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A 'LOW-ROAD' APPROACH TO THE HAITIAN APPAREL SECTOR

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Abstract

The paper analyzes the need for structural change in the Haitian economy, an economy where the majority make their living in agriculture – a sector characterized by a severe erosion problem. It is argued that tourism does not offer any solution, other than possibly in the long run. The only alternative is export-based industrialization, since Haiti is a small and poor country. Its comparative advantage rests on an abundant supply of unskilled labor and exports are heavily concentrated to the apparel sector. This comparative advantage is reinforced by advantageous access to the United States market. Unfortunately, the expected employment effects have not materialized so far and wages are low in the sector. Still, employment there makes a contribution to the household economy, together with remittances from Haitians abroad. The apparel sector provides employment at a wage which is higher than the one in agriculture or the urban informal sector. Raising wages above the level prevailing in competing countries is difficult, but employment can potentially be expanded, but Haiti's bad business climate does not attract investors. Here, the government plays a central role. Haiti's infrastructure is bad and the Haitian state has always displayed strong predatory features.

Keywords: Haiti; economic development; structural change, apparel industry

JEL: O10; O14; O54

> ‘You'll take the high road and I'll take the low road.
> And I'll be in Scotland afore ye.’
> (*Loch Lomond*, Scottish traditional song)

The most recent poverty study in Haiti was carried out by the World Bank in 2014. This study, based on a 2012 survey of living conditions, presented poverty and extreme poverty lines for Haiti, calculated from consumption data.[1] It yielded a poverty headcount of 58.5 percent of the population and an extreme poverty figure of 24 percent.[2] Poverty was more rampant in rural than in urban areas: almost 75 percent poor and close to 38 percent extreme poor.[3] The study highlighted the problems of the agricultural sector:

> Incomes have stagnated in rural areas, where 80 percent of the extreme poor are concentrated. The stagnation reflects the problems with reliance on the low-performing agricultural sector and production for home consumption. Rural livelihoods are highly dependent on agriculture. Almost 80 percent of rural households engage in farming, and, in 50 percent of households, farming is the sole economic activity. However, the returns to agriculture are low and unreliable, and the activity resembles a subsistence strategy rather than reliance on a productive economic sector. This situation has led to constant migration from rural areas to urban areas.[4]

The dismal situation in Haitian agriculture points directly to the desirability of structural change. Haiti has a severe erosion problem which makes it impossible to absorb a growing population on a shrinking cultivable area. This will simply lead to a declining per capita income over time, since it is the very growth of the agricultural population that destroys the soil, in the country which is already the poorest in the Western Hemisphere. Unless people leave agriculture, the decline will continue – inexorably. The process is visible for anybody who takes the trouble to travel into the countryside. This case has already been made several times and we will not repeat it here.[5] Traditional agriculture will not provide any solution to Haiti’s economic

[1] 2.41 and 1.23 dollars – purchasing power parity adjusted as of 2005.
[2] World Bank and ONPES (2014), p. 2.
[3] Ibid., p. 76.
[4] Ibid., p. 175.
[5] Notably in Lundahl (1979), Chapter 5. Alex Dupuy (1989a), pp. 108-10, (1989b) does not agree. For a refutation of his criticism, however, see Lundahl (1992), pp. 56-58.

problems. For agriculture to be able to contribute to the country's economic development, a major reform of the sector is needed, and no such reform is in sight.

The Need for Structural Change

The need for structural change is not specific to Haiti. 'One of the earliest and most central insights of the literature on economic development is that development entails structural change.'[6] But what form should structural change take? In 1939 and 1940, Allan Fisher and Colin Clark, respectively, published two pioneering works which constitute the beginning of the modern research tradition on structural change in the process of economic development,[7] a tradition that would be continued and expanded by Simon Kuznets and by Hollis Chenery and his collaborators.[8] Their most important finding was that, over time, as per capita income increases, the share of agriculture in terms of both income and employment tends to decrease, while that of industry increases, and that at a later stage the service sector tends to expand at the expense of manufacturing. This finding also constituted one of the underpinnings of the celebrated model of economic dualism by Arthur Lewis,[9] which stresses the instrumentality of the modern (manufacturing) sector for increasing the rate of economic growth in low-income economies.

More recent work as well highlights the importance of structural change:

> The countries that manage to pull out of poverty and get richer are those that are able to diversify away from agriculture and other traditional products. As labor and other resources move from agriculture into modern economic activities, overall productivity rises and incomes expand. The speed with which this structural transformation takes place is the key factor that differentiates successful countries from unsuccessful ones

summarize Margaret McMillan and Dani Rodrik in a study of the experience of 38 developing countries.[10] Labor productivity is typically much higher in manufacturing than in agriculture. The study indicated that the average manufacturing to agriculture productivity ratio was 2.3 in

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6 McMillan and Rodrik (2011), p. 1.
7 Fisher (1939), Clark (1940).
8 E.g. Kuznets (1966), Chenery and Syrquin (1975), Chenery (1975), Chenery et al. (1986).
9 Lewis (1954). Cf. also Fei and Ranis (1964).
10 McMillan and Rodrik (2011), p. 1.

Africa, 2.8 in Latin America and 3.9 in Asia.[11] A third finding was that the potential for structural change to bring about growth was higher in countries which did not rely on exports of raw materials. 'Countries that do well are those that start out with a lot of workers in agriculture but do not have a strong comparative advantage in primary products.'[12] The latter is precisely the situation of Haiti.

Tourism?

Tourism has frequently been held out as a possible way of creating growth in the Haitian economy. On a world scale, travel and tourism generated one out of 11 jobs in 2014.[13] In Haiti, the corresponding figure was one out of 37, or one out of 12 if indirect job creation is also taken into account.[14] This corresponds to 2.2 and 6.8 percent of the labor force.[15] The direct contribution of tourism to GDP was 3.2 percent.[16] The World Travel and Tourism Council in 2015 forecast an annual growth rate of 4.9 percent for the direct contribution of the tourist sector to GDP (4.8 percent for the total contribution) up to 2025, of 2.9 percent for direct employment and of 2.8 percent for total employment (including linkages). This corresponds to 3.7 and 10.7 percent of GDP and 3.1 and 9.3 percent of employment.[17]

Whether this forecast will prove correct is difficult to know.[18] Haiti saw a few years of expansion of tourism during the country's *belle époque* in the early 1950s, but severe setbacks during the presidency of François Duvalier (1957-71) and following the fall of his son Jean-Claude in 1986 show how sensitive tourism is to political events. The vulnerability of Haiti to natural disasters, of which there have been many in recent years, is another factor likely to be taken into account by prospective visitors. Even more serious, however, is that Haiti is facing severe competition from its extremely well-organized neighbor, the Dominican Republic, where the number of visitors arriving by air increased from around 300,000 in 1978 to 7.5 million in 2019.[19] The forecast for Haiti for 2025 is 647,000 visitors.[20] At the beginning of 2020, the ministries for foreign affairs of countries like the United States, Canada, France and

[11] Ibid., p. 6.
[12] Ibid., p. 26.
[13] World Travel & Tourism Council (2015), Foreword.
[14] Ibid., p. 1.
[15] The labor force figure comes from World Bank (2017).
[16] The total contribution, including production stemming from linkages with other sectors, was 9.5 percent of GDP (World Travel & Tourism Council, 2015, p. 1).
[17] Ibid.
[18] Cf. Lundahl (2013), pp. 176-77, 281.
[19] Presidencia de la República Dominicana (2020).
[20] World Travel & Tourism Council (2015), p. 5.

Great Britain advised against travel to Haiti,[21] and under the present circumstances, with the COVID-19 virus present in the country to an unknown extent, tourism is dead.

Competition is not likely to be less intense in the future, once normal circumstances prevail again. Cuba, by far the most important player before 1959, has not yet developed its entire tourism potential. The advent of an isolationist president in the United States will slow down the process, but in the longer run, when he has been relegated to the place in history that he rightly deserves, it cannot stop it. And then you have all the other islands in the Caribbean. To this comes the fact that the Caribbean as a whole seems to be losing its position in the international tourist market to other destinations in Asia, the Pacific, Latin America and Florida.[22]

All in all, 'Caribbean leisure tourism [is working] under conditions of strong competition.'[23] It is likely to take a great deal more to be able to compete successfully in the future:

> In the current situation, when the number of tourist regions with similar characteristics influencing the development of 3S [Sea, Sand and Sun] tourism is growing year after year, and have similar quality infrastructure (4 and 5 star hotels) the significance of the elements that differentiate various areas, directly determining their competitive advantage, is also increasing. Because of globalisation and unification of the tourism industry, tourists today literally do not perceive any differences between the tourist regions in different countries. Increasingly often holidaymakers become accustomed to the conditions offered by specific hotel chains, which are identical in all countries. Because of that, the ongoing process of supplementing regional tourist packages has to be accelerated by introducing new forms of tourism.[24]

The Dominican Republic has entered the new game. Can Haiti do it too, from a base that is anything but developed? This is hardly likely. In the best case, tourism is a long-term option. 'Haiti's tourism industry has a long way to go, including overcoming the image of a dangerous

[21] This was written before the disruption of international travel because of the corona virus.
[22] Rettinger and Apollo (2017), p. 62.
[23] Ibid., p. 66.
[24] Ibid.

country, marred by violence and cholera, and … its weak transport and electricity infrastructure', as a recent World Bank report puts it.[25]

Inward-Looking Industrialization: A Dead-End

This leaves only industry – by default. A second way of making the case for industry is by pointing out that historically, the road to higher real incomes and living standards in the world has been that of industrialization. It is no coincidence that what took place first in England during the late eighteenth century, and during the nineteenth century in the rest of Europe and in North America is known as the 'Industrial Revolution', for a revolution it was. After millennia during which it took the greater part of the population to produce enough food to keep the rest alive as well, at a low material standard of living, the development of machine power and machine-based techniques instead of human or animal power made it possible to acquire food through trade – you only have to consider Ricardo's classic example of barter of wine for cloth[26] – and to reduce the agricultural population to the point where in today's industrial countries a small minority can ensure that the rest is properly fed and in addition that the common man has a variety of sophisticated consumer goods – unheard of before the Industrial Revolution – at his disposal. Industrialization created the modern world – a world with a standard of living that few people could dream of at the beginning of the eighteenth century.

