

## SUSTAINED GROWTH IN HAITI: PIPE-DREAM OR REALISTIC POSSIBILITY?

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### I. INTRODUCTION

For several decades the Haitian economy has been one of the most fragile in the Caribbean region. Essentially, this is due to the insufficient natural resource base of the country, with the slowly but steadily increasing population pressing on a shrinking agricultural land area. Employment opportunities have been few outside of agriculture and the inevitable result has been that per capita income has declined over time for at least half a century, probably more.

We will begin by sketching the fundamental mechanism behind the declining standard of living in rural areas. The second section explores the main present safety valve: migration – out of the countryside and into urban areas. We then consider some agrarian reform efforts and non-traditional crops that could contribute to ameliorating the situation in the countryside.

The section then discusses the reasons behind the failure of import substitution in manufacturing, in contrast to the success of the export-oriented assembly industries until the devastating blow dealt by the international sanctions against Haiti in 1991-94, in the wake of the coup against President Jean-Bertrand Aristide. This is followed by a discussion of the industrial recovery that began after the end of the sanctions, the competitiveness in the short- and medium-run of the most important branches, as well as some ingredients in a possible industrial strategy.

Following the discussion of manufacturing, we will turn to a sector that is usually neglected in analyses of the Haitian economy – handicrafts – and examine its main present shortcomings and needs. Handicrafts are closely related to tourism – a sector that could be developed more than at present.

Most of the Haitian economy is informal; i.e. the economic actors are operating without much contact with the authorities. The special problems that this leads to are discussed. Finally, two key inputs in the development process that have hitherto been lacking and which play an

important role in most sectors, education and infrastructure, are considered. The concluding section provides an overall evaluation of the possibility of increased growth in Haiti in the short- and medium-term.

## II. POPULATION GROWTH, EROSION, AND POVERTY

Between 65 and 70 percent of the Haitian population of some 7.2 million people live in rural areas (World Bank, 1997:4; FAO, 1996:7). All of these people, in one way or another, are dependent on agriculture for their living, although, as a result of the increasing weakness of this sector, non-agricultural pursuits over time have come to match, and possibly even overshadow, agricultural production as a generator of income in rural households (World Bank, 1997:4).

The rate of population growth in Haiti, gross of emigration, is estimated to be around 2.5 percent per annum (Ibid.:4). Unless the new entrants into the labor force emigrate or are accommodated in other sectors, the responsibility for employing them will fall on agriculture. Room must be made for them on the land, but, given the topography of Haiti, this is no trivial problem<sup>1</sup>. Haiti is more mountainous in relation to its area than Switzerland. Between 20 and 30 percent of the cultivated land is completely unsuited to agriculture and no less than 60 percent has a slope exceeding 20 percent (FAO, 1996:19). The interaction of population growth and soil erosion under these circumstances sparks a cumulative process that increases rural poverty every year.<sup>2</sup>

In Haiti, two types of crops are cultivated: land-intensive and labor-intensive. Traditionally, the most important among the former has been the main cash crop, coffee, while the latter category consists of food crops of different types – peas and beans, root crops, and maize. From the point of view of environmental conservation, coffee has the great advantage of being a perennial plant, with roots that bind the soil on the mountainsides and with a canopy that protects the ground from the direct impact of the heavy tropical rains. The cultivation of food crops, in turn, has a completely different impact. These crops must be planted or sown at the beginning of the rainy seasons, one or more times during the year, and the land then has to be laid bare, with the result that the downpours carry the topsoil downhill into plains and rivers. Thus, whether a given piece of land carries land-intensive or labor-intensive crops is of fundamental importance in terms of erosion.

Once the population grows in a given area, and given relative commodity prices (between the two types of crops), the crop mix will

change. The man-land ratio in agriculture increases, and since the land area does not grow as well it becomes impossible to maintain the original composition of output (cf. Rybczynski, 1955). The Haitian peasants shift out of coffee production and plant more food crops instead. The uprooting of the coffee trees and the substitution of food crops increases the exposure of the soil to rain and wind and hence increases the possibility of erosion.

Once soil is destroyed, the man-land ratio once more increases and the erosion process becomes cumulative. At that point no further population growth is necessary, for erosion will feed itself, increasing the man-land ratio in each consecutive round and also stimulating the progressive destruction of coffee trees. However, at the same time, the population continues to grow and add fuel to the fire. Altogether, the rate at which the soil is destroyed accelerates and with that the rate of reduction of per capita income in the Haitian countryside.

Erosion is also fueled in a second way. The vast majority of the Haitians are completely dependent on charcoal and wood for energy, and this means that trees must be cut down in a country where extremely little forest remains (Lundahl, 1979:195-204; Stevenson, 1989). Charcoal and firewood have been without competitors in terms of price not only since the oil shocks in the 1970s but long before that. For practical purposes the price of the trees employed to make charcoal consists of the value the peasants put on the time it takes to cut and process them, as the trees mainly come from lands with unclear title and not from the peasants' own farms.

During the international sanctions that were applied to Haiti at various times between 1991 and 1994, in the aftermath of the military coup against President Jean-Bertrand Aristide, the demand for charcoal increased drastically. Oil, kerosene, and gasoline prices increased manifold. Thus, in August 1994, oil was selling in the unofficial market for 12-18 times the official price (Daskal, 1996:7). This made charcoal production increase fivefold in some areas and the rate of deforestation increase by as much as 30 percent in the humid and semi-humid mountain areas (Ibid.:10). The supply of charcoal increased as well. In certain places there were few other ways of making a living during the sanctions. Given the demand, however, it was easy to enter the charcoal market, as a producer and vendor – an effect that may remain, and even be reinforced, in the long-run unless agriculture picks up again.

Few forest resources are left in Haiti and if tree felling continues then these resources will be lost within a few decades. The 1991-94

sanctions also contributed to the acceleration of the erosion process via changes in the crop mix. Agricultural exports (not least of mangoes) declined both because markets were cut off and because some imported inputs were made unavailable (FAO, 1996:4).

The erosion process described above operates at given commodity prices. If the relative price of export products increases then the possibility arises that the process could be counteracted, the peasants again planting coffee. Also, if the price of substitutes for charcoal could be made to decline in relative terms, other, less environmentally damaging, fuels would be used. Unfortunately, however, this scenario does not constitute a valid description of the Haitian reality. On the contrary, the tendency has been in the opposite direction during the past few decades, with the price of export goods declining in terms of foodstuffs and charcoal becoming ever more attractive in comparison to other combustibles (Lundahl, 1979:214-20; Bourdet and Lundahl, 1991)<sup>3</sup>. Thus, the erosion process has received an added impetus from relative price movements.

'Hard' empirical data are scarce on Haitian agriculture. Nevertheless, the cumulative process is clearly visible in the countryside. The peasants are uprooting their coffee trees and are planting food crops instead and have been doing so for many years. For whatever they are worth, agricultural production statistics indicate a secular decline in the output value per capita for at least four decades. In the mid-1980s, the average had fallen by 20 percent in comparison with the mid-1950s figure, and thereafter the downward trend continued, with as much as a 7 percent decrease on average during the 1991-94 sanctions episode (Lundahl, 1997b:5). Altogether, there is little doubt that the Haitian peasant is getting poorer and poorer.

