Impacts of Trade Liberalization on Rice Production in Haiti

by

Paul Altidor

Submitted to the Department of Urban Studies and Planning in Partial Fulfillment of the Requirements of the Degree of Master of Science at the Massachusetts Institute of Technology
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Impacts of Trade Liberalization Policies on Rice

Production in Haiti

By

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ABSTRACT

The decline in rice production in Haiti corresponds directly with the trade liberalization that began during the mid 1980s. Before 1986, Haiti was self-sufficient in rice production even in the midst of low yields and traditional farming practices. An influx of rice imports from the United States priced lower than domestic rice has slowly displaced Haitian rice. Producers have found that they are unable to compete with the cheaper imported rice.

The low tariffs on rice in Haiti prevent Haitian producers from being able to compete with lower priced imported rice. In 1995, tariffs on rice were decreased from 35 percent to 3 percent. The majority of the rice imported into Haiti originated from the United States, where farmers receive heavy subsidies from the government. As a result, the price of the imported rice does not reflect true production costs. Since Haitian producers are not subsidized, Haitian producers are at disadvantage.

Thesis Supervisor: Alice Amsden
Title: Professor of Political Economy
ACKNOWLEDGEMENTS

This thesis is dedicated to the rice producers in the Artibonite Valley of Haiti. This thesis is also dedicated to the Haitian university students who are being persecuted daily by the current oppressive government of Haiti. I have had the great fortune to work with many of these students in recent years. I salute all of you for your courage and determination to construct a better Haiti. Keep up the fight! It is a just and noble one.

Many people deserve my utmost gratitude through this experience. I would like to thank Professor John de Monchaux, Dean Isaac Colbert and Professor Judith Tendler. Without their understanding and caring, I would not have completed my degree here at MIT. I also would like to thank Meghan Fennelly for her support, Shirley Jean for sharing her ideas and findings about rice production and food security in Haiti with me.

I am also grateful to the hosts of the Haiti Focus radio show every Sunday on WMBR here at MIT. You guys are doing a great job educating the Haitian community. It has been a pleasure collaborating with you all. I would like to thank Kompe Le in particular. You are simply a person of exceptional intellect. Your knowledge, your ability to analyze and explain complex matters in simple language are just mind blowing. I have learned a lot from you.

This thesis is also dedicated to all my friends and family back in Haiti. Thanks for the moral support.
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**Introduction**

Rice constitutes one of Haiti’s major staple food crops. Up to the mid 1980s, Haiti was self-sufficient in rice production even in the midst of low yields and traditional farming practices. However, by the mid 1980s, rice production in Haiti has been declining at staggering rates, rendering the country almost entirely dependent on imported rice to meet local demands. In 1985, Haiti imported seven thousand metric tons of rice and produced over 180 000 metric tons. A decade later, Haiti’s imports of rice surpassed 200 000 metric tons while domestic production plummeted to about 65000 metric tons. The dependency of Haiti on imported rice has increased since 1995. According to data published by the Food and Agricultural Organization (FAO), Haiti imported over 250 000 metric tons of rice in 2000 while its production output did not reach 90 000 metric tons. The heavy influx of rice imports from the United States priced lower than the domestic rice has gradually displaced Haitian rice and has negatively affected Haiti’s trade balance. The trade deficit of Haiti, for instance went from $USD394 million in 1999 to $676 million the following year. By 2001, the trade deficit jumped to $723 million in a country where the annual per capita income is less than $US 530 dollars. Under such situations, Haitian rice producers find themselves increasingly incapable to compete with cheaper imported rice. Thus, these producers leave their farm in the search of employment opportunities elsewhere in the economy or outside of Haiti.

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2. 2001 country reports on Economic Policy and Trade Practices (Released by the bureau of Economic and Business Affairs of the U.S. Department of Sate, February 2002)
In light of these observed trends, a profound question deserves to be posed. What explains the heavy and continuous decline of rice production in Haiti? How has Haiti gone from achieving self-sufficiency in producing one of its most important food crops less than twenty years ago to becoming almost entirely dependent on imported rice to feed its population? This paper will show that the decline in rice production results from inadequate and unfair trade liberalization policies that Haiti has been encouraged to undertake at the request of international financial institutions like the International Monetary Fund (IMF) and the Inter-American Development Bank (IDB). The rice sector, despite its multitude of problems\(^3\), maintained sufficient levels of output through the years before the implementation of trade liberalization policies. The sector would have continued to contribute to the Haitian economy had it not been for the trade policies reforms. Output of rice production in Haiti plummeted to reach low output levels when Haiti was forced to open its markets. Local rice producers increasingly find themselves incapable of sustaining the shocks caused by the trade liberalization policies. Before engaging in a detailed discussion about trade liberalization in Haiti, a brief history of the agricultural landscape is worth discussing. This overview at the agricultural landscape will facilitate a clearer understanding of the importance of rice production in Haiti.

**Research Methodology**

My research addresses the effects of implementing trade liberalization policies on rice production in Haiti. The research methodology was primarily qualitative, relying on

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\(^3\) The Haitian peasantry suffers from inadequate infrastructure, difficulty to access credit, little or no technology in cultivation methods.
news paper articles, books written about Haitian agriculture, particularly the rice. In
order to create a framework for my argument, I also reviewed an abundance of articles
and books about the theories behind trade liberalization policies. I looked at how, in
theory, trade liberalization is supposed to benefit Least Developed Countries such as
Haiti. I then focused on the actual results of these trade liberalization policies and the
effects that they have had on Haitian rice producers after almost twenty years of
implementation.