What kind of industrialization process should we envisage? During the post-World War II period, industrialization in the Third World has proceeded along two essentially opposite roads: on the one hand, production for the domestic market supported by tariff protection, on the other hand production for exports. The latter has been superior to the former. 'That a liberal is preferable to a restrictive trade regime is by now generally accepted, and a substantial body of empirical research carried out over the last 20 years supports this conclusion', write Michael Michaely, Demetris Papageorgiou and Armeane Choksi in the summary volume of a series of comparative studies of the effects of liberalizing foreign trade.[27]

In the case of Haiti as well, inward-looking industrialization is a bad idea.[28] Haiti's domestic market is very small in terms of purchasing power. Whichever the measures employed, all

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[25] Singh and Barton-Dock (2015), p. 56.
[26] Ricardo (1932), Chapter 7.
[27] Michaely et al. (1991), p. 1.
[28] See e.g. Little et al. (1970), Bhagwati (1978), Krueger (1978), (1983), (1984), Bruton (1989) and Michaely et al. (1991), for the general experience of developing countries.

available studies indicate that a majority of the population lives in poverty, and far too many in absolute poverty.[29] These people can hardly afford to buy high-cost, high-price, domestically produced goods.

Tariff protection of the industrial sector furthermore discriminates against agriculture by turning the internal terms-of-trade against the latter sector. In the absence of domestic production of capital and intermediate goods, consumer goods production requires that these goods are imported, but tariff protection of manufacturing discriminates against agricultural exports (the only exports that would remain). The latter have already decreased almost to the point of extinction, which means that either a substantial capital inflow is required, or Haiti has to borrow abroad, increasing its foreign debt (which has to be serviced out of future exports).

The consequences for the distribution of incomes are also likely to be negative. Production of import-competing industrial consumer goods is a great deal more capital-intensive than agricultural production, and when the relative price of the former increases as a result of tariff protection, so will the relative price of the factor used intensively in that line of production – capital – at the expense of the wage earners.[30] Finally, since tariff protection produces a rent for those who obtain it, industrialization based on tariffs tends to move competition away from the economic arena (cost competition) to the political one (lobbying for protection), which in a country like Haiti quite likely will tend to increase corruption. A non-transparent network between companies and political decision makers building on bribes is easily created.

Finally, tariff protection tends to perpetuate itself. Producing behind a tariff wall means that you don't have to bring your costs down to the competitive level given by the world market price, and since governments tend to be sensitive to employment arguments, it becomes easy for companies to persuade the political decision makers to continue their support, at the expense of the poor consumers.

To this may be added that the extent of globalization has increased dramatically in recent decades. Haiti is one of the most open economies in the Caribbean,[31] with few practical possibilities of going back to a more restrictive trade regime. It is clear that industrialization

[29] Lundahl (2017), pp. 270-71, provides a short summary.
[30] This is the so-called Stolper-Samuelson theorem. See Stolper and Samuelson (1941).
[31] For details, see Export.gov (2017a).

behind protective tariff walls stands little chance to be introduced, let alone to succeed, in Haiti. The country will continue to be an open economy, where exports will be based on comparative advantage.

The Evolution of Comparative Advantage in Haiti

Haiti is often portrayed as a peasant country *par excellence*, and this is true in the sense that the majority of the Haitians make their living in agriculture, but the comparative advantage in agriculture that the country once had, has been lost. Whereas land was relatively plentiful during the nineteenth century, during the course of the twentieth and twenty-first centuries, factor proportions have been undergoing substantial change. As the population grew on a given land area, the production of labor-intensive food crops increased at the expense of land-intensive exports crops (coffee).[32] With time, this led to soil erosion, as food crop cultivation began to creep up the steep hill and mountain sides uprooting the coffee trees and depriving the soil of the protection afforded by roots and canopies. The available land area began to shrink, and Haiti began to lose its comparative advantage in coffee production.[33]

As the man-land ratio increased, comparative advantage was gradually shifted towards products using unskilled labor intensively. The change in comparative advantage began to make itself felt in the mid-1960s, when bow ties and brassieres were beginning to be exported. During the following decade, baseballs, stuffed toys, electronics and garments were added.[34] The share of the assembly industries in total exports rose from less than 5 percent from the former date to over two-thirds in the mid-1980s.[35] Haiti had become an industrial exporter. Today, the apparel sector dominates Haiti's exports completely, with a share of the total that amounted to more than 85 percent in 2018.[36]

Ever since the late 1960s, the presence of the assembly industry sector has been highly visible in Haiti. Much of the development strategy during the presidency of Jean-Claude Duvalier, 'Baby Doc' (1971-86), if indeed we may speak of a strategy at all, rested on outward-looking

[32] The process can be explained with the aid of the Rybczynski (1955) theorem: In a world of two commodities – export crops and food crops – using two factors of production – land and labor – where the former are land-intensive and the latter labor-intensive, at constant commodity prices, when the population and the labor force grow, the production of food crops will increase in absolute terms while that of export crops will decrease.
[33] The process is analysed in detail in Lundahl (1979), Chapter 5, and (1992), Chapter 5.
[34] Lundahl (2013), p. 284.
[35] Lundahl (1992), p. 410.
[36] Observatory of Economic Complexity (2020).

industrialization. Production, employment and exports from the small assembly factories grew steadily during this period. The sector, however, suffered a severe blow during the period of international sanctions and loss of markets that followed the military coup against President Jean-Bertrand Aristide in 1991. After the end of the sanctions and the return of Aristide in 1994, the sector has grown back little by little, to the point where employment there surpasses the level before the 1991 coup. The assembly sector forms an integral part of the post-earthquake reconstruction strategy of Haiti.[37]

Haiti is a country which has always been integrated into the world economy, sometimes more, sometimes less, but international economic forces have always had an impact on the Haitian economy. The forms have varied over time, from outright colonialism and production for the metropolitan market, from the first days of contact with the Europeans, to nation-to-nation export-import trade and direct foreign investment during the post-independence period. It is in this light that the apparel industry must be seen, as part of an effort to combine exports based on comparative advantage with employment creation.

The Demand Side: Market Access

The notion of comparative advantage is a supply notion, but when it comes to determining international trade flows, the demand side of course also matters. There, the most important advantage enjoyed by Haiti is the proximity to the large US market along with favorable treatment through various trade agreements. It may be argued that as far as apparel is concerned, Haiti has a comparative advantage also on the demand side, as it were. As Paul Collier observed in 2009, Haiti had a unique opportunity in the American market.[38]

This is still true. Haiti benefits from special acts which provide duty-free access of textiles and clothing to the American market: HOPE, HOPE II and HELP.[39] The former, which stems from 2006, provides for tariff-free access of products based on fabrics and yarns from the US or from countries enjoying US trade preferences.[40] HOPE II, introduced in 2008 and valid originally until September 2018, changed the rule of origin to 55 percent (from the US, or countries with a free trade agreement or a unilateral preferential trading agreement with the US), increased

[37] Shamsie (2010), p. 9.
[38] Collier (2009), p. 3.
[39] HOPE = Hemispheric Opportunity through Partnership Encouragement, HELP = Haiti Economic Lift Program.
[40] Lundahl (2013), p. 171.

and extended Haiti's quotas in the American market and allowed shipments directly from Haiti and the Dominican Republic, provided that certain conditions with respect to working conditions and human rights were met.[41] HELP, from 2010, valid at first until September 2020, did away with the source requirements altogether and once more extended the quotas.[42] In 2015, the United States Congress extended the duration of the HOPE and HELP acts through 30 September 2025.[43]

Table 1: US Imports of Textiles and Apparel from Haiti (million US dollars)

Year	Exports
2006	450
2007	452
2008	412
2009	513
2010	518
2011	701
2012	730
2013	803
2014	854
2015	895
2016	849
2017	861
2018	926
2019	1,002

Source: OTEXA (2020).

As seen in Table 1, while the first HOPE legislation did not have much of an impact on Haitian exports, the second one and HELP did. From 2006 to 2007, Haiti's apparel exports to the United States increased very marginally, only to drop in 2008. Thereafter, however, following the introduction of HOPE II, they rose by almost 25 percent in a single year, and with the aid of HELP they have almost doubled, to an all-time high in 2019. Thereafter, however, the COVID-19 virus has taken its toll. Between July 2019 and July 2020, the value of US textile and apparel imports from Haiti dropped by 20 percent.[44] What will happen in the future is strongly dependent on the development of the health situation and the economic development in general in the United States.

[41] Ibid., pp. 286-87.
[42] Govtrack (2010), Office of the United States Trade Representative (2016).
[43] Congress (2015), p. 11.
[44] OTEXA (2020).

The preferential access to the United States market means that the extent of the market does not constitute any restriction on Haitian apparel production in Haiti. The country has not hit any quota or other restrictions during the past decade, and, under normal circumstances, it should be able to sell everything it can produce also in the immediate future.

Employment in the Apparel Industry

In spite of the favorable market situation, the employment record of apparel production is not good. The sector has created far fewer jobs than what its advocates have predicted. In his report to the United Nations Secretary General in 2009, Paul Collier estimated that the apparel sector had the potential to provide several hundred thousand jobs over just a few years,[45] but mere potential is not enough. Somebody must be willing to hire too. Between 2008 and February 2020, a mere 34,750 jobs were added, as shown by Table 2. (Thereafter, as a result of the closedown of the textile factories, due to the corona pandemic, in March and the reopening with a reduced staff in April, employment fell from 56,000 in February 2020 to 37,000 in April.)[46]

It was not the first time that wishful thinking had come to the forefront. As exports increased, from the 1960s, over the next decades, employment increased as well in the assembly industry sector, and in the mid-1980s, hopes were high. In 1985, the USAID estimated that 50,000 jobs could be created there in five years and that an additional 200,000 could be added until 2000.[47] It did not turn out that way. In 1990 – the year when Jean-Bertrand Aristide was elected president – around 46,000 people were employed by 250 firms in the assembly sector. The following year, however, Aristide was ousted by the military and the sector almost collapsed. International sanctions were imposed on Haiti because of the coup. Fuel and spare parts became scarce and work discipline was relaxed. Between 1991 and early 1995, the number of employees fell to a mere 5,000 in 44 companies.[48]

[45] Collier (2009), p. 8.
[46] *ADIH News* (2020), p. 2. For more details on the immediate impact of COVID-19 on the apparel sector, see Better Work Haiti (2020).
[47] Cited by DeWind and Kinley (1988), p. 143.
[48] Lundahl (2013), p. 169.