Is seems impossible to reverse the erosion process as long as the cultivation of the steep hillsides continues, not only because the process accelerates over time but also because it involves strong externalities. Erosion control in Haiti can be described in terms of the Prisoner's Dilemma. All the peasants in a neighborhood could in principle be better off if they all decided to combat erosion, but the incentives facing them are conducive to non-cooperative behavior. The runoff on the hillsides affects everybody's plots, and if those whose lands are higher up do not terrace them, the plots below will be affected even if measures to control erosion are carried out by their owners. Isolated individual efforts are worthless. There is also the time factor to be reckoned with. The benefits from erosion control accrue only in the future while the costs arise in the

present. Given the already low incomes, the peasant's main worry is to eke out a living today, in spite of the fact that this may mean that tomorrow he will be even worse off.

Reducing or reversing the felling of trees is difficult as well, since property rights in areas where trees are cut down are usually not well defined. This makes supervision and design of credible sanctions exceedingly difficult. The land is viewed as a common resource and the trees are treated as if they were free goods, with continued overexploitation as the inevitable result.

Traditional agriculture does not have a bright future in Haiti. The existing trends are alarming. In 1950, the area available for cultivation amounted to 0.38 hectares per capita of the population. By the year 2000 the figure is likely to be 0.16 hectares, with a population of 7.5 million (Locher, 1988:15-16). As of today, Haiti cannot feed its population adequately using what is being produced domestically. On an average, over 40 percent of what the average Haitian eats comes from abroad, 34 percent as commercial food imports and the rest (7 percent) as food aid (Gagnon, 1996:14-17). This mining of the soil cannot continue much longer if a catastrophe is to be avoided.

## **Migration**

The secular decline of rural per capita income has created a push out of the countryside, into the cities or to other countries. Emigration (legally or illegally) has brought net population growth down to around 2 percent per annum (World Bank, 1997:4), but, unless the present trends in fertility – five children per woman – are changed, this safety valve will be hard pressed to handle larger numbers of people even in the short-run. Population projections are not encouraging: an estimated 20 million Haitians in 2040 – almost three times as many as today (World Bank, 1996:2).

Migrants to urban areas within Haiti are facing a difficult situation. During the last two or three decades, Port-au-Prince, the main recipient, has experienced increasing problems when it comes to handling the task. The city had less than half a million inhabitants at the beginning of the 1970s (Lundahl, 1979:630). The figure has since increased to 1.4 million, and out of Haiti's 7.2 million inhabitants, altogether 2.3 million live in urban districts. By 2025, if present fertility and migration trends continue, the population of the capital will be some 4 million, with another 2 million living in other urban areas (World Bank, 1996:4-5). The consequences in terms of housing, sanitation, congestion, safety, and crime are easy to

imagine, with a socially very unstable Port-au-Prince as a little Calcutta in the Caribbean.

Emigration has brought Haitians to the United States, Canada, France, the Dominican Republic, and a number of Caribbean islands, notably the Bahamas, and the Turks and Caicos. The United States, Canada, and France house over a million and the Dominican Republic about half as many (World Bank, 1996:2). Even though the flow of boat people to Florida has dropped drastically, after the end of the sanctions, from almost 25,000 in 1994 to a mere 700 two years later (Open Society Institute, 1997:3), this exodus will continue in the years to come. Possibly, emigration to the United States will pick up again, as indicated in a recent report from a humanitarian foundation:

The slow pace of recovery of the Haitian economy and political uncertainty has contributed to a continued sense of hopelessness within the population. Such desperation fuels a desire to leave, and a trickle of Haitians continues to leave Haiti in small boats, often to be intercepted and returned by U.S. Coast Guard vessels. The potential for a migration or refugee emergency thus remains high and could be unleashed quickly by a political or economic crisis (Ibid:1).

The conclusion is obvious. Unless a viable alternative can be found inside Haiti to traditional, unsustainable agriculture, emigration will continue, probably at an accelerated pace. What, then are the alternatives? Let us begin with agriculture itself. What possibilities for change exist in the sector where the majority of the Haitians are concentrated?

### **III. AGRICULTURAL REFORM?**

The Haitian government is well aware of the need to do something that improves living conditions in the countryside. To this end, an agricultural policy has been devised that is based on four different priorities: development of large irrigation systems in the plains and rehabilitation of water retention and distribution systems in the mountains to improve infrastructure; increased security of land tenure for the peasants, improved access to land; extension and financial services in combination with marketing of Haitian agricultural goods abroad and investment in agro-industries, and; finally, agricultural research (IMF, 1996b:15). What good this will do is, however, highly uncertain. Most fundamental is that the erosion and population problem is not put at the center of attention. A related problem is that the budget resources of the Haitian government are very limited. The risk is high that resources will be spread across too many areas.

The government may or may not have realized this. Hitherto, actual policy has been strongly concentrated on changes in the system of land tenure. This began as a response to agrarian unrest in the Artibonite Valley. Tenure had been made insecure by an invasion of landless sharecroppers and violent conflicts had erupted over land. In addition there were disputes between local communities (*Evalyasyon premye faz refòm agrè nan Latibonit*, (n.d.):4-6). Faced with this, the government decided to simply take over the disputed land and if necessary redistribute it. An *Institut National pour la Réforme Agraire* (INRA) was created in April 1995 (IMF, 1996b:15), and on the *Fête de l'agriculture*, May 1, the following year, usufruct rights to 5 000 hectares of state land and disputed areas were allocated,<sup>4</sup> followed by another 6 000 hectares a year later. Subsidized credit and reparation of deficient irrigation systems completed the picture (*Tè ak dlo ak kredi ak ankadreman teknik fè refòm agrè*)<sup>5</sup>.

These measures have been well received in Haiti. All peasants are support agrarian reform, and the government knows that. The process is scheduled to continue in the future, presumably with the Plantation Dauphin in the north, once the world's largest sisal plantation, and a new land law is virtually ready (Ibid.). There is, however, another side to the land reform efforts as well. The concentration on redistribution seems to have blocked all other policy measures in the agricultural sector, and land reform as such does nothing to stop erosion from spreading because it fails to tackle both the crop mix problem and the rehabilitation issue. Instead, the concentration is on a short-run matter: increasing agricultural production, with the obvious risk of overexploitation. The peasants receive only usufruct rights, not titles, which means that the basic uncertainty with respect to ownership is not removed. In this situation the danger that they will attempt to squeeze as much as possible out of the soil in as short a period as possible is high. Tenure may even have become more precarious than before on lands not involved in the redistribution, because title disputes can easily provoke government intervention and decisions that lead to uncertain results.

A recent major study of Haiti's agriculture carried out by the FAO, stresses the need for an integrated strategy for agriculture. Such a strategy would have to be broad in scope and pay attention both to the prevention of erosion by increasing the permanent cover of the soil, by rehabilitating irrigation systems, and by providing inputs (FAO, 1996:54-56). This is in principle a correct approach, but where do you begin? The problem of the agricultural sector in Haiti is that it is in a state of cumulative decline as a

result of the interaction of population growth and soil destruction. Virtually all the inputs that could be conducive to change are lacking: credit, education, technological change, etc., and it is difficult to know where to begin and how to design a strategy that maximizes the impact. Not least, the crop mix aspect must be dealt with, since it is at the very heart of the decline. What the sector needs is crops that are at the same time labor-intensive and environmentally sustainable.

