Order Code RS21839
Updated February 8, 2005

CRS Report for Congress

Received through the CRS Web

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, bills have been introduced in Congress 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) effectively allow most of those exports to enter the United States duty free. Such changes could have large potential benefit for Haitian textile manufacturing, but poor conditions in the country and some of the consequences of the phase-out of textile quotas at the beginning of 2005 probably could preclude any near-term benefit.

Haiti is a very poor country and it is getting poorer. Its per capita gross domestic product is 186th in the Central Intelligence Agency's (CIA) ranking of 232 countries; En and Haitian manufacturing value added per capita in 2002 was 3% of the average for all Latin American and Caribbean countries. En The country's per capita gross domestic product in constant dollars fell an average of 1.4% per year between 1993 and 2003. En En Little or no change in these conditions is expected in 2005.

For the sake of clarity, it should be noted that this report interprets the term textile industry as including apparel manufacture/assembly. This is 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.

The Haiti Economic Recovery Opportunity Acts

Bills were introduced in the 108th Congress 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.

As of this writing, no similar bills have been introduced in the 109th Congress. All that were formally introduced in the 108th Congress were called the Haiti Economic Recovery Opportunity Act (HERO). The two that were introduced in 2003, S. 489 and H.R. 1031, appended "of 2003" to the name. 5. 2261 and H.R. 4889, introduced in 2004, appended "of 2004" to the name. Only 5. 2261 progressed beyond its committee of jurisdiction.

S.489 and H.R.1031. The identical earlier bills, 5. 489 and H.R. 1031, would amend the Caribbean Basin Economic Recovery Act to allow specified apparel articles that are imported directly into the customs territory of the United States from Haiti to enter free of duty if Haiti has satisfied the economic and democratic reforms required by the bills. Except for a key qualitative difference, cited below, and a base year difference, their provisions are same as those in 5. 2261 and H.R. 4889.

S. 2261 and H.R. 4889. Similar to S.489 and H.R. 1031, identical bills 5. 2261 and H.R. 4889 would amend the Caribbean Basin Economic Recovery Act to allow apparel articles made of cloth to be imported, subject to quantitative limitations, into the United States duty free if Haiti has satisfied the requirements of this act, which are noted below. Such apparel articles include articles that are wholly assembled or knit-to-shape in Haiti from any combination of fabrics, fabric components, components knit-to-shape, and yams with no regard to the country of origin of the fabrics, components, or yams. This is a major difference from S. 489 and H.R. 1031.

5. 2261 and H.R. 4889 limit the quantity of articles to which such preferential treatment would be extended in the initial 12-month period, beginning October 1, 2003, to an amount equal to 1.5% of the aggregate square meter equivalents (SME) of all apparel articles imported into the United States during the 12-month period beginning October 1, 2002. During the 12-month period beginning October 1 of each succeeding year, the quantity would be limited to the percentage applicable to the previous 12-month period plus 0.5% (but not over 3.5%) times the aggregate square meter equivalents of all U.S. imports of apparel during the 12-month period ending on September30 of that year. 5. 2261 and H.R. 4889 preferences would be in effect for eight years.

However, as in the cases of S. 489 and H.R. 1031, Haiti would qualify for such preferential treatment 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. These are reforms that Haiti has tried to enact over the past decade, and has had difficulty making or maintaining progress in any of these areas.

Developments. The Senate passed S. 2261 on July 16,2004, following which the House Ways and Means Trade Subcommittee held a hearing (September 22) on whether to provide additional 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. Supporters of additional preferences urged passage before textile and apparel quotas phase out in January 2005. (See "Potential Benefits of the HERO Bills," below.) 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 get duty-free access to the U.S. market.

After the hearing, the Trade Subcommittee worked on a draft alternative bill, the

"Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2004" (called the HOPE Act), which reportedly 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 object to this, saying it would not provide enough benefits to attract new business to Haiti. The draft bill was not introduced, and there was no further action on additional trade preferences for Haiti before the lame duck session ended.

