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Time for a “High-Road” Approach to EPZ Development in Haiti

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Executive Summary

Haiti was the site of a huge and dynamic export assembly sector organized in export processing zones (EPZs) in the 1970s and 1980s. The EPZ model led to a surge in jobs in the capital but also generated harmful effects and failed to significantly reduce poverty nationwide. Yet, the thinking on EPZs has remained remarkably unaffected: creating assembly manufacturing jobs generates income for people, which improves living standards, resulting in human development. Haiti's experience tells us the equation is more complex, however. We can't assume *a priori* that employment in EPZs will contribute to sustainable development or improve human development.

EPZ success stories (such as Mauritius and Costa Rica for instance) can tell us a little about what needs to be in place. Both countries employed the model as one pillar of a broader plan to diversify their economies. Haiti will, therefore, have to twin its support for EPZs with a strong and sustained development program aimed at agriculture and the rural hinterland. Successful countries also balanced developmental and distributional imperatives when devising their economic development agendas. That is, the selection of economic pillars, and how each would be developed, was informed by equity, not just growth considerations. The government of Haiti (GoH) and donors, therefore, will have to devise ways to ensure that the benefits from EPZ production are shared more equally than in previous years.

Acknowledging a less than stellar record in the past, the government and international donors are tweaking the model this time around. First, factories will be established outside the capital, in other regions of the country to decentralize economic development activity. Second, EPZ development will be complemented with regional support to agriculture and tourism to lessen the enclave nature of the model. Thirdly, in order to avoid the poor quality and crowded housing that have traditionally cropped up around EPZs, donors will be supporting proper housing developments. This paper argues that, while these constitute moves in the right direction, a more profound shift in thinking is required to address the model's weaknesses and harmful effects. It recommends the following:

1. The GoH, the private sector and donors should adopt a "high road" approach to EPZ development. This would involve converting, and then marketing, Haiti as a labor-compliant country with stable employer-employee relations. It would mean protecting basic worker rights and improving on the overall terms of employment in EPZs.
2. 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. Even with a more progressive business approach, it will be years before wages can offer workers economic self-sufficiency. The government and donors, therefore, must increase their support to social services like healthcare, education and housing to complement inadequate wages. The countries that have experienced significant poverty reduction when employing an EPZ model supplemented wages with a range of government programs aimed at household health, food security, nutrition levels, education, family housing, and community health.
3. Women make up the majority of the EPZ workforce. The findings on how EPZ employment affects women are mixed. Still, there is agreement on the fact that, while it has helped them cope with harsh socioeconomic conditions, it has not provided them with

genuine opportunities either to transform their economic situation or to significantly improve the well-being of their families. Unless broader policies are put into place to address gender discrimination, poverty, and economic marginalization, economic and welfare gains through free trade zone employment will be meagre; particularly if these women are the sole breadwinners. The effects of EPZ employment on women will depend on 1) the ability of the country's unions to improve the working conditions and benefits associated with the job (including safe and accessible child care facilities); and 2) the level of welfare entitlements (education, health, social security, pensions and so on) provided by the government to boost the sub-standard wages and improve the status of women in Haitian society.

Overhauling a Development Model that Failed to Deliver

One year after the earthquake, job creation has become a top priority for Haiti's government, which explains the current hype over export processing zones (EPZs).¹ There are big plans afoot for expanding EPZs as well as building the necessary infrastructure to attract new assembly investment.² The government and international donors believe that increasing garment exports in particular is critical to the country's development given Haiti's two comparative advantages: (1) the lowest cost labor in the hemisphere, and (2) proximity and preferential access to the US market. Still, the EPZ model remains intensely controversial. Supporters argue it constitutes a solid strategy that requires relatively low levels of investment, limited skills on the part of workers and has served in some countries as the first rung on the industrialization ladder. Critics counter that the model's reliance on ever-changeable market conditions, undependable trade preference programs and exploitative labor standards all but wipe out its sustainable development potential.

The literature on EPZs is voluminous but there are a few findings that stand out when considering Haiti. First, EPZ countries that applied the EPZ model relatively successfully (such as Mauritius and Costa Rica for instance) employed it as one pillar of a broader plan to diversify their economies. This means that the model on its own will yield hardly any beneficial results. It will need to be complemented by a strong and sustained development program aimed at agriculture and the rural hinterland. Without a balanced economic plan that extends the state to remote areas, the urban-rural gap will have no hope of diminishing nor will there ever be a shared sense of national identity among Haitians.

A second finding germane to Haiti is that EPZ success stories balanced developmental and distributional imperatives when devising their economic development agendas. That is, the selection of economic pillars and how each would be developed, was informed by equity, not just growth considerations (Sandbrook 2007). The ILO has shown that a strategy which boosts economic growth in a distributionally neutral fashion will do little to reduce poverty. One is more likely to cut poverty rates by using a strategy that marginally redistributes wealth from the rich to the poor, or that equally distributes growth benefits (Dagdeviren, Hoeven, and Weeks 2001, cited in Nel 2006, 703). Given the EPZ model is not known for achieving the former, the government and donors will need to ensure that the benefits are shared equally.

The lack of societal compromise coupled with entrenched barriers (regional, class, gender and skin colour) have prevented Haiti's economic development policies from realizing socially just outcomes in the past. In the 1970s and 1980s the EPZ model produced jobs but also aggravated inequality between the urban and rural worlds, prompted a significant exodus from the countryside, and created deep pockets of urban destitution. This paper argues that the only way to assure a different outcome is for Haiti to: 1) adopt a different model of EPZ development: the "high road" approach which protects

¹ Export processing zones (EPZs) are special areas in a country where local and foreign enterprises mainly produce goods for export. In order to attract foreign capital, these areas are usually exempt from normal tax codes, customs, duty and labor regulations.

² While the longer term vision for this sector is to attract investment in the production of furniture, toys, and simple gadgets, at the moment the focus is on apparel which accounts for the bulk of production in EPZs today.

basic worker rights, enhances workers' job security and improves the overall terms of employment; and 2) to supplement the model with a range of social entitlements that in effect raise wages.

The paper begins by situating the EPZ model in historical perspective. It then outlines the plans of the GoH, international donors and the private sector vis-à-vis light manufacturing. The final section highlights what will need to change in order to ensure that inequality does not rise and that the benefits of the model do not accrue disproportionately to a small segment of Haitian society.

