



## CRS Report for Congress

# Haitian Textile Industry: Impact of Proposed Trade Assistance

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### Summary

Haiti suffers from extreme poverty, political unrest, insecurity, high illiteracy, and eroding natural resources, among other problems. These factors contribute to low levels of business investment, impeding development and leading to economic decline. In an effort to improve Haiti's economic conditions, Congress has been considering and, in late 2006, passed legislation that (a) loosens existing restrictions on the origins of the components of apparel sewn together in Haiti and exported to the United States, and (b) effectively allows most of those exports to enter duty free. Such changes could have large potential benefit for Haitian manufacturing, but poor conditions in the country and some of the effects of the WTO January 2005 textile quota phaseout may well preclude any significant near-term benefit. This report will be updated when warranted by events.

Haiti is a very poor country and it is getting poorer. Its per capita gross domestic product is 195<sup>th</sup> in the Central Intelligence Agency's (CIA) ranking of 233 countries;<sup>1</sup> and Haitian manufacturing value added per capita in 2003 was less than 3% of the average for all Latin American and Caribbean countries.<sup>2</sup> The country's per capita gross domestic product in constant dollars has fallen for at least two decades.<sup>3</sup> Little or no change in these conditions is expected in the near future.<sup>4</sup>

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<sup>1</sup> CIA, *The World Factbook*, [<https://www.cia.gov/cia/publications/factbook/rankorder/2004rank.html>].

<sup>2</sup> United Nations Industrial Development Organization, *International Comparisons of Industrial Performance* [<http://www.unido.org/data/Country/stats//StaTableA.cfm?c=HAI>].

<sup>3</sup> The World Bank, *Haiti at a Glance*, August 12, 2006 [[http://devdata.worldbank.org/AAG/hti\\_aag.pdf](http://devdata.worldbank.org/AAG/hti_aag.pdf)].

<sup>4</sup> For more on Haiti, see CRS Report RL32294, *Haiti: Developments and U.S. Policy Since 1991 and Current Congressional Concerns*, by Maureen Taft-Morales.

For the sake of clarity, it should be noted that this report defines the term textile industry as including apparel manufacture/assembly — common, although not universal, usage. Moreover, such a definition is essential in the present context inasmuch as apparel making constitutes nearly all “textile” manufacturing in Haiti. Thus, in most cases, the word “textiles” in this report includes apparel articles.

## Proposed and Enacted Economic Assistance

Bills were introduced in the 108<sup>th</sup> and 109<sup>th</sup> Congresses that would (a) loosen existing restrictions on the origins of the components of apparel sewn together in Haiti and exported to the United States, and (b) allow some of those exports to enter the United States duty free.

**108<sup>th</sup> Congress.** S. 489 and H.R. 1031, would have amended the Caribbean Basin Economic Recovery Act (CBERA) to allow specified apparel articles made of cloth to be imported from Haiti, subject to quantitative limitations, into the United States duty free if Haiti satisfied the economic and democratic reforms required by the bills, which are noted below. The substantive provisions of S. 2261 and H.R. 4889 were the same as those in S. 489 and H.R. 1031, except for a key qualitative difference. That is, the covered apparel included articles wholly assembled or knit-to-shape in Haiti from any combination of fabrics, fabric components, components knit-to-shape, and yarns *with no regard to the country of origin* of the fabrics, components, or yarns. All were called the Haiti Economic Recovery Opportunity Act (HERO Act).

Following Senate passage of S. 2261 (July 2004), the House Ways and Means Trade Subcommittee held a hearing on whether to provide special trade preferences for Haiti, on the impacts on Haitian economic development and trade, and on the impacts on the U.S. textile and apparel industries. U.S. textile producers contended that permitting duty-free entry of Haitian-assembled apparel regardless of country of origin of the components would result in Caribbean and Central American apparel makers moving to Haiti where they would be able to use Chinese and other-nation yarn and fabrics, and access the U.S. market duty-free. After the hearing, the Subcommittee produced a draft alternative (never introduced), the “Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2004” (the HOPE Act), which required apparel components to originate in the United States or in countries to which the U.S. grants trade preferences, with some exceptions. U.S. importers objected, saying it would not provide enough benefits to attract new business to Haiti. There was no further action on trade preferences for Haiti before the session ended.