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 84% of all Haitian exports went to the United States in 2003, En and that, in 2004, textiles accounted for 89% of Haitian exports to the United States, En 99% of Haitian textile exports to the United States were in the form of apparel, En and about two-thirds of Haitian textile exports to the United States are in the form of apparel assembled from U.S.-made fabric and yarn. En Current employment in Haitian textile manufacturing is variously estimated at between 18,000 and 25,000. En

Qualitatively, 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 (USAID) reports 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 high levels of production. En

From the U.S. industry viewpoint, the Haitian industry presently is too small to be a major factor any time soon. Notwithstanding any advantage that geographical proximity may provide, U.S. imports of textiles and apparel from Haiti account for 0.3% of total imports of textiles and apparel by the United States; U.S. imports of apparel from Haiti account for 0.4% of total U.S. apparel imports; and the value of U.S. textile and apparel imports from Haiti in 2002 equaled 0.2% of the value of shipments by textile and apparel manufacturing in the United States. En

International Trade Law and Haitian Trade Preferences

In analyzing the impact that 5. 2261 and H.R. 4889 could have had 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 effective 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.) It is widely expected that some countries that were subject to quotas will increase 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, this provides certain special trade preferences to goods produced in qualifying Caribbean countries — with particular attention paid to textiles. Under the CBTPA, the following categories of apparel can enter the United States duty- and quota-free:

(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 (other than non-underwear T-shirts) assembled from fabric knit in the United States or in a beneficiary country from U.S.-made yam, and cut in a beneficiary country. U.S. knit-to-shape components are treated like U.S.-cut fabric components. 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; if the U.S.-component requirement is not met in any year, the producer will not be eligible for the preference until the year following that in which the value of U.S.-made fabric components is at least 85% of the customs value of the brassieres produced by the individual producer.

(4) Apparel articles assembled in a beneficiary country from fibers, fabric, or yarn not formed in the United States or a CBTPA beneficiary country that are not widely available in commercial quantities in the United States. Under Annex 401 of the North American Free Trade Agreement, the Committee for the Implementation of Textile Agreements, upon request, is authorized to determine and designate that such an article is eligible for this preference.

(5) Certified hand-loomed, handmade, and folklore articles. En

Thus, the trade preferences provided to Haitian textiles under the CBTPA appear to be nearly as broad and extensive as those that would have been provided by 5. 489 and H.R. 1031. At present, roughly half of Haitian exports of apparel and accessories to the United States already enter duty free under the CBTPA, which limits the potential scope for benefit under the three bills. However, the fact that 5. 2261 would have allowed, subject to the quantitative limitations, duty-free imports of apparel made from fabrics, components, or yams originating in any country contrasts sharply with the CBTPA rules of origin; and, absent other considerations, S. 2261 would seem to have had considerable potential benefit to the Haitian textile industry.

Potential Benefits of the HERO Bills

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 currently accounts for 0.4% of total U.S. apparel imports (on a value basis). Just a tripling would raise employment in the industry to roughly 60,000(3 times 20,000). 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 140,000 (7 times 20,000).

Should such 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. One proponent of the legislation has projected *indirect* employment gains at 100,000. En

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. Based upon past experience, 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 and bribery. The current government is not able yet to field sufficient police to assure security in many areas of the country, En and it has not been recognized by the Caribbean Community nations.

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. En 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. En 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 the new government appears eager to create a positive environment. En

Observation

The proposed textile trade preferences contained in 5. 489, H.R. 1031, and 5. 2261 could have large potential benefits for Haiti. This is particularly true of S. 2261, which removes 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, a number of negative factors taken together weighs heavily, and may well preclude any significant near-term gains. Moreover, inasmuch as legislation of the type proposed was not enacted, Haiti will not have had a window of opportunity to gear up production capacity and develop markets before textile and apparel quotas expired at the beginning of 2005. Thus, the Haitian industry does not have any U.S. trade assistance to help it as it starts to compete for U.S. markets more intensively with goods from other textile-producing countries.