



PROSPECTS AND CHALLENGES FOR THE CARRIBEAN

in the context of the New World Order

Amar Bhattacharya
Senior Fellow, Brookings Institution



May 2017

A New Global Agenda

- **2015 and 2016** breakthrough years for global collaboration **around development and climate action**. First shared global agenda since agreements after WW II.
- Agenda for action has been set **with agreements on:**
 - » Financing for development in Addis (July 2015)
 - » Sustainable Development Goals (Sep 2015)
 - » Paris Agreement on Climate Change (CoP 21) (agreed Dec 2015, entered into force in Nov 2016; very rapid ratification)
 - » Kigali Amendment to the Montreal Protocol on HFCs (Oct 2016)
 - » New Urban Agenda (Oct 2016)

The growth story of the future

- Growth, sustainable development, poverty reduction and climate change **are complementary and interwoven.** (“Better Growth, Better Climate”, NCE, 2014; “Why are we Waiting?” MIT Press, Stern, 2015; “The Sustainable Infrastructure Imperative”, NCE, 2016; “Delivering on Sustainable Infrastructure for Better Development and Better Climate”; Bhattacharya et al., 2016)
- Opportunity to:
 - » Boost **shorter-run growth** from increased investment in the low-carbon transition (sustainable infrastructure);
 - » Spur innovation, creativity and **growth in medium term**;
 - » Provides the **only feasible longer-run growth** on offer.
- **A growth story that delivers:** alternative paths of economic development; rising living standards; cities where we can move and breathe; stronger communities; ecosystems that are more productive and resilient.

Sustainable infrastructure is crucial to the story



Next 10 to 20 years are of crucial importance

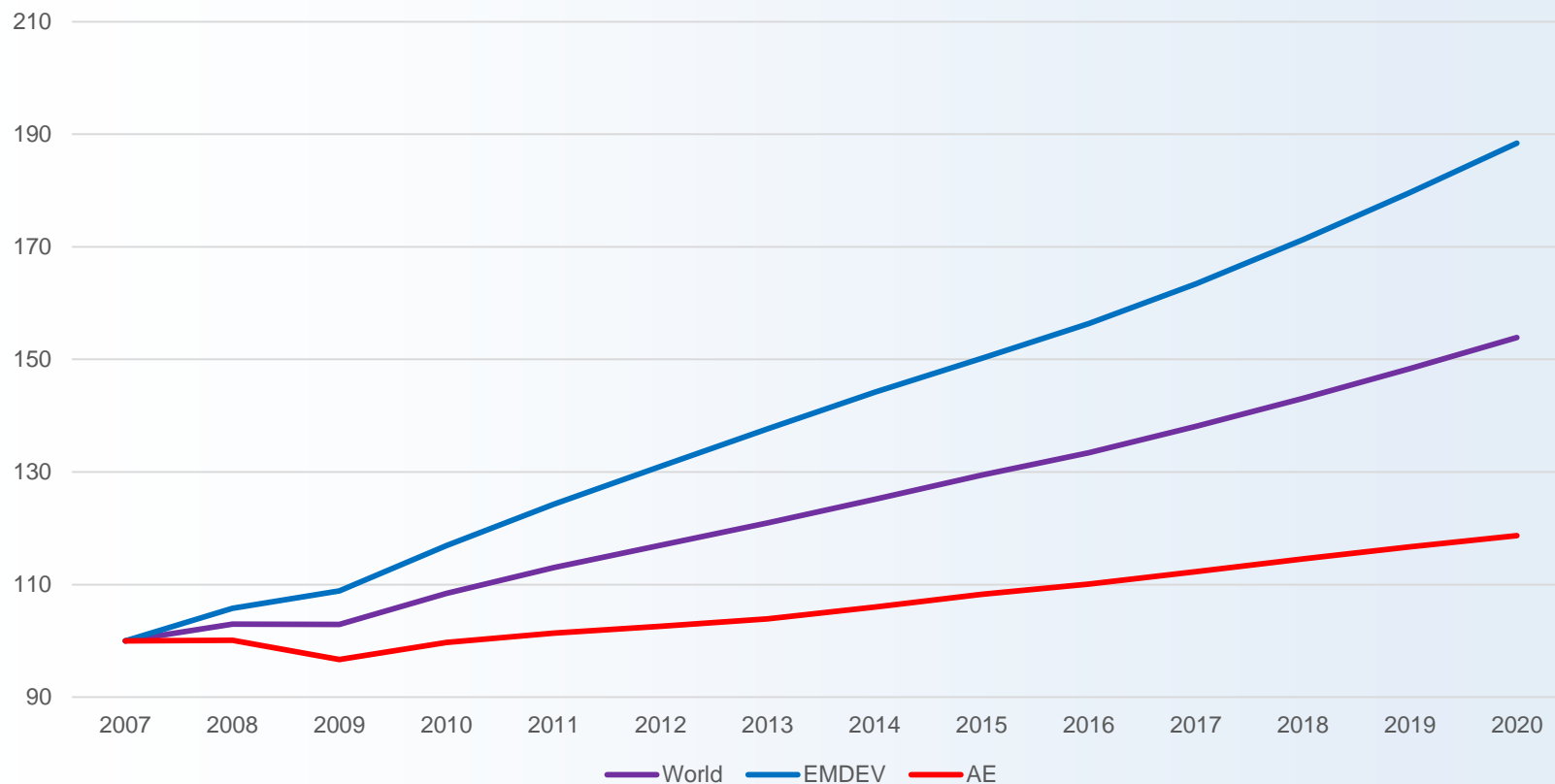
- Long-lasting infrastructure investments on scale **will need to be made in our cities, energy, water and transport systems all over the world:**
 - » aging infrastructure in advanced economies will need repair and replacement.
 - » higher growth and growing weight of emerging/developing countries in global economy.
 - » structural change in developing countries including rapid urbanisation from around 3.5bn now (50% of 7+bn) to 6.5bn by 2050 (70% of 9+bn). Africa's population will double (from 1 billion to 2 billion).
- World economy likely to double in next 20 years or so, infrastructure will more than double.
- **Once in history transition.**
- **Altogether \$80-\$90 trillion in infrastructure investments will be required over next 15 years - *more than the current existing stock.***

