



# The Haitian Economy and the HOPE Act

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## Summary

In December 2006, the 109<sup>th</sup> Congress passed the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006 (HOPE I), which included special trade rules that give preferential access to U.S. imports of Haitian apparel. These rules were intended to promote investment in the apparel industry as one element of a broader economic growth and development plan. HOPE I allowed 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 required making progress on worker rights, poverty reduction, and anti-corruption measures. Early assessments of the effectiveness of HOPE I, however, were disappointing. The 110<sup>th</sup> Congress responded by amending HOPE I in the Hemispheric Opportunity through Partnership Encouragement Act of 2008 (HOPE II). HOPE II extends the preferences for 10 years, expands coverage of duty-free treatment to more apparel products, particularly knit articles, and simplifies the rules, making them easier to use.

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 internationally recognized core labor standards. Those firms that are habitually unable, or refuse to comply with these standards or to accept technical assistance to remedy deficiencies, can lose their eligibility for the trade preferences.

In providing preferential access to Haitian apparel imports, the HOPE Act, as amended, gives Haitian firms a competitive (price) advantage in the U.S. market over other foreign producers, who must pay U.S. duties on their 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, expand output and employment, and provide one pillar of a policy foundation aimed at promoting sustainable economic growth and improving the standard of living in Haiti.

Unilateral trade preferences have played a long-standing role in U.S. trade and development policy in the Caribbean. Congress designed the HOPE Act, as amended, as the most flexible and generous of these arrangements to meet Haiti's critical development needs. The rationale for success is based on trade preferences reducing the relative costs of Haitian apparel exported to the U.S. market, the largest market for Haiti's primary export industry. The labor provisions reflect a relatively new approach for incorporating core labor standards because the tariff preferences are tied directly to firm performance. The ILO, which wields international credibility, is actively involved in administering and overseeing the program. The model combines government, private sector, and international agency participation in a way 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, faces many challenges and will have to find ways to overcome a legacy of political volatility, economic inequality, and social dissension. These factors could directly affect prospects for rejuvenating the apparel export industry. Without the transition to a more equal and stable society, trade preferences may be overwhelmed by the force of broader social and economic factors that could keep investors away.

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In December 2006, the 109<sup>th</sup> Congress passed the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006 (HOPE I) to assist Haiti with expanding its apparel trade as a way to help stimulate economic growth and employment.<sup>1</sup> The Act included 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 110<sup>th</sup> Congress responded by amending HOPE I with the Hemispheric Opportunity through Partnership Encouragement Act of 2008 (HOPE II).<sup>2</sup> HOPE II extends the preferences for 10 years, expands coverage of duty-free treatment to more apparel products, particularly knit articles, and simplifies the rules to make them easier to use.

In providing preferential access to Haitian apparel imports, the HOPE Act, as amended, gives Haitian firms a competitive (price) advantage in the U.S. market 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 one element of a broader strategy to achieve sustainable economic growth and stability. The act also provides a new requirement to ensure internationally recognized core labor standards are met. This report discusses the HOPE Act as it relates to the Haitian economy and U.S. trade policy.

## Political and Social Challenges to Haitian Development

Haiti occupies the western third of the island of Hispaniola, which it shares with the Dominican Republic (see **Figure 1**). It has endured a long post-colonial history of poverty, political repression, and underdevelopment, a trend that continues to challenge the sustainability of Haiti's fragile political stability. 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 weak governance, economic inequality, and social unrest. The presidency has alternated largely between Jean-Bertrand Aristide and René Préval, neither of whom has been able to establish a broadly accepted government, let alone change the underlying fundamentals of inequality in Haitian society. The legacy of authoritarianism has continued to be present in the previous elected administrations. President Préval's second administration, begun in 2006, initially sparked a ray of hope among the masses, but his government has since been marred by decisions that have weakened his support and raised doubts about fledgling institutional democracy.<sup>3</sup>

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

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

<sup>3</sup> 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 Rienner Publishers. 2002.

Figure I. 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 fully functioning government. After three years into his second non-consecutive term, Préval's leadership, vision, and strategy to address long-standing poverty and unemployment are coming under question. His delay in appointing a 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."<sup>4</sup> Multiple 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.<sup>5</sup>

Political tensions emerged once again during the Senate runoff elections that took place on June 21, 2009. The dominant party of President Préval gained 5 of the 11 seats, but the numbers mask the broader discontent within Haitian society. Turnout was exceedingly poor, estimated at 10% or less of registered voters, and scattered violence marred any overall sense of a society exercising

<sup>4</sup> Perito, Robert M. *Haiti: Hope for the Future*. United States Institute of Peace. Special Report 188. June 2007. p. 6.

