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# Disaster Capitalism: Empirical Evidence from Latin America and the Caribbean

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FLORIDA INTERNATIONAL UNIVERSITY

Miami, Florida

DISASTER CAPITALISM: EMPIRICAL EVIDENCE FROM LATIN AMERICA AND  
THE CARIBBEAN

A dissertation submitted in partial fulfillment of

the requirements for the degree of

DOCTOR OF PHILOSOPHY

in

POLITICAL SCIENCE

by

Ransford F. Edwards Jr.

2016

To: Dean John F. Stack, Jr.  
Steven J. Green School of International and Public

This dissertation, written by Ransford F. Edwards Jr., and entitled Disaster Capitalism: Empirical Evidence from Latin America and the Caribbean, having been approved in respect to style and intellectual content, is referred to you for judgment.

We have read this dissertation and recommend that it be approved.

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Richard Stuart Olson

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Ronald W. Cox, Major Professor

Date of Defense: November 10, 2016

The dissertation of Ransford F. Edwards Jr. is approved.

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Dean John F. Stack Jr.  
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Andrés G. Gil  
Vice President for Research and Economic Development  
and Dean of the University Graduate School

Florida International University, 2016

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## DEDICATION

I dedicate this to my family, friends and all those adversely affected by natural disasters and global capitalism.

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ABSTRACT OF THE DISSERTATION

DISASTER CAPITALISM: EMPIRICAL EVIDENCE FROM LATIN AMERICA AND  
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by

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Florida International University, 2016

Miami, Florida

Professor Ronald W. Cox, Major Professor

Natural disasters are uniquely transformative events. They can drastically transform physical terrain and the lives of those unfortunate enough to be caught in their wrath. However, natural disasters also provide an opportunity to reflect on past failures and, at times, a clean slate to correct those shortcomings. This project takes a political economic approach and recognizes natural disasters as occasions for agenda-setting on behalf of transnational commercial enterprises and market-oriented policy elites. These reformers often use the post-disaster policy space to articulate long-term development strategies based on market fundamentalism, and, more importantly, advance a set of policies consistent with their particular interests. This dissertation delves into that process and identifies the actors, their preferences and the policy outcomes.

Using the business conflict model alongside changing transnational processes, this project identifies and traces post-disaster policy making in the Caribbean Basin. It also explores and provides a more nuanced explanation of its effect upon and within certain socioeconomic groups. What becomes apparent is that natural disasters are opportunities to first fracture national economies and then integrate them into transnational processes



of capital accumulation. Given that economic viability is increasingly determined by assimilation into the global production processes, reformers in both developed and developing countries use disasters as occasions for re-orienting national economies towards this end. It is within this distorted integrative process that disaster capitalism is located.

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## ABBREVIATIONS

AAEI-TAG -- Textile and Apparel Group of the American Association of Exporters and Importers

AAMA -- American Apparel Manufacturers Association

ACTWU -- American Clothing and Textile Workers Union

ADIH -- Association des Industries d'Haïti

AGOA -- African Growth and Opportunity Act

AFL-CIO -- American Federation of Labour and the Congress of Industrial Organisations

ANDI -- National Association of Industrialists

ANEXON -- National Association of Honduran Exporters

ATC -- Agreement on Textiles and Clothing

ATMI -- American Textile Manufacturers Institute

CBERA -- Caribbean Basin Economic Recovery Act

CBI -- Caribbean Basin Initiative

CBTPA -- Caribbean Basin Trade and Partnership Act

CCAA -- Caribbean-Central American Action

CONAFEXI -- National Council to Promote Exports and Investments

DR-CAFTA -- Dominican Republic-Central America Free Trade Agreement

EIAP -- Earned Import Allowance Program

EM-DAT -- Emergency Events Database

EPZs -- Export Processing Zones

FDI -- Foreign Direct Investment

FDN -- Nicaraguan Defense Force

FEPROEXAH -- Federation of Agro-Export Producers

FIDE -- Foundation for Research and Business Development

FUNDAHEH -- National Development Foundation of Honduras

GALs -- Guaranteed Access Levels

GATT -- General Agreement on Tariffs and Trade

GEMAH -- Honduran Management Association

GSP -- Generalized System of Preferences

HAMCHAM -- Honduran-American Chamber of Commerce

HELP -- Haitian Economic Lift Program

HONDUTEL -- Honduran Telephone Company

HOPE -- Haitian Hemispheric Opportunity through Partnership Encouragement

ILGWU -- International Ladies Garment Workers Union

ILO -- International Labor Organization

IMF -- International Monetary Fund

MERCOSUR -- Mercado Común del Sur

MINUSTAH -- United Nations Stabilization Mission in Haiti

MFA -- Multi Fiber Agreement

NAFTA -- North American Free Trade Agreement

NCTO -- National Council of Textile Organizations

NGOs -- Non-Governmental Organizations

NLC -- National Labor Committee

NRF -- National Retail Federation



NTA – National Textile Association

OAS – Organization of American States

OTEXA – Office of Textile and Apparel

RITAC -- Retail Industry Trade Action Coalition

SAP -- Special Access Program for Caribbean Apparel Imports

SMEs -- Square Meter Equivalents

SOEs – State-Owned Enterprises

TAICNAR – Technical Assistance Improvement and Compliance Needs Assessment and Remediation

TPLs -- Tariff Preference Levels

USAID -- United States Agency for International Development

WTO -- World Trade Organization

## CHAPTER ONE: INTRODUCTION

This project locates natural disasters within the broader context of international political economy. In particular, I am interested in examining how governments formulate policy in the immediate aftermath of natural disasters. Specifically, do natural disasters create an unchecked policy space for governments to enact contentious economic reform policies? To what extent does a natural disaster event allow powerful economic and political actors to advance a narrow policy agenda? In order to answer these questions I will investigate the political economy of natural disasters by careful analysis of both qualitative and quantitative data. The results of which will provide evidence to either support, refute, or qualify the hypothesis that natural disasters create a window of opportunity for elites to pursue policy agendas that might otherwise be politically problematic or difficult.

A major focus of this project is what Naomi Klein calls disaster capitalism, or the free-market orientation of post-catastrophe reform policy. From the outset, it is worth noting that disaster capitalism is as much about the economic marginalization that precipitates a disaster, as it is the capital-driven strategies to hasten recovery and restoration. This study will address the predominance of neoliberal programs in the post-disaster policy space. The first substantive chapter submits to rigorous statistical examination Klein's contention that corporate interests and government technocrats have used natural disasters as opportunities to pass reforms that would be otherwise politically difficult. Subsequent case studies identify particular regional trade strategies used in Central America and the Caribbean to usher in neoliberal policies and revitalize a crisis

of capital accumulation that beset US corporations in the 1970s. This project ultimately shows that in cases where a natural disaster did occur, embedded economic nationalists were challenged by insurgent transnational capitalists to influence post-disaster policy direction.

While this is a study about the policy responses to natural disasters, there is, however, a role for *ex ante* investigations into the cause of policy reforms. Institutional dynamics, particularly in terms of the existing policy-making process, has an important impact on policy formulation and outcome. Considering the policy-making process is essential because legislated economic reform policy is the product of a complex set of prior interactions. The degree of bureaucratic cohesion, executive autonomy, interest group access and the overarching international environment all serve to determine the course, range and vigor of policy reforms.

Yet, if public policy is determined by the above pluralism, why then do a narrow sector of transnational capitalist interests seemingly dominate the post-disaster policy space? What is it about a natural disaster that makes it conducive to market liberalization and the globalization of the production process? The immediate answers must involve a discussion of first, the condition of crisis and secondly, the “neoliberal turn” of the 1980s. What becomes apparent is that the hastened advance of trade and capital liberalizations, privatizations, deregulations, and state retrenchment under the rubric of neoliberalism deserves a more nuanced explanation that takes into account the aforementioned policy-making dynamic and a period of crisis.

Crisis is indeed a reoccurring theme in this study, but, by itself, crises do not engender change. The destruction caused by natural disasters do, however, create

commercial opportunities that are seized upon by capitalists best mobilized to exploit existing business divisions and the interruption of policy moderation. Similarly, as witnessed in the financialization of the US economy, economic crisis became the condition under which elite coalitions simultaneously fractured and mobilized. Old arrangements disintegrated to be replaced by a configuration of new (and old) actors given policymaking voice during periods of public disenchantment or disorientation. Neoliberalism was thus a response to the failings of regulated capitalism, most notably declining profitability for US corporations.

The combination of the power of labor to turn higher productivity into wage gains and the manifestation of government policy targeting the occurrences of recessions and high unemployment resulted in weaker profits for US corporations, particularly in labor-intensive industries. This sustained period of declining profitability during the 1960s led to the ascent of a transnationally-oriented, exclusionary pact of policy elites that peddled a swift shift to market fundamentalism in efforts to quash labor, supplant state interventionism, and revive classical liberalism. Besides its penchant for reworking the regulationist state, as a policy governing international trade, neoliberalism encouraged the unabated movement of goods, services, money, and acquisition of property across national borders. This feature of international neoliberalism is important in understanding my particular conceptualization of disaster capitalism and the conflict between national and transnational businesses. To that end, this chapter begins by laying out the theoretical foundations of disaster capitalism within the hegemony of international neoliberalism and changing transnational processes.

The rest of this chapter will be dedicated to a review of the relevant literatures that link disaster to political, economic and social transformations. I will begin by detailing the concept of disaster capitalism as formulated by Naomi Klein, and then provide a reconceptualization that highlights the co-variation between natural disasters and macroeconomic liberalizations. Next, I will offer critical appraisal of pluralistic and public choice models most often used to explain policymaking. I will then examine the usefulness of an alternative theory of global capitalism that identifies a transnationally-oriented faction of local elite as primary drivers of post-disaster neoliberalism and state reconstituting. Closing the chapter will be a brief discussion of the statistical model and case studies.

### The Shock Doctrine<sup>1</sup>

Naomi Klein identifies the Chicago School of neo-liberal economics and its iconic figure Milton Friedman as providing the framework for disaster capitalism. It was Friedman's own belief that "[i]f a government activity is to be privatized or eliminated, by all means do so completely. Do not compromise by partial privatization or partial reduction." Friedman contended that doing so will only enable those most negatively affected by the reforms to eventually succeed in forcing reversals (Friedman 1990: 11-14). The concept of shock therapy - with its root in crude electric shock treatments for patients diagnosed with mental disorders - was co-opted into economic arguments that

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<sup>1</sup> Klein uses shock, disaster and crises as interchangeable concepts with little distinction. For the purpose of this study, a disaster is defined as the sudden (or progressive) natural event and crises as the consequence of some form of human interaction (before or after the event). I will, however, consider shocks and disasters as interchangeable concepts. For a more detailed discussion about the subtleties between the two see Faulkner (2001: 136-138).

avored one fell swoop when reforming “sick” economies. Rigorously employed in the former Soviet Republics, the logic of shock therapy was to use the disarray inherent to regime change to advance economic reorganization (Sachs 1995; Haynes and Husan 2002). The honeymoon period afforded to incoming democratic regimes thus made tough reforms an easier sell to the affected public (Haggard and Kaufman 1995: 152). As opposed to gradualism, or piecemeal reforms, shock therapy suggested rapid and radical transformations of economic policies (Friedman 1990; Popov 2000). The bitter medicine had to be administered through a series of austere structural adjustments often at odds with popular sentiments.

Given the basic outline of shock therapy, disaster capitalism is the instrumental use of disasters to usher in radical capitalist economic policies. Naomi Klein (2007) furthers that “every time a new crisis hits – even when the crisis itself is the direct by-product of free-market ideology – the fear and disorientation that follow are harnessed for radical social and economic engineering” (49). The caveat here is that disasters are also considered a function of market distortions, business cycles, and unequal development. Klein is, however, more keen on the observation that “each new shock is midwife to a new course of economic shock therapy” (49). For Klein, shocks, which come in the form of wars, financial crisis, coup d’état, terrorists attacks, and natural disasters, are taken advantage of by reform-minded technocrats, politicians and transnational capitalist forces to pursue neoliberal economic policies. Disaster capitalism thus relies upon a series of interrelating shocks: The initial shock is the disaster event. This leads to public shock, characterized by fear and disorientation. The third jolt is in the form of shock therapy and the pursuit of neoliberal policy reforms. Finally, as the public gathers its bearings,

the state's security apparatus maintains acquiescence to the new orthodoxy by utilizing actual shock techniques (McSherry 2002: 43; Klein 2007).<sup>2</sup> Shock therapy, it appears, was merely a precursor to a more programmatic disaster capitalism.

### Crises as Opportunity: Louisiana, Haiti, and Indonesia

Naomi Klein draws a straight line from the ideological war on big governments to the instrumental use of catastrophes as triggers for neoliberal policy reforms. In countries or municipalities where strong public pressure stalls any meaningful attempt at deep economic liberalization or deregulation, post-disaster confusion provides a window of opportunity for state agents and corporations to exploit new markets.<sup>3</sup> While there exists little scholarly attempts to investigate the polemics of opportunism (Gunewardena and Schuller 2008; Schuller and Morales 2012) the literature does offer anecdotal support to the notion that natural disasters can create opportunities to reinvigorate local economies

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<sup>2</sup> In her 2007 book, Klein compares covert electroshock experiments carried out by C.I.A operatives in the 1950s to the “shock therapy” of economic reform being formulated at the Chicago School of Economics by Milton Friedman. The application of electrodes to stubborn patients to help facilitate “reprogramming” could also be applied to Keynesian economies in need of rapid market liberalization. Both methods found harmony in Chile (and Latin America in general under the codename: “Operation Condor”) during the repressive regime of Augusto Pinochet. To view the declassified documents see: CIA, KUBARK Counterintelligence Interrogation, July 1963.

<http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB122/index.htm#kubark>

<sup>3</sup> A precursor to the subsequent examples may have taken place in Mexico City to the middle-class residents of the Tlatelolco housing complexes. Following the 1985 earthquakes, discord between Tlatelolco residents and the government arose regarding plans to relocate residents to another area of the city. The government also began the process of privatizing the apartments. Prior to the disaster, residents merely owned a certificate of real estate participation with much of the maintenance and upkeep the responsibility of government agencies. The change of property rights would void these contracts and make the units of the condominiums subject to the norms of the housing market (Walker 2009: 194-209).

through an aggressive, tourism-led development strategy (Robinson and Jarvie 2008; Faulkner 2001; Murphy and Bayley 1989).

In his construction of the new transnational model of accumulation, William Robinson (2001) identifies tourism (along with *maquiladora*<sup>4</sup> production, non-traditional agricultural exports and remittances) as the new dynamic economic activity that will link developing countries to the global economy (539). For Robinson, tourism and hospitality is at the core of the new transnational service sector. Benefitting from trade and financial liberalization, as well as pacification and integration, “tourism has become the fastest growing economic activity, and even mainstay, of many Third World economies” (545). Growth prospects for international tourism have enticed local and transnational elites to create and take advantage of opportunities to build and expand on international travel for purposes of leisure or otherwise.

#### *Hurricane Katrina and Louisiana*

An even more blatant example of the circumvention of public policy in favor of narrow interests took place in 2005 following Louisiana’s catastrophic encounter with Hurricane Katrina. In this case, crisis is exploited on behalf of what Klein would call the “disaster-capitalism complex” or the privatization and contracting out of disaster response.<sup>5</sup> While the scope of the disaster necessitated the use of private contracting

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<sup>4</sup> The word *maquiladora* is derived from the term *maquila*, which refers to the process of assembly and production primarily dependent on unskilled and semi-skilled labor. The factory that houses this manual and light machinery assembly system or mass production process is referred to as a *maquiladora*.

<sup>5</sup> Some of the largest no-bid contracts went to firms that were used by the government in Iraq: Halliburton’s KBR (military base construction), Blackwater (provided security for FEMA



firms, the frenzy of firms pouring into Louisiana and Mississippi to secure largely no bid-contracts was encouraged by the relaxation of longstanding labor protections. Shortly after the failure of Louisiana's levy system, the federal government overturned The Davis-Bacon Act and Executive Order 11246.<sup>6</sup> The 1931 Davis-Bacon Act called for federal contractors "to pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits for corresponding classes of laborers and mechanics employed on similar projects in the area." The 1965 Executive Order 11246 is an affirmative action provision that "prohibits federal contractors and federally assisted construction contractors and subcontractors...from discriminating in employment decisions on the basis of race, color, religion, sex, or national origin."<sup>7</sup> The temporary annulment of these two laws - described as necessary to speed up the recovery process - allowed for contractors to reap enormous profits within this vacuum of deregulation. The ability to focus strictly on profit maximization led to numerous cases of prejudicial contracting, discriminatory employment practices, and the abuse of health and safety standards. It was not until affected groups were able to mobilize, coupled with the public censuring by civil rights alliances, that these regulations were reinstated (Bennett 2006; Olam and Stamper 2006; Button and Oliver-Smith 2008; Schuller 2008).

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operations), Parsons (bridge construction), Fluor, Shaw, Bechtel, and CH2M all received contracts to provide mobile homes for evacuees. These contracts totaled about \$3.4 billion (Klein 2007: 50).

<sup>6</sup> Proclamation No. 7924, 70 Fed. Reg. 54,227 (Sept. 8, 2005). The act has been suspended on several occasions in response natural disasters. For the most recent proclamation see: No. 6491, 57 Fed. Reg. 47,553 (Oct.14, 1992). The Davis Bacon Act was suspended following Hurricanes Andrew and Iniki that devastated areas of Florida, Louisiana, and Hawaii respectively. <http://www.whitehouse.gov/briefing-room/presidential-actions/proclamations>.

<sup>7</sup> United States Department of Labor. <http://www.dol.gov/compliance/laws>.

### *Underdevelopment and the Haitian Earthquake*

According to Klein, shocks are not solely attributable to natural occurrences, but rather, result from a series of deliberate policy decisions. Often, unequal developmental patterns resulting from the implementation of neoliberal policies help to create a set of vulnerabilities that are borne out during a disaster event. Notwithstanding the divisions created by unfettered markets, there are also cases where economic boycotts become active foreign policy tools. Countries at odds with prevailing international norms have often encountered various trade embargoes and sanction regimes to encourage compliance, sow subversion or exercise deterrence (Barber 1979: 370-373). The literature does provide some compelling evidence as to why the proscription of aid, investment, and finance to bring about political disintegration has more often failed (Galtung 1967; Pape 1997 & 1998). The brinkmanship involved (between sender and recipient) in trade embargoes often exacts a costly toll on the most vulnerable in the population. This was the case for Haiti between 1991 and 1994.

In an effort to conditionally restore the presidency of Jean-Bertrand Aristide, the United States, through the United Nations Security Council (resolutions 841, 875, 917) and Organization of American States (OAS), subjected Haiti to a comprehensive trade embargo that specifically targeted fuel and all merchandise imports (save immediate food and medicine aid) and blocked the exportation of Haitian merchandises. Compounding the neoliberal project started in Haiti a decade earlier, the Clinton administration went further by restricting financial transactions and commercial flights between Haiti and the United States (Executive order # 12920). The net effect of these combined actions was a

strangulation of the Haitian economy, exemplified by sharp declines in wages, employment and income (Gibbons 1999: 4-18).

Klein does an excellent job of outlining exactly how these macroeconomic dislocations, far from producing political disintegration, leads more forcefully to the disintegration of public infrastructure, which is a precursor to crisis. Klein's critique resonates with a strand of dependency theory that identifies the vulnerabilities a society encounters because of overt economic sanctioning (Olson 1979: 479-485). For example, in detailing the conditions that helped precipitate the ruinous Haitian earthquake, Klein asserts that the most recent aid embargo (freezing of funds earmarked for education, public health, and infrastructure improvement) leveled at Haiti in dispute of the re-election of Aristide, is a continuation of sanctioning policies, dating as far back as 1806, aimed to isolate the nation:

Each payment to a foreign creditor was money not spent on a road, a school, an electrical line. And that same illegitimate debt empowered the IMF and World Bank to attach onerous conditions to each new loan, requiring Haiti to deregulate its economy and slash its public sector still further. Failure to comply was met with a punishing aid embargo from 2001 to 04, the death knell to Haiti's public sphere (Klein 2010).

### *Indonesian Floods*

One of the underlying conditions that cause disasters, according to Klein, is due to the decades of experimental economic reform programs emanating from Washington under the banner of structural adjustment. The weakening of social safety nets, reduction in public services, mass privatizations and overall reduction in government responsibility created in places like Jakarta "clichés of lopsided development, as glittering shopping malls with indoor skating rinks [were] surrounded by moats of open sewers" (Klein 2007:

48). The resulting imbalance between growing private consumption and stagnant investment in public infrastructure led to preventable flooding that engulfed a majority of the Indonesian capital city (Texier 2008).<sup>8</sup> The result is often a self-reinforcing narrative used to justify deeper rounds of liberalization, privatization and hollowing out of state capacity. The disaster functions to expose the weakness of the public sector to maintain infrastructure. Voice is given to radical reformers who tout deeper devolution, contracting-out of services and for-profit reconstruction, management and operation of public facilities (Klein 2007).

The previous examples provide a basic portrayal of disaster capitalism as it corresponds to natural disaster events. The overturn of established legal statutes in Louisiana is an *ex post* approach to disaster capitalism. That is, the disaster and ensuing crises function to create opportunities for an increased reliance on market forces in both mitigation and reconstruction. The crises resulting from failing public infrastructure in Haiti and Indonesia are examples of *ex ante* interpretations of disaster capitalism. In these cases, prior neoliberal regimes, whether in the form of sanctions or development patterns created vulnerabilities that resulted in catastrophe. In the following chapter I seek to conceptualize disaster capitalism using the *ex post* formulation. With developing countries as a unit of analysis, disaster capitalism is the instrumental use of natural catastrophes to pursue contentious economic liberalization policies. For the case studies, the core of the observations will include the interplay between US-based, nationally-oriented corporations with connections to political elites from apparel and textile

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<sup>8</sup> Mydans, Seth. 2007. "After String of Disasters, Indonesians Ask: Why Us?" *New York Times*, 11 February.

producing states, and transnationally-oriented elites with linkages to transnational corporations, business forums, and lending institutions.

### Conceptualizing Disaster Capitalism

The previous section made plain Naomi Klein's theory of disaster capitalism. Herein, I proceed to define the parameters of this project. The focus of investigation is Klein's assertion that major disasters provide a "blank slate" on which to scribe upon the outlines of rapid economic transformation; a reorganization that emphasizes neoliberal economic principles including liberalization, privatization, and an overall diminished role of the state.<sup>9</sup>

Conceptually, disaster capitalism relies upon a series of actions that take place after a disaster event. This includes (1) the displacement and disorientation of affected populations, (2) the prompt centralization of decision-making power: often via a state of emergency, (3) a call for immediate international aid and an appeal for long-term assistance from international financial institutions (IFIs), and (4) the relaxation or repeal of particular socio-economic regulations and the legislation of others (Klein 2005 and 2007).

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<sup>9</sup> Other examples of crises include the neoliberal regimes that occurred during the military regimes in Chile and Argentina. The process of democratization in Poland, Russia, and South Africa created opportunities for radical reformers to institute and consolidate liberal economic policies. The latest Iraq war is used as an example of creating a blank slate for the "disaster-industrial complex" and the Asian financial collapse of the late 1990s allowed private multinationals in-roads into that regions previously state-dominated financial system.

### *Displacement and Disorientation*

Olson and Gawronski (2010) argue that public perceptions of government institutions and political leaders are greatly influenced by their response to natural disasters. Disasters, they contend, are unique, transformative events that reveal the government's ability to protect its citizens. This occurs through a series of actions beginning with disasters as Maslowian shocks that collapses a population's higher order needs (love, belongingness → esteem → self-actualization) to one of basics, such as food and shelter.<sup>10</sup> Second, government failures are highlighted by a combination of modern media's propensity for the dramatic, as well as the viral pace of information diffusion attributed to social media. Finally, the heightened attentiveness and sensitivity on the part of victims and spectators increases the expectations for the benevolent behavior of public officials in dealing with the existing crisis. Whereas properly managed disaster response can instill confidence and strengthen regimes, poorly managed disasters can undermine public perceptions of legitimacy. Negative opinions of government preparation and response can turn natural disasters into political crises (Olson 2000; Olson and Gawronski 2010: 207-208).<sup>11</sup>

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<sup>10</sup> See also Wisner et al. (2004: 100-101)

<sup>11</sup> The politics of disasters literature is perhaps the body of work most closely related with disaster capitalism. The premise here is that an "exogenous shock" produced by an unanticipated event like an earthquake can also produce political shocks that may result in regime replacement or collapse. For such an example see: Bommer, Julian. 1985. "The Politics of Disaster—Nicaragua." *Disasters* 9(4): 270-278. Author provides a linkage between the fall of the Somoza regime and a series of protests following natural disasters. For another example of regime collapse see: Preston, Julia, and Samuel Dillon. 2005. "Opening Mexico." *The Making of a Democracy*. New York: Farrar, Straus and Giroux. The Authors examine how the 1985 Mexican City earthquake led to an increased protest movements culminating in democratization. The thread of reasoning is followed in: Walker, Louise E. 2009. "Economic Fault Lines and Middle-Class Fears: Tlatelolco, Mexico City, 1985" in *Aftershocks: Earthquakes and Popular Politics in Latin*

While I do agree that disasters may create a revisionist history of previous public policy (Gunewardena 2008) and heightens scrutiny of immediate post-disaster actions (Olson and Gawronski 2010), these concerns fall outside the realm of macroeconomics. Furthermore, the affected public may have a difficult time linking disasters to structural economics. Moreover, the expansion of export-processing zones and apparel production sites are easily couched in the narrative of post-disaster reconstruction and sustainable development found in many Action Plans presented to international donor and lending agencies.

The inherent ‘shock’ associated with disasters, as noted by Olson and Gawronski, puts the affected communities emphasis back onto “essential material needs” (2010: 4), thereby sheltering policymakers from the public scrutiny associated with sweeping economic reform policies like privatizations, capital liberalization, and cuts in long-term government spending. Disasters create a shock in the public realm, a kind of disorientation where policy space is made available and must be acted upon immediately before the public regains their collective clarity and sense of normalcy.

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*America*, ed. Jurgen Buchenau and Lyman L. Johnson. Albuquerque: University of New Mexico Press 184-221. In this case the author makes a more nuanced argument that the independent organization and incitement of civil society by a middle class community after the Mexico City earthquake helped spur Mexico on the path of democracy. Theoretical and empirical rigor are on display in Olson, Richard Stuart. 2000. “Towards a Politics of Disaster: Losses, Values, Agendas, and Blame.” *International Journal of Mass Emergencies and Disasters* 18 (2): 265-286. According to Olson disasters are unequivocally political because they “invariably increase the number of demands on a political system as well as the novelty and complexity of those demands while at the same time wreaking havoc on system response capabilities. Disaster therefore become political crises quite easily.”(267) and Drury, A. Cooper and Richard Stuart Olson. 1998. “Disasters and Political Unrest: An Empirical Investigation.” *Journal of Contingencies and Crisis Management* 6(3): 153-161. Is an empirically test of the supposition that disasters may lead to political unrest. Quiroz, Alejandro Flores, and Alastair Smith. 2010. “Surviving Disasters.” Working paper. Department of Politics, New York University. In conjunction with the precepts of selectorate theory, these authors show how leadership coalition size matters in staving off post-disaster discontent. Democracies with large coalitions are more likely to survive post-disaster unrest.

## *Prerogative Power*

The consolidation of power in the face of disasters is less disputed. The exercise of prerogative power is an intrinsic obligation of the state. The onset of natural disasters and subsequent state of emergency is a trigger for legitimate arbitrary state action. These special circumstances often empower policymakers to articulate positions of national purpose, reaffirm its monopoly of violence (in terms of securitization), and exercise fiscal regulation (Brown 1995: 176).<sup>12</sup> Sudden-onset emergencies are often automatic triggers for international relief agencies, many under the banner of the United Nations Office for the Coordination of Humanitarian Affairs. Yet still, the growth of international organizations to allocate aid has neither circumvented recipient power in so far as choosing to accept assistance, nor has it attenuated bilateral allocations (Harmer and Cotterell 2009). Disaster capitalism is enabled by bilateral (NGO and to a lesser extent multilateral<sup>13</sup>) humanitarian aid allocation. This is so because the strategic use of aid requests is an occasion for national and transnational commercial interests to advance policy preferences.

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<sup>12</sup> The guiding principle of prerogative power was most plainly articulated by John Locke (1690): “[P]ower in the hands of the prince to provide for the public good in such cases which, depending upon unforeseen and uncertain occurrences, certain and unalterable laws could not safely direct.” Locke goes on to say that “[T]his power to act according to discretion, for the public good, without the prescription of the law, and sometimes against it, is that which I called prerogative: for since in some governments the law-making power is not always in being and is usually too numerous, and so too slow for the dispatch requisite to execution...[T]his power, whilst employed for the benefit of the community and suitably to the trust and ends of the government, in undoubted prerogative, and is never questioned.” (“Second Treatise on Government.” Chapters XIII-XIV, section 158-160).

<sup>13</sup> Multilateral aid disbursements through UN based agencies are also likely to reflect the strategic economic interests of its majority partner: the United States.



## *Humanitarian Assistance*

Humanitarian aid as a tool for statecraft and the advancement of private interests is under-theorized in the literature. To that end, Hans Morgenthau (1962) provided one of the more lucid typologies of the foreign aid enterprise. For Morgenthau, humanitarian foreign assistance, along with subsistence, military, bribery, prestige, and foreign aid for economic development are all occasions for donor nations to exercise foreign policy. And though Morgenthau identifies humanitarian aid (extended to nations which are victims of natural disasters, such as floods, famines and epidemics) as the most benign, he does recognize that “it can perform a political function when it operates in a political context.” He goes on to clarify that this type of aid prevents the collapse of the existing political order, in effect “maintaining the *status quo*, without, however, as a rule, increasing its viability” (301-302). Since then Drury, Olson, and Van Belle (2005) have gone on to theoretically advance some of Morgenthau’s assertions regarding the political function of humanitarian aid allocation. For example, conditioned upon the Cold War and alliance politics, Drury et al., (2005) found that US humanitarian relief in response to natural disasters does indeed have a political component that also includes factors like regime type and public salience. This study receives support in Fink and Redaelli (2011), which finds -- for US, Japan, Germany, the UK and Norway -- that bilateral aid allocations tend to favor oil exporters, geographically closer, former colonies, as well as countries less politically aligned.<sup>14</sup> The idea here is that the allocation of humanitarian aid can also serve important strategic purposes. For example, following Hurricane Mitch,

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<sup>14</sup> For this last distinction, Drury et al. (2005) find the opposite effect in the United States, that is – the United States, particularly during the Cold War period, would dedicate much more relief resources to nations that shared their strategic goals and ideological affinities.

successful trade legislation targeting affected Central American states now focused on the need to alleviate the effects of the natural disaster through specific reconstruction and aid packages attached to the law. Without a disaster, prior iterations absent calls for disaster relief and humanitarian assistance failed to pass Congress.

### *(De)Regulation*

Public disorientation, centralization of power and calls for international assistance are all precursors to the most crucial feature of disaster capitalism – policies of liberalization and deregulation that favor a distinct set of transnational interests. This was the case in Honduras after Hurricane Mitch where fiscal regulations, particularly in attempts to privatize the state-owned telephone company, were part of a larger struggle between military, civil, and transnational interests.

Honduran officials used the catastrophe wreaked by hurricane Mitch as an opportunity to overturn long-time restrictions of foreign investments. For example, immediately following the disaster the entire country was designated an export-processing zone. In December of 1998, the Honduran Congress passed the first of two votes that amended a ban on foreign ownership of coastline properties. Coastal villagers, small-scale commercial fisheries and aquaculture enterprises were displaced in favor of tourism development plans that featured multinational hotel chains and a greater emphasis on the subsidiary hospitality and service sector. Within the first two months after hurricane Mitch, the Honduran Congress passed a series of legislative decrees that included tourism development goals as well as plans at agricultural reform and privatization of state-owned enterprises (SOEs). These declarations were part of a larger

set of privatization projects aimed at liberalizing the Honduran economy. Reforms included an overhaul of the mining code, foreign access to the renewable energy sector, along with concessional operation of airports, seaports, and highways. The government also used the disaster to speed up the privatization of the National Electric Company's distribution system, band B cellular service, and the state-owned Honduran telephone company (HONDUTEL).<sup>15</sup> Benedicte Bull (2004) details the privatization and deregulation of the telecommunications sector emphasizing the role played by local economic elites. While the privatization of HONDUTEL has been attached to conditionality loans since 1995, there was little movement toward that end prior to hurricane Mitch. Bull argues that it was local, regional, and transnational alliances that ultimately determined the liberalization of the telecommunications sector.<sup>16</sup>

The previous section provided a conceptualization of disaster capitalism based on the displacement and disorientation of affected populations, centralization of authority, calls for international assistance, and increased socio-economic legislative activity all stemming from the onset of a natural disaster. The next section will convey assessments of arguments concerning society and state-centered explanations of neoliberal reforms. This appraisal will conclude with an endorsement of transnationalism as a driving force behind disaster capitalism. I will argue that an approach that stresses the interests of transnational capital has better explanatory capacity in explaining policy choices after disasters than competing perspectives. Developing country's experience

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<sup>15</sup> Office of the United States Trade Representative. 1999 National Trade Estimate-Honduras. [http://www.ustr.gov/archive/assets/Document\\_Library/Reports\\_Publications/1999/asset\\_upload\\_file261\\_2824.pdf](http://www.ustr.gov/archive/assets/Document_Library/Reports_Publications/1999/asset_upload_file261_2824.pdf) Accessed November 5, 2012.

<sup>16</sup> Beyond interest groups, Bull points to an individual actor: Jamie Rosenthal a Honduran politician with various business interests including banking, tourism, and media.

with disaster capitalism is more likely to reflect their position in the global supply network and their degree of integration into transnational processes of capital accumulation.

### Transnational Coalitions: Beyond Society and State

This project posits a direct relationship between the occurrence of natural disasters and neoliberal economic reforms. In order to explore that causal mechanism it is first important to acknowledge the principal theories pertaining to policy reforms. Unfortunately, the existent literature on policy reform lacks the depth to match its breadth. In recent years, political scientists, economists, and political economists have all struggled to articulate a unified theory of policy reform. This is the consequence of numerous international, national, institutional and sectoral actors interacting to determine the focus and scope of economic reform programs (Haggard and Kaufman 1992; Haggard and Webb; 1993; Williamson 1994; Rodrik 1996; Tommasi and Velasco 1996; Drazen 2000).

The international economic system can determine the policy options afforded to reformers (Maxfield 1990; Kahler 1992). External shocks, structural adjustment and business cycles in industrial countries all served to advance liberalizing reforms. The ideological dominance of neoliberalism has also limited policy options available to executives in developing countries. Secondly, the degree of bureaucratic cohesiveness and expertise can either streamline or obstruct reform programs (Callaghy 1989). Bureaucratic reforms that championed efficiency and responsiveness to political principals seemed ripe for developing countries with strong executives, centralized

governments, and embryonic administrative law (Manning 2001: 299). However, an embedded bureaucracy could also become “a powerful and well-positioned interest group, aligned against reform and capable of obstructing the implementation of adjustment programs” (Haggard and Web 1993: 152). Third, the amount of executive autonomy can affect the decision to reform (Grindle 1996). Reformers with a longer time horizon are more likely to advance contentious policy reforms. The delayed benefits of structural adjustment programs do not always incentivize self-interested politicians. Finally, powerful pressure groups condition reforms due to the potential distributional outcomes (Frieden 1991). The potential windfall for winners, hardship for losers or uncertainty of outcomes impacts whether reforms are implemented and, if so, their degree of rigidity (Alesina and Drazen 1991; Fernandez and Rodrik 1991; Philip 1999; Drazen 2000).

The purpose here is not to be exhaustive in the review of the wide body of literature on economic reform but rather to get the reader a sense of the range of the debate. The following section will focus on the role of powerful pressure groups in originating and cementing policy reform. I will begin by surveying the literature on interest groups. Then I will highlight their strengths and weaknesses for studying crisis induced economic reform in developing countries.

