THE PENNSYLVANIA STATE UNIVERSITY
SCHREYER HONORS COLLEGE

DEPARTMENT OF ECONOMICS

THE DEVELOPMENT OF HAITI AND THE ROLE OF AID AND FOREIGN DIRECT INVESTMENT

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Fall 2011

A thesis
submitted in partial fulfillment
of the requirements
for a baccalaureate degree
in Economics
with honors in Economics

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Abstract:

It is widely accepted that foreign direct investment has positive implications for economic growth in host countries. This paper tests the relationship between business facilitation and foreign direct investment as an approach to stimulate sustainable growth in Haiti. An empirical analysis suggests that ease of doing business ranking is not statistically significant against foreign direct investment and that other factors may be worth looking at when attempting to induce foreign direct investment in Haiti. However, easing business processes may still have positive implications on attracting foreign investors.

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I. Introduction

Most organizations, such as the WTO, use terms such as “developed” and “developing” to categorize the levels of incomes of a particular country (WTO, 2011). As of 2005, 80% of humanity live on less than $10 a day. While the richest 20 percent of the world account for three-quarters of global income, the poorest 40 percent of the world’s population accounts for only five percent (Shah, 2010). These low income levels lead to poor health conditions, poor environment conditions and poor education amongst other issues. “According to UNICEF, 22,000 children die each day due to poverty… Around 28 percent of all children in these developing countries are estimated to be underweight or stunted… (and nearly) a billion people are unable to read a book or sign their names…Nearly 1.1 billion people have inadequate access to water, and 2.6 billion lack basic sanitation” (Shah, 2010).

According to the World Factbook provided by the Central Intelligence Agency, there are around 77 countries that have a GDP per capita under $5,000 a year in 2010. Some of these countries are even under $100 GDP per capita. At the bottom of the list, with the lowest GDP per capita is Zimbabwe at less than $100 in 2010. The second lowest country that follows is the Democratic Republic of the Congo at $300 GDP per capita in 2010. To put these figures into perspective, the richest country in the world, Luxembourg, had a GDP per capita of $82,600 in 2010. Many of the poorest countries in the world are in fact located in Africa (Central Intelligence Agency, 2010). However, when broken down into geographic locations, the poorest country in the Western Hemisphere is Haiti, the focus of this paper.

Most of the time, it is easy for the rich to forget about the poor; however, many nongovernmental organizations have formed to address these social inequities. The problem is

there is no clear-cut solution for these issues. There have been many debates over the best ways to address poverty levels worldwide, forming a growing branch of study within the field of economics: development economics.

Development economics is a branch of economics that focuses on the economic aspects of the growth process in developing countries. Its research and theories are not only on the methods of promoting economic growth and structural change, but are also focused on improving the quality of life through public and/or private channels (Bell, 1987). Because the determining factors of sustainable growth are so complex, development economists need to incorporate social and political factors to devise particular plans to address these issues.

The determination of the implementation of optimal policies and practices is based on different theories and methods. This may involve restructuring market incentives, using mathematical analysis, or even combining the two. To that end, one of the main goals of development economics is the formulation of public policies designed to bring about rapid and sustainable economic growth (Arndt, 1981).

Because of the complexity of growth factors, development economics has combined relevant concepts from traditional economic analysis with a broader multidisciplinary approach. This requires studying the historical and contemporary development experiences of the specific region or country in question. Most theories must be modified or expanded upon to make them applicable to a specific country. Development economics aims to pinpoint the cultural, political, economic and institutional mechanisms impeding economic development to then make modifications to bring about economic progress. This paper is aimed at determining the best approaches to stimulating sustainable growth in developing countries, particularly in Haiti.

II. Country Profile: Haiti

Haiti is the poorest country in the Western Hemisphere. The World Factbook states that 80% of the population is living under the poverty line, living on $2 or less per day. It's GDP per capita is around $1,300 USD. There is a shortage of skilled labor, widespread unemployment and underemployment and "more than two-thirds of the labor force do not have formal jobs" (Central Intelligence Agency, 2010). To explain this state, a growing number of literatures suggest that a country's history and institutions lay the foundation for healthy and sustainable economic growth. This section will be focusing on the history of the country to understand its current economic state.

It has been argued that colonial origins play a significant role in the economic growth of a country well after independence (Acemoglu et al., 2001). Europeans were likely to set up extractive institutions in colonies that had unfavorable conditions for settlement. If a colony's climate was too extreme or the land was isolated or without resources pertinent to a European lifestyle, then it wasn't likely that a formal settlement was put into place; it was more likely that the land or people were used for extraction purposes only, for instance as a strategic location for military or for slaves. Due to the lack of settlement, there wasn't a need for a formal political system or other institutions, which may be a good explanation for poor conditions that persist today. This theory may very well be the explanation for the weak institutions and poor economic state that Haiti experiences today.

In 1492, Christopher Colombus established a Spanish settlement, Navidad, on the north coast of the island of Hispaniola in what is now Haiti. Although the original settlement was destroyed by natives, Columbus on a later voyage established another colony soon after. The Spanish colony, called Santo Domingo, became an important location for later expeditions. It

was key for providing supplies for the conquistadores in Mexico and the Americas. After the conquest of Mexico, the establishment of New Spain Santo Domingo lost its status as a staging center and its economy immediately began to weaken. Towards the end of the 16th century, the seas were being controlled by French, Dutch and British forces and by 1700, the Spanish king had relinquished control of the western part of Hispaniola to the French (Library of Congress, 2010).