Haiti's past experience with EPZs

The EPZ model of development is not new to Haiti. The first generation of US export manufacturing firms settled in the country during the dictatorship of François 'Papa Doc' Duvalier (1957–71). Although the first wave of investment had limited impact on the economy and society, Jean-Claude 'Baby Doc' Duvalier's regime gave the sector a hefty boost (Dupuy 2007; Hooper 1987; Dewind and Kinley 1988). Hopes for a thriving export manufacturing sector were high among Haitian officials and international donors during the 1970s and early 1980s, leading a report by USAID to declare that "deeper market interdependence with the United States [would] provide the preconditions for Haiti to become the 'Taiwan of the Caribbean'" (DeWind & Kinley cited in Deere & Antrobus 1990, 175).

US industries were lured with a generous tax holiday of ten years, complete profit repatriation and a guaranteed non-unionized work force. These incentives proved effective. Exports from light industry grew at an average annual rate of 40 percent during the 1970s, with the number of companies engaged in assembly operations increasing from 13 in 1966 to 154 by 1981 (Deere and Antrobus 1990, 175). By the early 1980s, there were some 240 multinational corporations, employing between 40,000 and 60,000 predominantly female workers (Rosenthal 2005; Morrell, Neild, and Byrne 1999, 129; Thomas 1988).³ In 1985, one year before Jean-Claude Duvalier's ouster, Haiti was ninth in the world in the assembly of goods for US consumption, generating more than half the country's industrial exports and earning one-quarter of its foreign exchange (McGowan 1997, 5).

While the EPZ model did create jobs, it also had important negative effects on Haiti's poor. Most significantly, income concentration and regional inequality increased because the model favoured the economic development of Port-au-Prince (the urban sector) over the rest of the country (the rural sector). The rapid increase in urban-based industries reinforced an already acute economic polarization in the country. Developments in the energy sector, which is receiving donor support today, are instructive. While the production of electricity increased, only the social sectors linked to urban-based development benefited, with Port-au-Prince and its surrounding districts consuming 93 percent of the electricity produced in the country in 1979. The degree of polarization was so worrisome that by the early 1980s even the World Bank — a strong supporter of the assembly industry —

³ Statistics are not very reliable, hence estimates vary widely. In certain media accounts of the sector there are even suggestions that 100,000 and 120,000 jobs were created (Charles and Bachelet 2008).

suggested that factories should be interspersed throughout the various regions of the country rather than concentrated around the capital (Trouillot 1990, 210).

Export-assembly manufacturing also contributed to significant increases in the costs of food and housing, again with adverse effects on the poorest. Food prices soared because of a general rural exodus. As workers from both agricultural production and food distribution were lured to Port-au-Prince's manufacturing sector by the promise of better wages, "the average price of all foodstuffs more than doubled between 1975 and 1985, with such common items as sweet potatoes leading the increase" (Trouillot 1990, 216). It should not be surprising that the first demonstrations aimed at toppling Jean-Claude Duvalier's regime were food riots.

Finally, although large numbers of people were attracted to the capital by the promise of jobs, the EPZs were notorious for substandard working conditions, low pay and anti-union behavior. Because wages were too low to provide workers with decent or safe accommodations, they (and those looking for work) settled onto dangerous insecure hillsides and ravines surrounding the capital. The migration of desperate workers turned a city built for 250,000 into an inhospitable space overflowing with 2 million. In sum, the export assembly industry of the 1980s (coupled with a complete neglect of the rural hinterland by both the government and international donors) led to an uneven or unbalanced development pattern (Maguire 2010).

Assembly exports took a huge hit in the early 1990s when a trade embargo was imposed on Haiti following the coup against Jean-Bertrand Aristide in 1991. The industry was also hurt by factors beyond Haiti's control: 1) the US signed a number of free trade agreements in the 1990s that offered a level of preferential access that was similar to Haiti's; and 2) new local competitors emerged, such as Honduras and Nicaragua (Nathan Associates Inc. 2009, 25). These challenges led Haitian factory owners to adopt a more low-cost model in 2000 "based on high volume production that could take advantage of Haiti's low-skill labor pool" (Hornbeck 2010, 12).

From 2006 onward, Washington enacted a series of trade laws aimed at boosting the assembly sector, particularly apparel production. The first law, which was unexceptional and fell far short of what was needed, was the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act. The quantity of apparel eligible for duty-free treatment was limited in the first year to the equivalent of 1 percent of overall US apparel imports, expanding gradually over five years and reaching 2 percent in the fifth year. Also, 'access' came attached with a list of political and economic conditions. According to Haitian business people, the legislation was inadequate because tariff benefits expired too quickly and the investment rules were too complex and restrictive.

Nevertheless, HOPE did generate some interest from American firms leading to a moderate increase in jobs. Direct foreign investment figures increased from US\$5.9 million in 2004 to US\$160 million in 2006 (ECLAC, 2007, 286). And, during 2005, in anticipation of the Act's ratification, Haitian apparel exports to the United States increased by 23 percent. Still, only 5,000 of the 30,000 jobs predicted by experts materialized.

The political unrest in April 2008 and the country's fragile political situation led the US Congress to pass a revised HOPE Act in May 2008. HOPE II extended Haiti's benefits

from five to ten years and eased the rules of origin requirements, allowing Haitian firms to use more less-expensive Asian inputs than under HOPE I. The revised Act also made participation conditional upon labor standards compliance.

Following the earthquake, the US Congress passed the Haiti Economic Lift Program (HELP) Act of 2010, which further extended HOPE II trade benefits to 2020, increased tariff preference levels and expanded duty-free treatment to additional textile and apparel products. Because the trade benefits granted to Haiti under HELP are better than those granted to its regional competitors, the GoH and donors expect Haiti to become an exceptionally appealing offshore export platform to the US market.

The Apparel Sector since the Earthquake

A snapshot of the sector

According to the ILO, 26,000 workers were employed in the apparel industry prior to the earthquake. Of those, 62 percent were women.⁴ As for the profile of factory workers, there is little information on this front. Whether workers are recent migrants from rural areas or long-time urban residents is not clear. It has been suggested that most of the women have moved from rural areas to the city one to five years ago but this is anecdotal (Nathan Associates Inc. 2009, 36). What percentage of the workforce is comprised primarily of sole-support mothers is also not clear. Finally, there are no studies on what a factory wage buys workers.