Major Challenges in the new global order

1. **Headwinds in the global economy**
2. **Rising inequality**
3. **The future of work**
4. **Uncertainties about the trajectory of globalization and global governance**
5. **Threat of climate change**

Global GDP Levels (Index; 2007=100)

A compilation of historical data and projections for real GDP according to the W.E.O

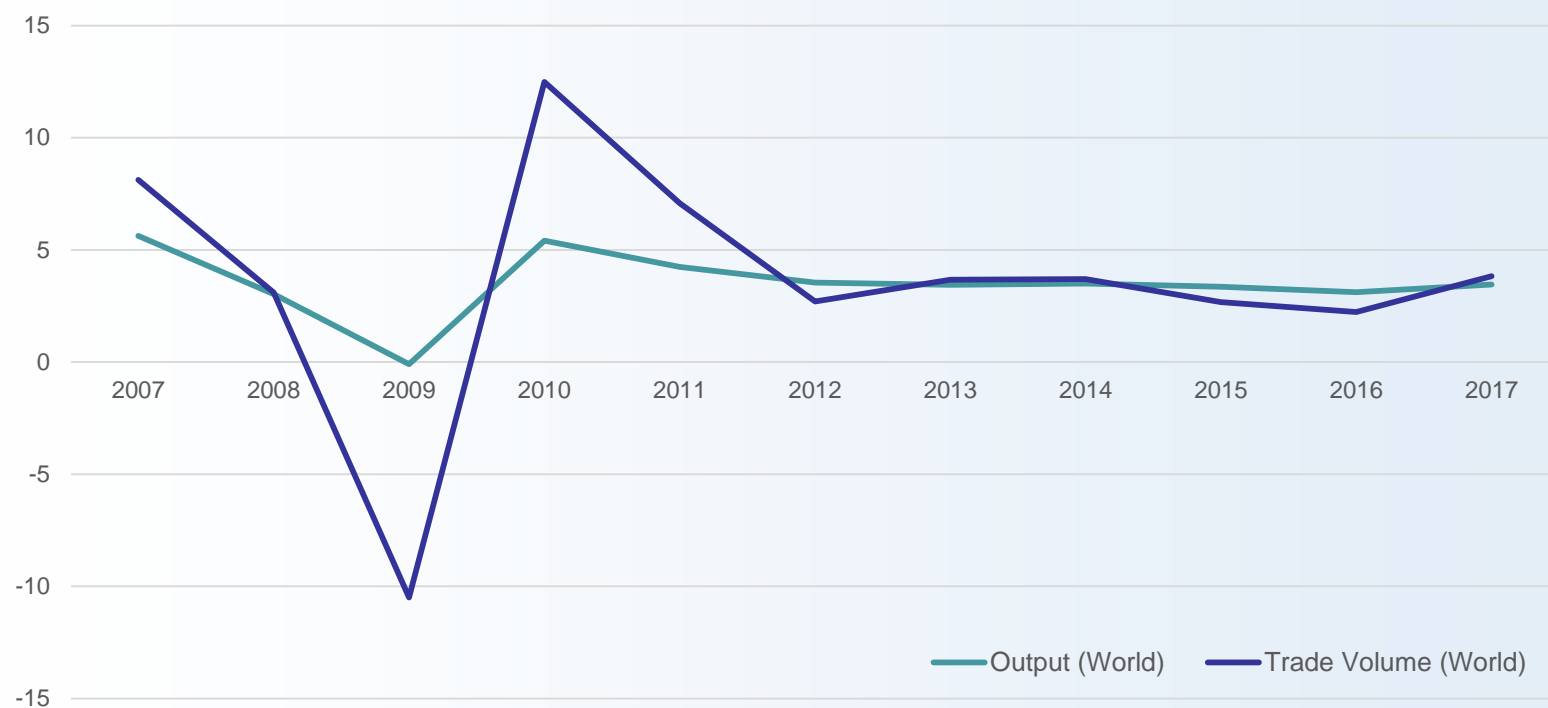


Source: *Bhattacharya, IMF World Economic Outlook Database and Brookings staff calculations*

Note: *W.E.O = World Economic Outlook; EMDEV = Emerging Markets and Developing Countries; AE = Advanced Economies*

Global Trade vs Output (% Change)

A compilation of historical data and projections for real GDP according to the W.E.O

