10-13

Miami Rice in Haiti: Virtue or Vice?

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Executive Summary

Critics of free trade often use Haiti as a poster child for failed trade liberalization policies. In 2010, 15 years after the second round of trade liberalization in Haiti, U.S. President Bill Clinton, who was instrumental in Haiti's trade negotiations, apologized for convincing Haiti to adopt liberalization policies. He said, "It may have been good for some of my farmers in Arkansas, but it has not worked. It was a mistake, I had to live every day with the consequences of the loss of capacity to produce a rice crop in Haiti to feed those people because of what I did; nobody else" (Katz 2010).

Food insecurity has been a challenge in Haiti for more than 30 years. In 1986/87, almost 50 percent of households in a nationwide survey had less than 75 percent of the recommended levels of food energy intake (Jensen, Johnson, and Stampley 1990b), and in 2000 the Food and Agriculture Organization of the United Nations (FAO) concluded that Haiti had the third-highest caloric deficit per person in the world, behind Somalia and Afghanistan. The most severe poverty and food insecurity were and continue to be in Haiti's rural areas (Jensen, Johnson, and Stampley 1990b; Institut Haïtien de l'Enfance and Macro International 2007).

Most analysts of Haitian food security agree that Haitian agriculture is constrained by low government and donor investment, a limited amount of arable land in a mountainous country, small landholdings due to inheritance divisions made with each generation, environmental deterioration, and poor infrastructure. Total agricultural output has stagnated or declined since the 1960s (FAO 2010).

Free-trade critics additionally argue that Haiti's food security problems in the 21st century are caused or exacerbated by the structural adjustment policies promoted by the World Bank and the International Monetary Fund. These policies led Haiti to reduce rice tariffs from 50 to 3 percent, a shift that allowed large amounts of subsidized rice grown in the United States to enter the Haitian market, displacing Haitian-grown rice and destroying the livelihoods of rice farmers (McGuigan 2006; IMF 2001).

This case explores the impact of Haiti's liberalized rice trade on food security in Haiti, identifies the policy's winners and losers, and considers the historical and political context that contributed to these outcomes. Key stakeholders include Haitian rice sector workers, urban and rural consumers, the Haitian government, U.S. rice growers, and international institutions, including the International Monetary Fund and the World Trade Organization (WTO).

The government's policy options for reducing poverty and improving food security include reinstalling protections for rice farmers to boost domestic prices, investing in agriculture or agricultural markets to increase crop yields and possibly exports, developing alternatives for urban and rural employment, and challenging cheap rice imports from the United States through the WTO.

It is 2006 and President-elect René Préval is about to start his second term as president. In the context of the rice situation, you are asked to address him on how to reduce poverty and hunger throughout the country. The country successfully pursued improved macroeconomic stability during 2004–2006 and is now in a better position to focus on reducing poverty and hunger as it prepares its Poverty Reduction Strategy Paper. Given the available statistics and their uncertainties, what would you advise him to do to reduce rural and urban poverty and hunger? How would your answer change in response to the food price crisis in 2007–2008?

Background

Structural Adjustment Programs and Trade Liberalization

In the 1980s and 1990s the World Bank and International Monetary Fund (IMF) issued loans tied to structural adjustment program (SAPs), which required that recipient governments adopt certain macro- and microeconomic measures aimed at achieving price stability, more efficient resource use, and higher economic growth. Specific policies often included devaluation of overvalued currency, cutting of inflation, reduced public spending, privatization of services, dismantling of state enterprises, and lowered barriers to trade. The IMF has admitted that some of the poor in some low-income countries suffered from the SAPs in the short run but argued that later SAPs rectified the

earlier mistakes to reduce these negative effects and benefited many poor people in the medium and longer run (IMF 1999).

Trade liberalization was a key component of the SAPs. Recipient governments were urged to monetize nontariff barriers[1] and remove or lower all barriers to trade to increase market efficiency and assure lower food and basic commodity prices for consumers. Oxfam argues that if trade liberalization is "integrated into effective national strategies for poverty reduction," then "well-designed and properly sequenced trade reforms can create new opportunities for the poor" (Oxfam 2002, 122). In the case of Haiti, however, Oxfam and other SAP critics contend that rapid trade liberalization had disastrous effects and increased poverty and inequality (Oxfam 2002; McGuigan 2006).

Haiti's Political and Social Background

Haiti gained its independence from France in 1804 to become the second independent nation in the Western Hemisphere. In 1957, François "Papa Doc" Duvalier was elected president, and in 1964 he declared himself "president for life," ruling Haiti until his death in 1971. His son, Jean-Claude Duvalier, took over after his death, but amid corruption and violence he was forced to flee the country in 1986. The first trade liberalization occurred in 1986/87. After a series of provisional governments, Jean-Bertrand Aristide was elected president in 1990, in what some claimed to be the first free and fair election ever held in Haiti (Taft-Morales and Ribando 2007). Aristide was overthrown in a military coup nine months later, leading to political upheaval. Between 1986 and 2005 the presidency changed hands 15 times, only 4 of which included public elections.

"The Crisis": 1991–1994 Embargo

After the coup sent Aristide into exile in 1991, the United States and the Organization of American States (OAS) initiated economic sanctions against the military junta in an attempt to squeeze them out of power. The embargo was eventually expanded to prohibit most imports and exports as well as foreign aid to the de facto government (Gibbons and Garfield 1999). Some foods were exempt from the embargo, but agricultural inputs including fertilizer and seeds were included in trade restrictions. The embargo period, called "The Crisis" by the Haitian people, had devastating consequences for almost every sector in the Haitian economy, reducing per capita gross domestic product (GDP) by more than 40 percent in four years' time. At the end of the embargo, per capita GDP (in current U.S. dollars) was lower than it had been in 1980 (Figure 1). About two-thirds of Haiti's garment factories were forced to close. Agricultural production dropped 17 percent between 1991 and 1994 (World Bank 1998). Nonfarm rural enterprises collapsed. By comparison, the 1986 coup that overthrew Jean-Claude Duvalier had relatively little impact on GDP.