Table 2: Employment in the Haitian Apparel Sector 2008-2020

2008	21,301
2009	24,583
2010	27,144
2011	26,835
2012	29,404
2013	31,462
2014	36,266
2015	40,010
2016	41,066
2017	47,386
2018	51,220
2019	54,616
2020	56,051

Note: The figures in the table are those reported by the Association des Industries d'Haïti. They include management staff, which accounts for 10-15% of the total (Better Work Haiti, 2018, p. 8). All figures except 2018 (end of June) and 2020 (February) refer to the end of December.

Sources: 2008-18: Centre de Facilitation des Investissements (2020); 2019-20: *ADIH News* (2020), p. 2.

President Aristide returned to Haiti in 1995, with the help of the United States. His return also led to renewed, but slow, growth of the export industry, virtually only in the apparel sector. In May 1997, between 20,000 and 25,000 people worked there.[49] A period of employment stagnation followed. As shown by Table 2, in 2008 and 2009, the situation was no better, but thereafter, a growth phase began. The apparel sector survived the 2010 earthquake without major problems, and from 2011 to 2020, employment there more than doubled. At present, before the onset of the corona pandemic – after more than twenty-five years – employment in the apparel sector is higher than it was before the 1991 military coup. The majority of those employed there – around two-thirds – are women.[50]

The employment in the apparel sector, however, amounts to less than 1 percent the total labor force (an estimated 5 million, 2017).[51] If the backward (jobs directly induced in companies supplying the apparel producers) and forward (jobs induced in companies that are customers of the apparel sector) linkages of the sector inside the Haitian economy are taken into account – altogether 11,456 jobs – the employment impact increases to 57,312 jobs, and if income linkages (the number of jobs supported by the spending of the apparel worker incomes) are

[49] Lundahl (2011), p. 98.
[50] Blackett (2015), p. 172, USAID Haiti (2017a), p. 28, Shamsie (2017), p. 41.
[51] World Bank (2017).

added as well, 13,437 jobs, the overall impact rises to 65,892 jobs, or 1.3 percent of the labor force: still a very low figure.[52]

The production impact of the apparel sector is more important. The overall contribution of the industrial sector to GDP is estimated to have been around 21 percent in 2017.[53] All of this does not come from apparel, however. (The industrial sector also consists of flour milling, cement, and light industry producing for the domestic market.) The contribution of the apparel sector amounted to around 10 percent (in 2016).[54]

The Organization of the Apparel Sector

Most apparel production takes place in special industrial parks, some of them free zones with temporary tax exemptions. In 2009, 25,000 people worked in 23 apparel factories in Haiti, 13 of which were Haitian-owned. Four were South Korean, three Dominican and three American. With the single exception of CODEVI, a company owned by the Dominican Grupo M, located in Ouanaminthe, in the Northeast, on the Dominican border (opened in 2002), they all operated out of Port-au-Prince.[55] Eight years later, the sector consisted of 27 companies,[56] and its geographical structure had changed. The Association des Industries d'Haïti collected information of employment from eight industrial parks in 2016. These are listed in Table 3.

As shown by the table, in 2016, all except two of the Haitian industrial parks were still located in the capital area. The exceptions are, however, important: CODEVI and the Parc Industriel Caracol (PIC), which began producing in 2012, in Caracol, in the North. The industrial park structure is hence becoming increasingly geographically decentralized, with the major part of the growth taking place in the northern part of the country. In 2016, the northern parks accounted for almost 40 percent of the total employment in the apparel sector. The largest park, however, is the Parc Industriel Métropolitain (PIM) in Port-au-Prince, established in the early 1970s.

[52] USAID Haiti (2017a), pp. 1, 4, 20-21.
[53] CIA (2018).
[54] Better Work Haiti (2017), p. 7
[55] Lundahl (2013), p. 285-86.
[56] Conseil Supérieur des Salaires (2017), p. 23.

Table 3: The Industrial Parks of Haiti 2016

Park	Employment	Location
PIM	11,011	Port-au-Prince
PIC	8,478	Caracol
CODEVI	7,790	Ouanaminthe
Les Palmiers FTZ	4,371	Port-au-Prince
SIDSA	3,808	Port-au-Prince
Port-au-Prince, unaffiliated	3,102	Port-au-Prince
SHODECOSA	2,445	Port-au-Prince
Delmas	250 or less	Port-au-Prince

Source: USAID Haiti (2017a), p. 17.

The development of the newly established parks has been a great deal more sluggish than expected. The two northern industrial parks have considerable excess capacity. CODEVI has a total space of 375,000 square meters, but, according to the latest available information, a mere 11 percent is utilized, and the rate for the Caracol park is similar: around 10 percent.[57] The greater part of the envisaged 65,000 jobs there are still in the future.[58] The park has a single major tenant, the South Korean, Seoul-based, Sae-A Trading, South Korea's largest garment manufacturer.[59]

The facilities at Caracol include infrastructure, fully financed buildings and a fifteen-year tax holiday. The park is financed by the USAID (power plant, port, housing), the Inter-American Development Bank (buildings and infrastructure), and the Korean company made some investment of its own. Haiti supplied land and workers.[60] More industrial parks have been constructed in recent years, and at Port Lafito, Haiti's only container port, northwest of Port-au-Prince, where a new park is being developed in a free zone, 90,000 square meters are available.[61]

In spite of the disappointing developments up to the present time, the optimism of the Haitian business sector has not diminished. At an Association des Industries d'Haïti (ADIH) press conference in April 2017, André Apaid, one of Haiti's most well-known businessmen, owner

57 USAID Haiti (2017a), p. 16. Factory shells, on the other hand have been reported to be scarce, especially larger factories of 5,000-10,000 m^2. Most factories are around 3,000 m^2 (USAID, 2015, pp. 11, 29).
58 USAID (2018).
59 USAID Haiti (2017a), p. 16.
60 Lundahl (2013), pp. 290-92, Katz (2013), Inter-American Development Bank (2015). The history of the construction of the Caracol park is told in Shamsie (2014).
61 USAID Haiti (2017a), p. 17.

of Interamerican Wovens, maintained that the apparel sector, with the aid of the American trade preferences, could provide close to 300,000 jobs over an eight-year period, provided that the government makes it a priority in the job-creation strategy,[62] and the GB Group, founded by Gilbert Bigio, which is the motor of the Lafito endeavor, speaks of the creation of tens of thousands of jobs over the next few years.[63]

In Haiti, export companies enjoy substantial benefits:

- Export-oriented companies pay 0% tax
- Duty-free imports of raw materials and equipment necessary for business operations
- Exemption of security deposits and other constraints on the temporary entry of raw materials and packaging needs
- Exemption of payroll taxes and other internal direct taxes for up to 15 years
- Exemption of audit charges
- Accelerated depreciation on a range of items
- A number of 'free zones,' which may allow additional incentives[64]

Even so, the available space has not been converted into factory buildings at a sufficient pace to boost employment very much above the level prevailing at the beginning of the 1990s.

The conclusion of the above is obvious. In terms of exports, Haiti is an industrial country, but hardly in terms of the contribution of industry to GDP, and definitely not in terms of employment. The industrial parks and free zones have considerable excess capacity. The mass of the population is still found either in agriculture or in the amorphous informal urban sector (notably in Port-au-Prince), i.e. in two notorious low-income sectors.

[62] USAID Haiti (2017b).
[63] GB Group (2017).
[64] USAID (2015), p. 7.

The Wage Issue

Unfortunately, the apparel sector is a low-wage sector. The point has been made many times that the prevailing wage is not a living wage.[65] From 1 November 2019, the minimum wage for assembly and other export industries is 500 gourdes (4.45 US dollars as of July 2020) per day.[66] The trade unions had been lobbying for an increase to 800 gourdes, staging demonstrations and strikes on several occasions.[67] Some employers responded by dismissing the participating workers.[68] Others threatened with leaving Haiti for countries 'where investments and investors are protected'.[69]

Before we continue, let it be said at once that the wage level in the apparel sector is higher than alternative earnings in agriculture or in the urban informal sector. Otherwise, people would not have been lining up for jobs there. Even the critics agree. 'As for Haitians choosing factory jobs because conditions and wages are worse in the agricultural and informal sectors, this is true', writes Yasmine Shamsie.[70] In the early 2000s, apparel industry wages amounted to between three and five times the national average income,[71] or around 1.25 to 2.25 times the average wage *per worker*.[72] The average real wage in the apparel sector increased by an impressive 48 percent between 2001 and 2011, the second largest increase among apparel exporters after China, which still only put Haiti before Cambodia and Bangladesh in terms of wage level.[73] A 2014 World Bank study indicated that the hourly average labor income was two to four times higher in the informal and formal urban sectors than in agriculture.[74] Finally, a USAID study carried out in 2016 which surveyed more than 1,200 apparel industry workers found that 21 percent of them considered their economic conditions to be much better and 56 percent better than before they got an apparel job. Nearly 93 percent indicated that the factory job was very important or important to their households, and the earnings reported were significantly higher than what the employees had earned in their previous job: around 100-300 gourdes (2.50-5.00 dollars) per day, or, excluding the 38 percent who had been unemployed before, 0-100 gourdes per day.[75]

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[65] Most recently by Shamsie (2017), pp. 42-44.
[66] *Le Moniteur* (2020), p. 4.
[67] *Daily Mail* (2017), Brice (2017), *Workers World* (2017), Asta (2017).
[68] *HaïtiLibre* (2017b), Lebrun (2017), *Le Nouvelliste* (2017a), (2017b), IndustriAll (2017).
[69] Lebrun (2017).
[70] Shamsie (2017), p. 42.
[71] The former assumes a 40-hour week, the latter a 70-hour week.
[72] Powell and Skarbek (2006), pp. 266-67.
[73] Edwards (2016), p. 98.
[74] World Bank and ONPES (2014), p. 46.
[75] UDAID Haiti (2017), pp. 32, 29-30.

Even the higher minimum wage in the apparel sector wage is low in terms of purchasing power. The various attempts that have been made in recent years to estimate the 'living wage' level range between 500 gourdes per day and around 1,100.[76] The former is probably too low and the latter a bit too high. The 800 gourdes asked for by the unions is probably more realistic.