During the 18th century, the new French-controlled colony grew and prospered; however, the prosperity of the colony was based upon slavery. By the time of the French Revolution in 1789, the population of slaves in Haiti was somewhere between 500 and 700 thousand. The hard labor of the plantations along with the epidemics of the tropics kept mortality rates high. This required a continuous importation of slaves from Africa. As a result of changing political climates in France and its colonies during the revolution, many slavery rebellions arose. In August of 1793, the republican French administrator of Haiti was pressured into abolishing slavery (Library of Congress, 2010).

With the aftermath of the French Revolution and the war with Britain, France was losing its resources and power in controlling the colony. In 1803, Napoleon sold its North American land to the United States in the Louisiana Purchase. This loss of land meant that Haiti was no longer a place of strategic importance as it once was. As Haiti became less of a priority to France, Napoleon no longer wanted to use military resources to suppress the constant rebellions. As a result, Haiti declared its independence and was recognized as its own country in 1804 (Library of Congress, 2010).

During its Spanish colonization, Haiti's economy revolved around sugar plantations. After the French takeover, the sugar economy continued, but coffee production was introduced

as well. There were other plantation crops grown such as cotton and cocoa, but sugar and coffee were Haiti's primary crops. Under the French plantation system, based upon slave labor, Haiti was an enormously profitable operation. The Haitian sugar economy was in competition with the northeast region of Brazil, which had previously been the major source of sugar for Europe. The French sugar and coffee operations in Haiti were so productive that its exports were comparable to Europe's sugar and coffee exports and perhaps exceeded the total exports of the British North American colonies (Library of Congress, 2010).

After independence and the abolishment of slavery, there were various attempts to retain the large scale plantation agriculture of the colonial period, but there wasn't much success. Land was distributed into small scale farms intended for self sustainability and only a fraction of their resources were for growing export crops like sugar and coffee. The output was primarily consumed domestically with little exports at all (Library of Congress, 2010). It is safe to say that Haiti's independence serves as a significant negative turning point in the history of the Haitian economy.

Alongside its weakening economy, the Haitian government was never able to offer political stability since its independence. Between 1804 and 1915, Haiti had 33 different leaders. The average time period of power was 3.4 years. Between 1911 and 1915 alone, six different presidents were either killed or forced into exile. Because of the consistent political unrest in Haiti, the US intervened in 1915. This involvement has been considered mildly successful because it did bring about short-term stabilization. Haiti's budget was balanced and debts were reduced. There was also a focus on the country's infrastructure, resulting in roads, telephone connections, port facilities and public health and educational services. However, these changes were not enough to foster growth. The ensuing governments did not maintain this infrastructure

and thus limited the potential positive growth effects that could have taken place (Library of Congress, 2010).

More recently, from 1960 to 2000, Haiti only had one decade with a positive GDP per capita growth rate. During this short time period, growth averaged about 2.5 percent. The main contributors to growth have been linked to structural measures, in particular trade openness, education, and credit to the private sector. In 1971, Haiti opened exchange transactions for all current payments and capital investment while eliminating restrictive practices and controls. This favored exports and the assembly sector began to grow. The Haitian government also began to reform its educational system by unifying the educational administration, declaring a single language of instruction and implementing school nutrition programs. At the same time, credit to the private sector was encouraged by a reform in 1972 that gave banks permission to extend medium-term credit to industrial and export sectors (Central Intelligence Agency, 2010).

However, these reforms and their positive results were short-lived. Haiti's growth rate turned negative during the 1980s at an average of -2.4 percent. To compare with the surrounding region, throughout the Latin American and Caribbean region, this rate was -0.9 percent. This turn is believed to have been set off due to political instability and a weakening of stabilization policies. Political turmoil increased during the early 1980s, involving several failed elections and coups d'états. This instability affected macroeconomic performance as fiscal revenues began to weaken. As extra budgetary spending expanded, so did the government's reliance on central bank financing that led to reserve losses and external payments (Central Intelligence Agency, 2010).

In 2001, the country had an estimated trade deficit of about $4.6 million. In 2005, Haitian imports totaled an estimated $1.5 billion and in 2008, another $2.1 billion. About 35 percent of

imports came from the United States. Other significant sources of imports that year included the Netherlands Antilles, Malaysia, and Colombia. Haiti's primary import items are food, fuels (including oil), machinery, and manufactured goods. In 2005 Haiti's exports only totaled an estimated $391 million (Central Intelligence Agency, 2010). This growth deficit has planted Haiti's role in the global economy has been primarily confined to the inflow of foreign aid. Haiti's large trade deficit is partially offset by received transfers, including international aid (Library of Congress, 2010).

The United States has been one of the leading donors to development in Haiti and plays a vital role in Haiti's economy. Haiti maintains active membership in a variety of multinational economic organizations, including the International Coffee Organization, Latin American Economic System, and Caribbean Community and Common Market. Haiti also is a signatory to the Cotonou Convention, an economic community seeking to foster trade among African, Caribbean, and Pacific countries (Library of Congress, 2010).