The search for such crops has barely begun in Haiti, and this is hardly the place to come up with detailed suggestions on the individual crop level. A few examples will suffice. The Inter-American Institute for Agricultural Cooperation (IICA) has initiated a coffee production scheme with the dual aim of creating a better image of Haitian coffee in the international market based on higher quality, and bypassing the *spekilatè* and the exporters (the traditional intermediaries) in the marketing chain.<sup>6</sup> The scheme covers around 20 000 growers in the Jacmel and Gros Morne areas. Organically cultivated coffee is grown alongside other peasant crops instead of competing with them. This, on the one hand, contributes to the ecological stabilization of the hillsides; and on the other hand gives the cultivators an opportunity to avoid excessive concentration in one crop that does not provide any cash income during the dormant season.

The organic coffee is bought at the prevailing market price at harvest time. It is thereafter prepared according to the labor-intensive 'wet' method to obtain a quality that is higher than that of traditional coffee, produced with the aid of the 'dry' method. The resulting product is exported directly to the United States, where it is sold in the gourmet segment of the coffee market, on a five-year contract that gives the growers a price that is higher than the average obtained in Haiti. The difference between this price and the one paid at harvest time is distributed to the participants in the scheme.

Non-traditional coffee is an example of a crop that faces an increasing demand. The market for high-quality gourmet coffee is expanding rapidly in the United States and this appears to be reflected in the incomes of those participating in it (the traditional intermediaries have been forced to increase the prices they offer to the producers to be able to compete). Still, what will happen to the scheme is highly uncertain. Finance is not secured for more than one year, and this may prevent the planned expansion into the northern part of Haiti. In addition, a price war may be lurking around the corner, should the scheme be so successful that



it threatens the interests of the traditional intermediaries; what the outcome of such a war may be is difficult to know.

The coffee example demonstrates that it is possible to find crops whose value per unit of weight or volume is high, and which can be marketed successfully abroad in market segments where the income elasticity of demand is high and which increase employment and incomes in the peasant economy. Finding other crops with similar characteristics will require a number of specialized studies of market conditions, labor requirements, natural growing conditions, environmental effects, and compatibility with traditional peasant farming.

Candidates may not be lacking, however. Haiti has in the recent past been one of the largest exporters of mangoes in the world, before the sanctions began to reduce the mango stands. These exports can presumably be revived in the somewhat longer-run, since mangoes have the additional advantage of constituting an essential part of the Haitian diet. They could also be processed by agro-businesses. Horticultural products are another case in point, being successful already in some humid mountain areas. Flowers are another possibility and most tropical spices should grow well in Haiti. The neighboring Dominican Republic provides an encouraging example. In the Cordillera Central, an experimental pepper-growing project is on stream and seems to work well, not least from the employment point of view. It is very labor-intensive and it provides opportunities both for men and women, without demanding drastic changes in traditional work roles.<sup>7</sup>

Non-traditional crops therefore seem indispensable if Haitian agriculture is to survive in the long-run, but the crops selected must provide proper incentives to the peasants. Other changes may be required as well. In the long-run the role of peasant agriculture in general may have to diminish. At least since the American occupation of Haiti (1915-34), and the introduction of foreign-owned plantations, the theme of large-scale agriculture has been virtually a taboo in the country. Still, larger units may have a role to play. At present, the average size of peasant holdings (perhaps 0.5 hectares) has shrunk to the point where these no longer can feed a normal-size family. They are geographically divided into many plots, and because all children have inheritance rights to equal-sized plots of equal quality, this pulverization will continue in the future. It will become increasingly difficult to earn an adequate income out of this structure. In Haiti, the largest landowner is the state, and in a country where state ownership is established without doubt the possibility exists to

invite modern foreign, export-oriented companies that employ superior techniques and require labor on a reasonable scale to produce such crops as pineapple, which is successfully produced in the Dominican Republic (Ibid.).

#### IV. MANUFACTURING

##### Import Substitution

What do the Haitian cities have to offer those who have to leave the countryside? Not very much, unfortunately. The industrial sector has never been very big in Haiti and during the 1991-94 sanctions the most viable part suffered heavy setbacks and the effects on employment are still strongly felt.

Manufacturing consists of two separate segments, without much contact between them. The first to be established was the import-competing one. This was able to work only thanks to high tariff protection in combination with different types of monopoly privileges from the end of the 1940s until the fall of Jean-Claude Duvalier in 1986 (Lundahl, 1997a:76-80). It is difficult to qualify this whole venture as anything but disastrous. Normal principles of competition were set completely aside. Instead, the game consisted in the establishment of contacts in high places by 'entrepreneurs' cornering the markets for imports and production of goods with a strong domestic demand. Naturally, the ones paying for this were the consumers. At the end of the 1970s and the beginning of the 1980s the situation became even worse as a series of government-owned companies were established in sugar, soybean oil, cement, and wheat flour. None of these was ever economically viable. Their only *raison d'être* was that they served as a mechanism of pumping money into the pockets of the Duvalier family.

The transitional government that took over after the fall of Duvalier in February 1986 proceeded to reduce the level of protection. One of the two sugar factories was closed down and the monopoly privileges of the cement and wheat flour companies were abolished. This forced a drastic adjustment on the import-competing sector and in the 1990s the combination of political unrest and international sanctions forced most of the firms remaining in the sector to close down (IDB, 1995:36). What remains of the state-owned ventures is today on the list of privatization objects.

The import-substitution episode is a sad story, and the main lesson to be learnt is that high protection levels simply create rents, and these rents

will inevitably be sought by politically well connected individuals who will not run companies efficiently. The goods that are eventually produced tend to come from sectors where Haiti has a comparative disadvantage. Whatever employment is generated in this highly artificial fashion is created only at a very high real cost to the economy. No linkage effects arise, since the absence of competitive pressure limits output and growth, and with that also the demand for inputs from other sectors. Import substitution thus turned out to be a complete dead end in virtually all respects: its net contribution to the economy was negative.

### **The Assembly Industries**

The second manufacturing subsector is the export assembly industries. These had to compete in international markets and hence displayed a much higher degree of vitality and dynamism in the 1970s and 1980s than did the import-competing firms. Their share of exports increased quickly, from less than 5 percent in the mid-1960s to over two-thirds before the mid-1980s. Employment followed suit and expanded to the point where in 1990 more than 250 firms in the sector hired some 46,000 people (Lundahl, 1997a:80-81; 1997b:6). Each of these employees, in turn, was supporting three or four dependants on average (World Bank, 1981:23). Thus, between 185,000 and 230,000 Haitians – or close to 20 percent of the population living in Port-au-Prince – relied on the assembly industries for their existence.