In addition to the books and articles, I had the fortune to receive very informative
data from Haitian government agencies such as the Haitian Ministry of Commerce and
Industry, the Ministry of Economy and Finance, The Ministry of Agriculture and Rural
Development and the Administration Générale des Douanes. I also able to use various
quantitative data from the Haitian Institute of Statistics, the International Monetary Fund
(IMF), the Food and Agriculture Organization (FAO) and the World Bank.

CHAPTER ONE

A Brief History of Land and Agriculture in Haiti

Along with the Dominican Republic, Haiti is located on the island of Hispaniola in
the Caribbean. Haiti occupies the western section of the island. Historically, peasant
agriculture has been Haiti’s primary economic activity. Haiti has one of the highest rates
of rural concentration in the region\(^4\). Twenty one percent of land in this mountainous

\(^4\) CAPRi. Working papers. “Land Tenure and the adoption of agricultural technology in Haiti” pp 8
country consists of plains with an altitude of less than six hundred feet. Haiti benefits from a variety of climates that are uncharacteristic of other small tropical countries. These climates are determined by local differences in elevation, precipitation, and temperature. Variations in climate render possible the cultivation of varied types of products as opposed to being a one-crop economy. The country, however suffers from land erosion, a problem that can be traced back to the colonial era.

The French colonizers chopped down much of the forest for buildings and domestic fuels. The French had set up indigo farms, coffee plantations, sugar estates and cotton farms. The French system of land tenure was characterized large estates, each owned by a French family. After the colonizing forces were driven out of Haiti, land tenure status changed dramatically. The newly liberated slaves redistributed much of the land in farm-size parcels to veterans of the new Haitian army. And under the new Haitian legal system, once the owner is deceased, the inheritance of the property is divided among all the children including “illegitimate” children. As a result, family holdings became smaller and smaller as time went on. By the late 1940’s, about forty percent of all agricultural holdings had an area of less than one carreau, the equivalent of 3.19 acres. Moreover, seventy percent had an area of less than two carreaux and just about six percent had an area in excess of five carreaux.

A census revealed that more than 80 percent of the peasants occupying Haitian farmland were, or at least claimed to be, the legal owners of their land. The remaining occupants were split up between (1) those holding leases from the states; (2) those leasing from private owners; (3) those managing land for the account of others; and (4)

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5 Paul Moral: l'Economie Haïtienne, page 6
6 Paul Moral: l'Economie Haïtienne, pp 53-54
7 CAPRI, Working papers. “Land Tenure and the Adoption of Agricultural technology in Haiti”
sharecroppers on a 50-50 basis. It is probable that many of those who claimed legal ownership were in fact squatters on government land. Immediately below the class of large landowners comes the Haitian peasantry, with multiple status groups therein. First, there were those who owned the land legally, essentially consisting of peasants who owned between 3 and 6 carreaux of land. They were often regarded as the middle class of the peasantry. Second, there were those who leased land in order to cultivate their crops. They did not possess the legal titles to the land, but entered a partnership with the titleholder in order to gain effective possession of the land. They often enjoyed full rights to the land except that they could not sell it. And lastly, there were those who held no titles to any lands, but sold their labor to land owners. The rural proletariat essentially comprises this group. This group sold its labor-power, and was paid either in kind or in money.

The Haitian Peasantry and its Relationship with the State and Other Classes

Historically, the Haitian peasantry has suffered from continual state discrimination. Inadequate proportions of the state revenues are all too often allocated for the development of agricultural infrastructure, instead serving to maintain the Haitian army or to finance the national debt. Alex Dupuy, in his book Haiti in the World Economy: Class, Race, and Underdevelopment since 1700, illustrates how the state engaged in a systematic exploitation of the peasantry. He points out that the state exploited the peasants through many forms such as corvee labor. Corvee labor is a

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8 Moral, pp 179-181
process by which the state requisitioned peasants to perform labor to build, maintain and repair public roads, pathways, waterways, canals and other public works. Those who failed to participate were subject to fines or imprisonment. Peasants could avoid performing corvee labor by paying a fee for every day they were supposed to contribute their labor, a measure that benefited the better-off peasants who were the only ones who could afford such a fee⁹. Corvee Labor was ultimately outlawed by the constitution of 1987.

The traditional bourgeoisie also took advantage of the peasantry. Dupuy gives further evidence of the exploitation of the peasantry when he states that “in addition to the landowners who appropriated part of the surplus from their tenant farmer, the merchant bourgeoisie exploited the peasants through the mechanisms of the market. The merchant bourgeoisie comprised the wealthy wholesale and retail urban merchants, moneylenders, and bankers. Below them existed a class of smaller, rural-based retail merchants, usurers, brokers, and speculators who often represented the wealthy urban-based commercial firms”⁹. He goes on to show that the merchant bourgeoisie appropriated wealth from the peasants by mediating between them and the market, buying the peasants crops and reselling them on the national and international markets. Financially independent speculators also took advantage of the peasants through the means of usury. Lacking cash reserves, peasants often had to borrow from moneylenders, usually at exorbitant rates of interests. Peasants who defaulted on their loans often ended up losing their land and their crops.

