

## **NOTES & COMMENTS**

### **Haiti's Reconstruction and Redevelopment: The Potential Contribution of Regional Integration**

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The reconstruction of Port-au-Prince and its environs is both an end in itself and an opportunity to promote Haiti's economic development. The economic development of Haiti can be boosted by economic integration with CARICOM. Such integration would initiate a virtuous circle of intra-regional trade and investment beneficial to both the economic development of Haiti and the rest of CARICOM. The international donor community can jump-start a market-driven process of trade and investment-led economic development in Haiti by earmarking a share of development aid for Haiti to the procurement of goods and services from CARICOM countries. The earnings from and the experience of exporting to Haiti will in turn stimulate CARICOM to purchase imports from Haiti. As trade expands it will stimulate employment and private sector investment in Haiti and generate positive externalities including strengthening Haiti's international competitiveness and economic development.

The reconstruction of the Haitian capital, Port-au-Prince, after the earthquake that struck the country on 12 January 2010, is an opportunity for the global community, with the delivery of the enormous amount of aid that has been promised, to help to boost the economic development of Haiti. The resources disbursed for reconstruction, if used in an appropriate way, can strengthen Haiti's integration with the Caribbean Community (CARICOM) and this in turn will further contribute to the country's economic development. The reconstruction of Haiti has three important and interrelated aspects. First, the humanitarian relief for what was already the poorest country in the Western Hemisphere is the most pressing need. Second, the physical and institutional rebuilding of Port-au-Prince, the largest city and the political capital of Haiti, is essential. Third, the rebuilding is an opportunity to set in motion a process of sustainable economic development that will lift Haiti permanently from poverty. Thus, the economic reconstruction of Haiti will of

necessity involve a massive infusion of development assistance for infrastructure and human resource development.

In addition, an indispensable mechanism for establishing a rebuilt Haiti on an economically sustainable basis is the provision of preferential trade arrangements that will allow Haiti to earn its way by exporting to global markets. These preferential trade arrangements would attract direct foreign investment, enabling Haiti to establish an economic platform capitalizing on the global market. The Caribbean Basin Economic Recovery Act and Haiti Economic Lift Program are good examples of such agreements.

The earthquake was also a political tremor in the CARICOM, and the region reached out in a meaningful way, nowhere more magnificently than Jamaica's truly noble humanitarian mission of soldiers, medical personnel, and relief workers in the immediate aftermath of the devastation. CARICOM's support has continued with the appointment of former Jamaican Prime Minister P. J. Patterson as its special envoy to help Haiti to articulate its needs in the international arena and to be interlocutor at the highest political levels. All of this is commendable but it really does not integrate Haiti into CARICOM in an economic sense. Economic integration, however, could provide valuable support to the economic development of Haiti because the expansion of trade within the regional market of CARICOM can be an important stimulant to economic development.

## INTEGRATION STATUS

At the Eighteenth Meeting of the Conference of Heads of Government of CARICOM in Montego Bay, Jamaica in July 1997, it was agreed, in accordance with Article 29 of the Treaty of Chaguaramas, (1) to admit Haiti as a Member of the Caribbean Community<sup>1</sup> and (2) to establish a Technical Working Group to determine, in consultation with Haiti, the terms and conditions of entry, as required by Article 29.2 of the Treaty establishing the Caribbean Community. The Conference of Heads of Governments of CARICOM reviewed the report prepared by the Technical Working Group and approved the recommended terms and conditions of Haiti's membership. These included Haiti's request to

1 For the long antecedents to this decision see Hippolyte-Manigat 1980.

be categorized as a "less developed country" (LDC), this status to be reviewed after a period of ten years. The status of LDC within CARICOM allows Haiti certain derogations. Haiti accepted the terms and conditions, also by letter, on 7 July 1999. Upon the deposit of an Instrument of Accession, Haiti became the fifteenth member of the Caribbean Community. Final accession was only ratified by the Haitian Parliament on 13 May 2002, and President Jean-Bertrand Aristide signed the revised Chaguaramas Treaty on 4 July 2003. Trade between Haiti and the other countries of the region officially began on 1 January 2004.

Before the 2010 earthquake, the CARICOM Representation Office in Haiti (CROH) and its Haitian counterpart agency, the *Bureau de Coordination et Suivi* had commenced a public education programme on the CARICOM Single Market and Economy (CSME). The programme is being undertaken with funding from the Canadian International Development Agency (CIDA) and is intended to inform Haitians about CARICOM and the opportunities to be derived from participation in the CSME. The programme will also provide other CARICOM member states with information about Haiti. As government officials and the business community become more aware of the possibilities and familiar with the requirements of trade and investment, there is the likelihood of an increase in economic activity.