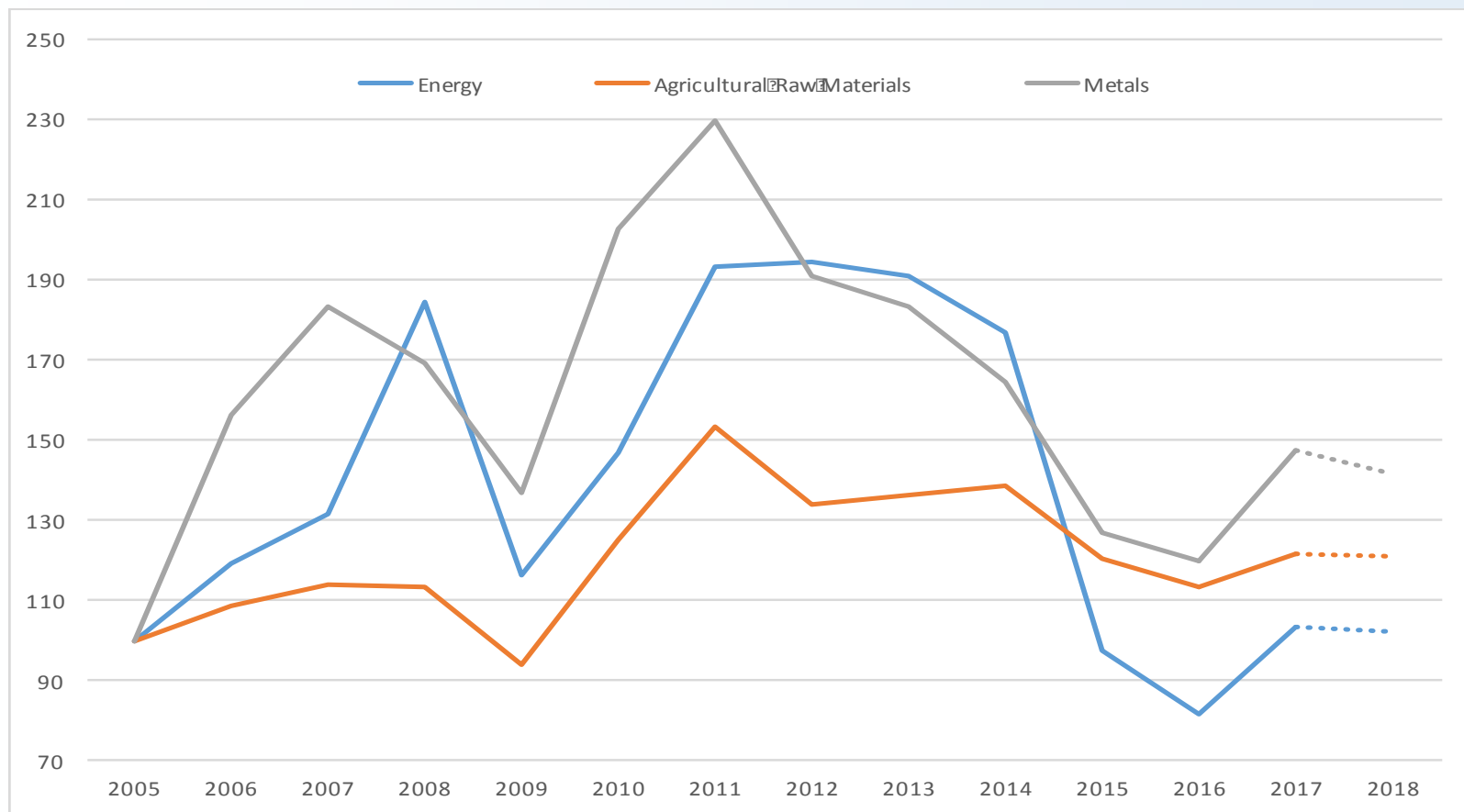


Source: *Bhattacharya, IMF World Economic Outlook Database and Brookings staff calculations*

Note: *W.E.O = World Economic Outlook; EMDEV = Emerging Markets and Developing Countries; AE = Advanced Economies*

Global Commodities Prices (Index; 2005 = 100)

A compilation of historical data and projections for prices according to the W.E.O