Between 1999 and 2004, the United States, the European Union, the Inter-American Development Bank and the World Bank jointly suspended their aid disbursements to Haiti in response to systematic electoral fraud and failure of the Haitian government to implement accountability measures. In July 2004, aid was restored. Haiti was scheduled to receive more than $1 billion in pledged aid for 2005 and 2006. The United States also pledged $230 million in aid through fiscal year 2006 (Library of Congress, 2010).

On January 12, 2010, Haiti was devastated by a 7.0 magnitude earthquake which destroyed the country's already weak systems. The disaster took over 230,000 lives and ruined 245,000 structures throughout the country; nearly one third of the government was lost. Because the country was left dysfunctional, the international community stepped in to help. With nearly

$3 billion pledged towards Haitian efforts, it has come into question how to use the aid. Soon after the earthquake, a long-term plan was outlined in an effort to strategize the use of aid during this recovery period. It is the goal of the international community to not only help to recover from the devastating earthquake, but to assist in the development of the long term economy.

III. The Importance of Foreign Direct Investment

There is a growing consensus that aid alone does not promote growth. It is widely recognized that other factors, such as the private sector, may be the engines of economic growth and the best means of achieving poverty reduction. This paper focuses on determining a way in which the influx of aid experienced by Haiti can be used to stimulate growth in a sustainable matter.

Each country has its own complex history and characteristics that make it difficult for economists to generalize the right tools and policies that are guaranteed to stimulate growth. This is perhaps the reason why there is an entire branch of research devoted to further understanding the proper needs specific to a particular country in question. Because there is no "right" answer within the field of economics, there are many competing theories of the most efficient way to trigger and sustain growth. However, one of the more commonly argued approaches to economic development is within Neoclassical economic theory.

Neoclassical economic theory of development argues that the economic conditions in developing countries are the aftermath of poorly formed economic policies and too much state interference in the economy. It argues that in order to stimulate the domestic economy and promote growth, developing country governments have to limit their intervention. It is argued that this is to be accomplished through the privatization of state-owned enterprises, the promotion of an open market, reduction or elimination of restrictions on foreign investment and

of government regulations affecting the market. Together, these reforms are known as “the Washington Consensus.” It is the neoclassical view that market forces, not excessive government intervention, will bring about development in stagnating economies and it is this view that drives much of the efforts proposed by the World Bank and other international agencies that focus on development issues today (Carrasco, 1999).

Within the realm of neoclassical theory, there are several different approaches that should be noted: the *free market approach*, the *public-choice theory*, and the *market-friendly approach*. Both the free-market approach and public-choice theory argue that the market should be left completely free with absolutely no government interference. On the other hand, the market-friendly approach advocates free markets but recognizes that there are many flaws in the markets of many developing nations that may need to be addressed. Some government intervention may be an effective means of fixing such imperfections. This view is a more recent development and is often associated with the World Bank (Todaro and Smith, 2006).

Market-friendly policies emphasize non-inflationary growth, wise government spending, high savings and investment rates, trade and foreign investment liberalization, privatization, and domestic market deregulation. The state should not involve itself heavily in the market. According to supporters of market-friendly policies, this type of framework is more economically efficient (Carrasco, 1999).

The market-friendly approach towards development eventually became associated with the "Washington Consensus." The Washington Consensus was based on three conventional concepts: (i) macroeconomic discipline, “(ii) a market economy, and (iii) openness to the world in the context of trade and foreign direct investment.” This framework included the following: “(1) Fiscal discipline in order to combat deficits that lead to balance of payments crises and high

inflation, (2) Reordering public expenditure priorities to target the poor, (3) Tax reform to broaden the tax base with moderate marginal tax rates, (4) Liberalizing interest rates in the context of a broader financial liberalization (5) A competitive exchange rate (6) Trade liberalization (7) Liberalization of inward foreign direct investment (8) Privatization of state-owned entities (9) Deregulation of the economy to ease barriers to entry and exit (10) Property rights for the informal sector." (Carrasco, 1999, Part 2.1) For purposes of this paper, the importance of private investment in the form of foreign direct investment will be further examined.

The neoclassical growth model or the Solow growth model is a model of long-run economic growth that falls within the framework of neoclassical economics. Important contributions to the model came from the work done by Robert Solow in 1956 (Solow, 1956). One drawback of this model is that it tells us very little about the independent effects of private and public investment on growth. Since the effects are combined into a single total investment variable, it is not possible to determine whether an increase in private investment will have a greater effect on growth than the counter investment in the public sector. In order to test whether private sector investment and public sector investment have differential impacts on the growth rate, manipulations of the model have been made to split the investment factor into two (Kahn and Reinhart, 1990).

Two economic researchers, Mohsin Kahn and Carmen Reinhart, were able to do an empirical manipulation of the Solow model to test the impacts of the public and private sector separately on growth for the IMF. The principal conclusion of this study was that private investment plays a much larger role in growth than public investment. At best, public investment has no statistically significant effect on growth; therefore, private investment should be favored

in development and investment strategies. There are weaknesses in this model. For example, in this model, there is no way to measure the effect of complementing public-private investments, such as infrastructure and communications investments. If there is an investment in the public sector in either of these two areas, it is surely going to increase the benefit of the private investment counterpart, such as the business to which is able to better communicate and transport its goods on better roads. Nonetheless, from an individual standpoint, private investment alone has empirical support as being the more effective of the two (Kahn and Reinhart, 1990).

