

# Business in the Caribbean Zone: Focusing On the Current State and a Proposed Business Plan towards Better Performance in the Context of Haiti

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**Abstract---** In the current business world, sections of the least developed countries (LDCs) have had a relatively weak economic growth outlook. This outcome offers a critical backdrop for the business challenges that continue to face the regions (Baffles, Ohnsorge and Stocker 3). According to Buttiglione, Lane, LDCs exhibit the lowest levels of socio-economic development indicator. Some of the countries that fall in this category include Madagascar, Guinea, Equatorial Guinea, Liberia, Gambia, Lesotho, Ethiopia, Angola, Somalia, and Uganda in Africa.

**Keywords---** Caribbean Zone, Proposed Business Plan, LDCs Exhibit, Potentialities.

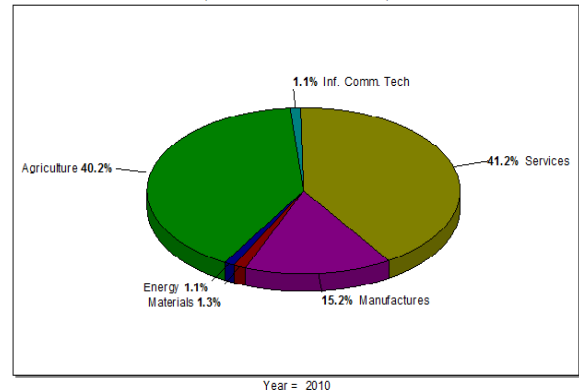
## I. INTRODUCTION

ACCORDING to Buttiglione, Lane, Reichlin and Reinhart (2014), LDCs exhibit the lowest levels of socio-economic development indicator. Some of the countries that fall in this category include Madagascar, Guinea, Equatorial Guinea, Liberia, Gambia, Lesotho, Ethiopia, Angola, Somalia, and Uganda in Africa. Others include Afghanistan, Bangladesh, Yemen, Cambodia, and Nepal in Asia, Haiti in the Caribbean zone and Kiribati, Tuvalu, and the Solomon Islands (in Australia and the Pacific).

Haiti is characterized by a market economy in which labor costs operate below the average for North America. With the U.S. forming the country's major business partner, the country's reliability on the agricultural economy is worth highlighting. Specific products include mangoes, bananas, cocoa, and vetiver oil. Despite these potentialities, Haiti has been vulnerable to natural disasters; besides limited access to education and the aspect of poverty (Carrere and de Melo 9). This paper focuses on the case of Haiti, giving insight into the current state of business operations, upon which the culmination will entail formulations of a business plan towards economic stability in Haiti. A summary of business indicators in Haiti is shown below.

Haiti Projected Production by Sector, 2010

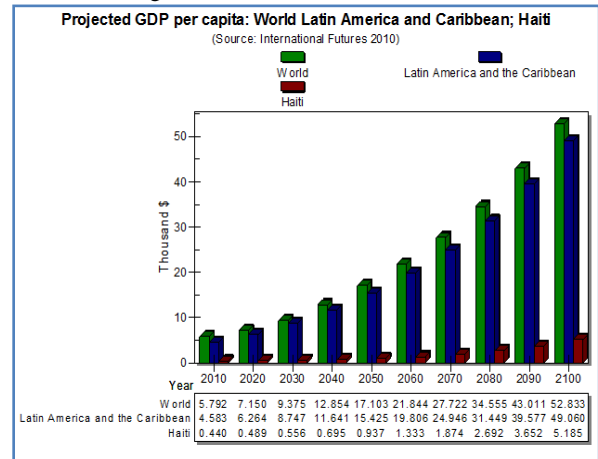
(Source: International Futures 2010)



Year = 2010

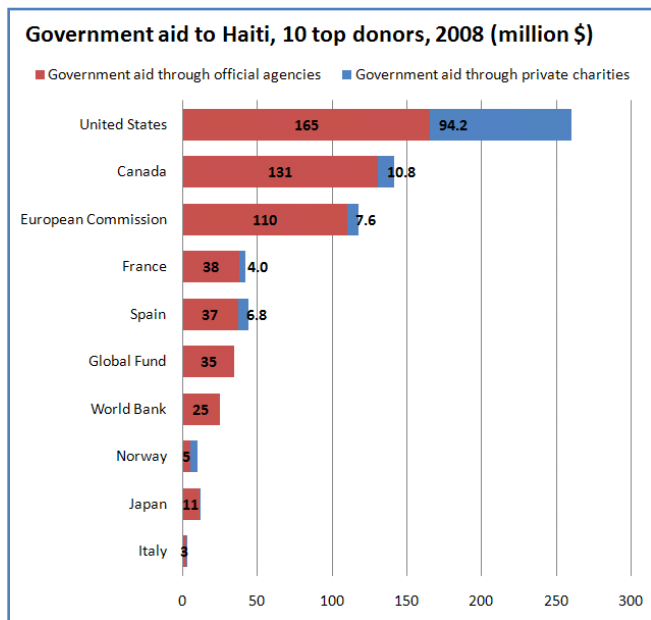
Source: IOSCO (2014)