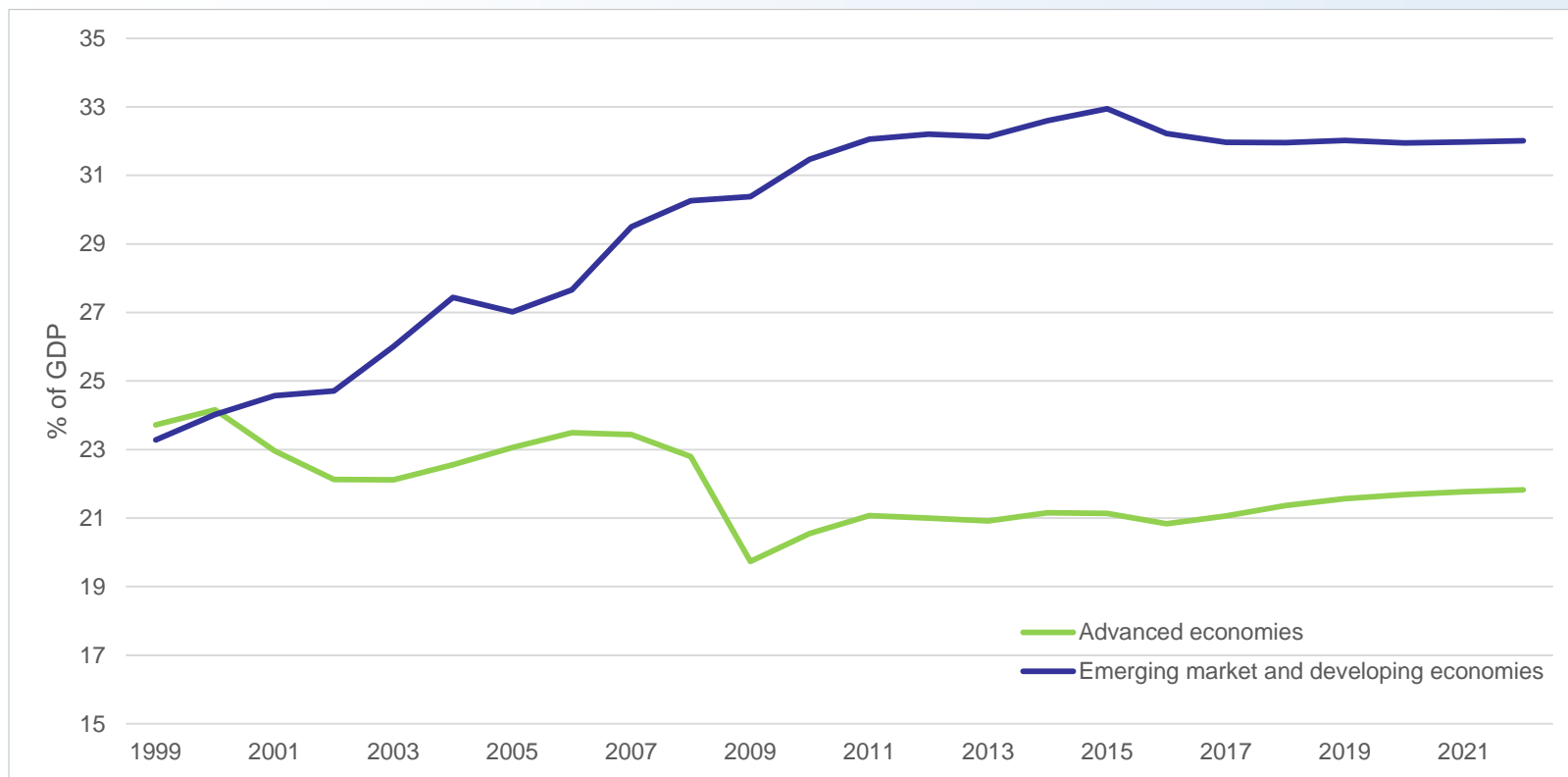


Source: *Bhattacharya, IMF World Economic Outlook Database and Brookings staff calculations*

Note: *W.E.O = World Economic Outlook; EMDEV = Emerging Markets and Developing Countries; AE = Advanced Economies*

Global Total Investment (as a % of GDP)