One form of private sector investment that has been argued to stimulate growth is foreign direct investment. Foreign direct investment (FDI) refers to long term participation in a foreign country's economy. It is a measure of foreign ownership of productive assets, such as factories, mines and land. It's usually a company, country, or single party venturing out their business plans across borders or overseas. FDI can be categorized as either inward foreign direct investment or outward foreign direct investment. These types of transnational relations allow for joint participation in management and labor. It also encourages the transfer of technology and expertise on the part of both the investors and host countries.

Foreign investment can be a significant driver of development in poor nations. It provides an inflow of foreign capital and funds, in addition to an increase in the transfer of skills, technology, and job opportunities. It has been the dominant form of capital flow in the global economy for the past fifteen years, including developing countries. The benefits of such FDI ventures can be seen through the increasing development of many poor East Asian countries such as China. China increased from less than $19 billion GDP to a GDP of over $300 billion over the course of the last twenty years, largely attributed to FDI (Nunnenkamp, 2002).

The overall benefits of foreign direct investment for developing country economies are well recognized. Most empirical studies conclude that FDI contributes to both factor productivity and income growth in host countries well beyond what domestic investment alone would normally encourage. Given the appropriate host-country policies and a basic level of development, numerous studies show that foreign direct investment encourages technology spillovers, supports the formation of human capital, contributes to the integration of international trade, promotes a more competitive business environment and boosts enterprise development. These are all contributing factors to higher economic growth, which is the long-term goal for alleviating poverty in developing countries (Organisation for Economic Co-operation and Development, 2002).

There are various measures policymakers can take to induce foreign direct investment and to control the determinant factors of their flows. Often policymakers rush into FDI liberalization policies without a defined strategy. The experiences of the South East Asian economies demonstrate that FDI can be extremely useful for emerging economies if it is used strategically. While FDI has been seen to promote growth, this alone will not likely sustain long-term growth; policymakers need to find a balance between FDI and domestic investment for the desired outcome (Nunnenkamp, 2002).

Policies are important for reaping the full benefits of foreign direct investment. Foreign investors are influenced by three broad groups of factors: the overall quality of the host country's enabling environment; the ease with which subsidiaries' operations in a given country can be integrated in the investor's global strategies; and the expected profitability of individual projects. Some other important factors that may limit expected profitability are largely outside the influence of policymakers. These may include market size and/or geographic location. However,

these factors are not usually able to be controlled or influenced by the host country in any way; therefore, most policies do not address such factors (Organisation for Economic Co-operation and Development, 2002).

The challenges of assessing the appropriate policies primarily fall on the host countries. The goal for the policymakers is to promote investment while also building the human and institutional capacities domestically to meet the demand. Many believe the best way to do so is by establishing a transparent, broad and effective enabling policy environment (Organisation for Economic Co-operation and Development, 2002). The overall policy framework should comprise of elements addressing economic and political stability (Nunnenkamp, 2002). This may, for some countries, be the most challenging aspect to address in order to attract foreign investment. Most of the political and economic institutions of poorer countries are weak to begin with, contributing to their inability to grow and develop on their own. A developing country's physical infrastructure may need addressing as well. Important factors such as the host country's infrastructure, its integration into the world trade systems and the availability of relevant national competences are all priority areas that are important for enabling investment. A country must be able to showcase its ability to provide a stable environment, physically, politically, and economically, so that the company can feel comfortable making a substantial long-term investment.

These issues are typically dealt with by investment promotion agencies, or IPAs. Investment-generating measures of IPAs include FDI campaigns, industry-specific missions and the target of specific companies abroad. Investment-facilitation services typical of IPAs consist of counseling, acceleration of the approval process and assistance in obtaining the proper permits. IPAs provide services aimed at post-startup initiatives as well. These services may be

more related to day-to-day operational matters. These agencies help to ease the process of doing business in a country which may ultimately induce foreign investment (Nunnenkamp, 2002).

The growing recognition for the importance for FDI in developing countries has brought about competition between potential host countries. The ranges of incentives to attract foreign investors and the number of countries that offer incentives have both increased. Governments have been tempted to stay competitive in the FDI race by offering tax incentives and subsidies that benefit the investors (Nunnenkamp, 2002). With all of the potential encouragement of sustainable growth, foreign direct investment is widely desired, especially among developing nations.

IV. Doing Business in Haiti

The Haitian private sector is small and fragmented. The number of firms in Haiti cannot generate sustainable economic growth or provide employment for Haiti's growing population. The private sector's size leaves it unable to influence policy and also leaves it vulnerable to political attack or alienation. Many industries in Haiti are monopolized or dominated by a few families, limiting competition and creating inefficiencies throughout the system; ultimately, this leads to higher costs for consumers. As previously noted, investment in the private sector has a large effect on stimulating growth; however Haiti's private domestic entities are not capable of this on their own. This is why foreign direct investment in this country is so important (The World Bank, 2011).

While there were several areas presented in the previous section that policymakers should aim to address, this section will focus on Haiti's current openness to foreign direct investment as well as its ease of doing business. During the early 1990s, some criticized that Haiti embraced trade liberalization too rapidly and too aggressively by lowering its tariff structure. Some would

argue that the rapid and aggressive trade liberalization was detrimental to some productive activities, which could have remained internationally competitive if producers had benefited from a longer period of adjustment (ECLAC, 2005).