<sup>5</sup> Fatton, *Haiti's Predatory Republic*, pp. 10, 14 and 112-17; Transparency International. *Corruption Perceptions Index, 2008* (Haiti ranked 177 out of 180) and; U.S. Department of State. *Haiti: Country Report on Human Rights Practices, 2007*. March 2008. pp. 1 and 8.

its democratic privileges, not to mention the cancellation of voting in one province. The elections took place amid serious protests by medical students after classes failed to resume and by society as a whole over Préval's decision not to sign a bill that would have enacted a huge, long overdue, but by many accounts impractical, increase in the minimum wage. Préval's commitment to the populist platform that helped bring him to power continues to be questioned as he pursues a pragmatic middle path to governance.<sup>6</sup> His most recent response was the creation of a Presidential Commission on Competitiveness, which has drafted a comprehensive development plan for Haiti's economy (discussed below).

Haiti's uneven social structure lies at the heart of its apparent state of recurring 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 appears tenuous as long as entrenched economic and social patterns remain unchanged.<sup>7</sup>

Security is reportedly improving, although it remains a persistent problem, rooted in the history of violence stemming from political and economic inequality.<sup>8</sup> 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 there is a repetition of violence such as occurred during the food riots of April 2008.<sup>9</sup>

## **Economic Background**

It is in this often marginally functional 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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<sup>6</sup> Jonathan M. Katz, "Many Haitians Say Away from Polls, Senate Seats Contested in Runoff Elections," *South Florida Sun-Sentinel*, June 22, 2009, p. 10A and Jacqueline Charles, "U.S. Ambassador to Haiti Steps Down," *The Miami Herald*, June 27, 2009, p. B1.

<sup>7</sup> Fatton, *Haiti's Predatory Republic*, pp. 197-205 and Perito, *Haiti: Hope for the Future*, pp. 2-7.

<sup>8</sup> United Nations. Security Council Report. *Haiti*. April 2006. Available at <http://www.securitycouncil.org>.

<sup>9</sup> For more on current events and U.S. policy in Haiti, see CRS Report R40507, *Haiti: Current Conditions and Congressional Concerns*, by Maureen Taft-Morales

## Macroeconomic Performance and Policy Responses

Haiti's dismal economic growth trend epitomizes its developmental paralysis. From 1960 to 2000, average real growth in per capita income was a meager -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%.<sup>10</sup>

Sector 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.<sup>11</sup> Most assembly plants closed permanently, with only apparel rebounding in the aftermath of the embargo. The inability to import agricultural inputs (e.g., 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 use of charcoal, accelerating the ecologically destructive trends in deforestation and soil erosion, further damaging agricultural production.<sup>12</sup>

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 declined to an annual rate of only 1.5% in 2008, in part because of the deep U.S. and global recession.<sup>13</sup> Given the many domestic and international challenges facing Haiti, sustainability of its long-term growth is far from certain (see data in **Appendix**).

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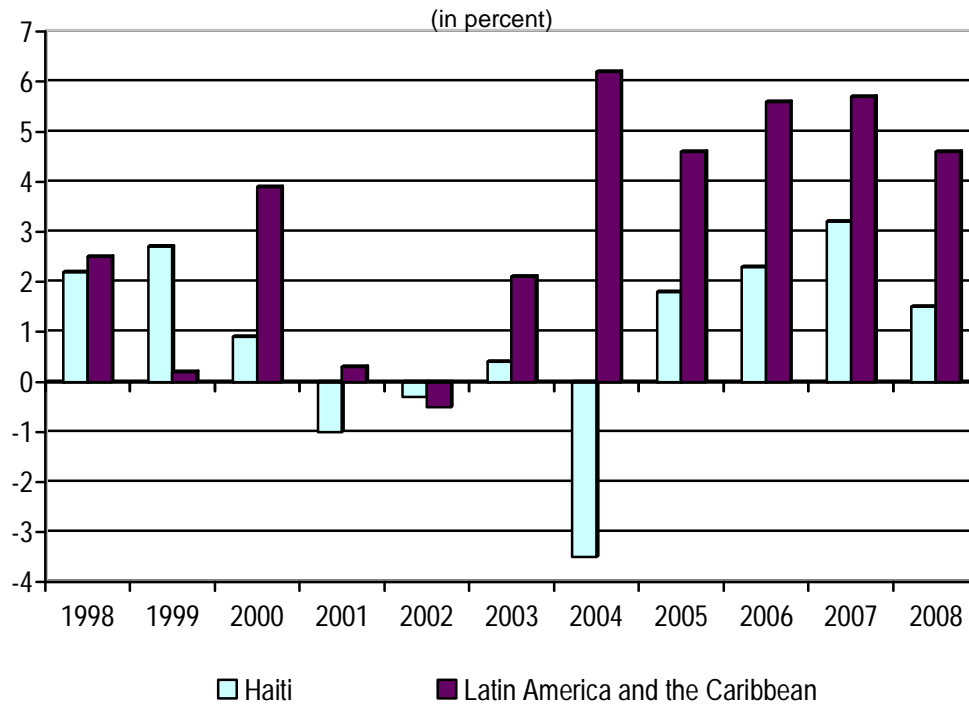
<sup>10</sup> Gibbons, Elizabeth D. *Sanctions in Haiti: Human Rights and Democracy under Assault*. Westport: Praeger Publishers. 1999. pp. 13 and 18.