Unfortunately, the apparel companies do not always pay the legislated wages. In 2013, the Worker Rights Consortium (WRC) in Washington, DC, an independent labor rights monitoring organization, issued a report on 'wage theft' in Haitian apparel sector, which pointed to three widespread ways to avoid paying the regulated minimum wage.[77] The first is to set piece rates so low that it is impossible to earn the legal minimum wage in a regular workday. The second is to base overtime payment on a rate below the legal minimum wage, instead of above, as required by the law. The third is to make workers do a significant amount of 'off-the-clock' work (before or after the regular workday, or during meal times) without compensation. The WRC investigated five factories in Port-au-Prince and in addition the Caracol Industrial Park. In the former, the workers were paid 32 percent less than what they were entitled to and in Caracol 34 percent.[78] The pay of the Port-au-Prince workers amounted to a mere 19 percent on average of the living wage.[79] It was not until 2016 and 2017 that half or more of the trained workers (those working on a piece rate basis) were able to earn at least the minimum piece wage rate in an eight-hour day.[80] This is far better than the figures for the early 2010s,[81] but still not good in absolute terms.

Working Conditions and Housing

The working conditions prevailing in the apparel sector have also come under fire. The HOPE II law requires compliance with international core labor standards. This is supervised in some detail as well by the ILO through the Better Work Haiti program, and in cases where companies fall short of the acceptable standards, the program offers assistance to ensure compliance. Inspections take place twice a year: freedom of association and collective bargaining, elimination of forced labor, child labor and discrimination. Child labor is virtually non-existent in the apparel industry and no instances of forced overtime have been reported since 2013. The

[76] Worker Rights Consortium (2013), p. 14, Shamsie (2017), p. 44.
[77] Worker Rights Consortium (2013).
[78] Ibid., p. 7. Even so, however, the resulting net wages still put apparel workers way above the poverty lines.
[79] Ibid., p. 35.
[80] Better Work Haiti (2017), p. 15.
[81] See e.g. Better Work Haiti (2012), p. 18.

reported instances of sexual discrimination and harassment have been few.[82] Finally, the extent of unionization has increased in the apparel sector. In 2017, officially recognized unions were present in 76 percent of the factories, although their membership is believed to be low.[83]

At the same time, the Better Work project monitors working conditions in the apparel sector: compensation (including wages, which we have already dealt with), contracts and human resources, occupational safety and health and working time. The findings are not quite easy to interpret, they are quite detailed, the methodology and the report format have changed over time, the same stereotype phrases appear in consecutive reports and it is difficult to get a coherent picture of the overall situation. Certain themes keep coming back, however, especially in the field of occupational safety and health, like the low presence of medical personnel in the factories, matters that in many cases should be easy to change.[84] Arguably, the main reason is that no punishment is meted out. The Better Work program has no mandate to do so, the Haitian government has not shown any interest, and the United States has not made any complaints, let alone threatened to suspend Haiti's trade preferences.

It thus happens that companies that have improved their standard on some specific point lapse back to inferior standards in subsequent years. Progress appears to have been made during the first years of the Better Work program, and according to the US Department of Commerce, as of 2017, occupational safety and health standards had improved with 50 percent since the beginning of the program.[85] However, recent Better Work reports complain about a slow pace of improvement,[86] the need for a reform of the Haitian labor code and the behavior of the trade

[82] With the exception of the third, fifth and eleventh issues, all the Better Work reports can easily be found on the internet. For lack of space, they are not listed presently.
[83] Better Work Haiti (2017), p. 18.
[84] The methodology of the Better Work assessments is not beyond criticism. Above all, the statistics reported tend to be biased toward the pessimistic side and do not necessarily provide a realistic picture of the conditions of the individual factories (Cahn and Clifford, 2013, p. 46):

> … in the BWH system of measuring compliance, if a factory is found deficient on any one question, or aspect, of a compliance point, then it is considered to be non-compliant on the entire point. In terms of summary reporting on factory performance on the most important Occupational Safety and Health issues, this can lead to a skewing of the results. A system of compliance assessment and reporting that reflects some degree of prioritization among the risks might lead to a more nuanced understanding of the status of Occupational Safety and Health issues in Haitian garment factories and in turn to the creation of priorities for improvements.

[85] Export.gov (2017b).
[86] Better Work Haiti (2019), p. 32.

unions. 'The trade unions in the sector should overcome their intra-union conflicts for the benefit of a stronger union movement overall.'[87]

Finally, the creation of industrial parks with large population concentrations requires housing. It is well known that when people emigrate in search of industrial jobs, they do so in excess of the number of jobs available. This observation, for example, forms the core of the well-known Harris-Todaro model of rural-urban migration, where the decision to migrate is a function of the difference between the *expected* urban wage and the *known* income in the countryside. The expected wage, in turn, is the known wage in the formal sector multiplied by the probability of obtaining a job there. What this means is that if the prospective migrants overestimate their chances, the influx of migrants and their families may exceed by far the number of jobs waiting for them.[88] Thus, six to seven persons were reported to apply for every job posted in the apparel industry in 2009,[89] and according then Prime Minister Laurent Lamothe, in 2013, 'new apparel manufacturers like Sae-A received 50 applications for every job when they opened their factory'.[90] The situation today is likely to be very much the same.

The uncontrolled influx of migrants puts pressure on the housing market, as witnessed above all by the growth of the slum areas of Port-au-Prince. North of the capital, on 50 square kilometers expropriated after the 2010 earthquake, known as Canaan, a completely new city, lacking most facilities, has grown up, with more than 300,000 inhabitants. Canaan has *de facto* become Haiti's third largest city.[91] The same kind of pressure operates in the industrial parks. The creation of the Caracol industrial park was reported to have doubled the cost of renting in nearby Limonade as of 2015, a situation which spills over to those living in the neighborhood but not working in the industrial park.[92] The need for housing programs is acute.

The Role of the Apparel Sector in the Household Economy

The wage figures for the apparel sector and the poverty line estimates both raise the question of how people can survive at all in Haiti. If the wage paid in the apparel industry is not enough to cover the needs of a single person it must mean that someone else in the family is earning

[87] Better Work Haiti (2017), p. 29.
[88] Harris and Todaro 1970).
[89] Nathan Associates (2009), p. 37.
[90] Lamothe (2013),
[91] Kushner (2019).
[92] Golder Associés (2015), p. 76.

enough to compensate for that and besides to cover the consumption of the children, but how many jobs like that are to be found, and where? It can always be argued that in the countryside you can eat what you grow, but people leave the countryside for jobs in the apparel industry, so after all, the latter is a more attractive proposition. We should not forget that the majority of the poor in Haiti are found in the countryside.

Let's face it. Businessmen are not in business for the sake of philanthropy. The purpose is to make a buck. The only thing that businessmen do is to offer jobs to those interested, and their offers are based on self-interest. The pay of a worker is not based on what constitutes a 'living' wage. What matters when employers hire workers is the productivity on the job of the latter. The maximum wage that the employers are willing to pay is given by the value of the marginal product of labor. Both this and the wage, in turn, have to be higher than or equal to what the workers can earn elsewhere, in the case of Haiti, what they can get in agriculture or in the informal urban sector. If they accept the wage rate offered in the apparel industry, it simply means that this is the better deal. There is nothing inherently 'unjust', 'dishonest' or 'immoral' in the fact that wages are determined by marginal productivity. That's just how the economy works. What you think of the outcome is a matter of value judgement.

The same reasoning can be extended to the issue of working conditions. In *Out of Poverty*, a book defending sweatshops as a means for economic development, Benjamin Powell writes:

> I do not deny that sweatshops have wages far below levels in the developed world. Nor do I deny that sweatshops have long and unpredictable working hours, a high risk of injuries on the job, and generally unhealthy working conditions. Sweatshops also sometimes deny lunch or bathroom breaks, verbally abuse workers, require overtime, and break local labor laws. Despite these atrocious conditions, sweatshops are still in the best interest of the workers who choose to work in them.[93]

The reason is the same as with wages. The alternatives elsewhere are so bad that on the whole factory work is perceived as superior. Wages and working conditions cannot be separated. They are both part of the total labor cost paid by the employer, i.e. there is a tradeoff between the two. Hence, improved working conditions come at the expense of a lower wage, and at low

[93] Powell (2014), p. 3.

income levels the workers are likely to prefer a higher wage to better working conditions, since the latter cannot feed their families. The desire for improved working conditions will not be brought to the forefront until the material family standard has improved.[94]

Haiti is not the only country that has sweatshops. The apparel industry has moved from the First to the Third World, since unskilled labor is a great deal cheaper there than in the First World. At the same time, this move has had a very important impact on the living standards prevailing there. As Paul Krugman put it twenty years ago,

> It is the indirect and unintended result of the actions of soulless multinationals and rapacious local entrepreneurs, whose only concern was to take advantage of the profit opportunities offered by cheap labor. It is not an edifying spectacle; but no matter how base the motives of those involved, the result has been to move hundreds of millions of people from abject poverty to something still awful but nonetheless significantly better.[95]

Or as Jeffrey Sachs stated during a Harvard panel debate the same year: 'My concern is not that there are too many sweatshops but that there are too few.'[96]

The Role of Remittances

How do we square the circle? How can people survive if they do not earn a 'living' wage? The answer is: through remittances. Economic gains are large for Haitians that are able to leave the country. The average Haitian migrant increases his income by a factor of almost eight by going to the United States.[97] Also, four-fifths of the Haitians living either at home or in the United States in 2001 who lived on more than 10 US dollars per day lived in the latter country.[98] This income difference makes it possible to send money back home, and remittances to Haiti have been consistently high after the turn of the millennium (also from the Dominican Republic). They increased steeply from a little less than 20 percent of GDP in 2002 to 27 percent the following year, to decrease thereafter, but never below the 20 percent level, and then rose steadily to an all-time high of 38.5 percent in 2019.[99]

[94] See ibid., Chapter 5, for a detailed discussion.
[95] Krugman (1997).
[96] Myerson (1997).
[97] Clemens et al. (2008), p. 28. The comparison is made for 35-year old urban males with nine years of education in Haiti, i.e. moderately skilled workers.
[98] Clemens and Pritchett (2008), p. 411.
[99] World Bank (2020).