One clear example of the negative outcomes of rapid trade liberalization is Haitian rice production. Haitian rice had been cultivated in Haiti for over 200 years and was the staple food of Haiti. The country was self-sufficient in rice production up until the 1980s. By the1990s, rice imports outpaced domestic rice production which ultimately displaced many Haitian farmers, traders, and millers. The trade liberalization policies involved the lowering Haiti's tariffs on rice imports. In 2004, the rice import tariff was at three percent, much lower than rice import tariffs of all other nations in the Caribbean Community. The Haitian market is now flooded with US rice imports and the impact of the decline of rice production in Haiti has been devastating to its rural population which is already desperately poor (Georges, 2004).

This is a clear demonstration of the importance of balance in the liberalization of an economy. While Haiti is in need of attracting foreign direct investment, the economy's openness needs to not only induce foreign investors, but also complement existing domestic markets. Neither sector, domestic or foreign, would be able to sustain growth alone. Policymakers need to develop a strategic plan when liberalizing so that negative outcomes, such as this one, can be prevented. Although these negative effects may be discouraging to Haitian farmers, it is still important for the Haitian economy to remain open to international trade and investment.

Haiti's geographic location and its limited domestic market strongly suggest that the country should continue to pursue a strategy based on "openness." Haiti needs to pursue a system of relatively low tariffs on goods and services, adherence to the rules of the World Trade Organization, as well as the rules of the Caribbean Community (CARICOM), to which Haiti

belongs. Beyond the liberalization, the country needs to be able to attract direct foreign investment in competitive conditions with its neighboring states of the Caribbean basin, although the exact scope and content of the most appropriate policies to meet this goal need to be clearly strategized (ECLAC, 2005).

It should also be noted that "openness" would not be sufficient for improving the competitiveness of Haitian goods in international markets. Trade policy must be complemented by a combination of temporary, transparent and goal-oriented selective policy measures to boost domestic output and employment based on revitalizing the internal market. Any future strategy of development should examine whether there are any policy measures or regulatory changes that need to be applied to increase the production and availability of basic products for the majority of the population. Liberalization may facilitate direct foreign investment, but not suffice alone (ECLAC, 2005).

A. *Limiting Factors*

While Haiti appears to be a fairly open market, the political instability and other prohibiting factors limit its ability to facilitate business. The World Bank indexes the level of ease of doing business across countries with the doing business ranking indicator, or DBI. "A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm." This ranking takes several business processes under consideration when valuing a country's ease of business; these include the process of starting a business, its infrastructure and access to electricity, investors' access to credit, the tax rate paid on profits, and overall trading policies amongst other things. Under the DBI index, Haiti does not perform very well (The World Bank Group, 2011).

Haiti's poor ability to facilitate business is demonstrated in its poor DBI ranking. There are several factors that were considered for this ranking. Foreign investment in Haiti is currently subject to a general ownership restriction across all private sectors as required by the country's Commercial Code. Any locally incorporated company must have at least three shareholders, one of whom must be a Haitian national. This holds across all business sectors in the economy. Haitian law also demands that any foreign investment that is believed to be significant in the country's economy is subject to presidential approval, regardless of what business sector in which the activity will be taking place. These severely limit foreign investors from conducting business.

In addition to these general limitations, the country enforces sector-specific limits on foreign equity ownership in two of the thirty-three sectors covered by the Investing Across Sectors indicators provided by the World Bank. Foreign capital participation in the banking industry is limited to a maximum of 49 percent and the domestic air transportation sector is completely closed to foreign equity ownership. Several industries, such as port and airport operation and the fixed-line telecommunications sector are controlled by government monopolies. Alongside the difficulty of obtaining required operating permits, those monopolies make it difficult for foreign companies to compete or even invest (The World Bank Group, 2011).

Another drawback to foreign investment lies in the difficulty current government provisions have on initial startup. It takes on average 212 days to launch a foreign-owned subsidiary in Port-au-Prince; this is well over the Investing Across Borders (IAB) group regional and global averages. In addition to the steps necessary for domestic companies, foreign investors must also authenticate the parents company's documentation abroad, legalize documents, and

obtain the consul's signature at the Ministry of Foreign Affairs. No investment approval or trade licenses are required. Once the investor pays the "patente," it is used to import and export. Haiti is the only IAB country where the minimum capital requirement is more favorable for foreign companies than domestic ones. If a wholly foreign-owned company is registered, there is no specific minimum capital requirement, but joint ventures with one or more Haitian shareholders are indeed subject to a minimum capital requirement, which are few due to the policy limitations described above (The World Bank Group, 2011).

The process of leasing publicly held land in Port au Prince is unpredictable. This is a big part of why startup is so time-consuming. All public land is owned by the municipality and while nothing legally prevents the municipality from leasing land, it does not happen frequently. The process of leasing public land is not transparent and the amount of time it takes depends on the government interests involved. Other land options for foreign companies include leasing or buying land from private owners or to buy publicly held land. A foreign investor can only purchase property subject to the approval of the Justice Minister and there are also limitations pertaining to the amount of land that can be bought. Lease contracts can offer the lessee the right to sublease, mortgage, or subdivide the land. Subdivision is subject to applicable zoning laws. There is no cadastre or land information system (LIS) in place that centralizes relevant information at a single point of access, but land-related information can be found in the land registry. This aspect of the process can be limiting for prospective investors (The World Bank Group, 2011).