A compilation of historical data and projections for GDP according to the W.E.O

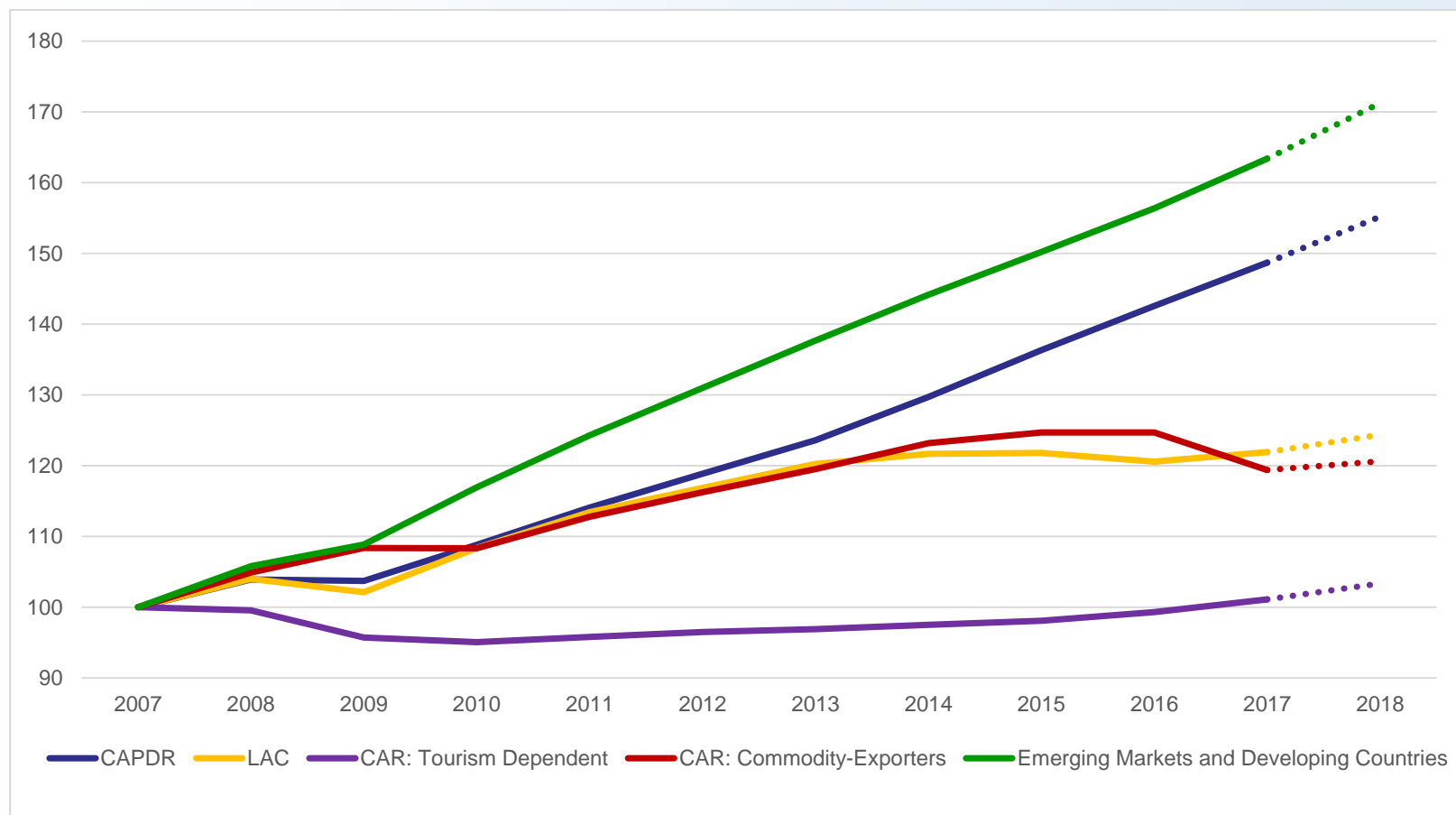


Source: Bhattacharya, IMF World Economic Outlook Database and Brookings staff calculations

Note: W.E.O = World Economic Outlook; EMDEV = Emerging Markets and Developing Countries; AE = Advanced Economies