It is important to note that there are two apparel sectors in Haiti. The high volume, low margin EPZ sector and a second smaller segment of the industry organized mainly in selling and producing cooperatives. This smaller cottage industry generates lower volume but higher margins, focusing on unique products, many that capitalize on Haitian skills (beading, embroidery) and design. The *Institut National pour le Développement et la Promotion de la Couture* (INDEPCO) is one of a number of associations of producers that represents a network of these micro-entrepreneurs estimated at about 12,000 workers organized in 600 small enterprises. INDEPCO's members are in 32 locations throughout the country, particularly the Artibonite and Central Plateau. If expanded, this sector could generate employment in a far more decentralized manner than EPZs. Moreover, research indicates that local firms (these businesses produce for both local and export markets) are more likely to forge links with domestic suppliers creating more spin off jobs (Jenkins 2005).⁵

Almost all EPZ apparel production is concentrated in and around Port-au-Prince. Most factories are located in one of two free trade zones situated near the airport and port facilities, SONAPI (the National Industrial Parks Company) or SHODECOSA (a private

⁴ Interview with Richard Lavallée, ILO/IFC Better Work Program, Port-au-Prince, October 26, 2010. A USAID-commissioned study has the percentage of women at 68 percent. Even this number is considered low by apparel company standards. It has been suggested this is due to the fact that “Haiti’s depressed economy lacks alternative employment for men, who thus seek factory jobs” (Nathan Associates Inc. 2009, 33).

⁵ Typically, achieving links to the local economy (backward linkages) is rare – Taiwan, Korea and Mauritius being exceptional cases. In the case of the Dominican Republic, “after 30 years of EPZ presence and robust growth in EPZ exports and employment, EPZs purchased 0.0001 percent of material inputs from the domestic market” (Engman, Onodera, and Pinali 2007 cited in Milberg and Amengual 2008, 21).

industrial park). Seven firms are located outside these zones in nearby buildings. There is one other EPZ in the country located on the northern border with the Dominican Republic, in Ouanaminthe. When HOPE II was negotiated the Dominican business community lobbied to have its goods qualify for duty benefits if partly produced in Haiti. The border EPZ, which is operated by *Compagnie Development Industriel* (CODEVI), is quite unique since electricity, telecommunications, and transport to and from ports are all provided by the Dominican Republic. In fact, the goods produced in the zone are shipped out of Dominican ports, either Puerto Plata on the northern coast or Rio Haina in the south.⁶

The largest apparel factory in the country is in the CODEVI zone. The Dominican company, Grupo M, established itself in the park in 2003 employing between 3,700 and 4,000.⁷ In 2006 CODEVI accepted a loan from the International Financial Corporation, the World Bank's private sector lending arm, conditioned on respect for trade union rights. This eventually pressed CODEVI into signing a collective bargaining agreement with the zone's union, *Sendika Ouwriye Kodevi Wanament*, (SOKAWA). It is the only apparel company in Haiti whose workers are represented by a labor union with an active collective bargaining agreement.

Pre-earthquake conditions

Prior to the earthquake, the garment assembly sector was doing relatively well. Manufacturing grew by 5% in 2009, in comparison with the construction and public works sector that experienced 3% growth (Government of Haiti 2010, 95). Haitian exports to the US rose by 24.5% in 2009 at a time when other countries' exports were dropping (De Coster 2011a).⁸ Exports to the United States totalled about US\$512 million, approximately 10 percent of Haiti's GDP in 2009 (IDB 2010). Ten of 23 companies, which represent Dominican, Korean, and U.S. investors, among others, had indicated their intention to expand prior to the earthquake (Nathan Associates Inc. 2009, XII). In May 2009, the UN Secretary General named former US President Bill Clinton its Special Envoy for Haiti charging him with attracting private investment. A few months later, Clinton and the IDB organized an investment and trade delegation that attracted about 200 business people from the United States, Canada, Brazil, Argentina, Colombia and the Dominican Republic, among other countries.

Post-earthquake conditions

The earthquake caused substantial damage to the sector. Although there are no statistics on how many garment workers were directly affected, given that many worked and lived in or near *Cité Soleil*, we can assume a good many were hurt or died (Better Work Haiti 2010, 5). The earthquake also damaged a significant number of factories. Out of a total of 23 enterprises operating in the capital, seven were badly damaged and one was almost completely destroyed. All factories reopened by March 2010, although operating at different levels of capacity. Employment levels initially dropped from 26,000 to 23,300 (Better Work

⁶ Interview with Grégor Avril, Executive Director, *Association des Industries d'Haïti* (ADIH), Port-au-Prince, October 27, 2010.

⁷ Press reports indicate Grupo M plans to further expand its operations creating around 4,000 new jobs by the end of 2011 (Fletcher 2010).

⁸ Hanesbrands, Gildan, and other large firms increased their orders to Haiti.

2010; Hornbeck 2010, 15). The immediate costs of repairing damaged buildings, replacing machinery, lost stock and raw materials, as well as training new workers has been estimated at US\$38 million (Better Work Haiti 2010, 6). According to the government's Post Disaster Needs Assessment (PDNA), the trade and industry sector was hardest hit with US\$223 million in damages and US\$981 million in losses. The GoH has estimated reconstruction needs to be about US\$233 million over the next three years (Government of Haiti 2010, 97). Production in the border zone was unaffected by the earthquake (Hornbeck 2010, 13).

According to the US State Department more than 4,000 new garment jobs have been created since the January 12 earthquake, which indicates that the jobs lost immediately after the disaster have been recovered, with new ones added. Moreover, the largest companies have outlined aggressive expansion plans in order to benefit from the enhanced trade preferences under HELP (US Department of State 2011). Apparel exports to the US during the first three-quarters of 2010 were US\$370 million. While not stellar when compared to the region's leader Honduras, which exported almost five times as much (US\$1.76 billion), both the government and donors are encouraged (De Coster 2011a).

