

**Fashion Economics: FM 4339**  
**Quiz #8: The US Textile Industry**  
**Chapter (9)**  
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1. What does the acronym NAFTA stand for? How did this affect apparel trade between the United States and Mexico? (2 pts)

NAFTA stands for the North American Free Trade Agreement, which took effect January 1, 1994. This agreement was designed to eliminate trade restrictions and ensure economic integration of the United States, Canada, and Mexico. With the intent of open trade and investment, NAFTA aimed to increase the traffic of the goods, services, and capital in between these three countries. It was a multilateral agreement that focused on the sectors like machinery, automobiles, and electronics, with the purpose to strengthen cooperation in the North American economic region (Rosen, 2002, p.153, par.1). The implementation of NAFTA was great for the region since it had the impact of altering the economic landscape, in the manufacturing sector. This enabled a better internal trade environment in which industries from these countries had more opportunities to cooperate and provide better services.

The apparel trade between the United States and Mexico, NAFTA facilitated a more integrated and cooperative industry framework. This integration allowed for the development of a vertically integrated textile and apparel in Mexico, significantly influenced by U.S. investments and business interests (Rosen, 2002, p.153, par.3 ). As tariffs were removed and trade barriers reduced, there was an increase in the exchange of apparel goods between the two countries, economic ties and transforming Mexico's manufacturing. The U.S. textile and apparel gained more control and ownership in Mexico, leading to a surge in apparel trade volume. NAFTA played a crucial role in shaping the apparel industry across the U.S. and Mexico border, leading to increased trade activities and investments.

2. Define a Mexican maquiladoras. Is this the same as a sweatshop? If so, how come the author does not use the words interchangeably? (2pts)

A Mexican maquiladora refers to a manufacturing operation, operating under specific trade regulations that export production, primarily along the U.S. and Mexico border. These factories import materials and components duty-free for assembly and processing, and export the finished products. Maquiladoras were established to improve employment in Mexico and capitalize on lower labor costs compared to the United States, facilitating economic development and reducing the incentive for illegal migration (Rosen, 2002, p.154, par.2). While maquiladoras require long hours and often pay less than similar jobs in the U.S. They typically offer higher wages in other developing economies. While maquiladoras share some characteristics with sweatshops, such as demanding work conditions and lower wages, they are not the same due to their economic role.

The term “sweatshop” is often associated with exploitative labor conditions, including extremely low wages, poor working conditions, and a lack of workers' rights, which differ from the regulated environment of maquiladoras (Rosen, 2002, p.154, par.2). Rosen suggests that while maquiladoras may have challenging work conditions, they operate within a legal and economic framework designed to promote international trade and employment. Furthermore, maquiladoras offer better compensation and benefits compared to sweatshops in Asia. Hence why, Rosen does not use the terms “maquiladora” and “sweatshop” interchangeably, recognizing the unique economic and labor context of maquiladoras in Mexico.

3. Describe the events that led 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 devaluation of the Mexican peso in 1982 can be attributed to Mexico's economic reliance on oil exports. In the 1970s, the discovery of oil reserves enabled Mexico to finance extensive borrowing, fueling economic growth (Rosen, 2002, p.154, par.3). However, this growth was unsustainable, and when global oil prices plummeted, Mexico's revenues from oil exports drastically decreased. The country faced a significant challenge in managing its accumulated debt, leading to economic instability. This financial strain resulted in the peso's devaluation, as a result, the risks of the economy heavily depended on a single export commodity.

Mexican maquiladora workers in the apparel and textile industry generally earned more than their competitors in Hong Kong, Korea, and Taiwan. By the early 1980s, wages in Mexican maquiladoras had increased to about \$1.69 per hour, including fringe benefits (Rosen, 2002, p.155, par.3). This wage level was competitive and higher than Asian economies, where wages

were typically lower. The relatively higher wages in Mexico's maquiladoras reflect the country's strategy to attract and retain industrial labor, differentiating it from the lower-wage economies of Asia. This wage structure made the Mexican apparel and textile sector more appealing to workers and highlighted the country's evolving industry.

4. 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", initiated under President Reagan, was designed to enhance U.S. and Mexico trade relations and economic integration. This program facilitated an expansion of the United States Tariff Schedule (USTS) 807 production sharing arrangement, allowing an increase in trade volume by \$240 million annually. It particularly chose to focus on the manufacturing sector, trying to protect the economic relations and enhance the production effectiveness between the two. (Rosen, 2002, p.157, par.1). The policy was consistently part of a larger strategy that was deliberately focused on the utilization of Mexico's labor force to ensure that the competitiveness of U.S. products in the global market increased. The Special Regime aimed to dismantle trade barriers and build more efficient economic unions.

"The Special Access Program with the Caribbean" was another initiative under Reagan, aimed to reduce the effects of protectionist trade policies that negatively impacted U.S. textile corporations. This program was created to provide access to the U.S. market for Caribbean textile and apparel products. Thereby supporting the textile industry in the Caribbean basin (Rosen, 2002, p. 153, par. 2). It was intended to diversify the sourcing options for U.S. companies and strengthen economic relations within Caribbean nations. By reducing trade barriers, the program helped Caribbean countries to enhance their export advantages, which helped economic development.

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

One pro, NAFTA helped revitalize the Mexican economy by promoting the maquiladora industry. The elimination of the American tariffs and trade barriers in North America promoted an open market to the United States and Canada (Rosen, 2002, p.153, par.1). As a result, there was a rise in manufacturing and export activities in the textile and apparel sectors. This growth not only created employment for many Mexicans but also helped in the economic restoration and modernization of the country's industrial foundation. The maquiladoras rose with the assistance of NAFTAs and saw an increase of foreign investment.

Another pro, the NAFTA agreement Mexico's became number five of textile and apparel in the exports region. The agreement provided the Mexican textile and clothing industry with access to the US market. It was noted that 97.4% of Mexico's clothing exports for the United States (Rosen, 2002, p.153, par.2). This access contributed to the economic growth but also increased the country's foreign exchange earnings and employed many people in the textile industry. Due to NAFTA, Mexico's economy also became more diversified by reducing oil exportation and developing a flexible and stable economic base.

One con of NAFTA was that it exacerbated the debt crisis in Mexico. The agreement affected the growth in trade and investment, which led to increasing the country's external debt and financial integration with global capital markets. As a result, Mexico was susceptible to economic shocks and the U.S. corporations could easily exploit Mexican workers and resources under the terms of the treaty that were unfavorable to the local workers and economy. As the debt escalated from 1.6 to 97 billion dollars, it put enormous stress on Mexico's economic stability, making it very difficult to deal with monetary policies (Rosen, 2002, p.154, par. 3). This weakness became very apparent during the economic downturn. Mexico's economic dependence on external capital was the cause of interruptive economic processes which affected all people.

Another con of NAFTA was that it took influence on Mexico's apparel and textile industries. The entrance of foreign investment and the reorganization of trade priorities had started to change the production system. From labor intensive and export dependent to low-wage garment manufacturing. This change was profitable for national corporations who wanted to operate with cheaper labor, and undermined the traditional and diverse areas of Mexican employment (Rosen, 2002, p.153, par.3). A result of the development process turned to a loss of cultural and industrial diversity. Private regional establishments struggled to compete with sizable and well-run companies belonging to foreign capital.

## References

Rosen, E. I. (2002). *The Globalization of the U. S. Apparel Industry: Making Sweatshops*. University of California Press; Los Angeles, CA.