Remittances from abroad are received by a broad spectrum of Haitians back home. Estimates differ somewhat but they all point to the importance of the phenomenon. In 1999, 25 percent of all Haitian households received transfers,[100] in 2001, according to census figures, the figure was slightly lower, 21 percent,[101] amounting to between 21 and 30 percent of household incomes,[102] and the Inter-American Development Bank estimated that at the end of 2006, 45 percent of the population had a family member living abroad and of those people, 31 percent received remittances on a regular basis.[103] According to a World Bank study, in 2012, around one-third of all Haitian households received international remittances, over 35 percent in urban areas and 20 percent in the countryside.[104] To this comes what is received from domestic transfers. The same year, over one-fifth of the Haitian population was not born in the *département* of residence. More than half the population of Port-au-Prince came from other *départements* than the Ouest.[105] The result of this was that close to 27 percent of all urban and more than 26 percent of all rural households received domestic transfers.[106] Altogether, over 60 percent of the poor and extremely poor households relied on some kind of transfer.[107]

The existence of remittances and other transfers puts the minimum wage issue into a slightly different perspective. The household is the basic unit of consumption in Haiti and household incomes come from many quarters, including from family members abroad. It is the overall result that counts. Wage incomes from the apparel sector may be one such component, and if you do not have to live exclusively on them, it may be attractive to get a job in the apparel sector. In this light, a badly paid job is certainly better than no job at all, because it represents an addition to the total income of the household. 'Working in a factory is not a gift', stated a Haitian social entrepreneur, interviewed by *The Atlantic* in 2013, 'but believe me, sitting in Trou-du-Nord and do nothing, and you are 24 years old, that is worse'.[108] In order to make a living, a household needs more than one breadwinner and more than one type of income. A 2016 survey in three industrial parks revealed that the households of the apparel workers usually

[100] Sletten and Egset (2006), p. 48.
[101] Orozco (2006), p. 6.
[102] Verner (2008), p. 19.
[103] Inter-American Development Bank (2007).
[104] Singh and Barton-Dock (2015), p. 24.
[105] Ibid., p. 38, World Bank and ONPES (2014), p.72.
[106] World Bank and ONPES (2014), p.73.
[107] Singh and Barton-Dock (2015), p. 39.
[108] Hans Garoute, founder in 1992 of the Institut National pour le Développement et la Promotion de la Couture (INDEPCO), a non-profit network of tailors sewing school uniforms and other garments for the domestic Haitian market (Watkins, 2013).

had two people working.[109] That a household has more than one breadwinner is the typical pattern everywhere in Haiti, also outside the apparel sector.

What Can the Apparel Sector Do?

What can the apparel sector do for Haiti? So far, it has been incapable of providing a 'living' wage for those who work there, but it has created employment, although, admittedly, not on the scale expected. Why can't the workers in the apparel industry be paid a 'living' wage? The answer is that if you increase the wage rate, worker productivity must be increased too and that does not come automatically. Without productivity increases, an industry where wages constitute by far the most important cost item may not be able to compete with producers in Bangladesh, China, India, Pakistan and other low-cost countries. Imposing developed-country standards on Third World industries easily backfires:

> The advantages of established First World Industries are still formidable. The only reason developing countries have been able to compete with those industries is their ability to offer employers cheap labor. Deny them that ability, and you might well deny them the prospect of continuing industrial growth, even reverse the growth that has been achieved. And since export-oriented growth, for all its injustice, has been a huge boon for the workers in those nations, anything that curtails that growth is very much against their interests. A policy of good jobs in principle, but no jobs in practice, might assuage our consciences, but is no favor to its alleged beneficiaries.[110]

Paul Krugman describes the industry-led development process:

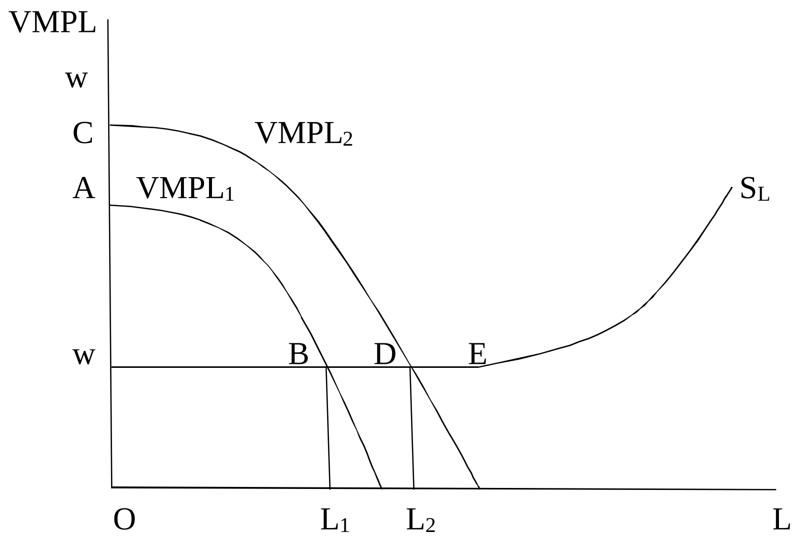
> … whenever the new export industries have grown, there has been measurable improvements in the lives of ordinary people. Partly this is because a growing industry must offer a somewhat higher wage than workers could get elsewhere in order to get them to move. More importantly, however, the growth of manufacturing – and the penumbra of other jobs that the new export sector creates – has a ripple effect throughout the economy. The pressure on the land becomes less intense, so rural wages rise; the pool of

[109] USAID Haiti (2017a), p. 128-29.
[110] Krugman (1997).

unemployed urban dwellers always anxious for work shrinks, so factories start to compete with each other for workers, and urban wages also begin to rise.[111]

The first part of what Krugman describes comes close to Arthur Lewis' economic development with unlimited supplies of labor.[112] As long as incomes remain constant in the countryside and the informal urban sector, the industrial sector can invest and expand its production at a constant real wage rate. This goes on until enough people have been pulled out of agriculture (and the urban worker pool) to make the wage rate increase. Further expansion of the manufacturing sector has to go hand in hand with rising wages.

Figure 1: Economic Development with Unlimited Supplies of Labor



The Lewis model is shown in Figure 1. On the horizontal axis we measure the employment in the industrial sector and on the vertical axis the value of the marginal product of labor in the sector as well as the wage rate prevailing there. The VMPL curve is also the demand curve for labor. The factory owners employ labor up to the point where VMPL = w, the point which maximizes their profits, the point where the demand curve for labor intersects the supply curve S_L. The latter curve does not have the 'normal' upward-sloping shape in its entirety. Lewis assumes that across the interval wE the wage rate is given. The easiest way of explaining this is to assume that as employment expands over time, so does the population and the labor force, at a pace which impedes the wage rate from increasing. After point E, however, the 'unlimited'

[111] Krugman (1997).
[112] Lewis (1954).

supply of labor is exhausted, so the marginal product of labor in agriculture and informal pursuits begins to increase, and with that the wage that the industrial sector has to pay for recruiting additional workers.

At the outset, with demand curve $VMPL_1$, the equilibrium is given by point B. Worker wages equal wBL_1O and capitalist profits ABw. What drives the growth process in the Lewis model is the reinvestment of profits by the capitalists. This shifts the VMPL curve outwards, say to $VMPL_2$. This gives a new equilibrium in point D, with wages equal to wDL_2O and profits CDw. Both profits and employment have increased, but the wage rate remains constant, at w. For the latter to increase the VMPL curve must expand beyond point E.

But will it? Not necessarily, or even probably. Those who invest in the apparel sector in Haiti have other alternatives. The wage rate prevailing there cannot not deviate substantially from what labor fetches elsewhere. Figure 1 portrays the situation in Haiti, but the diagram can easily be converted into an 'international' figure with a much longer interval with a constant wage rate. Should the wage rate in Haiti begin to rise over the level prevailing in the competitor countries, apparel producers are likely to expand, not in Haiti, but in other countries. The wage level is given internationally. An apparel sector that has exhausted the 'unlimited' supply of labor in Haiti is not likely to go on to the part of the labor supply curve which is upward-bending. It is in principle not until the 'unlimited' supply is exhausted *world-wide* that the wage rate will begin to rise. The conclusion is obvious. Left to its own devices, the Haitian apparel sector is not likely to contribute to increased wages.

The above also means that increasing the minimum wage rate above the international level will be counterproductive. The most likely outcome is simply that jobs will disappear. As Paul Samuelson wrote in his pioneering textbook, *Economics*, 'What good does it do a … youth to know that an employer must pay him $1.60 per hour, if the fact that he must be paid that amount is what keeps him from getting a job?',[113] or as Benjamin Powell paraphrases it, with explicit reference to Samuelson, 'it does a potential sweatshop worker – who can create $2.00 per hour of value – no good to know that by law he must be paid $3.00 per hour if that very law keeps him from getting a job'.[114] The apparel factories either move or change their production methods. The outcome depends on the relative cost of the two actions. A wage increase changes

[113] Samuelson (1967), p. 377.
[114] Powell (2014), p. 25.

the relative price of unskilled and other factors, so, to the extent that the company can substitute other factors of production for unskilled labor it is likely either to increase the degree of mechanization by employing more capital and fewer unskilled workers or to substitute semi-skilled or skilled workers for the latter. In both cases, the result will be the same. The unskilled – the poorest – workers will be hurt. The increased minimum wage will favor either capital or better educated workers at the expense of the neediest.

One of the Worst Business Climates in the World

So far, so bad. But what about employment? Can't the apparel sector expand at least to the point where the labor supply curve begins to slope upwards, creating employment at the given wage rate and set in motion the creation of subsidiary jobs outside the sector mentioned by Krugman?

As shown in Figure 1, the job creation process will not be put in motion unless there is investment to drive it. As we have seen, the hundreds of thousands of jobs that could conceivably be created in the Haitian apparel industry have not materialized. The problem is precisely that investment has been lacking. Investment is determined fundamentally by the expectations of the investors. Do they think that the future will be bright or gloomy? The answer depends not only on how they view the market, but also, when it comes to location decisions, of how they view the business climate in different countries.

How do investors perceive Haiti? The latest United States Department of State Investment Climate Statement for Haiti, from 2019, points to reluctance based on unfavorable economic and political developments:

> Foreign direct investment (FDI) inflows reached USD 105 million in Fiscal Year 2018, returning to its prior levels after an unusually high USD 374 million in FY 2017. Despite favorable policies toward FDI, Haiti's rates of FDI inflow reflect investors' assessment of the country's slow-growing economy and unstable political environment.[115]

The document enumerates a number of factors that are likely to keep investors away from Haiti such as political instability, a depreciating national currency (Haitian gourde), persistent inflation, and high unemployment.