Real GDP Levels (Index; 2007=100)

A compilation of historical data and projections for real GDP according to the W.E.O

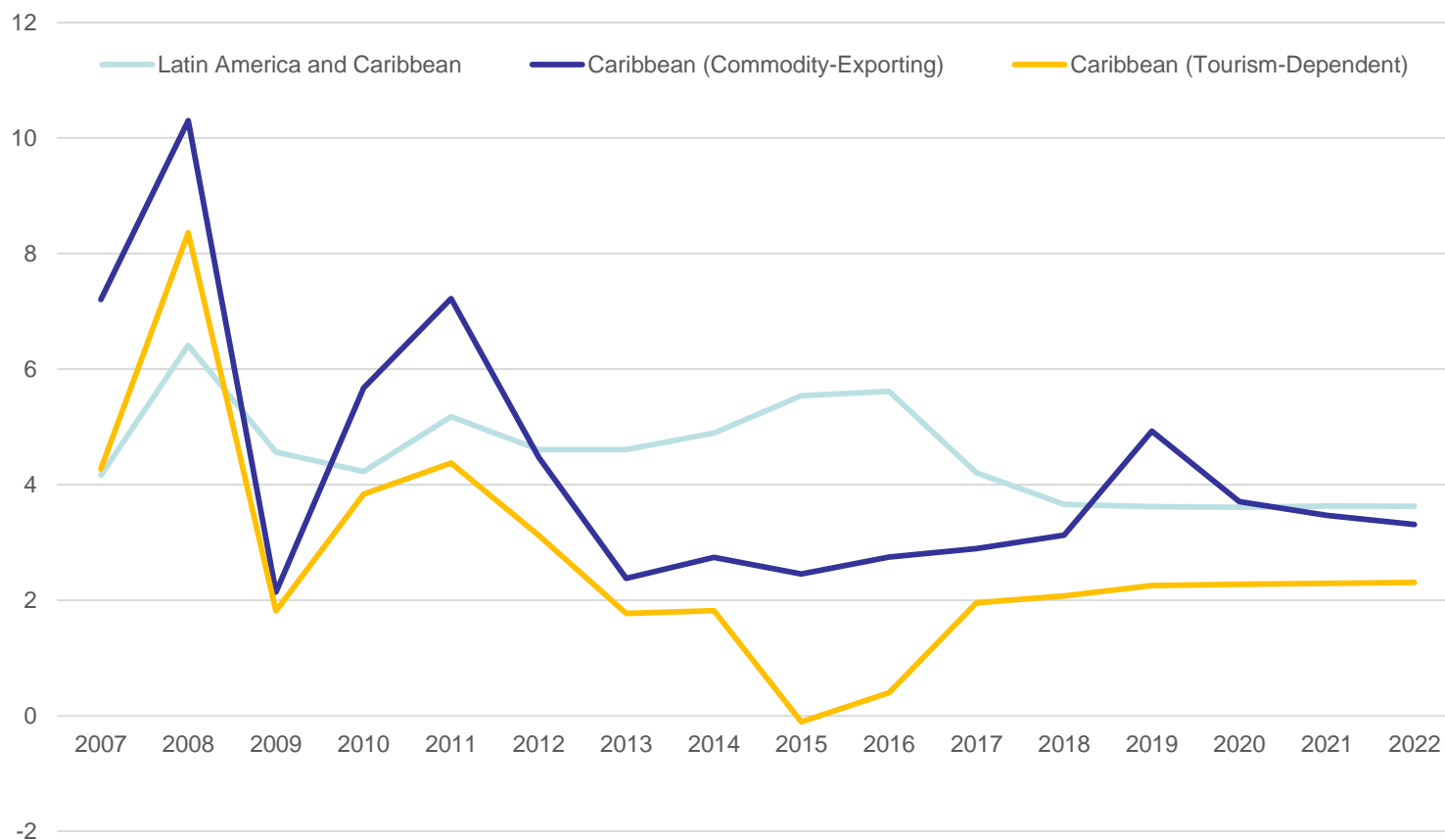


Source: Bhattacharya, IMF World Economic Outlook Database and Brookings staff calculations