Differences in language<sup>2</sup> and poor logistics have constrained the country's economic integration with CARICOM, and this is evident in the paucity of trade between Haiti and the other member countries. During the period 1999-2008 exports from Haiti to CARICOM fluctuated around \$500,000 while imports from CARICOM have increased from \$14.1 million to \$46.0 million, as shown in Table 2. The trade balance in 2008 amounted to \$45.4 million in favour of CARICOM. Haiti's largest imports from CARICOM have been food (rice, fish), refined petroleum products, insecticides, liquefied propane gas, and printed paper products. There is considerable scope to expand imports from CARICOM, both those currently imported and a raft of goods that, though not imported at present, could be supplied by CARICOM countries.

2 The vast majority of firms in Haiti are small, and the language skill of entrepreneurs has been a factor influencing the development of exporting in small firms. See Lautanen 2000.

**Table 1: Value of CARICOM's Imports From, Exports To, and Balance of Trade with Haiti  
(1998–2008, US\$ thousands)**

CARICOM Countries	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Imports</b>	532	562	424	320	363	409	363	628	1,284	651
<b>Exports</b>	14,112	28,471	6,189	6,597	12,860	11,124	9,360	23,962	39,976	46,038
<b>Balance of Trade</b>	13,580	27,909	5,765	6,277	12,496	10,716	8,997	23,334	38,692	45,386

Source: CARICOM Secretariat

These include food of all forms, in particular frozen fish, processed cheese, fresh/chilled vegetables, and a variety of manufactured goods.

It is on the export side that integration with CARICOM can spur economic development in Haiti. Exports to CARICOM are virtually nonexistent, with Haiti's main export markets in 2005 being the United States, which accounted for 80% of total exports; the European Union with 12%; and Canada with less than 1%. Haiti already produces a wide range of products which would be attractive and competitive in CARICOM markets and has the potential to develop new products currently not exported to CARICOM. Haitian goods would have a comparative advantage in CARICOM because its labour cost is much lower than in the CARICOM countries which are middle-income developing economies. The disparities in cost of production can be gleaned from the differences in per capita income as shown in Table 2. Expanding exports from CARICOM to Haiti would have a multiplier effect in the CARICOM countries that can supply the import needs of Haiti, and such a stimulus could be beneficial at a time when recovery from the global economic crisis is sluggish. As the business sectors of Haiti and CARICOM countries learn the intricacies of trading and become more familiar with their respective markets, trade will expand. This possible secondary effect could stimulate exports from Haiti to the rest of CARICOM, creating employment and stimulating investments.

Prospects for Haitian exports to the rest of CARICOM have improved with the decision by the CARICOM Council for Trade and Development (COTED) in December, 2010. The COTED agreed to Haiti's request for non-reciprocal preferential access to the regional market for a list of products for a period of three years.

The trade in services between Haiti and CARICOM is almost nonexistent, but there are opportunities in tourism and entertainment. The provision of services and technical assistance from other CARICOM countries to Haiti, paid for from the pool of development assistance, is a fecund possibility for accelerating this process. The services involved would cover a wide range of skills and vocations in which the CARICOM countries have a comparative advantage and underutilized capacity in crucial skills; these include architecture, construction, engineering, and project management.

Table 2: CARICOM Economic Indicators

Country	Population Thousands	Land Area (km <sup>2</sup> )	Gross domestic product, current prices, Billions US dollars		Per Capita Gross Domestic Product. US dollars
			2008	2009 (e)	
Antigua and Barbuda	84	442	1.3	1.3	14,929
The Bahamas	337	38,608	7.5	7.3	22,156
Barbados	276	431	3.7	3.8	13,356
Belize	320	22,966	1.4	1.4	4,310
Dominica	72	750	0.4	0.4	5,082
Grenada	106	345	0.6	0.7	6,006
Guyana	764	216,970	1.1	1.2	1,480
Haiti	8,786	27,750	7.0	7.0	791
Jamaica	2,699	10,991	14.4	12.8	5,335
Montserrat	5	103	0.05		10,000
St. Kitts and Nevis	53	269	0.6	0.6	10,483
St. Lucia	170	616	1.0	1.0	6,033
St. Vincent and the Grenadines	107	389	0.6	0.6	5,615
Suriname	533	163,820	3.0	3.3	5,599
Trinidad and Tobago	1,305	5,182	24.8	25.0	19,012

