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The Haitian Economy and the HOPE Act

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The Haitian Economy and the HOPE Act

Summary

In December 2006, the 109th Congress passed the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006 (HOPE I) to assist Haiti with expanding trade in the onetime thriving apparel industry as a way to stimulate economic growth. The act provided special rules for the duty-free treatment of select apparel imports from Haiti made from less expensive third country inputs (e.g., non-regional yarns, fabrics, and components) provided Haiti met rules of origin and eligibility criteria that require making progress on worker rights, poverty reduction, and anti-corruption measures. Early assessments of the effectiveness of HOPE I, however, were disappointing. The 110th Congress responded by amending HOPE I with HOPE II, the Hemispheric Opportunity through Partnership Encouragement Act of 2008.

HOPE II extended the preferences for 10 years, expanded coverage of duty-free treatment to more apparel products, particularly knit articles, and simplified the rules to make them easier to use. In providing preferential access to Haitian apparel imports, the HOPE Act gives Haitian firms a competitive (price) advantage over other foreign producers who must pay U.S. duties on apparel exports made from yarns and fabrics supplied by non-regional (e.g., Asian) producers. Improved competitiveness of the apparel business is intended to attract long-term investment to Haiti's primary export industry as part of a broader strategy to achieve sustainable economic growth and stability.

HOPE II also amended the eligibility requirements by requiring Haiti to create a new independent Labor Ombudsman's Office and establish the Technical Assistance Improvement and Compliance Needs Assessment and Remediation (TAICNAR) Program within 16 months of enactment of the legislation. The TAICNAR program provides technical assistance through the UN International Labor Organization (ILO) to help Haiti develop the capacity to monitor compliance of apparel producers in meeting core labor standards. Those that are habitually unable, or refuse to comply with these standards or to accept technical assistance to remedy deficiencies, can lose their eligibility for HOPE Act trade preferences.

Unilateral trade preferences for developing countries have played a long-standing role in U.S. trade policy and Congress designed the HOPE Act as the most flexible of these arrangements to meet Haiti's special development needs. The rationale is based on the United States being the primary market for Haitian apparel exports. The labor provisions reflect a relatively new approach for incorporating core labor standards. It is inventive because the tariff preferences are tied directly to firm performance, the ILO, which wields international credibility, is actively involved, and it combines government, private sector, and international agency participation in a model that achieved some success under the U.S.-Cambodia Textile Agreement. Congressional oversight is mandated and important for ensuring that the HOPE Act is implemented as intended. Haiti, for its part, will have to find ways to overcome a legacy of political volatility, economic inequality, and social dissension. Without the transition to a more equal and stable society, trade preferences may be overwhelmed by other factors. This report will be updated periodically.

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In December 2006, the 109th Congress passed the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006 (HOPE I) to assist Haiti with expanding trade in the onetime thriving apparel industry as a way to stimulate economic growth.[1] The act provided special rules for the duty-free treatment of select apparel imports from Haiti made from less expensive third country inputs (e.g., non-regional yarns, fabrics, and components) provided Haiti met rules of origin and eligibility criteria that require making progress on worker rights, poverty reduction, and anti-corruption measures. Early assessments of the effectiveness of HOPE I, however, were disappointing. The 110th Congress responded by amending HOPE I with HOPE II, the Hemispheric Opportunity through Partnership Encouragement Act of 2008.[2]

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Political and Social Challenges to Haitian Development

Haiti, which shares the western third of the island of Hispanola with the Dominican Republic (see **Figure 1**), has endured a long post-colonial history of poverty, underdevelopment, and political repression. The trend continues today and the sustainability of Haiti's tentative political stability remains a nagging question. Since the end of the Duvalier dictatorship in 1986, Haiti has struggled to institutionalize democracy, and so far has been unable to overcome a legacy of poor governance, gross economic inequality, and social unrest. The presidency has alternated between Jean-Bertrand Aristide, René Préval, and interim placeholders, none of whom has been able to establish a well-functioning and broadly accepted

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[1] Title V of the Tax Relief and Health Care Act of 2006 (H.R. 6111/P.L. 109-432).

[2] Title XV of the Food, Conservation, and Energy Act of 2008 (H.R. 6124/P.L. 110-246) — the "Farm Bill."

government, let alone change the underlying fundamentals of inequality in Haitian society. The legacy of authoritarianism has continued to unfold in the recent democratically elected administrations of both Aristide and Préval. Préval's second administration, begun in 2006, initially sparked a ray of hope among the masses, but his rule has since been marred by decisions that have weakened the fledgling institutional democracy.[3]

Figure 1. Map of Haiti

Source: Map Resources. Adapted by CRS.

The post-dictatorial political system is new, fragile, and in many ways, susceptible to criticism that it has failed to establish a functioning government. After two years into his second non-consecutive term, Préval's leadership, vision, and strategy to address longstanding poverty and unemployment are coming under question. His delay in appointing a confirmable Prime Minister, in conducting Senate elections, and in initiating widely supported constitutional reform (particularly to amend a repetitive, expensive, and so far unworkable electoral system) has compromised the government's legitimacy. The multiparty system, rather than consolidating politics, may be slipping further into factional partisanship, evidence for some of the failure to promote a "political culture of participation."[4] Multiple

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[3] A detailed summary of political events may be found in: CRS Report RL32294, *Haiti: Developments and U.S. Policy Since 1991 and Current Congressional Concerns*, by Maureen Taft-Morales. For an analysis of Haiti's authoritarian tradition and obstacles to democratization, see Fatton, Robert Jr. *Haiti's Predatory Republic: The Unending Transition to Democracy*. Boulder: Lynne Reinier Publishers. 2002.