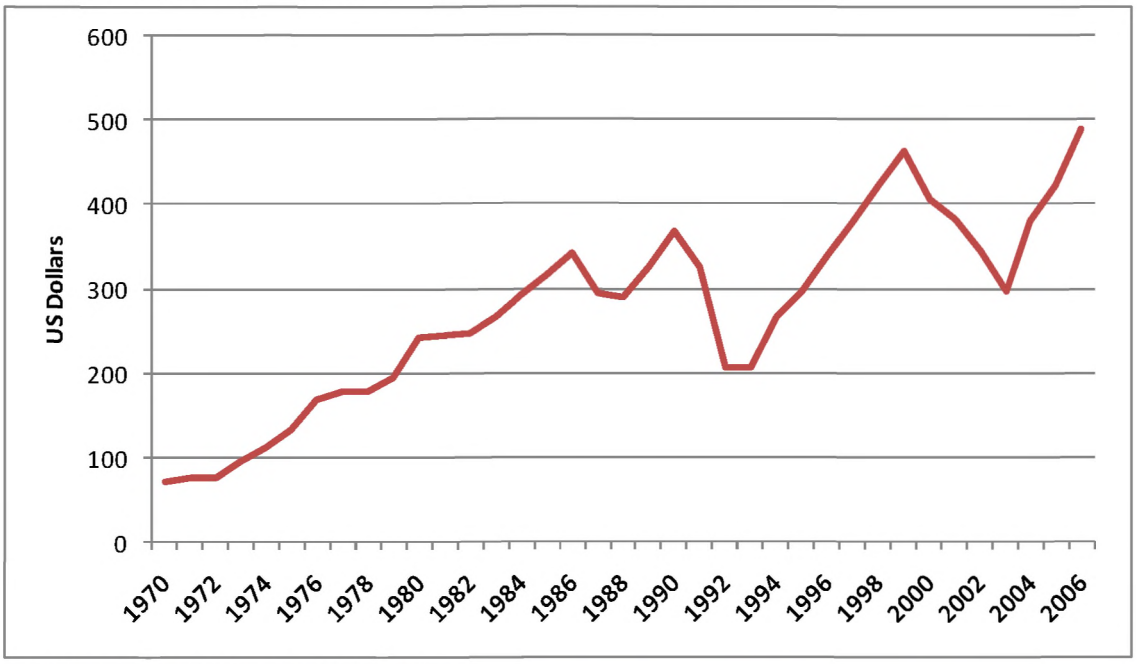
After the restoration of the Aristide government, liberalization of trade, and resumption of social and economic order in 1995, GDP began to recover, and since then it has increased or decreased according to the level of political security. In 1999, when the government was negotiating to enter the Caribbean economic community (CARICOM), it had the opportunity to increase its tariffs to match those of the region (which was 40 percent for agricultural products) and decided to maintain its low tariffs.

General Statistics

In 2005 Haiti's population was estimated to be 9.4 million, with the highest population density in the Western Hemisphere (World Bank 2010). (See selected indicators in Table 1.) Seventy-six percent of Haitians live on less than US$2 a day, 55 percent live on less than US$1 a day (WFP 2010), and 27 percent of the population is considered "ultra poor," living on less than 50 cents a day (Ahmed et al. 2007). Its population has been urbanizing at a rate similar to that of Sub-Saharan Africa. Between 1990 and 1998, the urban population grew from 29 to 34 percent (Ahmed et al. 2007). The rest of Latin American and the Caribbean (LAC) region urbanized at a slightly slower rate during that time, but this is not surprising given that 71 percent of the population of LAC was urbanized by 1990 (Ahmed et al. 2007).

[1] That is, they were asked to replace nontariff barriers, such as quotas and licensing regulations, with tariffs that would achieve a similar level of protection.

Figure 1: Haiti's per Capita GDP, 1970–2006 (current US$)



Source: United Nations Statistics Division, http://data.un.org/Data.aspx?q=haiti+gdp&d=SNAAMA&f=grID%3a101%3bcurrID%3aUSD%3bpcFlag%3a1%3bcrID%3a332.

Three household surveys supported by the U.S. Agency for International Development (USAID) conducted in 1994/95, 2000, and 2005/06 reveal that male rural unemployment[2] was about the same in 1994/95 as in 2005/06 but dropped in urban areas during that same period. In 1994/95 agricultural work was the primary activity of 69 percent of rural men, but by 2005/2006 56 percent of rural men were working in agriculture, a general trend common to LAC (Institut Haïtien de l'Enfance and Macro International 1995, 2007; Aide and Grau 2004).[3]

Food Security and Nutrition

The 1986/87 Haitian Household Consumption and Expenditure Survey found that almost 50 percent of households had less than 75 percent of the recommended levels of food energy intake and 36 percent had under 75 percent of the recommended daily allowance for protein (Jensen, Johnson, and Stampley 1990b). National-level data reveal that the amount of food available per person per day has never exceeded 2,000 kilocalories[4] (Figure 2). Analysis of Haiti's production and import[5] data shows an average caloric deficit of 331 kilocalories per capita from 1976 to 19856 (Deaton and Siaway 1988), about 530 kilocalories from 1986 to 1995, and 400 kilocalories since then (Figure 2).

[2] This figure is based on self-reporting in response to the question "Have you done any work in the last 12 months?"