Source: Inter-American Development Bank

## TRANSFORMING DEVELOPMENT DISPARITIES

There are considerable differences in level of development and per capita between Haiti and the other CARICOM countries. Per capita income ranges from US\$22,156 in the Bahamas to US\$791 in Haiti (see Table 2). Given that Haiti's population of 8.8 million is larger than the combined population of the rest of CARICOM, it has the potential to be a sizeable component in the CARICOM regional economic integration process. If this disparity is not redressed it will perpetuate itself because there tends to be a polarization of gains among partners at different levels of development. When integration is left entirely to market forces a disproportionate share of the gains from integration tend to accrue to the more developed partners, maintaining or even widening the development gap. This disparity could have deleterious economic, political, and social effects that could delay and/or undermine the process of economic integration and even the commitment to participate in regional cooperation.

In any economic integration scheme in which there are participating countries at different levels of development there has to be a mechanism to transfer or induce resources into the less developed countries or regions. The objective of the injection of resources into less developed countries and regions is to accelerate the development of the less developed partner with the ultimate goal of closing the development gap between participating countries. This helps to ensure that the benefits of economic integration are shared in an equitable manner, and is more propitious for the expansion of intra-regional trade and investment.

Narrowing the economic disparity among member states was effected successfully in the European Union where there were a sufficient number of wealthy countries who could collectively afford to provide resource transfers to less developed member countries. Where the member states of an economic integration are all developing countries they are not able to afford resource transfers of a sufficient amount to help the less developed members. CARICOM has found itself in that dilemma with regard to Haiti and Guyana, both of which are least developed countries by the United Nations classification. The solution that CARICOM has developed is the establishment in 2008 of the CARICOM Development Fund with contributions from the more developed CARICOM

countries and from external bilateral sources. To date, this effort has been on a moderate scale and has had little impact on the economic development of Haiti.

Transfers to assist in closing the development gap between Haiti and the rest of the CARICOM countries in the near term are far beyond the capacity of these countries. If substantial resources are to be deployed to strengthen Haiti's economic integration in CARICOM, they will have to be garnered from extra-regional bilateral and multilateral donors. Such a possibility exists if a meaningful portion of the current development assistance package pledged to help Haiti's reconstruction is used in a manner that strengthens Haiti's integration with CARICOM. This integration would simultaneously contribute to Haiti's economic development.

#### HOW INTEGRATION WITH CARICOM CAN HELP HAITI'S DEVELOPMENT

Accelerating the economic integration between Haiti and the rest of CARICOM can make an important contribution to the economic development of Haiti.

(1) Exporting to CARICOM markets would be less challenging than exporting to the more competitive global market because of the existence of a common regional tariff. Exporting to CARICOM markets could (a) stimulate an increase in existing and new exports and (b) encourage the emergence of an increased and more diverse range of exports to CARICOM. Increased exports must be an essential ingredient of a strategy for higher rates of economic growth on a sustainable basis and the increased employment and investment associated with such economic growth.

(2) Exporting to CARICOM would improve firm efficiency and enhance the international competitiveness of Haitian goods because access to the regional market will allow the realization of economies of scale and the stimulation to efficiency which will result from exposure to competition in the CARICOM regional market. Access to regional markets is particularly important to firms that are not yet ready to compete internationally, and for small firms exporting to a regional market it is worthwhile even if

efficiency gains are not sufficient to enable them to compete internationally.<sup>3</sup>

(3) Participation in the regional CARICOM market would be a transformational experience for Haitian exporters preparing for exposure to more challenging competition in the global marketplace as was the case with CARICOM firms in the past. "A significant number of CARICOM firms with operations abroad have been observed to move to extra-regional markets only after establishing a presence in other CARICOM countries. The intra-regional market is viewed as a springboard or launch pad behind the extra-regional expansion process." (CARICOM Secretariat 2011, 104) This learning experience would be particularly important considering Haiti's difficulties in producing internationally competitive goods (World Bank 2006, 2009) and the predominance of small firms and microenterprises.

(4) It opens the possibility of flows of investment and skilled human resource and strategic corporate alliances with firms in the CARICOM region, particularly in manufacturing,<sup>4</sup> food processing, and tourism. Corporate alliances and joint ventures would facilitate transfers of knowledge, technology, and business management. To encourage investment from CARICOM countries the Caribbean Development Bank could create a CARICOM-Haiti Enterprise Fund or Facility.