<sup>11</sup> *Ibid.*, p. 11, citing United Nations data.

<sup>12</sup> *Ibid.*, pp. 10-14 and The World Bank. *Haiti: Options and Opportunities for Inclusive Growth*. Washington, D.C. June 1, 2006. pp. 1-5.

<sup>13</sup> United Nations Economic Commission on Latin America and the Caribbean. *Statistical Yearbook for Latin America and the Caribbean, 2008*. Santiago, February 2009.

Figure 2. Growth in GDP, 1998-2008



**Source:** United Nations. Economic Commission on Latin America and the Caribbean. *Statistical Yearbook for Latin America and the Caribbean 2008*. Santiago, February 2009. p. 85.

Haiti is the poorest country in the region. Over 70% 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, while the bottom 10% earns less than 1% of national income.<sup>14</sup> Inflation has made matters worse, causing real wages to fall since 2000. The real minimum wage in 2008 was nearly half that of 2000, despite a major adjustment in 2003 (see **Appendix**). Inflation has declined more recently in line with the global recession, and real interest rates are stabilizing with sharp price declines in food and energy in the second half of 2008, following the price spikes earlier in the year.

The summer 2009 debate over a legislative proposal to more than double the minimum wage produced protests and political conflagration when President Préval declined to sign the bill into law. The outrage attests to the importance that the Haitian people place on the need for policy responses to address persistent extreme poverty. There is little doubt that failure to adjust the minimum wage in line with inflation has deeply eroded the purchasing power of most Haitians. The magnitude of the proposed raise, however, was dismissed by employers as an impossibly large increase in costs that would put more people out of work, if not bankrupt many firms, particularly in the apparel assembly business. An alternative proposal to increase the minimum wage incrementally is expected to pass.<sup>15</sup>

<sup>14</sup> This is one measure of poverty. Compare with neighboring Dominican Republic with 16% of the population living on less than \$2 per day. World Bank. *World Development Indicators 2009*, pp. 67 and 72.

<sup>15</sup> Mo Wang, *Haiti's Minimum Wage Battle*, Council on Hemispheric Affairs, August 19, 2009 and Jonathan M. Katz, (continued...)



On the positive side, President Préval established a Presidential Commission on Competitiveness in 2009 that has developed a comprehensive development strategy based on improving productivity, diversifying the economy, and creating new employment opportunities in the short term. This ambitious plan envisions the creation of 500,000 jobs within three years by targeting potentially key industries in agriculture, services, and manufacturing sectors that can be started up or expanded in the short term. Specifically, the plan calls for supporting five “growth clusters” (fruits and tubers, animal husbandry, tourism, garment production, and business process outsourcing). These industries will be supported by investment in support sectors such as infrastructure, finance, information technology, education, and enhanced business climate.<sup>16</sup>

While the plan is bold, history does not suggest it will be an easy goal to achieve. It does, nonetheless, reflect a serious effort to present a comprehensive approach that entails both short-term and long-term development goals. Success in the short term is critical if any progress is to be made in reducing poverty and the concomitant penchant for social unrest. It will be an important plan to monitor, not only as a gauge of Haiti’s economic success, but because it will likely raise expectations that problems can begin to be addressed in the near future, which may entail a higher degree of political risk.

Other positive developments include IMF and World Bank approval of \$1.2 billion in debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. This milestone reflects not only budgetary relief for a poor country, but that Haiti has succeeded in meeting economic reforms in macroeconomic stabilization, poverty reduction, tax administration, and debt management, despite a very difficult external economic environment. The IMF noted strides made in institutional capacity building to accomplish and monitor these goals, which are expected to have direct effects on improving social programs, particularly public health and education.<sup>17</sup>

Despite these gains, Haiti’s growth trend has suffered from the global downturn, reducing remittances, exports, and public revenue, which collectively presents a risk to its economic recovery program. Projections of average annual rates of growth are only slightly above 1%. To consolidate what little gains have been made in reinvigorating growth, Haiti will have to address a core area of domestic policy, 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 pronounced in the agricultural sector, where primitive methods and ancient equipment perpetuate low yields, lack of growth in cultivated land, and inadequate food supplies, much of this due to the sector’s “decapitalization” during the 1991-1994 trade embargo. Investment in manufacturing and public sectors has also been sparse, jeopardizing prospects for longer-term growth.<sup>18</sup> Improvements in public administration, especially those that might address widely

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“Many Haitians Stay Away from Polls, Senate Seats Contested in Runoff Elections,” *South Florida Sun-Sentinel*, June 22, 2009, p. 10A.