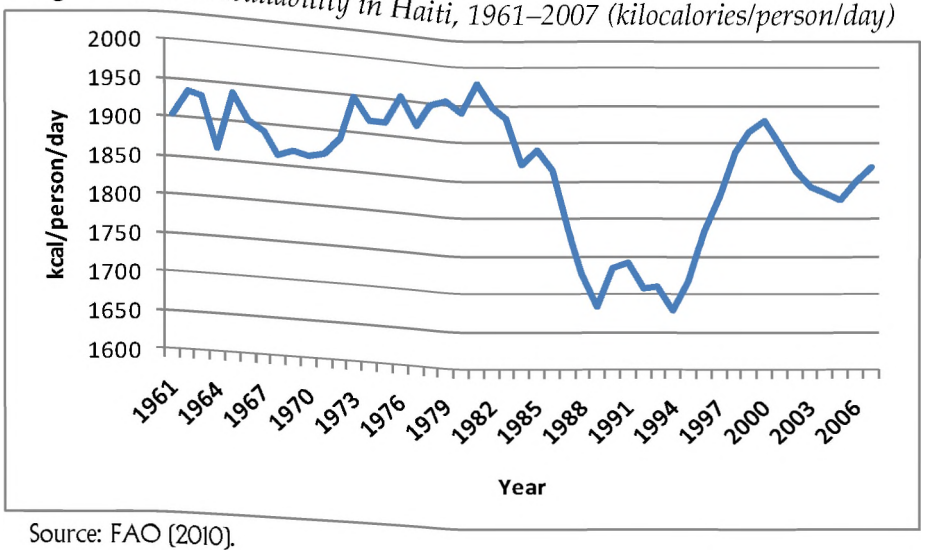
[3] DHS surveys are nationally and regionally representative every five years. The sampling frame changes for each survey, which could distort unemployment and type of employment data if there was migration from rural areas into urban areas.

[4] The World Health Organization (WHO) defines consumption of less than 2,100 kilocalories per person per day as an "unsatisfactory situation" (WHO 2000).

[5] It is unclear from Deaton and Siaway (1988) if imports include commercial imports only or commercial inputs and food aid.

[6] This calculation uses a weighted population average for age and sex composition between 1971 and 1995 (projected) compared with recommended dietary allowances for the Caribbean. Based on this calculation, it was determined that Haiti needed 2,270 calories per capita.

Figure 2: Food Availability in Haiti, 1961–2007 (kilocalories/person/day)



Source: FAO (2010).

In 1986/87 rural households spent 62 percent of their budgets on food whereas urban households spent 40 percent (Jensen, Johnson, and Stampley 1990b). Rice consisted of just over 15.4 percent of the energy in the overall Haitian diet, followed by oils, dried peas, and crushed maize, though urban areas relied slightly more on rice than rural areas did (Jensen, Johnson, and Stampley 1990b). In 2001, food expenses were estimated to be 50.2 percent of an urban household's budget and 64.2 percent of a rural household's budget (IHSI 2001), a modest increase for rural households and a significant increase for urban ones.

The number of children who were wasted (or emaciated) decreased almost 50 percent in the 1980s but returned to its original level during the embargo. Mulder-Sibanda (1998) blames this increase on the collapse of public services and political violence during this period. The 2005/06 DHS survey showed that wasting had decreased about 3 percent between 1994/95 and 2000 but increased 4.6 percent between 2000 and 2005/06. In both the 1978 and 2004/05 surveys, the Artibonite Department,[7] the largest rice-producing region in Haiti, had the highest percentage of severely wasted children (6.8 percent) (Graitcer et al. 1980).

Haitian Agriculture

Numerous reports written about Haiti in the 1970s, 1980s, and 1990s describe Haitian agriculture as "stagnant" and showing "negative growth for some time" (USAID 1985). The FAO estimated that 6,000 hectares of arable land, or 0.7 percent of arable land, were being lost to soil erosion annually (USAID 1985). One-third of all land was in an "extremely degraded state" in the mid-1990s (White and Jickling 1994).

Since independence, when French-owned plantations were divided among newly emancipated slaves, small-scale farmers have made up the majority of producers. With land further subdivided each generation, by 2001 average plot sizes were less than a one-quarter hectare[8] (Smith 2001, 229). These extremely small landholdings, as well as population pressure, have contributed to the need to convert marginal land (often steep slopes) to agriculture. This conversion of marginal land, massive deforestation, and the need to grow crops on land each year contribute to soil erosion and partially explain Haiti's low yields (White and Jickling 1994). This severe land degradation makes Haiti extremely vulnerable to natural disasters such as tropical storms and hurricanes. Other barriers to growth in Haitian agriculture include a lack of "agricultural support services, such as new land technologies, market information, plant material, credit or training of any type" (World Bank 1998, 1–2).

[7] Haiti has 10 administrative "departments," similar to U.S. states.

[8] Approximately 0.61 acre.

Table 1: Selected Demographic and Nutritional Indicators for Haiti

Indicator	Source	1970s/1980s	1990s	2000s
Share of urban population (%)	World Bank (2010)	20.5	28.5	42.7
Rural unemployment (%)[a]	Institut Haïtien de l'Enfance and Macro International (1995, 2007)	n.a.	25.3	24.2
Urban unemployment (%)	Institut Haïtien de l'Enfance and Macro International (1995, 2007)	n.a.	53.7	39.7
Percentage employed in agriculture in rural areas	Institut Haïtien de l'Enfance and Macro International (1995, 2007)	n.a.	63.9	56.3
Prevalence of wasted children under age 5	Graitcer et al. (1980); Institut Haïtien de l'Enfance and Macro International (1995, 2007); Institut Haïtien de l'Enfance and ORC Macro (2001)	6% (under 80% weight for height)	7.8	4.6 (2000) 9.2 (2004/2005)
Proportion of undernourished (%)	FAO (2009)	48	64	53
Number of undernourished (million)	FAO (2009)	2.6	4.5	4.6

[a] Unemployment in Demographic and Health Surveys is defined as not having worked in the 12 months before the survey.
Note: n.a. indicates not available.