Figure 1 - Haiti's business indicators



Source: IOSCO (2014)

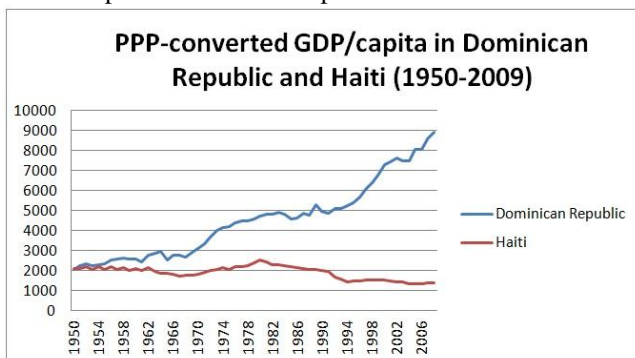
Figure 2 - Haiti's State of GDP



Source: IOSCO (2014)

Figure 3 - Government Aid

According to Fratzscher, Duca and Straub (2013), business operations in Haiti face dramatic spikes in foreign aid, as well as a low absorptive capacity. Other business attributes include social and political polarization, war economies, an implementation of costly peace agreements, and post-war crime waves. In another study, the International Organization of Securities Commissions (2014) affirmed that Haiti's new state agenda is both essential and ambitious in generating further revenues for addressing the fiscal crisis towards state building. The study indicated that some of the mechanisms that the idea seeks to accomplish include debt relief, additional grant aid, and reduced military spending. On one hand, this observation is significant because it establishes some of the approaches that could be adopted to curb dilemma in sections of Haiti's business sectors. On the other hand, the assertion falters in such a way that it focuses only on Haiti, failing to examine the process through which non-defense expenditures could be prioritized.



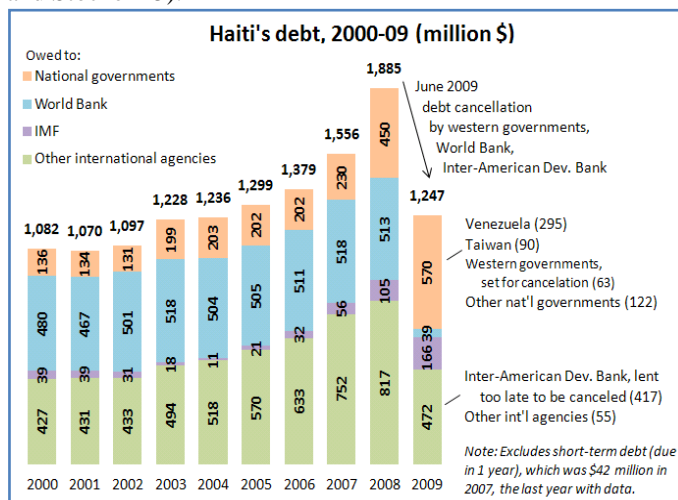
Source: IOSCO (2014)

Figure 4 - A Comparative Illustration

**Exposure to External Debts:** The vulnerability to shocks in Haiti has been aggravated by its high level of exposure to external debts. Since 2009, flows in the search-for-yield have been high. Similarly, bond-fund allocations from the developed regions to Haiti have nearly quadrupled,

with equity-fund allocations expanding significantly (International Organization of Securities Commissions 14). One of the issues arising from this scenario is that the search-for-yield inflows exacerbate existing fragilities while introducing new ones. Indeed, the affected country faces unsustainable financial feedback loops. In turn, the latter produces short-term growth but puts pressure on the Haitian currencies. The exposure to external debts has also interfered with local monetary policies and credit cycles, besides producing shadow-banking risks and distorting asset prices, as well as prompting structural reforms about incentive provision (Rajan 13). External-debt sustainability has also been affected adversely by the country's exposure to external debts, attributed to the rapidly strengthening U.S. dollar; yet majorities of external debts continue to be denominated in foreign currencies (Turner 4).