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⁹ Alex Dupuy, Haiti in the World Economy: Class, Race, and Underdevelopment since 1700, pp 104
¹⁰ Dupuy, pp 1004
Thus, for much of the nineteenth century until about midway through the twentieth century, the Haitian peasantry faced multitude obstacles and suffered exploitation at the hands of different actors. Yet, the peasantry persevered and survived these various exploitative methods and continued to contribute to the Haitian economy. The peasantry showed resiliency and managed to cultivate enough crops that allowed a significant number of the Haitian population to meet their food needs. Significant changes in agriculture, however, began to take place by the middle of the twentieth century, under the presidency of Dumarsais Estime. A genuine effort to allocate more resources to the agricultural sector was undertaken. The government began to define policies intended to strengthen the agricultural sector. Agricultural development programs were undertaken, and experimental farms were set up\footnote{Labelle 1976, pp 145-146, Manigat 1964, pp 36-37}.

**Periods of prosperity in Haitian agriculture**

By 1950, Haiti and the agricultural sector in particular began to enjoy an era of relative prosperity. The price of coffee on the world market was relatively high. Haiti benefited greatly from the favorable coffee prices in the international market. Coffee played a determinant role in the relative prosperity that the agricultural sector was enjoying. Coffee was the main cultivated product that Haiti relied on the most for its exports revenues. The increase in the price of coffee during the early 1950s allowed Haiti’s exports revenues to grow. The net augmentation in export revenues facilitated the government in increasing its investments on agricultural infrastructure. The value of
exports climbed from $30.9 million during the period 1946-1950 to $46.1 million in 1951-1955. The government used part of the revenues to embark on several projects. The agricultural sector benefited from the increase in government expenditures. Projects such as soil conservation, dairy and cattle farming were undertaken.

The rice sector also benefited from the prosperity. The military government of Paul Eugene Magloire (1950-1954) undertook a massive project whose goal was to render rice production easier and more efficient. The government financed a dam project in the Artibonite Valley, the primary location in Haiti for rice cultivation. The investment in agricultural infrastructure, however did not last very long. As it has been the case for much of the history of Haiti, parts of the surplus in exports earnings were often misappropriated by officials. Corruption, mismanagement and squandering of public funds became widespread. Some projects were halted before completion. For instance, a plan to install a hydroelectric plant at the dam in the Artibonite Valley went unfinished. Moreover, two important phenomena slowed down the process of further improving the conditions of the peasantry. In 1954, Hurricane Hazel swept through Haiti and in its passage destroyed much of the basic existing infrastructure. Rural Haiti was badly hit. Coffee and cacao cultivations that had been to that point two of the most lucrative exported Haitian commodities suffered tremendously. It razed several towns and villages. About forty percent of Haiti’s coffee trees and over fifty percent of the cacao trees were destroyed due to the passage of hurricane Hazel. Of course, the devastation had major impacts on the agricultural sector. The damages done by hurricane Hazel meant less export revenues for the country. The peasantry would be the hardest hit, not just because

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12 Haitian Institute of Statitics
of the direct devastation caused by the hurricane, but also because the peasantry would be
the last class to receive any support from the state.

In addition to the ravages of hurricane Hazel in 1954, the agricultural sector
suffered another setback in 1955 when the prices for coffee fell in the world market. The
relative signs of prosperity and development that the agricultural sector enjoyed through
government policies was short lived. The three causes highlighted above, corruption on
the part of government officials, hurricane Hazel and the drop in coffee prices were at the
root of the short-lived prosperity.

**Agriculture under Duvalier and Beyond**

By the time the Duvalier regime established its grips on Haitian society, the
agricultural sector benefited very little from the state. By the early 1970’s, 77 percent of
the Haitian population lived in rural areas\(^\text{13}\). Despite its many ills, agriculture remained
the largest sector of the economy. Over seventy percent of the active population was still
engaged in some sort of agricultural activities. The agricultural landscape showed
patterns that can be characterized as followed: large properties had between thirteen and
twenty five hectares or more, medium properties possessed between three and thirteen
hectares and finally any properties with three hectares or under were classified as small
properties. Among all agricultural properties, over 90 percent of them were less than 3
hectares.

\(^{13}\)Haitian Ministry of Agriculture, Natural resources and Rural Development
Although the vast majority of peasants owned lands, they occupied very little amounts of land and faced various adverse social, economic, and political circumstances. Studies showed that the average annual income per carreau was estimated at about two hundred ten dollars. By the late 1970’s, the price of coffee had dropped dramatically on the world market. Coffee production, being the number one source of foreign currency for the state, began to suffer. Export taxes on coffee began to dwindle. The percentage of coffee exported decreased from an average of 72.5 percent during the 1950s to an average of 58.2 percent in 1970. The Duvalier regime adopted inadequate policies to boost agricultural development. The regime timidly attempted to increase peasants’ access to arable land. The policy coincided with the time that the government began to open its markets to foreign imports.

CHAPTER TWO

The era of Trade Liberalization policies in Haiti

Despite the multitude of obstacles that they faced such as lack of credit, infrastructure, institutional development and difficulties to access technology, Haitian peasants in the rice sector persevered and supplied the country for decades with enough rice that met the country’s consumption needs. The dramatic decline in rice production in

14 Ministere du Commerce et de l’Industrie
Haiti corresponds with the trade liberalization that started during the mid 1980s. A heavy influx of rice imports from the United States priced lower than domestic rice has displaced Haitian rice. As an illustration of how severe the situation has become, in April 2000, sixty rice growers along with members of their families were killed while attempting to immigrate illegally to the Turks and Caicos Islands on a makeshift boat\textsuperscript{15}.