The export sector had to overcome a number of obstacles in order to grow. In the first place, protecting the import-competing firms made for an anti-export bias by increasing the domestic price of their output in terms of exports goods. Second, they had to struggle with the price, quality, and delivery of infrastructure services. Third, the lack of both general education and specific training among the workers posed problems. Finally, some of the main inputs of the public sector consisted of red tape and arbitrary interventions. On the other hand, the assembly plants benefited from the low minimum wage level (which was not always respected), the lack of trade unions, the exemption of import duties on inputs and export duties on finished products and of income and license taxes, and finally, the favorable tariff treatment in the main market: the United States (Lundahl, 1992:409-11; 1997a:81).

Unfortunately, the ascending curve of the assembly sector was abruptly broken when the coup against President Aristide took place in 1991. The resulting international sanctions to some extent exempted the export industries, but not enough to cushion them from being severely hit.

Of the 252 firms operating in 1990 only 44 were left in early 1995, and employment was reduced from 46,000 to less than 5,000 as the companies closed down (IDB, 1995:36). The sanctions led to market disruption, steeply rising energy costs, unavailability of spare parts, scarcity of inputs in general, and loosening of work discipline during the political turmoil that ensued. As is well known, assembly industries are inherently footloose. Most firms hence closed or left the country. The dynamism created in the economy was gone.

## V. INDUSTRIAL RECOVERY<sup>8</sup>

What will happen to the industrial sector in the near future is unclear. The effects of the sanctions can still be felt. Employment has picked up little by little as companies have reopened: 13,000 in mid-1995, 18,500, in 101 firms, a year later, and, as of May 1997, somewhere between 20,000 and 25,000.<sup>9</sup> The average per firm has been brought to the same level as in 1990: 183 employees; but the total has reached only half that year's figure. Both domestic and foreign investors view Haiti as a risky venture, and this puts a brake on the speed of the recovery process. The foreign customers, in turn, were forced to shift to other supply sources during the sanctions (those who remain are essentially the same as before the sanctions.). The recovery so far has been confined almost exclusively to domestic producers, and only companies that were active before the coup have reopened their doors.

Little else has changed. The comparative advantage – low wages – remains the same in Haitian manufacturing. In the assembly sector unionization is virtually non-existent and the fact that the minimum wage increased from 15 gourdes per day to 36 in May 1995 seems to have had few impacts. (Before that the figure had not changed since October 1984.) In real terms the minimum wage level is lower than a decade ago and the wages paid in the assembly sector are usually above this minimum (IMF, 1995:5; 1996a:10).

At the end of 1995, a study appeared which compared production conditions in Haiti with conditions in Mexico, Jamaica, the Dominican Republic, El Salvador, Cuba, and China (Capital Consult, 1995. This study looked into, among other sectors, assembly work (sporting goods, toys, clothing, and electronics), processing (agro-industries and industrial artisanry) and constructed weighted indices of comparative advantage based on 26 variables connected with the legal and administrative situation, economic policy, manpower, including wages, services, and

industrial zones. The results were discouraging. Low wages, a liberal policy vis-à-vis foreign investors and a geographic location close to the United States could not compensate for shortcomings in most other respects. It was only with respect to Cuba that Haiti possessed a comparative advantage in the short-run. In clothing, toys, and sporting goods, the indices for Haiti were approximately at the same level as those for the Dominican Republic. The other countries outdid Haiti in all sectors.

Macroeconomic developments since the return of Aristide, not least the results of the *Programme d'Urgence et de Reconstruction Économique*, are in the main conceived of as favorable in business circles. But another impression prevailing there is that the state so far has failed to guarantee law and order, not least physical security. It is difficult to find industrial buildings in safe areas. Second on the list of business complaints is what somewhat euphemistically is called the 'difficult and unpredictable social environment'; i.e. the expression in the streets of the frustration of broad population segments when pondering what the future may bear as a result of, among other things, lack of communication from the government about the rationale behind economic reforms. This factor carried a higher weight than such economic factors as the lack of industrial infrastructure, lack of support from the government bureaucracy (expressed, for example, in recurrent delays in formality matters), and high nominal interest rates on industrial loans (on average 24 percent per annum).<sup>10</sup>

Thus, the immediate situation looks bad. Confidence is low in business circles and so is industrial productivity. What may happen in the somewhat longer run is difficult to know. The 1995 study gives no reasons for optimism on this point. By the year 2000, the competitiveness of the assembly factories may have improved marginally in relation to the competitors in the Caribbean and Central America, but only provided that the social and economic situation of Haiti stabilizes and the reform ambitions are not shelved. However, their handicap in relation to Mexico and China will still persist in virtually all branches and neither agro-industries nor industrial artisanry will be competitive. This picture could in most cases be changed if the pace of administrative reform is accelerated, finance is improved, Haiti is integrated into NAFTA, and the gaps to the competitors with respect to human resources, services, and infrastructure are closed. But these are options that are hardly available in the short-run (Capital Consult, 1995).

The long-run presents other difficult problems. Today, operations in assembly manufacturing build only on low wages. An interesting question

is whether it will in the future be possible to 'trade up' and produce goods with somewhat higher technological contents conducive to higher, and preferably increasing, wage incomes and linkages to other sectors in the Haitian economy. This, unfortunately, does not appear to be the case. At least three factors tend to make it difficult to move away from the low-wage end unless we are talking about the very long-run (Lundahl, 1997a:83, 85-87).

In the first place, the inputs required by technologically more sophisticated industries tend to be very specialized. They are often non-traded intermediates that must be produced more or less on the spot by local firms in close collaboration with their customers precisely because the designs involved need to be tailor-made. This, in turn, tends to create a 'trap' that it is very difficult to break out of. Causality runs in both directions. On the one hand, there must be enough demand for the manufacturers of intermediates to be willing to make the effort, since the specialized skills required translate into high fixed costs. On the other hand, if these skills do not exist no specialized intermediates will be produced and the final goods producers dependent on them will never open their doors.

The crucial factor when it comes to breaking this vicious circle is education. The general education record of Haiti is, however, the worst in the Western Hemisphere<sup>11</sup>, and as far as specialized technicians and other skilled employees are concerned the situation is even worse. This can be remedied only in the long run, by a gradual, concerted effort of expanding vocational and technical training at the secondary and tertiary levels.

Skill creation may not be enough. There is also a structural characteristic that is difficult to overcome. In the present international division of labor Haiti is a net importer of non-traditional manufactures. This means that any effort to develop differentiated industrial goods will have to face the competition of low-priced imports when developing the R&D activities needed for trading up. Hence, the latter may never become profitable and Haiti will in that case be locked into the lower end of the industrial ladder, producing just low-wage goods with the aid of simple techniques.

Having said all this, despite the devastating effects of the sanctions the assembly industries continue to be the most dynamic segment of the Haitian economy. The sector has recovered relatively well, given the difficult external circumstances. This, in turn, must be compared with the fact that traditional agriculture is not a viable option and that, barring

large-scale migration, changing the agricultural sector will be exceedingly difficult. The search for non-traditional crops must be accompanied by measures that create employment outside agriculture and hence ease the pressure on the ecologically vulnerable hillsides. In the light of history, escape from poverty has taken the road of industrialization in all the nations that count as developed today. Haiti must do the same.