<sup>16</sup> Presidential Commission on Competitiveness—Groupe de Travail sur la Competitivite (GC), *Shared Vision for an Inclusive and Prosperous Haiti*, Draft Report, Port-au-Prince, July 2009, pp. 33-46.

<sup>17</sup> International Monetary Fund. *IMF and World Bank Approve US\$1.2 billion Debt Relief for Haiti*. Press Release. July 1, 2009.

<sup>18</sup> See United Nations. Economic Commission on Latin America and the Caribbean. *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.

perceived problems of crime, corruption, and bureaucratic efficiency, along with private sector gains, may provide the basis for progress with the Préval development plan.<sup>19</sup>

## **Sector Issues**

Slow growth is also a major constraint at the sector level. Agricultural production represents 30% of GDP and employs up to 70% of the work force, mostly dedicated to subsistence farming. Output 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 exposed Haiti's vulnerability to price shocks and its limited ability to feed itself, as seen in the food riots that occurred in April 2008.<sup>20</sup> The subsequent collapse in commodity prices, although a problem for much of the region, may help alleviate some of Haiti's import bill, at least in the short run.

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, which together account for 27% of GDP. It grew by nearly 6% in 2007. Tourism is not a major factor, but core ingredients of a tourist industry are present in Haiti, should confidence return in Haiti's ability to maintain political and economic stability.<sup>21</sup>

## **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 often made worse by deteriorating terms of trade, when prices of oil and other commodity imports rise relative to prices Haiti's exports.

Haiti's trade relationship with the world is dominated by the United States, with which it ran a \$494 million deficit in 2008. Haiti exports primarily apparel, which accounts for 75%-80% of foreign earnings and for 92% of total exports to the United States. Cacao, mangoes, and coffee

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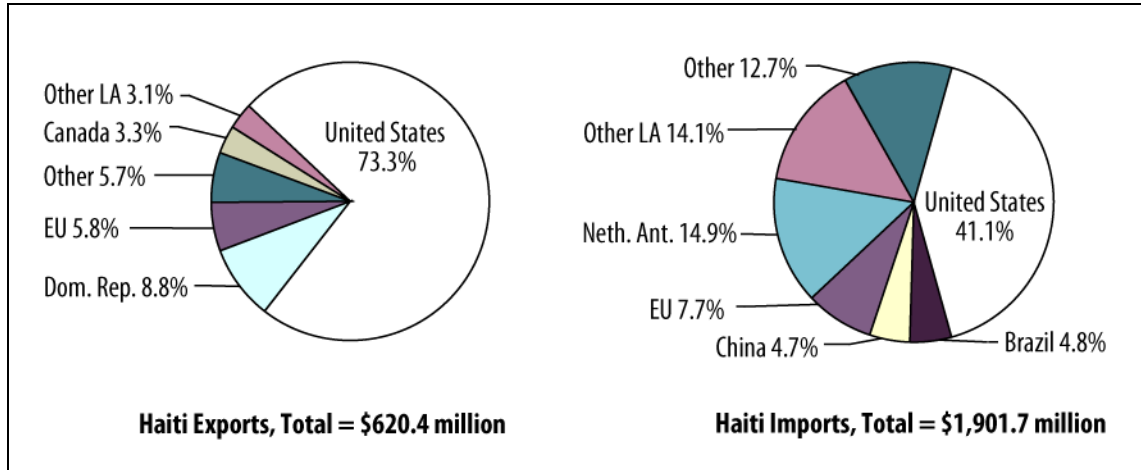
<sup>19</sup> Presidential Commission on Competitiveness, *Shared Vision for an Inclusive and Prosperous Haiti*, pp. 18 and 22.

<sup>20</sup> République d'Haiti. Ministère de l'Économie et des Finances. Institut Haïtien de Statistique et d'Informatique. *Les Comptes Économiques en 2007* and Banque de la République D'Haiti. *Produit Intérieur Brut Par Secteur*; ECLAC, *Statistical Yearbook for Latin America and the Caribbean 2007*. IHS Global Insight, *Haiti*, February 23, 2009.

