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## Moving Beyond American Conditional Aid to Haiti

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Title: Moving Beyond American Conditional Aid to Haiti

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Biography: Chang-Dae David Hyun, former sergeant with the Republic of Korea Air Force, earned his Honors B.A (2017) at the University of Toronto specializing political science. He is the winner of the Kathleen & William Davis Scholarship and Saul & Lois Rae Scholarship at University College (U of Toronto), and spent summer 2017 on a full scholarship to Tsinghua University of China.

Abstract: A root cause of Haiti's poverty is the IMF's structural adjustment plan. A solution based on Chinese aid, unlike neo-liberal policies, allows Haiti to protect its rice and other industries.

Haiti is one of the poorest countries today, with an extreme poverty rate. Its per capita income is two hundred fifty dollars, while 80% of the rural population makes less than \$1.25 per day (World Bank, 2017). Although the country has abundant natural resources, resources are extracted by foreign predators, leaving very few margins to local Haitian people. I will argue that the problems in Haiti became most salient when the United States imposed the International Monetary Fund's (IMF) structural adjustment plan. It promised a profitable transition from agricultural industry to light manufacturing industry; instead, it destroyed Haiti's agricultural industry while its manufacturing industry showed minimal success. The country lost its political autonomy while it became more dependent on foreign capital that is largely operated by American companies. In this paper, I will address the problems of the IMF's structural adjustment plan and offer solutions to improve Haiti's agricultural industry. I will argue that China's unconditional aid is important to reduce the dependency on Western capital and also develop protective policies for agricultural industries; in particular, the rice industry.

The United States introduced the IMF structural adjustment plan in Haiti with hopes of diversifying the country's economy by making a transition from agricultural-based to a light-manufacturing economy. The IMF emphasized the limitations of agricultural industries, such as their seasonality and vulnerability to natural disasters. On the other hand, producing light-manufacturing goods would be less-exposed to environmental threats and more profitable than agriculture. These ideas were supported by Ronald Reagan's Caribbean Basin Initiative that emphasized the importance of free trade and free markets; eventually, Haiti would transition from an agrarian society into a manufacturing economy. Consequently, in 1986, the IMF implemented the structural adjustment plans; eliminating import tariffs, privatizing state-owned industries, and reducing the budget for the government agricultural agencies (Chavla 2010).

However, these structural adjustment plans brought devastating effects in Haiti, especially on the production of rice, which has been the most popular staple in Haiti. The import tariff on rice was cut from 50% to the IMF imposed 3% (Chavla 2010). The subsequent massive influx of cheap American rice that came after outcompeted Haitian small farms. Inevitably, many Haitian farms closed down, and the country started to lose its self-sufficiency in crops. Before 1987, Haiti used to meet all its rice demand, but by 2003, approximately 80% of all rice consumed in Haiti was imported from the United States (Chavla 2010). Furthermore, the dependency from the American imports had created negative impacts on the trade balance. Although Haiti only made \$75 million from exports in 1992 (Department of State, 1994), they had to spend \$373 million on American rice imports by 1994 (Chavla 2010).

Meanwhile, the transitioning from agriculture into light-manufacturing showed marginal success. Generally speaking, Haiti do not have comparative advantage in labor-intensive industries compared to Bangladesh or China that has huge lands and large populations. Therefore, Haiti has been facing difficulty in attracting foreign investors that are willing to build factories in Haiti. Inevitably, Haitian government had to incentivize private companies, which was largely paid at the expense of workers. Haitian laborers face extreme exploitation that includes lowest wages in the hemisphere, long working hours, and experiencing violations of human rights (Hallward 2004). Yet, those farmers who lost jobs due to neo-liberal policies, still face difficulty in finding jobs in light-manufacturing industries. According to World Bank data in 2010, Haiti's leading light-manufacturing industry, apparel, employs only 25,000 in 23 companies (Bringing HOPE to

Haiti's Apparel Industry 2009, 14). Considering there are over 2 million people in Port-au-Prince, the industry only includes 1% of its labor. In short, unemployment is a huge problem in Port-au-Prince where more than 40% of the population remained unemployed in 2010 (World Fact Book 2017). Many Haitian peasants, which make up more than 80% of the total population, moved to Port-au-Prince after the structural adjustment plan; but they are still discontent from lack of opportunities.