The trade liberalization policies reforms have been promoted on the basis of their potential benefits to Haiti. The overwhelming view for adopting these reforms is that trade liberalization leads to increases in economic growth. The theory implies that economic growth can be achieved either by increasing the inputs in the productive process or by making the present inputs more productive through innovations. In short, the benefits of trade liberalization for Haiti were supposed to bring more efficient resource utilization, higher quality of goods, lower prices and increased productivity growth, all leading to improvements in living standards.

Haitian rice production grew rapidly from the 1960s to the 1980s, producing almost all of the rice the country consumed. However, by the mid 1980s, rice production began to decline dramatically. The period where rice production began to decline coincides with the times when Haiti began to adopt trade liberalization policies at the insistence of international financial institutions. These trade liberalization policies have had disastrous effects on Haitian agriculture and have provoked the dramatic decline of rice production. These trade liberalization policies have been implemented so aggressively in Haiti that the rice sector never stood a chance to sustain its production capabilities and compete against imported rice. Moreover, these policies have not only

severely damaged the rice sector, possibly beyond repair but also failed on their goals to improve the economic conditions of the country.

In 1985, Haiti imported just 7 000 tons of rice, the bulk of which came from the United States. During that same period, it produced 125 000 metric tons of rice. In 1987, the country produced over three-quarters of its rice needs. By 1996, Haiti’s imports of rice amounted to 196 000 metric tons. After almost two decades of commercial trade liberalization encouraged by international financial institutions (IMF, World Bank, IDB), Haiti imports over 225 000 metric tons of rice. At the same, rice production in Haiti has almost completely vanished. The extremely low tariffs on rice in Haiti prevent domestic producers from being able to compete with lower priced imported rice. The following chart illustrates the price differential between the imported rice and local rice brands. In October 2003, “six pounds of Haitian rice sells for between $1.70 and $3, but the American product… is $1.45.” With two-thirds of the population surviving on an income of below one dollar a day, a difference of about a dollar in price ensures that consumers will purchase the imported price.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gougousse (Haitian rice)</td>
<td>5.8</td>
<td>8.4</td>
<td>7.2</td>
<td>6.2</td>
</tr>
<tr>
<td>Imported rice</td>
<td>3.7</td>
<td>5.4</td>
<td>5.0</td>
<td>5.6</td>
</tr>
</tbody>
</table>

International Monetary Fund. (2001). Haiti: Selected Issues

16 Administration Generale des Douanes
17 Administration Generale des Douanes, Haitian Institute of Statistics and Haitian Ministry of Commerce and industry
Impacts on Haitian Rice Producers

Rice producers have found themselves incapable to compete with the imported and heavily subsidized rice. The incomes of rice producers have decreased by fifty percent since 1986. Some domestic producers, those who are landholders, shift to other food crops such as plantains. Other producers, such as tenant farmers and sharecroppers, migrate to urban areas or abroad. Producers in rural areas face higher prices for rice imports due to marketing and transportation costs. As a result, they do not benefit from the cheaper rice imports. Rice producers gradually abandon the land with the hope that they will find better opportunities elsewhere. The new trades policies imposed on Haitian rice growers have entirely taken away any chances that the rice sector may have had to produce, compete and grow.

Presently, Haiti imports all of its rice from the United States, one of the leading rice exporters in the world. Although Haiti possesses the basic resources to produce much of its needed rice, it spends a substantial amount of its already low export earnings on importing rice from the United States. Twenty years ago, Haiti was producing enough rice to feed almost its entire population. Now, it ranks fourth as the country that imports the most rice from the United States. The following tables enumerate the top 5 receiving countries of U.S. rice exports from 1997 to 2000.
--Top 5 U.S exports markets\(^9\) (Haiti is highlighted in bold)

<table>
<thead>
<tr>
<th>Year 1999/00</th>
<th>Rank</th>
<th>Country</th>
<th>Quantity of rice (1,000 metric tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mexico</td>
<td>373.0</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>282.9</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Turkey</td>
<td>212.8</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Haiti</td>
<td>200.6</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Canada</td>
<td>179.6</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year 1998/99</th>
<th>Rank</th>
<th>Country</th>
<th>Quantity of rice (1,000 metric tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Brazil</td>
<td>398.0</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>298.3</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Mexico</td>
<td>250.0</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Haiti</td>
<td>222.5</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Canada</td>
<td>171.7</td>
<td></td>
</tr>
</tbody>
</table>

\(^9\) Foreign Agricultural Service, USDA
Exports are reported on a milled basis
Note: major revision on historical data
The decline of Haitian agriculture is underlined by the dominant share of total imports represented by food, which accounted for around 45 percent of imports in 1996/1997. As the table below indicates, Haiti spends heavily on importing food products. Rice accounts for a large portion of import expenses. The trend of massive rice importation from the United States started at the time when the policies of heavy and rapid trade liberalization began to be implemented. Haiti quickly became the country with the lowest import tariff in the western hemisphere.