[115] United States Department of State (2019).

Structural factors contribute as well to the creation of a sluggish business environment characterized by uncertainty and bureaucratic red tape – probably even more so. The Haitian state has seldom fulfilled any commitment to provide institutions that facilitate the operations of the private sector. The picture that emerges is anything but flattering. Haitian laws, although transparent, are often out of date with reality and far from always applied or observed. One such example – on of the most important in the context of investment – is the operation of commercial legislation:

> Haiti's commercial code dates back to 1826 and underwent significant revisions in 1944. There are few commercial legal remedies available. Inadequate law enforcement mechanisms, outdated laws to handle modern commercial practices, and a weak judicial system severely compromise the protection and guarantees that Haitian laws extend to investors. Injunctive relief is based upon penal sanctions rather than securing desirable civil action. Similarly, contracts to comply with certain obligations, such as commodities futures contracts are not enforced. Haitian judges do not have specializations, and their knowledge of commercial law is limited. Utilizing Haitian courts to settle disputes is a lengthy process and cases can remain unresolved for years, and bonds to release assets frozen through litigation are unavailable. Business litigants are often frustrated with the legal process and pursue out-of-court settlements.[116]

The above, unfortunately, is simply one example of a generalized pattern:

> Haitian law is deficient in a number of areas, including operation of the judicial system; publication of laws, regulations, and official notices; establishment of companies; land tenure and real property law and procedures; bank and credit operations; insurance and pension regulation; accounting standards; civil status documentation; customs law and administration; international trade and investment promotion; foreign investment regulations; and regulation of market concentration and competition. Although these deficiencies hinder business activities, they are not specifically aimed at foreign firms; they appear to affect both foreign and local companies equally.[117]

[116] United States Department of State (2017).
[117] Ibid.

The conclusion – dressed in diplomatic language – drawn by the US Department of State is unequivocal: 'Improving the investment outlook for Haiti in 2017 requires the … [Government of Haiti] to enact reforms that improve Haiti's business and political environment.'[118]

That Haiti has one of the worst business climates in the world can be seen in yet another way. Table 4 shows Haiti's position on the World Bank Ease of Doing Business Index during the most recent ten-year period. Haiti is among the bottom 4-5 percent in recent years. The index shows that Haiti has some way to go before it complies with the best international practice. The only countries below Haiti's position in 2020 are (from the bottom) Somalia, Eritrea, Venezuela, Yemen, Libya, South Sudan, the Central African Republic, Congo-Kinshasa, Chad, Timor-Leste and Congo-Brazzaville. Some of the sub-index scores are particularly worrying. Thus, starting a business is so cumbersome that it put Haiti in 189th place. It takes 97 days on average.[119] Also, the protection of minority interests is so weak that it corresponded to the 188th position.[120]

Table 4: Haiti's Position on the World Bank Ease of Doing Business Index 2006-2020

Year	Number of countries with lower score than Haiti	DTF	Number of countries included
2009	27		181
2010	32		183
2011	21		183
2012	9		183
2013	11		185
2014	12		189
2015	9	42	189
2016	7	40	189
2017	9	38	190
2018	9	38	190
2019	8	39	190
2020	11	41	190

Note: DTF stands for distance to frontier. The best practice is defined as 100 and the DTF for each country measures how much each country has covered in relation to this. The measure was introduced in the 2015 report. Since 2019 it is called Ease of Doing Business Score.

Source: World Bank Group (2020), www.doingbusiness.org. Go to Reports for the annual global *Doing Business* reports. Downloaded 24 January 2020.

118 Ibid.
119 World Bank Group (2018), p. 6. A project sponsored by the Inter-American Development Bank aims at bringing the time required down to 10 days (United States Department of State, 2017).
120 World Bank Group (2018), p. 4.

The Ease of Doing Business Index is an aggregate of ten sub-indexes: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. Each one of these in turn build on a number of indicators.[121] The Ease of Doing Business Index is mainly an index of the extent of government regulation of business and efficiency of the bureaucracy, and in the Haitian case it points to a considerable amount of red tape that has to be cut for company operations to function. It, however, says nothing about the overall state of the economy and society in general, about such aspects as macroeconomic stability, security and corruption.

Especially the latter is an important variable for investors to consider before they make their decisions. According to the United States Department of State:

> The government openly affirms a firm commitment to combat corruption. However, weak enforcement mechanisms often impede their efforts. There are serious allegations that some government officials are accustomed to bribes, and often use their authority to influence commercial and business decisions. A small number of U.S. firms also alleged that corruption is a major impediment to doing business in Haiti, especially in clearing shipments through customs. […]
>
> Haitian officials are persistently accused of using their positions to influence the decisions in commercial disputes for the sake of personal gain.[122]

The US Department of State is not alone in its verdict. The Transparency International Corruption Perceptions Index, shown in Table 5, places Haiti among the 7.5 percent most corrupt countries in the world during the past five years. It ranks countries by their perceived levels of corruption is based on expert assessments and opinions surveys. Corruption is generally defined as the misuse of public power for private benefit. The index runs from 0 (completely corrupt) to 100 (free from corruption), and Haiti has not scored higher than 22 – in a mere two instances: during the exceptional year of the earthquake, 2010, when the foreign presence was extremely strong, and in 2017, presumably an instance of an initial benefit of the

[121] For a more detailed explanation, see Lundahl (2013), pp. 295-96.
[122] United States Department of State (2017).

doubt for the new president, Jovenel Moïse – followed by a decline during the next two years – a catastrophic performance indeed.

Table 5: Haiti's Position on the Transparency International Corruption Perceptions Index 2008-2019

Year	Number of countries with lower score than Haiti	Index	Number of countries included
2008	3	14	180
2009	7	18	180
2010	25	22	178
2011	7	18	183
2012	8	19	176
2013	11	19	177
2014	10	19	175
2015	8	17	168
2016	13	20	176
2017	20	22	180
2018	15	20	180
2019	9	18	180

Source: Transparency International, www.transparency.org. CPI for each year. Downloaded 5 March 2020.

Moïse has been directly implicated in Haiti's endemic corruption, for having contributed to the embezzlement of money from the so-called PetroCaribe program, originated by Venezuelan president Hugo Chávez in 2005. The idea behind it was that Venezuela sold oil to a number of Caribbean states at a subsidized price, combined with soft loans at 1 percent interest over 25 years for 40 percent of each delivery. Haiti joined the program in 2006. The program had a development component. The gains from it were to go to economic and social development projects. The Haitian government claimed to have used some 4 billion US dollars on 400 such projects from 2008 to 2016. However, when a commission appointed by the Haitian Senate filed its report, it turned out that at least 2 billion had disappeared, or had been used for the wrong purpose, in short, had been embezzled by civil servants and their allies in the private sector. One of the latter was Jovenel Moïse, before he assumed the presidency. His company, Agritrans, which was dedicated exclusively to banana growing, had received funds to repair roads – works that never materialized.[123]

[123] Charles (2019), Nugent (2019), Congressional Research Service (2020), pp. 1, 9, Alphonse (2020). Moïse had been subject to an investigation of possible money laundering by the Unité Centrale de Renseignements Financiers (UCREF) already in 2016, the year before he took office. The UCREF report alleged that his bank accounts

Another relevant index is that of Freedom in the World, computed by Freedom House and shown in Table 6. The index is based on surveys. The Political Rights index (PR) measures the ability for people to participate freely in the political process, including the right to vote freely for distinct alternatives in legitimate elections, compete for public office, join political parties and organizations, and elect representatives who have a decisive impact on public policies and are accountable to the electorate. The Civil Liberties index (CL), in turn, measures the degree of freedom of expression and belief, associational and organizational rights, rule of law, and personal autonomy without interference from the state. As indicated by Table 6, Haiti has been classified as partly free (PF), for the past ten years, with a slight deterioration of political rights beginning in 2015, coinciding with the drawn-out and farcical election process beginning that year and not ending until 2017.

Table 6: Haiti Freedom in the World Ratings 2009-2020

Year	PR	CL	Status
2009	4	5	PF
2010	4	5	PF
2011	4	5	PF
2012	4	5	PF
2013	4	5	PF
2014	4	5	PF
2015	5	5	PF
2016	5	5	PF
2017	5	5	PF
2018	5	5	PF
2019	5	5	PF
2020	5	5	PF

Note: The index runs from 1 to 7. Three categories are used: 'Free' (1.0-2.5), 'Partly Free' (3.0-5.0) and 'Not Free' (5.5-7.0). The categorization is determined by the average of PR and CL.

Source: Freedom House, *Freedom in the World*. https://freedomhouse.org/reports. Downloaded 30 September 2020.

contained sums not compatible with his business activities (UCREF, 2016, p. 68, Charles, 2017). According to a letter from the Banque National de Crédit to Moïse, however, the sums had been mistakenly stated in US dollars instead of in gourdes (Haiti Democracy Project, 2017). In March 2017, Moïse fired the director general of UCREF (*HaïtiLibre*, 2017a).

The US Department of State as well is worried about the lack of political stability in Haiti:

> Despite … a newly installed government in 2017, Haiti's political situation remains unstable. Frequent cabinet changes, and poor relations between Parliament and the Executive Branch have hindered both reconstruction efforts and passage of important legislation. Political violence has been limited in scope, but is still a common occurrence, particularly during elections. The … [Government of Haiti] needs to improve the capacity of Haitian law enforcement to deter and prosecute violent crime.[124]

Haiti ranks high on the Fragile States Index, shown in Table 7. This index is calculated as the unweighted sum of twelve indicators of the risks and vulnerabilities faced by each country, which all run from 1 (top) to 10 (bottom). The index is constructed using a standardized method called the Conflict Assessment System Tool (CAST). CAST is based on three data sets: content analysis, quantitative data and qualitative expert analysis.[125] The worst score a country can obtain is 120, and every year except the first and the last, Haiti has scored more than 100. During these years, the country has on average been one of the ten most fragile of the 178 countries surveyed.