### *Pluralism, Public Choice and Policymaking*

Interest group formation is often the instinctual response to the wants and needs of a variety of sectors and classes. These groups function to articulate preferred policy to decision-makers. Historically, the arena for interest group interactions was limited to a

select few influential elite. Successive waves of democratization have worked to deconstruct these elite-based traditions of influence, however. Citizen involvement in the form of group articulation is symptomatic of not only pluralism, but more importantly, social differentiation (Lipset 1963). Some groups are issue-specific while others work for broader changes. Some are apolitical and function as socially binding forces, while others bypass government institutions and work to directly influence public opinion. Finally, some interest groups are institutionally malleable and enduring while others fleeting (Almond 1958; Almond and Coleman 1960; Duverger and Wagoner 1972).

Democracy functions, say pluralists, through the aggregation of self-interested individuals into self-interest groups. This approach to society-centered theories spawned elite-based models that posit eventual oligarchical domination of society despite democratic practices (Michels [1915] 1962). In disagreement, pluralists contend that public policy is generally equitable and determined by the configuration of power between interest groups (Dahl 1961). While pluralists do acknowledge the role of wealth and strategic interests in getting politicians to listen, they emphasize that the balancing of interests contributes to the neutrality of government. This in turn enables the stability of democracy (Lijphart 1977).

Pluralism is ultimately secure in the notion that a healthy democracy has a direct relationship with a high degree of interactions among competing groups. Moreover, with adequate organization and lobbying, all groups are afforded some measure of access to decision-makers. In this society-centered model, the role of the state is circumscribed to ensuring an impartial environment for interest group competition, and policy administration (Skocpol 1985). That being said, pluralist theory could not explain the

existence and persistence of wasteful economic policies (Lindblom 1977), and political decisions that appeared to invite conflict (Mills [1956] 2000). Among other things, pluralists began to recognize the growing power of politicians and their roles in helping to create situations of increased inequality and economic distortions (Dahl and Lindblom 1976; Bates 1981; Lindblom 1982).

Partly because of the inadequacies of pluralist theories and partly because of waning influence of sociologists in political science, the introduction of economic principles to the study of politics called for a re-evaluation of behaviorism's hegemony (Barry 1978). The advance of public choice theory was a significant theoretical assault on pluralist claims of effective policymaking. Public choice theorists had only to point to the gulf between observed and theorized outcomes (Buchanan and Tullock 1962). The problem, as outlined by public choice theorists, is that with some general agreed upon rules, usually majoritarian, government becomes the *de facto* (albeit inefficient) provider of basic public goods. It furthers that majority-voting rules allow varied coalitions of voters to get their specific interests advanced, often at the expense of the population of taxpayers (Tullock 1959). The linchpin to this is the various institutional (particularly constitutional) configurations that allow self-interested politicians to be directly influenced by pressure groups. The result is increased rent extractions *from* a community of taxpayers, *to* a narrow set of interests (Tullock 1967; Krueger 1974; Bhagwati 1982; Grindle and Thomas 1991).

Ultimately, the failure of pluralist theories to account for unproductive policies is based on their disregard of the importance of the state, its decision-making institutions, and the actors therein. More importantly, public choice theory exposed the weakness of

pluralist theories to cope with the veracity of a neoliberal hegemony that began in the mid-1970s. Because it dealt with government failure, as opposed to market failure, public choice theory had natural affinities with the ideological underpinnings of neoliberalism (Harvey 2005).<sup>17</sup> Public choice theory negates the notion of a neutral state and aims to explain why the allocation of economic rents are innately partial, given the influence of self-interested politicians and bureaucrats. Yet, even this approach is ultimately an inadequate framework for explaining policymaking processes in developed or developing countries. Moreover, the highly dependent nature of developing countries make them susceptible to hegemonic forces of developed states and their particular strands of capitalism.

### *Social Structure of Accumulation and Neoliberalism*

What the pluralist and public choice theories fail to take into account is the observation that these various alliances of interests work through state structures, but state structures themselves are ultimately determined by the organizing principles of capitalism. As David Kotz (2015) argues, in a democracy, state policy is narrow and can be subject to whimsical changes and adjustments. However, forms of capitalism are coherent and much more stable over time. Therefore, types of capitalism will give rise to certain types of policies, and those policies themselves are limited by only the stability and coherence of capitalism. This would explain the general stability of US policy over

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<sup>17</sup> According to Harvey (2005) “state interventions in markets (once created) must be kept to a bare minimum because, according to the theory [of neoliberalism], the state cannot possibly possess enough information to second-guess market signals (prices) and because powerful interest groups will inevitably distort and bias state interventions (particularly in democracies) for their own benefit” (2).



extended periods of time. It would also explain the downstream policy preferences afforded to developing countries. Therefore, the current inclination of neoliberal capitalism only encapsulates a specific epoch of capitalism, a period of capitalism characterized by the domination of capital over labor.

For example, under neoliberalism, the declining bargaining power of labor was antithetical to the previous era of state-directed, regulated capitalism. In this period, spanning from the end of World War II to the 1970s, there existed a compromise between capital and labor where labor was able to transfer increased productivity into real wage gains. Government policy helped facilitate this alliance through the active provision of public goods and various forms of consumer, labor, and environmental protections (50-51). This resulted in a tacit agreement that government policy would guard against recessions and high unemployment. The tenuous alliance between labor and capital was a result of the ascendancy of a form of regulated capitalism that dominated that particular era. Crisis, some real, some aggrandized, and some perceived, brought about a change in this relationship. This crisis also changed the relationship between developed and developing countries and the range of policy prescriptions afforded to developing countries to correct their own structural problems.

In the US, declining profitability, the dissemination of classic liberalism through conservative think tanks, and pleas to loosen environmental and social regulation by prominent business associations, all helped usher in neoliberal capitalism. Domestically, this meant tax cuts on businesses, privatizations, cuts in government spending and welfare programs, and the deregulation of businesses. As it related to developing countries, trade policies and development aid were often conditioned on decreased state

involvement in monetary and fiscal policy, freeing up the movement of goods, services, and capital between countries, the development of export processing zones, and making it easier for foreign individuals and corporations to acquire property (Kotz 2000). More importantly, increased competition within bureaucratic structures and the international commercial environment helped drive the reconstitution of capitalism in the 1970s. It was during this period that “intensifying conflict between big business in the United States on the one hand and U.S. labor, U.S. citizens, poor countries, and capitalists in other developed countries on the other rendered the social structure of accumulation no longer effective” (Kotz 2015: 67). Much of this dissertation highlights and traces this new competitive environment as it relates to the globalization of apparel production. And though dominant, the depth and spread of neoliberalism was uneven throughout the developing world. Countries adopted some principles and resisted others, despite the insistence of international financial institutions and agencies connected to US hegemony.

That idea, US hegemony, is important because this project follows the spread of international neoliberalism from its core, to the periphery, through the contours of trade relationships the United States has had with pre-capitalist societies in the Caribbean Basin. In the US, the resulting policies have also had an uneven impact on capitalists and have pitted those tied to the previous era of regulated capitalism against those tied to new modes of accumulation linked to financialization and transnational production processes. This has also been the case in the developing world. The resistance from developmentalist governments and domestic business associations, within these societies shows the constraints on neoliberal capitalism and why natural disasters have become critical junctures of policy change.

Policies that made it easier for US corporations to move manufacturing activities overseas in conjunction with the development of export processing zones are a result of purposive policies that took place within the context of neoliberal capitalism. It is thereby important to acknowledge neoliberalism as the dominant organizing principle behind policymaking in the US and the developing world.

Honduras, for example, had a history of both a weak state and civil society. As Robinson (2003) points out, “[i]n Honduras, both the subordinate and the dominant classes were historically the least developed in Central America, and the state and economy the most backward.” These weaknesses led to “the vulgar domination of the country by foreign companies” (118-119). The construction of US backed polyarchy helped develop “an alliance and convergence of interest among the dominant groups and US-transnational forces *against* the popular sectors and their advancing struggle in Central America” (122).

To spur the evolution of domestic pressure groups, international financial institutions and the United States Agency for International Development (USAID) committed to the creation of policy networks via the establishment of various think tanks and private sector organizations (Bull 2004: 239). These alliances initially conformed with modes of production aligned with regulated capitalism that dominated throughout the post-war era. However, as neoliberalism emerged as the hegemonic principle of economic organization, new transnational alliances were required to direct export-led growth. Where the intransigence of nationally-oriented groups proved too large of a hurdle, USAID funded exported-oriented business associations replaced them. These new transnational associations became an important part in securing bilateral regional trade

agreements that included provisions to open commercial sectors aligned with transnational imperatives (Cox 2008; Bull 2004: 240).

International neoliberalism and the transnationalization of production are useful as a starting point to examining policy reforms under conditions of crises. This is so because crisis is an occasion where old coalitions fragment under declining economic conditions. This becomes an opportunity for the emergence of new actors and policy players. New alliances are forged and alternative policy regimes realized. This project limits society-centered explanations, extends on instrumental state-centered approaches, and ultimately argues that disasters are crises that are also influential in rearranging alliances, particularly *transnational* ones.

#### *Disaster Capitalism and Transnational Processes*

Robinson (2004) argues that globalization and the emergence of transnational processes forces us to reconsider our conceptualization of the state. Robinson's reconceptualization relies on the emergence of a politicized transnational capitalist class and the mobility of capital across national borders. According to Robinson, the disintegration and decentralization of the production processes has occasioned "the unprecedented concentration and centralization of worldwide economic management, control, and decision-making power in transnational capital and its agents" (9). This is evidenced by a rather small set of the world's largest corporations exhibiting cross-cutting ownership networks dominated by a core of financial institutions (Robinson 2004:

47; Carroll 2010: 100; Vitali, Glattfelder and Battiston 2011).<sup>18</sup> States do matter, but state policy is largely influenced by the particular form of capitalism holding hegemonic sway, in this case neoliberalism (Kotz 2015). Furthermore, the de-emphasis of the state is a logical approach to a globalization that promises to integrate the entire social, political, economic and cultural structure into a global configuration. To that point, Robinson furthers that “[t]he emergence of a truly global economy brings with it the material basis for the emergence of a single global society, including the transnationalization of civil society, of political processes, and of cultural life” (2000: 90).

The ascent of international trade regimes conditions states to refrain from pursuing policies aimed at protecting national industries and, likewise, national industries must increasingly become transnational in order to ensure investment capital. Nowhere is this more crucial than in developing countries where governments must balance popular sentiments against the necessity of foreign capital investment. On one side is the transnational corporations, armed with the inside option of investing elsewhere, it dictates investment subsidies, employment legislation, and tax regimes. On the other side are leaders who are punished or rewarded based on their record of creating and sustaining high levels of employment. The results of these negotiations often favor transnational corporations due to a combination of a credible threat created by the ability to relocate investments and limited outside options available to governments. This threat of relocation:

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<sup>18</sup> Vitali et al. (2011) introduce groundbreaking methodology to measure the network of transnational corporations. One of the more intriguing discoveries is that almost 40% of economic value of all TNCs are held by core of 147 TNCs. Of those, 75% are financial intermediaries (6).

nullifies any potential labour militancy, since workers place a positive utility on attaining/retaining employment...such a process is more likely in integrated markets—such as NAFTA and the EU—and with ‘freer’ trade agreements, since it is easier for transnationals to co-ordinate a strategic response to any labour militancy...[c]onsequently there has been increasing political and fiscal pressures upon nation states, downward pressure upon wages and rising income inequalities (Cowling and Tomlinson 2005: 46-47).

The *tabula rasa* created by a natural disaster can be a motivating opportunity for states, directed by transnational interests, to reinsert their national economies into the larger global economy. Therefore, disaster capitalism, as the amalgamation of catastrophe and markets, is better understood within the context of a changing capitalist political economy. This new economy is global in nature and is structured by networks of social groups integrated into transnational processes. The consequence is that the polarization of social groups has eclipsed the polarization of national economies and domestic development is increasingly being determined by the degree of differentiation a social group can achieve to secure its participation in global labor markets (Stonich 1993; Robinson 2001).

When viewed from this perspective, disaster capitalism no longer resembles an anomalous occurrence of opportunity meeting crisis. Rather, it is part of accumulation processes consistent with over forty years of structural changes in the global capitalist system. The merger of corporate and state interests is evident in the ideological dissemination of neoliberalism, which has given fundamental support to the continuous deregulation of the financial sector, the elimination of capital controls, and the weakening of organized labor. The porosity of national borders to mobile capital gives organized

capital the ability to shape production networks and take advantage of profit-making opportunities, including those brought about via natural disasters.

The sequential process of public disorientation, power centralization and regulation and the role of international and transnational aid agencies create opportunities for economic liberalization under the banner of neoliberalism. The goal of neoliberalism has been two-fold. The first is the construction and implementation of regulatory frameworks conducive to global capitalism. The second is designed to fracture national economies and reorient them towards a project of global integration. Therefore, I expect states to pursue neoliberal reforms immediately after a disaster event (**Hypothesis 1**).

Disaster capitalism is argued here as a function of transnational processes in part caused by global financial integration and capital mobility. In such a process, “national productive apparatuses become fragmented and integrated externally into new globalized circuits of accumulation” (Robinson 2003: 13). However, not all productive apparatuses are equal and it would thus be erroneous to treat all capitalists as a unified interest group with transnational aspirations and associations. It is thereby necessary to recognize sectoral-based differences between capitalists as well as the role played by prominent globalizing actors to include corporate executives, professionals, bureaucrats, and politicians; as well as integrating agents working through think tanks, business associations, NGOs and leading institutions such as the World Bank, IMF, NAFTA and USAID.

The fundamental claims of this dissertation are that natural disasters are used to shift public policy towards a neoliberal alternative with little public support. Secondly, these policies tend to disadvantage nationally-oriented businesses and, in turn, reflect the

preferences of an internationally-oriented faction of businesses. The recognition that capitalists are a dominant policy actor, yet, not a uniform set of elites, is crucial to this project. This is so because state policy is determined as a function of conflicting business interests (Gibbs 1991; Cox and Skidmore-Hess 1999). As a consequence, the differences between the national and international orientation of businesses as well as the intensity of labor in relation to capital in the production process can be used to explain post-disaster state policy.

Financial globalization ensures that increased capital mobility affects distinctive socioeconomic groups differently. In addition, because increased financial integration affects the distributional outcome of national macroeconomic policies, these groups will organize along sectoral lines. As financial assets become more mobile, this crucial component of economic activity will likewise favor mobile asset sectors. For example, in the US, capital mobility will advantage capital-exporting sectors and transnationally-oriented firms more so than it would domestic manufacturing firms, like agricultural or mining with predominantly fixed assets (Frieden 1991).

On the recipient side of capital-exportation are capital-importing sectors in countries like Haiti and Honduras. The capital-importing sectors will organize to take advantage of capital investment opportunities afforded by the crises-induced fracture of national economies in developed countries. These sectors will align themselves with transnational allies both domestically and internationally and will ultimately lobby for increased capital liberalization policies. Their success will be determined largely by the degree of labor subjugation, interest group cohesion, structured access, and institutional rigidity. Of all these factors, the condition of crisis, caused by a natural disaster, is



postulated to positively impact policy success for neoliberal reformers. If the revamped crisis hypothesis holds and acute crises do provide a policymaking vacuum, it is likely to be filled by those commercial elites more firmly plugged into the global economy.

This project will focus on these two types of capitalists. The first group is nationally-oriented with fixed-capital asset. The second is more embedded into global supply networks and rely on the increased financialization of capital. The latter group can also be considered transnational capitalists. Advantaged by the free movement of capital across countries, this group is more likely to pursue and profit from post-disaster neoliberal policies. That being the case, I would expect those actors benefiting from post-disaster economic reform to be the transnationally-oriented faction of capital most aligned with the preferences of international capital (**Hypothesis 2**).

Disaster capitalism operates through this two-step phase of global capitalism. The first is the hastily constructed neoliberal regime to follow a period of public disorientation. The second is the consolidation and regimentation of political and economic transnationalism and the polarization of the working class worldwide. Taken together, these hypotheses contend that neoliberal programs serve to orient national economies to the larger global economy, or, as what William Robinson (2003) would assert: neoliberalism is the policy “grease” of global capitalism.<sup>19</sup> This new mode of capital accumulation has ultimately offset declining profits symptomatic of limited investment opportunities in the 1970s by forging networks of globally-oriented elites *within* and *across* borders.

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<sup>19</sup> Robinson, William. 2003. “Social Activism and Democracy in South Africa: A Globalization Perspective.” *Ponencia al Congreso de IDASA*, Cape Town.

## Overview of Chapters

In this project, I will present both cross-national case studies and large-n statistical analyses of natural disasters and policy trends across three decades of observations. Chapter 2 will be a wide empirical exploration of panel data to include a variety of variables, observed over a series of years for individual developing countries. Chapters 3 and 4 will be dedicated to deeper case studies involving Haiti and Honduras respectively, and the politics of global apparel assembly. In both countries, post-disaster reform policies were spearheaded by transnationally-oriented business elites, who, under the financial and ideological tutelage of USAID, worked to integrate their particular sectors of accumulation into the larger global economy. Chapter 5 will conclude this dissertation with a discussion of results and avenues for possible future research.

The substantive core of this project is the case study investigations. These will provide a historical overview of the policymaking environment in each country, including detailed discussions on the important economic actors, their interactions with the state, civil society and the transnationalization of production processes - most notably that originating in the United States. The United States is crucial to this investigation due the impact of its policies on capital-importing nations stemming from the political and economic affiliations with US-based transnational corporations and agencies.

## Conclusion

The dominant paradigms for explaining policymaking processes in developing countries have been based on society and state-led approaches. However, by choosing two states with distinct dissimilarities in terms of executive autonomy, bureaucratic

cohesiveness, civil society and interest group development I allow for enough variation in explanatory variables. If, under these varying social and institutional arrangements, we get similar post-disaster policy outcomes, disaster capitalism is afforded greater theoretical support through transnationalism.

Finally, natural disasters are uniquely transformative events. They can drastically transform physical terrain and the lives of those unfortunate enough to be caught in its wrath. However, natural disasters also provide an opportunity to reflect on past failures and, at times, a clean slate to correct those shortcomings. This project takes a political economic approach and recognizes natural disasters as occasions for agenda-setting on behalf of transnational commercial enterprises and market-oriented policy elites. These reformers often use the post-disaster policy space to articulate long-term development strategies based on market fundamentalism, and, more importantly, advance a set of policies congruent to their particular interests. This dissertation delves into that process and identifies the actors, their preferences and the policy outcomes.

Using the business conflict model alongside changing transnational processes, this project identifies and traces post-disaster policy making in the Caribbean Basin. It also explores and provides a more nuanced explanation of its effect upon and within certain socioeconomic sectors and groups. What becomes apparent is that natural disasters are opportunities to first fracture national economies and then integrate them into transnational processes of capital accumulation. Given that economic viability is increasingly determined by assimilation into the global production processes, reformers in both developed and developing countries use disasters as occasions for re-orienting

national economies towards this end. It is within this distorted integrative process that disaster capitalism is located.

## CHAPTER 2: DISASTER CAPITALISM, A PANEL ANALYSIS

### Introduction

Do major disasters help explain neoliberal economic reforms? In recent years, developing countries have been particularly affected by natural disasters. According to the Centre for Research on the Epidemiology of Disasters at the University of Louvain (Belgium) and their Emergency Events Database (EM-DAT), between 1980 and 2010 natural disasters in developing countries have accounted for roughly 2.3 million deaths, affected another 5.6 billion, and caused an estimated \$667 billion in economic damages.<sup>20</sup> Over a similar 30 year period, developing countries have also been going through a consolidation of their political systems through contested transitions (Robinson 1996) and at the same time institutionalizing security and legal structures to disseminate the ideology of private property, free trade, and economic liberalization (Harvey 2005).

This chapter aims to locate disasters within this process of global political-economic restructuring and the re-articulation of class relations between capital and labor. To begin doing so, I empirically test the supposition of disaster capitalism, or the notion that major disasters provide a ‘blank slate’ on which to scribe upon the outlines of rapid economic transformation, which emphasizes neoliberal economic principles

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<sup>20</sup> EM-DAT: The OFDA/CRED International Disaster Database – [www.emdat.be](http://www.emdat.be). In the EMDAT database “Killed” refers to persons confirmed as dead and persons missing and presumed dead. “Affected” signifies people requiring immediate assistance during a period of emergency, i.e. requiring basic survival needs such as food, water, shelter, sanitation, immediate medical assistance, and the appearance of a significant number of cases of an infectious disease introduced in a region or a population that is usually free from that disease. “Estimated Damage” refers to the economic impact of a disaster usually consists of direct (e.g. damage to infrastructure, crops, housing) and indirect (e.g. loss of revenues, unemployment, market destabilization) consequences on the local economy. Estimated damage is given in US\$ (‘000) and for each disaster, the registered figure corresponds to the damage value at the moment of the event, i.e. the figures are shown true to the year of the event.

including: liberalization, deregulation, privatization and an overall diminished role of the state (Klein 2005 and 2007).

Within the literature, it is recognized that disasters are a function of both locational happenstance and political-economic disposition (Wijkman and Timberlake 1984). On the one hand, a lack (or abundance) of precipitation, low lying coastal areas, proximity to active tectonic plates or being in the path of hurricane belts<sup>21</sup> all contribute to an increased risk of natural hazards (Kahn 2005: 280; Hewitt 1997). On the other hand, the magnitude of the geophysical, hydrological, or meteorological hazard does not necessarily co-vary with the subsequent disaster outcome. To that end, natural disasters are often determined by a series of actions (or inactions) taken by a state before, during and after an event (Olson 2000; Comfort et al. 1999). The pragmatic conclusion is that while geography matters, subtleties such as population density, quality of infrastructure, location and intensity of economic activity, and the capacity of preventative and aid intervention mechanisms additively affects societal vulnerabilities resulting from a natural hazard (Arnold et al. 2006). In this manner, natural disasters are as much a feature of social, political, and economic structures as they are of geographic endowments.

One of the larger purposes of this project is to begin developing a political economy of natural disasters. In so doing, the subordination of a disaster's geographic consideration must also reflect the subordination of space in the new global economy. Disasters are indeed locational; however, location matters less as processes of

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<sup>21</sup> Hurricanes are large-scale closed circulation systems unique to the western Atlantic and eastern Pacific characterized by a clockwise wind flow. Typhoons are similar storms for the western Pacific, and Cyclones are storms located above the Indian Ocean and South Pacific that rotate counter-clockwise.

accumulation are increasingly flexible worldwide. The increased mobility of capital across national borders has drastically altered the conception of ‘national economies’ while revealing the vulnerability of working class populations.

Finally, we have known for some time that natural disasters can be politically transformative in terms of altering elite coalitions and affecting regime change (Drury and Olson 1998; Olson and Gawronski 2003). Yet, to this author’s knowledge, there have been no large sample, cross-national studies to test if the occurrences of natural disasters correlate with neoliberal reforms. This study aspires to become the first of its kind. Yet, its explanatory scope should be tempered by the observation that true explanatory models are immensely complex, saturated in history and maintains an infinitely dense network of causation and reverse causation (Coppedge 1999). The purpose of the research is thus relatively simple: to provide a working framework to begin generalizing these rather complex relationships.

Given these ambitions, foundational steps must be taken to substantiate whether there is a discernible relationship between natural disasters and neoliberalism across both time and space. The following section will begin by recapitulating the theoretical foundations of disaster capitalism as well as surveying the existing literature. The third section introduces my empirical model. The statistical experiments are conducted and the results are discussed in the fourth section. The fifth section concludes this chapter.

### Disaster Capitalism: An Analytical Framework

The inspiration for this project is what Naomi Klein (2007) calls disaster capitalism, or the free market orientation of post-catastrophe reform policy. Klein

contends that disasters – man-made or of the natural type – are used by governments to advance unpopular, liberal economic regimes. The disaster event or “shock”, a brief period of public disorientation, and power centralization combine to create a policy window of opportunity, while the unpopularity derives from an acceptance of austerity and a negation of economic populism.<sup>22</sup>

The concept of “shock” is a re-occurring theme in Klein’s work. This is so because shock therapy – with its root in crude electric shock treatments for patients diagnosed with mental disorders – was co-opted into economic arguments that favored one fell swoop when reforming ‘sick’ economies.<sup>23</sup> Klein identifies the Chicago School

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<sup>22</sup> This model does share some affinity with the basic tenets of the crisis hypothesis: (1) Reforms are designed by technocrats, who generally have a coherent strategy vis-à-vis purely political figures; (2) during crises citizens are more open to new ideas and can be more accepting of reform; (3) dealing with the distributional fallout of reforms, compensation schemes must be crafted to soothe those most affected; (4) sequence and speed of reforms matter. Sequence matter for distributional conflict, while speed matters in terms of dealing with adjustment costs, rapid reform is desired (5) political autonomy matters as well as independence from judiciary etc. (6) external support from IFIs like the IMF and World Bank can help launch and sustain reform programs as well as provide technical support (7) coalitions matter and quick use of them while still intact is also advantageous (8) disorientation wears off quickly, reforms should be put in place before opposition regroups and meaningful reversals can take place (Edwards and Steiner 2000). The above is the outline of the ‘crisis hypothesis’, yet, disaster capitalism operates under similar conditions to which you may want to add: (a) the displacement and disorientation of affected populations, (b) the prompt centralization of decision-making power: often via a state of emergency, (c) a call for immediate international aid and an appeal for long-term assistance from international financial institutions (IFIs), and (d) the relaxation or repeal of particular socio-economic regulations and the legislation of others (Klein 2005 and 2007).

<sup>23</sup> In her 2007 book, Klein compares covert electroshock experiments carried out by C.I.A operatives in the 1950s to the ‘shock therapy’ of economic reform being formulated at the Chicago School of Economics by Milton Friedman. The application of electrodes to stubborn patients to help facilitate ‘reprogramming’ could also be applied to Keynesian economies in need of rapid market liberalization. Both methods found harmony in Chile (and Latin America in general under the codename: ‘Operation Condor’) during the repressive regime of Augusto Pinochet. To view the declassified documents see: CIA, KUBARK Counterintelligence Interrogation, July 1963. <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB122/index.htm#kubark>



of neoliberal economics and its iconic figure Milton Friedman as important vehicles in helping disseminate this ideology. It was, after all, Friedman's own belief that '[i]f a government activity is to be privatized or eliminated, by all means do so completely.' Compromising by partial privatization or partial reductions would only enable those most negatively affected by the reforms to eventually succeed in forcing reversals (Friedman 1990: 11-14). As opposed to gradualism, or piecemeal reforms, shock therapy suggested rapid and radical transformations of economic policies (Friedman 1990; Popov 2000). Rigorously employed in the former Soviet Republics, the logic of shock therapy was to use the disarray inherent to regime change to advance economic reorganization (Haynes and Husan 2002; Major 1991; Papava 1996).<sup>24</sup> The honeymoon period afforded to transitional regimes made the bitter medicine of austerity more palatable and easier to embed into the narrative of struggle and self-determination (Haggard and Kaufman 1995: 152). This study pays particular attention to natural disasters, and argues that the shocks produced by these catastrophic events are instrumentally used to advance neoliberal reforms and transnational corporate interests.<sup>25</sup>

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<sup>24</sup> Other examples of crises include the neoliberal regimes that occurred during the military regimes in Chile and Argentina. The process of democratization in Poland, Russia, and South Africa created opportunities for radical reformers to institute and consolidate liberal economic policies. The 2003 Iraq war is used as an example of creating a blank slate for the 'disaster-industrial complex'. Finally, the Asian financial collapse of the late 1990s allowed private multinationals in-roads into that region's previously state-dominated financial system.

<sup>25</sup> Klein uses shock, disaster and crises as interchangeable concepts with little distinction. For the purpose of this study, conceptually, a disaster is defined as the sudden (or progressive) natural event and crises as the consequence of some form of human interaction (before or after the event). Beyond this discussion, I too largely use shocks and disasters as interchangeable concepts. For a more detailed discussion about the subtleties between the two see Faulkner (2001: 136-138).

While the breadth of scholarly attempts to investigate the polemics of disaster capitalism is rather small (Gunewardena and Schuller 2008; Schuller and Morales 2012), the depth of this literature does offer substantial support to the notion that natural disasters can create unique economic opportunities for transnational businesses, international aid agencies and non-government organizations (NGOs) (Schuller 2012). It has also informed our framing of disasters by highlighting the increased role of private actors in disaster response activities, the windows of opportunity afforded to policymakers, and the adoption of neoliberal programs based on privatization, trade liberalization, and deregulation (Schuller 2008: 17 – 27).

#### Disaster Capitalism in Action

Consider, for example, the middle-class residents of Tlatelolco housing complexes following the 1985 Mexico City earthquake. Initial disagreement between Tlatelolco residents and the Mexican government arose regarding plans to relocate residents to another area of the city. However, more egregious for the residents was the government beginning the process of privatizing the apartments, subjecting the public housing to the norms of the housing market. Among other things, the change of property rights would void a prior agreement that made maintenance and upkeep largely the responsibility of government agencies (Walker 2009: 194-209).

In another example, after the 2004 Indian Ocean earthquake and tsunami, the Sri Lankan government activated its ‘buffer zone’ policy of resettlement. This policy was predicated on permanently moving affected populations (local fishing villages) further inland and away from the coastlines. This decision aligned with the government’s coastal

development strategy and the preferences of multinational hotel developers (Gunewardena 2008; Shaw et al. 2010: 20-22).<sup>26</sup> In more recent times, the mere evocation of landslide risks in Kadifekale, Turkey was used to justify the removal of low-income, migrant settlements in favor of recreational zones and urban transformation projects (Saraçoğlu and Demirtaş-Milz 2014).<sup>27</sup>

The core of this conceptualization is reliant upon the observation that countries or municipalities where strong public pressure stalls any meaningful attempt at deep economic liberalization or deregulation, post-disaster confusion provides a window of opportunity for state agents and corporations to exploit new markets. Below I begin specifying the empirical model.

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<sup>26</sup> Tourism, for example, is integral to what William Robinson (2001) considers the new transnational service sector. With the potential to link quaint developing countries to the global economy, recent bouts of liberalization, as well as pacification and integration has encouraged post-disaster, tourism-led development strategies (Robinson and Jarvie 2008; Faulkner 2001; Murphy and Bayley 1989).

<sup>27</sup> This is the case for Kurdish migrants who made up the majority of the town of Kadifekale in Izmir, Turkey. Designated a landslide zone “The plan, in simple terms, involved the demolition of houses in Kadifekale and the deportation of migrants in this area to the newly built high-rise apartments in Uzundere...The deal was that the Izmir Metropolitan Municipality would buy the apartments built in Uzundere and then sell them to those people whose dwellings were in the landslide zone and earmarked for demolition. The property owners in Kadifekale would receive a sum of money from the municipality as compensation for the expropriation and demolition of their houses for an amount depending on the ‘value’ of the building. This value was determined by a group of specialists composed of architects and engineers who examined the houses to be demolished. The designated amount typically was a lot lower than the price of apartments built in Uzundere. Consequently, if the property owner agreed to buy an apartment in Uzundere, he/she would have to pay the remaining sum to the municipality in installments to be deposited monthly over a number of years. If the property owner did not agree to buy an apartment in Uzundere, he/she would be paid the designated amount in cash.” (181-2).

### Research Design

A total of 30 Latin American and Caribbean countries are observed on a yearly basis between 1995 and 2012, making for a total of 540 possible observations. The data is unbalanced with a time-invariant variable (country), a unit of time (year), and a set of time-varying outcomes (reform, crises [natural and macroeconomic], institutional and structural constraints).

### Dependent Variable

*Neoliberal Reform.* The Index of Economic Freedom (Index), an annual joint publication by the Wall Street Journal and the Heritage Foundation, will provide the core operationalization of neoliberal policy reform. Compiled from a composite of various governmental and private sector sources, the Index provides one of the more comprehensive troves of time-series, country-level data on economic disposition. The Index covers four main components of economic freedom including rule of law, government size, regulatory efficiency and open markets. Composed of ten specific measures of economic freedom, the Index assigns a grade in each using a scale from 0 to 100, where 100 represents maximum freedoms. The 10 economic freedoms are grouped into four broad categories or pillars of economic freedom: Rule of Law (property rights, freedom from corruption); Limited Government (fiscal freedom, government spending); Regulatory Efficiency (business freedom, labor freedom, monetary freedom); and Open Markets (trade freedom, investment freedom, financial freedom). Each of the freedoms within these four broad categories is individually scored on a scale of 0 to 100. A

country's overall economic freedom score is a simple average of its scores on the 10 individual freedoms.<sup>28</sup> This overall freedom score will be my main dependent variable.

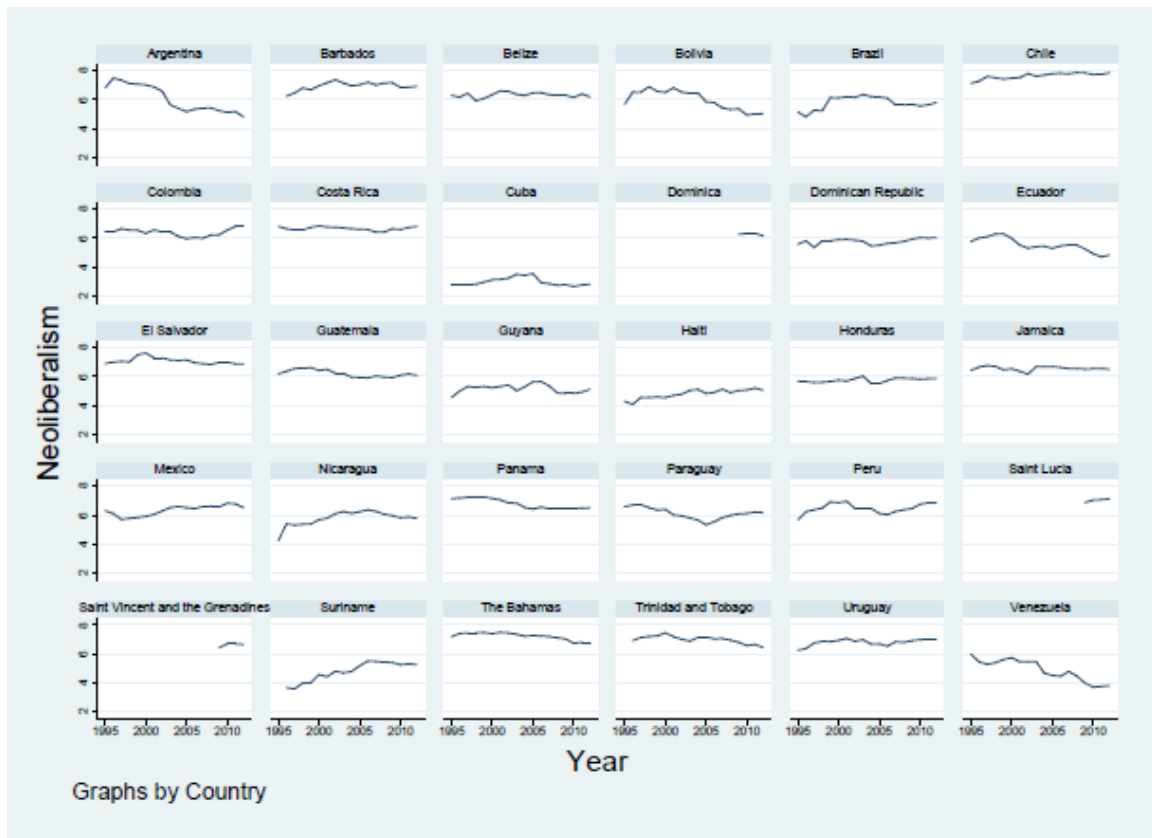


Figure 1: Neoliberal Scores, 1995 – 2012

Figure 1 explores some of the patterns of neoliberalism over the last two decades. Looking at some of the data patterns, it appears that measures of neoliberalism have significantly decreased in countries like Argentina, Bolivia, and Venezuela, with moderate decreases in Ecuador and Panama. In terms of significant increases, Suriname stands out, with more moderate increases in places like Chile and Haiti. Countries like Belize and Costa Rica have been relatively stable. The discontinued line graphs in

<sup>28</sup> <http://www.heritage.org/index/about>

Dominica, Saint Lucia, and Saint Vincent and the Grenadines reflects missing time-series data.