Sugarcane, cassava, bananas, and mangoes are the four most-produced crops by volume in Haiti, and coffee is the highest-value agricultural export (FAO 2010). Agriculture's contribution to GDP declined almost every year between 1994 and 2005 except for 2001, when it increased, and 2003, when it did not change. Industry has decreased in importance at a similar rate while the share of GDP supplied by services grew almost 14 percent (IMF 1998, 2001, 2005). The government allocated 4 percent of its annual budget to agriculture between 2000 and 2005 (World Bank 2008).

IMF/World Bank Trade Liberalization

Historically, Haiti restricted imports of certain agricultural products to protect farmers' incomes. As part of SAPs, however, Haiti undertook two rounds of trade liberalization, first in 1986/87 and then in 1994/95. The 1986/87 round eliminated export taxes on coffee and most import and export licensing restrictions, dismantled government trading monopolies, and removed all restrictions on agricultural imports excluding rice and six other domestically produced foods (maize, millet, beans,

sugar, chicken parts, and pork meat). These products remained subject to import licensing and new ad valorem tariffs,[9] but not to formal quantity restrictions (Jensen et al. 1991). A 50 percent import tariff on rice replaced the fixed-value import duty (US$170 per metric ton), and imported rice became subject to a 10 percent sales tax (Jensen et al. 1991). The second round of trade liberalization, implemented in February 1995, lifted remaining import restrictions for the seven previously protected products, and import tariffs on these commodities were all reduced to less than 5 percent (IMF 2001).

Did Haiti have a choice about whether or not to accept trade liberalization? Marie Michelle Rey, the minister of finance in 1994, later said that Haiti needed the money from the IMF and thus did not have a choice: "It was a must. If you don't have an agreement with the IMF, you're dead in the water. You can't do anything" (Regan 2003). Rey went on to say that even though the government did not have much choice about accepting trade liberalization, "the consumer wins" from these policies because food and basic commodities are made more affordable (Regan 2003). The IMF claimed that it supported trade liberalization but did not specifically require Haiti to reduce tariffs on rice and was not involved in any decision about when or how much to reduce the tariffs (IMF 2008).

By 1999 the IMF ranked Haiti as the least trade-restrictive country in the Caribbean, though this ranking clearly did not translate into economic growth. The IMF (2001) acknowledges that Haiti has not benefited as much as it could have from liberal trade policies but argues that political instability, corruption, and insecurity plagued Haiti for years following Duvalier's departure, preventing Haiti from implementing structural reforms in other crucial areas and maximizing benefits from the SAPs.

Effects of Trade Liberalization on the Haitian Rice Sector

Although much has been written about the effect of trade liberalization on Haiti's rice sector, official reports acknowledge that many of the available agricultural related data are "somewhat imprecise" and urge caution in interpreting them (IMF 1995; Deaton and Siaway 1988). Haitian Ministry of Agriculture data often differ from those of aid donors, international organizations, or private consultants. Incomplete coverage, outdated activity surveys, poor data collection, variability in yields, intercropping, and direct consumption by the farmer are some of the reasons that precise analysis of the situation is difficult (IMF 1995).

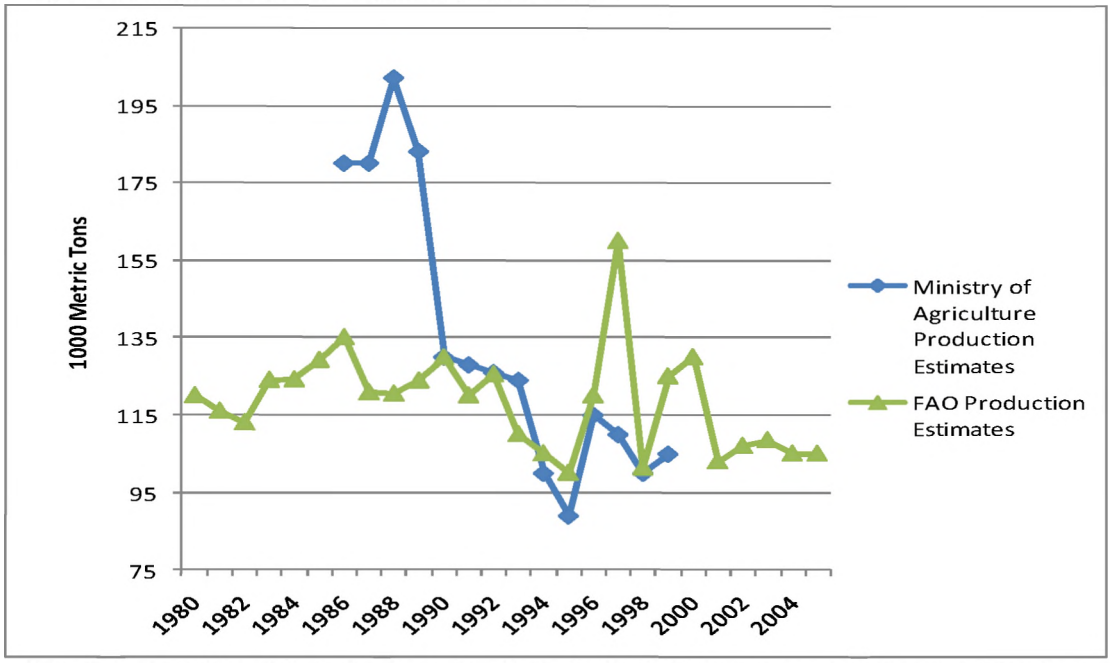
As described, Haiti's political and economic history is enormously complex. Although this history directly and indirectly affects food security, it is often neglected in food policy and trade analysis. When fully considered, however, this background makes claims about the effect of trade on food insecurity nearly impossible to prove because there are so many other confounding variables. A second often-neglected point in analysis on this topic is that conclusions about the effect of trade on food insecurity and poverty depend heavily on which years are selected for comparison. The effects of the 1986/87 and 1994/95 liberalizations cannot be fully determined by looking only at differences between adjacent years because at the same time governments were changing hands, inflation was high, and, during the latter period, the embargo ended. Generalizations based only on these years are thus misleading. As much as available data permit, therefore, this case study tries to present the entire course from 1980 to 2005, referring to key transition points and periods as needed and presenting significant differences in estimates.