Note: W.E.O = World Economic Outlook; CAPDR = Central America and the Dominican Republic; LAC = Latin America and the Caribbean; CAR= Caribbean Countries; Tourism Dependent countries = Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and Grenadines. Commodity Exporting countries = Belize, Guyana, Suriname, and Trinidad and Tobago.

Average Consumer Price (Percentage Change)

A compilation of historical data and projections for inflation according to the W.E.O

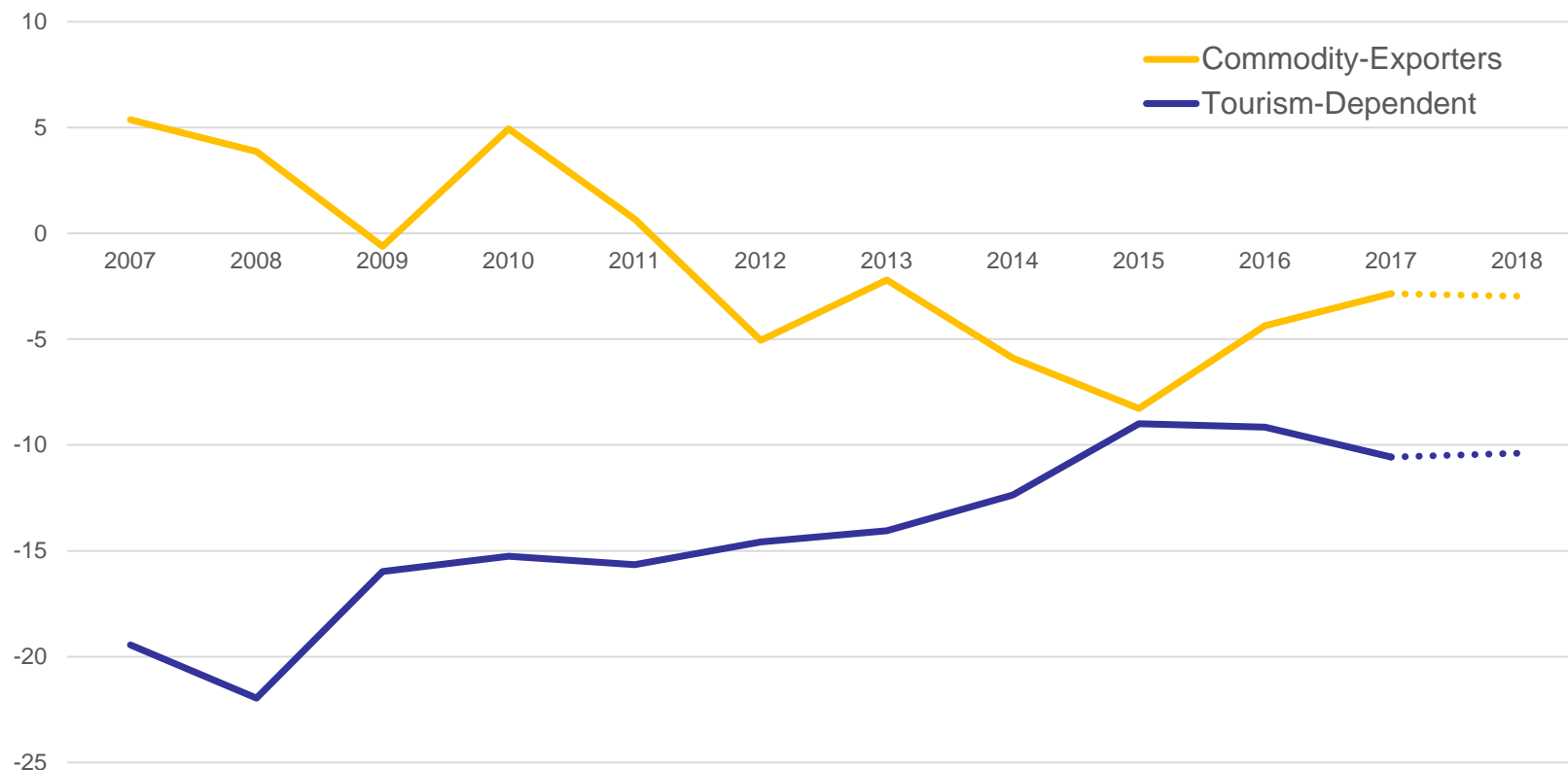


Source: Bhattacharya, IMF World Economic Outlook Database and Brookings staff calculations