Government and Donor plans for the sector

The government's position on EPZs has evolved. Its 2007 National Growth and Poverty Reduction Strategy Paper (PRSP) did not identify export manufacturing as a vector of growth. The PRSP was updated, however, in 2009 when the GoH released *Haiti: A New Paradigm* (Government of Haiti 2009). This more streamlined plan emphasized two objectives: raising productivity in agriculture and taking advantage of US trade legislation - HOPE II at the time -- to build up light manufacturing through the revival of export-processing zones (EPZs). Earlier, at the start of 2009, a report by former World Bank economist, Paul Collier (2009), championed assembly manufacturing, recommending: 1. creating a number of EPZs around the country; 2. putting in place the necessary legal framework for EPZs to function; and 3. building the needed infrastructure (ports, roads, electricity generation) to attract assembly investment. Drawing on this report, the United Nations officially endorsed the EPZ model with UN Secretary-General Ban Ki-moon commenting in March 2009 that the US HOPE II law was a "golden opportunity to bring in investors and create hundreds of thousands of jobs" (United Nations 2009).

Following the earthquake, the government released its *Action Plan for National Recovery and Development of Haiti* as well as a post-disaster needs assessment (PDNA), which it presented at a donors' conference in New York in March 2010. The *Action Plan* envisions regional centers of development that include industrial parks -- so EPZs remain at the forefront of the country's economic development plans. Moreover, the 2010 report of the *Presidential Commission on Competitiveness: Shared Vision for an Inclusive and Prosperous Haiti* also identifies the apparel industry as one of five priority growth clusters.⁹

⁹ The five clusters identified are: housing, tourism, agriculture which is divided between plants and tubers and animal husbandry, and finally garments. Funding and backing for the Commission came from USAID and the IDB. Interview with Charles Clermont, SOFIHDES, Port-au-Prince, October 27, 2010.

The report recommends building new industrial parks near Port-au-Prince, Cap Haitien in the North and Les Cayes in the South.¹⁰

Two donors in particular -- the US and the IDB -- are collaborating closely on the sector's development. As already noted, the post-earthquake *Action Plan* stresses the notion of "regional development poles" in order to stimulate economic opportunities outside the capital. Poles will be developed one at a time starting with the North/North East. The IDB and the US plan to help develop the northern region with investments in manufacturing, tourism and agriculture. Plans for the assembly sector include a new 623 acre industrial park to be built on a site between the northern cities of Cap Haitien and Ouanaminthe. It is a joint venture between the Korean textile manufacturer, Sae-A Trading Co. Ltd., the Haitian government, the US State Department and the IDB.

The GoH will own the industrial park, contracting out for its management. Sae-A Trading, a supplier for Wal-Mart, Target, Gap and Levi's, has pledged at least US\$78 million to the project for machinery and equipment, with its plant occupying about 50 hectares of the park. It has announced plans to hire 20,000 workers. The US will provide US\$120 million for the construction of a power generating facility for the park and its surrounding area, a housing program for the workers, and port improvements (US Department of State 2011). The IDB will contribute US\$50 million to build the park's internal infrastructure (buildings, internal roads, electricity, a water treatment plant, and water distribution networks).¹¹ The EU is supporting the venture through extensive road building in the area. For instance, it is financing the road linking the new EPZ with the Dominican border at Dajabon.¹² Other South Korean firms and manufacturers from Brazil, the United States, and Switzerland are considering investments in the new park. The GoH and donors expect it to eventually host as many as 50,000 workers.

It is important to note that the accord among the GoH, Sae-A Trading, the US, and the IDB to build this new EPZ acknowledges the expectation that "all new apparel manufacturing facilities in Haiti would be committed to ensuring adherence to international labor standards". This involves participation in the International Labor Organization's (ILO) Better Work Program which works to improve labor standards in the country by monitoring compliance.¹³ As noted earlier, a condition for benefiting from HOPE II and HELP trade legislation is that the GoH work with the ILO to assess and promote compliance with internationally recognized core labor standards and national labor law in any factory that enjoys tariff advantages. Washington can withdraw access to its market if it considers firms are doing too little to comply with labor standards and laws (Better Work Haiti 2010, 5).

USAID is supporting assembly manufacturing and the garment sector in particular through other activities aimed more generally at attracting foreign investment. It is funding Haiti's Center for Investment Facilitation, located within the Ministry of

¹⁰ The Commission identified four areas that need to be addressed to ensure the industry's success: physical and institutional infrastructure, marketing, training, and product development.

¹¹ Interview with Eduardo Almeida, IDB, Port-au-Prince, November 3, 2010.

¹² Interview with Giovanni Rusciani and Aude Guignard, EU Delegation, Port-au-Prince, October 26, 2010.

¹³ Haiti's Better Work program provides independent assessments of factory conditions, capacity building services to help factories improve working conditions. It also works to encourage social dialogue between workers and managers.

Commerce and Industry, which provides one-stop servicing for those wanting to start a business in Haiti and has funded projects aimed at speeding up business registration procedures.¹⁴ It is also funding the Haiti Apparel Center¹⁵ which will be training some 2,000 to 2,500 garment industry professionals a year, including sewing operators, apparel industry mechanics, and mid-level managers.¹⁶ The training of managers will be key to creating advancement opportunities for workers, given that management has traditionally come from outside.

The World Bank will be supporting the energy sector, which is critical to developing the industry.¹⁷ In addition, its sister agency, the International Finance Corporation (IFC), financed the expansion of Grupo M after the earthquake. As noted above, the IFC, is a partner with the ILO in the Better Work program.

Constraints on the sector's development

The biggest constraints on the garment industry's expansion are 1) a shortage of industrial space, which has worsened since the earthquake; 2) high energy costs and an unreliable electrical grid; and 3) comparatively low productivity.¹⁸ Industrial space around the capital is almost non-existent. The SHODECOSA EPZ is full, with most of the space used to warehouse goods rather than to produce at the moment.¹⁹ The 56 hectare SONAPI industrial park is almost full, although there are plans for expansion. The shortage of industrial space has grown more acute since the earthquake because those who lost their businesses in the downtown core need space to relocate. There is talk of a new EPZ near Port-au-Prince, although nothing concrete has materialized yet. In addition, press reports indicate the Korean firms, Wilbes²⁰ and Kyungseung, are planning to build factories near the capital.