Heterogeneity in the dependent variable is examined via Figures 2 and 3. Both display the variation of neoliberal scores across countries as well as years. Using this graph, one can identify an outlier country such as Cuba (Figure 2), as well as note that neoliberal scores are generally stable over time (Figure 3).

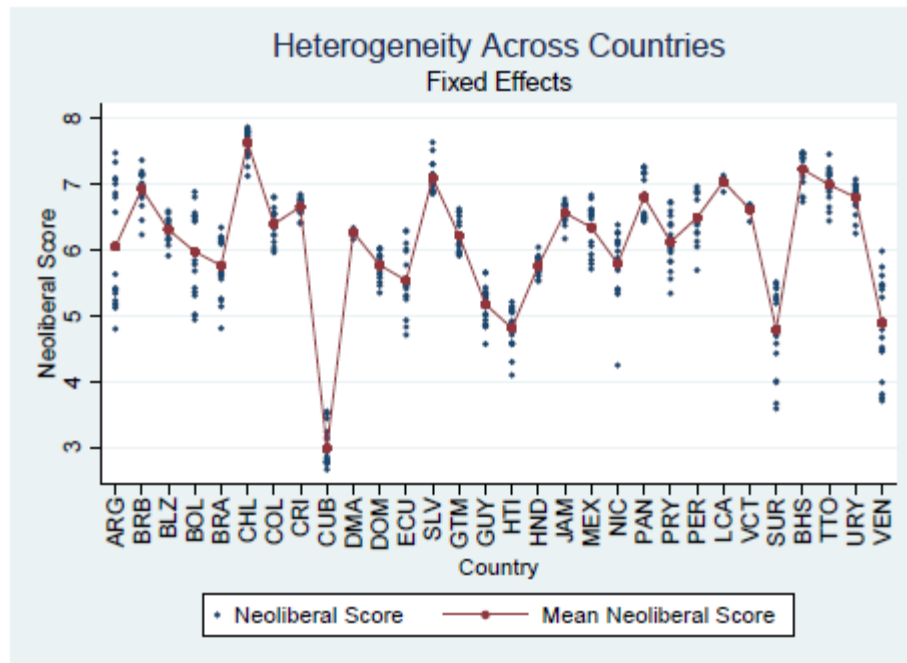


Figure 2: Heterogeneity Across Country, 1995 – 2012

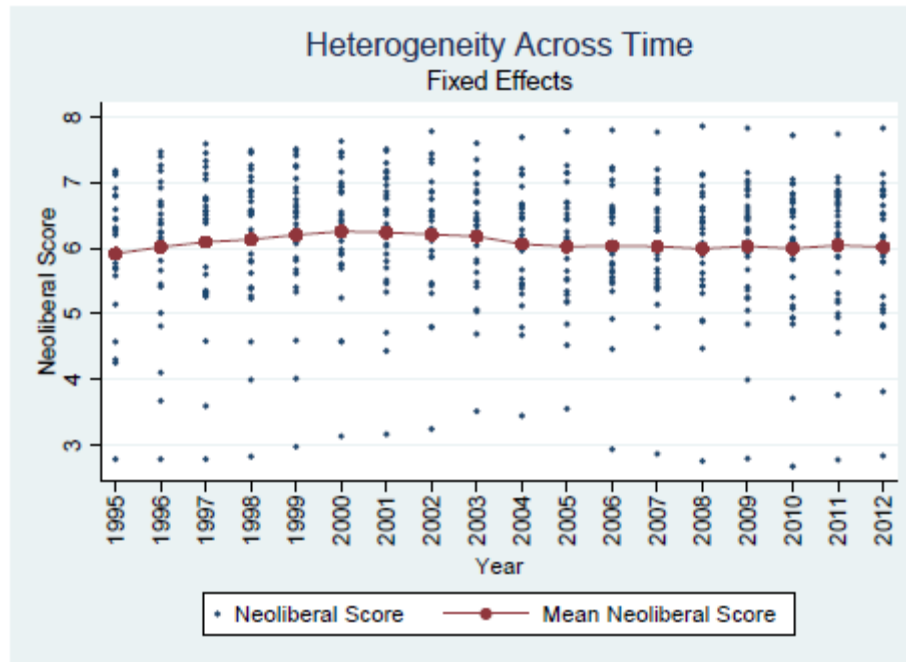


Figure 3: Heterogeneity Across Time, 1995 – 2012

Independent Variable

*Disasters.* The Emergency Events Database (EM-DAT) at the Centre for Research on the Epidemiology of Disasters compiles data on the incidence and corollary of over 16,000 global disasters from 1900 to present. The EM-DAT loosely defines a disaster as a circumstances or incident that overwhelm local capabilities, resulting in an appeal to national or international assistance. Particularly, these events are characterized by loss of human lives, extensive damage to property and population displacement. The causes of these disasters are: geophysical (earthquake), meteorological (storm), or hydrological (flood).<sup>29</sup> Specifically, EM-DAT defines a disaster as a unique event that has had ten or

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<sup>29</sup> Cases that are identified as resulting from drought will be excluded from the sample because, while they do classify as disasters and arguably have a meaningful impact on subsequent macro-economic policy, they fail to capture the abrupt change in conditions that is prevalent in the disaster capitalism theory and germane to the aforementioned categories. Additionally, biological disasters, or those related to exposure to germs and other living organism, will also be excluded from case selection. I am purposely avoiding widening my scope of study to include emergency

more people killed, one hundred or more people reported injured or displaced, a declaration of a state of emergency, or a call for international assistance. Figure 4 graphically expresses these disaster events. There are no distinct patterns, save Mexico's, Brazil's and Colombia's relatively greater frequency of natural disasters.

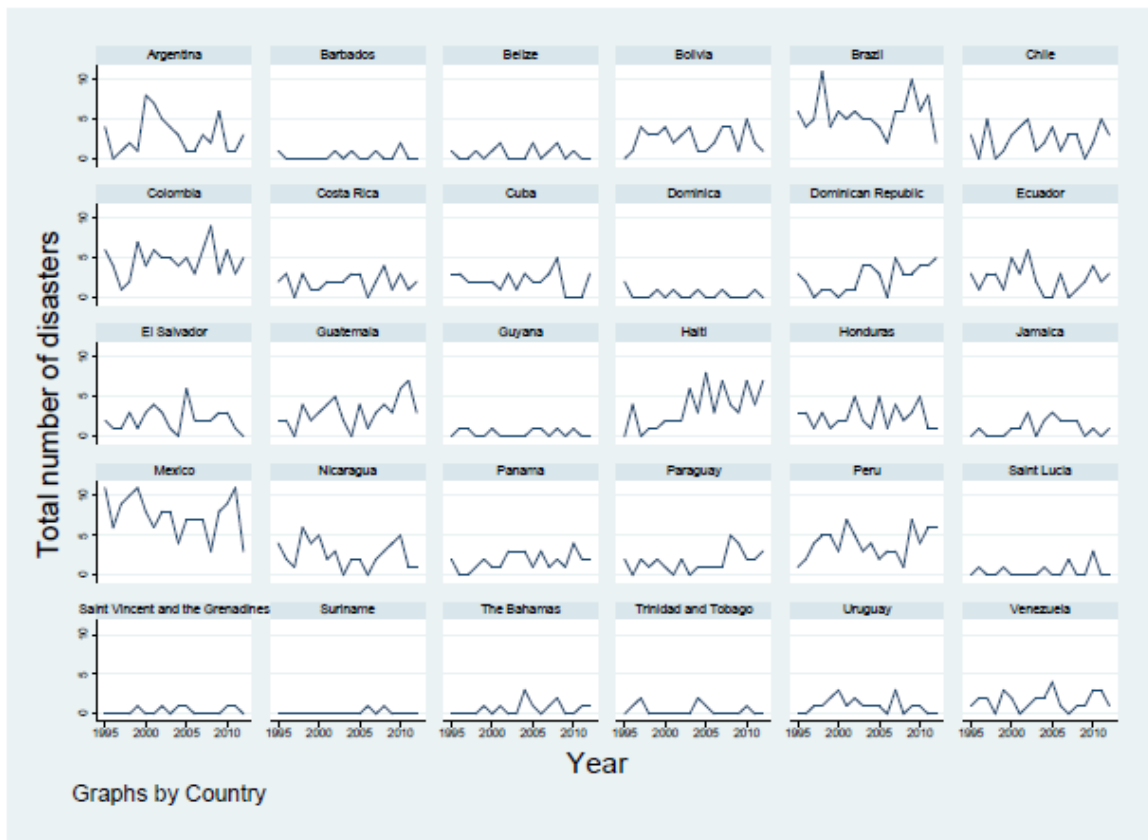


Figure 4: Total Natural Disasters, 1995 – 2012

I approach this base conceptualization with some amount of apprehension due to the relatively minimal standards that EM-DAT attaches to classifying disasters, and the

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situations caused by wars, insurgent activities and other conflict induced disasters. The immediate focus of this research will treat only the occurrence of natural disasters as an explanatory variable for the occurrence of neoliberal economic reforms. Therefore, disasters will be limited to: earthquakes, hurricanes, tornadoes, blizzards, flood, and volcanic eruptions.



self-reporting aspect of data collection.<sup>30</sup> To help correct these potential shortcomings and following the prompting of Quarantelli (2000) and Neumayer and Plümper (2007), I will operationalize my disaster variable according to relative losses, as opposed to absolute estimations the raw EM-DAT data would assume. That is to say, instead of looking at total estimates of casualties, a better proxy for scale of crisis would be to treat these measures as a ratio of the total population. Using the per capita ratio for affected populations will parse out the relative impact of disaster events. The disaster variable will thus be measured as natural disaster related casualties per capita.<sup>31</sup>

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<sup>30</sup> EM-DATs input derives from reporting done by UN agencies, the International Federation of Red Cross and self-reporting by affected governments. In this case, the longitudinal study may suffer from the infancy of the collection process and a more systematic problem of under- and over-reporting. In other cases, like Haiti, casualty figures may have been exaggerated. There is evidence to suggest that USAID may have suppressed findings that estimated casualty rates were well below the government's initial estimations of 316,000. In a unpublished report on behalf of USAID, Timothy T Schwartz et al., (2011) suggests total casualties fell between 46,190 and 84,961. To see the various arguments including an alternative estimated casualty total of 158,679 please see: Kolbe, Athena R., Royce A. Hutson, Harry Shannon, Eileen Trzcinski, Bart Miles, Naomi Levitz, Marie Puccio, Leah James, Jean Roger Noel and Robert Muggah. 2010. "Mortality, Crime and Access to Basic Needs Before and after Haiti Earthquake: A Random Survey of Port-au-Prince Households." *Medicine, Conflict and Survival* 26 (4): 281- 297. For additional commentary as to why inflating casualty rates where a boon to contract and donor based NGOs see: Reiff, David. 2011. "Grave Inflation: A new report in the Haiti earthquake reminds again that, for aid groups, more casualties means more funding." *Foreign Policy* June 9.; Peralta, Eyder. 2011. "Report: Death Toll of Haiti Earthquake Much Lower Than Government Said." National Public Radio (NPR) March 31.

<sup>31</sup> Affected populations or economic damage as a ratio of total population and gross domestic product, respectively, can also theoretically be used to measure disasters. For example, Haiti's 2010 earthquake resulted in an estimated \$8 billion in total damages. A little over a month later, in Chile, an earthquake and subsequent tsunami caused an approximate \$30 billion worth of economic damages. In absolute terms, Chile's economic loses were almost four times the amount of Haiti's. However, the story is better told if we consider the relative impact of damages. Haiti's 2010 GDP of \$6.6 billion means that the earthquake damages accounted for roughly 120% of the countries entire income. While Chile's 2010 GDP of approximately \$217 billion, meant the earthquake and tsunami had an economic impact of an estimated 14% of total income. That being said, these estimates are widely inconsistent in EM-DAT. Preliminary tests showed moderate covariation between all three measures (per capita ratio for casualties, affected populations and damages as a percentage of GDP). See Table 4 in the Appendix section.

### Control Variables

Why do countries pursue reform policies? This is an important question because I intend to evaluate the occurrence of natural disasters alongside established and competing explanations of policy change. It is thereby practical to construct my multivariate model by first assessing the existing scholarship that posit explanations for policy reform. To that end, the body of literature dedicated to answering the aforementioned question is vast and cuts across several fields of inquiry. For example, political economists have, to varying degrees, identified hyper-inflation, balance of payments, foreign debt and other indicators of monetary and fiscal crises as determinants of neoliberal economic reforms (Williamson 1994; Tommasi and Velasco 1996; Rodrik 1996; Drazen and Easterly 2001). However, identifying a set of macroeconomic variables conducive to reform does little to flesh out the causal mechanism of policy change. This is because the policymaking process takes place within a highly contested and immensely complex arena (Nelson 1990).

To that end, institutional explanations have made strides in identifying key actors, their preferences, as well as normative constraints. Mapping this game of veto players and political survival within cooperative rule-making and enforcement structures have enabled researchers to explain and predict a number of policy outcomes (Nordhaus 1974; Hibbs 1977; Rogoff and Sibert 1988; Alesina and Rosenthal 1989; Schnuknecht 2000; Vergne 2009). Not to be discounted, there is also a belief that national policymaking is increasingly trivialized. More precisely, state policymaking autonomy is weakened as a result of economic globalization, the pervasiveness of international institutions and the organization of states according to the rationale of global production processes (Robinson

1996; Ross and Trachte 2000). Considering these various explanations, I conceptualize and operationalize a series of macroeconomic, institutional and international variables.

### Macroeconomic

*Debt.* External Debt is often used to investigate the crisis hypothesis. Under conditions of sustained growth, private sector interests and politicians alike often stand pat and opt for the status quo. However, as the work of Przeworski and Limongi (1997) suggest, as little as one year of economic crisis is enough to produce significant political effects in terms of regime survival (168-9). With soaring national debt, status quo coalitions begin to unravel and agents of macroeconomic change become empowered. Increased external debt burdens should increase the likelihood of neoliberal economic reforms. However, as noted above, it is conceivable that during periods of acute crisis, the debt burdens may quantitatively increase to help cope with immediate post-disaster management and reconstruction. Total external debt is measured as the sum of public, publicly guaranteed long-term debt, private non-guaranteed long-term debt, use of IMF credit, and short-term debt (or all debt having an original maturity of one year or less and interest in arrears on long-term debt). This data was acquired from the World Development Indicators and Global Development Finance (2013).

*Inflation.* Price instability and inflation gives caution to commercial activity and foreign investments due to uncertainty over prices and asset values. The result is often an erosion of real wages, reduction of economic activities and a crisis of capital accumulation. Countries with high rates of inflation are more likely to adopt capital liberalizations to combat expansionary fiscal policies and budget deficits. Yet, to combat inflation,

governments are encouraged to make cuts in public spending. The empirical evidence is somewhat muddled regarding the relationship between economic reform and high inflation. While inflation should lead to market corrective policies, inflation is only injurious if it reaches some critical juncture. For example, Drazen and Easterly (2001) point out that ‘measuring, “reform” by subsequent inflation performance, high-inflation countries are more likely to undertake stabilization than moderate-inflation countries. That is, the correlation between inflation today and inflation tomorrow is not monotonically positive, but turns negative for high inflation’ (135 – 136). With the critical juncture being between 150 - 200 percent per year, reform should be initiated at extremely high levels of inflation. The only country to approach this range was Suriname in 1995, when the inflation soared to 236 percent. Not surprisingly, the following year they had an inflation rate of -1 percent. In 1999, Suriname’s inflation again crept to 99 percent, only to have it decrease to 59 percent in 2000. The only other country to approach what Drazen and Easterly (2001) may call an inflationary crises was Ecuador in 2000. In that year, the inflation rate ballooned to 96 percent. It was reduced to 37 percent in 2001. Therefore, low and medium rates of inflation is expected to be negatively correlated with neoliberal reforms. Inflation will be measured by using the log of the consumer price index (CPI), which reflects the annual percentage change in the cost to the average consumer acquiring a basket of goods and services. This data is acquired from the World Development Indicators and Global Development Finance (2013).<sup>32</sup>

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<sup>32</sup> It is also important to consider logging the inflation values due to meaningful difference between the smallest and largest values. In our case an inflation rate of 236 may upwardly bias the results. Additionally, a 10 point inflation increase from 2 to 12 percent has much more of an impact than a ten point increase from 226 to 236 percent. I used both the baseline and the logged variable. It had minimal impact on the estimates. Reported herein are the logged estimates.

## Institutional

*Regime.* Regime type matters in the ability to initiate and consolidate reform programs (Skidmore 1977). The direction, however, is not empirically established (Oneal 1998). In terms of developing countries, on one end of the regime type spectrum are those who claim that democratic regimes are more consistent with trade and capital liberalization (Milner and Kubota 2005). The opposing position sees authoritarian leadership, and their ability to co-opt, curtail or suppress popular interest group demands as a pre-requisite for economic liberalization (O'donnell's 1973 & 1978; Wade 1990 & 1993). To help sort through these divergent theoretical claims I will resort to using the Polity IV measures of regime types. The polity scores are an amalgamation of 'six component measures that record key qualities of executive recruitment, constraints on executive authority, and political competition. It also records changes in the institutionalized qualities of governing authority'.<sup>33</sup>

*Honeymoon.* Political business cycle may determine the timing of expansionary and stabilization programs. The condition of economic crisis interacts with self-interested politicians to create windows of opportunity for economic reform. As opposed to the current disaster theory, these reform windows tend to close and open in and around electoral cycles. The instinctual logic states that regimes approaching an election are more likely to pursue popular expansionary policies. However, following the election, policymakers are granted a honeymoon period of sorts, which allows them to pursue necessary stabilization programs (Nordhaus 1975; Rogoff and Sibert 1988; Ludger

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<sup>33</sup> Marshall, Monty G., Keith Jagers & Ted Robert Gurr. (2013) 'Polity IV Project: Dataset Users' Manual'. Center for Systemic Peace. <http://www.systemicpeace.org/polity/polity4.htm>

Schuknecht 2000). For the purpose of this study, I will embrace the political business cycle model, speculating that neoliberal economic reform is more likely to occur soon after a new government comes to power. The earlier these reforms are carried out, the easier it becomes to blame the outgoing government (whether real or aggrandized) for the economic ills (Haggard and Kaufman 1995). This honeymoon period, thus, clears the way for the advancement of sweeping reforms and rationalizes any immediate austere consequences that may be associated with it. Therefore, the longer an executive has been in office, the less likely they are to pursue neoliberal policy reforms. In testing this relationship, I use Beck et al's. (2001) measure regarding the years an executive has years left in the current term. Thereby, a "0" is scored in an election year, and  $n-1$  in the year after an election, with  $n$  = length of term.

*Divided Government.* The concept of divided government is a little more straightforward. Contentious economic reform policy (like any reform policy) is easier to carry out if the legislature is also allied with the executive party (Haggard and Kaufman 1995). We are to expect more resistance if the legislature and executive are divided. Consequently, if the executive's party has command of all significant houses of government, neoliberal reforms will be easier to advance through the legislature. This variable will be measured dichotomously for a given year (1 = executive's party controls the legislature, 0 = divided government) (Beck et al., 2001).

### International

*IMF.* As a lender of last resort, the International Monetary Fund (IMF) has routinely made loans to countries struggling with balance of payments problems. As a condition for

their financial assistance, the IMF encourages recipient countries to embark upon corrective structural reforms that will enable not only immediate relief but also sustain long-term economic growth. Therefore, countries that have borrowed funds from the IMF are more likely to reduce government spending and commit to capital and trade liberalization. IMF data was gathered from the World Bank, international debt statistics.<sup>34</sup> Use of IMF credit will be measured as a percentage of GDP. Table 1 provides some basic descriptive statistics and summarizes my variables.

Table 1: Summary Statistics of Panel Data: 1995 to 2012

Variable	Mean	Std. Dev.	Min.	Max.	N	Missing
Dependent Variable						
<i>Neoliberal Reform</i>	6.08	1.01	2.67	7.86	495	45
Main Independent Variable						
<i>Disaster</i>	0.06	1.01	0	23.20	540	–
Macroeconomic Variables						
<i>External Debt</i>	0.30	0.33	0	2.89	510	30
<i>Inflation</i>	8.45	14.45	-3.65	235.56	482	58
Institutional Variables						
<i>Polity</i>	6.86	3.67	-7	10	432	108
<i>Div. Govt.</i>	0.49	0.50	0	1	472	68
<i>Honeymoon</i>	1.94	1.38	0	5	480	60
International						
<i>IMF</i>	1.77	3.66	0	27.64	456	84

Disaster (x 1000), IMF (x 100)

<sup>34</sup> Use of IMF credit denotes members' drawings on the IMF other than amounts drawn against the country's reserve tranche position. Use of IMF credit includes purchases and drawings under Stand-By, Extended, Structural Adjustment, Enhanced Structural Adjustment, and Systemic Transformation Facility Arrangements as well as Trust Fund loans. SDR allocations are also included in this category. Note: Data related to the operations of the IMF are provided by the IMF Treasurer's Department. They are converted from special drawing rights into dollars using end-of-period exchange rates for stocks and average-over-the-period exchange rates for flows. Data are in current U.S. dollars. World Bank, International Debt Statistics. Catalog Sources: World Development Indicators

## Empirical Model

Panel or longitudinal data is a form of time series and cross-sectional data that contains measurements on the same entities over several periods.<sup>35</sup> Benefits of panel data over time-series or cross-sectional data sets include larger number of data points, increased degrees of freedom, reduced collinearity among independent variables, and sequential observation of data. By following countries over time as they change domestic institution and macroeconomic positions one can more accurately model a recursive structure to examine adjustment (Hsiao 2003). Given the panel shape of the data, the current model is specified from the basic linear presentation:

$$Y_{it} = \alpha + \beta_i X_{it} + \mu_{it} \quad i = 1, \dots, N; t = 1, \dots, T \quad (1)$$

where double subscripts on the variables X represent both the time-series and cross-section component of panel data. The individual country is represented by  $i$ , whereas  $t$  denotes the time variant, in this case – year. Consequently, X is the country-year observation on a set of K (macroeconomic, institutional, and international) explanatory variables.  $\alpha$  is the constant and  $\beta$  is K x 1. The error term is understood as:

$$\mu_{it} = u_i + v_{it} \quad (2)$$

where  $u_i$  represents the unobservable country-specific effects, while  $v_{it}$  represents the usual disturbances in a regression. Using panel data allows for the control of exogenous shocks through the time effect and omitted variable bias through the country effect. The full empirical model is specified as follows:

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<sup>35</sup> The terms longitudinal and panel are used interchangeably and represent an extended application of ‘panel data’, which has historically connoted the repeated survey of individuals over time (Frees 2004: 2).



$$Neoliberal Reform_t = \alpha + \beta_1 Disaster_{t-1} + \beta_2 Debt_{t-1} + \beta_3 Inflation_{t-1} + \beta_4 Regime_{t-1} + \beta_5 Honeymoon_{t-1} + \beta_6 Divided Government_{t-1} + \beta_7 IMF_{t-1} + \mu_{it} \quad (3)$$

The lagged independent variables ( $t-1$ ) implies the amount of time it takes independent variables to affect perceptions of neoliberalism. Though we should be cautious about assuming uniform lags across countries, this is reasonable considering the theory posits rapid liberalization within a window of opportunity. Ultimately, causality is easier to interpret because lagged independent variables means that changes in year  $t-1$  shows its effect on the dependent variable at time  $t$ .

### Results

I will begin by discussing the parameter estimates of a variety of basic models displayed in Table 2. The first column (1) represents pooled ordinary least squares (OLS) without fixed or random effects. The main assumption here is that there is no difference in intercepts and slopes across countries and time periods. In this model, the interpretations are pretty straightforward. The constant suggests that if all other variables (disasters, debt, inflation, regime type, divided government, honeymoon period, and IMF obligations) are set to zero, each country is expected to have a neoliberal score of 5.1. While the primary independent variable has a positive relationship with neoliberal reforms, the relationship does not approach statistical significance. The independent variables that do have a significant relationship with neoliberal reforms are inflation, regime type and IMF indebtedness. Holding all other variables constant, whenever a country's inflation increases by one unit, the total neoliberal score is expected to decrease by .205 units. Similarly, all things being equal, democracies are more likely to pursue

neoliberal policies. Finally, IMF indebtedness makes it less likely for countries to partake in neoliberal reforms. This model moderately fits the data, with the adjusted  $R^2$  suggesting that 39.5% of the variation in the dependent variable is explained by variation in the independent variables. However, each country may have initial neoliberal scores (y-intercept) that vary significantly between countries, as well as error terms that vary across country and/or year. The pooled OLS is not ideal because it does not capture any unobserved heterogeneity between countries and across time. Models (2) (3) and (4) begin to account for these assumptions.

Model (2) represents the least squares dummy variable (LSDV) model. In theory, by adding a dummy variable for each country I am controlling for any fixed effects associated with individual countries. Another way to look at this is that the effect of the independent variables  $X_n$  can then be considered 'pure' and unaffected by any potential unobserved heterogeneity. The effect of any particular country is absorbed by its respective dummy variable. Model (3) is also a country-specific fixed effects model. This model achieves the same results as model (2), save for slight variations in the constant term and F-statistic. This model estimates within group estimators without creating an unwieldy amount of dummy variables. Model (4) is a random effects estimation. While the fixed effects models of (2) and (3) control for all time-invariant differences between countries, it cannot be used to examine time-invariant causes of the dependent variable. When considering country-specific effects in model (2), natural disasters become statistically significant showing a direct relationship. Debt also becomes significant in the fixed effects models (2 & 3) implying that country's in arrears are more likely to pursue neoliberal reform policies.

Table 2: Estimation Results: Comparing OLS, LSDV, FE and RE Models

	(1) OLS	(2) xiLSDV	(3) aregFE	(4) xtregRE
Disaster <sub>t-1</sub>	0.011 (1.506)	0.020*** (3.745)	0.020*** (3.745)	0.021** (2.359)
Debt <sub>t-1</sub>	0.034 (0.210)	0.329*** (2.683)	0.329*** (2.683)	0.292 (1.374)
Inflation <sub>t-1</sub>	-0.205*** (-5.550)	-0.125*** (-3.544)	-0.125*** (-3.544)	-0.141** (-2.053)
Regime <sub>t-1</sub>	0.156*** (8.641)	0.010 (0.546)	0.010 (0.546)	0.058 (1.212)
Div. Govt. <sub>t-1</sub>	0.124 (1.577)	0.112 (1.434)	0.112 (1.434)	0.109 (0.735)
Honeymoon <sub>t-1</sub>	0.011 (0.433)	-0.019 (-1.232)	-0.019 (-1.232)	-0.016 (-1.216)
IMF <sub>t-1</sub>	-0.037** (-2.409)	-0.016** (-2.013)	-0.016** (-2.013)	-0.019 (-1.410)
Constant	5.371*** (28.012)	6.201*** (19.599)	6.220*** (36.070)	5.894*** (12.928)
Observations	301	301	301	301
Adjusted $R^2$	0.395	0.773	0.773	
F	129.323	875.121	6.810	

*t* statistics in parentheses

Analysis done using STATA 13 software

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

The fixed effects approach assumes that unobserved variables are time invariant. Therefore, any changes in the dependent variable over time are due to similar varying predictor variables and not the fixed ones. A random effect supposes that variations across countries are uncorrelated with included explanatory variables and is random. Simply put, variables that do not change over time cannot cause change over time. It is constant for each country. For example, the coefficient on regime type approaches significance in the random effects model (3), partially because in many cases, regime

type does not vary across countries. In examining the data, it becomes evident that in several cases this theoretical variable does not indeed vary substantially across time. For example, Brazil, Colombia, Costa Rica, Cuba, Guyana, Jamaica, Panama, Suriname and Uruguay, all maintained a consistent polity score between 1995 and 2012 (within variation = 0). While others, such as Argentina ( $\bar{x} = 7.78$ ,  $s = .42$ ), Dominican Republic ( $\bar{x} = 7.83$ ,  $s = .71$ ), El Salvador ( $\bar{x} = 7.22$ ,  $s = .43$ ), Honduras ( $\bar{x} = 6.78$ ,  $s = .43$ ), Nicaragua ( $\bar{x} = 8.3$ ,  $s = .49$ ), and Trinidad and Tobago ( $\bar{x} = 9.89$ ,  $s = .32$ ) all experienced minor change, suggesting that the regimes have been more or less stable across the time dimension. One benefit of utilizing the random effects model is gaining the ability to include these time-invariant variables.

Given that simple pooled OLS (model 1) are likely to produce biased coefficient estimates, which model is better? Fixed (model 2 & 3) or random (model 4)? The Hausman specification test determines if country specific effects are uncorrelated with other explanatory variables. If correlated, the random effects model is no longer the Best Linear Unbiased Estimate (BLUE). After conducting the Hausman test, the  $\chi^2$  was 132.92 ( $p > \chi^2 = .0000$ ), leading me to reject the null and conclude that a fixed effects model does not violate the Gauss-Markov assumption. It is consistent and produces non-biased estimations. Table 3 represents the two-way (both country and year) fixed effects models after a series of post-estimation diagnostics to ensure more robust findings.

Some of these post-estimation diagnostics included a Modified Wald test for groupwise heteroskedasticity. After concluding heteroskedasticity ( $p > \chi^2 = .0000$ ), all model estimations included the 'robust' option to control for violation of the assumption of constant variance in the error term. I also include time effects in the final estimation

due to a rejection of the null that all years (dummies) coefficients are jointly equal to zero ( $F = 2.37$ ;  $p > F = .0025$ ). The final model is a two-way model including a set of both country and year dummy variables. Model (1) is a basic bivariate regression. Model (2) includes only the macroeconomic variables. Model (3) adds the institutional variables. The final full model (4) contains the international variable. Estimations includes only complete cases and data losses are evidenced by the decreasing number of observations as we go from bivariate (471) to full multivariate (301) model.

Table 3: Regression Analysis for Determinants of Neoliberalism

	(1)	(2)	(3)	(4)
Disaster <sub>t-1</sub>	0.022*** (3.905)	0.017*** (3.088)	0.023*** (3.255)	0.022*** (3.192)
Debt <sub>t-1</sub>	—	0.160* (1.772)	0.047 (0.517)	0.152 (1.209)
Inflation <sub>t-1</sub>	—	-0.143*** (-4.827)	-0.163*** (-4.559)	-0.160*** (-4.393)
Regime <sub>t-1</sub>	—	—	0.013 (0.671)	0.011 (0.579)
Div. Govt. <sub>t-1</sub>	—	—	0.024 (0.379)	0.015 (0.199)
Honeymoon <sub>t-1</sub>	—	—	-0.022 (-1.488)	-0.018 (-1.219)
IMF <sub>t-1</sub>	—	—	—	-0.010 (-1.340)
Constant	6.033*** (55.896)	6.456*** (46.269)	6.580*** (34.274)	6.515*** (33.687)
Observations	471	403	317	301
Adjusted $R^2$	0.860	0.813	0.803	0.791
F	3.298	4.123	4.092	3.504

Standardized beta coefficients; Absolute  $t$ -statistics in parentheses; Year dummies suppressed. Analysis done using STATA 13 software. Command “areg...i.year, absorb(country)”

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Across all models the disaster variable shows a positive and significant association with neoliberalism. The bivariate results suggest that for a given country, a unit increase in disasters (operationalized as casualties per capita) is expected to result in an increase of a country's neoliberal score. This relationship is statistically significant and consistent across all models. These results suggest that the theory is consistent with the view that neoliberal reforms are more likely after a natural disaster. Of most importance is the observation that it is reliably significant when juxtaposed against established explanations of policy change.

For the macroeconomic variables associated with the crises hypothesis, a country's external *Debt* does not show a significant relationship. However, the coefficient for *Inflation* is negative and statistically significant, suggesting that as inflation increases, countries are less likely to pursue economic liberalization. Rajapatirana et al. (1997) points out that there is no standard reaction to economic crises. In truth, some countries may respond to crises by further embedding themselves in inflationary policies, thereby having high inflation does not necessarily signal a crises (Drazen and Easterly 2001; Edwards 2000). Also, it may be instructive to test for interactions with disasters and macroeconomic crises (inflation and debt). The assumption here is that countries experiencing a macroeconomic crisis are also more likely to use disasters as an opportunity to reform the economy. Preliminary test for these, not reported here, are inconclusive. Disasters remained significant when interacted with debt, but lost significance when interacted with inflation. The institutional variables are not statistically significant as theoretically expected. That outcome may have an analytical explanation. Because these variables are shown not to vary much across countries or time, using both

country and year dummies may have attenuated their influence. For example, the *Regime* variable responds to the removal of country and year dummies and is positive and statistically significant across estimations. Neither the *Divided Government* nor the *Honeymoon* variable were statistical significance.

Of ultimate importance, however, is the direct relationship between natural disasters and neoliberal reforms. It is theorized that institutional dynamics, macroeconomic disposition and the overarching international environment all serve to determine the course, range and vigor of policy reforms. The relationship between natural disasters and neoliberal reform cuts across all competing explanations, giving natural disasters noteworthy explanatory leverage.

### Conclusion

This analysis finds some interesting results, particularly a cautious affirmation of disaster capitalism. By looking at 30 countries for a span of 18 years, the data does indeed show a positive and significant relationship between natural disasters and neoliberal reforms. This relationship is consistent across all models and competing explanations. Moreover, the observation that natural disaster remains significant while established explanations are either inconsistent or nonexistent, leaves more support for disasters and the following analysis of transnational coalitions as driving forces behind reform policies. These generalized findings are an important step in determining that a natural disaster does correlate with an increased propensity to adopt neoliberal policies. There is more to be said, however, about just *how* policies are formulated and to *whom* the spoils accrue. An examination of trade policies enacted in response to a series of

disasters reveals the continued shift of power from the traditional textile protectionist bloc to more globally-oriented apparel producers. The remainder of this dissertation traces these conflictual business interests within the context of global supply chains, transnational capitalism, and enduring US national economic interests.

Chapter 3 will be an examination of US trade policy following the 2010 earthquake in Haiti. Chapter 4 will delve into Hurricane Mitch and its effects on regional trade policy affecting the Caribbean Basin and Honduras in particular. A key point of emphasis for both chapters is the role nationally-oriented transnational alliances played in securing trade exemptions that secured both countries in apparel production networks managed by US lead firms. The natural disaster represented an opportunity for a new coalition of transnationals tied to global network of apparel production to affect these laws in favor of their specific interests. Ultimately, both the 2010 Haitian earthquake and the 1998 Hurricane Mitch represented a redefinition of the countries', and to a larger extent the regions, role in the apparel commodity chain; a role within a global network largely defined by low-wage, sweatshop production.



## CHAPTER 3: HAITI, FROM HOPE TO HELP

The Action Plan for National Recovery and Development of Haiti that we are presenting to our partners in the international community indicates the requirements to be fulfilled so that the earthquake, devastating as it was, turns into a window of opportunity so that, in the Head of State's words, the country can be reconstructed. This is a rendezvous with history that Haiti cannot miss.

– Action Plan for National Recovery and Development of Haiti  
Government of Haiti  
March 2010

I remember somebody saying a crisis is a terrible thing to waste. It is true, the opportunity has been thrust upon us.

– Georges Sassine  
Textile businessman with multiple executive posts:  
SONAPI, ADIH, GB Group, and CTMO-HOPE.  
March 2010

[t]o launch reconstruction projects designed to rebuild the nation in the aftermath of the 2010 earthquake, the Government of Haiti (GoH) should consider embarking upon legal/regulatory/institutional reforms designed to improve the nation's overall business environment. The most effective policy tool for the short and medium terms to carry out the needed reforms is the establishment of a national Integrated Economic Zones (IEZ) regime.