[4] Perito, Robert M. *Haiti: Hope for the Future*. United States Institute of Peace. Special (continued...)

observers note that the government bureaucracy suffers from a historic endemic corruption, acting to enrich itself while failing to delivery basic services to the Haitian people.[5]

Haiti's uneven social structure lies at the heart of its apparent state of perpetual crisis. Haitian society has small middle and working classes, and is dominated by the chasm between a tiny minority of wealthy elite and the impoverished masses, the latter of which have little power or participation in governing. Politics since the transition to democracy in 1986 has not altered this precarious relationship. The highly skewed distribution of power and resources, and the underlying fear it generates, have made the transition to democracy difficult. Haiti's political future remains tenuous as long as entrenched economic and social patterns remain unchanged.[6]

Security remains a persistent problem, rooted in the history of violence stemming from political and economic inequality. It manifests in the often random violence of gangs and paramilitary groups. Security is currently being enforced by the United Nations Stabilization Mission in Haiti (MINUSTAH). Few seem to question the need for a prolonged military presence, but concerns linger over the sovereignty issues it raises. The ability of MINUSTAH to handle an escalation of social upheaval is another key question, particularly if conditions continue to deteriorate as they did during the food riots in April 2008.

Economic Background

It is in this dysfunctional political and social landscape that the challenge of economic growth and development must be addressed. Internally, expectations that the Haitian government will deliver on changing the day-to-day conditions of a population immersed in poverty will be difficult to ignore, yet many doubt they can be easily fulfilled. Externally, vast amounts of foreign aid expose the legacy challenge to development in a country devoid of the basic cornerstones of growth. The restoration of growth remains the primary economic goal and is a necessary condition for development. Even if policies can ignite a sustainable growth trend, however, they will not provide the foundation for long-term political and social stability if they cannot begin to address the underlying extreme social inequality.

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[4] (...continued)
Report 188. June 2007. p. 6.

[5] Fatton, *Haiti's Predatory Republic*, pp. 10, 14 and 112-17; Transparency International. *Corruption Perceptions Index, 2007* (Haiti ranked 177 out of 179) and; U.S. Department of State. *Haiti: Country Report on Human Rights Practices, 2007*. March 2008. pp. 1 and 8.

[6] Fatton, *Haiti's Predatory Republic*, pp. 197-205 and Perito, *Haiti: Hope for the Future*, pp. 2-7.

Macroeconomic Performance

Haiti's dismal economic growth trend epitomizes its developmental paralysis. From 1960 to 2000, average real growth in per capita income was a dismal -0.7%, by far the worst performance in the Western Hemisphere. Growth returned briefly in the 1970s, led by export-oriented assembly industries, but Haiti experienced a prolonged economic downturn in the 1980s (as did most countries in the region) leading to social and political unrest that ultimately contributed to the overthrow of the Duvalier dictatorship in 1986.

In 1991, following an interim government, Aristide emerged briefly as the first elected president, only to be deposed by a military coup within a few months. To force the return of the democratically elected government, the United States and other countries responded to the coup with a trade embargo under the auspices of the Organization of the American States (OAS) and the United Nations (UN). Although its success in changing political behavior has been questioned, its economic effects were concrete and devastating. Haiti was already experiencing a decline in output, employment, and income, but the trend mushroomed during the 1991-1994 embargo. The embargo targeted fuel imports (not food, but supplies were delayed), and all exports. Overall, by 1994, per capita income had fallen by 30% in three years and unemployment peaked at 75%.[7]

Sectoral effects were highly pronounced. Employment in the assembly manufacturing industry (apparel, electronics, sporting goods), centered in Port-au-Prince, fell by over 80%, shedding 32,000 jobs. One estimate of the multiplier effect suggests that the embargo eliminated some 200,000 jobs in the formal sector.[8] Most assembly plants closed permanently, with only apparel rebounding in the aftermath of the embargo. The inability to import agricultural inputs (fertilizers, seeds) or export agricultural goods had similarly devastating effects on that sector's production. In addition, because oil imports were blocked, there was a sudden increase in the production of charcoal, accelerating the ecologically destructive trends in deforestation and soil erosion, further damaging agricultural production.[9]

Trade was renewed in 1995, but economic growth oscillated for the next decade, hampered by recession, flooding, and ongoing political turmoil. In the post-embargo period, annual GDP growth for the decade ending 2006 averaged only 1.1%, lower than Haiti's 1.4% average population growth rate, a recipe for perpetuating chronic unemployment, poverty, and emigration pressures. As seen in **Figure 2**, Haiti's economic growth has lagged badly compared to Latin America and the Caribbean as a whole, a region that is itself known for its poor long-term growth record. Growth has been positive since 2005, but given that many underlying problems remain unresolved, its sustainability is far from certain (see data in **Appendix)**.

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[7] Gibbons, Elizabeth D. *Sanctions in Haiti: Human Rights and Democracy under Assault*. Westport: Praeger Publishers. 1999. pp. 13 and 18.

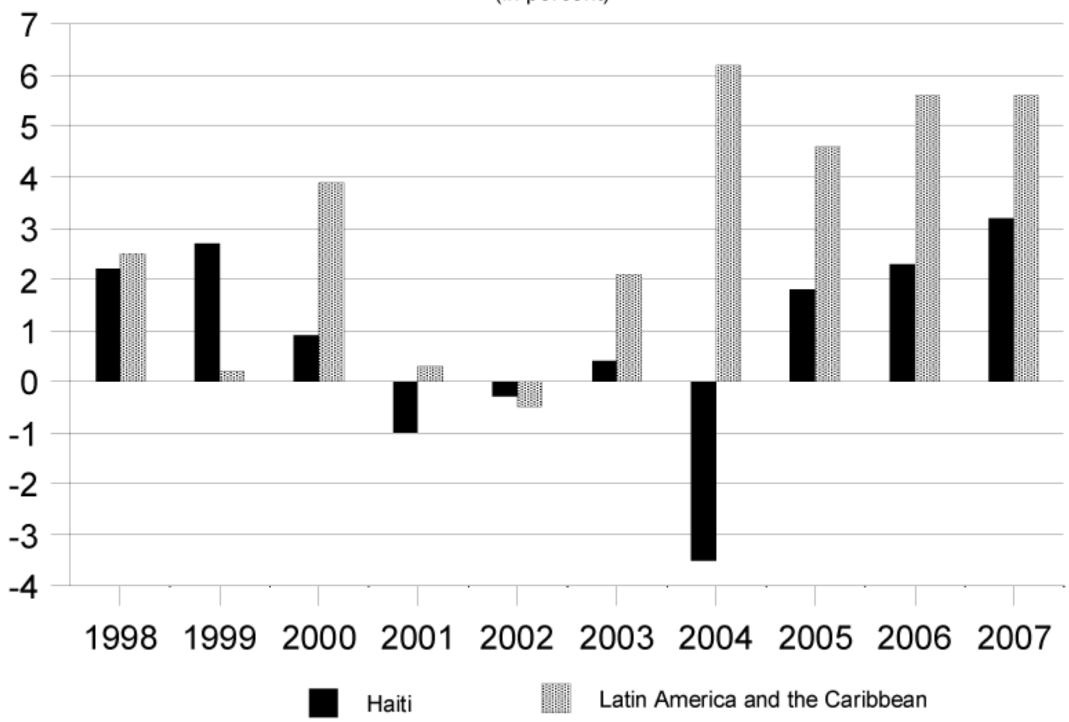
[8] Ibid., p. 11, citing United Nations data.