<sup>21</sup> *Ibid.*

compose the small basket (4%) of agricultural exports.<sup>22</sup> In 2007, the United States accounted for 73.3% of Haiti's exports followed in order of magnitude by the Dominican Republic (8.8%), the European Union (5.8%), and Canada (3.3%)—see **Figure 3**. The United States also accounted for 41.1% of Haiti's imports followed by the Netherland Antilles (14.9%), the rest of Latin America (14.1%) the European Union (7.7%), and China (4.7%).

**Figure 3. Haiti Direction of Trade, 2007**



Source: IMF, Direction of Trade Statistics, September 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 a poor 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, so necessary for Haiti's short-term survival, are dependent on the fortunes of expatriate citizens and the generosity of foreign governments, diminishing Haiti's control over the future of its economic well-being.<sup>23</sup>

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 positive effect on long-term development.<sup>24</sup> The risk to this export structure becomes increasingly clear with the current U.S. economic slowdown, which has reduced demand for Haitian goods (falling 7.5% year-over-year) and may well increase unemployment of Haitian expatriates in the United States, with predictably negative effects on export earnings and remittances.<sup>25</sup> As the Commission on Competitiveness

<sup>22</sup> U.S. Department of Commerce data reported in the World Trade Atlas.

<sup>23</sup> 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.

<sup>24</sup> 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.

<sup>25</sup> Banque de la République D'Haiti. *Exportations d'Haiti par Produits*. At central bank website: <http://www.brh.net/> (continued...)

notes, reliance on U.S. trade preferences for apparel exports represents a long-term opportunity, but only if the sector can be expanded into higher profit articles and other sectors of the economy begin to contribute more to growth in output and exports.<sup>26</sup>

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 over the last decade 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. In 2008, petroleum accounted for 25%-30% of total imports. This trend points to two fundamental problems. First, higher commodity prices make food and energy imports more expensive, decreasing Haitian purchasing power. Second, to compensate, there is a compounding 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 imports of manufactured goods, which fell by 37% from 2002 to 2007.<sup>27</sup>

Foreign direct investment (FDI) in Haiti has been historically very low. Net FDI inflows ranged from \$4 million in 2000 to \$14 million in 2004, and then spiked to \$160 million in 2006, before falling to \$30 million in 2008. The large increase appears to be related to an investment boost in construction and tourist industries, which seems to be limited in duration. Construction activity in the public and private sector has expanded briskly, but FDI inflows are not expected to continue at this recent higher level.<sup>28</sup> 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 one promising source of employment growth in the formal sector. Haiti is a prime candidate for redeveloping the apparel exporting industry because it requires an abundance of low-skill labor, but relies on relatively simple technology and small capital investment. Therefore, production naturally gravitates toward locations with low labor costs. Haiti has among the lowest labor costs in the region and so may be able to niche further into apparel exporting as wage rates rise in much larger producer countries such as China and India. As shall be discussed, U.S. trade preferences can provide an important benefit, particularly if the rules of origin are sufficiently flexible.<sup>29</sup>

The fortunes of the apparel sector to date, however, have paralleled the broader trends of the economy, which have been subject to tremendous social and political turbulence. Historically, the apparel heyday in Haiti lasted from the 1960s through the end of the Duvalier dictatorship in

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pibsecteur.pdf, and Economist Intelligence Unit. *Country Outlook: Haiti*. February 2008.

<sup>26</sup> Presidential Commission on Competitiveness, *Shared Vision for an Inclusive and Prosperous Haiti*, pp. 44.

<sup>27</sup> *Ibid.*, *Importations d' Haiti*, February 2008.

<sup>28</sup> *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.

<sup>29</sup> Paul Brenton and Mombert Hoppe, *Clothing and Export Diversification: Still a Route to Growth for Low-Income Countries?*, The World Bank, Policy Research Working Paper 4343, Washington, D.C., September 2007, pp. 2-10.

1986. The troubled transition to democracy, including the 1991 military coup and trade embargo that followed, caused a massive downturn in production for 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 1991-1994 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. By one estimate, some 25,000 employees were employed in apparel assembly in early 2009.<sup>30</sup>

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 1991-1994 trade embargo. With a temporary return to relative political calm, U.S. 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.