The exposure has also led to the spillover of vulnerabilities in the Haitian business sector. The criticality of this outcome is that an increase in the interest rate implies that other markets may be affected, including the funding costs and asset prices. Lastly, less developed financial frameworks such as the lack of surveillance and supervisory capacities, lack of strong institutions, prudential tools, technical experience, and shallow local financial markets compound Haiti's fragility in business (Baffles, Ohnsorge and Stocker 15).



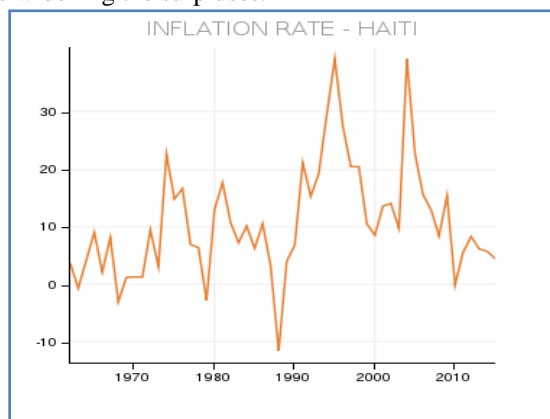
Source: IOSCO (2014)

Figure 5 - Debt Situation in Haiti

**Increasing Oil-Price Volatility and the Declining Price:** In Haiti, most of the economic activities are shaped by dynamism in the oil industry. The summer of 2014 saw global oil prices drop to about \$50 a barrel (at the start of 2015), declining sharply from the previous price that had been set at \$100 a barrel (Carrere and de Melo 9). This adjustment led to a significant shift in wealth from the exporters to the importers of oil, extending to about \$750 billion per year. On one hand, the persistence in low oil prices prompts a boost in consumption and investment among net importers. The outcome is also attributed to the process through which lower inflations offer policy spaces to central banks – because of improvements in the income positions and

balance sheets. However, a reversed case characterizes the part of oil exporters. The arising dilemma in the business sector of Haiti is that the force of lower inflations leads to a significant erosion of debt sustainability. In addition, the dilemma arises from vulnerability differences in Haiti's strength of domestic markets and banks, as well as the overall public debt positions, types of exposure to foreign creditors, exchange-rate regimes, and the nature of external accounts.

**Global Rebalancing: Disrupted Growth Prospects and Global Financing Patterns:** Before 2008, current-account imbalances were witnessed. The imbalances arose from investment dynamics and distortions in the global savings. The resultant implication was that the imbalances triggered financing patterns that were unsustainable on the cross-border levels (Culpeper 20). After the crisis, deficit countries such as Haiti were exposed to demand compression. A long-term adversity saw the current-account imbalances contribute to a weakening growth outlook and performance, rising trade tensions and slowing global trade, rising unemployment, and a falling inflation (Rajan, 2013). As such, Haiti has experienced a disinflationary pressure. Additionally, the growth in global stock imbalances has led to high external financial vulnerabilities in Haiti, weakening its currencies while widening the surpluses.



Source: IOSCO (2014)

Figure 6 - Haiti's Inflation Rate

**High Global Debt Levels:** A rise in the total debt in Haiti has led to debt-overhang effects. The latter pose adversities on various economic incentives and behaviors. Therefore, a feedback loop is produced, with debt-sustainability concerns creating deflationary pressures while undermining the nominal economic growth. Overall, high levels of global debt have been challenging to the business sectors of Haiti because of the tensions that arise regarding debt sustainability (Di John 8).

**Continuing Idiosyncratic and Geopolitical Risks:** This attribute is particularly felt when conflict-stricken areas are relied upon by Haiti. For instance, the Russian-Ukraine crisis and turmoil in the Middle East form crucial drivers responsible for geopolitical volatility. The eventuality is that the volatility causes regional spillovers while disrupting the global energy market. This effect trickles down to Haiti (a highly-dependent country) because its business sectors are forced to adjust on issues such as asset pricing – due to

adversities that result from geopolitical conflicts in the oil-producing and distributing regions (International Organization of Securities Commissions 5).

## II. CURRENT GOVERNMENT INTERVENTIONS TO STREAMLINE THE BUSINESS SECTOR OF HAITI

In Haiti, the business sector is depicted as that which faces numerous challenges in fostering structural transformation and sustainable growth. From the analysis in the preceding section, this study advocates for a paradigm shift towards a more inclusive and new development path that relies on the promotion of production capacities. The country's strengthened developmental role is identified as an ideal approach towards better outcome provision in its affected regions.

The Haitian government has mobilized domestic financial resources. This action is projected to reduce the country's dependence on aid. Given that the official development assistance and the quantity of Haiti's programmable aid is high, it has been critical for the countries' business sector and other relevant authorities (such as the finance ministries) to establish real democratic foundations and build capacity by increasing revenue generation. Indeed, an improvement in tax and savings mobilization has yielded desirable outcomes.