Employment

There are no reliable estimates for the number of rice farmers in Haiti before 1994. FAO and Oxfam estimates for the late 1990s concur that the number of people employed in the rice sector did not significantly decrease between 1994 and 2005. In 2005, the rice sector was estimated to employ almost 100,000 people (approximately 0.6 percent of the population) including 60,000 growers, 30,000 farm laborers, 350 millers, and 8,200 rural wholesalers (IDB 2005 report cited in FEWSNET 2010).

[9] Ad valorem tariffs assess fees based on the value of the imported good, rather than its weight or amount.

Figure 3: Rice Production Estimates, 1980–2005



Source: Compiled by authors based on data from the Haiti Ministry of Agriculture and Customs Agency as reported in IMF (2001) for all years between 1986 and 1999 except 1993/94. Data for 1993/94 were taken from IMF (1996). No other Ministry of Agriculture data could be located.

Rice Production and Consumption

Seventy-five to eighty percent of Haitian-produced rice is grown in the Artibonite Valley (Deaton and Siaway 1988; McGuigan 2006). Ministry of Agriculture (IMF 2001) and FAO (FAO 2010) estimates of total rice production vary significantly (Figure 3). The Haitian Ministry of Agriculture reported a 36 percent decrease in rice production between 1987/88[10] and 1989/90 and a second decrease of 28 percent between 1992/93 and 1994/95. FAO data showed that production was already much lower in 1986 and exhibited a similar decrease during the embargo. Both estimates showed that production rebounded significantly and temporarily immediately after the 1994/95 season. In 2007 (not shown), rice production was higher than in 1980 (FAO 2010).

Production trends were similar for other domestically grown cereals such as corn and sorghum. Between 1993 and 1994 production dropped 16 and 23 percent for corn and sorghum, respectively, but rebounded about 25 percent in 1995/96 according to Ministry of Agriculture statistics (IMF 1996, 1998).

FAO (2010) data show that the amount of Haitian land planted in rice increased between 1961 and 2008 whereas yield per hectare increased somewhat in the 1970s before falling in the 1980s and 1990s to yields similar to those of the 1960s.

Urban Haitians have always eaten more rice than rural Haitians, and both populations now eat more rice than before trade liberalization (Jensen et al. 1991; FEWSNET 2010). In the 2000s, national rice consumption in Haiti was estimated at 400,000 metric tons (FEWSNET 2010), with U.S. imports making up 48 percent of rice needs in 1995 and 84 percent in 2005 (USDA 2010). By 2001, Miami rice constituted up to 80 percent of rice for sale all over Haiti and up to 90–95 percent in the capital (IMF 2001; FEWSNET 2010).

2008 Food Price Crisis

The sensitive nature of rice consumption and consumer welfare can be seen in the civil unrest that erupted in four Haitian cities during the 2008

[10] Ministry of Agriculture data are calculated according to a fiscal year ending September 30. FAO data are based on the calendar year.

international food price crisis. In one major Port-au-Prince market, imported rice and local corn prices were approximately 55 percent higher in April 2008 than in April 2007, driving food prices out of reach for middle- and low-income Haitians in both rural and urban areas (FEWSNET 2008). The riots in April 2008 prompted the Senate to pass a vote of no confidence in the country's prime minister. The seat was left vacant through June 2008, a situation that delayed the start-up, monitoring, and coordination of programs aimed at those affected by the food crisis. The riots forced the president to establish temporary subsidies on imported rice, gas, and fertilizer. In 2009, following the crisis, donors and the government more than doubled their investment in agriculture compared with 2006 (OECD 2010).

Policy Issues

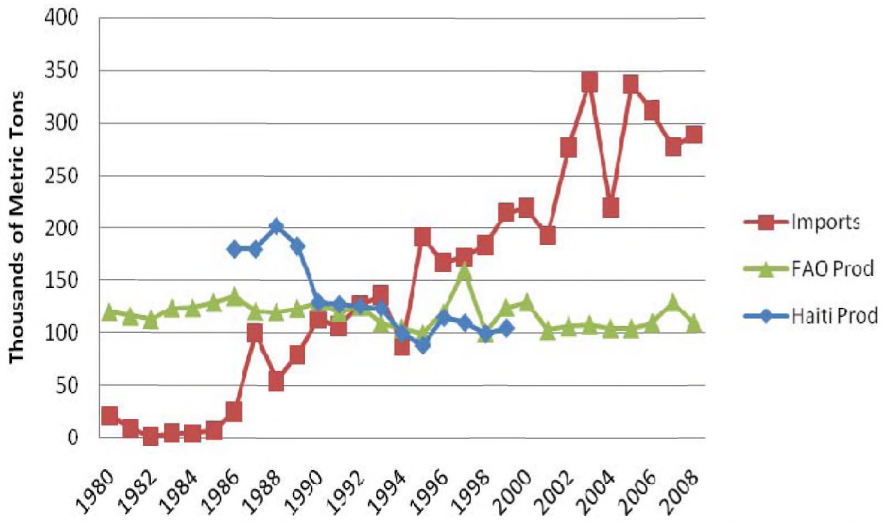
Rice Imports

Imported rice is called "Miami rice" in Haiti because American exports to Haiti are frequently shipped from the port of Miami. Figure 4 shows rice imports from the United States together with the production data from Figure 3. USDA data show a clear rise in U.S. rice exports to Haiti beginning in 1986. The largest percentage increases in imports occurred in 1986–87, 1993–95, and 2002–04. By contrast, U.S. wheat exports to Haiti rose quickly to 150 million tons in 1987 and remained near that level from 1985 to 2003, excepting during the embargo.