Energy is considered a constraint because it's too expensive. In mid-2009 it cost US\$0.23 per kilowatt-hour compared to India \$0.11, China \$0.08, and Bangladesh \$0.08. Countries closer to Haiti pay higher rates, e.g., the Dominican Republic \$0.14 and Mexico \$0.15, but Haiti's energy is still significantly more costly. An industry report argues that it's the percentage that electricity represents of the operating costs in a month that is critical. "For a Haitian company, electricity represents over 10 percent of total monthly expenditure, compared with 4-6 percent in China, India, and Pakistan" (Nathan Associates Inc. 2009, 47). While problematic, Haiti's apparel industry uses only a moderate amount of energy. Still, costly power means that factories are not air conditioned affecting the working conditions of workers. Also, certain aspects of garment production, making cloth in

¹⁴ Interview with Anthony Chan, USAID, Port-au-Prince, November 2, 2010.

¹⁵ The facility is located in the government run SONAPI industrial park. The space was provided by the Haitian government but it was renovated and is operated by a USAID partner.

¹⁶ Interview with Anthony Chan, USAID, Port-au-Prince, November 2, 2010.

¹⁷ Interview with Joseph Denis, World Bank, Port-au-Prince, October 26, 2010.

¹⁸ Other constraints identified are generally poor and lacking infrastructure (ports and roads) and the country's international image. It is worth noting that the labeling of Haiti as a "fragile state" by the international donor community has served to further weaken that image, according to some industry observers.

¹⁹ Interview with Grégor Avril, Executive Director, *Association des Industries d'Haïti*, October 27, 2010.

²⁰ There have been reports that Wilbes will be recruiting between 2,700 and 4,700 new workers for its new factory (De Coster 2011a).

textile mills for instance, are less likely to take hold in Haiti if electricity remains so expensive since mills are big users of energy.²¹

Finally, the productivity of Haiti's apparel operations is considered low in comparison to other global players. In a well-run factory, productivity rates are between 60 and 75 percent while many of Haiti's factories operate at 35 to 40 percent. The challenge, according to industry observers, is to increase levels to 50 percent of standard, or better. Improving working conditions as well as the nutrition of plant workers would be one simple way to boost productivity.

Donors are attempting to address the three constraints outlined by financing the building of new EPZs in coastal towns as well as improving the port facilities and roads in those areas (for starters near Cap Haitien), devoting aid dollars to increasing electrical generation capacity, and supporting workforce training.

Pitching a fresh approach to Haiti's EPZ development

While debates over the shortcomings and merits of the model will continue, ground is being broken in Haiti and new EPZs are being built. As noted earlier, during the EPZ boom in the 1970s and 1980s, the benefits of economic development went disproportionately to the top sections of Haitian society leaving the majority deeply impoverished (Dupuy 1994, 1997). The model created jobs but it also led to the uncontrolled growth of shanty towns and increased regional inequality. In order to lessen the negative effects associated with EPZs, the government and donors are planning to tweak the model.

First, most new industrial parks will be established away from the capital in the regional "poles of growth" identified by the government's Action Plan. This fits with broader long-awaited efforts to decentralize economic development activity. Second, plans for the new EPZ in the North-East are linked to a broader economic development plan for that region, which will purportedly include investments in tourism and agriculture. The rural development card will be critical here. Interventions in agriculture will need to be robust and long-term in order to act as an accompanying growth pillar to the EPZ model. Without incorporating the rural sector economically, socially and politically into the country's modernization, the overall development strategy will fail. Finally, the problem of inferior, unsafe, and crowded housing around EPZs has been acknowledged, leading donors to dedicate aid to workers' housing. This will need to be complemented with other services (health clinics, schools).

While these are welcomed changes, Haiti needs a new bolder approach to EPZ development. This would involve making two significant changes. First, the Haitian business community and donors would need to adopt the "high road" EPZ model that focuses on extending and ensuring the political, social and economic rights of workers. Second, 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.

²¹ According to industry experts, this is key since an apparel industry that is not supported by local textile mills is considered exceptionally vulnerable. Given Haiti's industry is already vulnerable because of its reliance on a single market, it needs to minimize its susceptibility to sudden job losses.

Labor rights: Taking the “high road”

Employers and donors believe that labor flexibility is the key to solving the poverty problem because it attracts private investment, which in turn creates jobs. They acknowledge that working conditions and wages in EPZs are substandard at the moment, but that over time the market will resolve these issues.²² This position is challenged, however, by a growing body of literature that shows labor flexibility as a primary contributor to greater precariousness and less humane working conditions (Collins 2003). Moreover, the evidence suggests that the very market changes (increased wages and better working conditions) donors anticipate over time have been driven by effective labor representation and do not occur automatically as a result of market forces. In other words, it is typically through pressure from unions and social movements that highly unequal social-protection arrangements are reformed and equity goals met.

Today about 5 percent of Haiti’s total workforce is unionized.²³ As noted earlier, only one of Haiti’s 23 apparel companies (CODEVI on the Dominican border) has negotiated a collective agreement with its workers.²⁴ Under the Duvalier dictatorships (1970s and 1980s), working conditions in the country’s assembly operations were adverse to say the least. Following the return to constitutional rule little changed. In the 1990s, companies were charged with many of the same violations as other global apparel industry firms of the day: labor union harassment and substandard working conditions (Gereffi, Johnson, and Sasser 2001, 58).

Conditions in EPZ have not improved significantly since that time. There are harsh work schedules²⁵, facilities often lack ventilation, and sexual harassment continues. According to the last report by the International Trade Union Confederation: “While the right to organise is guaranteed by law, enforcement of trade union rights remains difficult. Those trying to organise workers in a union were constantly harassed or dismissed, generally in breach of the labor legislation. To prevent workers from joining unions, employers were frequently giving bonuses to those who were not union members” (International Trade Union Confederation 2010, 5). Although freedom of association is guaranteed in Haiti’s 1987 Constitution, the fenced-in EPZs coupled with security guards and entry permit requirements, present huge obstacles for unions trying to reach and

²² Interview with Eduardo Almeida, IDB, Port-au-Prince, November 3, 2010.

²³ According to Haiti’s Labor code, a union that has two-thirds of the workforce as members is considered to represent the entire workforce and can negotiate a collective agreement with the employer. Although collective employment contracts are part of the Labor Code, employers are not required to bargain collectively with unions.

²⁴ *Batay Ouvriye*, a worker rights non-governmental organization, helped to organize the workers at the CODEVI industrial zone in Ouanaminthe. As noted earlier, this resulted in the establishment of the SOKAWA union and the only collective agreement in an industrial park. The agreement covers wages, health issues, worker education and training, and scholarships for workers’ children. Interview with Yannick Etienne, *Batay Ouvriye*, Port-au-Prince, November 5, 2010.