**Year 1997/98**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Quantity of rice (1,000 metric tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mexico</td>
<td>318.9</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>249.7</td>
</tr>
<tr>
<td>3</td>
<td>Colombia</td>
<td>207.1</td>
</tr>
<tr>
<td>4</td>
<td>Haiti</td>
<td>178.7</td>
</tr>
<tr>
<td>5</td>
<td>Canada</td>
<td>172.8</td>
</tr>
</tbody>
</table>

**Key exports and imports, 1997**

($\text{m}, \text{ year ending Sep 30}^{\text{th}}$)

<table>
<thead>
<tr>
<th>Export fob</th>
<th>Import cif</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture exports</td>
<td>Food</td>
</tr>
<tr>
<td>of which:</td>
<td>200.4</td>
</tr>
<tr>
<td>coffee</td>
<td>Manufactures</td>
</tr>
<tr>
<td></td>
<td>154.4</td>
</tr>
<tr>
<td>Light manufactures</td>
<td>Machinery</td>
</tr>
<tr>
<td>of which:</td>
<td>111.5</td>
</tr>
<tr>
<td>imported inputs</td>
<td>Fuels&amp;Lubricants</td>
</tr>
<tr>
<td></td>
<td>74.9</td>
</tr>
<tr>
<td></td>
<td>Raw materials</td>
</tr>
<tr>
<td></td>
<td>17.2</td>
</tr>
</tbody>
</table>

source: IMF, Staff Report No. 98/101
**Implementation Periods of trade liberalization**

Two particular periods stand out as the periods when heavy trade liberalization policies that affected the rice sector tremendously were implemented. After the collapse of the Duvalier dictatorship in 1986, a first wave of the policies was put in place. Soon after, the country began to heavily import rice from the United States at a cost that exceeded $100 million annually\(^{20}\). In 1995, a second wave of trade policies went into effect. Haiti, under the guidance of international financial institutions slashed import tax on rice from 35 percent to 3 percent\(^{21}\). As a result, cheap imported rice from the United States flooded the Haitian market. Prices were drastically driven down and caused severe hardships for local rice growers resulting in a decline of rice production as illustrated by the following table:

<table>
<thead>
<tr>
<th>Year</th>
<th>production</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-86</td>
<td>180,000</td>
</tr>
<tr>
<td>1986-87</td>
<td>180,000</td>
</tr>
<tr>
<td>1987-88</td>
<td>202,000</td>
</tr>
<tr>
<td>1988-89</td>
<td>183,000</td>
</tr>
<tr>
<td>1989-90</td>
<td>130,000</td>
</tr>
<tr>
<td>1990-91</td>
<td>128,000</td>
</tr>
</tbody>
</table>

\(^{20}\) Ministere de l’Economie et des Finances; Ministere du Commerce et de l’Industrie  
\(^{21}\) Ministere de l’Economie et des Finances, Chamber of Commerce and Industry of Haiti, Administration Generale des Douanes
1991-92    126,000
1992-93    124,000
1993-94    n.a.
1994-95    88,711
1995-96    100,000
1996-97    110,000
1997-98    100,000
1998-99    105,000


The policies of liberalizing the Haitian economy are so drastic that Haiti has become the most open country in the region. Tariffs applied by member states of CARICOM\textsuperscript{22} are generally higher than in Haiti. The common external tariff (CET) of the CARICOM was introduced in the community in January 1991. Customs tariffs initially ranged between 5 percent and 35 percent (40 percent for agricultural products). They were to be gradually reduced to a range of 5-20 percent by 1998, but were to remain at 40 percent for agricultural products. Member countries were allowed to conform to the CET tariffs at their own pace. The following table illustrates the openness of the Haitian market with respect to CARICOM countries.

\textsuperscript{22} The Caribbean Community and Common Market (CARICOM) was established in 1973. It is comprised of States in the Caribbean including Haiti. CARICOM has the following objectives: expansion of trade and economic relations with third States; enhanced levels of international competitiveness; enhanced coordination of Member States' foreign and [foreign] economic policies; and enhanced functional cooperation. CARICOM provides for the establishment of a Common External Tariff (and common protective policy and the progressive coordination of external trade policies; the adoption of a Scheme for the Harmonization of Fiscal Incentives to Industry.
### Index of Trade Restrictiveness (as of end of 1999)\(^{23}\)

<table>
<thead>
<tr>
<th>CARICOM Countries</th>
<th>Overall index</th>
<th>NTB Index</th>
<th>Tariff Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>The Bahamas</td>
<td>5</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Barbados</td>
<td>5</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Belize</td>
<td>5</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Dominica</td>
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Unfortunately, trade liberalization has not had these expected impacts on Haiti.

The rice sector has reached a critical state. Trade liberalization as applied in Haiti has not turned the tide against poverty; it has led to increased food insecurity. Commercial growers and some farmers find themselves incapable to produce for national consumption. The removal of trade barriers has lead to large disruptions in the rice sector.

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\(^{23}\) See IMF: "Trade Liberalization in IMF-Supported Programs, Appendix 1," February 1998, for a description of the methodology used to build the index.
although a significant portion of the rural population is still tied to the rice sector. The quick removal of barriers on imported rice has led to large-scale displacement of the rural population. Standard economic models implicitly assume that the displaced populations are reemployed in other sectors of the economy. One of such sectors, so Haitian policy makers thought, was the assembly industry. However, the assembly industry sector will prove to be incapable of creating considerable amount of jobs. To illustrate this point, a brief discussion of the assembly industry sector follows below.

CHAPTER THREE

The Assembly Industry Sector in Haiti

By the 1980s, Haiti witnessed a proliferation of assembly industries in the capital city of Port-au-Prince. The government initiated measures that restructured the country's economy by attracting assembly industries. Haiti had embarked on a mission to attract assembly industries with the hope that these industries will stimulate the economy and provide additional jobs. The government rationale for the new direction was that the country possessed comparative advantages that would allow the assembly industries to blossom and the overall economy to grow. Haiti had indeed some attractiveness given its proximity to the United States and its abundance of a cheap labor force. The labor force was not unionized as was the case for other countries in the region. The government aggressively pursued the policy of attracting US assembly industries. At the same time, the government began to heavily adopt trade liberalization policies at the urging of
International Institutions like the IMF and the IDB. These trade liberalization policies, combined with a neglect of the agricultural sector by the state have proven to be disastrous for the Haitian rice sector and pose a major risk for Haiti’s food security in the future.