[9] Ibid., pp. 10-14 and The World Bank. *Haiti: Options and Opportunities for Inclusive Growth*. Washington, D.C. June 1, 2006. pp. 1-5.

Haiti is the poorest country in the region. In 2006, per capita income was a meager $1,700 on a purchasing power basis (adjusted for price differences across countries), and 78% of the population lives on less than $2 per day. Inequality is extreme; Haiti has the most highly skewed income patterns in the Americas with nearly half of the nation's earnings going to the top 10% of the income distribution.[10] Real wages have fallen since 2000, and although inflation has declined and real interest rates have stabilized, they may yet face upward pressures from sharp price increases in food and energy.

Figure 2. Growth in GDP, 1998 - 2007

(in percent)



Source: United Nations. Economic Commission on Latin America and the Caribbean. *Preliminary Overview of the Economies of Latin America 2007,* p. 156.

To consolidate the short growth trend begun in 2005, Haiti will have to address a core area of under performance, the lack of productivity growth. Persistently low or negative productivity is the result of negligible investment in private enterprise, human and social capital (e.g., education and health care), and public infrastructure. It is highly pronounced in the agricultural sector, where primitive methods and ancient equipment perpetuate low yields, lack of growth in cultivated land, and inadequate food supplies, some the legacy of the "decapitalization" of the sector during the 1991-1994 embargo. Investment in manufacturing and public sectors has also been sparse, jeopardizing prospects for longer-term growth.[11]

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[10] This is one measure of poverty. Compare with neighboring Dominican Republic with a per capita income of $7,140 and with 16% of the population living on less than $2 per day. World Bank. *World Development Indicators 2007,* pp. 40, 60 and 66.

[11] See United Nations. Economic Commission on Latin America and the Caribbean.
(continued...)

Sector Issues

Slow growth is also apparent at the sectoral level. Agricultural production represents 25% of GDP and employs up to 70% of the work force, but it has stagnated for decades and declined for five years in a row until expanding by 3.0% in 2007. Agricultural growth is limited by the small amount of arable land, overuse of soil, and poor irrigation. It is also constrained by poor rural infrastructure, destructive agricultural practices, and frequent hurricanes and other natural disasters. Rice, sugar, and coffee are produced at a fraction of levels achieved decades earlier. Haiti currently produces little of these traditional exports and output of staples has long been insufficient to meet domestic food needs. Haiti, therefore, must import large amounts of food stuffs. Rising international prices of basic foods compound Haiti's inability to feed itself, to the point of igniting food riots in April 2008.[12]

Manufacturing constitutes only 7.6% of GDP and has shown no growth over the past decade. It, nonetheless, is the major foreign exchange earner and holds out some promise for employment growth. Manufacturing is dominated by food processing (47.2%) and apparel assembly (21.1%). Construction and public works account for another 7.7% of GDP and grew by 6.3% over the last two years. These trends reflect recent, new public sector investment and provide one option for employment growth of low-skilled workers. The services sector constitutes 51% of GDP and is led by restaurant and hotel industries (tourism is not a major factor), which together account for 27% of GDP. It grew by nearly 6% in 2007.[13]

Foreign Trade and Investment

Haiti has a historically unhealthy dependence on foreign commerce and finance, from the colonial days of the sugar trade to the current assistance provided by developed countries. Total trade (exports plus imports) equals 60% of GDP, but the trade imbalance is large with a deficit equal to 33% of GDP. Haiti is in a difficult position because slow growth in output and exports means that it must rely on foreign sources for basic commodities such as food and oil, as well as manufactured and capital goods. The problem is made worse by deteriorating terms of trade, as prices of oil and other commodity imports rise relative to Haiti's export prices.

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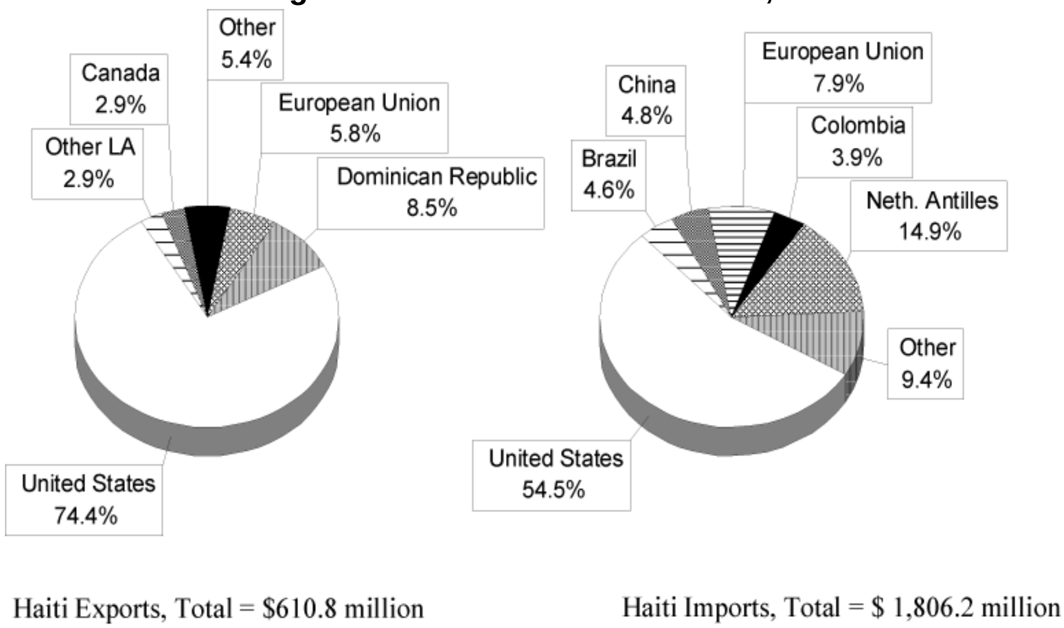
[11] (...continued)
Economic Survey of Latin America and the Caribbean, 2006-2007. Santiago, July 2007. pp. 256-259; Global Insight. *Haiti*. May 29, 2007; The World Bank, *Haiti: Options and Opportunities for Inclusive Growth*, pp. 5-6; and Gibbons, *Sanctions in Haiti*, pp. 15-16.