Rice Price Trends in Haiti

Even before the first round of liberalization in 1986, increases in cereal prices led to urban unrest multiple times between 1976 and 1986 (Deaton and Siaway 1988). Cereal price increases initially slowed following the 1986 trade liberalization, but during the 1991–94 embargo, rice prices rose 137 percent and corn prices 184 percent. The government lacked external financing, so in an attempt to pay down its deficit, it printed money, leading to massive inflation. The inflation and increasing cost of living were part of the reason that Haitian authorities reduced tariffs to the extent they did in the 1994/95 trade liberalization (IMF 2001).

Figure 4: Haitian Rice Production and Rice Imports from the United States, 1980–2008



Source: Compiled by authors based on data from the Haiti Ministry of Agriculture and Customs Agency as reported in IMF (2001) for all years between 1986 and 1999 except 1993/94. Data for 1993/94 were taken from IMF (1996). No other Ministry of Agriculture data could be located. Data on imports are from USDA (2010).

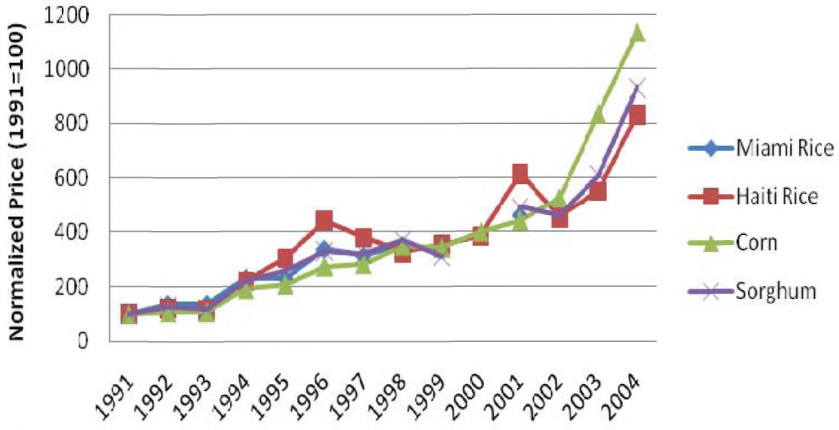
To understand the impact of imported rice on the price of rice sold in Haiti over time, one must analyze the "real," inflation-adjusted price (rather than the "nominal" price, which is not adjusted for inflation). A frequent but misleading claim made by trade critics is that the price of rice increased for consumers after liberalization. This claim is often based on nominal, not real, prices.

Figures 5 and 6 compare domestic and imported rice prices with those for corn and wheat from 1991 to 2004, using an index to allow for easier comparison of the different cereals over time. Cereal prices closely followed each other, which is not surprising because both imported and domestic rice compete with other cereals, including corn and wheat. If the price of wheat, for instance, falls, consumers will increase their purchases of wheat and decrease their purchases of other grains, and this shift will tend to move prices back together. This tendency does not mean that prices must be equal, but rather that they will generally follow similar trends. Such was the case following the 1986 trade liberalization, when it is argued not only that high domestic cereal prices drove the need for wheat and flour imports, but also that cheap wheat imports then slowed the rate of rice and corn price increases (Fass 1988).

Figure 6 shows that when prices are adjusted for inflation, they decreased over time. There was an increase in prices between 2002 and 2004, but this rise was likely due to political instability around this time. Both graphs show that the price of Haitian-grown rice fluctuates more than those of corn, sorghum, and Miami rice.

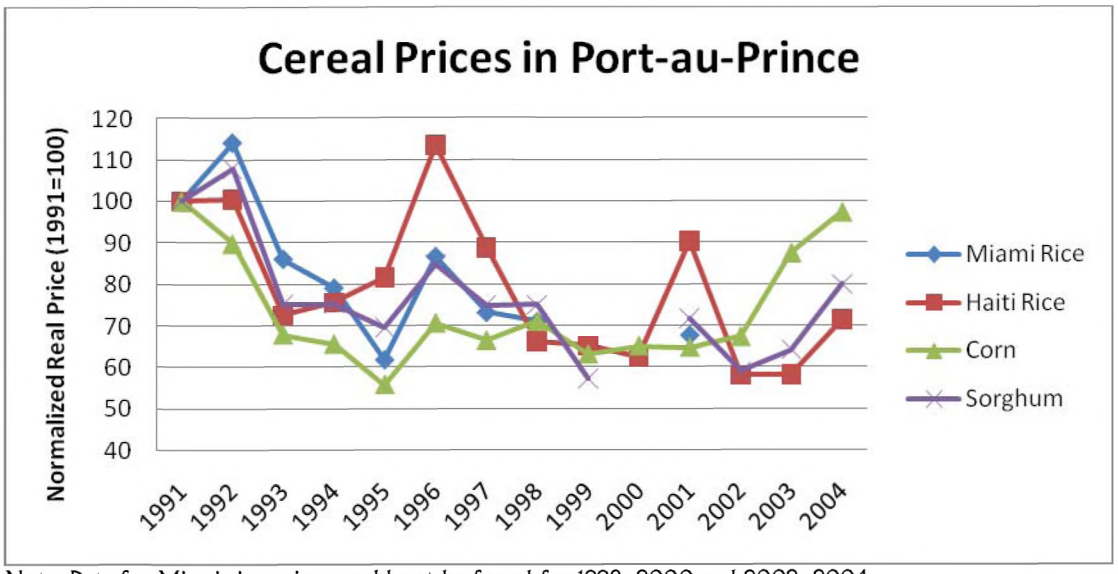
Although price plays an essential role in consumer choices, so do personal and cultural preferences. Haitians often say that Haitian-grown rice is better tasting and more nutritious than imported rice. The authors could find no evidence to support this nutritional claim, but this perception can contribute to consumption patterns.