Table 7: Haiti's Scores on the Failed/Fragile States Index 2008-2020

Year	DP	REF	GG	HF	UED	ECO	SL	PS	HR	SEC	FE	EXT	Total	Rank
2008	8.5	4.2	8.0	8.0	8.2	8.3	9.0	8.8	8.9	8.9	8.9	9.6	99.3	14
2009	9.3	5.8	7.3	8.6	8.2	8.9	9.2	9.5	8.5	8.4	8.3	9.8	101.8	12
2010	9.3	5.6	7.3	8.6	8.3	9.2	9.5	8.3	8.2	8.4	8.4	9.6	101.6	11
2011	10.0	9.2	7.3	8.9	8.8	9.2	9.4	10.0	8.0	8.4	8.8	10.0	108.0	5
2012	9.5	8.1	7.0	8.8	8.6	9.5	9.3	9.3	7.7	8.2	9.0	9.7	104.9	7
2013	9.6	8.6	7.0	9.1	9.1	9.7	8.8	9.6	7.6	7.9	9.0	9.9	105.8	8
2014	8.7	8.5	7.0	9.1	9.3	9.4	8.9	9.5	7.5	7.5	9.1	9.8	104.3	9
2015	9.5	8.2	6.7	9.3	9.3	9.1	9.4	9.1	7.4	7.5	9.1	9.9	104.5	11
2016	9.2	7.9	6.7	9.0	9.5	8.9	9.4	9.4	7.7	7.9	9.6	9.9	105.1	10
2017	9.5	7.7	6.5	8.8	9.8	8.7	9.7	9.7	7.6	7.7	9.6	10.0	105.3	11
2018	9.0	7.7	6.2	8.7	9.5	8.4	8.7	9.4	7.4	7.4	9.6	9.9	102.0	12
2019	8.7	7.4	5.9	8.4	9.2	8.4	8.8	9.2	7.2	7.2	9.3	9.6	99.3	12
2020	8.2	7.1	5.6	8.1	9.1	8.5	9.1	9.3	6.9	6.9	9.6	9.3	97.7	13

Note: DP = Demographic pressure, REF = Refugees/Internally displaced persons, GG = Group grievance, HF = Human flight and brain drain, UED = Uneven economic development, ECO = Poverty and economic decline, SL = State legitimacy, PS = Public services, HR = Human rights and rule of law, SEC = Security apparatus, FE = Factionalized elites and EXT = External intervention. The name of the index was changed from Failed States Index to Fragile States Index in 2014.

Source: The Fund for Peace, *Fragile States Index*. https://fragilestatesindex.org/country-data/. Downloaded 30 September 2020.

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[124] United States Department of State (2017).

[125] The methodology is described in http://fundforpeace.org/fsi/methodology/.

Finally, we have the Global Competitiveness Index, published by the World Economic Forum. The 2019 edition of the *Global Competitiveness Report*, surveys 141 economies.[126]

> The report is made up of over 110 variables, of which two thirds come from the Executive Opinion Survey representing the sample of business leaders, and one third comes from publicly available sources such as the United Nations. The variables are organized into twelve pillars with the most important including: institutions, infrastructure, macroeconomic framework, health and primary education and higher education and training. The GCI score varies between 1 and 7 scale, higher average score means higher degree of competitiveness.[127]

The twelve pillars are in turn organized into three sub-indexes: basic requirements, efficiency enhancers and innovation and sophistication factors. These are finally weighted into the total index. The 2019 *Global Competitiveness Report* ranks Haiti as number 138 of 141, i.e. as one of the least competitive economies in the world. Haiti's score was 36.3, not much above that of Chad, the country in last place: 35.1, to be compared with the most efficient economy, Singapore: 84.8.[128] Out if the twelve pillars that make up the overall measurement, Haiti ranks last in corporate governance, infrastructure, and business dynamism.[129]

All the indexes that we have looked at, as well as the report of the United States Department of State Investment Climate Statement, indicate one and the same thing: Haiti is not a country where investors should risk their money. The investors themselves have drawn the same conclusion. In spite of the incentives offered, above all tax exemption, the apparel sector did not employ more than 56,000 people before the onset of the corona pandemic.

A 'High Road'?

In what ways should we expect the apparel sector to contribute to economic and social development in Haiti, and can its performance in this respect be improved? Yasmine Shamsie has suggested that a 'high-road' approach to the apparel sector would be superior to the one where the spontaneous market forces are left to operate on their own. This approach on the one

[126] World Economic Forum (2019).
[127] Trading Economics (2018). The methodology is described in detail in World Economic Forum (2017), Appendix A.
[128] World Economic Forum (2019), p. 13.
[129] Ibid., p. 260-261.

hand 'focuses on extending and ensuring the political, social and economic rights of workers'. It is, however, not sufficient, so 'a set of redistributive measures in the form of proper labor market regulation, social insurance and social welfare provisions would need to accompany the model'.[130]

The strategy rests on three 'pillars'. The first is to make Haiti a 'labor-compliant' country with stable employer-employee relations where basic worker rights are protected and the overall terms of employment have been improved. The second pillar is described in the following way: 'Low wages in the garment sector will need to be addressed. While becoming a labour compliant country will help improve wages, it will not be sufficient. The government and donors, therefore, must increase their support to social services …'[131] The third pillar rests on the fact that around two-thirds of the workers in the apparel sector are women. This calls for special measures, including broader policies to end gender discrimination and reduce poverty and economic marginalization. Specifically, safe and accessible child care must be ensured and such welfare entitlements as education, health, social security and pensions must be developed.

It is difficult to know what to make of Shamsie's high-road strategy. Essentially, the three pillars boil down to two: on the one hand a call for higher wages and better working conditions in the apparel sector itself, on the other hand a demand for general welfare measures that can act as substitutes for higher wages. Unfortunately, her strategy does not contain any economic analysis of what the likely consequences will be or any specification of the mechanisms that are supposed to guarantee both increased employment and higher wages in the sector. Shamsie admits that increased wage rates will increase the wage bill, but argues that companies will be able to compensate by adjusting bonus and incentive payments and other employee benefits in such a way as to allow the higher wage 'to be absorbed over a few years without … significantly affecting operational costs'.[132] But if that is the case, there is little, if any net gain for the workers. The strategy becomes self-defeating. The alternative is that the operational costs increase and affect competitiveness and employment negatively.

Possibly, the adoption of a high-road strategy will increase the 'reputational capital' of garment producers and Shamsie argues that 'a company's competitive position and profit margin are

[130] Shamsie (2010), p. 12.
[131] Ibid., p. 2.
[132] Ibid., p. 16.

linked to its reputation'.[133] The argument is dubious. The final customer buying the T-shirt has no way of determining which factory made it, and even if he could, he would have no information about wages and labor conditions in that very factory. The customer buys the brands he likes – brands which a good reputation mainly for design, quality and price – and is likely to be far less concerned about the conditions under which they were made.

A feature that distinguishes the present-day assembly sector environment from the one prevailing a couple of decades ago is the presence of a number of international pressure groups which have acted on behalf of the workers. These advocacy groups put pressure on the International Finance Corporation to include compliance with international labor standards in its loan agreements, but to what extent they can contribute to concrete improvements of wages and labor standard is open to doubt. As Yasmine Shamsie herself has pointed out, 'it is ultimately in Haiti's political arena – an arena that is inhospitable, if not hostile to labor – that EPZ [Export Processing Zone] wage struggles will be determined'.[134] Tooting the moral horn won't take you anywhere in the harsh world of economic realities that we live in. The fact that there are today far more international activist groups pushing for higher wages and better working conditions is not likely to accomplish very much.[135] The only sanctions available consist in using the HOPE legislation and revoking the advantages enjoyed by Haiti in the US market, but this is more likely to result in wholesale job destruction than in an improvement of the standards of the apparel sector.

What is more, applying pressure on a single country is not likely to be conducive to higher wages and better working conditions in general for apparel workers as long as companies can move. It takes a coordinated effort, world-wide, admittedly not an easy gambit. Possibly, a limited approach can achieve something.

> … if we demand higher standards for all countries – modestly higher standards, so we're not talking about driving the business back to advanced countries – we can achieve an improvement in workers' lives (and fewer horrible workers' deaths), without undermining the export industries these countries so desperately need.[136]

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[133] Ibid.
[134] Shamsie (2017), p. 47.
[135] Ibid.
[136] Krugman (2013).

However, the situation resembles that of a collusive oligopoly. It works as long as everybody agrees to cooperate, but the temptation to break the agreement and attract firms by 'underselling' is always present.

The second element of the high-road strategy is an active government welfare policy, but such a policy can hardly be limited just to the apparel sector, given the fact that most people outside this sector are worse off than the apparel workers. This component hence essentially boils down to the development of a welfare society, and we have no argument with that. However, given the weak taxation capacity of the government and the historically demonstrated unwillingness to target poverty by the rulers and the elites, such a policy is not very likely to materialize in the near future.

… or a 'Low Road'?

The alternative to Shamsie's high-road strategy is what could be termed a 'low-road' approach. The point of departure for this is that the Haitian apparel sector is operating in a competitive international setting. Haiti admittedly has an advantage in the American market, as a result of the HOPE legislation, but, as the recent history of the sector demonstrates, this does not necessarily attract investors by the score. Our examination has shown the country to have one of the worst business climates in the world. Businessmen know that and react accordingly. The core element of a low-road strategy for the apparel sector should hence consist in measures that improve this climate, measures that make it easier to start and operate companies, measures that create a stable and predictable environment for companies to work in, measures that guarantee that the rule of law is upheld, measures that are conducive to cost reduction and productivity enhancement – in short, measures that make investors confident that Haiti is a good place to put their money in, so they would go there, build factories and employ people.