[12] République d'Haiti. Minitere de l'Economie et des Finances. Institut Haitien de Statistique et d'Informatique. *Les Comptes Economiques en 2007* and Banque de la République D'Haiti. *Produit Interieur Brut Par Secteur*; ECLAC, *Statistical Yearbook for Latin America and the Caribbean 2007*.

[13] Ibid.

Haiti's trade relationship with the world is dominated by the United States, with which it ran a $192 million deficit in 2007.[14] The United States accounted for nearly 75% of Haiti's exports followed in order of magnitude by the Dominican Republic (8.5%), the European Union (5.8%), and Canada (2.9%) – see **Figure 3**. The United States also accounted for 55% of Haiti's imports followed by the Netherland Antilles (14.9%), the European Union (7.9%), and China (4.8%). Haiti exports primarily apparel, which accounts for 75%-80% of foreign earnings and for over 90% of total exports to the United States. Cacao, mangoes, and coffee compose the small basket of agricultural exports.

Figure 3. Haiti Direction of Trade, 2007



Source: IMF, *Direction of Trade Statistics*, March 2008.

A return to economic growth is critical to finance the trade deficit in the long run. In the near term, however, there is no alternative to relying on foreign sources of income, principally remittances, foreign aid, and grants. Transfers finance Haiti's fiscal and current account deficits, but they are no substitute for production and export-driven financing. They promote long-term dependency and create technical problems, such as exchange rate appreciation that exacerbates Haiti's structural trade deficit, with no concomitant growth in productivity or output that is typically associated with an export-driven exchange rate appreciation. These transfers, which are so necessary for Haiti's short-term survival, are dependent on the fortunes of expatriate citizens and the generosity of foreign governments, leaving Haiti with little control over the future of its economic well-being.[15]

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[14] U.S. Department of Commerce data reported in the World Trade Atlas.

[15] This point is made by the IMF, which speaks to the need for Haiti eventually to return to a more normal pattern of investment and export-led growth rather than rely on international donors indefinitely. International Monetary Fund. *Haiti: Selected Issues and Statistical Appendix*. IMF Country Report No. 07/292. August 2007. p. 17.

Haiti has a poorly diversified export sector, overly dependent on one type of product and a single foreign market, a strategy that has so far shown little lasting effect on long-term development.[16] The current risk to this export structure becomes increasingly clear with the U.S. economic slowdown, which may diminish demand for Haitian goods and increase unemployment of Haitian expatriates in the United States, with predictably negative effects on export earnings and remittances.[17]

Haiti's trade dependence is most pronounced on the import side. Haiti imports manufactured goods, machinery, transportation equipment, raw materials, energy, and food. It is unable to produce most of these needs and will be a large net importer for the indefinite future. Haiti's vulnerability became acute with the rise in food and energy prices, which has had a huge budgetary effect. From 2002 to 2007, the value of food and energy imports rose 57% and 159% respectively, even as volume declined slightly. Petroleum accounts for 25%-30% of total imports. This trend points to two fundamental problems. First, higher import prices decrease purchasing power, making food and energy more expensive. Second, to compensate, there is a more severe substitution effect, in which other goods must be given up to spend more on food and energy. This effect may be seen in the decline of manufactured imports, which fell by 37% from 2002 to 2007.[18]

Foreign direct investment (FDI) in Haiti has been historically very low. Net FDI inflows ranged from $4 billion in 2000 to $14 billion in 2004, with a spike to $160 billion in 2006. This change appears to be a limited boost in investment in the construction and tourist industries. Construction activity in the public and private sector has expanded briskly, but FDI inflows are not expected to continue at this recent high rate.[19] One approach to attracting FDI to Haiti rests on reinvigorating the apparel industry, a strategy that the U.S. Congress supported with the HOPE Acts.

Apparel Assembly in Haiti

Although agriculture is the single most important sector of the Haitian economy for both jobs and output, apparel assembly is the core export industry and a possible source of fairly quick employment growth in the formal sector. The fortunes of the apparel sector have paralleled the broader trends of the economy, which have been subject to tremendous social and political turbulence. Historically, the apparel

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[16] Dupuy, Alex. Globalization, the World Bank, and the Haitian Economy. In: Knight, Franklin W. And Teresita Martínez-Vergne, eds. *Contemporary Caribbean Cultures and Societies in a Global Context*. Chapel Hill: University of North Carolina Press. 2005. pp. 51-52.

[17] Banque de la République D'Haiti. *Exportations d'Haiti par Produits*. At central bank website: [http://www.brh.net/pibsecteur.pdf], and Economist Intelligence Unit. *Country Outlook: Haiti*. February 2008.