In this context, one strategy that has not been employed so far in Haiti is that of creating industrial free zones or export processing zones (Capital Consult, n.d.), whereas in the neighboring Dominican Republic no less than some 175,000 industrial workers are employed in 33 free zones, where they produce mainly garments. Other competitors in the Caribbean have also expanded employment in this way: Guatemala, 100,000, and Honduras, 45,000.

The sitting *Commission Présidentielle pour la Croissance et la Modernisation Économique* commissioned a study on the effects of free zones in Haiti (Ibid.). This study elaborated a basic framework according to which the zones should be private but placed under supervision of the *Direction Générale des Douanes*. They should be administered by an organization with a majority representation of private business associations. In practice, most of the conditions outlined in the study are already fulfilled in Haiti. No export duties exist, tax and import duty exemption is the rule for export-oriented industries, and capital moves freely out of Haiti. Rather, the main benefits from locating in a free zone stem from access to buildings, physical security, and general infrastructure. It is much easier to control a geographically delimited free zone than a number of factories spread out over a wide territory. The zones could also be given priority when it comes to such items as power, water, telephone lines, etc., and one should expect that the geographical concentration of companies should facilitate transportation considerably.

The infrastructure problem requires further discussion and we will hence come back to it below. Before that, however, we should take a look at the handicraft and tourist sectors, for the simple reason that the development of these activities to a large extent face the same difficulties as the manufacturing sector.

### Handicrafts

A sector that is usually left out of the analysis of the Haitian economy is handicrafts, rural as well as urban<sup>12</sup>. Haiti has a long handicraft tradition that goes back at least to the 1920s, and the starting point of the sector's modern history could be traced to the early 1970s. Tourism began

to recover after the dark Papa Doc years and craft exports were facing a growing international market after years of stagnation. Increasing quantities of metal and wood products, baskets, tapestries, macramé, crochet, and other weaving products were sent abroad. However, these exports soon ran into problems. In the early 1980s, the market began to be saturated with Haitian goods during a period when price competition from producers in other countries started to be intense. Since Haitian producers by and large failed to adapt to changing tastes as far as patterns, design, and quality were concerned, Haitian goods were falling behind in the Caribbean tourist market.

The demise of Jean-Claude Duvalier and the return of Haitians from exile abroad produced new incentives for handicraft production: inspiration from abroad in combination with a renewed interest in popular Haitian culture and national themes. The demand for Haitian handicrafts increased both abroad (among the Haitians in the Diaspora) and at home. The sector was seeing a bit of a 'renaissance', further reinforced by the triumph of the democratic forces at the end of 1990.

The renaissance did not last long, however. Handicrafts were rammed as hard by the sanctions as any other sector in the Haitian economy. Between 1985 and 1990, Haitian artisans, located mainly in rural areas, had contributed some USD 10-15 million worth of exports each year. After the 1991 coup they were forced out of production and many, needing the cash, even sold their tools. Handicraft exports dropped from about USD 9 million in 1990 to a mere 1.4 million in 1994, and the share of handicrafts in total exports dropped from 12.6 to 6.1 percent. The cost of raw materials in many instances skyrocketed, with increases ranging from 100 to 400 percent. At times, inputs were simply not available. At the same time, the money inflow from relatives abroad, which had been used to finance activities, was cut off. The handicraft sector was decapitalized, and as early as 1992 many craftsmen shifted to commerce and similar activities instead (Fleurant and Mangonès, 1996:1, 10-11 and Annex 3).

To what extent the handicraft sector may have recovered after the end of the sanctions is impossible to say, notably for rural areas, where definition and classification of activities is notoriously difficult. Those active are concentrated in basketry and fiber craft, wood sculpture and other woodworking, as well as embroidery and needlework. Of these, needlework and woodworking have faced problems as a result of increased international competition. Overall, traditional crafts are having problems



since they have to compete with industrial products both for markets and for qualified designers. Still, only a minority of the artisan population of Haiti works for industrial firms (Ibid.:12-15).

The tourist market, in Haiti and in the rest of the Caribbean, not least the Dominican Republic, is the main market for the handicraft sector. However, industrial craft products with a pronounced 'Haitian' touch have found a niche in the United States, and the more individualized, high-quality items have no problems selling in the international market, although quantities are small (Ibid.:16-17).

If these markets are to be developed, the handicraft sector must overcome a number of obstacles. In 1996, a survey of handicraft production in Haiti identified the following major constraints: education and training, design, production, funding, marketing, organization of the sector, government policy, and legislation. The rapidly changing international markets require training for adaptation and diversification. The buildings and tools employed are often not designed with the goods they help to produce in mind. It is difficult to find raw materials, the finish often leaves things to be desired, and the producers are unfamiliar with pricing practices. Designs are frequently out of touch with tastes overseas and changing them requires considerable time. It is difficult to find new marketing outlets, not least since producers often have only dim ideas about what the market looks like.

In this context it should be noted that the Haitian state does not provide much support, while the governments of the competitor countries tend to be extremely active. The general lack of adequate transportation in Haiti in turn increases the price that the final consumer has to pay. Unless they are prepared to pay high interest rates, small producers have problems finding adequate finance. Cooperation and common representation of interests is lacking. Finally, the government has failed to promote handicrafts through legislation, implementation of already existing laws, and development of special incentive schemes.

Thus, handicrafts in Haiti have to cope with a formidable array of problems. In addition, the sector stands out as extremely heterogeneous, with one end in almost industrial production and the other in primitive products made by single producers. This must be kept in mind when support and solutions are to be devised. The main difference here, between industrial production and traditional crafts, is based on organization and division of labor. The single artisan has to perform all the operations alone. The industrial enterprise, on the other hand, makes systematic use of the

division of labor and thereby achieves a productivity level that is impossible for the individual to reach by himself.

This observation bears directly on the problems of handicrafts. On the one hand it is desirable that this sector strengthens its relations with manufacturing, so that as many artisans as possible can be transferred into higher-productivity pursuits within the latter sector. This is, however, not enough, since the handicraft sector also contains a group of artisans that are difficult to incorporate into industrial production. For them, support in the form of credit and marketing and, not least, technical assistance in developing designs and avoiding repetitive patterns that rapidly saturate the market is desirable.

### **Tourism**

One of the most important markets for handicrafts is provided by tourism. In addition, tourism is a labor-intensive sector that under favorable circumstances can make a contribution to employment. Haiti has a reliable climate, with the mean temperature varying by a mere five degrees Celsius between the coolest and hottest months of the year. The rainy seasons do not coincide with the tourist peak seasons at the end of the year and during the summer. In addition, the colorful culture and history of the country give Haiti a comparative advantage vis-à-vis its competitors in the Caribbean region.

Still, the fate of tourism in Haiti has varied considerably over the years. The history began with the Bicentennial Exposition in Port-au-Prince in 1949, and the number of visitors to the country increased steadily from 5,000 in 1945 to almost 60,000 in 1960.<sup>13</sup> The following years, however, were the darkest ones of the Papa Doc regime (and in the modern history of the country, for that matter), and numbers dropped to 19,000 in 1964, with visitors staying no more than three days on average. The death of Duvalier in 1971 and the improved image abroad during the first years of Jean-Claude's presidency made tourists return. The total number of visitors reached a peak of 339,000 in 1979. However, all of these were not tourists. The majority were Haitian emigrants visiting their country of origin, people in the aid community, and foreign businessmen. At this time, some 2,500 hotel rooms were available in the country.