²⁵ For instance, workers are often asked to work extra long days that effectively compress a six-day week into five days so that employers can avoid paying for a seventh day -- under Haitian law this is necessary if a worker works on a Saturday (Wells 2010).

organize these workers.²⁶ Indeed, the ILO Better Work Program will be looking more closely at the right to association in its next assessment of factory conditions.²⁷

Given it has been impossible for unions to organize in the industrial parks around the capital, the CODEVI experience stands out. In that particular case, the International Finance Corporation (IFC) made its financing of the industrial park conditional on the acceptance of unions.²⁸ According to observers, it is doubtful that the new EPZ planned for the North East (or anywhere else for that matter) will be unionized unless a similar arrangement is struck prior to the start of operations. Given the IDB is providing the funds for the new Industrial Park's internal infrastructure, it should consider stepping into the IFC's past role by making its funding conditional on a trade union presence. This would make the jobs created in the new EPZ more likely to improve living standards, poverty rates, and human development. It would also be consistent with Haiti's national and international legal obligations. In addition, it would help make the industry more globally competitive. A USAID-commissioned study of the apparel industry cautions that "Potentially adversarial labor relations and lack of formal worker representation in the factories (except CODEVI) may hamper efforts to improve competitiveness" (Nathan Associates Inc. 2009, 63).

Opting for a "high road" EPZ model, or converting and then marketing Haiti as a labor-compliant country with stable employer-employee relations, will require a paradigm shift. It will mean convincing producer-exporters "to protect basic worker rights, enhance workers' job security and improve the overall terms of employment as a means of promoting productivity and competitiveness" (Ofreneo 2009). It is worth noting that this has been Cambodia's strategy, a country that has experienced an explosion in EPZ production and a rising share of the global garment market (Marston 2007). Notably, Cambodia has one of the highest unionization rates in the garment industry (around 75%).²⁹

The shift to a high road approach would likely receive the support of leading consumer-labor campaign groups in the global North (the Fair Labor Association, the Clean Clothes Campaign, and the Worker Rights Consortium, a group of 186 universities that press factories making college-logo apparel to treat workers fairly) as well as North American unions. It is worth mentioning that the Knights Apparel factory in the Dominican Republic, which the Workers Rights Consortium is supporting, is unionized and pays a living wage of about US\$500 a month. Knights Apparel is a leading supplier of college-logo apparel to US universities (Greenhouse 2010).

²⁶ Haiti has ratified all of the eight ILO core labor standards. It has also ratified the International Covenant on Civil and Political Rights, which guarantees freedom of association.

²⁷ Interview with Richard Lavallée, ILO Better Work, Port-au-Prince, October 26, 2010.

²⁸ The IFC was pressured into that taking that position by international labor rights groups in the North, who also applied pressure to brand buyers operating in Haiti such as Levi's.

²⁹ The suggestion here is not that wages and working conditions in Cambodia's garment factories are satisfactory. The national monthly minimum wage for garment workers is US\$50 and in 2009 the Cambodian Labor Union Federation and the National Institute of Statistics determined a liveable minimum wage to be US\$93 per month. Moreover, hundreds of workers that participated in a massive strike for a minimum wage that would meet their basic needs were recently fired. The point, rather, is that the "high road" approach is more likely to contribute to improved labor standards and position Haiti to respond to a growing market for products produced in conformity with international standards.

There are sound business reasons for shifting to this model as well. The fact that, in the case of Grupo M and CODEVI, Haiti's buyers and the IFC were pressured into to make labour compliance a condition for receiving funding shows what can happen when violations of freedom of association gain international attention. The demands on suppliers to meet international labor standards and local labor laws will only increase.³⁰ This will be especially true for companies producing in Haiti, given it has suffered tremendous hardship and garnered wide-reaching media attention. What is more, the public reports from the Better Work Program will undoubtedly add to that pressure.

It is also worth highlighting, once again, the experience of Grupo M, the Dominican Republic's leading apparel maker and the only unionized factory in Haiti. The founder of the company argues that everything a company provides for its workers is returned in terms of efficiency, quality, loyalty and innovation. It plans to employ 10,000 people in its Ouanaminthe factory by the end of 2012 (De Coster 2011b).

Wages: survival vs well-being

Both advocates and policy-critics of the assembly industry agree on two points: first, no one disputes that Haitians need more jobs and that garment and light manufacturing can produce them – albeit capriciously; and second, all agree that wages in the industry are too low. Even Georges Sassine, the President of the Haitian Industrialists Association admits "It's not enough to make a decent living" (cited in Katz 2010).

Although there are no studies on what a factory wage buys, anecdotal data indicate that a large part of the salary goes to transport to and from work and meals away from home (Nathan Associates Inc. 2009, 45; Wells 2010). Wages, therefore, barely cover the costs associated with having the job. That the average garment worker salary is not enough to meet the basic needs (rent, utilities, food, medicine, personal hygiene products, schooling and transportation) of a family of 2-3 school-aged children is a powerful indictment on its own. But low wages will also have serious implications for the model's ability to create "spin off" jobs. The IDB estimates that for every factory job created there will be ten spin off jobs: some linked directly to the industry (transport, communication, automobile, shipping, tourism, hospitality, packaging, banking, and insurance) and others to the purchasing power of newly hired workers as they buy locally produced food, goods and services.³¹ Unless wages are significantly improved, employment from the latter will be skimpy at best.

After six years with no increases in the legal minimum wage, Haiti's parliament did draft legislation in 2009 to raise it from 70 gourdes (about US\$1.75) to 200 gourdes (about US\$5) per day. The business community was quick to register its disapproval arguing that the wage hike would decrease the garment sector's competitiveness. President Préval rejected the proposed law recommending the daily minimum wage for assembly workers be increased to only 125 gourdes, with further gradual increases programmed through 2012.³²

³⁰ It is worth noting that a 2004 World Bank (2004) survey of the top 15 international buyers in Cambodia, found that over 60% considered labor standards to be of equal or greater importance than factors like price, quality and delivery times. In fact, good labor standards ranked first out of 12 reasons to source from a specific country (Marston 2007).