**109<sup>th</sup> Congress.** On and off attempts to develop compromise legislation in 2005 failed, and virtually identical bills S. 1937 and H.R. 4211 of the 109<sup>th</sup> Congress were introduced that essentially were identical to S. 2261 and H.R. 4889 of the 108<sup>th</sup> Congress. Also called HERO bills, they would have limited the quantity of articles to which such preferential treatment would be extended in the initial 12-month period and seven succeeding 12-month periods to amounts equal to increasing percentages of all apparel articles imported into the United States.

The Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act of 2006, Title III of H.R. 6142, was introduced September 21, 2006. Its principal provisions would allow duty-free entry to specified apparel articles made and/or

assembled in Haiti, the United States, a beneficiary country of a U.S. trade preference program, or a country party to a U.S. free trade agreement — a tighter rule of origin than in the HERO bills. The sum of material and production costs had to be a rising percentage of the customs value over a five-year period, and import quantities were capped at a rising percentage of all U.S. apparel imports. The bill did not advance.

**Enactment.** A significant variation of the HOPE Act bill was incorporated in a multifaceted bill (H.R. 6111), passed by Congress in early December 2006, and signed by the President on December 20, 2006 to become P.L. 109-432. In contrast to H.R. 6142, apparel articles that are wholly assembled or knit to shape in Haiti from any combination of components *regardless of country of origin* and imported directly from Haiti shall enter the United States duty free. However, in the first year, at least 50% of the material and processing cost of the finished article must come from Haiti, the United States, or a country that has a free trade agreement or a preference program with the United States. The percentage requirement rises to 55% in the fourth year and 60% in the fifth year. The quantity of articles to which such preferential treatment is applied is limited in the initial 12-month period to an amount equal to 1% of the aggregate square meter equivalents of all apparel articles imported into the United States in the most recent 12-month period for which data are available. This limitation rises by 0.25 percentage points each of the following four years. The preferences end after the fifth year. U.S. textile interests again objected strongly, asserting that the lenient rules of origin would result in Caribbean and Central American apparel makers moving to Haiti where they would be able to use Chinese and other-nation yarn and fabrics, and access the U.S. market duty-free.

As with the HERO bills, Haiti qualifies for preferential treatment under the HOPE Act only if the U.S. President certifies to Congress that Haiti has established or made progress toward establishing a large number of economic, legal, and political institutions and policies. These include a market-based economy, minimum government interference that protects private property rights, the rule of law, the elimination of barriers to U.S. trade and investment, economic policies to reduce poverty, a system to combat corruption and bribery, and protection of internationally recognized human and worker rights. Haiti has tried to enact such reforms over the past decade, but has had difficulty making or maintaining progress in any of these areas.

## Current Haitian Textile Manufacturing and Trade

There is too little quantitative information available on Haitian textile manufacturing to provide a reasonably complete quantitative picture of the industry. However, it can be said that, based upon value, about 80% of *all* Haitian exports went to the United States in 2004.<sup>5</sup> Also, in the first eleven months of 2006, textiles accounted for about 90% of Haitian exports to the United States,<sup>6</sup> 99.6% of Haitian textile exports to the United States were in the form of apparel,<sup>7</sup> and about 80% of Haitian apparel exports to the United

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<sup>5</sup> International Monetary Fund, *Direction of Trade Statistics, Yearbook 2005*, p. 263.

<sup>6</sup> U.S. International Trade Commission Dataweb (compiled from U.S. Departments of Commerce and Treasury data), [<http://dataweb.usitc.gov>].

<sup>7</sup> U.S. International Trade Commission Dataweb.