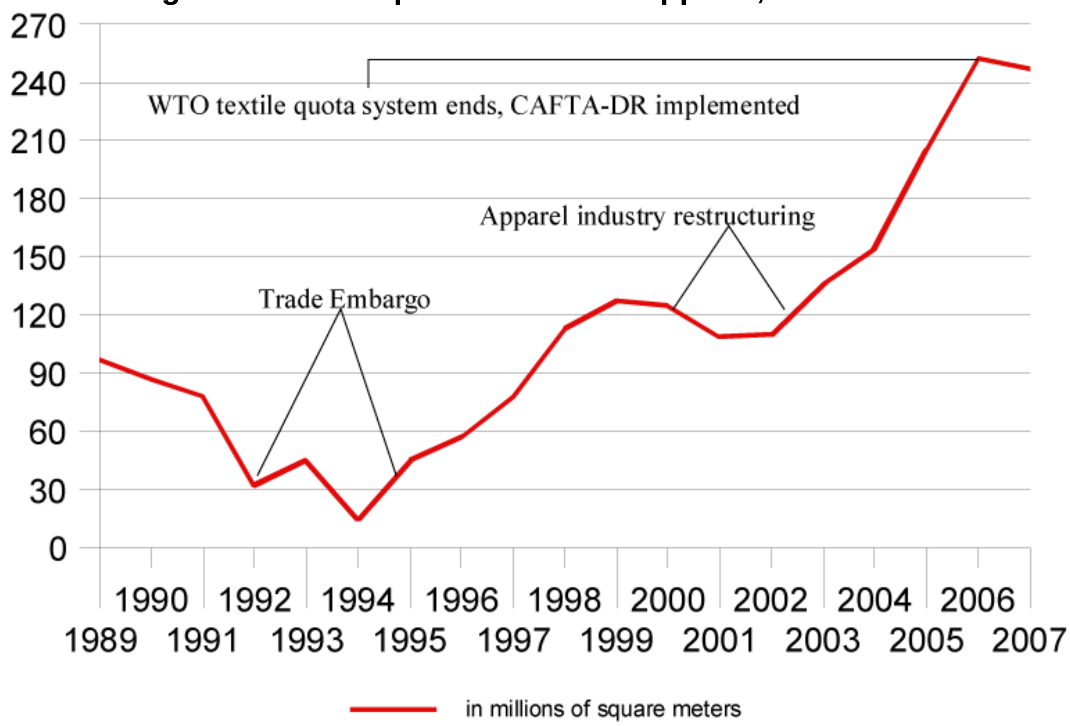
[18] Ibid., *Importations d' Haiti*, February 2008.

[19] Ibid., Résumé de la Balance des Paiements d'Haiti, February 2008 and Economic Commission on Latin America and the Caribbean, *Economic Survey of Latin America and the Caribbean, 2006-2007*, p. 259.

heyday in Haiti lasted from the 1960s through the end of the Duvalier dictatorship in 1986. The troubled transition to democracy, including the 1991 military coup and trade embargo that followed, caused a massive downturn in production for eight years. Since 1994, the Haiti apparel industry has entered into a slow and tentative period of rebuilding.

Employment and output data on the apparel industry are sketchy. At its peak in the 1980s, Haitian apparel industry sources estimate that the number of jobs ranged from 60,000 to 100,000. The 1991-94 trade embargo effectively closed apparel operations, causing employment to fall to near zero for a short time, as many apparel manufacturers apparently left Haiti for Honduras and other sites in the region. In its rebuilding, Haitian apparel assembly increased employment to a high of between 20,000 and 22,000, but by 2008 industry sources estimated that it had settled to approximately 18,000 employees operating in 17 plants.[20]

Figure 4. U.S. Imports of Haitian Apparel, 1989 - 2007



Source: U.S. Department of Commerce. International Trade Administration. Office of Textiles and Apparel. http://otexa.ita.doc.gov/

Apparel output data are not available from industry sources. Because over 90% of apparel production is exported to the United States, U.S. import data can serve as a reasonable proxy for production trends. **Figure 4** shows the trend of U.S. imports of Haitian apparel by volume. Note that imports were falling in the tumultuous aftermath of the Duvalier dictatorship. The downward trend hit bottom during the 1991-94 trade embargo. With a temporary return to relative political calm, U.S.

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[20] Prepared statement by Haitian apparel representatives before the USITC and United States International Trade Commission. *Textiles and Apparel Effects of Special Rules for Haiti on Trade Markets and Industries*. Investigation No. TR-5003-1. November 8, 2007. p. 2-1.

imports (again as a reflection of output) rose, but fell again after 2000 as production was lost to competition, and continuing political uncertainty kept investors at bay. Growth renewed after 2002 with industry restructuring, but employment failed to return to levels achieved two decades earlier. By 2006, a new downturn is noticeable, likely related to two events that occurred at that time: the end of global textile quotas put in place under the World Trade Organization (WTO) Agreement on Textiles and Clothing (ATC), and implementation of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), which shifted regional U.S. tariff preferences for apparel in favor of Central America.[21]

Haiti's apparel industry faces many challenges. Among the more significant are highly efficient competitors both in the region and in Asia, domestic political instability, poor infrastructure (especially roads and ports), a high cost of capital, and the required use of higher-cost U.S. inputs (e.g., yarns, fabrics, components) for duty-tree entry into the United States, which the HOPE Act addresses. To improve its competitiveness, the industry underwent major restructuring after 2000. Where once it had been a relatively diversified producer, it adopted a leaner, low-cost business model based on high-volume production that could take advantage of Haiti's low-skilled labor pool.

Haiti can compete at the low end of the U.S. apparel market based on its low wages, quality products, and proximity to the United States, which is consistent with its current stage of development. For the most part, Haiti's production is limited to simple knits and some woven products. Approximately 80% of Haiti's exports are knits (e.g., t-shirts and sweatshirts), but the more complicated production of woven goods (e.g., jeans and khaki pants) is growing. Haiti's top five apparel products account for 96.7% of U.S. apparel imports from the country.[22] As may be seen in **Table 1**, they constitute 4.1% of global U.S. imports of those goods. For this basket of goods, Haiti's primary competition is Central America, the Dominican Republic and Southeast Asia (ASEAN),[23] rather than China. China, which accounts for only 7.1% of U.S. imports of these goods, has effectively ceded their production (mostly knits) to countries with lower-skilled, lower-cost work forces.

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[21] Ibid.

[22] Knit shirts, cotton (34.9%), knit shirts, man-made fabrics (33.2%); underwear (22.4%) trousers (4.4%), knit blouses (1.8%), and other (3.3%). U.S. Department of Commerce, Office of Textiles and Apparel (OTEXA).

[23] The Association of Southeast Asian Nations: Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Lao PDR, Myanmar, and Cambodia.