At the beginning of the 1980s, tourism contracted again. The world economy entered a recession, the Baby Doc government was increasingly accused of human rights violations, and Haiti appeared on the list of 'H:s' suspected to be behind the spread of AIDS in the United States.<sup>14</sup> This negative news was followed by political unrest in Haiti. Total receipts

from tourism in 1984 amounted to no more than they did in 1972. It was hoped that the fall of Baby Doc in 1986 would change the situation, but as the political situation deteriorated, the prospective tourists preferred not to come, especially not since the Minister of Public Health stated that 10 percent of all Haitians might be infected with AIDS.

During the next few years, little happened that could change the situation. The 1987 elections were interrupted and when a president was finally elected the following year, it was under highly dubious circumstances. The new president was rapidly ousted by the military and when Jean-Bertrand Aristide, who was elected by a landslide majority of two-thirds in 1990, was thrown out of the country the following year, another low-water mark was reached. The international sanctions practically killed the industry (IMF, 1995:3). The only visitors arriving were Haitians from the Diaspora visiting their relatives, and during the first quarter of 1995 it was even reported that as much as 70 percent of the hotel beds in Port-au-Prince were occupied by Haitians coming from abroad, paying in US dollars (*Le Nouvelliste*, March 17-19, 1995). (It should then be noted that most of the visitors were staying with their families.)

Tourism has never been quite a success in Haiti, even when the political circumstances have been favorable. The country's share of the Antilles market never exceeded a couple of percent (Lundahl, 1992:412). The notorious lack of infrastructure has put a brake on mass tourism even during periods when there has been no violence or political turbulence. Outside the capital there are few hotel beds and the communications between the provincial cities and Port-au-Prince have most of the time been very poor. This makes it difficult to reach such spots as, for example, Jacmel and Cayes on the south coast and Cap Haïtien in the north. Even during the best years, at the end of the 1970s, this was true and thereafter the transportation network has deteriorated gradually. Four-wheel drive vehicles are finding a growing market in Haiti. There are no railroads and most tourists stay clear of the overloaded and overcrowded trucks that provide the only collective transport between major cities. Hence, in practice, whoever visits Haiti for tourism, is locked into the capital, where no beaches exist, unless he or she is willing to rough it.

These are issues that must receive priority if tourism is to receive a boost in the future. Whatever investment in hotels, restaurants, etc., that is needed will have to come from private, domestic or foreign, sources, but it will not materialize unless Haiti's international image improves

considerably. The feeling that the country is not a secure and stable place to go to must be made to disappear. No other sector in the economy has suffered as much as tourism from the overwhelmingly negative publicity that Haiti has received in the past. Security and stability are only necessary, though not sufficient, conditions for an expansion. A decent infrastructure is needed as well. Power cuts at odd hours, a chaotic traffic situation in the capital, non-availability of beaches close to Port-au-Prince, and lack of transportation to the areas where beaches are located available are all things that have little appeal for the average tourist. The Cap-Haïtien area, for example, has more to offer than the capital, but ever since the American occupation, 1915-34, resources have been heavily concentrated in Port-au-Prince and its surroundings, and this pattern was strongly reinforced during the presidencies of the two Duvaliers. Thus, the tourism issue is also deeply entangled in the wider regional development question – an issue that has received very little attention in Haiti.

The Préval administration has professed an interest in tourism. Haiti should be marketed as a 'different' country, with a strong and highly specific cultural and historical heritage and the state must cooperate actively with the private sector and with other countries in the Caribbean (IMF, 1996b:16). Inspiration should not be lacking. The Dominican Republic has seen a tremendous boom in tourism during the past decade, and parts of Haiti could presumably make use of this fact, notably the border area in the north, where Cap Haïtien and Henry Christophe's magnificent Citadelle la Ferrière are located.

## VI. PROBLEMS OF THE INFORMAL ECONOMY

Most of the Haitian economy presents a special problem in that it is informal. The state has difficulties reaching actors that pay no attention to its laws and regulations. This is the case with virtually the entire peasant sector, many small manufacturers, most artisans and others active in the handicraft sector, many traders, and almost all personal services. Some 650 000-750 000 people are estimated to be working informally in urban areas (GHRAP, 1995:66).

Microenterprises dominate the informal sector. Often, they do not consist of more than a single individual. Many are women. Owners are individuals or families. The business volume tends to be very small and no taxes are being paid (Ibid.:64-65). Local raw materials are employed in labor-intensive, mostly technologically rudimentary, operations. Those who work in the sector have little formal education, frequently none at all.

Entry is completely free in the informal economy. Markets are very competitive. Incomes and living standards are low, as a result of low labor productivity, which in turn, makes savings and capital formation difficult.

Informal entrepreneurs have to cope with special problems. They lack access to formal credit and in case outside finance is required this comes as short-term loans only, from informal sources charging high real interest rates as a result of lack of collateral and supervision of how loans are used. The informal entrepreneurs have very limited access to public infrastructure facilities. Power, water, and garbage collection have to be obtained in informal ways. Often, human power has to be resorted to and the capital equipment is limited to simple hand tools. The buildings used (if any) may not be adequate for the type of operations performed. Industrial space is both scarce and expensive in Haiti, as well as location is a problem.

Very few projects have in the past dealt with the problems of the informal sector. This field has been more or less left by the Haitian state to non-governmental organizations that have worked mainly on living and working conditions and provided some credit, mainly for commerce. The market forces reign supreme and entrepreneurs and workers have to adjust more or less instantaneously when conditions change, which may be overnight. The diversity of the sector and the large numbers of people involved calls for an approach which is diversified and decentralized as well, as exemplified by the discussion of handicrafts above.

It is doubtful whether formalization would do any good. As of today, efforts are limited and concentrated to registration and formalization of the titles of the property on which the microenterprises are located.<sup>15</sup> Formalization would in principle make it easier for enterprises to have access to public services, notably infrastructure. Still, it is highly doubtful whether this is a viable proposal. As we will soon come back to the issue, the present provision of such services leaves a lot to be desired, and one important implication of formalization would be the need to pay taxes. Presumably, in the near future, the informal sector will remain beyond the reach of government efforts. The sector's demand for education and training, credit, and infrastructure will have to continue to depend on non-governmental efforts.

## VII. KEY INPUTS

### Education

Much of the foregoing discussion has revolved around two common themes: the need for education and training, and the need for a vastly improved physical infrastructure. These are necessary, but not sufficient, inputs if Haiti is ever to break the downward cumulative process that the country has been caught in for several decades.

Beginning with education, the history of Haiti in this respect is discouraging (Lundahl, 1979: Chap. 10; Tardieu, 1990). When the American occupation of Haiti began in 1915, the situation, especially in rural areas, was dismal. The peasants were more or less completely illiterate. The Americans made an effort to change the educational system, away from the emphasis on literature and humanistic subjects that characterized the French tradition, toward a system putting more weight on manual and vocational practical training. The effort failed, however, and once the Americans left, the French-derived schools reigned supreme again.