States were assembled from U.S.-made fabric and/or yarn.<sup>8</sup> Current employment in Haitian textile manufacturing has been estimated at between 25,000 and 30,000.<sup>9</sup>

The industry was on an upswing before the violence and change in government in early 2004 — as suggested by the 34% rise in exports to the United States between 2002 and 2003. A study prepared for the U.S. Agency for International Development reported that some Haitian textile manufacturing companies are well managed — run by individuals with “a strong U.S. background,” who use the latest computer technology. The same source regards that management as capable of returning the industry to previous higher levels of production.<sup>10</sup>

Notwithstanding any advantage that geographical proximity may provide, Haiti’s industry probably is too small to be a major factor any time soon. In the first seven months of 2006, U.S. imports of apparel from Haiti accounted for 0.6% of total U.S. imports of apparel. Moreover, after increasing 24% between 2004 and 2005, Haitian exports of apparel to the United States in 2006 are only 3% greater than the comparable 2005 period. In 2005, the value of U.S. apparel imports from Haiti equaled 0.2% of the value of shipments by textile and apparel manufacturing in the United States.<sup>11</sup>

## International Trade Law and Haitian Trade Preferences

In analyzing the impact that the HOPE Act could have on the Haitian and U.S. textile industries, it is important to take into account existing international trade law and U.S. trade preferences applicable to Haiti. With respect to international trade law, a key negative development for Haiti was the final phasing out of quotas on textiles and apparel on January 1, 2005. This was mandated by the Agreement on Textiles and Clothing, concluded during the Uruguay Round of trade negotiations, and applicable to all member nations of the World Trade Organization (Haiti is one). As widely expected, some countries that were subject to quotas have increased their exports of apparel to the United States. China and India are considered to be major threats to compete against, and potentially crowd out, Haitian-made apparel.

Haiti is a beneficiary country of the Caribbean Basin Trade Partnership Act (CBTPA) (Title II, P.L. 106-200). As amended, the CBTPA provides certain special trade preferences to goods produced in qualifying Caribbean countries. These are among the apparel categories that can enter the United States duty- and quota-free under the CBTPA:

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<sup>8</sup> Department of Commerce, Office of Textiles and Apparel, [<http://otexa.ita.doc.gov/msrpoint.htm>], viewed January 19, 2007.

<sup>9</sup> Hemlock, Doreen. “Dire Threat to Job Creation,” *South Florida Sun-Sentinel*, March 31, 2005, Haiti Democracy Project [<http://www.haitipolicy.org/printversions/2903.htm>]; International Labor Organization, *Promoting fair globalization in textiles and clothing in a post-MFA environment*, Geneva, 2005, p. 48.

<sup>10</sup> The Services Group. *An Assessment of the Potential Impact of the Haitian Economic Recovery Opportunity Act (Hero)*, May 26, 2003, pp. 16 and 25.

<sup>11</sup> Bureau of the Census, *Manufacturer’s Shipments, Inventories and Orders*, July 2006; International Trade Commission Dataweb;

(1) Apparel assembled in a CBTPA beneficiary country from U.S.-made fabric from U.S.-made yarn, and cut in the United States; or from U.S.-made fabric from U.S.-made yarn, cut in the CBTPA country, and sewn in a CBTPA country with U.S. thread.

(2) Apparel articles, except socks, knit-to-shape from U.S.-made yarn in a beneficiary country, or articles (except non-underwear T-shirts) assembled from fabric knit in the United States or in a beneficiary country from U.S.-made yarn, and cut in a beneficiary country. U.S. knit-to-shape components and U.S.-cut fabric components are treated the same. However, duty-free treatment of knit-to-shape articles (T-shirts and socks excluded) is subject to annual quantity limits; there are limits for non-underwear T-shirts; and all dyeing, printing, and finishing of components (except sewing thread) must be done in the United States.

(3) Brassieres cut and assembled in the United States and/or one or more beneficiary countries during the six-year period beginning with October 1, 2001, if the cost of the U.S.-made fabric components used in their manufacture by their individual producer during the preceding year is at least 75% of their customs value.

## Potential Benefits of the HOPE Act

Given the allowance to use third country sources of components, trade preferences provided to Haitian textiles under HOPE Act appear to be broader than those that would have been provided by the early HERO bills and are provided under CAFTA. About half of Haitian exports of apparel and accessories to the United States already enter duty free under the CBTPA. The fact that the HOPE Act allows, subject to the quantitative limitations and increasing “domestic” cost thresholds, duty-free imports of apparel made from fabrics, components, or yarns *originating in any country* contrasts sharply with the CBTPA rules of origin. Absent other considerations, the HOPE Act may have potential benefit to the Haitian textile industry.