The policy of promoting the assembly industry in Haiti has been detrimental to the agricultural sector, especially rice production. Assembly industries played a crucial role in the displacement of Haiti’s labor force. Peasants, whom government policies neglected or abandoned, chose to leave the rural areas. The government continuously allocated a very small portion of its budget to the agricultural sector. For instance, in fiscal year 1989, only five percent of the national budget went to the Ministry of Agriculture, Natural Resources, and Rural Development\textsuperscript{24} in a country where agriculture plays such a vital role. Even Haiti’s constitution highlights the importance of agriculture\textsuperscript{25}. Peasants migrated to the cities, primarily Port-au-Prince with the hope to find job in the assembly industry sector. Unfortunately, job creation in that sector did not grow enough to absorb the influx of rural peasants. At its peak, the assembly industry sector was able to create only 60,000 jobs\textsuperscript{26} for the 100 000s of peasants seeking employment.

The development of assembly manufacturing in Haiti was an outgrowth of the island’s cheap labor, its proximity to the United States market, the increasing multinational nature of modern firms, and changes in the United States Tariff Code, which in 1962 began to exact duties only on the value-added of products assembled

\textsuperscript{25} Article 247 of the current constitution states: “Agriculture, which is the main source of the Nation’s Wealth, is a guarantee of the well-being of the people and socio-economic progress of the Nation”
\textsuperscript{26} Chamber of Commerce and Industry of Haiti, Haitian Institute of Statistics
overseas. Assembly operations—typical examples included the sewing of garments, the stuffing of toys, or the stringing of baseballs—grew modestly in the depressed economic climate of the 1960s, but they accelerated rapidly in the early 1970s in response to new fiscal incentives enacted by the government. The warming of Haitian-U.S. relations after 1973 encouraged foreign investment. The number of assembly enterprises swelled from only 13 companies in 1966 to 67 by 1973 and then to 127 by 1978.27

Four industrial parks catered to the assembly industry; two were run by the government’s National Industrial Park Company (Société Nationale des Parcs Industriels-Sonapi) and two by a private company. Most firms operated with short-term subcontracting arrangements under which Haitian factories filled requests of American companies that provided partial products, inputs, and machinery. Workers earned piecework wages, with a guaranteed minimum wage of US$3 a day in 1989, and most made slightly more than that amount. The major products assembled in Haiti were garments, electronics, baseballs, games, sporting goods, toys, footwear, and leather products. The largest assembly activity in the late 1980s produced garments. The fastest-growing activity produced electronics; it included subcontracting work for the United States Department of Defense. One of the island’s major baseball producers, MacGregor Sporting Goods, decided in 1988 to move its baseball-sewing operations to Mexico, however; and, as a result of the deteriorating political situation in Haiti, other assembly companies decided to fill their orders at the Free Zone of San Isidro, Dominican Republic.

Many Haitians were eager to find jobs in the assembly sector, but some criticized the effects of the industry on workers and on the economy. For example, unions

27 Ministry of Commerce and Industry, Haitian Institute of Statistics
28 Bureau du travail, Haitian Institute of Statistics
complained that new employees earned only 60 percent of the minimum wage for their first few months and that short-term contracts and seasonal demand led to job instability and the annual dismissal of as many as 5,000 workers with no compensation. Although assembly operations provided badly needed urban jobs, these operations industries forged few linkages with the rest of the economy. A few local plants utilized domestically produced glue, thread, sisal, and textiles, but the overwhelming share of producers opted for imported inputs, which were generally cheaper, of better quality, and more plentiful. Finally, others disapproved of the generous tax holidays and the duty-free imports that both domestic and foreign manufacturers enjoyed.

Despite the low wages paid to workers, future growth in the assembly sub-sector was uncertain. Numerous constraints to growth included high utility costs in the Caribbean, excessive shipping and warehousing costs, underdeveloped infrastructure, a largely illiterate work force, foreign-exchange shortages, political instability, and the personalized nature of business activity. Some U.S. officials predicted in the 1980s that Haiti would progress to become the "Taiwan of the Caribbean." The implementation of the CBI, however, appeared to hurt Haiti's position in assembly production, as other countries, such as the Dominican Republic, Jamaica, and Costa Rica, began to capitalize more effectively on the advantages of the initiative. In the mid-1980s, Haitians own more than forty percent of all assembly operations. The other operations were either owned by firms based in the United States or jointly owned by Haitian and United States interests. When the sub sector peaked in 1980, an estimated 200 assembly firms employed nearly 60,000 workers. Political instability, increased regional competition under the Caribbean Basin Initiative (CBI), nascent union activity, and the failure of government institutions to attract further investment all contributed to a decline in assembly

29 Ministered u Commerce et de l'Industrie, Haitian Institute of Statistics
investment and employment after 1986. In 1989 approximately 150 assembly companies employed only 41 000 workers. Thus, the assembly industry sector fell short of the expectations that it would become a dynamic force capable of creating jobs for large segments of the labor force. The failure of the assembly industry, along with unfair trade practices has complicated even more the situation of the rice sector.