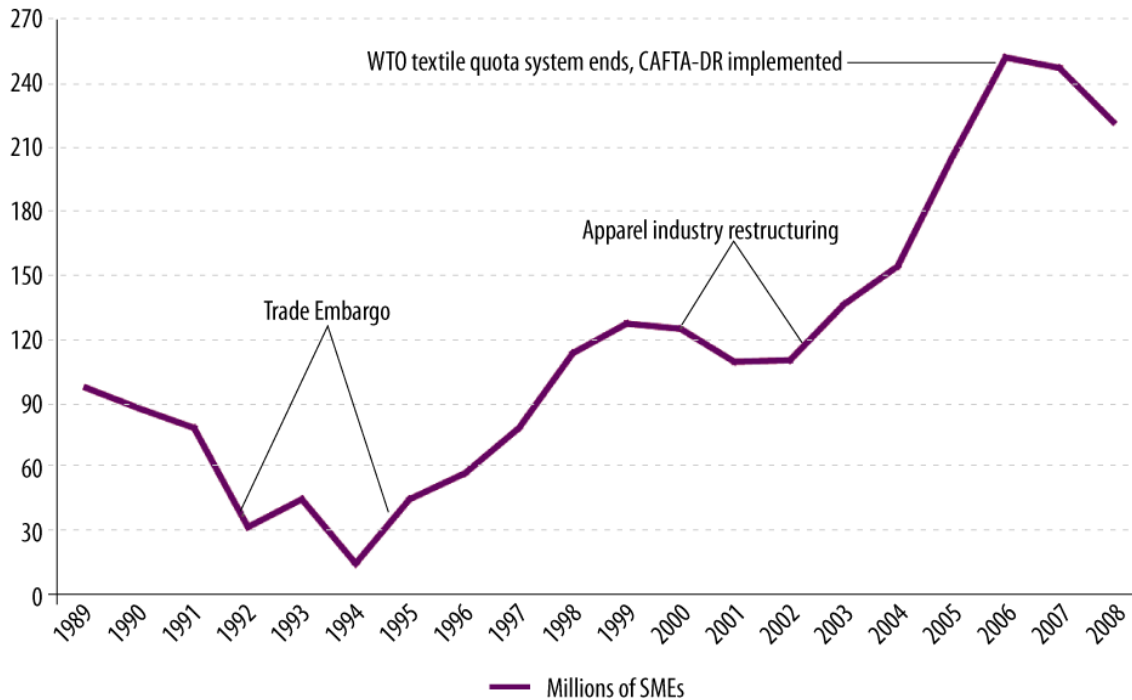
Growth renewed after 2002 with industry restructuring, but employment failed to return to levels achieved two decades earlier. By 2006, a new downturn is noticeable, likely related to two events that occurred at that time: the end of global textile quotas put in place under the World Trade Organization (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.<sup>31</sup> The downturn continued into 2008, likely reflecting the global economic crisis.

Haiti's apparel industry faces many challenges. Domestically, the lack of industrial space, poor infrastructure (especially roads and ports), and the high cost of capital top the list. Externally, highly efficient competitors both in the region and in Asia will continue to challenge Haiti's low-cost export strategy. The required use of higher-cost U.S. inputs (e.g., yarns, fabrics, components) for duty-free entry into the United States has also been a problem, much of it addressed in the HOPE II Act (see "HOPE II"). 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 stage of development.

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<sup>30</sup> 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 and IHS Global Insight Inc., *Haiti*, February 23, 2009. p. 8.

<sup>31</sup> *Ibid.*

**Figure 4. U.S. Imports of Haitian Apparel, 1989-2008**

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

For the most part, Haiti's production is limited mostly to simple knits and some woven products. The mix is shifting, however, toward greater production of more complicated woven goods (e.g. khaki pants), which rose from 11.6% of exports in 2007 to 15.2% in 2008. Knits (e.g., t-shirts and sweatshirts) fell from 80.7% of total exports, to 76.5% over the same two years. Haiti's top five apparel products account for 96.7% of U.S. apparel imports from the country.<sup>32</sup> As may be seen in **Table 1**, they constitute 4.1% of global U.S. imports of those goods and for this basket of goods, Haiti's primary competition is Central America, the Dominican Republic and Southeast Asia (ASEAN),<sup>33</sup> 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.

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, and the industry has recently begun to produce more sophisticated and profitable woven articles.<sup>34</sup> Haiti's apparel industry relies entirely

<sup>32</sup> 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).

<sup>33</sup> The Association of Southeast Asian Nations: Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Lao PDR, Myanmar, and Cambodia.

<sup>34</sup> 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* (continued...)

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 (United States); Willbes (South Korea); and Grupo M (Dominican Republic).

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

| Apparel Article            | Haiti | CAFTA-DR <sup>a</sup> | 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.

a. The Dominican Republic, Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica.

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 (see **Figure 1**, Map of Haiti, p. 2). 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.<sup>35</sup>

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. Haitian assembly sector wage rates are the lowest in the region, on par with those in Bangladesh.<sup>36</sup> The USITC estimates that they may average as little as one-third of those in the Dominican Republic.<sup>37</sup> Assembled articles are then returned to the Dominican Republic for washing and finishing because Haiti lacks the infrastructure (electricity, water, and facilities) to do this type of work. CODEVI produces t-shirts, jeans, and knit trousers and

(...continued)

*Industries*. Investigation No. TR-5003-1. November 8, 2007. pp. 2-1 thru 2-6.