– Integrated Economic Zones in Haiti  
International Finance Corporation  
December 2011

### Introduction

With 80% of the population living in poverty, over 50% living in abject poverty, and rural migration adding to the hordes of unemployed already in cramped urban spaces, catastrophe and crisis inevitably met in the streets of the Haitian capital. The catastrophe was a familiar one, political instability and violence had brought about yet another foreign occupation; this time by the United Nations Stabilization Mission in Haiti

(MINUSTAH). The crisis—often dovetailing with Haiti’s history of political instability—was a reaction to a global increase in agricultural commodity prices and the country’s own experience with neoliberal interventions. By the Spring of 2008, with the unease over the current political situation growing and the drastic price increase in staple products now being felt by consumers, UN Peacekeepers and discontented Haitians violently clashed in the city streets. When the whirring of stones and rubber bullets subsided and the tear gas and soot from burnt out cars dissipated, Haitians began to once again remove the rubble and pick up the pieces of a fractured society.<sup>36</sup>

About 20 months later, on January 12, 2010 a 7.3 magnitude earthquake shook the cities of Léogâne, Carrefour, Port-au-Prince, Jacmel, Petit-Goâve and other surrounding towns. In about 35 seconds, a series of concentrated tremors reduced much of the political<sup>37</sup> and economic core of Haiti to rubble. However, this was a different type of rubble. Not the type Haitians have come accustomed to digging out of since its independence. Not the figurative rubble, this was rather the actual accumulation of crumbled concrete, wood, drywall and glass. This meant that before Haiti could be reconstructed and put on the path to sustained economic development, her ‘rendezvous with history’ had to begin with first removing the debris that choked the very streets where security forces and restless Haitians clashed just months earlier. Removing

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<sup>36</sup> Delva, Joseph Guyler and Jim Loney. (2008) ‘Haiti’s government falls after food riots’, Reuters, 12 April. These riots were also called the ‘Clorox food riots’ because many described the hunger pains as having the burning sensation one would get from consuming bleach.

<sup>37</sup> Lacey, Marc. (2010) ‘Haiti’s Icon of Power, Now Palace for Ghosts’, The New York Times, 22 January.

between 25 and 78 million cubic yards<sup>38</sup> of crumbled building materials seemed an arduous task for the ill-equipped island-nation. As it has so often been in the past, international actors would play a significant role in Haiti's convalescence.

South Florida-based AshBritt Inc., which specializes in debris removal, disposal and emergency cleanup following natural and man-made disasters, was one of the first companies to secure \$20 million rubble removal contracts from the Haitian government and their international partners.<sup>39</sup> A favorite of both the US federal government and the Army Corps of Engineers, AshBritt has been able to secure over \$1 billion of no-bid and limited-competition contracts for debris removal projects following Hurricane Katrina (Louisiana and Mississippi) and Sandy (New Jersey). However, not soon after securing their cleanup contract from the Haitian government, AshBritt and GB Group (a diversified group of industrial and trading companies), were being sued by the former U.S. Agency for International Development (USAID) Unified Relief and Response Coordinator Lewis Lucke for breach of contract. In recent years, AshBritt has become quite familiar with these types of litigious actions. The company has been caught up in several lawsuits, mostly filed by oft-used subcontractors who claim the company has failed to pay for completed work.<sup>40</sup> The company has also had to contend with

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<sup>38</sup> This reflects the estimated amount of rubble varying widely among several sources.

<sup>39</sup> Figures show that reconstruction contracts have overwhelmingly gone to US based firms. Particularly Beltway contractors (from DC, Maryland and Virginia) who in 2010 had received 39.4 percent of the nearly \$200 million in contracts, compared to 2.5% going to Haitian contractors. 'Haitian Companies Still Sidelined from Reconstruction Contracts', Center for Economic and Policy Research, 19 April 2011; accessed at: <http://cepr.net/blogs/haiti-relief-and-reconstruction-watch/haitian-companies-still-sidelined-from-reconstruction-contracts> 5, May 2014.

<sup>40</sup> Ugolik, Kaitlin. (2011) 'AshBritt Can't Shake \$2M Katrina Cleanup Contract Suit', Law360,

accusations and investigations into contract waste, overcharging the government and using their political connections to secure no-bid contracts.<sup>41</sup>

The Lewis Lucke lawsuit was unique because of what it claimed and who it was coming from. Shortly after beginning his second stint in Haiti for USAID, Lucke stepped down from his post of Relief Coordinator and went into consulting on behalf of AshBritt and GB Group. Within months of this partnership, two contracts, combined to be worth about \$20 million for rubble removal, were secured. Not much later, however, Lucke was in court suing both companies for about \$500,000 claiming breach of contract. In his lawsuit, Lucke asserted that he was not compensated enough for helping these companies navigate Haiti's government bureaucracy as well as a stipulation in his contract that called for a bonus if he were able to secure contracts over \$6 million.<sup>42</sup>

Lewis Lucke may be the personification of disaster capitalism, par excellence.<sup>43</sup> Since 1990, he has served within or directed various large-scale USAID economic development programs in South America, Africa and the Middle East. He served under former President George W. Bush in Iraq as USAID Coordinator of Reconstruction.<sup>44</sup>

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11 August; accessed at: <http://www.law360.com/cases/4d564f531bcd535902000006> 8 June 2014.

<sup>41</sup> Bricketto, Martin. (2013) 'NJ Lawmaker Wants Treasurer Subpoenaed Over AshBritt Deal', Law360, 7 February; accessed at: <http://www.law360.com/articles/413648> 8, June 2014.

<sup>42</sup> Fox, Ben. (2010) 'Ex-US official sues contractor in Haiti for fees', The Associated Press, 31 December; accessed at: <http://www.businessweek.com/ap/financialnews/D9KF42PO2.htm> 23, March 2014.

<sup>43</sup> Bloomberg Businessweek courtesy of The Associated Press: <http://www.businessweek.com/ap/financialnews/>; Center for Economic and Policy Research: <http://cepr.net/blogs/haiti-relief-and-reconstruction-watch/lucke-guy-former-usaid-official-continues-lobbying-for-contractors-in-haiti>

<sup>44</sup> The White House: <http://georgewbush-whitehouse.archives.gov/government/lucke-bio.html>

Along with being responsible for contract appropriations towards rebuilding bombed out roads, bridges, schools, hospitals, and securing contracts like that for the Bechtel Group, (a multibillion-dollar contract to dredge the Umm Qasr seaport)<sup>45</sup> Lucke was also the senior reconstruction adviser to retired Lt. Gen. Jay Garner, who was the civilian administration of Iraq directly following the 2003 US invasion.<sup>46</sup>

Contract dispute aside, Lucke was back in Haiti by the end of 2010. This time he was now a board member of MC Endeavour Inc., a subsidiary of CENTIUM Holdings Inc., a company that specializes in “engineering, architecture, construction, and development of smart-home and sustainable community projects” and natural disaster resistant building systems.<sup>47</sup> Sufficiently satisfied with his role in the rubble removal process, Lucke returned to Haiti to survey the reconstruction effort in his new role with MC Endeavor. Company CEO Tim Algier in a press release summing up Lucke’s qualifications and contributions said:

Ambassador Lucke served as the U.S. Response Coordinator for the Haiti earthquake, leading the United States’ \$1.0 billion to date relief and recovery program, and having him on our reconstruction team is very valuable to us. His contacts and international experience will give us the opportunity to really make a difference in both addressing the homeless situation and helping to improve the Haitian economy.<sup>48</sup>

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<sup>45</sup> Vardi, Nathan. (2003) ‘Recon Man’, Forbes, 26 May.

<sup>46</sup> Henriques, Diane B. (2003) ‘A Nation at War: Reconstruction; Bechtel’s Subcontracts Are Expected to Include Non-U.S. Companies and Employ Iraqis’, The New York Times, 19 April.

<sup>47</sup> <http://www.bloomberg.com/research/stocks/snapshot/snapshot.asp?ticker=MSMY>

<sup>48</sup> ‘Lucke Guy; Former USAID Official Continues Lobbying for Contractors in Haiti’, Center for Economic and Policy Research, 12 April 2011. <http://cepr.net/blogs/haiti-relief-and-reconstruction-watch/lucke-guy-former-usaid-official-continues-lobbying-for-contractors-in-haiti>; ‘MC Endeavors Director U.S. Ambassador Lewis Lucke Travels to Haiti to Survey Reconstruction Programs after New President Elected’, April 12, 2011. <http://www.4->

The above is a quintessential example of disaster capitalism. A nexus of foreign governments, private companies, NGOs, think tanks and individuals coalescing around a disaster event to offer their expertise, services, or simply peddle their wares (Gunewardena and Schuller 2008; Kleinman 2014). The Haitian earthquake created opportunities to experiment with new farming techniques, building methods, social arrangements, cultural expressions, economic policies, and political institutions. Cross-cutting linkages between neoliberalism, US national interests, and capital accumulation are pursued, while critique of flagrant profiteering is anesthetized by the obvious need to mitigate economic insecurity and social dislocation (Dupuy 2010; Schuller and Morales 2012).

Naomi Klein (2007) introduces us to disaster capitalism: an instrumental use of catastrophes, man-made or natural, to instigate and establish radical economic policies. Klein's work focuses on neoliberal ideologues and ideologies, contempt for the modern welfare state, and the pollination of US trained technocrats to policymaking positions in global financial institutions and developing countries. Klein advances a type of accumulation by disorientation<sup>49</sup>—capital accumulation and a discontinuity in public surveillance where individuals, private companies, agencies, NGO's, political parties, and

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[traders.com/news/MC-Endeavors-Director-US-Ambassador-Lewis-Lucke-Travels-to-Haiti-to-Survey-Reconstruction-Programs--13600006/](http://traders.com/news/MC-Endeavors-Director-US-Ambassador-Lewis-Lucke-Travels-to-Haiti-to-Survey-Reconstruction-Programs--13600006/)

<sup>49</sup> This is a play on “accumulation by dispossession” as outlined by Harvey (2003). According to Harvey, this is the most aggressive form of capital accumulation in response to structural changes in the global economy. This includes an advance over what he considers primitive processes of accumulation characterized by “predation, fraud and thievery” – a hallmark of the colonial through imperial era of the early twentieth century. In the current era of financialization, the enhanced form of accumulation looks more like currency speculation, raiding of pension funds, ponzi schemes, asset stripping via mergers and acquisition, and debt incumbency (139).

elite blocs converge upon the policymaking vacuum following a disaster. This chapter is a more focused investigation of disaster capitalism and aims to locate it within the context of global supply chains, business conflict, and enduring US national economic interests. Emphasis is placed on investigating the US textile and apparel industry and the evolution of trade policy towards the developing world, Haiti in particular.

### Chapter Overview

Despite a systematic dismantling of protectionist regimes in the global textile and apparel industry over the last 60 years, US-based textile and apparel manufacturers have used a combination of political influence and US national interest imperatives to align regional trade policy with their preferences. Specifically, these firms have routinely sought the help of US trade policy to enforce sourcing arrangements favoring the competitiveness of US produced textile products. By exploiting the vestiges of Cold War-based US foreign policy, nationally-oriented manufacturers were able to carve out regional production sharing arrangements despite growing liberal trade regimes.

US textile and apparel manufacturers have responded to structural and national constraints by promoting regional trade agreements that both conform to the logic of global supply chains and protect their domestic industries. On its face, this is in accord with the logic of corporate restructuring over the last 40 years. That is, higher value-added operations remaining in the developed country, while labor-intensive activities are outsourced to production facilities around the globe. In this particular case, US regional trade agreements have encouraged a more hierarchical model where lead firms located in

the US closely coordinate the production process through a series of subsidiary arrangements.

Binding this system are provisions in bilateral agreements that require core material input used in production to originate in the United States, also referred to as the “yarn forward” rule. In exchange for duty-free access to US markets, foreign assembled apparel must be made with materials produced in the US. This policy has been stridently supported by Congressional members from fiber producing states, as well as the regional apparel producers who benefit from trade preferences free of customs duty. These sourcing-restrictive agreements, however, have often conflicted with the desires of transnationally-oriented businesses. This faction, which includes large purchasing retailers and branded apparel manufacturers, often seek flexible production networks and cost-effective apparel sourcing locations.

Haiti’s post-disaster policy vacuum represented a continued erosion of protectionist policies and the advance of these globally-oriented textile and apparel manufacturers. Haiti is where a share of the spoils from competing business interests was apportioned to the transnational faction and their disaggregated production processes. Along with liberal calls for true economic integration, these processes found meaning in the resurgence of a developmental strategy focused on export-oriented industrialization (Collier 2009). Since 2006, US bilateral trade agreements with Haiti have begun to weaken the policy preferences of the protectionist coalition. Responding to the latest natural disaster, the 2010 Haitian Economic Lift Program (HELP) Act represents further policy opening for a transnational coalition of large US retailers, Asian suppliers, and



advocates of industrial upgrading. What they all share is a preference for flexible, decentralized production networks and global sourcing arrangements.

The rest of the chapter is divided into three main sections. The first section positions this work within the larger literature on business conflict and the global commodity chain framework while also giving a brief sketch of the US textile and apparel sector. Emphasis is placed on modes of policy influence and the changing relationship between domestic textile producers, large apparel manufacturers, and large purchasing retailers. For example, because the textile industry has the capacity for automation, it has evolved into a capital-intensive industry. Their proclivity towards protectionism stems from their vertical integration with producers of fibers (cotton, wool, silk, or ramie) from a number of Southern states. The apparel industry, however, is labor-intensive and more susceptible to the globalization of production processes and the emergence of developing countries as significant cut, make, and trim sites. For this reason, large apparel manufacturers and purchasing retailers were more receptive of trade liberalization, corporate downsizing and the outsourcing of garment assembly.

The second section outlines the geo-strategic structure in which the Caribbean Basin emerged and the specific free trade agreements as it pertained to Haiti. Not only did bipolarity rationalize the aggressive militarization of the Caribbean and Latin America, it also informed the broadening of US sphere of influence via foreign economic policy. I explore trade policy between the US and the Caribbean Basin, paying particular attention to policies pertaining to the Caribbean Basin Initiative (CBI) and the trade preferences outlined in the Caribbean Basin Economic Recovery Act (CBERA). A

significant portion of this section outlines the “yarn forward” rules as a tool of protection for US textile producers. Moreover, as these rules have begun to weaken under the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE I & II) Act of 2006 and 2008, and the Haiti Economic Lift Program (HELP) Act of 2010, post-disaster Haiti has emerged as a key battleground between a faction of nationally- and globally-oriented interests.

The final section will evaluate this developmental pattern going forward. To foreshadow, it is unclear how either policy response will help to alleviate Haiti’s economic malaise, especially since both feature labor exploitation via wage suppression. While promised to enhance Haiti’s integration into the global economy, this development does not assure Haiti’s success in supporting aspirations for export-oriented industrialization. Ultimately, this chapter intends to demonstrate that an interconnection between commercial and political exigencies has been responsible for the economic trajectory of Haiti over the last few decades. The 2010 Haitian earthquake represents a redefinition of the country’s role in the apparel commodity chain; a role within a global network defined by locationally fluid, sweatshop production.

#### Business Conflict and the Globalization of the US Textile & Apparel Industries

Harold D. Lasswell (1936) famously defined politics as “who gets what, when, and how”.<sup>50</sup> Policy decisions—the substantive consequence of politics—creates a set of (sometimes fluid) winners and losers, determined more often by variations in the

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<sup>50</sup> For a more nuanced conceptualization see: Olson, Richard Stuart. 2000. “Towards a Politics of Disaster: Losses, Values, Agendas, and Blame.” *International Journal of Mass Emergencies and Disasters* 18 (2): 265 – 287.

competing groups' size, level of organization, lobbying power, and access to decision-makers (Almond 1958; Dahl 1961; Olson 1965; Duverger and Wagoner 1972; Lindblom 1977). Stemming from the observation that business interests have a privileged relationship with the state, political economists began to explain US foreign policy as resulting from struggle between powerful business groups. Scholars of the business conflict school determined that varying business interests compete in a pluralist fashion (based on organizational structure, capital endowments, and political coalitions) to affect policy outcomes. In terms of foreign economic policies, these varying interests are often moderated by the exigencies of US national interests, the structure of global capitalism, and changing conditions in affected developing countries (Gibbs 1991; Cox 1994; Nowell 1994).

Within this framework, institutions play an important role in arbitrating inter- as well as intra sectoral preferences; none more important than the changing power-sharing dynamics between the legislative and executive branches of government. These relationships are determined by separation of powers and institutional checks and balances. For example, because the president must often take a wider view of the national interest than must Congress, globally-oriented firms use this regularity to forge relationships with the executive branch. In return, nationally-oriented firms, defined by their protectionist preferences, often appeal to the provincial nature of Congress. As a result, globally-oriented businesses have had greater influence on the executive branch in the formulation of liberal trade regimes. Alternatively, the composition of Congress makes it more responsive to local and state pressure groups. That, and its constitutionally defined role of regulating commerce with foreign nations, has made Congress more likely

to listen to nationally-oriented businesses (Destler 1986 & 2005). One such intra-sectoral cleavage is between textile producers and apparel manufacturers.

### Textile and Apparel, Textile versus Apparel

Textile and apparel production is often seen as one particular process. The conflation of the two is understandable given that they functionally behaved as such throughout the early part of the 20th century. Yet, this is admittedly a composite of an industry that has a more detailed diffusion of processes. The production process often begins with the fabrication of fibers into yarn, yarn is then processed into cloth and cloth is finally cut and sewn into garments.<sup>51</sup> This represents a divide between (a) textile producers, whose responsibilities include the procurement and manufacturing of fibers as well as the dyeing, weaving, and knitting resulting in the production of fabric, and (b) apparel manufactures whose responsibilities include the design and assembly of fabrics into garments and related consumer products.<sup>52</sup>

On the one hand, the manufacturing of textiles is both energy- and capital-intensive. Production tends to be highly automated and clustered around relatively developed and politically stable countries that can assure inexpensive, if not predictable, access to electricity. Technological advances have encouraged both the mechanization of

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<sup>51</sup> Textile manufacturing begins with fiber harvested from natural resources (e.g., cotton, wool, silk, or ramie), manufactured from cellulosic materials (e.g., rayon or acetate), or man-made synthetic materials (e.g., polyester, nylon, or acrylic) (Platzer 2013).

<sup>52</sup> Notwithstanding this simplification, there exists a maze of intermediary functions like “product development, raw-material sourcing, product planning, factory sourcing, manufacturing control, quality assurance, export documentation, and shipping consolidation” (Abernathy et al., 2006: 2212). These can either occur in one firm, or be carried out via several subsidiaries (Glasmeier et al., 1993: 23; Mittelhauser 1997: 24-25).

the factory floor and the development of new, synthetic fibers (Levinsohn and Petropoulos 2001). On the other hand, apparel production is labor-intensive, less malleable to automation and operated through decentralized, globally dispersed production networks. Save for minor advances in cutting and sewing technology, apparel production generally looks the same as it has for the last several decades—cheaply constructed buildings with rows of light manufacturing equipment operated by women going on about the business of cutting, sewing, and assembling fabrics. For these reasons, various countries in the developing world have become apparel manufacturing hubs; often inversely related to their level of economic development.

Following the ruinous effects of the 1930 Smoot-Hawley Tariff Act, Congress began to cede trade negotiation authority to the president.<sup>53</sup> As described above, executives are more likely to link trade policies with larger geo-political goals (Keohane and Nye 1989; Milner and Tingley 2010). Thereby the wedding of US national interest to the bolstering of Japanese regional hegemony was imperative given the recent loss of mainland China to Communism. The embrace of commercial globalization and multilateral trade regimes was a boon to globally-oriented transnationals but threatened nationally-oriented industries like textile production. Liberalizing trade with Japan meant the survival and eventual diffusion of capitalism to South Korea and Taiwan as immediate follower nations (Cumings 1987). More significantly, it meant that US apparel producers would eventually have to compete with low-priced, mass-produced garment imports from Japan's industrializing peripheries (Friman 1988).

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<sup>53</sup> The Reciprocal Tariff Act of 1934. Chapter 474, section 350(a).

### *Global Apparel Supply Chains*

By the 1960s, these system-level developments in capital accumulation begged for a new pattern of industrial organization. With the exhausted import-substitution industrialization being nudged aside in favor of export-led models, developing countries came to the negotiating table with their most valuable assets: an abundance of cheap, unorganized labor. US corporations responded by consolidating around higher value-added activities at the top of the global supply chain and contracting out the rest, particularly labor-intensive production processes (Cox 2013). While both industries have faced similar pressures from an emerging global geography of apparel production, each responded differently to shrinking profit margins.

Both textile and apparel manufacturers began to transnationalize with an emphasis on core competencies. US apparel manufacturing with backward linkages to the domestic US textile industry set up “producer-driven” networks. These transnational networks have vertically organized value chains stretched across developing countries. Fabric and fabric components are made in the US, sent overseas to be assembled, then shipped back to the US for further processing before reaching the consumer market. A more dynamic group of apparel manufacturers coordinated with large retailers and branded marketers to develop “buyer-driven” networks. These globally decentralized production networks derive their profitability from the design, marketing, and sales of products. No longer directly participating in actual product manufacturing, these transnationals were more likely to competitively allocate “full-package” supplier contracts to independent firms. These independent contractors would then organize and manage their own regional

production chains, from material sourcing to assembly through to the delivery to retailers or branded marketers (Gereffi 1999).

### *The Rise of Large Purchasing Retailers and Branded Marketers*

Advances in information technology have also helped change the relationship between textile producers and apparel manufacturers. Customarily, US retailers made purchases from US apparel manufacturers, who, in turn, were purchasers of US textile products. Retailers then often relied on intermittent or seasonal bulk deliveries from apparel manufacturers to fill out their sales floor. Excess items were stored by retailers and periodically pulled to the sales floor per demand. Retailers had to not only warehouse merchandise, but also had to resort to steep markdowns to clear under-performing or out-of-season stock. That is if they got sold at all.

Large discount chains like Wal-Mart, K-Mart and Target, international contractors like Liz Claiborne, Nautica, The Limited and The Gap, and mass merchandise retailers like JC Penney and Sears have all been integral in shaping material sourcing networks. Today, orders are replenished based on instantaneous data captured from scanned barcodes at the final point of sales. By keeping track of all products in sales transactions, it was now possible for retailers to match supply to demand, reducing overstock costs. This computer inventory system made popular by retailers like Wal-Mart led to greater pressure being placed on manufacturers and suppliers to accordingly streamline their systems. Because products are ordered at the stock-keeping unit (SKU), retailers have downsized their product holding to little more than what is on the sales floor. This

integrative technology has allowed retailers to pass on the carrying costs and risk to suppliers and manufacturers (Abernathy et al. 2006: 2216).

This new “lean retailing” model required apparel manufacturers to respond to almost weekly replenishment requests from large purchasing retailers (Abernathy et al., 2000). Apparel manufacturers had to now weigh their sourcing reliance on either quick, more expensive production lines that may be closer to the US market (Latin America and Caribbean), or slower, less expensive plants that may be more distant to the US market (China, Hong Kong, Taiwan etc.). US-sourced and manufactured apparel products simply became cost prohibitive. Moreover, given the whims of fashion, the possibility of order cancellations, and product obsolescence, many manufacturers would prefer lower inventory-at-risk that is provided by sourcing to regional producers (Abernathy et al., 2006). This development in retailing was crucial in how textile and apparel interest groups approached regional trade agreements and sourcing peculiarities.

Global commodity chains has thus both influenced and conformed to technological and structural changes in the world capitalist system. Once primarily customers of US apparel manufacturers (and by extension US textile producers) until the mid-1970s, large retailers began to respond to value-seeking consumers by importing from apparel manufacturers located in South and East Asia. Nationally-oriented textile and apparel manufacturers, through their Congressional allies, also turned to foreign labor markets through the activation of trade policy like the 807/9802 production sharing programs. But instead of looking to the East, the newly geo-politically designated Caribbean Basin provided an opportunity for protectionist textile and apparel industries to take advantage of regionally focused foreign policy that maintained their monopoly on



material sourcing. In a country like Haiti, where the labor costs are globally competitive, the decision for some was even easier. By the late 1970s:

[t]he decision of many large manufacturers in developed countries, however, [was] no longer whether to engage in foreign production, but how to organize and manage it. These firms supply intermediate inputs (cut fabric, thread, buttons, and other trim) to extensive networks of offshore suppliers, typically located in neighboring countries with reciprocal trade agreements that allow goods assembled offshore to be re-imported with tariff charged only on the value added by foreign labor (Gereffi 1999: 48).

### The Political Economy of Free Trade Agreements

In February 1982, during an address to the Organization of American States, US President Ronald Reagan unveiled The Caribbean Basin Initiative (CBI).<sup>54</sup> Divulging the structural context, Reagan described how price reduction in traditional exports coupled with increased prices for imports (particularly energy) had caused debt, balance of payment issues, and growing unemployment in the region. To help stave off the “the poverty and repression of Castro’s Cuba, the tightening grip of the totalitarian left in Grenada and Nicaragua, and the expansion of Soviet-backed, Cuban-managed support for violent revolution in Central America”, the US would help spur physical and financial investment in the region.<sup>55</sup> Reagan’s plan called for an extension of products under the Generalized System of Preferences (GSP) eligible for duty-free imports. This was to be

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<sup>54</sup> The legislative program itself is called the Caribbean Basin Economic Recovery Act (CBERA) and extended under the Caribbean Basin Trade Partnership Act (CBTPA) or ‘NAFTA Parity’.

<sup>55</sup> Caribbean Basin Initiative, February 24, 1982 United States Department of State Bureau of Public Affairs Washington, D.C. President Ronald Reagan before the Organization of American States (OAS).

accomplished over a twelve-year span to ensure a longer time-horizon to incentivize investors.<sup>56</sup>

### *Trade Preferences for the Caribbean Basin*

The policy vehicle for this was to be the 1963 US Tariff Code (806.30 and 807.00) and the Harmonized Tariff Schedule (9802). These rules “permit duty exemption of the value of US-made components that are returned as part of articles assembled abroad; for the purpose of US customs duty, items are evaluated only on the bases of the value-added by the foreign operation”—that foreign operation being labor (Heron 2002: 756). For duty-free eligibility under the CBERA, certain rules of origin requirements must first be met. Item 806.30, included articles processed in the US, exported for more processing, then returned to the US for further processing. Item 807.00 applied to articles assembled in, or whole of part, of components manufactured in the US and then imported into the US. Those items are subject only to duty on the foreign value-added component (Pelzman and Schoepfle 1988).

Additionally, Special Access Programs (SAP) were initiated in 1987 allowing CBI countries to export assembled garments to the United States under the condition that duties were only applied to the labor value-added. This program stipulated that the fabrics used in said garments had to both originate and be cut in the US. This, along with Guaranteed Access Levels (GALs)—or unrestricted quotas for apparel products exported

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<sup>56</sup> The plan also included a set of “self-help measures” each country would have to negotiate bilaterally with the US. Specifically, the CBI called for the 1) elimination of tariffs on products, except for textiles, 2) tax incentives to encourage business, and 3) \$350 million in private sector development. *Caribbean Basin Initiative in Perspective*. March 11 1982. United States Department of State Bureau of Public Affairs Washington, D.C. Steven W. Bosworth, Deputy Assistant Secretary for Inter-American Affairs, before the Dallas World Affairs Council.

to the US—satisfied not only regional players like Haiti, who saw their exports to the US increase, but also US-based textile mills, and specific production-sharing hubs throughout Southeastern United States (Heron 2002). Contrary to true trade liberalization, the spirit of the SAP entailed a:

quasi-protectionist measure designed primarily by and for the vertically integrated textile transnationals. It was a market-opening initiative structured to increase the amount of apparel exported by developing countries to the U.S. market, but whose manufacture was planned and financed by U.S. textile and apparel manufacturers (Rosen 2002: 143).

Protectionist US textile producers saw an advantage in the reduced tariffs under item 807.00. With East Asia already an established hub of apparel production dominated by large retailers, textile producers saw the Caribbean Basin as an opportunity to regain lost markets and vertically integrate apparel production. Instead of competing with East Asian apparel producers who already boasted a formidable textile producing capacity, US textile producers could turn to Caribbean Basin countries that had none, and would therefore be wholly dependent on proximal foreign sourcing for intermediate materials. Ultimately, fencing off the Caribbean Basin from Asian producers meant US textile companies could freely sell to US apparel producers and by extension their large-scale purchasing retailers. Haiti became an ideal country to set up production-sharing operations because it promised tax holidays, low production costs (through low wages) and muted union activity.

Discussed in further detail in the following chapter, the first sign of weakening to the intrusion of globally-sourced textiles was the 2000 Caribbean Basin Trade Partnership

Act (CBPTA). Legislated as “NAFTA parity” the CBPTA extended preferences to CBI countries affected by the passage of NAFTA. As an extension of the CBERA it began to erode, however minor, strict rules of origin favoring US-formed fabrics and yarns. These new yarn forward rules still required that both yarn and fabrics must be formed in the US. Garments not cut in US, however, may still be eligible for benefits only if the thread is of US origin. Additionally, third country origin of material is allowed if it is demonstrated to be in short supply. Functionally, a T-shirt made in Haiti could qualify for duty-free access to the US if it was made from fabric knit in the Dominican Republic, derived from yarn produced in the US. If that fabric component was not available regionally, it may be sourced from parties outside the trade agreement.

As the CBERA evolved throughout the 1980s and 90s, it was largely shaped by protectionist coalitions and the instrumental use of a rigid yarn forward rule. In the face of a growing transnational global production system, this ensured that regional apparel products were made with US fabrics. The importance of these yarn forward rules cannot be understated. They have been a feature of all significant US bilateral trade preference programs for the past four decades.<sup>57</sup> They have also been a source of contestation in Haiti as new transnational coalitions emerge to contend with a confluence of political, economic and natural disasters.

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<sup>57</sup> 807A Program CBI (1988), Andean Trade Preference Program (1988), NAFTA (1993), CBPTA (2000), Chile FTA (2003), Singapore FTA (2003), Australia FTA (2004), Bahrain FTA (2004), DRCAFTA (2004), Morocco FTA (2004), Oman FTA (2005), Peru FTA (2007), Korea FTA (2011), Colombia FTA (2011), Panama FTA (2011). The yarn forward rule has also been a contentious issue in the current Trans-Pacific Partnership (TPP). Potential signatory Vietnam uses primarily Chinese-made fabrics in their garment manufacturing. China, however, is not a member of the TPP and thus disqualifies Vietnam products from duty-free status.

## Haiti, from HOPE to HELP

### *Made in Haiti*

Up until 1987, at any Major League ballpark, pitchers were scuffing, moistening, pine tarring or otherwise doctoring baseballs all made in Haiti.<sup>58</sup> Along with sporting goods, Haiti's apparel assembly sector has been a prominent supplier of goods to the United States. The country's proximity, low wages, export-friendly exchange rates, and an abundance of low-skilled labor have made it an attractive location for the industry's labor-intensive activities (Collier 2009). Geostrategic interests and cross-national elite linkages have also ensured that Haiti maintains favored access to US markets. The most prominent of these exports to the US include standardized knit T-shirts and underwear (5th behind Honduras, Mexico, El Salvador, and China). Haiti also has a limited capacity for a variety of woven products including uniforms, medical scrubs, nightwear, undergarments, leggings, fleece wear, performance wear, sportswear, pants, gloves/mittens, and tailored men's suits.

During the 70s and early 80s the apparel sector employed between 60,000 and 100,000 Haitians in over 100 factories, with the US being the main destination for finished products.<sup>59</sup> Only overseas remittances were responsible for more financial generation than the assembly industry.<sup>60</sup> Political realities and the global economy have

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<sup>58</sup> Rawlings opened a manufacturing facility in Costa Rica and eventually closed their Haitian facility in 1990.

<sup>59</sup> "Bringing HOPE to Haiti's Apparel Industry: Improving Competitiveness through Factory-level Value-Chain Analysis." Nathan and Associates. November 2009.

<sup>60</sup> "Taking Advantage of HOPE II A Strategic Plan and Roadmap by the Haitian AHFA Industry" Investment-Trade & Association Development Project. ADIH – I-Trade, Garment Strategic Plan. July 31, 2009.

since changed. The end of Duvalier regimes and the power struggles that ensued under the election of Aristide, including an extensive trade embargo, decimated Haiti's trade industries. By 2009, Haiti had only 23 apparel producing factories employing 25,000 people, with about 68% of those employed being women. Of the factories, 13 were owned by Haitian companies, 4 by South Korea, and the US and DR both having 3. The larger Haitian-owned factories were contracted to US and Canadian apparel companies.<sup>61</sup> These included the Apaid Group, Multi-tex and Sohacosa. All but one of these companies was located in the country's capital. That lone exception is CODEVI, owned by Group M, located in the Ouanaminthe free trade zone near the Haiti-Dominican Republic border.<sup>62</sup>

Another important factor in Haiti's recession in industrial activity had to do with new multilateral rules governing inter-state trade and the changing patterns of global production. Along with increased trade liberalization, apparel production has become progressively globalized and organized around complex transnational supply-chain arrangements. Particularly, the end of the quota regime—signaled by the expiration of the Agreement on Textiles and Clothing (ATC) on January 1, 2005—meant Haitian manufacturers had to compete with their Asian equivalents primed to take advantage of

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<sup>61</sup> Companies with subsidiary or contractor affiliations in Haiti include: Hanes (Champion, Bali, L'eggs), Gildan (Canadian: T-shirts, sports shorts, fleece wear), Capital Garment Co., Cintas, Cherokee, Fabian Couture Group International, Fishman & Tobin, Fox River, Freeze Apparel, The Gap and Old Navy, Grana, Great Channel Division, Hybrid Clothing, JC Penney, Jenos, Jos. A. Bank, Kmart, Levi's, Mad Engine Inc., Men's Warehouse, Neema Clothing Ltd., Paris Accessories, Reen manufacturing, Southpoint Sportswear, Strategy Partners, Superior Uniform Group, Vanity Fair Lingerie, Ventura Ltd., and Wal-Mart.

<sup>62</sup> "Development of the Industrial Park Model to Improve Trade Opportunities for Haiti." Koios Associates prepared for the Inter-American Development Bank. September 2010.

the potential for unrestricted access to US markets.

Competing against Asian manufacturers already integrated into buyer-driven networks would prove to be challenging for Haitian manufacturers. Whereas Haiti's productive capabilities peaked at basic, standardized knit apparel (T-shirts and underwear), Asian manufacturers had already mastered simple stitching and had become proficient in medium and high-end fashion production. Per the arm's length preferences of US retailers and branded firms, Asian manufacturers moved into the cutting, knitting, dyeing, and finishing of apparel products. Asian manufacturers also enjoyed greater autonomy in determining raw material sourcing as well as a variety of processes included in the assembly of apparel products. This in turn created the potential for industrial upgrading through backward and forward linkages and eventual full package assembly. It also allowed the supplying firms the possibility for ultimately upgrading into the design and then the sale of their own original branded products.

### *HOPE I*

On December 20, 2006 President George W. Bush signed into US law a set of "special rules for Haiti" under Title V of the Tax Relief and Health Care Act. The HOPE Act, as it was called, was an extension of the CBERA that authorized the President to extend special preferences to Haiti given that the country met certain requirements as outlined in the legislation.<sup>63</sup> Substantively, the HOPE Act represents more flexible rules

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<sup>63</sup> Basic requirements featured the establishing a market economy, reducing barriers to US trade and investment, poverty reduction and economic development, combating corruption, better record keeping and business practices, and improving rule of law.

of origin by easing the sourcing requirements for Haitian made apparel to have duty-free access to the US. It allowed substantial Dominican and other regional content to be included in eligible goods by setting tariff preference levels or TPLs (i.e. quantitative restrictions) for some garments using cheaper third-country materials (Hornbeck 2010).

