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Rebuilding Haiti:
A new approach to international cooperation

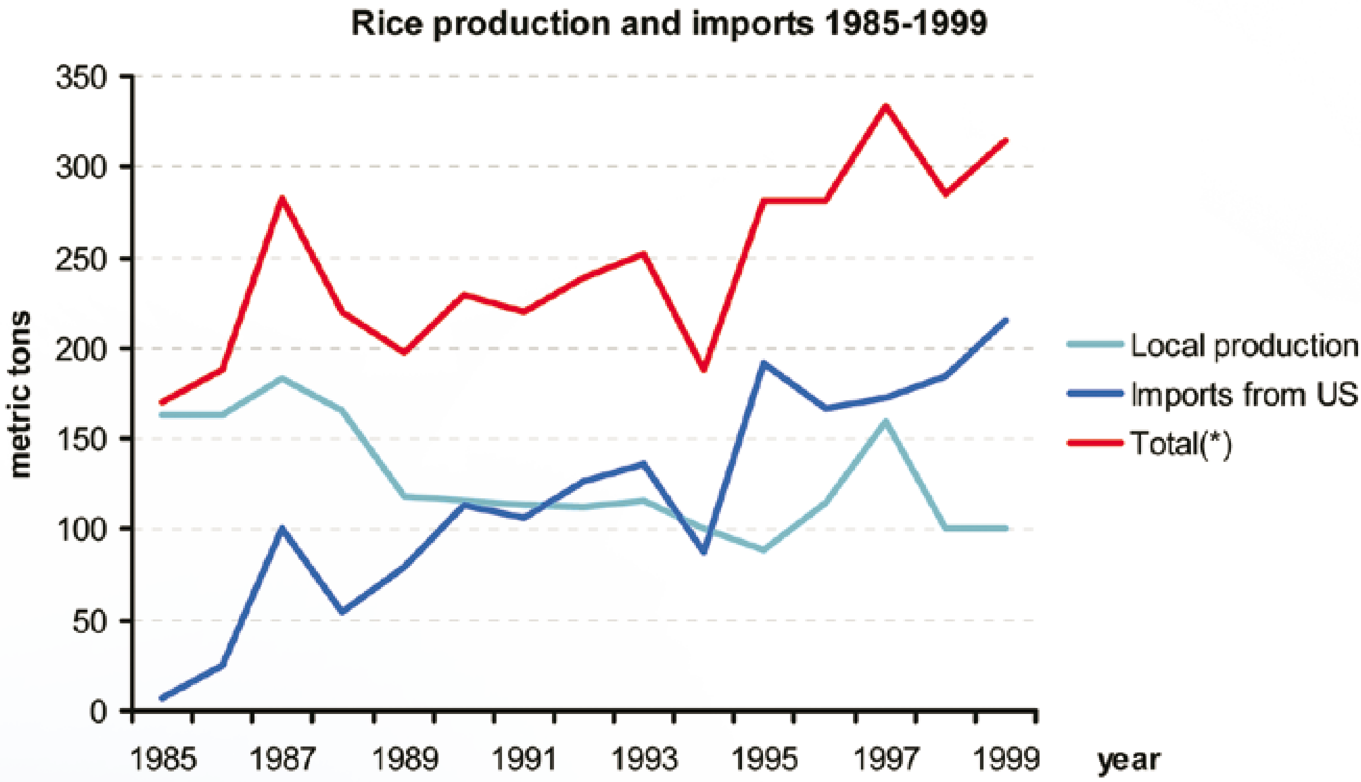
A new approach is needed for Haiti's reconstruction and long-term economic development, UNCTAD argues in this policy brief. Such an approach must be based on increasing and improving State capacities and must respect the country's ownership of the process. Recovery must be a shared responsibility between Haiti and its development partners, but donor generosity is only one component of success. The new approach to international cooperation should target investment in productive capacity and infrastructure, improved market access, domestic resource mobilization, and greater agricultural productivity. It must constitute an integrated approach to macroeconomic, industrial and trade policy to generate employment and reduce poverty.

External shocks, even relatively small natural disasters, have been a perennial threat to Haiti's economic security. But the January earthquake was of a different order of magnitude. Not only was the immediate damage colossal, but it followed three decades of stalled development, during which incomes stagnated and more than a million Haitians – 11% of the population – left their homeland. The cumulative impact was to tip Haiti into a state of socio-economic distress from which it will be difficult to escape without a fresh start. Paradoxically, however, the earthquake represents an opportunity to correct past mistakes and promote a more strategic and inclusive policy vision – one that aims to move the economy from recovery to a more sustainable economic growth and development path.

Lessons for the future

Designing any long-run development strategy has to take account of immediate local circumstances, capacities and constraints. Following any catastrophic shock, a premium should be put on national ownership and policy flexibility to allow for experimentation and learning in line with the realities of operating in a fragile and uncertain socio-economic context.

