, results to lower costs to consumers.

Pressure for retail profitability affect an overall benefit to consumers because retailers must differ to consumers and their wants so that they can buy products and the retailers can make a profit. Retailers are always under a huge amount of pressure to bring profit/revenue into the business so that they can sustain their business. In many cases, retailers prefer to have low profit margins, so that they can have larger sales and compensate high profit with numbers of sales made. In turn, this gives consumers the ability to get apparel and textile products for inexpensive prices and allows them to benefit.

Trade liberalizations affect an overall benefit to consumers who purchase apparel goods because the removal of tax and tariffs on a global scale allows clothes to be sold cheaper to consumers. Prior to trade liberalizations, tariffs that protected apparel jobs were seen as too costly for the economy and causing the prices of apparel to increase. Trade liberalization laws like the Multifibre Arrangement are greatly appreciated because it saved 460,000 jobs within the apparel and textile industry, at a consumer cost of just \$39,000 per job (Rosen, 2002, Pg. 230, Para 2). This shows how consumers have been able to have the benefit of getting apparel products at the prices they desire for thanks to liberalization benefits. Trade liberalization helps manufacturers trade products at good prices which in turn helps consumer buy them at cheaper prices.

Yes, consumers are actually paying lower prices for apparel because of some of the reasons mentioned above like retailers being under immense pressure for retail profitability and trade liberalization laws removing tax and tariffs off the costs of apparel products. In fact, American families today are spending less on clothing today than they did twenty-five years ago. The average American household in 1995 spent about 6 percent of its income on clothing, as opposed to ten percent in the 1970's. By 2001 in September, that number dropped to 4.5% (Rosen, 2002, Pg. 231, Para 4). As times are

going on, statistics are showing that American's are spending less on clothes now than they did years ago and a big reason for this is the removal of tax and tariffs. Prior to deals and arrangements being set up between nations, goods and apparel were being taxed causing goods from foreign countries to be sold at higher values. Once countries started to go to war over tax prices, nations started to come together so that they can be able to trade and try to abolish or lower taxes and there could be free trade. In the end, consumers have benefited from this the most.

High Fashion apparel is so expensive because of the high demand for the products from the consumers. For certain brands and products, demand is so high that consumers are willing to pay a lot of money for certain designs/designers. Clothes make people look and feel good, as well as make them look wealthy. Due to this, fashion products are sold for very expensive prices because everyone wants it, and the designs are even sometimes very limited. This causes the price of certain goods to increase and make consumers pay high values for their clothing. Another reason fashion apparel is so expensive is because fashion is worn a lot by people of influence. Consumers want to be able to look like some of their favorite movie stars, artists, athletes, etc. When they see one of their favorite influences wearing a certain brand, a lot of them will pay a huge amount of money to also wear the same brand/clothing. Consequently, high fashion products are so expensive because the sellers do their due diligence of studying what consumers would want how much demand would be behind the product. Consumers have special requirements and designs that take a specific amount energy from manufacturers causing prices to be high.

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)

One example in history when women's wages were not of equal value to those work wages of another industry of her male counterpart is in Singapore in the early 1980's. The women who worked in factories were the lowest paid workers in the economy. Usually, the men in their families earned more money than them. The men in these woman's families had different job's, yet brought in a higher wage. This was in an era where majority of the population had television sets and refrigerators (Rosen, 2002, Pg. 241, Para 1). Women have been paid unfairly for a very long time and even in the 21st century it's still happening.

Another example of women getting paid less than their male counterparts is in Malaysia during the same period. The women who worked in export processing sectors only made enough to either contribute to their families' expenses or to save for their own benefits. A lot of them were urban-rural migrant who didn't even live with their families (Rosen, 2002, Pg. 241, Para 1). Although other countries have had similar experiences, Malaysia and Singapore were the two that stuck out during their time periods.

The Lowell Model has shed light on the difficulties of being a woman in a low-wage industry by exposing how the women who worked in the textile mills of Lowell and Lawrence, Massachusetts had to work in conditions that would be totally unacceptable socially and seen as exploitative in the 21st century. On average, these women would work an approximate of 13 hours a day Monday through Friday and about 8 hours on Saturday. This equated to about 73 hours weekly. They would start at a dawn, or even earlier on summer days and wouldn't be done until about 7:30 and could only go on breaks for 30 minutes in the middle of the day and during breakfast. They were being worked like slaves although they were getting paid higher than the alternatives jobs for women at the time (Rosen, 2002, Pg. 240/241, Para 4 and 1). Their wages allowed them to pay off family debts and mortgages for their houses.

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