Over the next few decades, few changes were experienced. When the 1950 census was taken, the illiteracy rate for the entire country was found to be almost 90 percent. Twenty-one years later, the figure still remained high - close to 80 percent - 90 in rural districts (Lundahl, 1979:478). An impossible system had been created. It used a foreign language - French - as the medium of instruction, and very few texts were available in Creole. To this was added the strong emphasis on examination at all levels of the system. The result was catastrophic. The school system did not serve as a vehicle for the accumulation of human capital, but as a filtering device - and a negative one at that. Social mobility was minimized and allowed those on the top rungs of the societal ladder to continue to control those below. The vast majority of Haitians failed to complete even the primary cycle.<sup>16</sup>

In the mid-1990s, some things have changed, but not very many. Creole has taken the place of French, as it seems successful, since the official illiteracy figure has been reduced to 42 percent for the country as a whole. A figure that may, however, be an exaggeration since enrollment leaves a lot to be desired. As many as 90 percent of all the children of school age also enter school, but only 29 percent of the beginners in first grade go on to the secondary level, and a mere 6 percent finish that level.

Only 4 percent continue on the tertiary level. Grades are frequently repeated (Mure-Ravaud and Rodd, 1997:25-26).

The quality of the education is usually poor. Teachers are often unqualified, with few, if any, textbooks available and the buildings used as schools are old and decrepit. Many teachers are forced to do other side jobs to supplement income. The salaries they receive are so low that they do not allow a decent living. Because of this, recruitment is difficult, especially in rural areas. Most of the schools are private and only a minority are enrolled in the state-run schools. The majority go to schools run by NGOs, churches, private persons, etc.: 66 percent in the primary level, 81 percent at the secondary level and 50 percent at the tertiary (Mure-Ravaud and Rodd, 1997:3). The quality of these schools ranges from very good to catastrophic. No national literacy program exists.

Doubtless to say, the school system in Haiti needs to be improved both quantitatively and qualitatively. If we are to believe official statistics, families are willing to pay for their childrens' schooling. Among those families sending children to private schools, between 11 and 13 percent of the family budget is spent on schooling. This figure ranks very high when compared with other countries at a similar income level (Mure-Ravaud and Rodd, 1997:37).

All families cannot afford to pay. One way or another, education becomes the state's responsibility. Educational reform is now being carried out in Haiti. Joint ventures between the state and private schools have been suggested as a way of increasing the cost effectiveness of investment in education. This means that the state would not directly run the schools but rather subsidize operations and control the curricula and quality. The budget of the Haitian government is extremely constrained. In this situation, the importance of efficiency looms large and the public school tradition in Haiti is not a successful one. With this in mind, there are good reasons to believe that the most efficient way of increasing quality and quantity in the educational sector is via a mixed system.

One of the most crucial areas in the school system is that of technical education. This is central both for increasing productivity and increasing employment. Manufacturing needs technicians and middle-level managers with a technical background. Otherwise bottlenecks tend to arise which preclude the productivity of other categories of employment. However, in the past very little attention has been paid to technical education. Until 1995, there were only 38 technical schools, with a total enrollment of 5

800. No less than 70 percent of these schools were private (Silié and Hasbun, 1996).

### Infrastructure

If the rate of growth is to increase in the Haitian economy, a second input to remove the bottleneck is the sad state of infrastructure. Power cuts occur almost daily at completely irregular intervals. A mere eight of every 1 000 households in the country have a telephone lines, in a system that does not work. Businesses frequently have to resort to radio-based means of communication (World Bank, 1996:14). The water distribution system is not dependable and the road system is literally falling apart. Public service is inadequate, untimely, and irregular in most aspects, to the detriment of virtually every single producer in the country.

The electricity company is an example of the existing state of affairs. At the end of the recent sanctions the situation was desperate:

The operations of the electricity company were particularly badly hit [during the sanctions]: no significant new equipment had been purchased since 1986; spare parts which needed to be imported were unavailable after 1991; and the progressive depletion of oil supplies resulted in continuous interruptions in electricity generation. The production of electricity from thermal plants (which represented about 65 percent of electricity production in 1991) declined from 290 millions of kwh in 1991 to 27 millions of kwh in 1994 ... The decline in thermal plant generation was only partly offset by additional hydroelectric generation. At the beginning of 1994 electricity production at the main hydroelectric plant (in Péligre) was stopped as a result of technical difficulties; by the end of the year electricity was available for only 12 hours a day in Port-au-Prince (IMF, 1995:3-4).

Today, the situation has changed very little. The production of the *Électricité d'Haiti* is nowhere close to the existing demand. The generating capacity is too low and about 40 percent of what is produced is either tapped illegally or lost due to other non-technical reasons (IMF, 1996b:18). Electricity is mostly available in the capital, but only for a few hours per day during the dry seasons (World Bank, 1996:14). As a result of this, both households and firms have to supplement the public supply with electricity generated by themselves. Effectively, the government has shifted the responsibility for infrastructure to the private sector.

Transportation is another case in point. Haiti is a country where roads do not last long, while airports and ports leave a lot to be desired. The road network consists of some 4,500 kilometers, most of which are not paved. Ten ports that can handle medium tonnage vessels and a dozen smaller ports and wharves exist. Finally, Haiti has two international



airports and four domestic airstrips (World Bank, 1996:17). Some of the formerly important ports, like the one in Jacmel, were closed down by the Duvalier administrations and left to deteriorate. Maintenance of roads was limited to less than 20 percent of the paved roads and 4 percent of the rest. The harbor in Port-au-Prince is congested and inefficiently managed. It has far too many employees and lacks the necessary equipment (Ibid.:14). It comes as no surprise, that it is the most expensive port in the entire Caribbean (IMF, 1996b:13). Altogether, the transport system is characterized by neglect and deterioration.

Here, as well as in the case of electricity, adjustment is forced on the private sector. There is a trade-off between the state of the vehicles and the state of the roads. Ordinary cars are to an increasing extent replaced by four-wheel drives involving higher costs. Insofar as ordinary cars continue to be used, reparation costs increase as the road network continues to deteriorate. However, the trade-off is a limited one. The deficient state of the roads severely limits the amount of merchandise that can be transported and increases the time required. To what extent improvement is possible is doubtful. Transportation stands out as one of the least cost-effective areas in the public sector (Ibid.:17).

The situation with respect to infrastructure is particularly unfortunate since developments are held back by the ongoing debate about privatization of public enterprises. The *Électricité d'Haïti*, TÉLÉCO, the Port-au-Prince harbor and airport, among others, are awaiting decision. But as long as the discussion in the parliament remains in a state of paralysis, very little action will be taken to improve efficiency.

### VIII. CONCLUSIONS

Our survey of the Haitian economy has not revealed many features that would lead us to believe that sustained growth is imminent. The economy between 1991 and 1994 reached such a low-water mark that heroic efforts are required to put it back on the pre-coup level. Sustained growth appears as a very remote possibility – in the best case. In the worst case, per capita income will continue to decline and the pressure to emigrate will increase.