CHAPTER FOUR

Trade Practices

In addition to the heavy tariff reduction that has negatively affected Haitian rice production in recent years; unfair trade practices by certain exporters of rice, primarily the United States, have caused a worsening of the situation. While Haitian rice growers face numerous obstacles and receive no help from their government, they are forced to compete with imported rice from the United States under unequal terms. Rice growers in the United States, on the other hand receive heavy subsidies from their government allowing them to cheaply produce rice. As a result, the price of the imported rice does not reflect true production costs. These subsidies have had major impacts on farmers in less developed countries (LDCs) such as Haiti. Since Haitian producers are not subsidized, they are at a disadvantage. When the U.S. releases its rice onto world markets at prices lower than the cost of production, it contributes to powerful depressive effect on markets in LDCs such as Haiti.
The subsidies often lead to over production because farmers in the US have the advantage to mass produce rice at very low cost. The overproduction is often dumped on the market at below cost of production, hence rendering the playing field between Haitian rice producers and their US counterparts very uneven. In 2001, the U.S. sold its surplus of rice at over 22 percent below the cost of production. Due to the high subsidies combined with overproduction in the U.S., Haitian farmers find themselves incapable to compete with imported US rice. The current low tariffs on imported U.S. rice do not protect local growers. Naturally, the rice sector continues to collapse due to the heavy trade liberalization policies and the unfair trade practices to which Haitian rice growers are subjected. After years on importing cheap rice from the US, Haiti’s local production has collapsed: its rice output is merely half of its 1990 volume.

Paradoxically, while trade liberalization policies have worked to the detriment of the rice sector in Haiti and have contributed to its almost collapse; they continued to be regarded by some international institutions as highly beneficial to the Haitian economy. For instance, on its November 6 trade review policy review on Haiti, the WTO praises Haiti as a model student of trade liberalization policies. It states that members were encouraged by Haiti’s unilateral reform efforts that have made it one of the most liberal economies in Latin America and the Caribbean. The review goes on to point out that “members praised Haiti for the simplification of its tariff structure; MFN tariffs average 2.9%, with about 67% of lines carrying the zero rate.” These remarks clearly do not take into consideration the negative effects that trade liberalization policies have had on

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Haitian rice growers. The Haitian government therefore needs reevaluate the trade liberalization policies that it has adopted and articulate new strategies that can reduce Haiti’s dependence on imported rice. Although the crisis has reached a critical point, some viable alternatives still exist in order to reduce Haiti’s dependence on imported rice. Followed is brief discussion of some alternative approaches that Haiti can undertake. The discussion begins with a look at the policies that the Dominican Republic has adopted in order to strengthen its rice sector and concludes by suggesting an alternative strategy on tariff reform.

CHAPTER FIVE

The Dominican Republic: the case of an alternative approach

In contrast to Haiti, its neighbor, the Dominican Republic has been adopting policies that have rendered its economy less dependent on imported rice. The Dominican Republic has resisted from the pressure of applying heavy and rapid trade liberalization policies. The DR has been extremely effective in limiting the import of rice to protect local producers. Production of rice in the Dominican Republic has increased. Annual production during the last ten years has been 300,000-310,000 metric tons with yearly imports during that same period averaging 25,000 metric tons. The new government elected in August 2000 was particularly interested in generating a degree of self-sufficiency in rice production and as a result dedicated increased financing for rice production through the Agricultural Bank. Production figures in 2001 improved over the
previous year and production numbers for 2001 reached 310 000 metric tons\textsuperscript{32}. Production is expected to reach almost 320 000 metric tons in 2002, eliminating the need for rice imports (which exceeded 70 000 metric tons in 1998).

When rice imports are allowed, permits are issued, generally to a government institution or private producer only; a 15 percent tariff on paddy and a twenty percent tariff are applied to polished rice (CIF basis). In addition a twelve percent VAT (value added tax) is added to the commodity. There is a tariff rate quota in effect for rice. All rice outside the quota is assessed a 99% tariff level\textsuperscript{33}. An initial quota of 13 700 metric tons of rice imports was established increasing to 17 810 metric tons by year 2004. Traditionally rice moves from producer to miller to wholesaler and retailer. Local production is generally sold to nearby mills which process, store and sell to the wholesalers. Some larger and financially sound producers have their own mills where they process their own production and additional quantities produced by small farmers, selling to wholesalers. Several of these producers have developed their own private labels and market directly to retailers. Small quantities of rice also move across the border from Haiti. Imports from the United States are not anticipated for 2002 as production levels continue strong. However, current drought conditions could affect overall production during 2002.

The Dominican Republic's 2003 rice production is estimated at 330 000 metric tons, according to information from the U.S. Department of Agriculture's Foreign Agricultural Service. After averaging 245 000 metric tons per year from 1997 to 2000, \textsuperscript{
\footnotesize{32} U.S. Department of Agriculture. www.fas.usda.gov/gainfiles
\footnotesize{33} Alberto Herrou-Aragon. Protection and Export Incentives in the Dominican Republic. The World Bank}
Dominican rice production levels increased sharply to 324,000 metric tons in 2001, 347,000 metric tons in 2002, and an estimated 330,000 metric tons for 2003. These increases were the result of a concerted Dominican policy to become self-sufficient in rice and eliminate rice imports. The earlier production levels resulted in yearly imports in the range of 30,000 to 70,000 tons to meet domestic demand of 315,000 to 325,000 tons per year. As recently as 2000, the Dominican Republic imported 35,000 metric tons of rice from the United States. By the end of 2002, production increases had generated surplus stock levels of rice exceeding 60,000 metric tons. Over the past several years, rice producers have been able to convince the Dominican Government to recognize higher and higher production cost levels, which are the basis for setting producer rice prices through negotiations between producer groups and the Ministry of Agriculture. In addition, during 2000 and 2001, President Mejia (a former Secretary of Agriculture) instructed the Government-owned agricultural bank (Banco Agrícola) to provide additional support to the rice sector in the form of subsidized loans, in an effort to increase rice production and eliminate the need for imports. In effect, the Agricultural Bank provides loans to producers at an interest rate lower than the prevailing bank rate, providing an indirect subsidy to rice production.