<sup>35</sup> 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 major income generator in the region.

<sup>36</sup> The World Bank, *Haiti: Options and Opportunities for Inclusive Growth*, pp. 22-23.

<sup>37</sup> 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.

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.<sup>38</sup>

## The Haiti HOPE Act

Congress first provided trade preferences to the Caribbean region in the Caribbean Basin Economic Recovery Act (CBERA) of 1983—often referred to as the Caribbean Basin Initiative. The preferences did not, however, cover textile or apparel goods.<sup>39</sup> In 2000, Congress passed the Caribbean Basin Trade Partnership Act (CBTPA), which provided additional incentives on a temporary basis to select U.S. imports of textile and apparel articles assembled or knit-to-shape by firms in designated beneficiary countries. 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 Act, as amended, builds on this precedent, providing benefits exclusively for Haitian apparel exports as a way to support growth and development in Haiti.

The HOPE Act, as amended, offers duty-free treatment for U.S. apparel imports from Haiti under rules of origin that allow for more flexible sourcing of materials than those offered to Haiti and other Caribbean countries under the CBTPA. The critical difference is that under the CBTPA, apparel goods receive duty-free treatment if assembled or knit-to-shape from *U.S. yarns and fabrics*.<sup>40</sup> Under the HOPE Act, 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. unilateral preferential trade arrangement or a free trade agreement (FTA). The special rules allow Haiti apparel exports exclusively to contain 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.<sup>41</sup>

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<sup>38</sup> Ibid.

<sup>39</sup> 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.

<sup>40</sup> 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. pp. 1-5.

<sup>41</sup> Some research suggests the preference margins can be important, see Brenton and Hoppe, *Clothing and Export Diversification: Still a Route to Growth for Low-Income Countries?*, pp. 6,7, and 14.



## HOPE I

In December 2006, the 109<sup>th</sup> 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). Now 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 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 were three specific new rules of origin. First, quotas were established for the duty-free treatment of apparel articles made from inputs 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 were established 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 allowed for duty-free treatment of brassieres made from components sourced anywhere in the world, provided the garments were cut and sewn or otherwise assembled completely in Haiti, the United States, or both.

Despite these new trade rules favoring Haitian apparel producers, 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.<sup>42</sup> Among the major criticisms of HOPE I were<sup>43</sup>

- 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 and 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.

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<sup>42</sup> USITC, *Textiles and Apparel: Effects of Special Rules for Haiti on Trade Markets and Industries*, pp. 2-11 and 3-1.

<sup>43</sup> 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.

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 countries in the region that had apparel trade preferences in other agreements with the United States.<sup>44</sup> 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.<sup>45</sup>

## HOPE II

Because early assessments of the effectiveness of HOPE I were critical of its progress in stimulating investment in the apparel sector, and given Haiti’s economic and social conditions were deteriorating rapidly in early 2008, the 110<sup>th</sup> Congress amended the HOPE Act with passage of the Hemispheric Opportunity through Partnership Encouragement Act of 2008 as part of Title XV of the Food, Conservation, and Energy Act of 2008 (H.R. 6124/P.L. 110-246)—the “Farm Bill.” It became known as HOPE II, and both Houses of Congress were able to agree on bill language relatively quickly 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 from a period of 3 to 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 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 the Caribbean Basin Initiative.

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 on woven articles and the addition of a new capped benefit for knit articles. Detailed changes include

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<sup>44</sup> 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.

<sup>45</sup> USITC, *Textiles and Apparel: Effects of Special Rules for Haiti on Trade Markets and Industries*, p. 3-1.

- maintaining the value-added rule, but freezing the overall cap on eligible apparel articles at 1.25% of total U.S. apparel imports. The original sunset provision is maintained, allowing the cap to expire in 2012 because it was considered unlikely to be exceeded and too complicated to interpret in relation to other caps;
- increasing the annual cap for select woven apparel imports without regard to source of inputs to 70 million square meter equivalents (SMEs);
- adding a new duty-free rule for knit apparel without regard to source of inputs (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 the 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 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.<sup>46</sup>

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,

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<sup>46</sup> 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.

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.

## **Implementing the HOPE Act**

As discussed above, despite much foreign assistance and modest achievements in domestic security and political reform, Haiti faces enormous structural obstacles to sustainable economic growth and development. Its difficult plight has only been compounded by hurricanes, floods, and food crisis in 2008 that created a need for emergency responses. Nonetheless, the Préval government has taken concrete steps to outline a response for getting back on track with an achievable development strategy, which is the critical element for improving Haiti's future. In the words of one development expert, "For the maintenance of social order, military security must rapidly be superseded by economic security."<sup>47</sup> President Préval has made the somewhat risky commitment to demonstrate concrete progress in achieving this goal within a relatively short time frame.