Another important factor that eases the business process is arbitration. In Haiti, all commercial matters are arbitral, except for disputes involving the state, government entities, minors, and incompetent adults. The Haitian Arbitration Center was established in 2008 under

the leadership of the Haitian Commercial Chamber, but is not yet fully operational. Settlement agreements must be concluded in writing; agreements concluded by email, fax, or other electronic methods are not legally binding due to security considerations. There are no restrictions on the identity of arbitrators, but arbitration proceedings must be conducted in French. Parties can only choose an odd number of arbitrators, and no more than three. There have not been any cases of enforcement of arbitration awards in Haiti to date (The World Bank Group, 2011).

B. Relative Reforms

Out of 183 countries, Haiti ranked at 179 in terms of the ease of the business processes in 2011. In addition to country rankings for doing business, the progress of a country's performance is tracked over time. While the conditions are far from perfect in Haiti, there have been several reforms over the course of the last few years that have played a positive role in the business processes (The World Bank Group, 2011).

In 2008, the wait time to register property was decreased from over two years to 405 days. This was done by decreasing time to register at the tax authorities from one to two years, to six months to one year. Beginning in the summer of 2006, a program was begun to reorganize the department and retrain employees. In addition, interns were hired from the university and trained. After the initial two month training period, a six-month program commenced to reduce the time to register sale contracts. The transformation was closely supervised and at the end of the period, the processing time was ultimately reduced (The World Bank Group, 2011).

In 2009, the time required to export goods was reduced by a day by now implementing risk-based inspections in customs (The World Bank Group, 2011).

In 2010, access to credit was strengthened through regulations that broadened the scope of assets that can be used as collateral. It now allows future and after-acquired property to be used as collateral and extends the security interest of the creditor automatically to the products, proceeds, and replacements of the original asset. Also in 2010, with the implementation of a new system and new 24-hour operations at the port, goods can be cleared faster in Haiti (The World Bank Group, 2011).

More recently, in 2011 Haiti has helped to ease the business start-up process by eliminating the review by the president's or the prime minister's office of the incorporation act submitted for publication (The World Bank Group, 2011).

These small reforms help to address the current flaws in the system. With recognition of the problems and small steps towards improvement, the business process in Haiti can be made easier and more appealing, ultimately attracting the necessary foreign direct investment desirable for long-run, sustainable growth.

In Haiti, the National Office for Investment Promotion is in charge of attracting and controlling foreign investment. For the most part, the Haitian government has welcomed foreign investment, granting important concessions to new industries not competing with local production. Such enterprises are exempt from import and export duties for the life of the enterprise and enjoy a full tax exception for the first five years of operation. Companies located in the industrial park are entitled to tax exemption three additional years. For companies that are located outside of the Port-au-Prince metropolitan area, there is a 100% income tax exemption for five to 15 years with 15 percent to 20 percent of the income tax payable thereafter. Additionally, for export and import oriented business, there is an exemption without time limit

from customs duties on imported machinery, equipment, raw materials, and accessories needed for production (Private Sector Economic Forum, 2010).

C. Other Capital Inflows

Substantial foreign investment in Haiti began during World War II as a means of stimulating production of goods considered essential to the US war effort. Agricultural development was financed largely by the US Export-Import Bank and the World Bank, supplemented with private foreign capital. (Jarmillo and Sancak, 2009)

In October 1996, the IMF approved a $131 million loan to Haiti. The credit, to be provided over a three-year period, was aimed at supporting a national economic reform program. The international donor community committed $2 billion in concessional loans and grants to Haiti for the 1995–99 period, including $390 million from the World Bank. Unfortunately, the political impasse of 2000 caused a freeze on international donations (Jarmillo and Sancak, 2009).

Foreign direct investment (FDI), since the lifting of a trade embargo in 1995, has increased only moderately. By 1998, annual FDI inflow to Haiti reached almost $11 million, up from $4.4 million in 1997, and in 1999, FDI inflow peaked at $30 million. The disputed elections in 2000 and continuing political uncertainty helped bring FDI flows down to $13.2 million in 2000 and less than $3 million in 2001 (Jarmillo and Sancak, 2009).

Most investment comes from petroleum companies such as Texaco, Shell, Esso, and Elf. Other major foreign investors include American Airlines, American Rice Corporation, Citigroup, Compagnie Tabac, Continental Grain, Seaboard Marine, and Western Wireless, from the United States; Gildan Activewear from Canada; and Royal Caribbean and Scotiabank. Some of these companies provide the most number of jobs for citizens of Haiti (Jarmillo and Sancak, 2009).

Haiti must encourage an increase in investment to its country to help in this recovery and to sustain growth. However, judging by the state of the economy and lack of growth, this level of FDI is clearly not enough for Haiti.

D. Role of Aid

In order to attract further FDI and induce proper growth, developing countries need to have reached a certain level of development in education, technology, infrastructure and health before being able to benefit from a foreign presence in their markets. Imperfect and underdeveloped institutions may prevent a country from reaping the full benefits of FDI (OECD, 2005). When examining Haiti's present-day institutions and other FDI enabling factors, it is not uncommon to draw the conclusion that this country is not a good candidate in attracting foreign investment. However, if facilitated strategically, the aid pledged to Haiti as a result of the devastating earthquake might be used to establish long-term, sustainable economic growth. If funds are appropriated to projects that will ultimately improve the country's infrastructure and human capital investment, then it is a possibility that, in combination with proper policy reform to ensure stability, Haiti may be able to establish a solid foundation for enabling further investment and encouraging sustainable growth.