In addition to the above, the Government, through the agricultural bank, millers associations and individual millers subsidize the excess crop through a staging procedure called "pignoración". This procedure allows the millers to purchase rice from the producers at a set market price for storage (winter 2002 crop: RD$ 725/fanega, equivalent at current exchange rate to US$ 305.80 per metric ton polished rice). The miller stores the

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34 U.S. Department of Agriculture, FAO. Dominican Republic: rice production
rice and places it in the market when needed but with a four-month maximum storage period. At the end of the storage period, the Government covers the financial costs of the purchase operation and the storage costs to the miller. According to recent information, the main harvest of 204 500 metric tons was "pignorized". After all expenses were calculated, the Dominican Government paid about RD$400 million or about US$56 per metric ton in this way.

Apparent consumption has remained stagnant for several years. In the early 1990's, when rice production costs were relatively low, annual consumption levels were close to 350 000 metric tons. As prices increased, due to increased producer prices and import restrictions, consumption patterns of some consumers have changed to include less expensive alternative sources of carbohydrates, such as, bread, pasta and other staple foods like, plantains, cassava and dasheen. The current inflation levels including currency devaluations will only allow consumption to remain around 325 000 metric tons with marginal increases during 2003 and into the out year. Although the frequent reference is made to zero rice imports, in fact over 7 000 metric tons of rice was apparently imported from the United States in the first half of 2003\textsuperscript{35}. A tariff rate quota agreement from the Uruguay round sets a minimum access amount for rice of 13 700 tons, at a tariff rate of 20%. This approach has proven to be beneficial to Dominican rice producers. The Dominican Republic has achieved self-sufficiency in rice production. As the Dominican Republic case demonstrates, there exist alternative approaches that can benefit producers in small developing countries.

\textsuperscript{35} Caribbean Rice Industry Development Network. www.cridnet.org
CHAPTER SIX

Reform Proposal for Haiti

Developing countries such as Haiti incur substantial problems from reducing their trade barriers. In Haiti, tariff revenue accounts for a substantial percentage of government revenue. When tariffs are reduced to such low rates, the government of Haiti, in order to generate much needed revenues often has to impose large increases in other taxes so that it keep its budget in line. The distortion effect of these tax increases, as well as the costs and problems associated with collecting taxes from other sources, are generally ignored in economic models that project gains from eliminating trade barriers. The government of Haiti therefore should intervene so that it requires an increase in tariffs against imported rice so that Haitian producers have an incentive to increase production. The U.S. rice, the primary source of imports in Haiti does not reflect production costs since the American government heavily subsidizes production. The Caribbean Community (CARICOM) has a common tariff of 20 percent. As a member of this regional organization, Haiti should raise its tariffs to the 20 percent rate. An increase in the tariffs would raise prices enough to give Haitian farmers an incentive to increase production, but it would not close the market to imports. The revenues from the tariffs could be used for safety net programs and for investments in infrastructure to enable rice producers increase yields.

36 The government relies heavily on tariff revenues especially in recent years since International Aid has been frozen due to a political crisis. In Haiti, tariff revenue currently accounts for over 25 percent of government revenue.
CARICOM, the Caribbean regional trading bloc, sets its tariff rate to protect its
domestic markets from American commodities. The Food and Agricultural Organization
has argued “adoption of CARICOM’s common external tariff presents the possibility of
stemming the flow of food imports from the United States and Europe and favoring
imports from Caribbean Neighbors. Haiti has negotiated the terms of its entry with a five
suspension of CARICOM’s tariff”\(^37\). During this suspension, Haiti has been routinely
excluded from integration into the common market. Haiti’s tariff policy prevents it from
benefiting access to regional markets and to discussions on open migration in the region.

Conclusion

The trade liberalization policies adopted in Haiti have not worked to the
advantage of the Haitian rice sector. In fact, the policies have caused great misfortunes to
Haitian rice producers. As stated earlier, many producers have simply abandoned rice
cultivation and looked for other opportunities elsewhere as illustrated by the Washington
Post article titled: Haiti, Push to Free Markets as Local Costs. The author clearly
highlights the hardships faced by Haitian rice producers and the consequences of trade
liberalization policies on these producers. Mr. M. Dobbs, the author of the article points
to sixty rice growers along with members of their families who were killed at sea while
attempting to immigrate illegally to the Turks and Caicos Islands\(^38\).

\(^37\) FAO, 2001. The State of Food and Agriculture. FAO: Rome
A01
Moreover, these policies have not contributed to economic growth. The overall economy remains in a critical situation. The Haitian government needs to abandon these trade liberalization policies and adopt approaches that can benefit Haitian rice producers. American rice producers receive heavy subsidies from their government and have no problem to sell their rice at below production costs. Haitian rice producers, who receive no subsidies of any kind, are forced to compete with cheap and subsidized rice from the United States. This unequal competition contributes to the decline of Haitian rice sector. In order to come out of this situation, the Haitian government needs to implement tariffs rates that are more in line with the tariffs of other rice producing countries. As illustrated by the discussion about the Dominican Republic, better approaches do exist.
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