Prior to HOPE, for exports to enter the US duty-free (with some exceptions), CBPTA rules required raw materials used in the production of garments to either originate in the US or Haiti. With HOPE, Haitian-made knit apparel has duty-free access to US markets given that 50-60% of the material inputs originated in Haiti, the US, or any country currently in a free trade agreement with the US.<sup>64</sup> Woven apparel also has the same duty-free exceptions for a three-year period regardless of the origins of the source materials. The single transformation rule permitted duty-free imports for select knit and woven apparel (most prominent of which were brassieres, sleepwear, luggage and headwear) produced from non-US fabrics as long as these items were both cut and sewn in the US or Haiti. The short supply rule allowed for duty-free access to specific non-US or regional fabrics or yarn if the material is in short supply. Finally, all apparel had to be shipped directly from Haiti. These preferences were extended on a year-to-year basis, for a period of five years.<sup>65</sup>

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<sup>64</sup> The 50% value content is in place until 2009. In 2010 that percentage moves to 55, in 2011 it increases to 60%. These beneficiaries included countries under the CBPTA, the African Growth and Opportunity Act (AGOA), and the Andean Trade Promotion and Drug Eradication Act (ATPDEA).

<sup>65</sup> The Act did include overall quantitative limits as a percentage of aggregate SMEs imported into the US for a 12 month period. Haiti's quantitative limit was set to 1% in 2006 and gradually increased by .25% until 2011 for a maximum of 2% overall. If the components of a non-beneficiary country were used in apparel assembled in Haiti, the cost of that material would be deducted from the value of the product. "Implementation Information on the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006 (HOPE) for Certain Wiring Sets



Lawmakers from predominantly Southern states immediately met the legislation with resistance. Congressional leaders argued that any weakening of yarn forward rules for Haiti only created “a pass through for Chinese yarn and fabric to enter the United States duty free”.<sup>66</sup> US textile producers saw the crafting of TPLs and single transformation rules as representing a diminution of the yarn forward rule. President of the National Textile Association (NTA), Karl Spilhaus declared that “the third-party country fabric and labor provisions will turn U.S. textile and apparel trade with Haiti from a two-way street to a one-way road.” National Council of Textile Organizations (NCTO) president Cass Johnson further added that “in its eagerness to sacrifice U.S. jobs to Haiti, all the U.S. Congress has accomplished is to make Haiti a transshipment point for apparel from China at the expense of the entire Western Hemisphere. CAFTA trade legislation will mean little for the textile and apparel industries if Haiti [HOPE] becomes law.”<sup>67</sup>

That being said, the initial HOPE Act did little to stir up new interest in the country. Companies already operating in Haiti under the CBPTA used its provisions to

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and Certain Apparel Products.” ENT-14 OT:TPP:TEO:TO JS. The Office of Textiles and Apparel (OTEXA). “Trade Preference Programs For Haitian Textile and Apparel” <http://web.ita.doc.gov/tacgi/eamain.nsf/>

<sup>66</sup> In letter signed by US Senators to House and Senate Leaders in December 7, 2006. Signatories include Lindsey Graham (R-SC), Elizabeth Dole (R-NC), Saxby Chambliss (R-GA), Johnny Isakson (R-GA), Richard Burr (R-NC), Richard Shelby (R-AL), Jeff Sessions (R-AL), and Jim Bunning (R-KY).

<sup>67</sup> Press Release, December 8, 2006. “Textile Industry and Labor Officials Urge House and Senate to Reject Job-Destroying Haiti and AGOA Provisions” AMTAC, NTA, NCTO and labor group Unite Here! The NCTO has made efforts to foreclose this circuitous route by aligning with the Congressional Textile Caucus, T&A trade associations throughout the Caribbean and Central America, CEOs of regional manufacturers, the trade councils representing NAFTA, and CAFTA-DR governments.

expand on operations and “other companies that had left Haiti chose not to return. Generally, U.S.-Haitian trade in textiles and apparel remain[ed] concentrated among a small number of U.S. firms and Haitian manufacturers with established operations”.<sup>68</sup> Many manufacturers who found the new law to be unnecessarily cumbersome and redundant opted to rely on the provisions under the established Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). Though Haiti wasn’t a beneficiary under DR-CAFTA, Haitian manufacturers found it easier to import fabrics from the Dominican Republic, assemble the garments in Haiti, then ship them back to the Dominican Republic to be exported to the US.<sup>69</sup> The economic failure of HOPE I was further compounded by a series of natural disasters that took place during a 30 day period in 2008. Storms Fay, Gustav, Hanna, and Ike led to series of floods and landslides, which took approximately 800 lives<sup>70</sup> and economically disabled the country.<sup>71</sup>

## *HOPE II*

To help encourage new investment, HOPE I was modified under the Food Conservation and Energy Act (“Farm Bill”) of 2008. Title XV, of the Farm Bill now

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<sup>68</sup> United States International Trade Commission. 2008. “Textiles and Apparel: Effects of Special Rules for Haiti on Trade Markets and Industries.” Investigation No. TR-5003-1 USTIC Publication 4016.

<sup>69</sup> “Amendments under the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2008 (HOPE II Act) for Certain Apparel and Other Articles”.

<sup>70</sup> EM-DAT. Centre for Research on the Epidemiology of Disaster (CRED), Université catholique de Louvain. Country Profile: Haiti.

<sup>71</sup> Lacey, Marc. 2008. “Meager Living of Haitians is Wiped Out by Storms.” New York Times, September 10. <http://www.nytimes.com/2008/09/11/world/americas/11haiti.html>

included legislation pertaining to the new HOPE II Act. Along with streamlining the eligibility process, HOPE II included a set of modifications to existing provisions as well as the introduction of new programs to spur along industrial development (see table 4). For starters, HOPE II expanded on the initial four tariff provisions eligible for preferential treatment and eased some of their quantitative restrictions. The Act also included a new Earned Import Allowance Program (EIAP) administered by the Department of Commerce. With this program, Haitian apparel producers were now allowed to substitute one square meter equivalent (SME) of cheaper material from any country for every three SME of US or regional fabrics used to manufacture a similar good.<sup>72</sup> Along with incremental expansion of third-country sourcing and the removal of quantitative limits on the short supply rule, the HOPE II Act extended the core preferences to 2018.<sup>73</sup> The Act also allowed Haiti to export its goods from the neighboring free trade zone in Ouanaminthe, Dominican Republic, given that both countries meet a set of labor standards as defined by Better Work program under the aegis of the International Labor Organization (ILO) and the Technical Assistance Improvement and Compliance Needs Assessment and Remediation (TAICNAR).

The unease over the weakening of yarn forward rules under George W. Bush, and the overall sustainability of US textile and apparel manufacturing remained a key concern

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<sup>72</sup> Also called the “3-for-1” rule. This provides one square meter equivalent credit to use non-US produced yarn or fabric for every three SMEs of woven or knit fabric produced in the US or any country partner to a US FTA. The apparel producer must demonstrate that the apparel was wholly assembled or knit to shape in Haiti. Functionally, if a Haitian company bought 30 SMEs of US fabric to manufacture apparel destined for US markets, they would earn credit to export 10 SMEs of apparel made from fabric produced in any country.

<sup>73</sup> . It also included the executive appointment of a Labor Ombudsman to oversee working conditions in factories.

for industry activists leading up to the 2008 presidential election. In a letter to the president of the NCTO, then presidential candidate, Barack Obama confirmed his policy position regarding strong yarn forward rules:

When safeguards on textile imports from China expired in 2004, imports surged and thousands of jobs were lost. As President, I would use monitoring to help ensure that imports from China do not violate applicable laws and treaties. I support the requirement in the Berry Amendment that the Defense Department procure only textiles made in the United States. I also support inclusion of the yarn forward rule in free trade agreements, to ensure that countries with which we enter special trade relationships do not become conduits for source yarn outside those countries.<sup>74</sup>

Context matters, however. The popular stance of President Obama would be tested once he assumed office.

*Crisis as Opportunity: Globalizing Haiti via the HELP Act*

The January 2010 Haitian earthquake revealed the “when” in Harold Lasswell’s famous adage. Calls for expanding the HOPE Act came almost immediately after the massively destructive earthquake. With all eyes on Haiti it was easy to mobilize a network of transnational actors to take advantage of a lapse in popular accountability. The restrictive sourcing arrangements that bound Haiti’s labor force to US textile producers was again in the cross-hairs. While the Haitian government made overtures to international investors, prominent Haitian industrialists represented by the Association des Industries d’Haïti (ADIH) aggressively moved to align the domestic apparel industry

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<sup>74</sup> <http://www.ncto.org/newsroom/pr20081029.pdf>

within global assembly networks.<sup>75</sup> On the other end, the overwhelming support for action in Haiti was stoked by eager multilateral lenders, prominent economists, aid agencies, non-governmental organizations, Asian and US manufacturing giants, branded apparel firms, fashion moguls, US policymakers, including former and current US presidents.<sup>76</sup>

What this network of similar interests had in mind was an expansion of low-wage production sites in Haiti. The problem was that established vertical production-sharing was inimical to global value chains. The 2010 earthquake provided the opportunity to enhance Haiti's commercial accessibility by locating the country within the global landscape of apparel production. It was an occasion to match the region's cheapest labor to more rational sourcing networks. At issue, however, was the existing yarn forward rules that provided only a narrow list of suitable textile suppliers. The transnationally-oriented apparel and retail industry desired flexible rule of origins to take advantage of cheap, proximal labor. Touting Haiti's comparative advantage, prominent industrialist and advocate of liberalized trade preferences, Georges Sassine noted that, "the availability of labor, the cost of labor, access to the US market [made it a] a win-win-win."<sup>77</sup> To work-

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<sup>75</sup> Forero, Juan. 2010. "After Quake, Haiti Seeks Better Business Climate." National Public Radio (Morning Edition), March 10. <http://www.npr.org/templates/story/story.php?storyId=124077512>

<sup>76</sup> In the aftermath of the disaster, President Barack Obama asked President Bill Clinton and President George W. Bush to raise funds to help those who are most in need of assistance. As a result, the two Presidents established Clinton Bush Haiti Fund (CBHF). <http://www.clintonbushhaitifund.org/pages/about/>

<sup>77</sup> Beaubien, Jason. 2010. "Will 'Made In Haiti' Factories Improve Life In Haiti?" National Public Radio (Morning Edition), February 14; <http://www.npr.org/2013/02/14/170783895/will-made-in-haiti-factories-improve-life-in-haiti>; Mark D'Sa, a former Gap Inc. Sourcing Director now Senior Advisor for Industrial Development in Haiti at the U.S. Department of State; testimony given at March 2010 hearing on Haiti.

around the yarn forward rule, apparel and retail lobbyists pushed for the expansion of the EIAP and TPL. Both allowed for a larger share of third-country yarns in qualifying, duty-free apparel exports.

Table 4: Summary of HOPE I, HOPE II and HELP Acts

	<b>HOPE I</b> PL 109-432, Title V, Sec 5001	<b>HOPE II</b> PL 110-246, Sec 15401	<b>HELP</b> PL111-171, H.R. 5160 & S. 3275
<i>Date signed into law</i>	12/20/2006	9/30/08	5/24/2010
<i>Duration</i>	One-year periods, 2006 to 2011	Extended through to 2018	Extended through to 2020
<i>Value-Added Requirements</i>	50 – 60% value added must come from US or countries party to US FTA firms	Remained the same but reaching the 60% threshold extended to 2018	Remained the same, but eligible apparel items under 9820.61.45 and 9820.63.05 extended
<i>Earned Import Allowance Program</i>	None	3-for-1	2-for-1
<i>Short Supply Rule</i>	Yes, with limitations	Yes, all fabrics and yarns	Yes, all fabrics and yarns
<i>Tariff Preference Levels</i>	50 million SMEs for woven apparel	70 million SMEs for woven and knit apparel each	200 million SMEs for woven and knit apparel each
<i>Export Rules</i>	Shipped directly from Haiti	Shipped from Haiti or Dominican Republic	Shipped from Haiti or Dominican Republic

Source: The Office of Textiles and Apparel (OTEXA). "Trade Preference Programs For Haitian Textile and Apparel"  
<http://web.ita.doc.gov/tacgi/eamain.nsf/>

[http://archives.financialservices.house.gov/media/file/hearings/111/dsa\\_testimony.pdf](http://archives.financialservices.house.gov/media/file/hearings/111/dsa_testimony.pdf)

In February of 2010 Bill Clinton was in Haiti serving as U.N Special Envoy to Haiti and head of the Interim Haiti Recovery Commission. During his visit Clinton intimated that the country could become a potential site for full package assembly including factories dedicated to weaving, dyeing, through to packaging. As part of the Clinton Foundation, and in close partnership with Korean apparel giant Sae-A, the Inter-American Development Bank, the Haitian government and apparel business elite, Clinton lobbied on behalf of extending trade preferences by amending the HOPE legislation. In an April 2010 letter to Congressional leadership, Bill Clinton and George W. Bush urged increasing the TPL quotas for knit and woven apparel to 250 SMEs and extending the length of the preferences from 8 to 15 years. Pointing to the limitations of the current legislation, the former presidents noted that:

[u]nfortunately, the Korean manufacturers are reluctant to invest in Haiti. A single Korean firm could consume the current TPL of 70 million. In effect, none of the firms will commit if they believe their investment could be jeopardized by potential competition for TPL allocations in the future. Furthermore, the firms will not consider working in Haiti if their investments could be jeopardized by the expiration of the HOPE program before they are able to recover their investment.

On May 24, 2010, now President Barack Obama signed into law the HELP Act. The HELP Act is a modification of both the HOPE II Act and the Harmonized Tariff Schedule, and was positioned as necessary to help Haiti recover from the January earthquake. Most notably, these preferences extended special trade preferences for Haiti to 2020 and almost tripled the woven TPL from 70 to 200 million SMEs. It also expands the knit TPL and reduces the 3-for-1 earned import credit to 2-for-1 while increasing the list of products eligible for duty-free treatment under special assembly rules (see Table 4).

Duty-free provisions were also extended to specified knit and woven Haitian garments without regard to the origins of the fabric, fabric components, components knit-to-shape, or yarn.<sup>78</sup>

Though a clear erosion of the yarn forward rule, the passage of the HELP, received little push-back from the industry whose interests were most harmed—the US textile industry. The acquiescence of the two largest industry representatives can only be understood if we consider the circumstances surrounding the bills expeditious movement through Congress. Surprisingly conciliatory of the HELP legislation, the American Manufacturing Trade Action Coalition (AMTAC) and NCTO called the agreement an “acceptable compromise”. Framed by the unprecedented circumstances resulting from the earthquake, representatives of the US textile and apparel industry:

recognize[d] that the devastating circumstances in Haiti produced an exceptional case that motivated Congress to develop a quick response and have worked with the Committee to develop a package that strikes an acceptable balance. We must stress, however, that this package does not set a precedent for any future trade preference legislation.<sup>79</sup>

The Haitian earthquake created an almost unassailable position for the transnational faction to use to their advantage. For example, in the nine-page document that chronicled the Congressional debate surrounded the legislation, a search for the term “earthquake” uncovered 28 separate mentions of the disaster. Given the pretext of urgency and industry representatives considerably more muted in their opposition, HELP

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<sup>78</sup> “Amendments under the Haiti Economic Lift Program Act of 2010 (HELP Act) for Certain Apparel and Other Articles.” U.S. Customs and Border Protection. ENT-14 OT:TPP:TAPP:TO DL.

<sup>79</sup> Joint statement from Auggie Tantillo, Executive Director of AMTAC and Cass Johnson, President of NCTO. “Haiti Economic Lift Program Act of 2010.” Congressional Record-House, May 5, 2010. H3137. In April 2013, NCTO merged with the American Manufacturing Trade Action Coalition (AMTAC) and the National Textile Association (NTA).



passed Congress quickly and easily.

### Implications

The extension of preferences under HELP was an important signal to investors that Haiti was indeed “open for business”. Pacified by occupying UN peacekeeping forces, newly elected pro-business government, pro-market reforms, and special trade preference programs, Haiti had a unique window to exploit development opportunities (Collier 2009). The Haitian government, industrial elites, and transnational allies could now aggressively pursue the expansion of export processing zones. One such EPZ fast tracked following the January earthquake was the Caracol Industrial Park.

#### *Haiti’s Export-Processing Zones and the Fight for Living Wages*

Located in northeast Haiti, Caracol was a collaborative effort between the Clinton Global Initiative, South Korean textile giant Sae-A Trading Co. Ltd., the US State Department, and the Inter-American Development Bank. Costing upwards of \$300 million, the project allocated the development of over 600 acres of land to include a 10-megawatt power plant to supply the factory and worker housing in neighboring communities, a water-treatment plant, and a port in nearby Fort-Liberté.<sup>80</sup> The park promised to be at the center of revitalizing the economy by creating up to 65,000 jobs

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<sup>80</sup> Deborah Sontag. 2012. “Earthquake Relief Where Haiti Wasn’t Broken.” The New York Times, July 5. <http://www.nytimes.com/2012/07/06/world/americas/>

while easing the pressure of urbanization taking place in Port-au-Prince.<sup>81</sup>

While the project was largely lauded for rapid job creation in desperate times, it has failed to meet its own employment projections. The industrial park has also been criticized for its displacement of farmers, poorly built housing projects, and charges of workers being cheated out of their wages.<sup>82</sup> In the defense of Caracol, President of the Haiti tripartite HOPE Commission, Henri-Claude Müller-Poitevien, says the park directly employs over 5,000 Haitians with much of those being first time employees. In addition to increased foreign exchange generation, these jobs provide a livable wage and possibility for upward mobility. Additionally, the park is responsible for a number of indirect jobs related to the development of the northern region of the country; most notable being of the expansion of the newly international Cap-Haïtien Airport (Hugo Chávez International Airport) and related port facilities.<sup>83</sup>

Table 5: Monthly real wages for apparel workers, 2001 and 2011

Country	2001	2011	% Change
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<sup>81</sup> “Haiti and its partners lay the foundation stone for the Caracol Industrial Park.” Inter-American Development Bank, November 28, 2011. <http://www.iadb.org/en/news/news-releases/2011-11-28/caracol-industrial-park-in-haiti,9724.html>

<sup>82</sup> Charles, Jacqueline. 2015. “Building permanent housing remains Haiti’s biggest challenge following the 2010 earthquake.” Miami Herald. January, 10. <http://www.miamiherald.com/news/nation-world/world/americas/haiti/>; Johnston, Jake. 2014. “Outsourcing Haiti”. Boston Review, January 16. <http://bostonreview.net/world/jake-johnston-haiti-earthquake-aid-caracol>; Katz, Jonathan M. 2013. “A glittering industrial park in Haiti falls short.” Al Jazeera. September, 10. <http://america.aljazeera.com/articles/2013/9/10/a-glittering-industrial-park-falls-short-in-haiti.html>; “Stealing from the Poor: Wage Theft in the Haitian Apparel Industry”. Workers Rights Consortium. October 15, 2013.

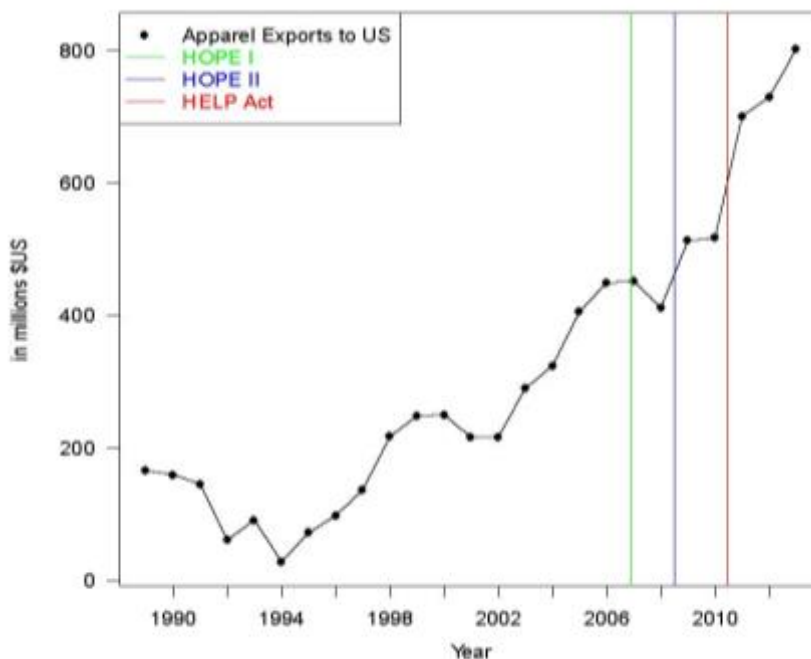
<sup>83</sup> O’Grady, Mary Anastasia. 2015. “Hillary’s Half-Baked Haiti Project”. The Wall Street Journal. January, 11. <http://www.wsj.com/articles/mary-anastasia-ogrady-hillarys-half-baked-haiti-project-1421018329>; Müller-Poitevien, Henri-Claude. 2015. “A WSJ’s Columnist Disregarded About Haiti...the Facts”. Huffington Post, January, 13. <http://www.huffingtonpost.com/henriclaudemullerhenriclaude-muellerpoitevien/>

Bangladesh	\$93.67	\$91.45	-2.37%
Cambodia	\$161.89	\$126.26	-22.01%
China	\$144.86	\$324.90	+124.29%
Dominican Republic	\$293.52	\$223.83	-23.74%
El Salvador	\$332.44	\$294.14	-11.52%
Guatemala	\$397.62	\$345.75	-13.05%
Haiti	\$104.42	\$154.78	+48.22%
Honduras	\$359.47	\$327.98	-8.76%
India	\$150.20	\$169.67	+12.96%
Indonesia	\$134.90	\$186.64	+38.35%
Mexico	\$755.14	\$536.57	-28.94%
Peru	\$335.93	\$393.43	+17.12%
Philippines	\$249.25	\$233.39	-6.36%
Thailand	\$360.33	\$337.12	-6.44%
Vietnam	\$182.43	\$254.78	+39.66%

Source: "Global Wage Trends for Apparel Workers, 2001–2011" By the Worker Rights Consortium, July 11, 2013" Center for American Progress. Wages measured in 2001 USD, PPP.

Data reproduced from the Center for American Progress also reveals some interesting wage trends for garment workers in major apparel exporting countries. Table 5 shows that in 2001 monthly wages for Haitian workers (\$104.42), when measured in 2001 US purchasing power parity (PPP), was only ahead of apparel workers in Bangladesh (\$93.67). In fact, the monthly real wages for Haitian apparel workers was well below all regional competitors and rival only to workers in South and East Asia. By 2011 average wages increased impressively by 48% from \$104.42 to \$154.78. This was the second highest percentage of increase behind China at 124% and ahead of Vietnam at 40%. Yet still, real wages were only ahead of apparel workers in Cambodia and Bangladesh, who both saw their wages erode. For regional competitors, real wages declined across the board. The largest such decline was in Mexico at 29%, followed by the Dominican Republic at 24%, Guatemala at 13%, and El Salvador at 12%. Real wages for Honduran apparel workers declined by only 9%.

Figure 5: Haiti's Apparel Exports to US, 1989 - 2013



Source: Data compiled from The Bureau of Labor Statistics and the Office of Textile and Apparel

Taken as a whole, Haiti's trade preference programs have increased Haiti's capacity for garment production. Figure 5 shows that Haiti's apparel exports to the US began to substantively increase after the passage of HOPE II and again after the HELP Act. In 2006, exports increased from \$449 million to \$452 million in 2007, but dropped to \$412 million in 2008. However, by the end of 2010 exports increased to \$517 million. That number had grown to \$803 million by 2013. In terms of exploiting specific advantages of the preference program, Haitian exports utilizing the EIAP have grown faster than non-EIAP exports. In 2012 the Department of Commerce's Office of Textile and Apparel (OTEXA) reported issuing 42 million SMEs credits using the EIAP, up from about 8 million the previous year.<sup>84</sup> That being said, wages have not kept up with

<sup>84</sup> [http://otexa.ita.doc.gov/PDFs/GAO2012ReportHaiti\\_Earned\\_Import\\_Allowance.pdf](http://otexa.ita.doc.gov/PDFs/GAO2012ReportHaiti_Earned_Import_Allowance.pdf)

efficiency gains in apparel production. Wage theft is prevalent throughout the apparel assembly sector in Haiti. A 2013 study by the Workers Rights Consortium finds that workers at Caracol lose, on average, 34% of their pay due to systematic errors in the factory's calculations (31 – 34).

Table 6: Prevailing wages compared to living wages in local currency units, 2001 and 2011

Country	2001			2011		
	Prevailing	Living, proxy	Prevailing as % of living	Prevailing	Living, proxy	Prevailing as % of living
Bangladesh	2,083.00	14,715.62	14%	4,062.00	29,624.86	14%
Cambodia	51.00	210.18	24%	70.00	364.51	19%
China	480.00	2,950.05	16%	1,363.00	3,811.25	36%
Dominican Rep.	2,698.00	6,789.59	40%	6,435.00	21,236.96	30%
El Salvador	162.00	365.32	44%	210.93	518.60	41%
Guatemala	1,414.66	2,473.31	57%	2,359.64	4,721.74	50%
Haiti	1,014.00	6,769.50	15%	5,633.00	23,908.19	24%
Honduras	2,514.83	4,865.92	52%	4,642.64	9,845.25	47%
India	2,019.55 10,043.14		20%	4,422.17	19,468.31	23%
Indonesia	421,958.00 2,708,675.43		16%	1,287,471.00	5,814,077.48	22%
Mexico	4,766.00	5,083.61	94%	5,200.00	7,805.96	67%
Peru	487.50	1,171.09	42%	731.25	1,499.47	49%
Philippines	4,979.00 15,530.48		32%	7,668.00	24,237.54	32%
Thailand	5,748.50 12,318.13		47%	7,026.00	16,270.16	43%
Vietnam	730,167.00 3,167,635.39		23%	2,306,667.00	7,844,895.84	29%

Source: “Global Wage Trends for Apparel Workers, 2001–2011” By the Worker Rights Consortium, July 11, 2013” Center for American Progress. Wages measured in 2001 USD, PPP.

For example, Table 6 is a comparison of prevailing wages to the estimated living wages as measured in local currency units (LCU).<sup>85</sup> In 2001 apparel workers in Haiti earned a prevailing wage that was only 15% of estimated living wages. That was the largest gap behind only Bangladesh (14%) and slightly ahead of China and Indonesia (both at 16%). The only country where prevailing wages approached living wages was Mexico at 94%.<sup>86</sup> A decade later, in 2011, Haitian apparel workers earned a prevailing wage that was one-quarter or 24% of living wages. The gap for Bangladeshi apparel workers remained flat at 14%. The narrowing of gap for Haitian workers moved them ahead of workers in Cambodia (19%), Indonesia (22%) and India (23%).

And while the wage increases do appear impressive, it should be noted that much of the increase came in 2009 following a series of protests. Haitian apparel manufacturers contracted to US firms pressured the government to amend a labor law that pegs Haiti's minimum wage to the inflation rate.<sup>87</sup> In 2009 the Haitian Congress agreed to adjust the daily minimum wage for industrial workers from 70 gourdes (or HTG) or \$1.69 to 200 gourdes or \$4.82 per day. Despite protests from workers in the apparel sector, the ADIH and their transnational allies were able to negotiate an increase for apparel workers to

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<sup>85</sup> For a discussion on methodology please see: "Global Wage Trends for Apparel Workers, 2001–2011" By the Worker Rights Consortium, July 11, 2013" Center for American Progress. pp. 27. <https://cdn.americanprogress.org/wp-content/uploads/2013/07/RealWageStudy-3.pdf>

<sup>86</sup> That number is bolstered by the inclusion of overtime compensation.

<sup>87</sup> Title II, Chapter VI, Article 137: Code du travail, Décret du 24 février 1984 et Loi du jeudi 5 juin 2003 actualisant le Code du travail du 12 septembre 1961. <http://www.ilo.org/dyn/natlex/docs/ELECTRONIC/135/98545/F1595767852/HTI-135.pdf>

only 125 gourdes or \$3.00 per day and a phased adjustment until October 2012.<sup>88</sup> In a recent study by the Solidarity Center, Haitian workers making the 2014 minimum wage of 225 gourdes a day were still only making about a one-quarter of the estimated cost of living (1006 gourdes per day).<sup>89</sup> For regional competitors, prevailing wages as percent of living wages have declined in the decade between 2001 and 2011. Workers from Mexico are receiving approximately 27% less, followed by Dominican Republic at 10%, Guatemala at 7%, Honduras at 5%, and El Salvador at 3%.

### Conclusion

Taken together this data reveals that while productivity has increased, wages have not kept pace. Yet, the stagnation of wages and reduction in quality of working conditions in assembly plants like Caracol is best understood within the context of developing nations trying to industrialize in an age of highly-mobile capital. Trade preferences with extended time horizons are important to get investors interested in exploiting the labor force. However, to remain competitive, countries must be able to offer the most docile labor force, tax exemptions and the ability to repatriate as much profits as possible. The Haitian government and local industrialists should be cautious about modeling themselves from the East Asian developmental template. This is so because the industrial upgrading of East Asia took place within a geo-political epoch driven by US national

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<sup>88</sup> Wong, Mo. 2009. "Haiti's Minimum Wage Battle." August 12. Council on Hemispheric Affairs <http://www.coha.org/haiti%E2%80%99s-minimum-wage-battle/>; Daniel Joseph. 2012. "Haiti: Minimum Wage Increases to 200 HTG for Industrial Workers." September 14. <http://www.defend.ht/money/articles/economy/3349-haiti-minimum-wage-increased-to-200-htg-for-industrial-workers>

<sup>89</sup> *The Solidarity Center*. 2014. "The High Cost of Low Wages in Haiti: Living Wage Estimate for Export Apparel Workers." May.

interest imperatives. To date, Haiti still does not have a fabric mill. Transnational capitalists in the apparel sector have no such dogged ideological principles. The weakening of yarn forward rules are nothing more than a signal to investors that the country is more malleable to sweatshop production. This is symbolic of the current period of neoliberal capitalism and the domination of capital over labor.

As a final point, following the 2010 earthquake, Haiti has arguably been the target of the most aggressive and extensive acts of disaster capitalism. Profiteering individuals, prominent international aid agencies and multinational peacekeeping forces have all been embroiled in various scandals pertaining to misappropriation of disaster relief funds, gross negligence, and human rights abuses. In a more subtle form of capitalizing on catastrophe, the 2010 earthquake provided a policymaking vacuum that was filled by a set of transnationally-oriented capitalists aligned with the globalization of apparel manufacturing. Hoping to take advantage of Haiti's abundance of low-skilled workers, this network of capitalists has hastened the dismantling of Cold War-era trade regimes that have routinely favored US sourced fabrics and fabric components. Favored by large purchasing retailers and branded apparel marketers, this faction of capitalists have been strident in their desire for rational production networks, particularly access to cheap material sourcing. Aided by a general trend towards multilateral trade regimes and the careful construction of transnational alliances of Haitian exporters, this globally-oriented faction has affected trade post-disaster trade policy designed to erode the power of a nationally-oriented coalition of apparel and textile manufacturers. Perhaps a precursor to substantive policy victories in the designs of the 2010 Haitian Economic Lift Program (HELP), the 2000 Caribbean Basin Partnership and Trade Agreement (CBPTA) also



represented a post-disaster policy opening. This time, the disaster took the form of series of hurricanes that affected the Caribbean and Central America. The most destructive being Hurricane Mitch.

#### CHAPTER 4: THE POLITICAL ECONOMY OF HURRICANE MITCH

I have sent legislation to Congress, just last week before I came here, asking for greater liberalization of trade for the Central American and Caribbean nations to move closer toward parity with NAFTA in Mexico. I was profoundly disappointed last year that we did not pass the trade-opening initiative. And of course, after the hurricane struck, I was even more disappointed. I think now, ironically because of the hurricane, we may have a better chance to pass a bill. And I will do everything I can do to that end.

Bill Clinton  
March 9, 1999  
Remarks in a Roundtable Discussion  
On Hurricane Mitch Reconstruction  
Efforts in Tegucigalpa, Honduras

#### Introduction

This chapter continues the theme of explaining post-disaster policy outcomes through the prism of conflictual business interests. A natural disaster as a harbinger of neoliberal policy change is incomplete without a clearer understanding of the disposition of opposing interests, distribution of institutional power, foreign policy objectives, and the global commercial environment. The chapter thus seeks to strengthen disaster capitalism as a predictor of policy outcomes by examining the positioning of actors surrounding a *window of opportunity*. This time I pivot over to Honduras, Hurricane Mitch, and the political and economic environment leading up to - and directly following - the natural disaster.

The neoliberal project was well on its way by the time Hurricane Mitch made landfall in 1998. However, its application ran into a series of problems. First, Honduras' economy was still heavily state-directed and highly dependent on traditional modes of capital accumulation. Second, insertion into the new global economy required a coherent elite transnational class tied to the global circuits of textile and apparel production; something the country lacked as it tenuously returned to civilian governance in the early 80s. Finally, the impetus for developing Latin American economies as a stalwart to leftist movements had lost considerable fervor since the passage of the Caribbean Basin Initiative (CBI) in the mid-80s. Vertically integrated apparel manufacturers and textile producers who had relocated production to CBI countries now found their comparative advantage considerably narrowed as trade concessions shifted elsewhere. The most potentially damaging of those concessions was the passage of the North American Free Trade Agreement (NAFTA). NAFTA had given Mexican apparel exports a more privileged path to US markets, and trade legislation that would secure similar trade incentives for transnationals operating in CBI countries were stalled in the Congress of the United States.

After several failures between 1992 and 1998, so called "NAFTA-parity" legislation was rejuvenated following the disastrous events of Hurricane Mitch. Furthermore, partisan politics threatened to obstruct the legislation beyond the Clinton administration. Any move forward with NAFTA-parity was in peril due to House impeachment of the President in December of 1998. Yet, the disaster also created a sense of optimism as its supporters sought to position the bill as a trade-instead-of-aid package

alongside Hurricane Mitch relief.<sup>90</sup> US Congressional members in support of parity used the disaster as an opportunity to advance legislation now couched in terms of reconstruction, development assistance, and debt relief, instead of preferential agreements and one-way trade.

Following the disaster, the Honduran government immediately declared the entire country an export-processing zone (EPZ). In anticipation of further unchallenged opportunities to liberalize the economy, the government also put the country's ports, airports, state-owned electricity and telephone companies on a "fast track" privatization process.<sup>91</sup> There was also an organized campaign to lobby Congress to move on NAFTA-parity legislation and USAID sponsored Honduran business associations made post-disaster visits to the US and used the opportunity to actively sell the virtues of the country's maquiladoras to US apparel makers.

The irony is that the Honduran maquiladoras had been mostly unscathed from the effects of the hurricane. Local political coalitions and private actors saw this as advantageous because with the industry intact, it was now an important avenue for immediate job creation and economic recovery. There was also a sense of urgency to get negotiations done, given the upcoming multilateral expiration of quotas on apparel and the impending ascension of China to the World Trade Organization (WTO).

As for national corporate interests, US-based apparel manufacturers made a series of policy shifts that aligned it more with the trade liberalization ethos of retailers and

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<sup>90</sup> Ramey, Joanna. 1998. "Clinton Trial Could Tie Up Trade Issues." *Womens Wear Daily*, 21 December.

<sup>91</sup> Lapper, Richard and James Wilson. 1998. "Honduras May Speed Sell-Offs After Storm." *Financial Times*, 11 November.

importers. This group of actors favored the disaggregation of the production process, in particular, greater fabric sourcing options. NAFTA-parity for this group meant removing restrictive yarn forward rules favoring US textile producers. In opposition, prominent members of the powerful US textile lobby started consolidating the apparel supply chain by opening up full-package assembly plants in the Caribbean Basin, ahead of the perceived Asian invasion. In an effort to maintain the primacy of their fabrics in apparel destined for US markets, these firms adopted a strategy of integrated manufacturing, distribution and retail. Textile producers thus moved to use the Caribbean Basin to vertically integrate fabric procurement with design, marketing, dyeing, cutting, sewing, and warehousing. NAFTA-parity was only feasible if it accorded primacy to US produced yarn and fibers.