In agriculture, the cumulative interaction between population growth and erosion continues and the agrarian reform that is underway fails to address the problem finding crops that are both labor-intensive and ecologically sound. Thus, we should not expect any reversal of income trends in agriculture in the near and medium-term future.

The most dynamic sector in the Haitian economy during the 1970s and 1980s was the export assembly manufacturing firms. The 1991-94 sanctions almost wiped these companies out, and the recovery beginning in 1995 has not yet reached the point where figures are back at the 1991 level. Manufacturing exports face strong competition both from other Caribbean nations and from countries further away, and unless such crucial variables as political stability, physical security, education, and infrastructure undergo a drastic improvement there are no reasons to expect Haiti's competitiveness to increase over the next few years. In the longer perspective, Haiti must break away from low-wage manufacturing if incomes are to improve. But given the dismal educational situation this appears utopian, especially since the country would have to compete with low-priced imports of technologically more sophisticated goods.

A sector absorbing many people both in rural and in urban areas is handicrafts. This sector was adversely affected by the sanctions, and increasing output and sales may be difficult. The Caribbean market by and large appears to be saturated with Haitian crafts and the sector needs assistance in a number of ways to be able to expand, ranging from close cooperation with manufacturing to targeting of individual artisans.

Tourism – one of the most important markets for handicrafts – is often considered as a potentially expanding field, but this sector has in the past been subject to more downs than ups. Today, tourism is severely constrained by the lack of infrastructure – notably electricity and transportation – and by the feeling abroad that Haiti is not yet stable and secure enough for tourists.

The fact that most economic activities in Haiti are informal poses special problems when it comes to designing strategies for growth and development. Many entrepreneurs want as little as possible to do with the authorities. By the same token they lack the infrastructure that is necessary to increase productivity and incomes. In the past, the Haitian government has made few efforts to break this impasse and in the near future this situation is not likely to change.

The analysis of the different sectors of the economy points clearly to the strategic importance of the key inputs in the development process: education and infrastructure. On both these counts, Haiti displays severe deficiencies. The illiteracy rate is the highest in the Western Hemisphere. Technical education, necessary for manufacturing, remains rudimentary. The telephone system does not work, electricity is available only at irregular intervals, transportation is a hopeless mess, etc. These are all

factors that are difficult to improve at short notice, especially given the very limited resources at the disposal of the Haitian government. Thus, there are no indications that in the foreseeable future Haiti will be able to break out of the economic stagnation and decline that has characterized the country for several decades.

The present paper has not dealt with either macroeconomic policy problems or with politics in any detail. These themes have been touched only *en passant*, for reasons of space.<sup>17</sup> However, when these factors are added to the picture, the conclusion that sustained growth in Haiti is a pipe-dream receives further support.

During most of the period from the beginning of the 1980s to the present Haiti has experienced severe macroeconomic disturbances as a result of political factors (Lundahl and Silié, forthcoming). The unrestrained plunder by Jean-Claude Duvalier and the clique surrounding him during the first half of the 1980s led to large budget deficits that were monetized and which by boosting demand caused balance of payments deficits as well. The attempts to stabilize the economy, undertaken by the provisional government that took over in February 1986, was interrupted by the political chaos that ensued in mid-1987 when presidential elections were imminent. Smuggling and underreporting of company profits undermined the government budget and the rate of inflation increased. Thus, policy reform came to nothing.

In 1991, after the election of Jean-Bertrand Aristide to the presidency, a second stabilization effort was made. This time, the endeavor was interrupted by the coup d'état at the end of September that ousted Aristide. During the next three years, per capita income dropped catastrophically, as we have seen in the foregoing, and the economy experienced another macroeconomic disequilibrium, with a severe breakdown of the tax administration and conversion of a balance of payments surplus into a huge deficit as a result of capital flight and suspension of foreign aid. Again, policy making was back to square one, but at a drastically lower per capita income.

A third round of policy reforms was initiated by the government of René Préval, in 1996<sup>18</sup>. These reforms are of the standard IMF-World Bank type. What their eventual fate will be is doubtful. Not even today, with democratic elections and a two-chamber parliament in place, does the political process work to the advantage of economic growth. The government budget was voted in parliament with few months left of the fiscal year both in 1996 and 1997 and the Haitian political scene remains

one of confrontation rather than one of cooperation. Following the first round of senatorial elections in April 1997 communication between the two main political groupings broke down completely. In June, the prime minister resigned and it has not yet proved possible to name a successor because of opposition from parliamentary circles. Finally, the gap between President René Préval and his predecessor, Jean-Bertrand Aristide, who handpicked Préval to succeed him, appears to be widening day by day. In short, the entire political mechanism of Haiti is paralyzed. For how long we do not know, but as long as the paralysis remains the economy is not going to move forward. Stagnation and decline will continue to carry the day.

## Notes

- 1 See Lundahl (1979:Chapter 5), for a detailed discussion.
- 2 One may ask the question whether some mechanism à la Ester Boserup (1965), when population growth stimulates technological progress, will not act as a brake on this tendency. However, this is not the case. Technological change has by and large been absent from rural Haiti. See Lundahl (1979: Chapter 12), for an extensive discussion of the reasons.
3. These tendencies were reinforced during the 1991-94 sanctions, when export markets were cut off and oil prices skyrocketed.
4. *Evalyasyon premye faz refòm agrè nan Latibonit* (n.d.), lists the criteria that must be met by those who are to receive land. p. 11.
5. Personal communication from T. Anderson White, Port-au-Prince, May 8, 1997.
6. Interviews with representatives of coffee producers in Cayes-Jacmel, May 6, 1997.
7. Personal communication from Rubén Silié, Port-au-Prince, May 15, 1997.
8. On this point, I am indebted to Johnny Handal for a stimulating conversation. Port-au-Prince, May 3, 1997.
9. Interviews with Rémy Montas, Prime Minister's Office, Port-au-Prince, May 2, 1997 and Leslie Delatour, Banque de la République d'Haïti, Port-au-Prince, May 7, 1997. The 1996 figure comes from Enquête industrielle, Août 1996, Résultats préliminaires, Capital Consult. Port-au-Prince.
10. Information from the Prime Minister's Office, Port-au-Prince, May 2, 1997.
- 11 For an overview, see, e.g. Lundahl (1979: Chapter 10); Tardieu (1990) and Prou (1997).
12. An excellent synthesis of the problems of handicrafts is found in Fleurant and Mangonès (1996).
13. The following is based on Lundahl (1992:412-13).
14. The other 'H's' were homosexuality, heroin and hepatitis.
15. Interview with Bernard Craan, Centre pour la Libre Entreprise et la Démocratie (CLED), Port-au-Prince. May 2, 1997.

16. The details of this are found in Lundahl (1979:478, Chapter 10).
17. I have discussed these issues in detail elsewhere and the reader is referred to those works. See Lundahl (1979), (1983), (1992), (1997a) (1997b); and Lundahl and Silié (forthcoming). The latter work complements the present one.
18. Actually, the reforms were started by Aristide after his return to Haiti in 1994, but Aristide subsequently turned against his own reform commitments.

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