Despite these harsh conditions, it has been difficult for Haitian government to initiate economic solutions because its political autonomy has been hampered by the United States. The IMF conditions reduced the role of the Haitian government while allowing American companies to exert greater influence in Haitian affairs. Furthermore, the capital dependency on the IMF created further problems when there were disagreements between Washington and Port-au-Prince. The United States placed an aid embargo on Haiti in protest of the election of Jean Bertrand Aristide, who had won 92% of the votes in the 2000 election (World Fact Book). Consequently, in April 2001, the United States blocked the release of \$148 million in loans from the Inter-American Development Bank and another \$470 million scheduled for the following years (Street 2004, 6). Inevitably, Haitian government had to shrink its fiscal budget while the nominal GDP fell from \$4 billion in 1999 to \$2.9 billion in 2003 (ibid.). This incident showed that Haitian government has very limited leverage in terms of protecting its political autonomy because of its capital dependency on the United States.

China's developmental aid has been increasingly important in the Caribbean. Between 2002 to 2007, China's aid increased almost 15 times over: from \$1.5 billion to \$25 billion (Bernal 2015, 1422). By the end of 2009, China provided aid to 123 developing countries including 13 countries in the Caribbean (Bernal 2015, 1422, 1424). The increase in Chinese aid coincided with the declining aid from the United States. Sir Ronald Sanders, who serves as a diplomat for Antigua and Barbuda, argues that China "filled a void left by the United States and other Western nations" (Sanders 2011). But more importantly, China's developmental assistance has been dispensed with less conditionality than Western aid (Hodzi et al. 2012, 80).

Suriname is one of the Caribbean countries that has benefitted most from Chinese aid. In 2005, Suriname received \$23.6 million in developmental aid from China, which was nearly one third of the \$87 million in aid dispersed through the Caribbean as a whole (Bernal 2015, 1423). It coincided with decrease of Western aid after Desi Bouterse's military dictatorship was established in 1980s. The United States viewed Bouterse's government as illegitimate and human rights abuser; consequently, the United States contributed minimal aid. In 2014, Suriname received \$4,296 aid from the United States, which is much less than the average of \$537,839 United States aid dispersed to South American countries (State Department, U.S. Foreign Assistance to Suriname). There was a marginal increase in 2015 when Suriname received \$19,246 from the United States, but even the increased amount comes to \$0.04 per person considering Suriname's total population of 542,975 (ibid.).

Despite criticisms by the West, Suriname's political conflicts did not deter China from providing developmental aid to the country. Chinese ambassador to Suriname, Yuan Nansheng, said China had no problem with the questions surrounding Mr. Bouterse's past, even as the president also remains on trial for killing fifteen top opponents in the 1980s (Romero 2017). With the China's

economic support, Suriname could pursue development, including construction of low-income housing, deriving renewable energy from rice husks, shrimp farming, and upgrading the state television network (Romero 2017). Furthermore, Suriname's agricultural industry benefitted from China's increased economic support. A Chinese firm named China Zhang Heng Tai reconstructed palm oil plantation that was destroyed by the civil war (Ellis 2012, 91). Moreover, Suriname benefitted from the non-interventionist policy of the Chinese government. It allowed Suriname government to promote protective policies for its local agricultural products. According to the International Trade Administration, Suriname has the highest import tariffs on agricultural products, which is set at 40% to 50% (International Trade Administration 2017). Despite the absence of Western aid, Chinese economic assistance allowed Suriname to remain one of the strongest economies in the Caribbean.

Similarly, Haiti could benefit from China's unconditional aid and reduce its dependency on Western capital. As explained earlier, Western conditional aid significantly restrained Haiti's political autonomy, while the embargo on aid was used as a tool of the United States to exert its influence in Haiti. However, China's less-conditioned aid could be an alternative source of income that does not limit Haiti's own fiscal policies. For China, investing and providing aid in Haiti could also be beneficial considering Haiti's abundant natural resources. In the northern region in Haiti, gold, copper, and silver, reserves are estimated to be worth more than \$20 billion (Raymond 2014). Furthermore, oil reserve in Haiti is worth \$120 billion (Haiti News Haiti 2015). Considering China's major interest in natural resources in order to accommodate its shortages from excessive consumption, Haiti has potential to attract Chinese capital.