(5) It would relieve the current acute export concentration in which the dominant export is cotton apparel to a single market, the United States (Hornbeck 2010). Exports to CARICOM would diversify Haiti's export markets and reduce its dependence on the United States.

(6) It puts at the disposal of Haiti the opportunity for regional cooperation in a wide cross-section of activity and in foreign policy – a benefit that has already been illustrated by the negotiations with the European Union for the Economic Partnership Agreement.

<sup>3</sup> Mengistae and Teal point out that "Regional trade is particularly important in sectors where firms cannot compete internationally" and "access to regional markets does improve the efficiency with which firms operate. However these efficiency gains are not large enough to enable the firms to become internationally competitive." (Mengistae and Teal 1998, 4).

<sup>4</sup> The paucity of investment in manufacturing urgently needs to be alleviated (ECLAC 2007, 256-259).

(7) It would embed Haiti in a fraternity of neighbors with a long tradition of democratic governance, and thereby contribute to the stabilization and strengthening of Haitian democracy<sup>5</sup> and institutional capacity.<sup>6</sup> EU membership strengthened democracy in Spain, Greece, and Portugal according to Winters (1993).

(8) By generating export-led growth, it switches the growth dynamic to a private sector-led, market-driven process from a public sector-led, aid-funded economic process. Trade-led growth is a much more procreative and sustainable process than repeated injections of aid to the public sector. A growth process with private enterprise at the center is to be preferred to aid, especially given the disappointing impact of aid in resuscitating economies after conflicts and natural disasters (Schramm 2010).

### CONCENTRIC MULTIPLIER EFFECTS

The means for integrating Haiti into the CARICOM economy are at hand. The enormous expenditure of development assistance and humanitarian aid will create demand for goods and services, especially those related to construction, that CARICOM is ideally suited by location and comparative advantage to supply. Haiti's imports from CARICOM would not only link the markets but be a stimulus package for the struggling CARICOM economies. This stimulus would create a multiplier effect as CARICOM in turn, purchases products, e.g. handicrafts and apparel, from Haiti. Thus, the development assistance expenditure can simultaneously boost the economies of Haiti and the rest of CARICOM, creating a virtuous cycle. It would significantly increase the size of the CARICOM market, at last enabling it to reach a critical mass that can offer economies of scale in production and make more exports internationally competitive.

The economic integration of Haiti into CARICOM, thus, would be beneficial to the economic development of both Haiti and the rest of CARICOM. Governments can jump-start a market-

5 This has been one of the motives in successive expansions of the European Union; see Schiff and Winters, 199.

6 Political and governance issues have constrained economic recovery. See *Without Reform, No Return on Investment in Haiti: A Report to the Committee on Foreign Relations*, United States Senate, One Hundred Eleventh Congress, Second Session, July 22, 2010. <http://www.gpoaccess.gov/congress/index.html>

driven process by having the international community earmark a certain share of development aid procurement to be sourced from CARICOM-made products and services. The CARICOM countries do not have the financial resources to provide development aid to Haiti, but they can support Haiti's economic development by purchasing imports from Haiti. The earnings from Haiti's exports to CARICOM will stimulate employment and private sector investment. Exporting to CARICOM is an ideal way to restore and expand Haiti's productive capacity in sectors such as apparel and craft. As trade expands it will generate positive externalities<sup>7</sup> among which are the possible emergence of corporate strategic business alliance between firms in Haiti and the rest of CARICOM which could strengthen the international competitiveness of the Haitian private sector. The catenation of CARICOM economies through the realization of corporate synergies will stimulate investment flows and financial intermediation.

#### THE POTENTIAL STIMULUS

At the March 31, 2010 meeting, multilateral, bilateral, and private agencies/organisations convened under the auspices of the United Nations made total pledges of US\$9.9 billion, categorized as follows: (a) US\$5.3 billion to be disbursed over an 18-month period corresponding essentially to 2010 and 2011 and (b) US\$4.6 billion to be disbursed during the period 2012-2020. This is the equivalent of US\$1.7 billion per year and if 1% of this amount is earmarked for expenditure on imports of goods and services from CARICOM then it will have the effect of doubling Haiti's imports from CARICOM. This would set in motion a multiplier effect in Haiti and the rest of CARICOM. The result of such a stimulus would be to (1) promote economic development of Haiti and the other CARICOM countries, (2) strengthen the economic integration of CARICOM and (3) strengthen Haiti's hitherto minimal integration into CARICOM.

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<sup>7</sup> A transaction spillover is a benefit, not transmitted through price, incurred by a party who did not agree to the action causing the benefit.

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