Based upon H.R. 6142, some have argued that significant relaxation of existing restrictions of the country origin(s) of components used to assemble apparel in Haiti could set the stage for tripling apparel production and employment in the initial years of the proposed new regimen. This is derived from the fact that Haiti initially would be eligible to export duty-free a quantity of apparel equal up to 1.5% of total U.S. apparel imports in the previous year, whereas Haiti accounts for 0.5% of total U.S. apparel imports (value basis). A tripling would raise employment in the industry to 75,000–90,000 (three times 25,000 or 30,000). If Haitian apparel exports to the United States reach 3.5% of total U.S. imports in later years, it could mean Haitian apparel manufacturing employment of at least 175,000 (seven times 25,000). The *enacted* bill’s lower quantity limitations would seem to reduce such expectations.

Should apparel production and employment gains take place, there would be, in addition, indirect positive effects on other parts of the Haitian economy, as the increases in personal and business incomes from expanded Haitian apparel manufacturing stimulate other parts of the Haitian economy.<sup>12</sup>

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<sup>12</sup> One proponent of the legislation has projected *indirect* employment gains at 100,000. Jacqueline Charles, “In U.S., Haitian Leader to Ask for Funds,” *Miami Herald*, May 4, 2004.

## Haiti's Political and Business Climate

Among other considerations in analyzing the impact that the proposed legislation would have on Haiti's textile industry are Haiti's political and business climates, access to basic services, and public safety.<sup>13</sup> While some progress is noted,<sup>14</sup> one can question Haiti's ability to make progress in the near future toward establishing political pluralism and the rule of law, protecting human and worker rights, and reducing corruption.

The business climate is marred by inadequate protection of private property and considerable red tape that greatly slows transactions and procedures such as importing equipment, purchasing factories, and incorporating.<sup>15</sup> Inadequate protection of private property raises the question of availability of insurance for entrepreneurs, without which investment would not occur. In addition, reliable and sufficient electric power is lacking in many areas, roads are poor, and inadequate security tends to preclude businesses from adding night shifts, as workers cannot be assured of safe trips home.

On the positive side, Haiti's production costs are reported to have become very favorable relative to those of other Caribbean apparel producers.<sup>16</sup> The country has a large number of unemployed and underemployed people who constitute a labor pool readily available for training and incorporation in the Haitian textile industry work force. The free trade zone with the Dominican Republic is open and operating. And some have perceived that the new government is eager to create a positive environment.<sup>17</sup>

### Observation

The proposed trade preferences contained in the HOPE Act could have large potential benefits for Haiti, particularly in view of the proposed easing of restrictions on the country origins of components used in Haiti to make apparel that would be exported duty free to the United States. To the extent that Haitian exports of apparel would increase in a future period, Haitian apparel manufacturing and associated employment would increase — and stimulate activity in the rest of the Haitian economy.

However, the several negative factors in Haiti's political and business climate, noted above, taken together weigh heavily, and may well preclude significant near-term gains. Moreover, Haiti will not have had a window of opportunity to gear up production capacity and develop markets before textile and apparel quotas expired on January 1, 2005, to be able to compete for U.S. markets more intensively with goods from other textile-producing countries.

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<sup>13</sup> Violence by police and UN peacekeepers as well as by gangs has been reported: Aaron Mate, "Police-UN Killings in Haiti," *ZNet/Haiti*, October 10, 2005. Viewed on November 29, 2005 [[http://www.zmag.org/content/print\\_article.cfm?itemID=8909&sectionID=55](http://www.zmag.org/content/print_article.cfm?itemID=8909&sectionID=55)].

<sup>14</sup> See CRS Report RL33156, *Haiti: International Assistance Strategy for the Interim Government and Congressional Concerns*, by Maureen Taft-Morales.

<sup>15</sup> *Assessment of the Potential Impact*, p. 22.

<sup>16</sup> *Assessment of the Potential Impact*, p. 17.

<sup>17</sup> Based upon telephone conversation with Patricia Forner, World Vision Haiti, May 10, 2004.