

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

In the mid 1980s, the rise and improvement of limiting by design retailers played a significant part in changing the garments, attire, and retail organization. Limiting has been profoundly engaged with the producers' endeavors to additionally change the garments and design industry. There have been retail shops in the US since the 1950s, essentially offering lower-value things as opposed to the very much promoted, brand-name items sold in retail chains.

Discounters were not an immediate danger to retail chains until the mid-1970s when state and nearby reasonable exchange guidelines (which permitted retailers to showcase public brand marked merchandise at producer decided costs) were in the long run ceased broadly (Rosen, 2002, p. 185, par. 1). Presently off-value retailers could purchase and limit a similar public brand name or architect garments that the maximum retailers were purchasing and selling at higher rates abroad. Discounters could sell a bigger volume at less expensive rates while working with less expensive markups and edges than retail chains (Rosen, 2002, p. 186, par. 2). They could

sell at a diminished expense by obtaining overloads, irregulars, closeouts, and suspended items from more attractive terms-purchasing providers.

There is a decline in department stores in the USA along with England, Germany and Italy especially after changes in the fashion industry due to the COVID-19 pandemic. A lot of companies were hit hard due to this recession in the economy as many lost their jobs and then were confined to their homes during lockdowns. This left companies financially handicapped as people were no longer interested in spending their disposable incomes on fashion goods but rather invested their fundings into sanitation products along with stocking up on groceries. As people were confined to their homes, online shopping gained even more popularity along with online marketing strategies as there was a lack of social interaction throughout the world.

The *profitability paradox* affected this decline in profits as companies continuously tried to find new methods to increase profits while actively reducing production costs. As competition rose excessively since brands began to offer discounted prices. Department stores therefore entered the paradox as they had to decrease prices to stay active in the market yet on the other hand this meant lower profit margins due to which they had to inevitably increase sales (Rosen, 2002, p. 188, par 1). This caused further complications as there was a constant hunt for ways to reduce production costs while trying to fill the reduction of marginal success.

In turn the *profitability paradox* has changed the way retailers do business. Since it has led more and more companies to offer discounted prices. It has become so common that 95% of the population believes that the sale prices are the actual prices for the goods as they are normally artificially increased at their original prices (Rosen, 2002, p. 196, par.1). Retailers now only expect around 25% of their apparel to be purchased at full price (Rosen, 2002, p. 196, par.1). In addition to which, the hunt for lower labor costs has positively coincided with an increase in offshoring production along with the increase of sweatshops or sweatshop like conditions abroad.

Two ways the industry has prevailed during this time of retail flux (instability) include Netflix and Walmart through the use of vertical integration. Which is a method wherein an enterprise claims or deals with the stock or on the other hand store network of its providers, wholesalers, or retail stores. One such example includes Netflix which uploads entertainment and now has begun to create its own original content. Vertical incorporation makes a difference organizations by permitting them to deal with the cycle, diminish expenses, and increment execution (Hayes, 2021). The profoundly concentrated, vertically coordinated U.S. retail transnationals, for example, Wal-Mart, department stores, and the Gap. Which sell immense measures of clothing have made a considerable lot of the more modest stores bankrupt, including a portion of the bigger retail chains. New types of business retail have been compelling in the globalization of the material attire industry (Rosen, 2002, p. 177, par. 1). This is opposed to mom-and-pop-shops because vertical integration leads to big almost monopoly like companies.

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)

CBI stands for the Caribbean Basin Initiative. It was first proposed by President Ronald Reagan in 1982 but was not approved by congress until a year later (Encyclopedia.com, 2021). Reaganomics refers to the political agendas set in motion by President Reagan (Kenton, 2020). CBI was a twelve year program that began in 1984 . Which permitted designated countries in Central America and the Caribbean to ship a variety of products to the U.S without taxes (Encyclopedia.com, 2021). As well as advancing military activity against left-wing rebels there, the Caribbean Basin Initiative (CBI), or as it has been formally called, the Caribbean Basin Initiative was another exchange and venture strategy planned to support financial development and political dependability in the district and to follow the spread of Soviet- Cuban impact in the Americas (Rosen, 2002, p. 129, par. 1). An inundation of new American capital will turn into the establishment for trade drove development, a methodology that was recently settled in Japan and the NICs and had powered the Asian Wonders (Rosen, 2002, p. 132, par. 2). The CBI exchange strategy was organized to advance change of the semi provincial exchange and venture connection between the country and the US.

The point of planning programs was to help the organization in the Caribbean to decide the most beneficial and fruitful method of entering the US market. The CBI dis doesn't help the nations in the district become monetarily steady. All things being equal, it set up subordinate combination through another exchange and venture framework between the US and the nations of the district, through which the US kept on profiting to the detriment of those less created. The objective of the CBI was to support and increment the excess by advancing the development of new items as opposed to traditional crude materials. Another round of levy cuts for non-conventional items was allegedly crucial for the CBI. Acknowledgment of exchange benefits will tie certain nations to the US (Rosen, 2002, p. 133, par 1,2). It was an offer of market opening, depicted as steady with the development of deregulation.