It is also imperative to note that the concept of capacity building towards the mobilization of taxes has been achieved by engaging international organizations and donor agencies in building effective and competent tax administrations. Besides indications that the organizations have offered capacity-building support and technical assistance, they have improved on this trend by offering equipment and training. However, the act of tax mobilization has not been aligned to the prevailing level of development among the targeted populations.

According to Rajan (2013), the next decade will see Haiti face extraordinary challenges, attributed to projections regarding inadequate financial resources. Therefore, situations where national aid budgets have not been adjusted upwards have attracted innovative and new sources of financing. Some of the innovations that the business sector in Haiti has embraced towards stability include redistributions of special drawing rights (SDRs) and enhancements of the country ownership of developmental strategies at the national level.

Haiti faces a significant problem regarding the low proportion of aid that it allocates to the production sector and economic infrastructure. This affirmation is complemented by observations that a lacking complementary investment has crippled the plan of reducing poverty. One of the strategies that have ameliorated this dilemma is that which has fostered the catalytic utilization of donor aid for purposes of developing the country's finance sector. Turner (2014) documented that a commercially bankable atmosphere is lacking in Haiti because of a weak infrastructure, poor

business support services, and risk. Therefore, business groups that are interested in investing in Haiti's business environment may establish additional creative plans for offering direct support to the economic development practice. Furthermore, public-private partnerships could be supported in a quest to embrace an investment in the Haitian infrastructures. This recommendation is informed by the scale of the wanting infrastructural development. By involving the private sector to participate in streamlining the issues faced, it is projected that a desirable level of stability might be witnessed. Specific actions could entail providing several concrete proposals and mitigating risks for foreign investors, especially those that stall infrastructural development.

The latter half of the 2000s saw a significant section of Haiti experience financial and food crises (Carrere and de Melo 23). Whereas international funding institutions responded to the global crisis after 2008 (through increased emergency financing), weaknesses continue to characterize the country's shock-financing architecture. Therefore, new compensating mechanisms could be driven by a sufficient speed of disbursement, examining proportionality between the amount disbursed and the needs of Haiti, addressing the concept of conditionality, embracing graft funding, and measuring and monitoring shocks precisely. Regarding the issue of debt relief, the year 2010 witnessed Haiti remain at a high risk of debt distress. Therefore, the persistence of debt overhangs in about a half of Haiti suggests that extended eligibility could be achieved by fostering participation among the multilateral creditors.

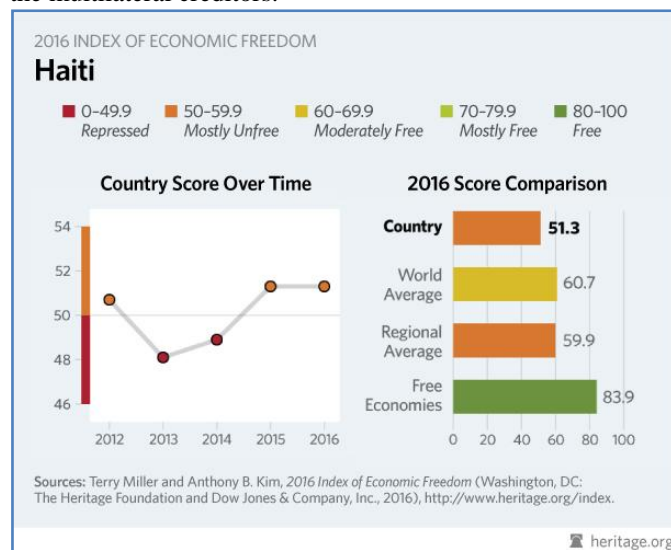


Figure 7 - Haiti's Business Environment in Relation to other Regions

### III. CONCLUSION AND RECOMMENDATIONS

In conclusion, this paper has examined the state of the business sector in Haiti, culminating in the proposed business plan towards improved outcomes. Findings indicate that the business sector of Haiti faces challenges such as continuing idiosyncratic and geopolitical risks, high global debt levels, global rebalancing (that disrupts growth prospects and global

financing patterns), increasing oil-price volatility and its declining price, exposure to external debts, and extraordinary and prolonged monetary policies. To curb these challenges, some of the interventions that the study identifies include compensatory financing for shocks and debt relief, innovation in aid utilization and promotions of productive capacity development, innovation in business, and the promotion of domestic financial resource mobilization. In so doing, it is projected that both the short-term and long-term solutions towards an effective business system might be realized in Haiti.

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