One important element many believe to be critical for Haiti's economic growth will be the rejuvenation and diversification of its apparel export industry, and particularly the opportunities created by the U.S. Congress in the HOPE Act, as amended.<sup>48</sup> Unilateral trade preferences may be an important factor and have also played a long-standing role in U.S. trade policy in the Caribbean. Congress designed the HOPE Act as the most flexible and generous of these arrangements to address the development needs of the poorest country in the Western Hemisphere.

Because the United States is the primary market for Haitian apparel exports, these "uniquely" generous trade preferences may increase 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 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, assuming as well that the global recession subsides. Complementary policies, such as addressing the indispensable need for capital investment, both public (infrastructure) and private (facilities), are essential to reduce shipping times and costs. They will also lead to direct job creation, as is expected of the HOPE trade preferences.

Trade preferences, however, are only one policy response, limited to affecting one sector of the economy. Success in attaining broader development goals, therefore, may face many other challenges presented by Haitian society that will require much deeper political and social reform. Governance issues may be directly tied to location decisions for apparel manufacturing, suggesting that institutionalizing Haiti's relatively new democracy could directly foster economic

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<sup>47</sup> Paul Collier, *Haiti: From Natural Catastrophe to Economic Security: A Report for the Secretary-General of the United Nations*, United Nations, December 28, 2008, p. 3.

<sup>48</sup> *Ibid.*

development.<sup>49</sup> HOPE II also directly supports social reform by requiring that internationally recognized core labor standards be enforced and strictly monitored. The labor provisions reflect a relatively new approach for incorporating core labor standards because the tariff preferences are tied directly to firm performance. In addition, the ILO, which wields international credibility, is actively involved in administering and overseeing the program. The model combines government, private sector, and international agency participation in a way that achieved some success under the U.S.-Cambodia Textile Agreement.<sup>50</sup>

Congressional oversight is also clearly mandated in the HOPE Act, as amended, and will likely be an important factor in assuring it continues to be implemented as Congress 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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<sup>49</sup> Brenton and Hoppe, *Clothing and Export Diversification: Still a Route to Growth for Low-Income Countries?*, pp. 28-30.

<sup>50</sup> 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 | 2008  |
|--|-------|-------|-------|-------|-------|-------|-------|------|-------|
| GDP Growth (%)                         | 0.9   | -1.0  | -0.3  | 0.4   | -3.5  | 1.8   | 2.3   | 3.4  | 1.3   |
| Per Capita GDP Growth (%)              | -0.8  | -2.7  | -1.8  | -1.2  | -5.0  | 0.2   | 0.7   | 1.7  | -0.4  |
| Inflation Rate (%)                     | 14.1  | 14.2  | 9.9   | 39.3  | 22.8  | 15.1  | 13.2  | 8.4  | 15.5  |
| Real Interest Rate (%)                 | 6.1   | 20.5  | 10.7  | -9.7  | 13.9  | 12.3  | 19.5  | 24.5 | 16.9  |
| Average Real Wage (% change)           | -11.9 | -11.6 | -8.9  | 33.5  | -14.4 | -13.2 | -12.0 | -7.6 |       |
| Real Minimum Wage (index)              | 100.0 | 88.4  | 80.5  | 107.5 | 91.7  | 79.6  | 70.0  | 64.8 | 56.2  |
| Gross Fixed Capital Formation (% GDP)  | 27.3  | 27.3  | 28.0  | 28.8  | 28.9  | 28.8  | 28.8  | 28.6 | 28.7  |
| Current Account Balance (% GDP)        | -3.0  | -3.8  | -2.8  | -1.6  | -1.5  | 0.9   | -0.4  | -0.2 | -4.2  |
| Current Acct. Bal. – w/out grants (%)  |       |       |       |       |       |       | -8.2  | -6.6 | -11.0 |
| Net Foreign Direct Investment (\$ mil) | 13.0  | 4.0   | 6.0   | 14.0  | 6.0   | 26.0  | 160.0 | 75.0 | 30.0  |
| Terms of trade (index)                 | 100.0 | 101.2 | 100.2 | 98.7  | 96.0  | 92.4  | 88.9  | 86.4 | 62.4  |

**Source:** United Nations Economic Commission on Latin America and the Caribbean (ECLAC). *Economic Survey of Latin America and the Caribbean 2008-2009*, July 2009, and International Monetary Fund. *Haiti: Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility*, August 2009.

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