Manuel Noriega was a policeman who died in 2017. He had a complicated relationship with the U.S as he himself was involved in drug trafficking yet he was an informant on drug deals as well (Archibold, 2017). In 1983 he had self promoted himself to full general of the armed forces. In 1988 he nullified the presidential elections and declared himself “maximum leader” (Archibold, 2017) the following year. He became a dictator in Panama launching war with the United States. As American soldiers were killed and hurt, President Bush had enough stating Americans needed to intervene “to protect American lives, restore the democratic process, preserve the integrity of the Panama Canal treaties and apprehend Manuel Noriega” (Archibold, 2017). Noriega went into hiding. He surrendered in 1990.

The Contra Army was a revolutionary force that wanted to overthrow Nicaragua’s Sandinista government (Britannica, T. Editors of Encyclopaedia 2013). The U.S CIA helped train and fund the group. In 1984 under the Raegan administration military aid was blocked. This led to the Iran-Contra Affair in turn putting into effect a general peace between Costa Rica and Nicaragua.

The Sandinista Nation Liberation Front was founded in 1961 in Nicaragua by Silvio Mayorga, Tomás Borge, and Carlos Fonseca. The members of the Sandinistas were nationalistic students who were against the Nicaraguan dictator Anastasio Somoza Debayle. In addition, constant intervention by the United States further inflamed the nationalistic group. Since they were influenced by Marxist-Leninist teachings, they had support from peasants and workers, and wanted to prevent letting power remain with the bourgeoisie. Being a democratic movement, the Sandinistas believed in popular support and would hold informal elections.

Fidel Castro was born on August 13, 1926 in Eastern Cuba. He was successful in establishing the first communist country in the Western Hemisphere after overthrowing the dictator Fulgencio Batista in 1959. Cuba under Castro was dependent on the Soviet Union for economic and military support, and was even declared a Marxist Leninist group in 1961. The US and Cuba finally normalized their relations in 2015.

The Panama Canal was significant because it helped the United States become a global power. The Canal connects the Atlantic and Pacific Oceans paving a new route for international trade and military transport (Wagtendonk, 2014). Its construction began after the US- Spanish War under the Roosevelt administration. The U.S gained power over Puerto Rico, Cuba, and the Caribbean. The Canal was to help connect these Pacific powers with the Atlantic so the United States could have holistic control and power over these nations. It also helped unite trade over both oceans which is why Wall Street helped fund it (Wagtendonk, 2014). It took a huge number of individuals to build the canal and many lives were lost.

The significance of Noriega extradition to Paris, France is that he had spent 20 years in American prison before hand. He was moved to France as him and his wife stored millions of Colombian drug cartel money in French bank accounts and properties in the 1980's (2010). He was sentenced to 10 years in jail while his wife returned to Panama.

This relates back to the time when Noriega was the dictator of Panama because during his trial he was unable to wear his Panamanian armed forced suit and medals (2010). Stripping him of the power and dignity that he had so corruptly and violently fought to attain. He had killed a lot of people and betrayed the United States as he was supposed to be a spy on the drug cartels. Noriega ended up playing both sides making his net worth up to 200-300 million dollars.

This relates to the more recent political situation in Nepal and the Maoist revolutionaries as the Communist party has spread armed conflict (2016). The group is similar to the Sandinista party of Nicaragua. Yet is different in the fact that this group is open to political to international means to attaining peace and keep their revolutions to the least amount of casualties.

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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)

The 2015 Depreciation On 11 August 2015, Individuals' Bank of China (PBOC) shocked financial backers with three straight yuan renminbi or yuan (CNY) depreciations, losing its worth by in excess of 3%. China's cash has risen 33 percent against the U.S. dollar since 2005, and the main degrading addressed the greatest single decrease in 20 years. Albeit the change was abrupt and considered by numerous individuals to be China's edginess exertion to bring sends out up on the side of an economy that created at its slowest pace in 25 years, the PBOC said the cheapening was important for its changes to drive into a more market-arranged economy. The progression has major overall outcomes, the Securities exchange fell, most monetary forms likewise reeled (Investopedia, 2021). Purposes behind degrading include to raise sends out, decrease import/export imbalances, and diminish the pressing factor of sovereign obligation.

Another large part of China's expansion issue is food costs, which have ascended by in excess of 11%. Albeit a portion of this ascent is identified with shifts in unfamiliar food markets, the greater part of China's difficulty is a consequence of higher homestead compensation. As somewhere else has been brought up, the bait of higher salaries in metropolitan territories has left China with declining rustic work power. This has added to a multiplying in pay rates for rural laborers in certain locales. The increasing expense of food demonstrates that these higher work costs are given to the Chinese client (McDowell, 2010). Expansion in China is somewhat a postponed result of Beijing's \$586 billion boost program proclaimed in 2008. At the underlying dispatch of the worldwide monetary emergency, a time of loosened up money related

arrangement was embraced by Individuals' Bank of China (PBC) as an approach to keep its monetary motor running. The convergence of capital into the market has added to higher homegrown resource esteems. An ascent in item expenses might be trailed by a genuinely lethargic expansion in the normal cost, prompting peripheral change in costs (Chinn, 2011). Hailed as a triumph right now as an advantage to the worldwide economy.

