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

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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)

NAFTA stands for the North American Free Trade Agreement. It came into effect in 1994 and aimed to eliminate barriers to trade and investment between the United States, Canada, and Mexico. “The NAFTA facilitated the growth of a vertically integrated textile and apparel complex in Mexico, predominantly owned and controlled by U.S. textile and apparel transnationals (Rosen, 2002, p. 153, par 1).” - par 2 Before NAFTA, Mexico already had a promising apparel manufacturing sector, but the agreement provided significant expansion and transformation. “Vertically integrated complexes refer to systems where different stages of production, from raw material processing to final product assembly, are consolidated under one ownership or control (inboundlogistics.com, 2023).” In the context of NAFTA, this meant that U.S. textile and apparel transnational corporations (TNCs) began to establish operations in Mexico that hold various stages of the production process. The establishment of vertically integrated textile and apparel complexes in Mexico under NAFTA shifted the global production landscape. It allowed U.S. companies to leverage Mexico's proximity, lower labor costs, and trade access to the U.S. market to enhance their competitiveness in the textile and apparel industry.

Regarding its effect on the apparel trade between the United States and Mexico, NAFTA facilitated the growth of the maquiladora industry in Mexico. This industry allowed U.S. companies to establish manufacturing facilities near the U.S.-Mexico border, taking advantage of lower labor costs in Mexico while still having easy access to the U.S. market. As a result, there was a significant increase in apparel production in Mexico, with many U.S. companies outsourcing manufacturing to Mexican maquiladoras.” By 1998, Mexico's textile and apparel industry had surged to become the nation's fifth-largest export sector, with a staggering 97.4 percent of its apparel exports directed towards the United States (Rosen, 2002, p. 153, par 2).” The agreement contributed to the decline of Mexico's indigenous apparel industry while fostering efforts to establish "full package" apparel capacity targeting U.S. markets. Mexican production, similar to that in Caribbean Basin countries, provided an avenue for the textile and apparel industries to compete with Asian suppliers.

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)

Mexican maquiladoras are manufacturing plants, often foreign owned, that operate in Mexico. “While the term "maquiladora" is now used for similar operations in Latin America and Asia, its origins lie in Mexico (manufacturinginmexico.org, 2020).” These facilities import materials, assembly components, and production equipment duty-free. The goods produced in maquiladoras can be exported to the United States with lower tariffs compared to products from other countries. “The opening of the first maquiladoras, or subsidiaries of U.S. transnationals, in 1965, as a result of the Border Industrialization Program, was not intended to promote export processing but to establish manufacturing plants in the northern border regions of Mexico (Rosen, 2002, p. 153-154, par 1).” The objective was to provide alternative forms of employment for Mexico’s seasonal migrant workers. The program was also designed to provide alternative employment in Mexico to deter the illegal migration of seasonal workers who crossed the border to work in California’s agricultural economy.

Maquiladoras are not sweatshops because they maintain suitable and safe working conditions for their employees in Mexico.” sweatshops have exploited workers, particularly women and children, without providing social security benefits or compensation guarantees. “In contrast, maquiladoras in Mexico operate under government regulations and ensure proper facilities and safety measures for their workers (Mabelx, 2023).” Unlike sweatshops, where workers often endure exploitative and hazardous environments, maquiladoras prioritize worker safety and well-being. Additionally, all employees in maquiladoras receive social security benefits, ensuring their health and welfare are protected. Companies operating in Mexico are expected to adhere to labor laws and regulations, ensuring decent working conditions and fostering continuous improvements within the company. Therefore, maquiladoras in Mexico do not share the same structure or practices as sweatshops commonly found in other parts of the world, particularly in Asia.

While maquiladoras share similarities with sweatshops in terms of labor conditions, the author distinguishes between them. “while sweatshops persist as a global issue, maquiladoras in Mexico are distinct entities that prioritize worker safety and provide a more suitable work environment for their employees (Mabelx, 2023).” Sweatshops typically involve exploitative labor practices, including low wages, long hours, and poor working conditions. While some maquiladoras may exhibit characteristics of sweatshops, not all do. The author likely avoids using the terms interchangeably to acknowledge the variations in labor practices and conditions within the maquiladora industry.

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 devaluation of the Mexican peso in 1982 was preceded by a series of events rooted in Mexico's reliance on oil exports for economic growth. The discovery of oil in the 1970s led to a prosperous petroleum export market, enabling Mexico to borrow extensively. “A downturn occurred when oil prices fell, plunging Mexico into economic recession and a new debt crisis by 1982 (Rosen, 2002, p. 154, par 3).” As the value of oil exports dwindled, Mexico struggled to sustain its high debt burden, ultimately resulting in the devaluation of the peso. This devaluation heightened the importance of Mexico's maquiladora program, which had become a significant contributor to the country's economy. Between 1975 and 1985, Mexico's debt skyrocketed, reaching 58 percent of its gross national product, with debt service becoming a substantial burden. The inability to maintain high imports from the United States led to a trade balance deficit. Despite economic challenges, maquiladoras flourished, creating jobs and generating substantial contributions to Mexico's balance of payments, establishing themselves as a vital component of the country's economy.