The final passage of NAFTA-parity legislation was accordingly a convergence of a series of events and circumstances. New multilateral trade regimes threatened the benefits gleaned by US transnationals with ties to assembly operation in the Caribbean Basin. Yet, it was these same transnational interest groups now forced to respond to the consequences of their changing internal dispositions interacting with previously advantageous policy preferences afforded to them by CBI and USAID initiatives. The confluence of NAFTA competition and impending multilateral trade norms all conspired, with a natural disaster, to affect change in US regional trade policy.

In the end, the disaster accorded an entrenched coalition of transnational actors to shape, direct, and pass NAFTA-parity. Most fervent of these interests were US textile producers, apparel manufacturers, large purchasing retailers and importers. Positioned within the post-disaster discourse of economic stimulus, rapid job creation, and

reconstruction aid, the 2000 Caribbean Basin Trade and Partnership Act (CBTPA) gave the 24 CBI beneficiary countries, including Honduras, long awaited trade preferences on par with Mexico. The disaster helped drive Congressional action on trade legislation that had roused divisions among transnational retailers and importers and protectionists US producers. At stake was control over the global apparel supply chain. Retailers and importers seeking global sourcing alternatives to help drive costs down, and US-based textile and apparel producers wanting to maintain the primacy of US fabric and fabric components in apparel destined for US markets.

As the policymaking process took shape, what eventually emerged from Congressional deliberation reflected the underlying forces of the aforementioned interests: a continuation of 30 years of assembly-based manufacturing managed by vertically-integrated US transnationals. This chapter will begin to trace this policy process in the United States and Honduras through an examination of its key actors. Of primary emphasis will be the US textile and apparel industry as it responded to shifting US foreign policy objectives, global economic forces, its own internal inconsistencies, and a natural disaster in Central America.

### Chapter Overview

The following section begins with an overview of the context in which trade developed in Central America and the Caribbean. Communism, corporate restructuring, and competition were the prevailing motivators for embracing the Caribbean Basin deeper into US sphere of influence. The third section is a brief overview of the political economy of Honduras. Particular attention will be paid to the growth of EPZs and the

transnational alliances forged between USAID and domestic business associations that made Honduras an ideal location for apparel manufacturing. The fourth section looks at the passage of NAFTA and the effect that had on CBI beneficiaries, including Honduras. Section 5 addresses the politics of NAFTA-parity reboot in the face of Hurricane Mitch. The CBTPA is analyzed in section 6. In contrast to a victory for transnational commercial interests that we saw in Haiti, the final CBTPA was designed to favor the vertically integrated protectionist bloc of the US textile and apparel industry. However, retailers and branded marketers, were able to get meaningful sourcing concessions elsewhere, namely in the African Growth and Opportunity Act (AGOA). The chapter closes with commentary on the dependency paradigm in which Honduras and other CBI nations were allowed to develop, with help from USAID-honed transnational alliances, quasi-free trade agreements and, of course, natural disasters.

#### The US, South Korea, and Honduras and Wendy Diaz

By the time a teary-eyed Kathie Lee Gifford testified in front of a Senate subcommittee it was too late. The actress, singer, and host of a widely popular morning show had become the derisive personification of sweatshops. Kathie Lee Gifford had loaned her name and celebrity to relatively affordable apparel products for the retail giant Wal-Mart. In an effort to satisfy value-seeking customers and maximize profits, Wal-Mart contracted out the assembly of these products to an independent apparel manufacturer operating in Honduras. In turn, this apparel contractor set up shop in a designated export-processing zone (EPZ) where it appeared child labor, in part, was being used to cost-effectively bring these products to US markets.

For her part in delivering frugal shoppers to the final checkout line, Kathie Lee took home almost \$9 million a year. Yet, the britches of her \$19.96 pants sold at Wal-Mart “were made by a factory with 100 children earning 25 cents a pair and enjoying a 74-hour workweek”.<sup>92</sup> Making that claim was Charles Kernaghan of the National Labor Committee (NLC), who, in his own Congressional testimony, implicated Kathie Lee Clothing and Wal-Mart in running Honduran sweatshops predicated on the exploitation of teenage girls.

One of those teenagers, Wendy Diaz, a 15 year old who worked at a factory that made Kathie Lee branded apparel, had (with the help of Kernaghan) become the other face of sweatshop production. At 4’9”, soft-spoken and articulate, Ms. Diaz developed her own form of celebrity as she made the media rounds and recalling in testimony that she starting working for the South Korean multinational, Global Fashions, at the age of 13. She recounted harrowing incidences of verbal, physical and sexual abuse that took place at the manufacturing plant.<sup>93</sup>

In the mid-90s, US labor unions, transnational labor activists, fair traders, environmentalist groups, and human rights organizations presented a case for the unseen results of economic globalization. Ms. Diaz’s was just another example. The oft-categorized dictatorial regimes, who exploit their low-skilled labor force, did not operate

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<sup>92</sup> Bowden, Charles. 2003. “Charlie Kernaghan, Keeper of the Fire: He made Kathie Lee Gifford cry and made the Gap treat its workers better. Now Charlie Kernaghan plans to put an end to sweatshop labor altogether.” *Mother Jones*: July/August 2003 Issue. <http://www.motherjones.com/politics/2003/07/charlie-kernaghan-keeper-fire>

<sup>93</sup> Kernaghan has also alleged that young women were told they were being injected with a tetanus shot, but in actuality were being administered Depo Provera, a contraceptive that prevents pregnancy for several weeks. Greenhouse, Steven. 1996. “A Crusader Makes Celebrities Tremble.” *New York Times*, 18 June; Duke, Lynne. 2005. “The Man Who Made Kathie Lee Cry.” *The Washington Post*, 31 July.

in a vacuum, but where rather legitimized by US trade laws, facilitated by US corporations, and financed by US consumers. The publicity surrounding these incidences help set off a series of inquiries into labor practices in the United States and around the world.<sup>94</sup> More importantly, Kernaghan managed to disentangle the web of contracting and sub-contracting buffers and draw a straight line from the likes of Global Fashions to Wal-Mart, from Wendy Ruiz to Kathie Lee Gifford. What was now entering public perception had been several decades in the making.

*Economic Globalization: Textile and Apparel in the Crosshairs*

Increased financialization of the American economy has led to the systematic offshoring of the industrial sector. Capital-intensive activities has supplanted labor-intensive activities as a means of capital accumulation. This reality of economic globalization played out across US industrial sectors; none more poignant than in American textile and apparel manufacturing hubs, which had shrunk considerably since the post-War era. To provide a bit of context, in 1940 about 40% of the jobs in North Carolina were in textile and apparel manufacturing, by 2013 that was down to 1%.<sup>95</sup> Furthermore, the pattern of corporate restructuring did not affect textile and apparel manufacturers equally.

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<sup>94</sup> *International Labour Standards and Economic Interdependence*. Edited by Werner Sengenberger and Duncan Campbell. Geneva: International Institute for Labor Studies. 1994. In April of 1997 President Bill Clinton announced a “No Sweatshop” Code of Ethics for US apparel and footwear companies. Among the first signatories of this new anti-sweatshop task force was Nike Inc., Reebok International Ltd., and Liz Claiborne Inc.

<sup>95</sup> Mercer, Marsha. 2014. “Textile Industry Comes Back to Life, Especially in the South.” *USA Today*, 14 February.



At its peak in 1948, textiles created 1.3 million US jobs. The industry has since seen a sharp decline, particularly in the past two decades. In 1990, the textile industry employed over 500,000 Americans, in 2011 that number fell to approximately 119,000.<sup>96</sup> Between 1997 and 2009 alone, 650 textile plants have closed up shop and more than 200,000 jobs were lost. In spite of this, the industry has been able to recover some due largely to technological innovations in the production of synthetic fibers and increased automation at textile plants.<sup>97</sup> On the contrary, with little prospects for a mechanized shop floor, apparel manufacturing has seen an even steeper decline in US operations. In 1990, employment in apparel manufacturing and component industries was over 900,000. In 2011 that number was down to a little over 150,000.<sup>98</sup> By the close of 1996, the US apparel market had shed approximately 61,000 jobs from the previous year. That was more than any other private-sector business; the second closest manufacturer being food manufacturers, whose industry contracted by 22,000 workers.<sup>99</sup>

A key force driving massive loss of jobs was retail demands for their suppliers to be both responsive to fashion trends, and to do so at competitive wholesale prices.<sup>100</sup> Apparel giants VF Corp. and Sara Lee were just two of the companies that were in the

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<sup>96</sup> United States Department of Labor, Bureau of Labor Statistics:  
<http://data.bls.gov/pdq/SurveyOutputServlet>

<sup>97</sup> Ibid. 4.

<sup>98</sup> United States Department of Labor, Bureau of Labor Statistics:  
<http://www.bls.gov/spotlight/2012/fashion/>

<sup>99</sup> Owens, Jennifer. 1997. "Job levels in apparel sink, but textiles again up in Jan." *Womens Wear Daily*, 10 February.

<sup>100</sup> Ramey, Joanna. 1997. "61,000 jobs lost in 1996 in apparel." *Womens Wear Daily*, 13 January; Seckler, Valerie, and David Moin. 1997. "Retailers: alliances add value." *Womens Wear Daily*, 24 February.

midst of major restructuring during the mid-90s. VF closed 13 factories between 1995 and 1996 and laid off 7,800 workers. The company boasted that 35%, up from 15-20%, of the apparel sold in the US was produced in foreign factories. VF's Director of Investor Relations, Cindy Knoebel explained that "[t]here was a pressure on us to take a sharper look at costs...but that is still 65 percent that will remain in the U.S. We still feel like we need to have a strong domestic base in order to be close to our retail customers."<sup>101</sup> Sara Lee's restructuring led to 50% of its worldwide workforce for its Champion and Hanes brands being laid off, much of that related to its US operations.

Textile giant Fruit of the Loom faced similar restructuring. In 1996, the textile company closed two domestic sewing operations. Capturing the core of industry restructuring, a company spokesperson pointed out that "[i]t's the sewing jobs that are still at issue here in the industry. Spinning operations, knitting and cloth finishing have all remained in the U.S. In many areas we've been hiring people at an aggressive clip in the U.S., like management information systems, marketing, manufacturing technology and production management."<sup>102</sup> Downsizing and closures created opportunities for skilled individuals participating in high value-added activities while leading to the dislocation of the low-skilled, under-educated, mostly female workforce. In its place, garment assembly plants sprung up all over the world, with promises of greater productivity and lower labor costs.<sup>103</sup>

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<sup>101</sup> Ibid.

<sup>102</sup> Ibid. 10.

<sup>103</sup> Rimer, Sara. 1996. "Fall of a Shirtmaking Giant Shakes Its Hometown." *New York Times*, 15 May.

### One-Way Trade

The ethos surrounding the Cold War did play a significant role in the geography of US textile and apparel corporate restructuring. As described in the previous chapter, events of the late-1970s refocused US foreign policymakers' attention on halting the advance of leftist movements in Latin America and the Caribbean. In response, the Reagan administration rolled out the Caribbean Basin Initiative (CBI) as a regional program of developmental aid, trade preferences, and US private sector investment. In what was a deviation from the multilateralism that had dominated US trade negotiations since the end of World War II, the CBI represented a one-way, trade zone that effectively fixed the region's abundant, low-skilled, labor-force into the manufacture of cheap products for the American consumer. The artificial delineation of the 'Caribbean Basin' as a free trade zone was a boon for US industries seeking to take advantage of proximity and lower labor rates. None more poised than the vertically-integrated US textile and apparel industry.

Though seeking to expand markets, US textile and apparel groups were unhappy with the initial legislative form of the CBI, referred to as the Caribbean Basin Economic Recovery Act (CBERA). CBERA granted unilateral preferential treatment for select products imported from CBI beneficiaries. Due to fears of direct competition from CBI textile producers and apparel manufacturers, and because the industry have been granted designation as import-sensitive, their products were deemed ineligible and generally

excluded from the CBERA. Self-imposed marginalization would not last long however as the industry soon had another reason to worry.

Thanks to retailers, branded marketers, and branded manufacturers, newly emerging economies like South Korea had developed locally autonomous, full-package apparel assembly operations. These retailers and large-scale purchasers had little concern for the origin of intermediate inputs, but rather focused on driving down costs along the supply chain. By breaking with US apparel producers and contracting with globally-oriented apparel manufacturers, they were able to exert more influence on the efficiency of global apparel supply chains. Alternatively, left alone to resolve supply chain management, East Asian producers were able to link their domestic economy through the clustering of small- and medium-scale enterprises along the apparel production network. This in turn facilitated industrial upgrading, wealth creation, and the movement of the labor force into higher-value activities. As East Asian labor costs became more cost prohibitive, they developed globally dispersed production systems (Gereffi 1999). The abundance of cheap labor in the Caribbean Basin would help to expand their apparel manufacturing capabilities proximal to their end market. This was indeed the case in Honduras, where by 1992 there were already 19 South Korean companies operating in Honduran garment assembly plants. Hong Kong, Taiwan and Singapore also maintained a noteworthy presence (Norseworthy 1994: 83). Vertically integrated US apparel and textile producers, concerned by the encroachment of full package East Asian apparel manufacturers, used their political connections to erect preferential trade deals that would favor their fabric and fabric components in apparel products intended for US consumers.

This bloc of vertically integrated US producers had already influenced policymakers to erect a series of trade barriers including the use of quotas and various other forms of restrictions on textile imports from East Asia to the US (Destler 2005; Gereffi 1999: 59). For East Asian producers, moving production to the Caribbean Basin offered a solution to these trade barriers and provided proximity advantages to the US market. In response, US textile and apparel manufacturers sought even more creative ways to increase regional insertion and mitigate further East Asian incursion. The group rallied to influence protectionist trade rules that took advantage of the region's comparatively low labor rates, protected the higher-value added activities of the domestic textile and apparel industries, and required the use of threads and fabrics of US-origin in garments produced for the US market.

What emerged was the Special Access Program for Caribbean Apparel Imports (SAP) in February of 1986.<sup>104</sup> The core of the program was preferred access to the US of garments produced in CBI beneficiary countries, given they were produced from fabric and yarn both made and cut in the US. To help facilitate this, emphasis would be placed on expanding production-sharing facilities or export processing zones (EPZs) throughout the Caribbean Basin. These free trade zones allowed US apparel firms and branded marketers to offshore lower value-added activities like sewing fabrics while maintaining domestically, higher value-added activities like research, design, finance, and distribution. For US textile firms, in particular, the motivation was even simpler: preserve US apparel companies as purchasers of their fabrics. With pure protectionist motive, production-sharing entailed (1) the shipping of intermediate materials from the United

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<sup>104</sup> Amended to section 807 of the 1964 Harmonized Tariff Schedules of the United States

States to the Caribbean Basin, (2) from there, these materials were assembled, then (3) shipped back to US consumer markets with duties applied only to the labor value-added. Latin America and the Caribbean as a locale for these assembly operations would serve both the interest of US policy planners and textile and apparel industries. The influx of low-skilled jobs targeting the poor would relieve sources of popular recruitment and illegal migration to the US. Transnational apparel and textile manufactures could also use the region's comparative advantage to downsize their relatively expensive domestic labor force, increase productivity, and still maintain control over a vertically integrated production network.

Nevertheless, the rationale of quasi open markets was neither unassailable nor without losers. Small-scale manufacturers, contractors, and domestic suppliers had difficulty competing with economies of scale and vertically integrated supply chains. Large-scale US retailers also found restrictive sourcing arrangements to be unduly burdensome on consumers, and the bottom-line. Additionally, the processes of economic integration and corporate restructuring left the American worker exposed to the global workforce. And for whatever gains gleaned from the assembly of imported inputs, the global workforce had to contend with inferior wages and working standards of those from job-exporting countries.<sup>105</sup> Finally, for Caribbean Basin countries, US designed trade preference programs put a glass ceiling on the very promise of economic diversification and growth as outlined in the CBI. Vertically integrated production networks precluded the crucial global sourcing networks necessary for industrial upgrading and full-package

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<sup>105</sup> Economists have pegged this as a necessary evil because these jobs are often of better quality than what would have been available otherwise and are often a necessary stage of industrial development. Myerson, Allen. 1997. "In Principle, a Case for More 'Sweatshops'." *New York Times*, 22 June.

assembly. As with the impetus for creating the Caribbean Basin, perceived liberalization of the trade program would require perceived, or real, crises.

### Forging Transnational Alliances: Honduras

Figure 6. Map of Honduras, Departments and Major Cities.



About the size of Ohio, Honduras is a mountainous Central American country bordered by Guatemala to the northwest, El Salvador to the southwest, and Nicaragua to the southeast. It has access to the Atlantic Ocean via the Caribbean Sea to the north and the Pacific Ocean through the southwestern Gulf of Fonseca (Figure 6). Though the capital, Tegucigalpa, is located in the southern-central Francisco Morazán department, the northern port departments, particularly Cortés, Atlántida, and Colón are the de facto industrial base of the country. The second poorest country in the region, Honduras has an urbanized population accounting for over half of its 9 million people. The GDP per capita

is about \$5,000 with a GDP growth rate of 3.5%. The country is beleaguered by substantial income disparities and 60% of its population living below the poverty line. Foreign exchange is primarily generated through the agro-export and apparel industries, with the United States as its chief trading partner.<sup>106</sup>

### *Export Orientation and USAID*

US regional foreign policy had always considered unemployment and poverty responsible for leftist insurgencies and migrant flows to the US (Weintraub 1983). In his 1982 speech unveiling the CBI, Ronald Reagan argued as much, saying “[e]verywhere [communism] has exploited and aggravated temporary economic suffering to seize power and then to institutionalize economic deprivation and suppress human rights.” The president furthered that the current “economic disaster is consuming our neighbors’ money, reserves, and credit, forcing thousands of people to leave for other countries, for the United States, often illegally, and shaking even the most established democracies.”<sup>107</sup> In subsequent country studies, USAID confirmed as much citing unemployment and underemployment as the most significant problem facing the stability and growth of Honduras.<sup>108</sup> For this reason, USAID development plans would focus on fostering small-

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<sup>106</sup> In 2014, the United States was the destination of 45% of total exports and the origin of 41% of total imports. World Trade Organization country profile. <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=HN>

<sup>107</sup> Ronald Reagan: “Remarks on the Caribbean Basin Initiative to the Permanent Council of the Organization of American States ,” February 24, 1982. Online by Gerhard Peters and John T. Woolley, *The American Presidency Project*. <http://www.presidency.ucsb.edu/ws/?pid=42202>.

<sup>108</sup> United States International Development Cooperation Agency. Agency for International Development. “Honduras Project Paper. Small Business II” Project Number: 522-0241.



and medium-scale enterprises as a source of immediate job creation, particularly for the poor.

USAID decided to put significant resources into key Honduran Non-Governmental Organizations (NGOs) that supported small- and medium-scale businesses. According to policy papers, the goal of USAID involvement was to “strengthen and expand an institutional system that will increase and improve the supply of credit, training, technical assistance, and services to [small-scale enterprises] SSEs; and improve the policy and regulatory environment in which SSEs operate.”<sup>109</sup> This entailed making grant money available through local private financial institutions. To affect the larger policy and regulatory environment, USAID would work primarily through (and at times around) government officials and existing business coalitions.<sup>110</sup>

One such coalition was the Honduran Council of Private Enterprise (COHEP). Formed in 1966 as an alliance of industrialists, merchants, bankers and landed capital, COHEP was the preeminent business organization in Honduras. Though a private sector association, in the 1980s it was directed “by national capitalists tied to the older national circuits of accumulation and state-sponsored development strategies” (Robinson 2003: 124). It is worth noting that the scope and pacing of structural reforms was always tied to the strategic importance of Honduras in US plans for the region. Leveraging that importance, nationalistic governments could persist in state-sponsored development strategies throughout the 80s. This protectionist alliance of government and private sector actors, like COHEP, hampered USAID technocrats efforts to build a transnational

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<sup>109</sup> Ibid. 30, 2.

<sup>110</sup> Ibid.

coalition of capitalists tied to global circuits of production; if only for a brief period of time.

In 1981, the same year that Honduras moved toward a return to civilian rule, USAID launched the Private Business Initiative in Latin America. The goal was to support the development of the private sector as part of the larger plans of the forthcoming CBI (Jackson 2005: 210-211; Rosen 2002: 132). The emergence of the New Right faction into the Honduran political space by the mid-1980s was advantageous to the northern industrialists and financiers. As much as COHEP aligned ideologically with the newly elected, rightist, Nationalist Party, they did not share in a neoliberal vision hostile to state-sponsored developmental policies.

Circumventing the state, USAID began channeling monies into various associations in an effort to create a “new guard” against economic nationalists like COHEP. This included financial and other support being sent to the likes of the National Association of Honduran Exporters (ANEXHON); the National Association of Industrialists (ANDI); the Honduran Management Association (GEMAH); the Honduran-American Chamber of Commerce (HAMCHAM); the National Council to Promote Exports and Investments (CONAFEXI); the Federation of Agro-Export Producers (FEPROEXAH); and the National Development Foundation of Honduras (FUNDAHEH).

These new groups, hand-picked by USAID, aligned more with the new Nationalist Party and the transnational project outlined by the US State. Thereupon, in 1984, the first year the CBI went into effect, the Foundation for Research and Business Development (FIDE) was founded as a union between ANDI, ANEXHON, GEMAH,

and HAMCHAM. FIDE went operational in June of that year with much help from a \$300,000 grant from USAID. By August, it received \$4.1 million in USAID funds to be the key promoter of the maquiladora industry (Jackson 2005: 216). With such a windfall of financial resources, within a matter of months, FIDE became the most potent business association in Honduras.<sup>111</sup> With its Washington backers, FIDE was now positioned to rapidly “promote the reorganization of the private sector, spread their influence within the state and civil society, foster new economic activities, and develop neo-liberal social and economic policies” (Robinson 2003: 124).

Financial support was not, however, limited to Honduran NGOs. Funding also targeted both the public policymaking apparatus and the private transnational class. For example, to affect the legislative environment, \$1.4 million was made available to government officials for activities such as observation trips to EPZs in Mexico and the Dominican Republic. Portions of these funds also supported training programs, export policy advisers, and expert services for the purpose of drafting and promoting new legislation. Some of these experts consulted from within the Honduran Ministry of Economy, Ministry of Finance, and Customs Office at rates as much as \$12,500 per month. USAID also provided \$9.2 million for a campaign to promote Honduran maquiladoras abroad. Monies were also funneled through The Central Bank of Honduras. In what amounted to low-interest loans, private sector actors had access to another \$10.2 million of foreign exchange through an Export Trust Fund (Jackson 2005: 218-219).

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<sup>111</sup> Even the nationalist COHEP eventually ceded power to the export-oriented group. In 1988, Richard Zablah, a maquiladora businessman and representative of the transnational faction of business interests, ascended to the presidency of the organization. Zablah also served as the president of FIDE and ANEXHON.

The amount and nature of USAID money disbursement did not go unnoticed. Charles Kernaghan, and the aforementioned National Labor Committee (NLC), took aim at what they considered the flagrant use of US public dollars to help private companies move their businesses overseas. In the NLC's 1992 publication, *Paying to Lose our Jobs*, Jack Sheinkman, President of the Amalgamated Clothing and Textile Workers Union, argued that:

American workers, as taxpayers, are helping to pay to export their own jobs. Behind our backs, U.S. tax dollars have been used to conceive, plan, finance, manage and promote the development of export processing zones across Central America and the Caribbean. These zones house manufacturing industries producing goods destined for the U.S. market. The Administration has also used U.S. tax dollars to target, persuade, and provide incentives to U.S. companies to relocate production offshore (1).

Also making note of the poor working conditions in these countries, the NLC charged that since 1983 USAID had spent 289 million of taxpayer dollars to support export promotion organizations in the Caribbean Basin, including \$43.5 million to FIDE in Honduras (NLCEF 1992: 11-12).<sup>112</sup>

In response, the US General Accounting Office (GAO) in 1993 did a series of investigations including one challenging USAID's quantitative assessments of their program as it pertained to monies flowing back to US economy and job creation.<sup>113</sup> The

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<sup>112</sup> The other major projects went to support the Salvadoran Foundation for Social and Economic Development FUSADES: \$102,396,000; Jamaica's Economic Development Agency JAMPRO: \$ 34,960,000; and the Costa Rican Investment and Development CINDE: \$ 32,500,000. "Paying to Lose Our Jobs." National Labor Committee Education Fund In Support of Worker and Human Rights in Central America. September 1992.

<sup>113</sup> As part of the 1961 Foreign assistance Act, USAID can "use funds for procurement outside the United States only if the President determined that such procurement would not result in certain adverse effects upon the United States". However, procurement regulations did not apply to cash payments or grants and cooperative agreements. Cash payments, 40% of estimated distribution of

publicity of using taxpayers' money to support the loss of US jobs also led Congress to make changes to the 1993-1994 Foreign Operations Appropriations Act. Targeting USAID export development programs particularly, section 547 made explicit that:

[n]one of the funds appropriated by this Act may be obligated or expended to provide—(a) any financial incentive to a business enterprise currently located in the United States for the purpose of inducing such an enterprise to relocate outside the United States if such incentive or inducement is likely to reduce the number of employees of such business enterprise in the United States [...]; (b) assistance for the purpose of establishing or developing in a foreign country any export processing zone or designated area in which the tax, tariff, labor, environment, and safety laws of that country do not apply, in part or in whole, to activities carried out within that zone or area [...]; or (c) assistance for any project or activity that contributes to the violation of internationally recognized workers' rights, [...] including any designated zone or area in that country.<sup>114</sup>

### *Export Processing Zones*

The aforementioned export-processing zones (EPZs) are labor-intensive hubs, streamlined for the duty-free import of machinery, equipment and materials dedicated to the manufacture and export of goods. The use of EPZs has always been strongly contested by transnational labor organizations for what should be considered obvious reasons.<sup>115</sup> EPZs are generally built in poorer countries with comparatively lower labor

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USAID's annual obligations, were understood "to promote US national security and political and economic objectives and not required to use US goods or services." Grants and cooperative agreements were 14% of the budget and was "used to support or enhance the activities of independent organizations such as educational institutions and private voluntary organizations that contribute to the achievement of foreign assistance objectives." USAID could also relax the procurement requirements for this type of assistance. The United States General Accounting Office. "The Accuracy of AID Statistics on Dollars Flowing Back to the U.S. Economy is Doubtful". Foreign Assistance. GAO/NSIAD-93-196. August 1993. pg. 11-12.

<sup>114</sup> H.R.2295 - Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1994 103rd Congress (1993-1994).

<sup>115</sup> Ibid. 32.

rates and less recourse for poor labor practices. The manufacturing plants are easy to construct and are often wholly or partially subsidized by the host country. Companies enjoy full profit repatriation, tax holidays, credits for employment creation and a variety of other indirect and direct subsidies. Not to mention, because these are free market enclaves financially and physically separate from the domestic economy, investors are largely shielded from government interference and political turmoil.

Because of this novelty in capital accumulation, CBI member states must orient their economies (read: their abundant, low-skilled labor force) to globalized circuits of apparel production.<sup>116</sup> Transnational apparel assembly operations had been taking place in Honduras as early as 1965.<sup>117</sup> The Honduras government began its initial foray into EPZs in 1976. The Free Zone Law (FZ) allowed The Honduran government, through the National Port Authority, to create geographical zones for foreign firms to operate production plants. The incentives featured a reduction of import duties, less paperwork, indefinite tax exemptions, and looser controls on foreign exchange. Ninety-five percent of annual production had to be exported, with special government approval required for selling the other 5% in local markets. Nonetheless, this venture failed to entice enough foreign investors as government rent extraction persisted through import and export duties and property taxes. Consequently, EPZ penetration was initially limited to only Puerto Cortes (Jackson 2005: 215).

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<sup>116</sup> World Bank. 1992. "Export Processing Zones." Policy and Research Series Paper 20, Industry and Energy Department, Washington, D.C.; Madani, Dorsati. 1998. "A Review of the Role and Impact of Export Processing Zones." World Bank, Development Research Group, Trade, Washington, D.C.

<sup>117</sup> Sears was one of the first transnationals that took advantage of Item 807.00 under the Tariff Schedules of the United States - which reduced multi-country assembly tariffs - and relocated some sewing operations to the country.

To remedy this, the Regime Temporary Admission (RTA) of 1984 and the Export Processing Zone (EPZ) Law of 1987 opened up the possibility for private development of industrial parks. Benefits to private developers include easier access to capital through USAID funded initiatives and income taxes exemptions for a period of 20 years. Recipient companies were also allowed to maintain much of the benefits of the FZ law in exchange for meeting job creation benchmarks (5,000 jobs within five years). As a result, investments increased and expanded across Honduras. Between 1987 and 1993, EPZs sprung up throughout the north in La Lima and San Pedro Sula. They later extended to Tegucigalpa, Choloma, and Choluteca.

Table 7: Firm and Employment Growth in the Honduran Maquiladora Sector, 1990 - 2005

	1990	1995	2000	2005
Number of Firms	24	135	218	306
Number of Employees (in thousands)	9.0	55.0	106.5	125.2

*Source:* de Hoyos et al.; Central Bank of Honduras

Maquila production in Honduras grew significantly during the reform period. According to Table 7, in 1990 there were 24 firms employing about 9,000 Hondurans. By 1995 that number drastically increased to 135 firms with an estimated 55,000 employees. Following hurricane Mitch, the entire country was designated a free trade zone. This led to another spike in EPZ growth. And though still heavily concentrated in the northern port cities, EPZs are now located throughout the country (McCallum 2011: 9). By 2001, total investment in Honduran EPZs was \$1.4 billion, with about half, \$670 million coming from domestic sources. The US supplied the largest source of foreign direct

investment at \$370 million, with \$146 million coming from South Korea. Additionally, 54% of the apparel industry workforce was employed in US-owned companies, 17% from South Korea 17%, Honduras accounted for 15% and a variety of Asian countries combined for 10%. Canada made up the other 5%. In terms of employment, 90,000 workers are engaged in apparel production with another 4,500 employed in textile mills. The average salary of a maquiladora worker was \$3,718, compared the average per capita income of \$850 in Honduras. Honduras receives most of its cotton fabric and yarn from the United States and much of its synthetic woven fabrics from the likes of South Korea, Taiwan and China. The majority of Honduran apparel is basic run knit tops (T-shirts) and underwear produced from cotton and synthetic fibers. Between 1997 and 2002 the US imported \$2.4 billion of these apparel products from Honduras, ranking only behind Mexico and China.<sup>118</sup>

The labor-specific industrialization of Honduras, and the Caribbean Basin in general, correlates with the deindustrialization of textile and apparel manufacturing in the US. As Honduras was liberalizing their economy to fit global modes of production, US apparel firms were also restructuring in terms of core competencies. Low value-added activities like manufacturing were sent overseas in favor of maintaining high value-added activities like design, finance, and distribution. The CBI became the policy instrument through which these US-based lead firms could manage offshore garment assembly operations. As the US deindustrialized and organized labor became increasingly marginalized, retailers and importers emerged as new a block in support of further

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<sup>118</sup> United States International Trade Commission Publication. 2004. *Textile and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market*. 3671.



disaggregation of the production process; often at odds with the protectionist disposition of regional production-sharing.

The international environment had also changed considerably. Led by the executive office, the US had committed to multilateral trade liberalization in the Tokyo and Uruguay Round of the General Agreement on Tariffs and Trade (GATT). To the chagrin of Congressional members from apparel manufacturing and textile producing states, these agreements targeted the dismantling of tariff and quota regimes. Additionally, the US began to negotiate a peripheral trade agreement with Andean countries (Bolivia, Colombia, Ecuador, and Peru) as well as a much larger two-way trade agreement with Canada and Mexico.

#### NAFTA to NAFTA-parity

“Just a year ago yesterday, I signed into law NAFTA, the North American Free Trade Agreement. You can clap for that.”<sup>119</sup>

Bill Clinton  
December 9, 1994  
Remarks on Goals of the Summit of the Americas  
Miami, Florida

It was all Clinton could do to in an attempt to disarm a room of 34 of the hemisphere’s leaders. The skepticism surrounding NAFTA centered on Mexico’s new trade preferences with the US that threatened to divert investment away from CBI beneficiaries to its immediate southern neighbor. In response, CBI countries sought

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<sup>119</sup> William J. Clinton: "Remarks on Goals of the Summit of the Americas in Miami," December 9, 1994. Online by Gerhard Peters and John T. Woolley, The American Presidency Project. <http://www.presidency.ucsb.edu/ws/?pid=49572>.

NAFTA-parity legislation that, by the end of 1994, did not appear to be immediately forthcoming.

In the 1992 presidential campaign, NAFTA emerged as a wedge issue. Both Bush and Clinton had to defend their free trade platforms, across the spectrum, against Ralph Nader and Ross Perot. Nader had mobilized considerable support against what he deemed corporate globalization embodied in GATT and NAFTA. Critical of the president's fast-track authority, Nader called for more debate concerning trade laws that would potentially hurt US labor, consumers, and the environment.<sup>120</sup> Ross Perot, who made two-way trade central to his campaign, famously described American job loss as "a giant sucking sound going South".<sup>121</sup> His campaign reaffirmed keeping jobs in the United States and reviving its manufacturing capabilities. Nader and Perot help set the agenda by taking a skeptical position on partially reciprocated trade deals like NAFTA. Given that level cynicism during an election cycle, there was less of an appetite for the extension of non-reciprocal trade benefits for Caribbean Basin countries.

#### *Mexico and US Trade Agreements: Pre-NAFTA*

Mexico had always maintained a privileged position in trade relations with the US, even prior to NAFTA. Mexico's size, proximity, and political stability gave it an advantage over the disparate CBI nations. Mexico had also developed infrastructure dedicated to twin-plant assembly operations. Maquiladoras had been in operation in the northern border regions since the 1960s. Taking advantage of Item 807.00 of the US

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<sup>120</sup> Herbert, Bob. 1993. "In America; Nafta And the Elite." *The New York Times*, 10 November.

<sup>121</sup> "The 1992 Campaign; Transcript of 2d TV Debate Between Bush, Clinton and Perot." *The New York Times*. October 1992. [https://www.youtube.com/watch?v=Rkgx1C\\_S6ls](https://www.youtube.com/watch?v=Rkgx1C_S6ls)

Tariff Schedule, Mexico was producing a range of duty and tariff-free goods for the US market. These included agricultural products, furniture, electronics, and machinery. By 1990, Mexico was the US's third largest trading partner, totaling around \$59 billion in trade. In that same year, Mexico was employing over 441,000 people in over 300 EPZs. In comparison, Honduras had only nine processing zones, employing approximately 19,000 people. Even with a number of preferences, trade from the entirety of CBI countries had a negligible impact on the US economy. For example, by 1997, \$3.2 billion worth of imports entered the US under CBERA benefits. The total value of imports under the CBERA accounted for only 1.9% of total US imports and 0.04% of US gross domestic product.<sup>122</sup>

Despite Mexico's relative advantages, prior to NAFTA, CBI countries enjoyed an advantage over Mexico in terms of trade preferences with the US. The range of product coverage on CBERA<sup>123</sup> preferences were wider than that of afforded to Mexico under the Generalized System of Preferences (GSP). Secondly, the rule of origin eligibility was more stringent under the GSP than under the CBERA. Import-sensitive items were excluded under the GSP, while enjoying reduced-rate preference under CBERA. For qualified articles produced in CBERA countries from components originating in the US, similar items assembled in Mexico did not enjoy duty-free treatment or a relaxation of quantitative restrictions. Finally, the GSP requires periodic re-enactment and had less permanence than the CBERA (Pregelj 2001: 4-5). As a result, NAFTA was seen as important in further incorporating Mexico into US-managed production networks. In

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<sup>122</sup> US International Trade Commission. 1997. *Caribbean Basin Economic Recovery Act Impact on the United States*. Thirteenth Report 1997. Investigation No. 332-227.