It is clear that there is a lot of work to be done in Haiti. It is also clear that there has been a lot of international support for country efforts to rebuild itself. As a response to the earthquake disaster in 2010, approximately $3 billion has been pledged towards Haitian efforts to date. About $1.5 billion has already been dispensed for projects and another $1.5 billion has been earmarked. While the government is still recovering from its own damage from the disaster, the Interim Haiti Recovery Commission has taken the role to manage projects and approve funding. This organization, half Haitian and half international, was designed as a way for the international

community to work with Haitians in collaboration towards recovery and rebuilding efforts (Schimmelpfenning, 2011).

Haiti has been in a recovery state, immediately prioritizing funding towards housing, food, water and health needs of the people. Many non-government organizations, such as American Red Cross and Doctors Without Borders, have stepped up to provide assistance in the process. The initial responses proved effective. During this recovery state, 700,000 citizens have been able to return home. However, since these initial responses, there has no doubt been a slow-down in projects (Schimmelpfenning, 2011). Many projects have already been approved, but not many aiming at sustainable growth.

Overall, the economy is not strong enough to self perpetuate growth on its own. This is why it is very important for a country like Haiti to induce foreign direct investment. However, current policies are extremely limiting to foreign investors. With the influx of aid and the approval of projects in Haiti, the question remains: are business facilitation factors a significant determinant of the levels of FDI needed to stimulate the growth Haiti needs?

V. Hypothesis and Testing

To this point, this paper has argued that Haiti's best attempt to stimulate economic growth in the economy is through inducing foreign direct investment. It is the hypothesis of this paper that an important determinant of FDI that should be considered in reforms in Haiti is business facilitation; a higher DBI ranking should correspond with lower levels of FDI.

To study the importance of promoting business facilitation for development purposes, several indicators have been taken into consideration through an empirical analysis. These include GDP growth, GDP per capita, real exchange rate, inflation rate, the country's ease of doing business status, openness, taxes paid from profit, and other infrastructure indicators.

Macroeconomic factors are consistently used in the investigation of the determinants of foreign direct investment. The variants of GDP, including GDP growth and GDP per capita should be considered because they reflect current market trends which can attract or detract foreign direct investment levels. For testing purposes, the logs of GDP and GDP per capita have been included in the study to best control for the size of the different economies and their influence on FDI. A country's openness to trade also plays a large role in inducing foreign direct investment; if it is open to trade with few barriers, such as excessive documentation and tariffs, then a company may be more likely to invest and trade within its borders. Therefore, openness is to be considered in the model in the form of trade as a percentage of GDP (Jayasuriya, 2011).

Additionally, a country's policies that effect business facilitation have been considered. As already mentioned, the World Bank ranks countries on their overall business environment in the Doing Business ranking or indicator (DBI). The DBI ranks countries on the ease of conducting business with one being the best environment and 183 for worst environment and takes factors such as infrastructure and documentation into consideration. The logs of DBI have been taken as well to control for the ranking nature of the indicator.

The data collected for the model includes indicators from 76 countries over a three year time-span from 2008-2010. The data was collected from the World Bank and OECD with the specific indicators demonstrated in Table 1.

Table 1: World Bank Indicators in Analysis

Abbreviation	Description	Type of Indicator
ln(PFDI)	Log of the net inflows of foreign direct investment from one year prior (World Bank)	Past Foreign Direct Investment
ln(GDP)	GDP is measured in the log of the dollar value of the economy	Macroeconomic
ln(GDPCAP)	Log of GDP per capita, sum of gross value added by all resident producers in the economy (World Bank)	Macroeconomic

GDPGR	Annual percentage growth rate of GDP at market prices based on constant 2000 US dollars (World Bank)	Macroeconomic
TRADE	Openness measured in percentage of GDP from trade (OECD)	Macroeconomic
TAX	Percentage tax rate on profit earned by companies in the economy	Macroeconomic
ln(DBI)	Log of the ranking of economy based on the ease of conducting business, 1 is ranked for best conducive environment (World Bank)	Doing Business Indicator

To test this hypothesis, several models were used. The first test was based on the simple model: $\ln(FDI)=\beta_0+\beta_1\ln(DBI)+\varepsilon_1$. The results of the regression, demonstrated under Test 1 in Table 2, yielded a negative coefficient with statistical significance. In other words, the higher the doing business ranking, or worse off the business processes are in a particular country, the lower foreign direct investment the country will see. While this does correspond to the hypothesis of this paper, the test does not control for other factors that may in fact be other determinants of foreign direct investment, such as the one presented in Table 1.

The next test run included past foreign direct investment, the size of the economy measured in GDP, the quality of life in the economy measured in GDP per capita, the growth of the economy measured in GDP growth rate, the openness of the economy, tax rates on business profits and the doing business ranking. These variables are reflected in the model: $\ln(FDI)=\beta_0+\beta_1\ln(PFDI)+\beta_2\ln(GDP)+\beta_3\ln(GDPCAP)+\beta_4GDPGR+\beta_5TRADE+\beta_6TAX+\beta_7\ln(DBI)+\varepsilon_1$. This regression's results directly conflict with the initial regression. The DBI ranking no longer has a negative relationship with FDI nor is it statistically significant any longer. The only variables that yield significance are past FDI and the size of the economy measured in the log of GDP. The fact that the negative relationship between DBI ranking and FDI levels evaporates in when other variables are introduced to the model may suggest that there these additional

variables are somewhat collinear with the log of the business ranking. The results of this regression can be found under Test 2 in Table 2.

