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Haiti's Economic Challenge

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Haiti's new government faces an enormous economic challenge. Haiti is the poorest country in the Western Hemisphere and among the poorest countries in the world. Two thirds of Haiti's eight million citizens live in poverty. Half of its adult population is illiterate. Only a quarter of its children attend school. Since a brief spike in the 1970's, Haiti's economy has experienced a steady decline as a result of rapacious government policies and, possibly well intentioned, but destructive international sanctions.

Despite Haiti's dismal record, the new Haitian government led by President René Préval has entered office riding a wave of international goodwill. Préval's challenge is to translate good wishes into donor contributions and constructive government programs that promote the well-being and improve the livelihood of the Haitian people.

The economic problems confronting Haiti's new government were discussed at a meeting of the Institute's Haiti Working Group on June 23, 2006. Principal speakers included **Professor Alex Dupuy**, dean of social sciences at Wesleyan University; **Beth Cypser**, acting deputy assistant administrator, Bureau of Latin America and the Caribbean, U.S. Agency for International Development (USAID); and **Ignacio Corlazzoli**, Division of Modernization of the State and Civil Society, Inter-American Development Bank. The discussants were **Robert Maguire**, chair of the International Affairs Program at Trinity University, and **Daniel Erikson**, senior associate at Inter-American Dialogue. Institute senior program officer Robert Perito moderated the discussion. The following is a summary of the views expressed by the speakers and members of the Haiti Working Group.



United Nations peacekeeping soldiers from Pakistan, assigned as part of UNSMIIH, ride through the crowded streets of Port-au-Prince. Photo [UNSMIIH](#)

Failed Past Efforts Cloud Haiti's Future

The deterioration of Haiti's economy is rooted in the predatory policies of past Haitian governments and the misguided efforts of foreign donors and the [international financial institutions \(IFI\)](#). Under the dictatorial regimes of "Baby Doc" Jean Claude Duvalier and successive leaders in the 1970s and early 1980s, the Haitian economy was starved of resources for sustained growth and development. To attract foreign investment, successive Haitian regimes gave foreign investors generous tax exemptions on income, profits, and raw materials, and offered other incentives. Investors flocked to take advantage of the abundance of cheap, unskilled labor and the absence of foreign exchange controls or government

interference. With an infusion of foreign investment, Haiti experienced rapid growth in its assembly, construction, and public utilities sectors.

This "golden age" was short-lived, however, and failed to foster sustained economic growth and commercial development. By 1984, it was evident that the Haitian assembly industry—which symbolized the international community's development strategy—provided no long-term benefits to the country. Materials were imported for assembly, while finished products were exported and consumed abroad. Reliance on cheap, unskilled labor did little to improve the skills of Haiti's labor force, encourage training or stimulate technology transfer. Reliance on the U.S. market meant Haiti was at the mercy of U.S. import quotas and consumer preferences. The government failed to benefit since commercial profits were tax exempt and public services were subsidized. The system had a largely neutral effect on income distribution in Haiti and prevented other industrial sectors from leveraging off of its success.

Despite the negative consequences for Haiti, the donor community and the international financial institutions continued to advocate export assembly for Haiti until the country could expand its infrastructure, educate its labor force, and diversify its industry. Yet these same governments and institutions were aware that Haiti's ruling elite and dictatorial governments were unlikely to implement policies that would accomplish broader economic and social development. In 2002, only four percent of the population controlled 66 percent of the country's assets. Meanwhile, a series of ruinous agricultural trade policies destroyed Haiti's previously successful small farmers, a sector that had produced exports of rice, pork, and chicken. Haiti became a net importer of agricultural products with growing food insecurity and malnutrition for the majority of its people.

A New Government Offers a Fresh Start

Despite Haiti's dismal economic history, the donor community and the international financial institutions have signaled that President Préval's election offered the [chance for a fresh start](#). The IMF, World Bank, Inter-American Development Bank and the European Union announced their intention to make available millions of dollars in development assistance. The Caribbean Community (CARICOM) re-admitted Haiti.

Argentina, Brazil and Chile offered a joint development strategy and Venezuela added Haiti to its PetroCaribe marketing program. USAID announced its commitment to work with Haiti's new government to build a stable and well-governed state, and will concentrate on the dual priorities of stability and growth. It will support President Préval's request for quick impact projects that create jobs in urban slums, while working to improve the government's ability to plan, manage, and deliver services over the long term. One challenge for the donor community will be to reverse the practice of channeling assistance through non-governmental organizations to avoid inept or corrupt official institutions.

In their initial approaches to the Préval government, foreign donors and the international financial institutions seem willing to learn from the mistakes that doomed previous efforts to promote Haitian reform. The international community seems more interested in creating a dialogue with the new government than in dictating terms and conditions for economic assistance. This represents a change from past practice and offers the possibility of obtaining the kind of Haitian 'buy in' that is essential for success. The international community seems determined to stay for the long term to insure that initial progress is sustained. There is recognition of the importance of engaging the Haitian diaspora. Remittances from Haitians living abroad are estimated at more than one billion dollars annually and constitute a quarter of Haiti's GDP. The diaspora represents a rich resource of human energy and talent that could expedite



A Canadian peacekeeping soldier from UNSMIIH talks with a local mother and her children during his patrol of the streets of Port-au-Prince.

Photo [UNSMIIH](#)

Haiti's recovery. Finally, there is new regional interest in Haiti. The country's re-admittance to CARICOM and the emergence of three important South American sponsors—Argentina, Brazil and Chile—are positive signs.

This hopeful moment in Haitian history could dissipate quickly, however, if not properly managed. The country's political situation remains tenuous. President Préval's Lespwa party won only 11 of 30 Senate seats and 21 out of 97 Deputy seats in parliamentary elections in April, far from a majority. Popular expectations are unrealistically high, particularly among Préval's supporters and those who hope for the eventual return of former President Aristide. Indeed, Aristide could become a destabilizing factor, if he attempts to return to Haiti before conditions warrant. Politics could become more fractious in the near term, particularly with the approach of a July 25 donor's conference in Port-au-Prince that will inevitably produce new winners and losers.

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Second USIP public event held by the Haiti Working Group.
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- [Haiti's Future](#)
First USIP public event held by the Haiti Working Group.
February 2006, audio and photos available.
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This USIPeace Briefing was written by [Robert Perito](#), senior program officer, and Emily Hsu, research assistant, in the [Center for Post-Conflict Peace and Stability Operations](#) at the United States Institute of Peace. The views expressed here are not necessarily those of USIP, which does not advocate specific policies.

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