In the mid-1980s, Haiti received a conditional multilateral loan that required the country to open up its markets to foreign competition and reduce tariff protection for rice and other agricultural products. A second wave of tariff cuts went into effect in 1995. In one decade, Haiti slashed import tariffs on rice from 50% to 3% and became the most open country in the Caribbean region. As a result, heavily subsidized rice from the United States flooded the markets, prices were drastically driven down and local rice production dropped sharply soon thereafter (figure 1). A similar trend occurred in other parts of the rural economy, such as the dairy sector, where milk imports increased 30-fold between the mid-1980s and the late 1990s, along with a sharp reduction in domestic production.



Source: Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics, Haitian Ministry of Agriculture, FAO
(*) This total does not include rice imports from countries other than the US.

Haiti has been left with one of the most liberal import regimes anywhere, with an average applied MFN tariff of only 2.8%. While MFN bound rates are higher, the level of applied tariffs has been locked in, and will be further reduced on a preferential basis under the new CARIFORUM-EU economic partnership agreement.

Trade, however, remains a weak contributor to Haiti's economy. In 2008, for example, external trade contributed just 13% to national income. Exports remain heavily dependent on the US market and a few apparel products, leaving the country highly vulnerable to external shocks.

In the rebuilding process, international trade, including through regional and South-South linkages, will play an important role. Haiti needs to formulate a comprehensive trade policy and rebuild and reorganize its trade-related institutions and regulatory frameworks in line with local needs and capacities. This will imply a break with recent policy practice, creating much stronger links between trade, industrial and macroeconomic policies to help create a more dynamic investment-export nexus. It will also imply a need, in the post-disaster reconstruction scenario, to quickly identify export-oriented sectors, especially those providing jobs and incomes for the poor and with the potential to generate the surplus needed to finance productive capacity-building. These sectors would have to benefit from active government support and that of the international community.

An immediate action by the international community should be to improve market access for Haitian exports, including through the provision of comprehensive and active support to help Haiti take advantage of existing duty-free and quota-free treatment. The international community should also consider providing full flexibility in the use of trade-related policies to develop Haiti's productive and export capacities.

Before the recent earthquake, the steady decline of the agricultural sector encouraged a large-scale displacement of the rural population towards urban areas, in particular Port-au-Prince. Hopes that the service sector and the fledgling garment and assembly industries would expand to match the significant increase of job seekers proved unduly optimistic, given the emergence of more competitive producers elsewhere and despite the incentives provided by the government (tax holidays, duty-free imports and the creation of four industrial parks). Furthermore, these sectors established only limited linkages with the rest of the economy: Few plants utilized domestically produced glue, thread, sisal and textiles, while the majority of producers preferred imported inputs, which were inevitably cheaper and of a better quality.

All of this has resulted in lower tariff revenues, which in turn has had a major impact on resource mobilization. It has been estimated that on average in low-income countries such as Haiti, for every dollar lost in trade tax revenues only 30 cents are subsequently recovered from other sources. In the case of Haiti the impact of the very sharp cut in average tariffs has been particularly significant.

The rather predictable result has been economic stagnation -- indeed, between 1985 and 2007, real per capita incomes dropped some 40%; a sprawling informal economy and rising unemployment; an ever-widening gap between rich and poor; and a permanent undercurrent of political tension and sporadic violence.

Rebuilding State capacity

Economic security needs to be a principal goal of a renewed development strategy in Haiti. In the short term, that will likely mean creating jobs in construction and expanding economic opportunities (in both the rural and urban sectors) outside Port-au-Prince. One of the foremost consequences of the disaster has been the return of an estimated half a million people to their rural homes. This represents a major opportunity to revitalize agriculture and reverse the damage from premature trade liberalization and neglect of domestic productive capacities.

Cash transfers to affected households – such as UNDP's recently instituted and already-successful "cash for work programme" – may be one immediate measure to help bolster security, at least once the local capacity for providing basic goods and services has been restored. These allow households to determine their most urgent needs; can offer a faster, more transparent and less expensive way of delivering support; and are better able to sustain recovery.

Lasting economic security will, however, depend on raising investment levels, in both the public and private sectors, to generate fast and more inclusive growth; infrastructure development, improved productivity on small farms, support for low- skilled manufacturing, and the provision of basic services could offer the kind of linkages and synergies around which a more virtuous development cycle could be established.

A crucial issue will be the rebuilding of State capacities to raise revenue. Without a strong domestic fiscal base, the State will be unable to sustain funding for new democratic institutions and for expenditures to improve human well-being, strengthen public security, ease social tensions, as well as support an investment drive. In a country where the tax intake represented only 11% of GDP before the earthquake, this is a major challenge. The raising of the average tariff in early 2010 due to Haiti's implementation of CARICOM's common external tariff should help. Customs modernization, with the assistance of UNCTAD's ASYCUDA programme, can also make an important contribution. But donors must also quickly find ways to channel a greater share of their resources through the State's budget allocation process and to support fiduciary capacity and responsibility.