Investopedia. (2021, January 26). The impact of CHINA devaluing the yuan in 2015. Retrieved May, 2021, from <https://www.investopedia.com/trading/chinese-devaluation-yuan/>

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 in the apparel industry decreased from 2.4 million in 1973 to 1.5 million in 1996, a constant decrease has been predicted in employment rates in the textile and apparel industries as there is an increased use of technology (Rosen, 2002, p. 223, par. 3). Job loss affects an overall benefit to consumers who purchase apparel goods. As a mass reduction in employment in turn leads to an economic recession. Since people have less disposable incomes or willingness to spend their money on apparel goods. During such times, apparel goods are put into the category of luxury goods. As the times are tough which increases the need to prioritize necessities such as rent, mortgage and utility bills.

Lower wages have the same impact as the loss of jobs does. Due to the fact that both lead to economic crashes leading to the repositioning of priorities. Between 1960 and 2000, the wages of textile workers decreased from 76% to 66% (Rosen, 2002, p. 225, par. 1). "UNITE estimates that 75 percent of New York firms are sweatshops" (Rosen, 2002, p. 227, par. 1). Which in turn signifies that, although jobs are being lost by apparel workers, due to increased sweatshops and offshoring, consumers are at a benefit as they pay less than what they originally would have if employees were being compensated sufficiently.

Pressure for retail profitability ties in with the *profitability paradox*. As companies struggle to maintain their profit margins in the apparel markets, they discount prices for consumers. So that they may stay relevant in the economy.

Trade Liberalization has led to access to cheaper labor in countries such as Mexico and China. This puts consumers at a benefit as this is what allows companies to sell products for cheap. Allowing for an increase of discounted merchandise over the course of each fashion year.

MFA stands for the Multi-fiber Agreement, the worldwide material arrangement endorsed in 1974 and used to administer the material and clothing exchange up to 1994 (Rosen, 2002, p.110, par. 3). The main role of the MFA was to force portions on the quantity of materials and attire that the NIC (Recently Industrializing Nations) like Korea, Hong Kong, and Taiwan could fare to the US to forestall flooding of their material items in the nation (Rosen, 2002, p. 111, par. 2). The arrangement was additionally urgent in guaranteeing that the nations profited completely

financially from the fares to the US. Thusly, those nations could expand imports to the U.S (Rosen, 2002. p. 113, par. 1). The NIC subcontracted the South Asian (ASEAN) nations to create and trade materials for their sake to the US on the grounds that these nations were not under quantities in the new international strategy changes.

Apparel is retailed at lower costs to the buyers because there are increased efforts by textile companies to mass produce clothing (Rosen, 2002, p.177, par.2). Especially during the age of fast fashion. Trends are no longer changing every season, they are evolving just about every week. Also, there is more attention pointed towards using sustainable fabrics in order to reduce human impact on the environment. As chemicals and fabrics used for fast fashion products inevitably harm the planet.

High fashion apparel is so expensive due to the fact that these goods are mostly imported from countries abroad. In addition to the fact that these goods have high luxury taxes imposed on them. Also, luxury brand names keep their prices high in order to maintain their brand images. As consumers correlate the higher prices with better quality although that is not explicitly stated nor entirely true. As Rosen has mentioned on several occasions that brands utilize trade liberalization to offshore production to cut costs which have led to the increase in sweatshops in underdeveloped countries.

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)*

In Singapore, "where ladies are the least paid laborers in the nation, ordinarily procuring not as much as men in their families." In Malaysia, female laborers in the fare handling area "acquire enough to save themselves and additionally give a critical extent of their pay to family expenses, especially however they are rural-urban travelers living alone and not with their family members (Rosen, 2002, p.241, par. 4). Ladies produce garments in production lines in El Salvador that manage Walmart, Kmart, what's more, Leslie Fay. They worked in security fencing circumnavigated zones. Looked by equipped police, they work eleven-hour hours, six days every week, as they enter and leave the manufacturing plants: frequently they work twenty-hour shifts. Ladies who neglect to stay at work past 40 hours are captured, charged, and terminated for redundant 'offenses' like this. Ladies need to take fruitfulness tests and pay for them and are terminated when they test positive. Laborers in enterprises experience actual tormenting, inappropriate behavior, and sometimes administrative assaults. Staff will as it were utilize the latrine once every shift and regularly the latrines are filthy. (Rosen, 2002, p.242, par. 1). These production lines don't have ventilation and no consumable water.

The Lowell model likewise goes about as a system wherein such financial specialists see similarities between the encounters of ladies in the present fare-driven design industry and those of the article of clothing laborers at the nineteenth-century debut in Lowell, Massachusetts. Ladies utilized in modern creation in agricultural nations' fare handling zones may acquire independence from customary types of man centric power. Yet, at the same time,

the "new global division of work" has made ladies progressively powerless against changes in family structure and new types of paid and homegrown work (Rosen, 2002, p.240, par. 1).