³¹ Interview with Eduardo Almeida, IDB, Port-au-Prince, November 3, 2010.

³² The minimum wage for assembly workers was increased to 150 gourdes in October 2010, as stipulated by the new law.

Not surprisingly, the issue was politically explosive generating weeks of intense public debate and demonstrations in the capital. Ultimately, the Chamber of Deputies supported the President's plan and the Senate gave its approval in September, allowing the new law to take effect in October, 2009. Still, private sector resistance to the wage increase has not subsided. Soon after the law was passed, disagreement surfaced over its interpretation and the question has yet to be resolved.³³

A 2009 consultant's report on Haiti's Apparel Industry, commissioned by USAID, highlights just how thorny the issue of wages can be. It concludes: "while it is true that an eventual increase in the minimum wage to 200 gourdes will result in a higher wage bill for apparel companies, it will "nonetheless leave Haiti at a level of labor costs that is competitive compared with China, India, Mexico, and the DR" (Nathan Associates Inc. 2009, 45). Despite this finding, employers have resisted supporting the legislation. Moreover, the report points out that employers would likely adjust "bonus and incentive payments (based on productivity, attendance, and years of service) and other benefits (for instance, most companies currently pay the individual income tax on behalf of workers)", allowing the higher wage to be absorbed over a few years without a significantly affecting operational costs (Nathan Associates Inc. 2009, 45).

While much needs to be done to improve social dialogue in Haiti, the private sector's positions on wages and working conditions need to be informed by a longer-term perspective in line with the "high road" approach to EPZ development. As noted in the previous section, in today's globalized world, a company's competitive position and profit margin are linked to its reputation. It makes sense for firms operating in Haiti to adopt socially responsible policies to safeguard their "reputational capital" (Dashwood 2005, 992). This approach would also help balance international market competitiveness concerns with human rights, labor standards and sustainable livelihoods goals.

Still, private sector initiatives will not be sufficient. Even with a more progressive business approach, it will be some time before EPZ wages can offer workers economic self-sufficiency, especially in the current climate of sharply rising food prices. A greater state role in the provision of social and economic rights will be needed. The countries that have experienced significant poverty reduction when employing an EPZ model supplemented the low wages of workers with a range of government programs aimed at household health, food security, nutrition levels, education, family housing, and community health. If we take the case of Mauritius, an EPZ success story, we see that as it built EPZs it also mounted anti-poverty programs, provided subsidized grants and loans for home purchases, supplied social assistance to families falling below a basic level, and sponsored training programs to upgrade skills and provide paid job experience to unemployed university and college graduates. Although wages were low, workers were supported by a web of welfare provisions, not to mention free health care and public education.

³³ The business community interprets the law to mean that the minimum wage is 125 gourdes a day for regular working hours. The Better Work program's reading of the law is that the minimum wage is "200 gourdes a day for piece workers, with the reference wage of 125 gourdes a day being the minimum wage for regularly employed workers who work full time and are paid on a daily basis, not on piece rates" (Better Work Haiti 2010, 11).

Only with adequate income and social supports, and the expansion of women's access to resources and services, will it be possible to address the deficient wages in Haiti's EPZs.³⁴

Women and EPZ Employment

Export processing zones favour women workers because “they are cheaper to employ, less likely to unionize and have greater patience for the tedious, monotonous work employed in assembly operations” (Safa 1994, 258). It is a development strategy that many women's groups have argued “exploits the ‘comparative advantages of their disadvantages’ (Paul-Majumder and Begum 2000). *The Gender Shadow Report of the 2010 Haiti PDNA (2010)* sums up the predicament for women pushed³⁵ to work in EPZs: “On one hand, this sector provides much needed jobs. On the other hand, it creates low wage factories with sub-par working conditions, no benefits and small, unpredictable wages” (Haiti Equality Collective 2010, 27). As noted earlier, women make up between 62 and 68 percent of the EPZ workforce in Haiti.

There are generally two perspectives on women and EPZ employment. The exploitation perspective notes the harmful working conditions, poor wages, and labor segregation that are prevalent in the sector while the opportunity perspective points to increased employment opportunities for women, greater income availability and better control over income (Liberato and Fennel 2007, 394). One can find evidence for both viewpoints. Work in EPZs has been shown to expose women to new risks. In Haiti, sexual harassment is well documented as are numerous health troubles associated with EPZ workplaces: respiratory ailments, ergonomic issues, and stress induced health problems (Nathan Associates Inc. 2009, 37). At the same time, EPZ jobs have also been shown to contribute to a new independence for some women workers. Being wage earners has allowed some women to delay marriage and remarriage and to exert more control over the size of their families. In the Dominican Republic (DR), there has been evidence of numerous workplace-induced health hazards but at the same time EPZ employment has provided improved access to social security -- although this and other positive outcomes on the health front have been attributed to union pressure (Liberato and Fennel 2007, 404).

Despite the mixed findings, there is agreement on the fact that, while EPZ employment has helped women cope with harsh socioeconomic conditions, it has not

³⁴ One type of social support that has received much attention is cash transfer programs aimed at the extremely poor. In exchange for these funds, women commit to keeping their children in school and to attending health clinics. While appealing, caution is warranted. Studies indicate that, in the absence of good and equitable educational and health-care systems, they have only a limited capacity to transform the lives of recipients (Sandbrook 2007). Moreover they have often been based on questionable assessments of a family's poverty level, have been shown to divide communities, hinder social mobilization, and jeopardize social cohesion (Luccisano and Wall 2009; Luccisano 2006). Instead, the GoH and donors should focus on providing its citizens with good public education and health care.

³⁵ I use the word “pushed” here quite deliberately. The example of Sri Lanka is instructive. The country has experienced high female unemployment and high EPZ vacancy rates simultaneously. This is because EPZ jobs (along with farming, the urban informal sector and overseas domestic service) are considered “bad” jobs. Young women lucky enough to have family support would prefer to remain at home under-employed or unemployed than work in EPZ employment. Only the poorest are compelled to take these jobs. Thus, women are not “pulled” to the Zones by the prospect of regular work, rather they “pushed” by poverty and a lack of alternatives (Paul-Majumder and Begum 2000).

provided them with genuine opportunities either to transform their economic situation or to significantly improve the well-being of their families. Unless broader policies are put into place to address gender discrimination, poverty, and economic marginalization, economic and welfare gains through free trade zone employment will be meagre; this is especially true for women that are the sole breadwinners (Liberato and Fennel 2007, 405). In sum, the effects of EPZ employment on women will depend on the ability of Haiti's unions to improve the working conditions and benefits associated with the job; and the welfare (education, health, and social security) entitlements established by the GoH to complement the sub-standard wages and improve the status of women in Haitian society.