We should not expect more than so in the foreseeable future – and only in the best case. As long as other countries can match Haiti's cost level in an industry that makes intensive use of unskilled labor (estimated to some 63-80 percent of the total cost for cut and make producers in 2016),[137] the wage rate is not likely to increase faster than what it does globally. Haiti is stuck at the bottom rung of the industrial ladder, the one with the simplest technology and the lowest wages. We may have to live with the fact that, unless it consists of sweatshops, there

[137] USAID Haiti (2017), p. 27.

will be no Haitian apparel industry at all and the workers there will have to go back to pursuits that pay even less. 'Third-world countries desperately need their export industries – they cannot retreat into an imaginary rural Arcadia.'[138]

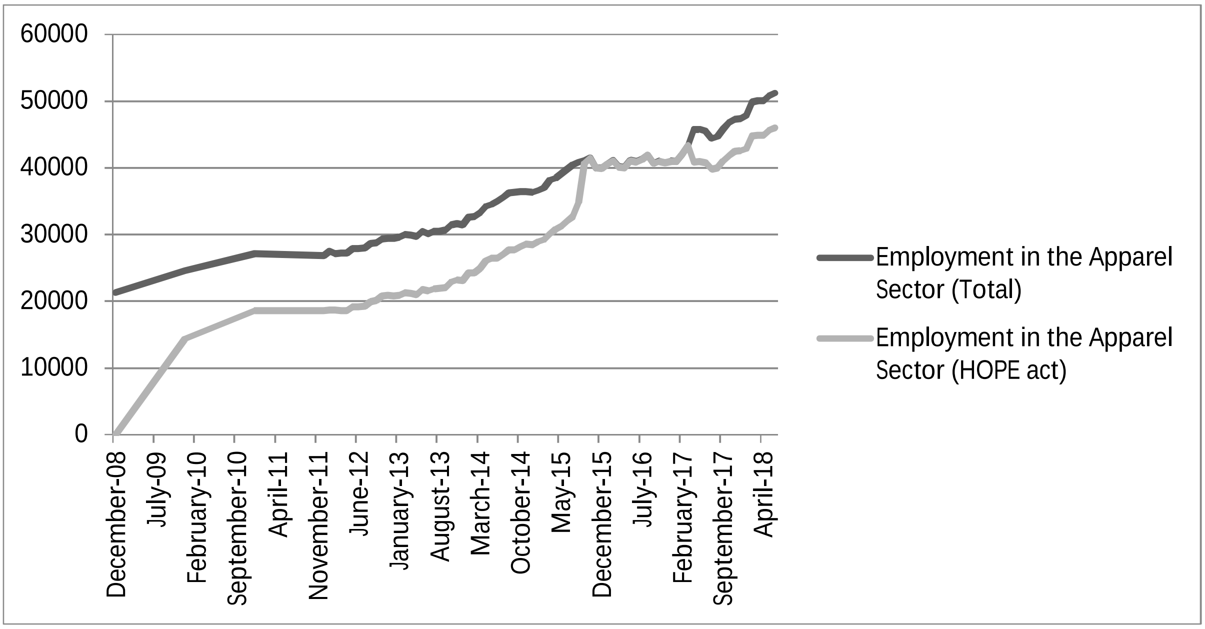
What the apparel sector can do, under favorable circumstances, is to create jobs. This will, however, in itself lead to increased incomes, through reallocation (or transfer) gains. As we have seen, earnings in the apparel sector are higher than in the sectors from which the workers are recruited: agriculture and informal urban pursuits. The sector has repeatedly been accused of not pulling Haiti out of poverty,[139] but that is not what we should expect it to do either. Its potential role is rather that of moving Haiti 'from misery to poverty', admittedly not with the dignity that one would like to see, but still moving it.[140]

Dark Clouds Dispersing?

The American HOPE and HELP legislation has been extended to 2025, but does that mean that Haiti will continue to enjoy free access to the US market until then? Not necessarily. Access is conditioned on compliance with international labor standards and, as we have seen, the Haitian apparel sector has not lived up to these standards. This provided an opportunity for Donald Trump – who in any case thinks of Haiti as a 'shithole country'[141] – to end preferential access, an option which he may, however, not even have been aware of. As revealed by Figure 2, losing this would be fatal in terms of employment, since almost 90 percent of the jobs in the apparel sector are due precisely to the HOPE initiative. Hopefully the Biden administration will opt for a dialogue with a view to prolongation of the preferential legislation also beyond 2025.

[138] Krugman (2001).
[139] See e.g. Farmer (1988), Dupuy (1991), (2014), pp. 100-03, Fatton (2014), pp. 71-79, Shamsie (2010), (2017).
[140] 'As far as we are concerned we are ready to leave today, tomorrow, at any time to join the people of Haiti, to share in their suffering, help rebuild the country, moving from misery to poverty with dignity' (ex-president Jean-Bertrand Aristide, in an interview in Johannesburg, 15 January 2010, three days after the earthquake) (Smith, 2010).
[141] '*Peyi twou kaka pi bon pase prezidan tèt kaka*' (*kreyòl* proverb).

Figure 2: Employment in the Haitian Apparel Sector due to the HOPE Agreement 2008-2018



Source: Centre de Facilitation des Investissements (2018).

The Central Role of the Government

The pattern of structural change from agriculture to industry is often interpreted more or less as a 'law of nature', but as Ernest Gellner has reminded us, 'no ineluctable destiny, no inner necessity, *compels* societies to move from' being agrarian society to being industrial. 'On the contrary', writes Gellner, 'the spontaneous, endogenous transition may well be inherently improbable, and due to a near-miraculous concatenation of circumstances'.[142] It is difficult to escape the conclusion that Haiti may be a case in point. Neither the high-road nor the low-road strategy has any chance of succeeding unless a favorable business climate can be created, and that is easier said than done.

The central actor when it comes to the business climate is the government. The state can provide such concrete inputs as a good infrastructure, good transportation facilities and affordable and dependable electricity, just to mention a few examples. This is not the place to publish a detailed want list. (It does not take too much imagination to come up with one.) Much more important for the overall climate is that the state makes rules. These rules provide incentives for action to the firms. In both ways they condition the behavior of the latter. As William Baumol has pointed out, in a classic article, there is no guarantee that firm behavior, 'entrepreneurship' will be productive. Baumol defines entrepreneurs 'simply, to be persons who are ingenious and creative

[142] Gellner (1989), p. 16.

in finding ways that add to their own wealth, power, and prestige' and consequently draws the conclusion that as a result 'it is to be expected that not all of them will be overly concerned with whether an activity that achieves these goals adds much or little to the social product or, for that matter, even whether it is an actual impediment to production'.[143] Entrepreneurship can be productive, but also unproductive (not adding any value), and even destructive (destroying value in society). The course chosen to a very large extent depends on the relative payoffs to each form defined by the rules of the game set up by the state.

The obvious next question is what determines the behavior of the state itself, i.e. what is it that makes a state provide one set of signals instead of another. Douglass North makes a distinction between contract theories of the state and predatory ones.[144] In the first case the fact that the citizens have entered into a voluntary agreement is likely to generate property rights and institutions conducive to economic growth. Those in power create institutions that are likely to be inclusive, i.e. institutions that allow the individuals to make use of their talents, freely make the choices they want, so as to obtain the highest rewards, establish secure property rights and equality before the law and allow competition to take place so that more efficient firms drive the less efficient ones out of the market, i.e. they have to be productive in the sense of Baumol. They foster investment, education and innovations.[145]

The predatory state, on the other hand, is based on group or clique interests. One or more groups systematically exploit the rest of society and extract incomes and wealth from them. Institutions become not only inefficient but outright extractive or predatory. Property rights are insecure, nobody is willing to invest either in education or in capital equipment and new techniques, since the fruits of investment may be reaped by somebody else. The resource allocation is biased in favor of those with political connections.

Unfortunately, the notion of the predatory state runs like thread through the history of Haiti.[146] It is the state that must ensure that the business climate becomes one of productive entrepreneurship, but if the state itself has predatory traits and is part of the problem – arguably the most important part – how likely are we to see a change for the better? The entire history of

143 Baumol, (1990), pp. 897-98.
144 North (1981), pp. 21-22.
145 Acemoglu and Robinson (2012), pp. 74-75.
146 See e.g. Lundahl (1979), Chapters 7-8, (1992), (2013), Trouillot (1990), Fatton (2002), (2007).

Haiti unfortunately weighs down heavily on the issue. It has always been an obstacle to change.[147] How can the state be reformed, and how can Haiti get a government capable of creating a confidence-inspiring business climate that allows the citizens to undertake productive activities which create jobs and incomes? Can we uncover forces and mechanisms that could trigger such an upward virtuous spiral, or is Haiti doomed to fail for a lack of good will and determination? These are good questions, completely central in the quest for a better life for the Haitian, but where are the good answers?

Epilogue: The Longer Run

The present essay has dealt with the Haitian apparel industry in its present form, with the possibility of a rightward movement along the horizontal part of the labor supply curve in the Lewis diagram, as it were, and with the identification of the realistic role of the sector in the Haitian economy. It can be argued that sweatshops are an integral part of the process of economic development. For economic development to take place, the economy must at some point pass through the sweatshop stage before it can move into stages with higher wages, better working conditions and a generally higher standard of living:

> Two hundred years ago sweatshops existed in Great Britain, and they appeared soon thereafter in the United States. As those countries grew richer, the sweatshops disappeared. Some of the textile jobs improved their wages and working conditions. Others saw their labor get bid away and moved overseas to use cheaper, more abundant labor. The same process occurred more rapidly in Hong Kong, Singapore, Taiwan, and South Korea. Now the sweatshops are located in India, China, Indonesia, Central America, and elsewhere. As these countries grow wealthier, we are likely to witness the sweatshops moving again.
>
> Some people mistakenly view this as a race to the bottom. It is really a race top the top. Each of these countries was poor before it had sweatshops. Sweatshops came as one part of the process of development. As that process played out, the countries became wealthier because the workers became more productive. With that increased productivity came increased pay and workers who were better suited to doing tasks other than low-skilled textile work. As a result, the workers were bid away from working in textiles. In some

[147] Cf. Lundahl (1992), Chapter 14.

> cases they were replaced with machines that made the remaining employees more productive and better paid. In other cases they were replaced in poor foreign countries with labor that had fewer valuable alternative uses.[148]

This does not imply that the last countries to develop – including Haiti – will be doomed to stay in the sweatshop phase forever. Textiles must be made somewhere, but if labor productivity is high, wages will also be high and working conditions will be good.

In the concrete case of Haiti, for the broader and more diversified development process to begin, the apparel sector must move beyond the mere lowest stage dealt with here. Today, the share of just knit T-shirts in total apparel production is 37 percent, that of knit sweaters 22 percent and that of knit women's suits account for another 7 percent, i.e. the three most important products together represent two-thirds of total exports.[149] In order to move on to products capable of generating higher incomes, linkages must be created with other activities than just cutting and making and the skills of the labor force must be developed. Exactly how this trading-up process may be initiated is an important question, linked to the business climate problem and the problem of reform of the state outlined here. We will not deal with it presently. It is complicated enough to require a separate effort.

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[148] Powell (2014), p. 136.
[149] Observatory of Economic Complexity (2020).

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