Figure 5: Index of Nominal Cereal Prices in Haiti, 1991–2004



Note: Miami rice price data could not be found for 1998–2000 and 2002–2004.
Sources: IMF (1996, 2001, 2005).

Figure 6: Index of Real Cereal Prices in Haiti, 1991–2004



Note: Data for Miami rice prices could not be found for 1998–2000 and 2002–2004.
Sources: Same as Figure 5; inflation data from World Bank (2010).

Domestic Production versus Imports

At the heart of the policy issue are questions of food security and food self-sufficiency. It is often said that before the era of free trade Haiti was food self-sufficient, but that since trade liberalization it has imported the majority of its food. In 2004, roughly 52 percent of all food in Haiti was imported, 43 percent was locally grown, and 5 percent came as food aid (CNSA 2004). However, Haiti has always been a net importer of some commodities, such as vegetable oils and wheat, but did not become a net importer of cereals until after 1994/95 trade liberalization (FAO 2010).

It is true that overall, less of Haiti's food was imported in the 1980s and early 1990s, but the 1978 and 1986/87 national nutrition and consumption surveys showed high rates of poverty, food insecurity, and malnutrition (Graitcer et al. 1980; Jensen, Johnson, and Stampley 1990b). The caloric deficits discussed earlier show that although more of the food consumed in Haiti was grown locally, the country has not been food self-sufficient for more than 50 years (Deaton and Siaway 1988).

According to FAO data, rice production remained within a fairly narrow band from 1980 to 2008. This is surprising given that there was a more than 7,000 percent increase in rice imported into Haiti during this time. Some observers have argued that imports and production are negatively correlated (Figure 4)—as imports increased, local production decreased. However, available data show that the short-term increases in local production do not correspond with short-term decreases in imports and vice versa. For example, a large increase in production such as in 1997 (FAO data) resulted in no comparable drop in imports. The 2001 and 2005 import spikes occurred with no apparent drop in production.

Rice Subsidies in the United States

The United States is the world's fourth-largest exporter of rice, and Haiti is one of its four most important rice importers (OECD 2006, 46, Figure 2.9). Between 1995 and 2004, the United States spent an annual average of US$1 billion on rice subsidies—roughly 72 percent of the cost of production—making rice one of the country's most subsidized commodities (Griswold 2006; Oxfam 2005). The U.S. government supports domestic rice production by implementing tariffs on imported rice and subsidizing domestic production though direct payments, countercyclical payments, and marketing assistance loans based on levels of production, prices, and historical acreage planted (Griswold 2006). It is estimated that these subsidies allow farmers to grow rice below market cost and

then export it to global markets, depressing global rice prices by 4–6 percent (Sumner 2005, 21).

The exact effects on prices in Haiti are not known. It is clear, however, that the price at which the U.S.-grown rice is sold in Haiti is lower than it would be without the U.S. subsidies. Recall from Figures 5 and 6 that the prices of the principle grains consumed in Haiti track each other closely. Although a removal of U.S. subsidies would increase the price of Miami rice, economic forces would likely spread that increase into other foods, including the price of Haitian rice. This secondary increase in the price of Haitian rice would give Haitian farmers greater incentives to increase yields, production, or both. It is possible, therefore, that U.S. subsidies could thus benefit even Haitians who consume no imported rice by lowering the prices of other foods while harming all Haitian agriculturalists who produce any food that competes with Miami rice.

Stakeholders

Haitian Rice Farmers

Rice farmers, most of whom are concentrated in the Artibonite Valley, are directly affected by trade liberalization. With relative rice prices dropping in the late 1990s, farmers likely saw a decrease in income from rice production. Anecdotal evidence suggests that many farmers in the Artibonite Valley have switched from growing two crops of rice each year to growing one crop of rice in summer and one crop of melons, plantains, or some other food in winter (FEWSNET 2005). This pattern occurs partly because the current irrigation infrastructure cannot meet all of the needs of the rice farmers and because labor costs for these products are less than they are for rice (FEWSNET 2005). To the extent that farmers are able to switch into producing other commodities, they can reduce their potential losses from falling rice prices. Switching to other commodities, however, requires knowledge, inputs, and markets.

Rural versus Urban Consumers

Urban consumers, who are net food buyers, benefit from lower relative prices of food. With increasing urban populations and high inflation, keeping food prices low is a government priority, even if this policy comes at the expense of rice producers. Opening the market to cheaper imported rice has lowered rice prices relative to what they would have been without imports and tariff reductions. It has also benefited urban consumers by lowering the prices of other grains on the market.

Rural consumers can be either net rice sellers or net rice buyers. Net buyers and subsistence farmers are not made worse off by lower food prices. In fact, they may be able to increase rice or other food consumption because lower rice prices increase their market purchasing power. Poor infrastructure, however, is likely to reduce possible benefits to rural consumers because without significant investment in physical and market infrastructure, the cost of transporting imported rice to rural areas is still high. Most rice producers are net rice sellers and face lower prices for their crops. Lower prices also mean that farm laborers receive less wage and in-kind payment for their work on rice farms.