It is worth making one more observation regarding garment manufacturing as it relates to women. Industry observers suggest that in order to improve wages and working conditions, Haiti's industry will need to move away from cutting and sewing towards other activities like designing, essentially becoming a "full-package" supplier (Presidential Commission on Competitiveness 2010, 21).³⁶ However, studies indicate that this jump up the chain has been associated with an increase in jobs for educated (male) workers and fewer jobs for less educated (female) workers. This has been the case with the knitwear industry in certain countries (Kabeer and Mahmud 2004, 157). We shouldn't assume that the benefits of moving up the value chain will automatically go to women. The ground work needs to be laid ahead of time (through continual training, upgrading of skills including training for management and supervisory positions) to ensure that women can take advantage of, and benefit from, these changes if they come about.

Conclusion

The GoH and international donors are hoping this post-earthquake period will usher in a transformative phase for Haiti in which all sectors of society will finally participate in, and benefit from, the country's economic development. Export processing zones can contribute to this objective but only under certain circumstances and as part of a broader multi-pronged development and poverty reduction strategy.

First, Haiti's overall development vision needs to be one of growth-with-equity. This requires the Haitian state to be a service-provider, manager and regulator. It also requires a development vision that incorporates the majority of Haiti's poor, which means the GoH and donors will have to follow-through on their commitments to increase national production in agriculture and support rural development. The EPZ model can generate much needed jobs, but on its own it will not reduce the incidence of poverty in a significant way. Concurrent action on the rural front will be essential.

Second, because of the sub-standard wages in the garment sector, EPZ development will need to be accompanied by a web of social policies. The antidote to the destructive tendencies of the EPZ model is a set of redistributive measures in the form of appropriate labor market regulation, social insurance and welfare provisions. In short, EPZ

³⁶ A full package supplier typically sources raw materials, provides design services, develops products and samples, makes patterns, and helps with product inventory management. Interview with Joseph Denis, World Bank, Port-au-Prince, October 26, 2010.

development will need to be supplemented with the provision of social entitlements to those who live and work both inside and outside the zones.

Third, a fresh approach to EPZs is needed, one that rejects business practices predicated upon the suppression of workers' rights. A development strategy aimed at poverty reduction must by definition advance the interests of workers in EPZs. Or put differently, the level of trade union presence in Haiti's EPZs will greatly determine the assembly industry's ability to address poverty and promote sustainable, equitable development. The HELP act has mandated a concern for the wages and working conditions of workers producing for the US market. Apparel producers are learning that buyers are less willing to do business with factories that do not respect labor rights or provide decent working conditions. It's a fitting time to retrofit an outdated model that has contributed little to Haiti's development in the past.

As noted at the outset of this paper, a development strategy that boosts economic growth in a distributionally neutral fashion will do little to reduce poverty. The benefits derived from the EPZ model must be spread out more equally than previously. Improved labor standards are one step in that direction. Ultimately, the critical question will be whether the political will exists among the key stakeholders and decision makers (the GoH, the Interim Haiti Recovery Commission, international donors and financial institutions, and the Haitian business community) to take the "high road" toward EPZ development this time around.

Recommendations

Government of Haiti

- Strengthen the Ministry of Social Affairs and Labor, particularly its capacity to conduct on site visits and evaluate working conditions in factories. A stronger ministry will allow the government to enforce the labor code more effectively, which will encourage firms to improve their practices and factory conditions.
- Support legal literacy for EPZ workers to ensure they know their rights under Haiti's labor code.
- Fund programs of social-protection for workers inside and outside EPZs. The EPZ model must be complemented with a focus on general welfare in order to make up for poor wages.
- Support the smaller "cottage industry" garment sector. Programs should provide credit to these small businesses so they can invest more heavily in equipment, technology, and the training of their workforces. Research indicates that local firms producing for the local market produce more spin offs.
- Establish support services for EPZ workers near the zones: health centers, health insurance services, financial services for savings and credit, day-care services.
- Support vocational training through bursaries. Women EPZ workers should be targeted since they will require regular upgrading in order to exploit the benefits that will come from the industry's eventual move up the value chain.

International Donors

- The IDB is providing funds to build the new EPZ in the North East. It should make that funding conditional on respect for trade union rights within the zone, as the IFC did in Ouanaminthe.
- Support the strengthening of the Ministry of Social Welfare and Labor in order to boost its inspection capabilities as well as its ability to enforce the country's labor code.
- Assist the GoH in its support services for EPZ workers near the zones: health centers, health insurance services, financial services for savings and credit, day-care services and funding for subsidies related to housing and transport.
- Assist the government in its efforts to improve health-care, achieve universal enrolment in primary education, increase completion rates, and improve the quality of education at all levels. These measures, along with the extension of social-protection schemes, will round out the weak wages from EPZ employment and improve productivity.

- Support the state's capacity to govern by increasing the percentage of aid channelled through state agencies rather than through non-governmental organizations in area of health and education.
- Carry-out baseline studies prior to any major EPZ zone development project. This will allow the government and donors to more accurately determine the impact of the model on local communities.

Private Sector

- Given the ILO Better Work program's emphasis on labor rights compliance, factory owners should prepare for unionization among an increasing proportion of the garment workforce.
- Employers should remove the barriers that prevent unions from gaining access to factories.
- Employers located in the new EPZs and those around Port-au-Prince should provide canteens that serve lunch and dinner, bus transportation to and from work, and on-site health services for workers and their families. A USAID consultant report recommends this fuller compensation package for EPZ workers (Nathan Associates Inc. 2009, 37). Not only would these benefits supplement low wages, but studies have shown they would improve worker productivity.
- Grupo M, which already provides some of these services to workers, should be encouraged to share its experience with other companies located in EPZs. This would help dispel the notion that treating workers well leads to losses of market share and profits.
- Garment firms should adopt a highly active policy to promote labor skills. For instance, in Madagascar in 2001, nearly one in three EPZ factory employees took a vocational training course paid for by the company.

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