However, a limitation to this approach is Haiti's diplomatic relationship with China. Haiti, along with St. Kitts, Nevis and St. Lucia, have never received any developmental aid from China (Bernal 2010, 289), because they recognized Taiwan which contradicts the one-China policy (Bernal 2015, 1410). However, Haiti could also benefit from smart diplomatic strategy that uses tensions between China and Taiwan. Of course, it would be too radical to completely change a stance and exclude Taiwan that has been Haiti's generous donor for more than a decade. But, it is important for Haiti to incorporate both China and Taiwan, rather than excluding China completely, which is what is happening today. This is a policy adopted by Saint Vincent and the Grenadines, the only country in the Caribbean that recognizes both China and Taiwan. Consequently, they benefit by being the third largest recipient of Chinese aid in the Caribbean while traditional benefits from Taiwan remain intact (Bernal 2010, 289).

Haitian rice industries had been successful before the IMF's structural adjustment plan. History provides evidence for Haiti's successful rice industries when there was no American intervention. After America intervened in Haiti in 1915, Haiti's domestic rice industries started to decline. In the decade of 1917 to 1926, annual imports of rice averaged over \$300,000 in value while local farms grew smaller in size (Moore 1972, 157). However, as Americans left Haiti in the early 1930s, local farms started to grow again. Imports have gradually declined and small-scale local farms started to dominate rice production in Haiti. Between 1930s to 1950s, production of rice has expanded to make the country self-sufficient (ibid.). The pace of growth in the industry was so rapid that by 1960, Haiti's rice production was nearly double the output from the previous decade (Moore 1972, 157-158). However, the rice production halted when the United States intervened again in the mid 1980s with the IMF's structural adjustment plan. As a

result, local farms have been wiped out by American rice companies again, while the country became dependent on rice imports.

A strategy to improve Haiti's rice industry is to provide subsidies in order to protect local farms from foreign companies. Subsidies allow farmers to absorb external shocks such as inflation and oil crises. In particular, managing oil shock is critical because the cost of fuel affects 10-15% of the total cost of production for rice. In the case of Suriname, the government paid rice farmers nearly \$28 (SRD 213) per bag of 79kg of wet paddy rice, in order to compensate for the increase in oil price (ibid.). However, in the current situation, Haitian rice industry receives no support from the government (Georges 2014). It makes it very difficult for Haitian farmers to compete against American industries that are protected by its own farm bill. American rice production benefits from double subsidy, subsidies from production and subsidies from exportation (Kushner 2012). Therefore, it is also important for Haitian government to take action in subsidizing its own industry as well.

Furthermore, it is important to invest in infrastructure and technology to increase the productivity of rice industries in Haiti. The expansion of Haitian rice production in the mid-1900s was possible because of the beginning of an irrigation program in the Artibonite Valley (Moore 1972, 157). Also, the Organisme de Développement de la Vallée de l'Artibonite (ODVA), the Artibonite Valley Authority, played a significant role in promoting technological advancement by operating an experimental farm: new strains of rice have been introduced, the land has been carefully prepared by machinery, and the paddy water has been regulated (ibid.). However, in 2000, the ODVA's attempt to reform Haiti's agricultural industry has been obstructed by accusations of patronage and favoritism; as they were heavily criticized by small farmers accusing them of favoring landowners (Delicé, Suffrard & Charles interview 2010). In going forward, Haitian government needs to make more investments to improve productivity of agricultural industries; and they need to operate transparent bodies to promote such technological advancement.

Today, Haitians still lives in extreme poverty. A country that used to be self-sufficient in most crops, now became dependent on American imports. The United States created most of these problems by intervening the country to impose the IMF's structural adjustment plan. Consequently, Haitian local farms have been wiped out by American companies. Although the former president, Bill Clinton, recognized that it was their mistake, we now have a country that is dependent on American capital and restrained in its political autonomy. China's less-conditional aid can be an alternative to reduce the dependency from the American capital, and to regain Haiti's political autonomy. Furthermore, the government needs to be active in protecting its agricultural business by providing subsidies, making investments, and attracting foreign investments all under the state control rather than completely relying on the "free market." A positive change in agricultural industries may also reduce the unemployment rate, and it would give an option for workers to escape from exploitative factory jobs, and it may strengthen Haitian economy.

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