<sup>123</sup> CBI and CBERA are used interchangeably at points. The CBERA is the actual law

October of 1992, President George H.W. Bush formally agreed to enter into NAFTA. It passed Congress in 1993 and was later signed into law in January of 1994 by President Bill Clinton.<sup>124</sup>

### *NAFTA*

NAFTA immediately reduced a number of tariff and non-tariff trade barriers to most product categories covered under the CBERA. For all other products, there was a 10 to 15-year phased elimination of all tariffs, even those restricted under the now annulled GSP. More importantly, textile and apparel imports under Special Regime preferences were extended to items that required additional processing, including bleaching and dyeing. Mexico would also have tariff preference levels (TPLs) for apparel made from cloth sourced from non-NAFTA nations. Combined, these measures were crucial because it appeared to encourage industrial upgrading. Mexico would have the opportunity to develop its own textile operations and use domestic and third-party sourcing of cloth and yarn in products destined for US markets (Lewis 1991: 105; Pregelj 2001: 6). What's more, the peso crises and subsequent devaluation of Mexico's currency following 1994 had a two-fold effect in further disadvantaging CBI nations. Currency devaluation served to not only cheapen Mexico's labor, but also led Mexico to ramp up its export production in order to service its debts. This made moot any advantage CBI countries previously had over Mexico (Pressler 2009: 201).

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<sup>124</sup> Executive Order 12889 - Implementation of the North American Free Trade Agreement December 27, 1993. The American Presidency Project: <http://www.presidency.ucsb.edu/ws/index.php?pid=61581>

Thereby, the table was set for a clash of conflictual business interests to affect new trade legislation. US labor organizations would oppose any expansion of one way preferences and could point to the ruinous effects of NAFTA on the domestic manufacturing sector. Apparel producers who had moved their operations to CBI countries would now seek to capture preferences similar to NAFTA in order to justify continuing operations in countries like Honduras. US textile producers sought to maintain primacy of their fabrics in apparel produced in the region. Retailers and large-scale importers wanted to rationalize fabric sourcing arrangement and push production costs down for their myriad of contractors and sub-contractors. Without much motivation for compromise, the resulting NAFTA-parity negotiations persisted for several years without resolution. However, Hurricane Mitch provided the necessary inertia advantageous to transnational alliances favoring the expansion of labor-intensive assembly operations in Central America, and Honduras particularly.

*NAFTA-parity: Congress and the Executive*

Beginning as early as 1992, affected CBI countries and their US allies, began lobbying Congress for NAFTA parity.<sup>125</sup> Though there have been legislation introduced to broaden the CBI since 1990, the first substantive measure took place in March of 1993 when Congressman Sam Gibbons (D.,FL), Chairman of the House Trade Subcommittee,

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<sup>125</sup> Subcommittee on International Economic Policy and Trade and the Subcommittee on Western Hemisphere Affairs, Joint hearings on North American Free-Trade Agreement and Beyond (II): Chile, and Caribbean and Administration Views. 102<sup>nd</sup> Congress. July 1, 1992.

introduced the Caribbean Basin Free Trade Agreement Act, H.R. 1403.<sup>126</sup> In June, Bob Graham (D.,FL) introduced S.1155, the Senate version. The initial Congressional approach was to broaden NAFTA to include Caribbean-parity but that approach proved to be problematic. NAFTA had already stirred a good amount of controversy and the White House bristled at this idea out of fears that any attempt to expand the bill would threaten to capsize the entire deal.

The Congressional strategy then moved to tailoring separate agreements. The House measure, particularly, sought to attach NAFTA-parity to the General Agreement on Tariffs and Trade (GATT) treaty. Nevertheless, neither the Senate nor the administration was eager to take up yet another contentious trade deal immediately following NAFTA and the GATT.<sup>127</sup> Though a failure in its initial incarnations, the core of the legislation was instructive for parity legislations going forward.

For example, the bill called for an easing of quantitative restrictions and NAFTA-equivalent tariffs for certain textile and apparel products from fabrics formed and cut in the US. Additionally, the legislation sought to get CBI countries NAFTA benefits for a period of three years, after which, they could either join NAFTA, or have the opportunity to negotiate their own bilateral agreements. The agreement would also eliminate duties and quotas on apparel imports, tariff rate quotas for apparel made from non-conforming fabric, and an import surge provision, all to match NAFTA provisions. To satiate the

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<sup>126</sup> Initial co-sponsors included J.J. Pickle (D.,TX), Philip Crane (R.,IL), Charles Rangel (D.,NY), later joined by Cynthia McKinney (D-GA), Kweisi Mfume (D-MD), Estaban Edward Torres (D-CA), Edolphus Towns (D-NY), E. de la Garza (D.,TX), Peter Deutsch (D.,FL), Jose Serrano (D.,NY), Tim Hutchinson (R.,AR). <https://www.congress.gov/103/bills/hr1403/BILLS-103hr1403ih.pdf>

<sup>127</sup> Ostroff, Jim, and Joyce Barrett. 1994. "D.C. gears up for CBI parity drive." *Womens Wear Daily*, 10 January.

textile industry it maintained a more stringent yarn forward rule (the Senate version) than NAFTA, and to help ease it through Congress, the bill sought fast-track approval procedures.<sup>128</sup>

Between 1993 and 1997 the number of bills increased but the majority did not make it out of conference.<sup>129</sup> The primary point of contention was how to curtail the potential increase of apparel imports with foreign sourced fabrics. There was also a noteworthy contingent of Congress concerned about the loss of budget revenues resulting from reduced or eliminated customs duties. Estimates of budget losses ranged from \$150 million to \$1.1 billion over a five-year period (Pressler 2009: 226; Pregelj 2001: 7). Despite this, President Clinton included funding for CBI trade enhancement in his fiscal year budgets and used his 1997 State of the Union address Clinton to once again appeal for an expansion of trade by encouraging Congress to:

“act to expand our exports, especially to Asia and Latin America, two of the fastest growing regions on Earth, or be left behind as these emerging economies forge new ties with other nations. That is why we need the authority now to conclude new trade agreements that open markets to our goods and services even as we preserve our values. We need not shrink from the challenge of the global economy. After all, we have the best workers and the best products. In a truly open market, we can out-compete anyone, anywhere on Earth.”<sup>130</sup>

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<sup>128</sup> Caribbean Basin Free Trade Agreements Act. Subcommittee on Trade and the Subcommittee on Oversight of the Committee on Ways and Means House of Representatives, 103<sup>rd</sup> Congress, First Session on H.R. 1403, June 24, 1993.

<sup>129</sup> Notables include: Budget Reconciliation Act H.R.553, H.R. 2014 and H.R. 2644; United States-Caribbean Basin Trade Enhancement Act, H.R. 1834, S. 1389; United States-Caribbean Basin Trade Partnership Act, H.R. 984; Trade and Tariff Act, S. 2400; Central American and Caribbean Relief Act, S. 371; Trade Benefits for Caribbean Basin, H.R. 434.

<sup>130</sup> William J. Clinton: “Address Before a Joint Session of the Congress on the State of the Union.” February 4, 1997. Online by Gerhard Peters and John T. Woolley, The American Presidency Project. <http://www.presidency.ucsb.edu/ws/?pid=53358>.

The Republican controlled House was, however, skeptical of the administration's simultaneous regionalism and multilateralism. NAFTA and GATT, which led to the creation of the World Trade Organization (WTO), was still fresh on lawmakers' minds. Speaker of the House, Newt Gingrich made it clear that "[i]f there are going to be continuing [international trade] bodies around the world, then [the House] has to get in the habit, I think, of a kind of aggressive oversight, reporting to the nation on whether or not our interests are being protected".<sup>131</sup> A part of that oversight extended to denying fast-track authority to the administration.

In trade bills initiated from the Executive, fast-track authority limits Congress' ability to amend proposed legislation by forcing a simple yes-or-no vote. Presidents have routinely been awarded this authority since 1974. However, following its expiration after NAFTA and the GATT Uruguay Round in 1994, Congress had been reluctant to grant that authority. The primary sticking point was the inclusion of negotiating authority concerning labor and environmental standards. This measure -- supported by the administration, labor, watchdog groups, and even Mexico<sup>132</sup> -- was concerning for apparel manufacturers and their Congressional allies in the House. As a result, the administration was denied fast-authority and any new trade deals or amendments to NAFTA were essentially stalled after 1994.<sup>133</sup>

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<sup>131</sup> Barrett, Joyce. 1997. "New Congress starts moving on trade issues." *Womens Wear Daily*, 9 January.

<sup>132</sup> Mexico would also not be pleased by being undercut almost immediately by CBI competitors, given that it was reciprocal and Mexico had to live up to greater environmental and labor standards than some CBI countries.

<sup>133</sup> *Ibid.* 42.



*Industry Position on Trade Legislation: Textile and Apparel*

The mid-1980s was a crucial time for textile and apparel interest groups. As the Executive branch pursued the liberalization of international trade, traditional protectionist business associations began to fracture and transnational dispositions began to emerge. One such fracture came between and within the American Textile Manufacturers Institute (ATMI) and the American Apparel Manufacturers Association (AAMA).<sup>134</sup>

Vertical production networks that had US-made fabric as the key component in US-made apparel defined the mutually dependent relationship between ATMI and AAMA. However, as the production process disaggregated, the traditional union between textile producers and apparel manufacturers grew tepid. East Asian full-package assembly operations, catering to large-scale purchasing US retailers and branded marketers, threatened to dislodge US-textiles as the key component in apparel goods destined for US consumers. Moreover, many Asian competitors were also producing or locally sourcing their own fibers and expanding apparel-manufacturing to EPZs in the Caribbean Basin. As individual AAMA members moved their production to the Caribbean Basin to take advantage of preferential trade agreements, US-based textile producers sought to cordon off the region in an effort to protect its sourcing hegemony.

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<sup>134</sup> ATMI and AAMA came under the Fiber, Fabric & Apparel Coalition for Trade (FFACT) in 1985. This coalition also included, among others, the International Ladies Garment Workers Union (ILGWU), Amalgamated Clothing and the Textile Workers Union (ACTWU).

In a common show of solidarity, both associations also opposed the 1986 Special Access Program (SAP)<sup>135</sup> considering it a “Trojan horse” for East Asian penetration into US markets.<sup>136</sup> Yet, this opposition did not decrease the amount of goods entering the US under SAP accreditation. In fact, individual members within both associations benefitted the most from the SAP. This ultimately led to internal splits on policy direction. By 1989, ATMI reversed its position on the SAP, even though it would open up the possibility of full duty-free treatment to apparel made from short supply fabrics sourced elsewhere. The duty-free movement of apparel assembled in CBI nations using U.S. made-and-cut fabric was too much to pass up. In a matter of a few years the opposition to trade liberalization had shifted to measured support. For ATMI “[t]he extension of the CBI was no longer perceived as a new opening for foreign producers but rather as a measure to guarantee sales of American cloth at a time when the traditional customer base – the US garment industry – was continuing its steady decline” (Pressler 2009: 192).

As the US deindustrialized, production-sharing continued to grow within AAMA membership. On the one hand, a number of AAMA members began operating in the Caribbean, Central America and Mexico. These members supported the SAP. Others that moved production to East Asian countries were against measures to attach quotas to their imports. Subsequently, AAMA was internally torn between East Asian liberalizers, CBI protectionists, and an increasingly marginalized group of strict domestic protectionists (Rosen 2002: 144-45). ATMI's biggest concern, on the other hand, was the loss of their

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<sup>135</sup> US Government and Accountability Office. 1989. *The Special Access Program for Caribbean Apparel Imports* NSIAD-89-122.

<sup>136</sup> Milliken, Roger. 1986. “Textile-Fiber-Apparel Industry Opposes Caribbean Proposal.” *New York Times*, 2 December.

primary customers to East Asians markets. In addition to reduced labor costs, East Asian assembly hubs also had a formidable textile industry available at a fraction of the price. As opposed to mass produced, low-to-mid-end products produced regionally, East Asian full-package assembly could support short-run, high-end fashion production.

A faction of AAMA members also began to support exemptions for cloth and yarn in short supply or not produced in the US. Apparel manufacturers sourcing textile from outside the US threatened the viability of the domestic textile industry. US textile producers thus saw their comparative advantage in sourcing to CBI countries, who neither had a nationally-integrated apparel structure nor a competitive textile industry. Consequently, the US textile industry supported trade legislation that would protect apparel manufacturers that moved their production to Latin America and the Caribbean, so long as they were purchasers of US-produced yarn and fabrics (Rosen 2002: 141).

In terms of the passage of NAFTA, The conflict between textile and apparel lobbies also began to heat up. Both associations supported the legislations for different reasons. ATMI supported NAFTA based on a strong yarn-forward rule. AAMA supported it because of the opportunities for expanded production-sharing. These dispositions often made the associations rivals on Capitol Hill.

For example, as part of NAFTA negotiations, brassieres are accorded duty free status given it is assembled in one of the three signatory countries (Mexico, Canada, and US) without regard for the origin of the fabric. In 1995, ATMI's international trade director, Charles Bremer lobbied the administration to impose restrictions on these bras and change the rule of origin to a yarn-forward rule – as in the fabric would have to be of US origin. Bremer warned that “with a single-transformation rule, Asians will put plants

in the Caribbean countries and not use one inch of U.S. fabrics and export bras to the U.S. duty-free.” He furthered that “[i]mporters of brassieres assembled in Mexico and reimported under NAFTA...have not paid any duty on these imports since Jan. 1, 1994,” adding, that amounts to “56 million brassieres that duty has not been paid on. This represents a serious amount of money saved, certainly far more than it would cost to comply with the yarn-forward rule of origin.” In response to Bremer, AAMA President Larry Martin said “[Bremer] has no right to have a voice in how our profits are spent and...there’s absolutely no evidence that the fabric suppliers are suffering because of NAFTA’s single-transformation rule for bras,” further cautioning Bremer and Congress that “[b]ecause of Section 807 and NAFTA, the cutting operation in bra manufacturing remains in the U.S. If the burden becomes too onerous, those cutting operations also could be moved offshore and with them would go any incentive to buy U.S. fabrics.”<sup>137</sup>

While splits between the industries became more common throughout the 90s, ATMI also had to deal with dissension among its ranks. By the beginning of 1997, several of the prominent members within ATMI, like Fruit of the Loom and Milliken & Co., voiced disapproval of NAFTA-parity. Specifically, they were in disagreement with the phasing-out of tariffs on wool and cotton products from CBI countries on the same schedule as NAFTA. That was in addition to their core opposition to duty-free treatment of apparel imports not containing US fabric components.<sup>138</sup>

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<sup>137</sup> Ostroff, Jim. 1995. “Bra makers, mills fight over new NAFTA rules.” *Womens Wear Daily*, 5 July.

<sup>138</sup> Barrett, Joyce. 1997. “ATMI board may hear dissent over backing of Caribbean parity.” *Womens Wear Daily*, 27 January.

Though the organizations had been at odds about the details of the legislation, there had been a great deal of industry optimism about the passage of NATA-parity.<sup>139</sup> As a result, both the AAMA and ATMI became supporters of quasi-trade liberalization for the Caribbean Basin. For the textile lobby, it meant an increased market access for their fabrics. For the apparel lobby, it reflected their production shift and efforts to gain a foothold in proximal CBI countries. For both it meant vertical integration along the supply chain and a substantive protectionist buffer against Asian competitors. Their tepid reunification was necessary as they faced an upcoming fight from an increasingly powerful group of retail and importer associations.<sup>140</sup>

#### *Retail and Importers*

Retail and Importer associations like the Retail Industry Trade Action Coalition (RITAC), National Retail Federation (NRF), and Textile and Apparel Group of the American Association of Exporters and Importers (AAEI-TAG) have always supported greater trade liberalization. As opposed to ATMI and AAMA backing of one-way trade agreements that ensured the use of US made textile in the production of apparel goods for the US market, retailers and importers have been supporters of multilateralism and reciprocal trade agreements. This group has routinely favored global sourcing

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<sup>139</sup> Ostroff, Jim. 1994. "Clinton move on Nafta-like benefits for CBI draws praise from ATMI." *Womens Wear Daily*, 24 May; Lloyd, Brenda. 1995. "AAMA sees Caribbean Basin getting parity with Mexico." *Womens Wear Daily*, 2 February.

<sup>140</sup> *Daily News Record*. 1989. "Importers hit ATMI Caribbean stand." 17 March.

arrangements, with the idea to purchase fabrics and components from wherever in the world they are the cheapest.<sup>141</sup>

Retail and importer groups have been stridently critical of the textile industry's use of political clout to deflect from much needed technological and product innovations. US-produced textile would be the largest beneficiaries under the status-quo rules. To them, not only does the US textile industry represent a stalled stage of economic development, its obstinacy is ultimately costly to the American consumer. Often purchasers of ready-made apparel products from full-package manufacturers in places like Hong Kong, Taiwan and South Korea, retailer and importer associations have regularly called for the veto of legislation that would impose tighter restrictions on textile imports (Robalt 1991; Gereffi 1999; Rosen 2002: 141).<sup>142</sup>

A major point of contention has been the yarn-forward rules of origin attached to bilateral trade agreements over the last 30 years. Retailers and importers did not want parity legislation to go the way of NAFTA. Making a case for liberal sourcing to be a part of NAFTA-parity, Robert Hall of the NRF argued that "if [parity] comes with restrictive rules, this could make it more difficult for them to source from CBI countries." Stating their position, ATMI executive vice president Carlos Moore claimed that without parity

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<sup>141</sup> Those with complete opposition to these trade deals tend to be smaller domestic manufacturers and contractors and labor organizations like the American Apparel Contractors Association (AACA) and the Union of Needletrades and Industrial Textile Employees (UNITE) who are affected most by jobs being exported overseas.

<sup>142</sup>William K. Daines of the in a letter to Senator to John Heinz May 14, 1990. Hudgins, Edward L. 1985. "Why Limiting Textile Imports Would Hurt America." *The Backgrounder (The Heritage Foundation)* no. 458.; National Retail Federation: <https://nrf.com/who-we-are/our-mission>; Mongelluzzo, Bill. 1987. "Textile Importers Wage War on Proposed Customs Code." *Journal of Commerce*, 12 April 12.

legislation “demand for U.S. fabrics in that region would slow down because of NAFTA and because the large quota holders in the Far East who benefited from the Uruguay Round would be in a position to take away markets from U.S. companies producing in the CBI region.”<sup>143</sup>

This was a key juxtaposition of the competing groups. It was also the narrow space in which CBI countries found their development opportunities. On the one hand, textile and apparel manufacturers sought to erect trade regimes to sustain domestic industries while simultaneously exploiting regional wage disparities. On the other hand, retailers and importers had little interest in propping up national circuits of production, rather seeking a more rational division of labor and a reduction of costs along the global supply chain. Ultimately, disagreements of NAFTA-parity came down to just how liberal the fabric and fabric component sourcing rules would be. Movement on these disagreements came down to a hurricane stirring in the Atlantic.

#### Hurricane Mitch<sup>144</sup>

On October 26<sup>th</sup>, Hurricane Mitch reached its peak intensity of 180 miles per hour as a Category 5 storm. Mitch moved over Guanaja Island and the island chain Islas de la Bahia along the northern coast of Honduras. At about 60 miles north of Trujillo, the storm slowly drifted southward. During that time, it agitated storm surges, causing waves

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<sup>143</sup> Ostroff, Jim. 1994. “Troubled Waters in the Caribbean Basin; Uncertainty over NAFTA Parity Splits CBI backers.” *Daily News Record*, 17 March.

<sup>144</sup> A precursor to Hurricane Mitch was Hurricane Georges, which hit the Caribbean in September of 1998. With about 10 hours of continuous rainfall, Georges dropped about 39 inches of rain that led to flooding and mudslides causing about 380 deaths in the Dominican Republic and 209 in Haiti and wiping out much of the agricultural crop. Total economic damages were an estimated \$1.5 billion. [http://cs.mcgill.ca/~rwest/wikispeedia/wpcd/wp/h/Hurricane\\_Georges.htm](http://cs.mcgill.ca/~rwest/wikispeedia/wpcd/wp/h/Hurricane_Georges.htm)

to reach an estimated 44 feet. After battering the coastline, the hurricane made landfall on the 29<sup>th</sup> of October, east of La Ceiba, with winds of 98 mph. By October 30<sup>th</sup> it lingered over Tegucigalpa as a tropical storm drenching the mountainous interior of the country. Both the Grande Choluteca and Chiquito rivers flooded. Additional flooding of the coastal plain led to massive land and mudslides that destroyed housing in the Aguán valley, San Pedro Sula, La Lima and infrastructure networks, including airports, highways, and bridges. By the October 31<sup>st</sup> Mitch shifted course from its southern path into the Gulf of Fonseca, and instead swung west along the border of El Salvador into Guatemala (see figure 1). By November 2<sup>nd</sup> it again changed direction and headed north into Mexico by the Isthmus of Tehuantepec before heading back northeast over the Gulf of Mexico making landfall once more then back out into the Atlantic.

The Emergency Events Database estimates that the death toll from the storm was about 14,600 with another 2.1 million affected. Mitch caused significant damage to the agricultural sector, where an estimated 70% of all Honduran crops were destroyed. The total economic damages were estimated at \$3.8 billion.<sup>145</sup> Social dislocation also led to an increase in the flow of immigrants to the United States.<sup>146</sup> However, overall damage in the maquiladora sector was limited. One plant in La Ceiba was destroyed while another

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<sup>145</sup> D. Guha-Sapir, R. Below, Ph. Hoyois - EM-DAT: The CRED/OFDA International Disaster Database – [www.emdat.be](http://www.emdat.be) – Université Catholique de Louvain – Brussels – Belgium.

<sup>146</sup> United Nations, Economic Commission for Latin America. 1999. “Assessment of the Damage Caused by Hurricane Mitch, 1998: Implications for Economic and Social Development and for the Environment.” LC/MEX/L.367.



six reported some material damage. The main losses in production came in the form of absenteeism, directly following the storm, caused by the flooding of roads and bridges.<sup>147</sup>

### *Honduras*

Following Hurricane Mitch, all the relevant actors began to take their positions. The Honduran government had already made moves towards a host of post-disaster privatizations, including the airports and the telecommunications company. As part of the omnibus legislative overhaul to increase foreign investment following the storm, the Honduran government officials carried out a two-pronged strategy of seeking increased trade benefits through NAFTA parity and an expansion of the main port through which apparel products are shipped.<sup>148</sup>

FIDE also played an integral role in lobbying for NAFTA-parity legislation. Through their Honduran and Miami offices, and in coordination with the Caribbean-Central American Action (CCAA), they organized a campaign to send emails, faxes, and phone calls to Senators urging them to pass CBI enhancement. Because of this activity approximately 2,963 American companies were contacted. In addition, Honduran maquilas made a special promotional tour to the 1999 Bobbin Show in Atlanta

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<sup>147</sup> Ostroff, Jim. 1998. "Hurricane Hurts Apparel Operations." *Womens Wear Daily*, 4 November.

<sup>148</sup> Luxner, Larry. 1999. "Honduras Pushes Port Privatization." *The Journal of Commerce*, 18 February.

By February of 2000, Honduras had privatized passenger and air-cargo operations at its four airports. Plans also included setting up Maquilas within the San Pedro Sula airport.

Georgia.<sup>149</sup> Honduran business associations, industry officials, and government representatives came to the US and made a full press to encourage the passage of enhanced trade preferences for the region, and the country.

Honduran EPZ owners saw an opportunity for Honduras to be put on equal footing as their main rival Mexico. “These are very hard times for Honduras, and our people are at risk of losing their jobs, I don’t think there’s any alternative to CBI-NAFTA parity” said Mario Canahuati, President of the Cortes Chamber of Commerce. According to Jose Molina, Chairman of the ZIP Choloma, an EPZ near San Pedro Sula “Mexico has an advantage over us in that they don’t pay any duties on aggregate value,” Molina, instead would like to see NAFTA-parity address this disparity, allowing duty to be solely assessed on labor value-added.<sup>150</sup> The disaster engendered confidence in the passage of NAFTA-parity, “right now, because of Mitch, there could be sympathy for approving the bill”, Molina added.<sup>151</sup> US Ambassador to Honduras, James Creagan also voiced his support for parity legislation:

“Honduran textile industry was built up through CBI benefits. They've done very well. In many of these plants, the work is done in the U.S., cloth is cut in Honduras and goes back to the U.S., providing jobs for Americans...In the aftermath of the hurricane, Washington wants to support Central America. With the banana industry destroyed and \$200 million worth of exports lost, they need foreign exchange now, and the best foreign-exchange earners are maquilas, and they produce jobs fast...CBI enhancement is good for the U.S., by the way, because it

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<sup>149</sup> Cosponsored by AAMA and the Sewn Products Equipment Suppliers Association, Bobbin Show is the largest tradeshow for garment industry. FIDE, Memoria 1999: [http://hondurasinfo.hn/?page\\_id=1104&lang=en](http://hondurasinfo.hn/?page_id=1104&lang=en)

<sup>150</sup> Luxner, Larry. 1999. “After Surviving Mitch, Label Honduras a Garment Power.” *Journal of Commerce*, 15 March.

<sup>151</sup> Ibid.

prevents illegal immigration, which is a burden for the United States. It's best to have prosperity for Honduras, and CBI enhancement could be the next step on the road to free trade by the year 2005.”<sup>152</sup>

### *Congress and the Executive*

For much as Honduras could make its country attractive for investments, passing trade legislation in 1999 was contingent on the interactions between apparel manufacturers, textile makers, importers and retailers, labor organizations and a divided Congress. Congress and the administration would once again spar over details of legislation. This time, however, the institutional dynamics had slightly changed. First, President Clinton had been impeached in December of 1998 and while the Senate wished to put the matter to bed, the House angled for a protracted impeachment process. Second, both chambers were closing in on an election season, which threatened to slow the pace of any potentially controversial trade legislation moving through Congress. These events would undoubtedly affect any free-trade legislation for the upcoming year.

Since 1993 the trend had been for parity bills to pass the House, only to get ensnared in the Senate by Senators from textile states and the Clinton administration. The administration's support for protectionist trade deals goes against the executive's theoretical penchant for internationally-oriented trade agreements. However, the loss of congressional support and impeachment proceedings added a new dynamic.

Since his election, Clinton had lost a net total of 47 House and 8 Senate seats to Republicans. In 1995, for the first time since 1954, the Republicans controlled both houses of Congress. For his re-election campaign, Clinton had to rely more heavily on

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<sup>152</sup> Ibid.

support from traditional sources, including labor groups. Pushed by organized labor, the Senate version of NAFTA-parity included fast-track authority to negotiate labor rights and environmental issues. This would help explain the support for a protectionist Senate bill. The House bills were more liberal, favored by transnational corporations, and did not include requirements that would protect workers' rights. This was seen as pivotal for the administration, democratic lawmakers and organized labor. The administration was thus more receptive to protecting national interests, as limited as they may have been.<sup>153</sup>

Congress estimated that the combined economic impact of Hurricane Mitch and Georges amounted to \$4.2 billion in combined damages (Honduras, Nicaragua, the Dominican Republic, El Salvador and Guatemala) and wiped out 50% of Honduras' GDP in particular. In February of 1999 Senator Bob Graham (D., Fla.) and three cosponsors introduced S. 371, the Central American and Caribbean Relief Act. The legislation was designed to provide assistance to countries affected by the hurricanes through appropriations from the economic support fund, international disaster assistance, and a variety of humanitarian, disaster, and civic aid programs. To help contribute to the recovery effort, the bill proposed to extend NAFTA-like parity to Caribbean Basin countries. Apparel produced in the Caribbean Basin would receive duty and quota-free treatment if its textile origins were from the US.<sup>154</sup> The House version, H.R. 984, was introduced a month later by Representative Philip Crane (R., IL). This version featured a

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<sup>153</sup>Labor denounced both, Ann Hoffman, Legislative Director for UNITE considered “deplorable”, the coupling of disaster relief to trade legislation that would cost approximately 100,000 Americans their jobs.

Ramey, Joanna. 1999. “House Gets Rival CBI Trade Bills Called Essential to Disaster Relief.” *Womens Wear Daily*, 5 May.

<sup>154</sup> Central American and Caribbean Relief Act. S.371 – 106<sup>th</sup> Congress (1999-2000). February 4, 1999. <https://www.congress.gov/bill/106th-congress/senate-bill/371/>

more liberal sourcing arrangement to include preferential treatment for fabrics originating from any CBI beneficiary country if it was made by US yarn. It also allowed for the sourcing of fabrics outside the CBI if the material is not readily available from US suppliers.<sup>155</sup> In terms of trade breaks, the Senate bill had a US textile requisite. The House version provided for US, Caribbean Basin, and under specific circumstances, foreign fabric. Textile manufacturers and the administration supported the Senate version while retailers and importers rallied behind the House bill.

In March of 1999 Congress took up H.R. 984. Early on, it appeared that compromise was possible. The year 2005 was going to be a crucial one for the governance of international trade. That was the year quotas on apparel was set to expire for all members of the World Trade Organization (WTO). It was also the year China would become an official member. In terms of the new multilateral easing of quantitative restrictions, cosponsor Rep. Jim Kolbe (R. Ariz.) understood that, “the likely consequence will be a shift of production to the low cost producers. Most likely, this will be Asia”.<sup>156</sup> He was joined by Senator Bob Graham who also conceded that “[i]f we don’t use these five years in a constructive way to maintain a competitive advantage, [apparel production would move to] the Far East”.<sup>157</sup> The compromise sought was once again based on the question of rule of origin, particularly the use of some fabric sourced from CBERA beneficiary countries, and not entirely from the US.

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<sup>155</sup> Caribbean and Central America Relief and Economic Stabilization Act. H.R. 984 – 106<sup>th</sup> Congress (1999-2000). March 4, 1999. <https://www.congress.gov/bill/106th-congress/house-bill/984/>

<sup>156</sup> Ramey, Joanna. 1999. “CBI: Textile Concessions Possible.” *Womens Wear Daily*, 24 March.

<sup>157</sup> Ibid.

The administration and Congressional backers were on full offensive for NAFTA-parity. The core of their argument was to use the existing trade relations to help the region recover from the aftermath of the hurricane. Garment production is seen as the quickest way to increase economic activity between the two countries and will only help create jobs for both the US and Central American beneficiaries. The president used his 1999 State of the Union Address, to once again appeal for fast track authority. The president also urged Congress to use their powers to help the Caribbean Basin rebuild from the devastation.<sup>158</sup>

As NAFTA-parity bills circulated through Congress, Clinton visited Honduras on March 9th to survey the hurricane affected countries. Clinton used the occasion to reassure Honduran and Central American leaders in attendance that NAFTA-parity legislation was indeed a real possibility, particularly *because* of Hurricane Mitch.<sup>159</sup> Two days later, on the 11<sup>th</sup> of March, Clinton became the first president since Lyndon Johnson to visit Guatemala. There for the Central American Summit, Clinton told the delegates in attendance that “[t]he damage the hurricanes left, some of which I have seen, of course,

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<sup>158</sup> William J. Clinton: "Address Before a Joint Session of the Congress on the State of the Union," January 19, 1999. Online by Gerhard Peters and John T. Woolley, *The American Presidency Project*. <http://www.presidency.ucsb.edu/ws/?pid=57577>.

For their part, UNITE held firm to their opposition to granting the president fast-track authority if it did not include labor and environmental controls. President Clinton also made it clear that he did not want fast-track authority without being able to negotiate labor and environmental standards. While idea of a global labor standard was troubling for apparel manufacturers, organized labor had done much to make that a part of the administrations agenda.

<sup>159</sup> William J. Clinton: "Remarks in a Roundtable Discussion on Hurricane Mitch Reconstruction Efforts in Tegucigalpa, Honduras," March 9, 1999. Online by Gerhard Peters and John T. Woolley, *The American Presidency Project*. <http://www.presidency.ucsb.edu/ws/?pid=57220>; Ramey, Joanna, and Jim Ostroff. 1999 "Lobbyists: Clinton Trade Agenda Still Iffy." *Womens Wear Daily* 21 January.

has increased the urgency of our deliberations and our action.”<sup>160</sup> In 2000, during his last State of the Union Address, Clinton once again called for fast-track authority to negotiate trade deals designed to lift “both our living standards and our values, never tolerating abusive child labor or a race to the bottom in the environment and worker protection.” As he urged Congress to finalize NAFTA-parity legislation.<sup>161</sup>

### *Industry*

In 1998, the domestic textile and apparel industry was responsible for 42% of all job losses in manufacturing. Apparel manufacturers lost 77,000 workers compared to 32,000 by the textile industry. By the beginning of 1999 the domestic industries employed 731,000 and 579,000 workers respectively.<sup>162</sup> Increased Asian competition was a motivational force to use Hurricane Mitch as a window of opportunity to link NAFTA-parity to the latest round of corporate restructuring. “The apparel industry is about the only survivor down there, and it’s the place you can create jobs quickly,” said Larry Martin, president of AAMA.<sup>163</sup>

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<sup>160</sup> William J. Clinton: "Opening Remarks at the Central America Summit in Antigua, Guatemala," March 11, 1999. Online by Gerhard Peters and John T. Woolley, *The American Presidency Project*. <http://www.presidency.ucsb.edu/ws/?pid=57232>.

<sup>161</sup> William J. Clinton: "Address Before a Joint Session of the Congress on the State of the Union," January 27, 2000. Online by Gerhard Peters and John T. Woolley, *The American Presidency Project*. <http://www.presidency.ucsb.edu/ws/?pid=58708>.

<sup>162</sup> Ramey, Joanna. 1999. “Apparel, Textiles Left Out of Rosy Job Picture.” *Womens Wear Daily*, 11 January.

<sup>163</sup> Ramey, Joanna. 1999. “A Hard Time to Engage in Lobbying.” *Womens Wear Daily*, 5 January.

Testifying on H.R. 984., AAMA Director of Government Relations said that “[a]lthough Asia is further away from the U.S. market, its access to lower priced inputs, especially since the onset of the financial crisis, makes it extremely competitive.”<sup>164</sup> China’s ascension to the WTO was also problematic. In 1997, both ATMI and AAMA were united in urging a 10-year phaseout of quotas on Chinese apparel and textiles because of fears it would affect both domestic industries and CBI manufacturers. However, by 1999, AAMA abandoned its previous position and now joined the NRF in favor of China being on accord with the quota timetable of other nations.<sup>165</sup> It also supported a trade preference program for sub-Sahara Africa, in addition to NAFTA-parity.

All these positions put the AAMA at odds with ATMI. For disagreements on parity, the margin of discord was thin, but very meaningful. ATMI supported the Senate version and wanted duty-free and quota-free access to US markets given the garment was made from US yarn and fiber. ATMI was willing to acquiesce on cutting operation in the Caribbean Basin, but the thread of that fabric had to also be of US origin. For this reason ATMI had capsized previous legislations since 1993. AAMA favored similar tariff preferences and easing of quantitative restrictions but also wanted cutting operations to take place in the Caribbean or the US. In addition, the House bill, which had no US-only textile mandate, included provisions to allow knitted textiles produced in the Caribbean Basin to have preferential treatment. By July of 1999 the Senate bill was gearing up to be

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<sup>164</sup> Ibid.

<sup>165</sup> Ostroff, Jim. 1999. “China’s U.S. Quota 2005 Cutoff Date Still Issue in Talks.” *Womens Wear Daily*, 26 April. Summing up the feeling of AAMA was the theme of the associations 1999 annual meeting: “Global Trade is Here! Relax, Enjoy and Participate.”



voted on. The House bill, which had failed in 1997, had yet to be voted on and destined to face a difficult time passing the Senate. If both bills were passed they would have to be reconciled before reaching the president's desk.

Chairman of apparel firm Val D'or, Martin Granoff addressed the AAMA annual convention and in no uncertain terms declared war on ATMI's protectionism, saying "[t]he ATMI bill will not be accepted by our membership and will have no chance of passing. Our resolve is deep and we won't allow it to happen." Granoff added that:

"[w]hen you hear ATMI and our adversaries say they want a bill, they don't want a parity bill. They want a giveaway that's totally favorable to the textile people. Textile manufacturers scream to the legislators that [parity] will devastate employment in their industry. Yet the very same textile companies have opened extensive, owned manufacturing in Mexico. Is it the Southern textile worker they are looking to protect, or is it their monopoly in Mexico? Talk about hypocrisy."