In 2005, poor, middle-class, and wealthy populations who lived in the Artibonite Valley rice-growing areas relied on on-farm crop production for less than 40 percent of food sources. Each group purchased the majority of what they ate, although the poorest group was forced to rely on their own labor, payments in-kind, and gifts to acquire sufficient food (FEWSNET 2005).

Haitian Government

Since urban populations have greater access to the government, their concerns and demands for lower food prices may take precedence in government deliberations. Unfortunately, as already described, periods of political upheaval following two long dictatorships have left the institutional capacity of the government limited. A stable political and security situation in 2005 could mean that the government can spend resources in long-neglected areas including agriculture and employment generation.

U.S. Rice Sector

U.S. rice subsidies account for half of the income of U.S. rice farmers (Wailes 2005, 184), so it is likely that these producers and the processors and traders who benefit from rice production and export would fight to keep these subsidies in place, regardless of the impact on farmers abroad. Their

responses to changes in Haitian rice policies should be taken into account.

International Organizations

In 2004, Haiti owed the International Monetary Fund US$9.1 million (IMF 2005). The World Bank, IMF, World Trade Organization, United Nations Stabilization Mission, and international nongovernmental organizations can each influence policy in various ways and may have important information for designing good policy to reduce poverty and hunger. Given low governmental capacity, partnership with these organizations may be necessary in both the short and long term.

Policy Options to Reduce Hunger and Poverty

Change Trade Policies

The rapid pace of Haiti's trade liberalization did not allow time for rice farmers to adjust to changing market opportunities, and no social safety net was established to assist those in the rice sector. The government could have mitigated the effects of import liberalization on farmers by establishing a higher rate of tariffs, lowering tariffs gradually, or increasing technical assistance to farmers to adjust to the changing market.

As a "least-developed country," Haiti has the flexibility to increase its tariffs (WTO 2010). Alternatively, Haiti could choose to violate IMF conditions and enact significant trade barriers at the risk of U.S. retaliation (and loss of financial support from the IMF and World Bank). Increasing trade protections for rice would reduce rice imports and increase cereal prices, which would help all net cereal sellers, possibly reducing poverty and hunger for these farmers. The downside is that it would cost more for net cereal buyers, an ever-growing population.

On the other hand, Haiti could appeal to the WTO and argue that subsidized rice imports from the United States have materially harmed its rice farmers (as in Case 9-4 and 9-5). If the WTO found in favor of Haiti, the country could enact retaliatory trade barriers on U.S. rice and possibly other commodities unless and until the United States reduced rice subsidies. Policy analysts should take into account any reactions by the U.S. government in response to changes in Haiti trade policy.

Invest in Small-Scale Agriculture

Given the limited infrastructure, lack of investment in agriculture, and little land available to grow more rice, it is not certain Haitian farmers can grow the amount of rice that the country is now used to consuming without significant investments to improve yields and marketing. Since the majority of Haitian agriculture is grown on small, family-owned plots, investing in these farms and farmers could reduce poverty and improve food security in rural areas where poverty is more common.

The government could invest in small-scale agriculture by promoting soil erosion prevention activities such as reforestation campaigns, implementing fertilizer subsidies or supporting the development of domestic fertilizer markets, distributing improved seeds, improving credit access, reforming land ownership rules, and improving irrigation infrastructure. Supporting crop diversification could also give farmers additional possible sources of income and reduce the negative consequences of open trade and rice competition. Additionally, since many poor Haitians rely on maize, cassava, and yams, the government could attempt to increase productivity of these crops. Agricultural extension services have been almost nonexistent in Haiti but could be developed to help fill the knowledge gap in many of these areas.

Invest in Nonagricultural Development

Haiti is vulnerable to natural disasters because of its location on a common hurricane path, its environmental degradation, and its lack of risk management. Additionally, Haiti has high unemployment, few off-farm employment opportunities, and an increasing population. Poor urban and rural people rely on wage-earning jobs for income, whereas rural middle-class and wealthy people do not, so low-skill industry jobs, including jobs processing agricultural products and textiles, could benefit poor people the most.

In 2006, 27,000 Haitians, many of them women, were employed in the apparel sector, down from an estimated 100,000 before the embargo (Hornbeck 2010; Republic of Haiti 2006). The 2008 U.S. HOPE II Act (Hemispheric Opportunity through Partnership Encouragement Act) passed by the U.S.

Congress allows duty-free (but not quota-free) imports of Haitian-made apparel to the United States for 10 years, and this act has already led to growth in the Haitian apparel industry.[11] The textile industry has been criticized, however, for paying low wages[12] and having few linkages with the domestic economy, importing most of its inputs, and exporting most of its products.

Assignment

It is 2006 and President-elect René Préval is about to start his second term as president. In the context of the rice situation, you are asked to address him on how to reduce poverty and hunger throughout the country. The country successfully pursued improved macroeconomic stability during 2004–2006 and is now in a better position to focus on reducing poverty and hunger as it prepares its Poverty Reduction Strategy Paper. Given the available statistics and their uncertainties, what would you advise him to do to reduce rural and urban poverty and hunger? How would your answer change in response to the food price crisis in 2007–2008?

Additional Readings

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[11] Previous agreements allowed the apparel industry to use only U.S. manufactured raw materials. HOPE II, however, is more lenient in the sourcing of raw materials.

[12] The minimum wage for apparel workers is US$3.25 a day, whereas it is US$5 a day for all other sectors (Hornbeck 2010).

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