The third regression tested a slight variation to Model 2, however it drops past FDI: $ln(FDI)=\beta_0+ \beta_1 ln(GDP)+\beta_2 ln(GDPCAP)+\beta_3 GDPGR+\beta_4 TRADE+\beta_5 TAX+\beta_6 ln(DBI)+\varepsilon_1$. By dropping this determinant for the model, we are focusing on longer term relationships between the variables rather than the fluctuation of FDI from year to year. This test resulted in the log of GDP and the openness of the economy being the only statistically significant determinants of FDI. It also yielded a positive relationship between the DBI ranking and FDI, although statistically insignificant, which continues to disprove the hypothesis. The results of this model can be found under Test 3 in Table 2.

Table 2: Regression Results

	Test 1	**Test 2**	**Test 3**
R-Squared	.2040	.8765	.7684
No. of Obs	135	131	135
ln(DBI)	-0.877189	0.0740586	0.0681797
	(0.150227)	(0.085899)	(.1143276)
ln(GDP)		0.2738564	0.8181074
		(.0724179)	(.0543576)
ln(GDPCAP)		0.033089	0.1053557
		(.0873038)	(.1133826)
GDPGR		-0.0027968	0.0056555
		(.0148189)	(.0198445)
TRADE		0.0020498	0.0073242
		(.0014276)	(.0018201)
TAX		0.0008986	0.0019427
		(.0016968)	(.0023069)
ln(PFDI)		0.666269	
		(.0762984)	

***Note: Values indicated in parentheses reflect standard errors.**

To get a better understanding of how Haiti fits into this model, it is useful to calculate the residuals of each regression. In 2008, Haiti's actual ln(FDI) was equal to 17.21001895. Using the same data in the predictive model demonstrated by Table 1, the predicted value is approximately 20.28. The difference between the predicted value and the actual value of ln(FDI) in Haiti, also known as the residual, is -3.069. When the same methodology is used for Model 2 and Model 3, the residuals are -1.2045 and -2.0211 respectively. Model 2 best reflects the determinants of foreign direct investments in Haiti in 2008 because it includes the largest set of explanatory variables. However, since it is negative, it also suggests there are other factors that are not controlled for in the model that is negatively affecting FDI levels in the country. While it may not seem as if a -1.2045 difference is large enough to take notice to, since foreign direct investment is measured in a logarithmic form, this residual actually demonstrates a 120% difference from what the model suggests a "typical" country with the exact same levels of each variable would yield.

While the regression yields results that do not support the hypothesis, they do not entirely disprove it either. The doing business variable did not yield negative as one would presume, however this variable in two of the three models proved to be statistically insignificant. This suggests that these variables do not paint a full picture of the determinants of foreign direct investment; other variables may have to be considered when establishing a more accurate model.

VI. Conclusion

There is no right way to fix poverty problems worldwide. Some research suggests that investment in the private sector has more significant outcomes towards long-term growth. While most developing countries do not have a domestic economy capable of stimulating such growth, it has also been suggested through research that foreign direct investment may be able to

complement the host country's institutions and assist in its growth. Foreign direct investment in developing countries may be the solution to initiating economic growth.

Haiti, as the poorest country in the Western Hemisphere, is not capable of stimulating growth on its own. Already weak, once Haiti was hit with the earthquake in January, 2010, the country was left in ruins. While its government and institutions have been mostly dysfunctional, the world has offered to step in. Approximately $3 billion in aid has been given or promised to Haiti in its efforts to recover from the disaster. Since the country was not in a great state prior to the earthquake, Haiti and the international community should be working together to strategize a way to use the aid in an effective manner not only to recover from the tragedy, but to instill long-term growth.

Since Haitian institutions are weak and for the most part incapable of handling these tasks on their own, the world has been assisting in the efforts. In the recovery stages, many temporary camps have been set up and shelter has been provided; rubble has been cleared, damage has been assessed and many citizens have been able to go home. However, it is clear that this is not enough; the economy has still not been able to pick up.

The regression analysis did not support the hypothesis that business facilitation is a significant determinant of FDI. However, the analysis does not disprove the hypothesis either. As demonstrated, these models tested may not do the best job capturing the determinants of FDI. As demonstrated by the residuals, they certainly do not do the best job pinpointing the determinants of FDI in Haiti in particular. Therefore, the factors that influence the DBI ranking still may be worth addressing in policies and aid distribution to induce FDI and stimulate sustainable growth.

It is widely recognized that this type of work will take time. However, the agencies put into place must work strategically to fund the appropriate projects that will not only provide

relief for right now, but will also stimulate sustainable growth for the future. It is the conclusion of this thesis that the projects that should be most emphasized during aid distribution should be aimed at inducing foreign direct investment in some way. Business facilitation may still be a determinant of such investment needed in the country. Some are skeptical, however if the types of projects are successful and increase in frequency, the earthquake may not only be one of the most devastating disasters the country has seen to date, but also be a turnaround in the country's economic history.

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- Researched and analyzed industry trends that directly related to client transactions using electronic databases
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