The latter critique had some merit. The topic of discussion at the ATMI's 50<sup>th</sup> annual meeting. The message: move production to Latin America, fast!<sup>166</sup> "The Asians are coming. They are not continuing to sit back and ship products out of Asia as they have in the past," said Mary O'Rourke, Managing Director of the textile and apparel consulting firm, Jassin-O'Rourke Group. She added that "at the end of the day, we only need so much capacity down there. The question is who will get there first,"<sup>167</sup> In the wake of the economic crisis, Asian firms ramped up production to expand beyond their local markets. The advice was to have a more robust presence in the region because Asian

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<sup>166</sup> Malone, Scott. 1999. "Get to Latin America Fast, Mills Told." *Womens Wear Daily*, 16 March.

<sup>167</sup> Ibid.

manufacturers had already controlled 70% of Guatemala's apparel industry, 15-20% of Mexico's and about 35% of the entire Central America.<sup>168</sup>

As a result, a number of textile mills began consolidating the supply chain by offering full-package assembly. Knit mills, like Burlington Industries, Dyersburg Corp, Galey & Lord where buying sewing plants in Mexico and the Dominican Republic in order to localize garment-production. Filling the gap left by exiting apparel manufacturers. Mills sought to develop full-package assembly operation and sell directly to branded firms, many of which had abandoned manufacturing in favor of marketing and design.<sup>169</sup>

In response to the larger criticism, ATMI's, Carlos Moore, stated that "ATMI and its members have been consistent in their position that we would support the [Caribbean] nations joining NAFTA, and if and when this occurs, the yarns and fabrics made in these countries, and of course the apparel, would qualify for the same free-trade benefits as Mexico and Canada". He further added that "a full free-trade agreement carries with it privileges and obligations -- such as the obligations relating to investment, unfair trade practices, intellectual property rights protection and opening markets -- while the [AAMA-supported Caribbean] legislation is solely a privilege, giving quota- and duty-free access to the U.S."<sup>170</sup>

Adding to the calls for liberal sourcing options was Erik Autor, Vice President of International Trade for the NRF, who testified that prolonging a yarn-forward rule

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<sup>168</sup> Ibid.

<sup>169</sup> Malone, Scott. 1999. "Mills Move to Sewing Machines." *Womens Wear Daily*, 6 April

<sup>170</sup> Ostroff, Jim. 1999. "AAMA Vows Strong Fight to Win Caribbean Free Trade." *Womens Wear Daily*, 5 May

“would ultimately hurt (Caribbean) producers and their workers by preventing countries from moving their economies to the next level of development in related, higher paying and more technologically sophisticated production sectors.”<sup>171</sup> Autor, went on to rhetorically question the stubborn position held by the textile lobby when they would ultimately be winners on NAFTA-parity:

[W]e find it ironic that one industry -- the U.S. textile industry -- that supported NAFTA and so strongly lauds the benefits it has received as a result of the textile and apparel provision of that agreement would seek anything less for countries in the CBI. If NAFTA has been good for the textile industry, why would NAFTA parity for the CBI not also be equally good for the textile industry?<sup>172</sup>

ATMI had softened its stance on trade preferences being granted only to garments made from US fabric. The association now supported benefits to garments knit-to-shape from regional fabrics, given that it is made from US yarn. It also relented somewhat of the use of foreign sourced components used to make brassieres. ATMI now supported the use of foreign components if they did not amount to more than 25% of the item and was not fabric, yarn or thread.

ATMI was not, however, ready to acquiesce to apparel and retail demands for CBI sourced woven fabrics to be included in parity law. By May of 2000, House

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<sup>171</sup> Ibid. 80.

Retailers, like the International Mass Retail Association (IMRA) wanted to bundle NAFTA-parity to the African Growth and Opportunity Act (AGOA). This association wanted quota and duty-free benefits extended to sub-Saharan countries garments irrespective of the source of the fabric. A measure opposed by US textile producers who argued that Africa could become a site for Chinese apparel transshipments.

<sup>172</sup> Erik O. Autor, Vice President of the International Trade Counsel, National Retail Federation. Testimony Before the Subcommittee on Trade of the House Committee on Ways and Means. Hearing on the H.R. 984, the "Caribbean and Central American Relief and Economic Stabilization Act" March 23, 1999

lawmakers called representatives from ATMI into a meeting to discuss such a compromise. Adamant about ATMI's position, Doug Bulcao, Director of Government Relations, made it clear that "[w]e support the Senate version. Period. They said they wanted us to change our position, but we said we couldn't and there's no justification for doing so."<sup>173</sup> But the crack in ATMI resolve came just days later as the board offered up a compromise to save the bill from being shelved altogether. The industry proposed regionally produced knits get duty breaks, given the thread origins are the US and these knits are capped at 184 million square meter equivalents (SMEs).<sup>174</sup>

In May of 2000 the House voted 309-110 in favor of the legislation, followed by a 77-19 vote in the Senate. Passed alongside the African Growth and Opportunity Act (AGOA), CBTPA promised to save a conservative \$1.42 billion in duties, not including the potential gains from manufacturers who may eventually shift production from the US and Asia. By packaging the CBTPA with the AGOA, retailers and importers were able to finagle a rule of origin compromise on garments from the 48 sub-Saharan African states. The AGOA would allow countries to use their own textiles for up to 1.5% of total imports. That number would increase to 3.5% for the first 8 years of the bill. The poorest countries could source fabrics from anywhere with the same percent cap. For the CBI countries, they finally settled on 292 million SMEs for knit textile sourced from CBI countries.

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<sup>173</sup> Ramey, Joanna. 2000. "House, Senate Near Last Effort for Africa-CBI Bill Compromise." *Womens Wear Daily*, 3 April.

<sup>174</sup> Ramey, Joanna. 2000. "ATMI Loosens Position on Africa/CBI Textiles." *Womens Wear Daily*, 5 April.

The basic outline of the CBTPA/NAFTA parity began to actualize textile and apparel as a potential growth sector for many CBI countries, with some limitations. Much of the deal still kept higher value-added activities out of reach for most developing nations. But at its core, it created job expansion opportunities as the region became more competitive globally and immediately vis-à-vis Mexico. Moreover, NAFTA parity could be an economic boon to region suffering from a spate of disasters, including hurricanes Mitch and George. Finally, NAFTA parity sought to position Caribbean Basin countries to renegotiate a free trade agreement with the US in 2005. That is the same year China would be expected to join the WTO, revoking quotas on Chinese apparel and textiles.

As per the concerns of domestic textile producers, the CBTPA maintained rather strict fiber and yarn forward rules for apparel products. Tariffs and quantitative restrictions were eliminated for apparel assembled in a CBI country from US fabric or yarn. CBI countries did have the opportunity to cut fabrics locally, but those fabrics also had to be of U.S. threads. For some knit-to-shape products originating from CBI fabrics, duty and quota free eligibility was granted for the first 250 SMEs, then allowed to gradually increase by 16% for a three-year period. Brassieres also qualified, so long as 75% of the customs value was of US origin, if a producer did not meet that target, their eligibility would be renewed the year after those US components reach 85% of the customs value.

The short supply rule allowed fabric, fiber, or yarn, not readily available through US producers, to be substituted from countries not party to the agreement. If special presidential permission is granted, these finished products could enter US markets duty and quota free. Additionally, as much as 25% of components (trimmings and interlinings)

could be derived from third-party countries, with transshipments and other customs violations warranting suspension from the trade agreement.

A victory for watchdog groups and transnational labor, countries were also expected to meet international labor standards that govern working conditions, including those concerning child labor.<sup>175</sup> The protection of US intellectual property rights were also woven into the agreement along with counter-narcotics certification and provisions that protected property rights and allowed US access to domestic markets.<sup>176</sup>

Disaster, opportunity, and competition thus forced movement along entrenched industry positions. It also provided a legislative opening as the administration battled with Congress. The resulting compromise was just that. It did not reflect a ground shift in regional policy. Parity legislation could best be described as a continuation of the last two decades of regional protectionism. Any relenting was on the minor details of the legislation. The core framework remained. US markets were open to foreign assembled goods, so long as those intermediate components were of US origins.

### Implications and Conclusion

Like many of the Caribbean Basin nations, Honduras had been affixed within a sphere of US trade policy that was decidedly protectionist in favor of US industries. Honduras, was particular important to US foreign policymakers because it was not only a staging ground for US sponsored counter-insurgency and regime destabilization efforts

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<sup>175</sup> As a way to show its teeth, Guatemala was the first country to have its compliance reviewed when the CBTPA became law.

<sup>176</sup> Ramey, Joanna. 2000. "Africa-CBI is a Go: Biggest Breakthrough Since NAFTA/WTO." *Womens Wear Daily*, 12 May.

but, behind only Mexico, Honduras was the largest regional exporter of apparel products to the US. Honduras' aid dependence throughout the 80s allowed the US far-reaching power to shape its economic and political dispositions. Military and economic aid as well as access to US markets was used in exchange for complicity in destabilization efforts in neighboring Nicaragua. Honduras would have to cede some economic autonomy to a larger neoliberal project and transnational interests seeking to exploit their abundance of low-skilled workers.

The diversification and growth of the Honduran economy was tied to the development of its industrial sector, particularly apparel production. A departure from import substitution development, the move to export-oriented development became increasingly attractive due to its perceived successes in the newly industrialized countries of East Asia. USAID technocrats would take advantage of Honduran labor and geographical endowments to develop and sustain elite transnational class formation capable of advancing economic opportunities aligned with US corporate restructuring.

By the early 1990s, the leftists had been pacified and free and fair trade became the mantra in the United States. As a result, Honduras, and the larger Caribbean Basin, had lost its strategic importance in terms of foreign economic policy. China's entrance into the WTO and trends of broader multilateral trade regimes led to a decline in interest of one-way, preferential trade agreements. NAFTA also threatened to weaken the Caribbean Basin vis-à-vis Mexico. NAFTA-parity legislation, which would provide CBI beneficiaries tariff and quota treatment similar to NAFTA, was stalled in Congress as trade liberalizing forces in the House of Representatives, met resistance from textile-state Senators.

Natural disaster revitalized Caribbean Basin trade negotiations. Following the devastating effects of Hurricane Mitch and Georges on Central America and parts of the Caribbean, NAFTA-parity legislation was coupled with disaster and reconstruction assistance. It should be exceedingly clear that the natural disaster was not the sole cause of parity legislation passing Congress, yet it was a significant motivating force to get it on the Congressional agenda in 1999. Other important events like trade talks for China's entrance in the WTO also loomed large and there was pressure to get legislation passed before the abbreviated Congressional session ended. Also, as labor became cost-prohibitive for East Asian manufacturers, they also began to offshore their assembly operations to Honduras. The ever-increasing Asian presence in Honduran industrial parks pushed US textile and apparel producers to seek legislative compromise. Nevertheless, Hurricane Mitch did serve to revitalize NAFTA-parity legislation. Central American governments and their domestic allies lobbied the US Congress relentlessly. The president also made a series of high profile visits to the region, originated a series of legislations, and used his State of the Union Address to call for action on parity legislation. The aftermath of Hurricane Mitch also encouraged creative ways to liberalize the economy through privatization, deregulation and foreign direct investment.

Hurricane Mitch, over a decade before the Haitian earthquake, may have been the predecessor of this particular mode of transnational mobilization: crises as opportunity. The devastation wrought had a massive toll on lives, property, and the infrastructure network necessary for Honduras' aged agrarian-based economy. Apparel production in the largely intact northern port regions was seen as convenient and necessary to create



immediate economic growth. It also matched Honduras' abundance of low skilled workers, with the insolvency of US's manufacturing capabilities.

However, the fluidity of global apparel production networks require a progressive race to the wage floor among other concessions exacted on the backs of the working class. Transnational manufacturers, textile producers, and apparel purchasers, often in conflict with each other, each require increasingly generous incentives as a pre-condition to exploit investment opportunities. This helps explain why NAFTA-parity legislation was mired in deadlock for several years prior to Hurricane Mitch. The disaster revitalized trade negotiations, pitting trade liberalizers, economic protectionists and their Congressional and Executive surrogates against each other. Transnational alliances of Honduran exporters, US apparel producers, retailers, and importers used this natural disaster to advance new legislation and jumpstart stalled ones. The ultimate winners were regional protectionists able to maintain control of the backward and forward linkages of the apparel assembly network. The losers, as often is the case, the working class, at home and abroad.

## CHAPTER FIVE: CONCLUSION

### Revisiting Themes

Disaster capitalism is about the fracturing of existing political, economic, and social structures; the disempowering of its victims, the centralization of authority and decision-making, and the reconstruction of society and its institutions based on the dominant private sector ethos. The sequential process of public disorientation, the concentration of power to local political and economic elites, and the arrival of transnational aid agencies and private actors, creates opportunities for economic re-engineering under the banner of neoliberalism. That neoliberalism coolly operates under conditions of crises, should not be surprising. Since the late 1970s, it has been the hegemonic policy prescription to fill voids caused by wars, coup d'états, financial crises and natural disasters. It is evoked to attenuate the power of labor, liberalize finance policy, and deregulate industry. In what David Harvey (2005) calls its nature of 'creative destruction', neoliberalism harbors an abhorrence for institutional framework that do not embrace market-based solutions to social transactions, no matter how innocuous they may be. Moreover, the goal of neoliberalism has been to (1) rupture national economies and reorient them towards globalized circuits of accumulation, and (2) construct regulatory frameworks conducive to this mode of global capitalism.

This dissertation asked two essential questions: Can we empirically substantiate disaster capitalism? If so, how does it operate and who are the essential actors? Not only do I begin to substantiate an empirical relationship between neoliberal policy reforms and natural disasters, but I also identify a particular method through which it is perpetrated on national economies in Latin America and the Caribbean. In chapter two I operationalize both natural disasters and neoliberal economic reform and perform statistical tests through a longitudinal examination of natural disasters alongside a series of common explanatory variables associated with economic reform. The exploration of the paneled data wielded some encouraging results. Through an investigation of 30 Latin American and Caribbean countries for a span of 18 years, it was discovered that there does indeed exist a pattern of neoliberal economic reforms following a disaster. These results confirmed my first hypothesis and were instructive because being able to establish this central regularity provided a compass for deeper investigation through individual case studies.

The case studies included a detailed analysis of government documents, archived newspaper articles, trade journals, and various speeches and presentations by political and business elites. These case studies were important to the overall project because it was simply not enough to identify the *what* and *why*, as generalized empirical studies are wont to do. In order to complete a more persuasive account of correlated observations, it was important to identify the relevant actors and the mechanisms through which they affect change - the *who* and the *how*. Chapters three and four provided accounts of the (pre- and) post-disaster space in Haiti and Honduras respectively, and how they were filled by opportunistic trade policy designed to benefit politically rooted, US-based

transnationals. These case studies also had interesting, mixed results. The policy outcomes following the Haitian earthquake were in accord with my second main hypothesis, that beneficiaries of post-disaster policies would be transnationally-oriented capitalists who rely on the increased financialization of capital and who have more keenly adapted to global supply networks. Conversely, while there were concessions made to commercial elites plugged into the global economy, on balance, for the specific area of interest, the major post-disaster policy outcomes following Hurricane Mitch favored nationally-oriented capitalists and their vertically-oriented production networks.

Overall, the results paint quite a lucid picture of the post-disaster policy-making process and its actors. Taken together, this dissertation begins to identify the crosscutting linkages between neoliberalism, its agents of dissemination, US national interests, transnational corporations adjusting to changing modes of capital accumulation, and natural disasters. The globalization of production, the ubiquity of neoliberal ideology, and the strengthening of the Executive vis-à-vis Congress has greatly empowered globally-oriented sectors of the US economy. A crisis of accumulation in the early 70s led to the fracturing of the US national economy. The disaggregation of labor from higher value-added activities produced corporate structures that encouraged the influx of manufactured exports from developing countries through a variety of increasingly global production-sharing agreements. Yet, vertically-integrated business nationalists in the textile and apparel industry (even amidst their own corporate restructuring) have maintained a measure of their commercial advantage by aligning their interests with US strategic interest in the Caribbean and Latin America.

## Overview of Historical Context

From the conclusion of World War II to the late 1970s, a number of Latin American and Caribbean countries had taken part in development policies predicated on the localization of productive capabilities. This approach entailed the discouragement of imports through high currency valuations, trade barriers designed to protect fledgling domestic industries, and government mediation of key industrial sectors. In efforts to support this type of industrialization, states often relied on financing from international capital markets. This unfortunately led to an ever-expanding debt profile. In times of global economic expansion, this is not such a worrisome bargain. Financing is relatively easy to come by. However, as the major economies began to slow in the late 1960s and financial crises beset the developed world in the early 1970s, access to capital dried up. This impinged upon not only demand from the developing world, but also access to the necessary capital needed to offset its current account deficits. No longer able to service its debts, many Latin American and Caribbean economies crashed under the pressure of high inflation and public sector liabilities.

The solution was the repudiation of nationally-oriented economies and the political and social structures it rested on. These economies were to be made more outward facing, export-oriented. Designed by Washington-based technocrats, neoliberalism was eulogized as the cure-all for failings that beset these economies. With a bit of austerity, adopting market orthodoxy brought with it the promise of economic growth conditioned on neoliberal monetary and fiscal policy, privatization of state-owned enterprises, shrinking of the public sector, deregulation of the labor markets, lowering of

trade barriers, the liberalization of rules governing foreign investments, and the widespread use of export-processing zones (EPZs).

The success of export-oriented development, as evidenced by the “Asian miracle”, hastened the impetus to affix Latin America and the Caribbean within the regionalization of the global economy. These small economies had apparently bit off more than they could chew, demonstrated by the failings of import-substitution, or the domestic production of industrialized products. As an abandonment of state-directed development, industrial upgrading was fashioned as a way for countries to insert themselves in the global economy. A country could achieve economic growth by situating itself within a particular node of the global supply chain. Here, a nation’s labor force can participate in the global economy by specializing in the production of a specific good or input. After an unspecified amount of time, countries and workers can ascend the value chain to either develop new product lines, streamline the production of an existing product, or transfer into a new industry altogether. Coinciding with deindustrialization in the developed world, apparel manufacturing emerged as one such niche economic activity. As labor costs became cost-prohibitive and apparel assembly factories closed across the traditional apparel manufacturing hubs in the US, the abundant, low-skilled workforce of the strategically designated Caribbean Basin were granted new opportunities. Depending on the depth of regulatory concessions and the competitive wage floors willing to be approached, countries could not only to insert itself within the global apparel production chain, but also achieve, previously touted, rapid industrial upgrading.

Renewed US strategic interests in the Caribbean Basin coincided with corporate restructuring across labor-intensive industries. Suspicions of immigrants and leftists help hasten new trade programs designed to combat these unaccounted for effects of structural adjustment policies. As important policy actors, US corporate interests were able to influence these regional trade programs by designing and managing hierarchical production networks that off-shored costly labor-intensive activities to the Caribbean Basin, kept higher value-added activities at home, and ensured control of the entire production chain from material sourcing and assembly to packaging and distribution. This was the fundamental principle of the Caribbean Basin Economic Recovery Act (CBERA), and later Caribbean Basin Partnership and Trade Act (CBPTA).

At its core, this arrangement amounted to US lead firms afforded the opportunity to relocate labor-intensive, standardized production activities to the developing world while maintaining control over both backward and forward linkages. The fabrics, buttons, zippers, and packaging were to all originate in the US. US-made components were to be assembled in overseas processing plants and shipped back to the US for distribution, with duties paid only on the labor value-added. For transnational textile and apparel corporations, the expansion of production-sharing into Central America went hand-in-hand with producer-driven corporate restructuring in the apparel production chain. This assembly-oriented production network was made possible by a series of legislative trade barriers reinforced by Senators and representatives from textile and apparel producing states. As a new mode of capital accumulation, regional trade preference programs served to insulate US firms from global competition in apparel production.

However, Executive-initiated multilateralism in conjunction with the growth of large-scale retail purchasers, branded manufacturers, and branded marketers challenged the policy dominance of vertically integrated apparel manufacturers. Policies initiated by the Executive increasingly favored trade liberalization and, as a consequence, capitalists who had taken advantage of the financialization of the American economy. Additionally, vertically oriented, US apparel manufacturers had difficulty keeping up with not only the scale, but also the diversity of apparel demand from US consumers. By retailers increasing their reliance on the import of assembled apparel products they have altered the traditional commodity chain by cutting out the intermediaries, and instead opted to contract with full-package assembly operations in East Asia. In turn, these largely autonomous agents were free to source fabric, fabric components, and labor anywhere in the world, so long as the final product meets the specification of the principal. This would explain why the South Korean-based Global Fashions had low-cost garment assembly operations in Honduras dedicated to supplying store-brand fashions for the US transnational Wal-Mart.

Fearing the encroachment of these rationally-sourced apparel production chains into Latin America and the Caribbean, US industry actors have actively designed, constructed, and maintained 30 years of regional protectionism packaged as growth spurring trade preference programs. This status quo was made possible through an alliance of corporate executives, politicians, business associations, NGOs, the World Bank, IMF, Inter-American Development Bank and USAID. And following Hurricane Mitch, the essential details of the CBPTA was illustrative of a tenuous continuation of these policies. However, the 2010 Haitian earthquake was occasion for a more robust



consolidation of market and political power by a group of transnationalizing corporate actors. Far from a localized incident, the disaster was emblematic of the continued fracture of national economic sovereignty, which began with the CBPTA, in favor of commercial globalizers. Haiti's exceptions under the Hemispheric Opportunity through Partnership Encouragement (HOPE I and II) and the Haiti Economic Lift Program (HELP) represented an opportunity to streamline production chains in favor of cheaper material sourcing options. Haiti also had an abundance of low-skilled labor primed for exploitation by globally-oriented apparel retailers and branded manufacturers. By revising the rules of origin provisions, Haiti's bilateral trade preferences meant an opening of over three decades of regional protectionist policies. Allowing the use of cheaper third-country material inputs challenged the monopoly of US textiles in Haitian-made apparel products.

In the end, this confluence of fear, Cold War politics and protectionist-inspired economic policies kept the Caribbean Basin firmly within the sphere of US influence. A regime of preferential trade agreements allowed the region to be artificially competitive by granting duty free access to US markets in return for the US dictating the terms of trade. The desire to move labor-intensive textile and apparel operations overseas while maintaining the power to decide the origins of primary inputs created the impetus for production-sharing arrangements codified in the CBERA, CBPTA, HOPE I and II, and HELP. Using reciprocal trade preference programs highlighted by strong yarn forward rules, US textile and apparel transnationals have ensured the use of domestic fibers and fiber components in apparel assembled overseas for export back to the US.

Nonetheless, as bipolarity has subsided so too has the power of protectionist US textile and apparel transnationals to dictate policies in the Caribbean Basin. International donors, policymakers, large-purchasing retailers, and globally-oriented transnationals now advance export-led developmental models emphasizing global supply chains, economic diversification, and industrial upgrading. Disasters, as policy windows, can advantage transnational capitalists best mobilized to exploit these opportunities. Capital-importing sectors in developing countries organize and align with transnational actors to facilitate greater investment opportunities.

Yet for these alliance to be successful, for the disaster to be truly capitalized, investments must offer positive returns. Trade preferences are key, but the environment must be investor-friendly. EPZs that offer tax holidays and full profit repatriation are the desired development model. Most importantly, however, is the required labor subjugation. If wages are of any indication, these preferential trade agreements can only serve to maintain the Caribbean Basin as an offshore assembly hub. Through every round of new trade preference agreement, developing countries like Haiti and Honduras bargain their labor, environment, social cohesion, and economic autonomy to the floor. Labor militancy and populist governments are bad for business and a signal to flexible transnational corporations to shift operations to locations that offer marginally better returns on investment.

### Implications and Future Research

Disaster capitalism is argued here as a function of transnational processes in part caused by global financial integration and capital mobility. However, not all productive

apparatuses are equal and it would thus be erroneous to treat all capitalists as a unified interest group with transnational aspirations and associations. It is thereby necessary that future research begin to recognize sectoral-based differences between capitalists, as well as the role played by prominent globalizing actors to include corporate executives, professionals, bureaucrats, and politicians; as well as integrating agents working through think tanks, business associations, NGOs and leading institutions such as the World Bank, IMF, NAFTA and USAID.

Liberalizing policies have varying distributional outcomes. Globalization has tended to disadvantage nationally-oriented businesses and, in turn, reflect the preferences of an internationally-oriented faction of businesses. The recognition that capitalists are a dominant policy actor, yet, not a uniform set of elites, is crucial to understanding the pace, sequence and substance of reform policies. This is so because foreign economic policy is determined as a function of conflicting business interests. As a consequence, the differences between the national and international orientation of businesses as well as the intensity of labor in relation to capital in the production process can be used as a framework to explain post-disaster state policy.

Labor itself has been reeling from almost a century of setbacks related to its failure to develop into an internationalist movement, being co-opted into nationalist movements post-World wars, and being almost obliterated after the neoliberal turn of the 1970s. Can labor survive, much less affect substantive change, without embracing an international disposition? Future research will do well to focus on just where labor fits in within the struggle between these two types of capitalists.

Finally, save geographic predispositions, natural disasters are chance events. Yet, the brunt of the effects tend to disproportionately affect poorer, vulnerable populations. The same can be said of the imposition of neoliberalism. If nothing else, the symbolic parallels are hard to ignore. Similar to an earthquake or a hurricane, an encounter with neoliberal reforms often includes the fracturing of primordial economies, social linkages, families and even entire communities. The reverberations are often most forcefully felt by the poor, synonymous with the working class, left struggling to survive and cope with the uncertainty of rapidly changing social and economic situations.

This dissertation is a culmination of over seven years of study and observations. As such, it has evolved along the contours of unpredictable international events and the intellectual maturity of its investigator. When I first broached the idea in 2009, I could not have foreseen the tragic 2010 Haitian earthquake. It would be morally disingenuous to ignore the irony of railing against corporate interests using a natural disaster to advance their self-interest, when the disaster has also provided me an opportunity to advance my narrow intellectual pursuits in the real-world laboratory. The irony is not lost on me. It has been important for me not to trivialize the people that have suffered loss of life, loved ones, injury, illness, displacement, and overall affected by natural disasters. I hope to have succeeded in that effort. Likewise, I am optimistic that this study, in any minor way, can do some form of good.

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## APPENDIX

Table . Chronology of Caribbean Basin Trade Enhancement

<b>October 2, 2000</b>	Presidential proclamation 7351: President Clinton authorized the implementation of the CBTPA by designating 24 countries as beneficiaries of the program, but delaying its effect with respect to each of its individual beneficiary countries until a determination is made by the USTR that the country has satisfied the customs requirements for such treatment.
<b>May 18, 2000</b>	<b>In South Lawn ceremony before more than 300 guests, President Clinton signs HR 434 into law (PL 106-200). Providing Caribbean Basin countries preferential trade treatment in parity with that of NAFTA.</b>
<b>May 11, 2000</b>	Conference agreement on HR 434 approved by Senate on a vote of 77 to 19.
<b>May 4, 2000</b>	Conference agreement on HR 434 approved by the House on a vote of 309 to 110.
<b>April 13, 2000</b>	Breaking a months-long log-jam, Congressional leaders reach “agreement in principle” on CBI and Africa trade enhancement. Staff spend next two weeks working out details.
<b>February 7, 2000</b>	FY 2001 budget includes funds for Caribbean Basin Trade Enhancement.
<b>January 29, 2000</b>	At a World Trade Forum in Davos, Switzerland, President Clinton again cites his strong support for CBI trade enhancement.
<b>January 27, 2000</b>	In his final State of the Union Address, President Clinton asked Congress to “finalize” the CBI trade enhancement legislation.
<b>November 3, 1999</b>	Senate Caribbean Basin Trade Enhancement legislation as Title II of the Trade and Development Act of 1999 (HR 434) by a vote of 76 to 19.
<b>October 27, 1999</b>	Language of S.1389 as reported included as Title II in substitute Senate amendment SP 2325, proposed to an expanded H.R. 434, renamed the “Trade and Development Act of 1999.”

<b>September 16, 1999</b>	S.1389 (United States-Caribbean Basin Trade Enhancement Act), reported favorably with written report.
<b>June 10, 1999</b>	House Ways and Means Committee approves CBI trade enhancement legislation (HR 984).
<b>May 18, 1999</b>	House Ways and Means Trade Subcommittee approves CBI trade enhancement legislation (HR 984).
<b>March 23, 1999</b>	House Ways and Means Trade Subcommittee holds hearing on CBI trade enhancement legislation (HR 984).
<b>March 9, 1999</b>	President Clinton pledges support for CBI trade enhancement during a two-day visit to the Central America region.
<b>March 4, 1999</b>	The Administration transmits a CBI trade enhancement bill to the Congress.
<b>March 4, 1999</b>	Reps. Phil Crane (R-IL), Jim Kolbe (R-AZ), Charlie Rangel (D-NY), and Bob Matsui (D-CA) introduce CBI trade enhancement legislation as part of a package of relief measures for hurricane reconstruction.
<b>February 4, 1999</b>	S.371, containing the “United States-Caribbean Trade Enhancement Act” as Title I, introduced and referred to the Committee on Finance.
<b>February 3, 1999</b>	Led by the Chamber of Commerce, a broad coalition of several dozen business organizations and trade associations – representing, among other things, every element of the garment supply chain from cotton to consumer – call for enactment of CBI trade enhancement legislation as part of a package of relief measures for hurricane reconstruction.
<b>February 3, 1999</b>	Senator Bob Graham (D-FL), joined by a bipartisan mix of 9 other Senators, introduces CBI trade enhancement legislation as part of a package of relief measures for hurricane reconstruction.
<b>February 2, 1999</b>	President Clinton includes funding for CBI trade enhancement in his FY 2000 budget.
<b>January 25, 1999</b>	Senate Majority Leader Trent Lott (R-MS) issues the first of several statements calling for passage of CBI trade enhancement legislation.
<b>January 19, 1999</b>	President Clinton calls for measures to aid in reconstructing Central America and foster trade with Latin America in his State of the Union.
<b>December 11, 1998</b>	After meeting with Central American leaders in Washington, President Clinton declares “We will continue to support Caribbean Basin enhancement legislation to make trade more free and more fair, and to help Central American nations restore their economies. I hope very much that it will pass in this coming Congress.”
<b>November 9, 1998</b>	Central American Presidents issue a plea for passage of Caribbean Basin Trade Enhancement to aid in reconstruction of Hurricane Mitch.
<b>October 24, 1998</b>	President Clinton expresses disappointment that CBI trade legislation was not enacted during 105 <sup>th</sup> Congress and restates his support for enactment during 106 <sup>th</sup> Congress.
<b>July 23, 1998</b>	Following Finance Committee action, President Clinton makes first

	of several calls to urge enactment of CBI trade legislation before end of 105 <sup>th</sup> Congress.
<b>July 21, 1998</b>	Senate Finance Committee approves Caribbean trade enhancement legislation on a vote of 18 - 2 as part of an omnibus trade package.
<b>June 24, 1998</b>	At a hearing on an Africa trade bill, Finance Committee members and Administration witnesses repeatedly discuss the need to "move" CBI trade enhancement legislation as soon as possible.
<b>April 6, 1998</b>	Secretary of State Albright tells Caribbean heads of state that the Administration is committed to pressing for passage of CBI trade enhancement in 1998.
<b>February 2, 1998</b>	President Clinton includes funding for CBI Trade Enhancement in the FY 1999 budget.
<b>January 25, 1998</b>	Senate Majority Leader Trent Lott (R-MS) issues the first of several public calls for passage of S. 1278.
<b>November 4, 1997</b>	House defeats HR 2264 by a vote of 182 to 234.
<b>October 9, 1997</b>	House Ways and Means Committee approves by voice vote a 14-month Caribbean Basin Trade Partnership bill (H 2264).
<b>October 1, 1997</b>	Senate Finance Committee approves by voice vote a 3-year Caribbean Trade Enhancement bill (S. 1278).
<b>September 17, 1997</b>	Senate Finance Committee holds a hearing and requests comments on fast track, Caribbean parity, and Africa trade legislation.
<b>July 31, 1997</b>	Conferees on Taxpayer Relief Act of 1997 (HR 2014) file joint conference report without CBI parity provisions.
<b>June 26, 1997:</b>	House approves Taxpayer Relief Act of 1997 (HR 2014). Subtitle H of Title IX contains a one-year parity bill.
<b>June 26, 1997</b>	Congressman Charles B. Rangel (D-NY) introduces CBTEA (HR 2096) on behalf of the Administration.
<b>June 26, 1997</b>	Senator Bob Graham (D-FL) introduces CBTEA (S 984) on behalf of the Administration.
<b>June 17, 1997</b>	USTR Charlene Barshesfky transmits copy of draft Caribbean Basin Trade Enhancement Act (CBTEA) to Congress.
<b>May 10, 1997</b>	President Clinton repeats the pledge to Caribbean leaders at Bridgetown, Barbados.
<b>May 8, 1997:</b>	President Clinton pledges to Central American leaders to seek enactment of Caribbean Trade Enhancement provisions at San Jose, Costa Rica.
<b>February 6, 1997</b>	President Clinton submits FY 1998 budget funding Caribbean Basin Trade Enhancement package.
<b>October 1, 1996</b>	USTR releases Second Annual Report on Operation of the CBERA, noting the Administration's intention to seek enactment of Caribbean trade enhancement legislation.
<b>March 19, 1996</b>	President Clinton submits FY 1997 budget funding a Caribbean Basin parity trade package.
<b>October 3, 1995:</b>	A broad coalition of textile and apparel associations express support for parity in a letter to Senate Finance Committee Chairman Bill Roth (R-DE).
<b>May 15, 1995:</b>	Senate Finance Trade Subcommittee holds a hearing on pending

	Caribbean parity legislation.
<b>March 10, 1995</b>	Senator Bob Graham (D-FL) introduces The Caribbean Basin Trade Security Act (S. 529). Sponsors include: Mack, Lott, Bradley Moseley-Braun, Hatch, Grassley, McCain, Pryor, Lugar, Dodd, and Gregg.
<b>February 10, 1995:</b>	House Ways and Means Trade Subcommittee holds a hearing on Caribbean parity.
<b>January 18, 1995:</b>	Congressman Phil Crane (R-IL) introduces The Caribbean Basin Trade Security Act (HR 553). Sponsors include: Shaw, Gibbons, Rangel, Towns, Deutsch, Owens, Torres, Menendez, Hastings, A., McKinney, Mfume, Wynn, Meek, Jackson-Lee, Tucker, Wilson, Johnson, E., Fattah, and Kolbe.
<b>January 1, 1994</b>	NAFTA takes effect.
<b>December 8, 1993</b>	President Clinton signs NAFTA Implementation Act into law.
<b>June 24, 1993:</b>	House Ways and Means Trade Subcommittee holds a hearing on Caribbean parity.
<b>June 24, 1993</b>	Senator Bob Graham introduces Senate version of HR 1403 -- S. 1155. Other sponsors include: Sens. Durenberger and Mack.
<b>June 7, 1993:</b>	House Ways and Means Trade Subcommittee publishes written comments on Caribbean parity (HR 1403).
<b>March 18, 1993:</b>	Congressman Sam Gibbons introduces HR 1403 -- The Caribbean Basin Free Trade Agreements Act. Other sponsors include: Pickle, Crane, Rangel, McKinney, Mfume, Torres, Towns, de la Garza, Deutsch, Serrano, and Hutchinson, T.
<b>July 1, 1992:</b>	House Subcommittees on International Economic Policy and Trade and Western Hemisphere Affairs hold a joint hearing on the effect of NAFTA on the Caribbean.

Source: American Apparel and Footwear Association. <http://archive.wewear.org/LegislativeTradeNews/CBTPA.asp> Pregelj, Vladimir. N. 2001. "Caribbean Basin Interim Trade Program: CBI/NAFTA Parity." Congressional Research Service Issue Brief for Congress. 1-14.

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## PUBLICATIONS AND PRESENTATIONS

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