Table 1. U.S. Market Share of Haitian Top Five Apparel Exports, 2007
(in percent)

Apparel Article	Haiti	CAFTA-DR*	ASEAN	China	Other	World
Knit shirt, cotton	7.5	38.2	14.2	4.9	35.3	100.0
Knit Blouse	0.3	24.5	30.0	9.1	36.1	100.0
Underwear, cotton	2.7	49.3	13.8	5.6	28.5	100.0
Knit shirt, man-made fiber	12.7	40.0	15.1	6.1	26.1	100.0
Trousers	1.2	37.3	19.3	7.1	32.2	100.0
Total	4.1	37.3	19.3	7.1	32.2	100.0

Data Source: U.S. Department of Commerce. OTEXA.
*The Dominican Republic, Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica.

Rejuvenating Haiti's apparel assembly industry has been criticized as a growth strategy for its lack of development potential, but it has survived as a niche production strategy in a highly competitive industry. Supporters of the sector argue that given Haiti's limited options for rebuilding its economy in the short term, the apparel sector offers one relatively quick response to high unemployment. Apparel assembly has also allowed manufacturing to remain in Haiti that might otherwise have migrated to Asia or Central America.[24] Haiti's apparel industry relies entirely on foreign producers for yarns and fabrics. In most cases, they are produced by firms in the United States and the Dominican Republic. Four major foreign producers contract with Haitian apparel plants: Gildan (Canada); Hanes (U.S.); Willbes (South Korea); and Grupo M (Dominican Republic).

In 2003, Grupo M, a Dominican firm, began a mutually beneficial apparel co-production arrangement in Haiti. The effort is highlighted by a new plant in a foreign trade zone (Compagnie Development Industriel – CODEVI) in Ouanaminthe, Haiti on the northern border with the Dominican Republic. Grupo M, the only Dominican company operating a co-production plant, provides management training and guidance and plans to turn operation of the facility over fully to Haitian managers. It has also worked with the Haitian government in providing the necessary infrastructure investment, including water and electricity, the excess of which is made available to the surrounding community. Selection and training of Haitian workers is rigorous and the jobs are highly coveted.[25]

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[24] Dupuy, op. cit., pp. 64-65 and Prepared statement by Haitian apparel representatives before the USITC and United States International Trade Commission. *Textiles and Apparel Effects of Special Rules for Haiti on Trade Markets and Industries*. Investigation No. TR-5003-1. November 8, 2007. pp. 2-1 thru 2-6.

[25] Discussions with Haitian and Dominican representatives in Ouanaminthe and Santo Domingo, April 20-26, 2008. From a historical perspective, this area has been an important border crossing, but also the site of significant conflict between the two countries. Communities on both sides of the border support the plant for the benefits it provides as the

(continued...)

Grupo M remains competitive in the U.S. apparel market by producing fabric in the Dominican Republic (from U.S. yarns) and sending cut components to Haiti for assembly (sewing) using Haiti's low-wage labor force. Haiti assembly sector wage rates are the lowest in the region, on par with those in Bangladesh.[26] The USITC estimates that they may average as little as one-third of those in the Dominican Republic.[27] Assembled articles are then returned to the Dominican Republic for washing and finishing. CODEVI produces t-shirts, jeans, and knit trousers and employs 2,000-2,500 workers and employment could double over the next few years. The entire line of Hanes t-shirts is produced through the co-production process.

The plant began operations because of the advantage that Haiti's low-cost labor afforded Grupo M's production process, but unilateral trade preferences provided additional incentives to produce in Haiti. In particular, the use of flexible sourcing arrangements provides a competitive advantage to apparel production in Haiti and was a major factor in the decision to expand operations by Grupo M. The determination of the U.S. Congress to modify the tariff preferences and rules of origin in the original HOPE Act was driven by a sense that they could be a critical factor in the renewed development of Haitian apparel assembly operations.[28]

The Haiti HOPE Act

Congress first provided trade preferences to the Caribbean region in the Caribbean Basin Economic Recovery Act (CBERA) of 1983. They did not, however, cover textile or apparel goods.[29] In 2000, Congress passed the Caribbean Basin Trade Partnership Act (CBTPA), which provided additional incentives on a temporary basis to select textile and apparel articles assembled or knit-to-shape by firms in designated beneficiary countries in the Caribbean region. In general, to qualify for the tariff preferences, the articles had to be made from inputs produced in the United States or the region. The HOPE Acts build on this precedent, providing benefits exclusively for Haitian apparel exports as a way to support growth and development in Haiti.

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[25] (...continued)
major income generator in the region.

[26] The World Bank, *Haiti: Options and Opportunities for Inclusive Growth*, pp. 22-23.

[27] The USITC compiled average wage rates for apparel workers in the Caribbean, which suggest that Haiti's wages were, on average, one-third that of the Dominican Republic and one-half that of Nicaragua, its nearest competitor. USITC. *Textiles and Apparel: Effects of Special Rules for Haiti on Trade Markets and Industries*. Publication 4016. June 2008. p. 2-3.

[28] Ibid.

[29] In 1986, President Reagan, by Executive Order, authorized a Special Access Program (SAP) for eligible Caribbean countries that allowed a guaranteed annual amount of apparel imports that was subject to duties only on the amount of value added abroad.

The HOPE Acts offer duty-free treatment for U.S. apparel imports from Haiti under rules that allow for more flexible sourcing of materials than those offered to Haiti and other Caribbean countries under the CBTPA. The basic difference is that under the CBTPA, apparel goods receive duty-free treatment if assembled or knit-to-shape from *U.S. yarns and fabrics*.[30] Under the HOPE Acts, duty-free treatment is extended to apparel articles if wholly assembled or knit-to-shape in Haiti from *materials (yarns, fabric, and components) sourced from any country* provided a minimum portion of the materials is produced by a country that is party to a U.S. trade preferential arrangement or free trade agreement (FTA).

In effect, the rules allow Haiti, unlike other countries, to export apparel that uses limited amounts of lower-cost inputs from anywhere in the world and still enter the United States free of duty. Because the United States is the dominant market for Haitian apparel, the economic benefit conveyed from the preferences is expected to have a significant effect on investment, output, and employment in that sector.