A new approach to international cooperation

While Haiti's long-term development will depend on its success in mobilizing domestic resources, filling the immediate resource gap will in large part depend on external financial support and development assistance. Thus, Haiti's recovery will be a shared responsibility between the government and people of Haiti on the one hand and development partners from developed and developing countries on the other. But if recovery is to be sustained, it is essential that development cooperation is designed in such a way that responsibility gradually shifts towards the Haitian State. Development assistance should be used to encourage and supplement national resource mobilization and to fill the gap between national rates of saving and the high rates of investment required to meet Haiti's development goals, including the MDGs.

To make a difference, international cooperation will have to be generous – and should avoid the build-up of any new debts. UNCTAD has, in an earlier policy brief, called for abolishing Haiti's outstanding multilateral debt as a starting point for any new financing initiatives. The finance ministers of the leading industrial countries and the Inter-American Development Bank, Haiti's largest multilateral donors, have signalled their intention to move in that direction. Since then, the Haitian government has estimated the costs of rebuilding at US$ 11.5 billion, and it is essential that most of this should be in the form of grants.

But donor generosity is only one component of a successful recovery strategy. Because the whole process will take time, a piecemeal approach will not suffice. Repairing the damage to productive capacities, igniting economic recovery, and triggering investment dynamism while also managing aid flows calls for an integrated approach to macroeconomic, industrial and trade policy. It should also reflect Haiti's ownership of the process, and take into account Haiti's national sensibilities, preferences and available skills. Ownership and policy space matter as much to Haiti as they do to any other country.

As an LDC, Haiti already enjoys certain trade preferences and, as suggested earlier, these need to be extended and worked into a more integrated package of development policies. Particular attention should from the outset be paid to services in which the country already possesses comparative advantage, especially those involving the movement of persons. Remittances emanating from such services as construction, health care, entertainment, tourism, business and professional services contribute an estimated 20% (US$ 1.4 billion) to Haiti's GDP. While the extent of the Haitian diaspora obviously represents a loss to the country, the remittances they generate can be invaluable resources for rebuilding the country. That, however, will require policies that reduce remittance transaction costs and channel them into productive sectors. The post-disaster reconstruction strategy should draw on the success of other countries in making productive use of remittances.

The new approach to international cooperation should also incorporate a strong regional dimension. Haiti must build on its relationships with other Caribbean countries, including through the Caribbean Single Market and Economy (CSME). This would broaden its market opportunities and improve access to finance, thus allowing the productive sectors to be more competitive at the regional and international levels. It could also help strengthen Haiti's voice in crucial trade negotiations at both the regional and multilateral level.

Of growing importance to the new international cooperation today is cooperation among developing countries. In the case of Haiti, a number of developing countries from the region, notably Brazil, Cuba and Venezuela, have provided technical assistance and support in kind; and since the earthquake, a number of other developing countries, including China, India and Mexico, have promised significant support. Venezuela, the single largest bilateral creditor to Haiti, has announced its intention to cancel its debt, amounting to US$ 300 million. Brazil has been particularly quick to scale up support to its already significant commitment under MINUSTAH and to mobilize the international community around a more integrated approach to security, humanitarian aid, and social and economic development -- an approach that is also mindful of local ownership.

Many people have recognized that the earthquake offers an opportunity to change the course of Haitian development, steer the country onto a more inclusive development path and allow it to rely increasingly on its own productive capacities. But Haiti, and its international partners, needs a blueprint for establishing such a path, with guideposts tailored to initial circumstances but clearly pointing to a structural transformation over the longer term. In designing a blueprint, it will be vital to avoid past mistakes and think outside of the traditional development cooperation box.

UNCTAD's work in Haiti

- ***Customs modernization and reform***: implementation of a US$ 3.2 million project to automate all customs operations, thereby increasing fiscal revenues and helping Haiti get back on its feet. An UNCTAD expert is currently in Port-au-Prince to assist with the rebuilding of customs operations.
- ***Debt management and financial analysis***: provision of training, technical advice and software to the Ministry of Finance and Central Bank of Haiti. Financed by the World Bank, this assistance facilitated debt relief initiatives before and after the earthquake of more than US$ 2 billion. UNCTAD continues to work with Haiti on debt analysis.
- ***Investment promotion***: UNCTAD is working with Haiti and the Dominican Republic to develop a joint investment promotion strategy. The strategy aims to use aid and foreign direct investment to build economic infrastructure in Haiti, boost productive capacities and generate employment.
- ***Policy advice and support***: as part of the UN interagency Cluster on Trade and Productive Capacity, which will coordinate the UN's economics-related work in Haiti, UNCTAD can provide assistance on macroeconomic issues, trade and investment policies and negotiations, supply-side policies and development of the business sector, as well as trade facilitation.

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