Regarding wages in the apparel and textile industries, Mexican wages were generally lower than those in Hong Kong, Korea, and Taiwan. “Following the 1982 peso devaluation in Mexico, which fueled the expansion of the maquiladora industry, the average earnings of Mexican workers sharply declined. By 1983, Mexican workers' earnings had decreased to approximately 57 percent from the year prior (Rosen, 2002, p. 155, par 2).” This was due to factors such as lower labor productivity, less developed infrastructure, and weaker labor unions in Mexico compared to these other countries. The author suggests that Mexican wages were often lower, making it an attractive destination for apparel manufacturers seeking to minimize production costs.

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 and the Special Access Program with the Caribbean were both established by the United States to promote trade and economic development, but they had distinct characteristics tailored to the specific needs and conditions of each region. The Special Regime with Mexico, under NAFTA, provided better tariff treatment for goods manufactured in Mexico and exported to the United States, encouraging investment and production in Mexico. “Put into action in 1988 during Reagan's presidency, the program aimed to boost Mexico's apparel exports to the United States by improving the U.S. Textile Production Sharing Program (Item 807) within Mexico (Rosen, 2002, p. 157, par 1).” This deal permitted quotas to automatically rise upon the exporter's request, practically granting Mexico unlimited quotas unless a market disturbance was imminent. As a result, Mexico's domestic apparel industry faced challenges, with the regime giving preference to maquiladora exports. This preference ultimately caused native producers to go bankrupt and paved the way for American investors to take over Mexico's textile industry.

On the other hand, the Special Access Program with the Caribbean aimed to promote economic development in Caribbean countries by providing duty-free access to the U.S. market for certain products. “Established through the Caribbean Basin Economic Recovery Expansion Act in 1990, was designed to bolster the economic rejuvenation and industrial advancement of Caribbean nations (Rosen, 2002, p. 158, par 1).” This program endorsed as a permanent fixture, concentrated on tariff reduction and broadening trade avenues for countries under the Caribbean Basin Initiative (CBI), particularly in the apparel sector. It extended generous treatment under the U.S. textile import program and further cut tariffs for a variety of CBI exports to the United States. While both programs aimed to stimulate economic activity and trade, they targeted different regions and industries, reflecting the diverse economic needs and circumstances of each area.

e. Discuss at least two pros and two cons of NAFTA. Defend your answer with citations from the text. (2pts) pg-167 n page 163

One significant pro of NAFTA was Market Expansion and Trade Growth. NAFTA facilitated an expansion of trade between the United States, Canada, and Mexico. “The Clinton administration and economists considered the initiative a success, highlighting a notable trade surplus between the United States and its NAFTA partners from 1994 to 1999 (Rosen, 2002, p. 162, par 2).” Deputy U.S. Trade Representative Richard W. Fisher testified that during NAFTA's initial years, U.S. goods exports to NAFTA partners increased significantly, with substantial trade surpluses recorded. Fisher highlighted those exports to Mexico, in particular, surged, making it the second-largest export market for the United States after Canada. This expansion of trade contributed to economic growth and job creation in the participating countries.

Another Pro is Competitiveness and Investment. NAFTA enhanced the competitiveness of industries, particularly the U.S. textile industry, by providing access to Mexico's low-cost labor for apparel production. “The expectation of NAFTA prompted a substantial increase in U.S. capital flowing into Mexico via portfolio investments….As NAFTA evolved, around $60 billion in global portfolio capital poured into Mexico, briefly establishing it as a lucrative hub for investments, yielding speculative returns ranging from 60 percent to 120 percent annually(Rosen, 2002, p. 161, par 3).”This investment in Mexico, allows U.S. textile corporations to benefit from low-wage labor for apparel assembly and develop vertically integrated textile and apparel complexes. This investment bolstered corporate profits and stimulated economic activity in both Mexico and the United States.

One con of NAFTA was Wage Decline and Economic Instability. NAFTA's implementation coincided with a series of economic challenges in Mexico, including currency devaluation and reductions in wages for Mexican workers. “As a result of NAFTA, Mexico faced a substantial decrease in portfolio investments worth billions of dollars, alongside a subsequent devaluation of its currency, the peso. These combined factors led to a decline in wages and living conditions for Mexican workers (Rosen, 2002, p. 163, par 3).” Despite promises of economic growth and job creation, NAFTA increased poverty in Mexico, leading to declining wages and purchasing power among the population. This decline in living standards was attributed to factors such as currency devaluation and inflation, which intensified after NAFTA came into effect.

Another Con of NAFTA is Trade Deficits and Displacement; Critics argue that NAFTA contributed to persistent trade deficits between the United States and Mexico. “The U.S. has maintained a trade deficit with Mexico, ranging between $10 to $12 billion yearly since 1995(Rosen, 2002, p. 162, par 4). “This means that the value of imports from Mexico exceeds the value of exports to Mexico, resulting in an ongoing trade imbalance. With figures ranging between $10 to $12 billion annually in these deficits, U.S.-based multinational corporations still benefit from increased profits. This is because they often have significant operations in Mexico, allowing them to take advantage of lower production costs and favorable trade agreements to improve financial performance. Therefore, while the trade deficit may raise concerns about the overall health of the U.S. economy, it simultaneously drives profitability for these multinational corporations, highlighting a complex relationship between trade deficits and corporate gains.

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