HOPE I

In December 2006, the 109th Congress passed the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006 (HOPE I) as Title V of the Tax Relief and Health Care Act of 2006 (H.R. 6111/P.L. 109-432). Referred to as HOPE I, the act provided special rules for the duty-free treatment of select apparel imports from Haiti made from third-country yarns and fabrics, provided Haiti met rules of origin and eligibility criteria. To be eligible, Haiti had to make progress toward establishing a market economy, the rule of law, the elimination of barriers to U.S. trade and investment, policies to reduce poverty, a system to combat corruption, and protection of internationally recognized worker rights.

The act required that all eligible exports had to be shipped directly from Haiti. It also established an overall cap on total qualified apparel imports equal to 1%-2% of total U.S. apparel imports. It included a short supply rule that allowed duty-free treatment of goods made from fabrics found to be in “short supply,” as defined in all other preference arrangements and FTAs of the United States, and gives preferences to wire harness automotive imports.

At the heart of HOPE I are three specific new rules of origin. First, quotas for the duty-free treatment of apparel articles that meet the 50% to 60% value-added content requirement from countries that are a party to a U.S. FTA or are beneficiary countries under a unilateral preference arrangement. There are no restrictions on the source of the remaining inputs. Second, additional quotas for duty-free treatment of woven apparel that could not meet the 50%-60% value-added rule (allowing all inputs for these articles to be sourced from anywhere in the world). Third, a single transformation rule of origin that allowed for duty-free treatment of brassieres made

[30] Knit apparel may also use fabric made in a CBTPA beneficiary country. Other rules and exceptions exist. United States International Trade Commission. *Textiles and Apparel Effects of Special Rules for Haiti on Trade Markets and Industries*. Investigation No. TR-5003-1. November 8, 2007. p. 1-5.

from components sourced anywhere in the world, provided the garments are cut and sewn or otherwise assembled completely in Haiti, the United States, or both.

HOPE I soon came under criticism for being ineffective. In 2007, the first year of operation, only 3% of Haitian apparel imports entered under HOPE I, the rest still entering duty free under the CBTPA.[31] Among the major criticisms of HOPE I were:[32]

- the three-year program was too short to attract new investment;
- the 50% value added rule was too high;
- a more liberal value-added rule like that given wovens was needed for knits because they represent 80% of Haitian apparel production;
- the requirement of direct shipping from Haiti was cumbersome and costly since apparel finishing (e.g., washing; applications) had to be done in the Dominican Republic and then the articles shipped back to Haiti for export to the United States; and,
- the overall cap on imports was too small.

In addition, U.S. textile producers objected to the preferences, contending that because they permitted use of third-party fabrics and other inputs, they were effectively displacing textile jobs in the United States and the Caribbean with those in Asia. U.S. producers also argued that the rules of origin were vague and difficult to enforce, and that the tariff preferences could result in diverting apparel production to Haiti from other countries in the region that had apparel trade preferences in agreements with the United States.[33] The USITC found that in 2007, Haiti imports of yarns and fabrics from China and Hong Kong increased significantly, possibly in part as a response to HOPE I. In general, however, because Haiti accounts for less than 1% of total U.S. apparel imports, the USITC opined that HOPE I had a "negligible" effect on the U.S. textile industry. In addition, there was little evidence of trade diversion from other apparel manufacturers in the region.[34]

HOPE II

Because early assessments of the effectiveness of HOPE I expressed disappointment with its progress, and Haiti's economic and social conditions were deteriorating in 2008, the 110th Congress passed the Hemispheric Opportunity through Partnership Encouragement Act of 2008 (HOPE II) as part of Title XV of the

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[31] USITC, *Textiles and Apparel: Effects of Special Rules for Haiti on Trade Markets and Industries*, pp. 2-11 and 3-1.

[32] Communications with Haitian and Dominican industry representatives, also summarized in USITC testimony and USITC, *Textiles and Apparel: Effects of Special Rules for Haiti on Trade Markets and Industries*, pp. 3-9 thru 3-10.

[33] United States International Trade Commission. *Textiles and Apparel Effects of Special Rules for Haiti on Trade Markets and Industries*. Investigation No. TR-5003-1. November 8, 2007. pp. 31-34 and testimony submitted jointly by the American Manufacturing Trade Action Coalition and the National Council of Textile Organizations.

[34] USITC, *Textiles and Apparel: Effects of Special Rules for Haiti on Trade Markets and Industries*, p. 3-1.

Food, Conservation, and Energy Act of 2008 (H.R. 6124/P.L. 110-246) — the "Farm Bill." Referred to as HOPE II, it amended the original HOPE legislation. Both Houses of Congress were able to agree on bill language relatively quickly and without formal hearings, expediting the legislative process.

Tariff Preferences and Rules of Origin. As with HOPE I, duty-free treatment is provided to apparel articles that are wholly assembled or knit-to-shape in Haiti. The specific rules of origin determine the amount of third party inputs that can be used in the manufacturing process and still receive duty-free treatment. Broad design changes to the HOPE Act include extending all tariff preferences for a period of 10 years ending September 30, 2018, allowing direct shipment of final goods from either Haiti or the Dominican Republic, and clarifying the quantitative limitation (cap) rules to ensure that 1) articles not subject to a specific cap do not count toward the overall value-added cap; 2) articles subject to one cap do not count toward another cap; and 3) HOPE benefits are understood to be extended in addition to any other benefits conveyed under CBERA.

Amended rules of origin allow for duty-free treatment of imports of Haitian apparel *regardless of the source of inputs* (yarns, fabrics, components) with the major changes being an increase in the cap of woven articles and the addition of a new capped benefit for knit articles. Detailed changes include:

- maintaining the value-added rule, but freezing the overall cap on eligible apparel articles to 1.25% of total U.S. apparel imports. The original five-year sunset provision is maintained, allowing the cap to expire in 2012 because it is unlikely to be exceeded and was viewed as complicated to interpret in relation to other caps;
- increasing the annual cap for select woven apparel imports to 70 million square meter equivalents (SMEs);
- adding a new duty-free rule for knit apparel (with multiple exclusions) capped annually at 70 million SMEs;
- adding a new uncapped duty-free rule (under the single transformation rule) for brassieres, selected womens' and girls' sleepwear, luggage, and handbags;
- adding a new uncapped "3 for 1" earned import allowance (EIA). It allows producers to claim a credit for the export of apparel articles made from qualifying inputs that can be used in exchange for exporting articles duty-free made from non-qualifying inputs in a 3 for 1 ratio. Qualifying woven fabric must be wholly formed in the United States from yarns wholly formed in the United States. Qualifying knit fabric and knit-to-shape components must be wholly formed or knit-to-shape in the United States or any country or combination thereof that is a party to a U.S. free trade agreement or a beneficiary country under a unilateral preference arrangement, from yarns wholly formed in the United States.
- clarifying that the"short supply" rule, or benefits given for the use of non-U.S. fabric and yarns not available in commercial quantities, is uncapped and expanded to include all fabric and yarns in short supply lists in other U.S. preference arrangements and FTAs.

Labor Provisions. HOPE II also amended the eligibility requirements by requiring Haiti to create a new independent Labor Ombudsman's Office and to establish the Technical Assistance improvement and Compliance Needs Assessment and Remediation (TAICNAR) Program within 16 months of enactment of HOPE II legislation.

The labor ombudsman is to be appointed by the President of Haiti and report directly to him. The office's major functions include 1) maintaining a registry of apparel and textile producers who seek to use the trade preferences; 2) implementing and overseeing the TAICNAR program; 3) receiving and directing appropriate comments to the Haitian Department of Labor and the United Nations International Labor Organization (ILO) regarding labor conditions and complaints; and 4) overseeing compliance with ILO core labor standards.[35]

The TAICNAR program provides technical assistance through the ILO to help Haiti develop the capacity to monitor compliance of registered apparel producers in meeting core labor standards. Those that are habitually unable, or refuse to comply with these standards or to accept technical assistance to remedy deficiencies, can lose their eligibility for HOPE Act trade preferences. The TAICNAR program is also required to help build government capacity to inspect facilities, enforce labor laws, and resolve labor disputes. The ILO is to issue a report every six months evaluating the progress of each producer in meeting the goals of the TAICNAR program. The President of the United States is also to produce an annual report for Congress on the progress in implementing the labor provisions.

Outlook

As discussed above, Haiti faces enormous obstacles to sustainable economic growth and development.[36] Congress responded to Haiti's long-term economic challenges in part by creating and then expanding the HOPE Act. Unilateral trade preferences for developing countries have played a long-standing role in U.S. trade policy and Congress designed the HOPE Acts as the most flexible of these arrangements to address Haiti's special circumstances. As the poorest country in the Western Hemisphere, it has the greatest need for development assistance.

Because the United States is the primary market for Haitian apparel exports, trade preferences may affect export and production levels enough to help rejuvenate the apparel industry. This could help Haiti's struggling economy by providing additional incentives to invest in an industry that has the potential to create employment relatively quickly and which is also the largest foreign exchange earner

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[35] Defined in the statute as: 1) freedom of association; 2) the effective recognition of the right to bargain collectively; 3) the elimination of all forms of compulsory or forced labor; 4) the effective abolition of child labor and a prohibition on the worst forms of child labor; and 5) the elimination of discrimination in respect to employment and occupation.

[36] These have been made worse by Hurricanes Fay and Gustav, which tore through Haiti in August 2008. U.S. Agency for International Development notes that U.S. assistance for hurricane relief reached $30 million as of September 30, 2008.

in the country. Apparel exports to the United States have stagnated since 2005 and turning this trend around would be an important indication that the preferences might be having the desired effect.

Trade preferences are also only one policy response, limited to affecting one sector of the economy. Success, therefore, may face many other challenges presented by Haitian society that will require much deeper political and social reform. HOPE II does support social reform by requiring that internationally recognized core labor standards be enforced and strictly monitored. The approach is inventive because the tariff preferences are tied directly to firm performance, the ILO, which wields international credibility, is actively involved, and it combines government, private sector, and international agency participation in a model first defined in the U.S.-Cambodia Textile Agreement that has received highly favorable reviews.[37]

Congressional oversight is also clearly mandated in the HOPE Act and will likely be a defining factor in assuring it continues to be implemented as intended and in ways that support Haiti's long-term development. Haiti, for its part, will have to find ways to overcome a legacy of political volatility, economic inequality, and social dissatisfaction. Without the transition to a more equal and stable society, trade preferences may be overwhelmed by other factors.

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[37] See attachment entitled Harnessing Global Forces to Create Decent Work: A Successful Experiment in the Cambodian Apparel Sector in: Polaski, Sandra. *The Fight Against Global Poverty and Inequality: The World Bank's Approach to Core Labor Standards and Employment*. Hearing testimony before the House Committee on Financial Services. October 3, 2007.

Appendix. Haiti: Selected Economic Indicators

	2000	2001	2002	2003	2004	2005	2006	2007
GDP Growth (%)	0.9	-1.0	-0.3	0.4	-3.5	1.8	2.3	3.3
Per Capita GDP Growth (%)	-0.8	-2.7	-1.8	-1.2	-5.0	0.2	0.7	1.6
Inflation Rate (%)	14.1	14.2	9.9	39.3	22.8	15.1	13.2	9.0
Real Int. Rate (%)	6.1	20.5	10.7	-9.7	13.9	12.3	19.5	24.5
Avg. Real Wage (% change)	-11.9	-11.6	-8.9	33.5	-14.4	-13.2	-12.0	-7.6
Gross Fixed Capital Form. (% of GDP)	27.3	27.3	28.0	28.8	28.9	28.8	28.8	28.8
Current Acct. Bal. (% GDP)	-3.0	-3.8	-2.8	-1.6	-1.5	0.9	-0.4	0.2
Current Acct. Bal. – w/out grants (%)							-8.2	-6.6
Net FDI ($ mil)	13.0	4.0	6.0	14.0	6.0	26.0	160.0	75.0
Terms of trade (index)	100.0	101.2	100.2	98.7	96.0	92.4	88.9	83.9

Source: United Nations Economic Commission on Latin America and the Caribbean (ECLAC). *Statistical Yearbook for Latin American and the Caribbean 2007*. March 2008 and International Monetary Fund. *Haiti: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility*. March 2008.