Note: W.E.O = World Economic Outlook; Tourism Dependent countries = Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and Grenadines. Commodity Exporting countries = Belize, Guyana, Suriname, and Trinidad and Tobago.

Current Account Balance (% of GDP)

A compilation of historical data and projections for GDP according to the W.E.O

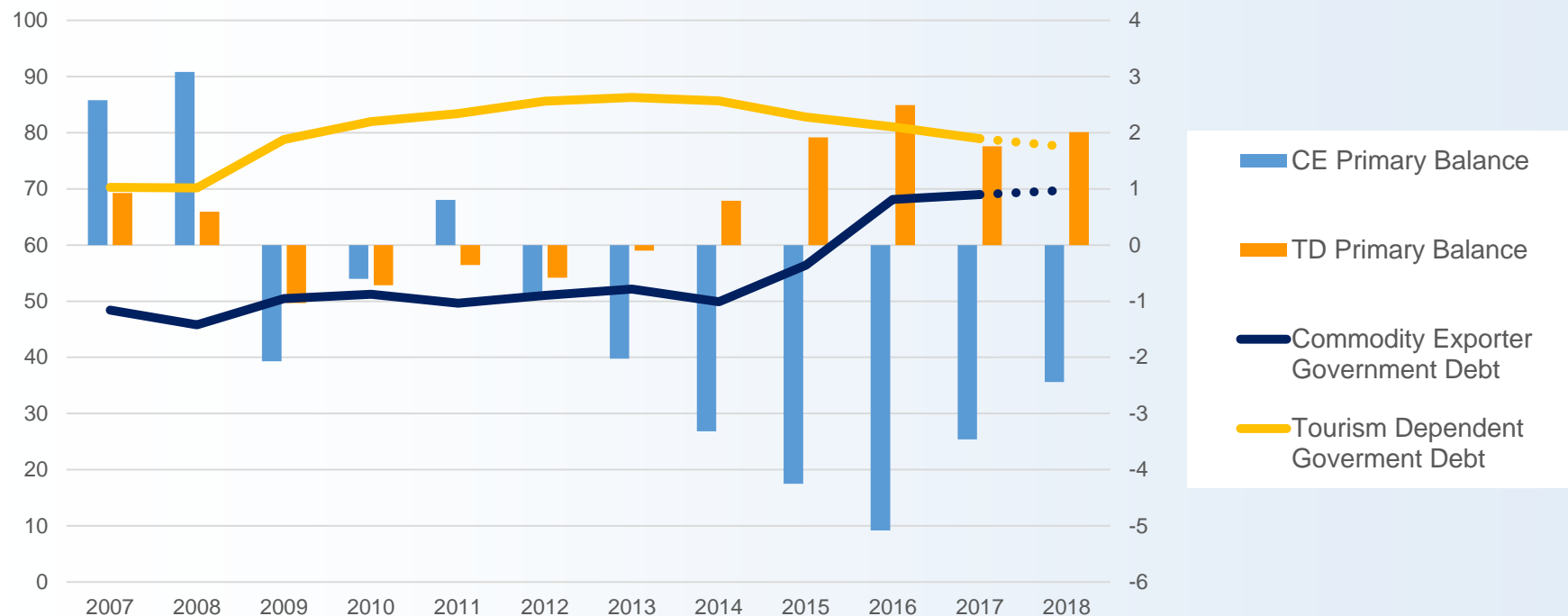


Source: *Bhattacharya, IMF World Economic Outlook Database and Brookings staff calculations*

Note: *W.E.O = World Economic Outlook; Tourism Dependent countries = Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and Grenadines. Commodity Exporting countries = Belize, Guyana, Suriname, and Trinidad and Tobago.*

Fiscal Accounts (% of Fiscal Year GDP)

A compilation of historical data and projections for GDP according to the W.E.O

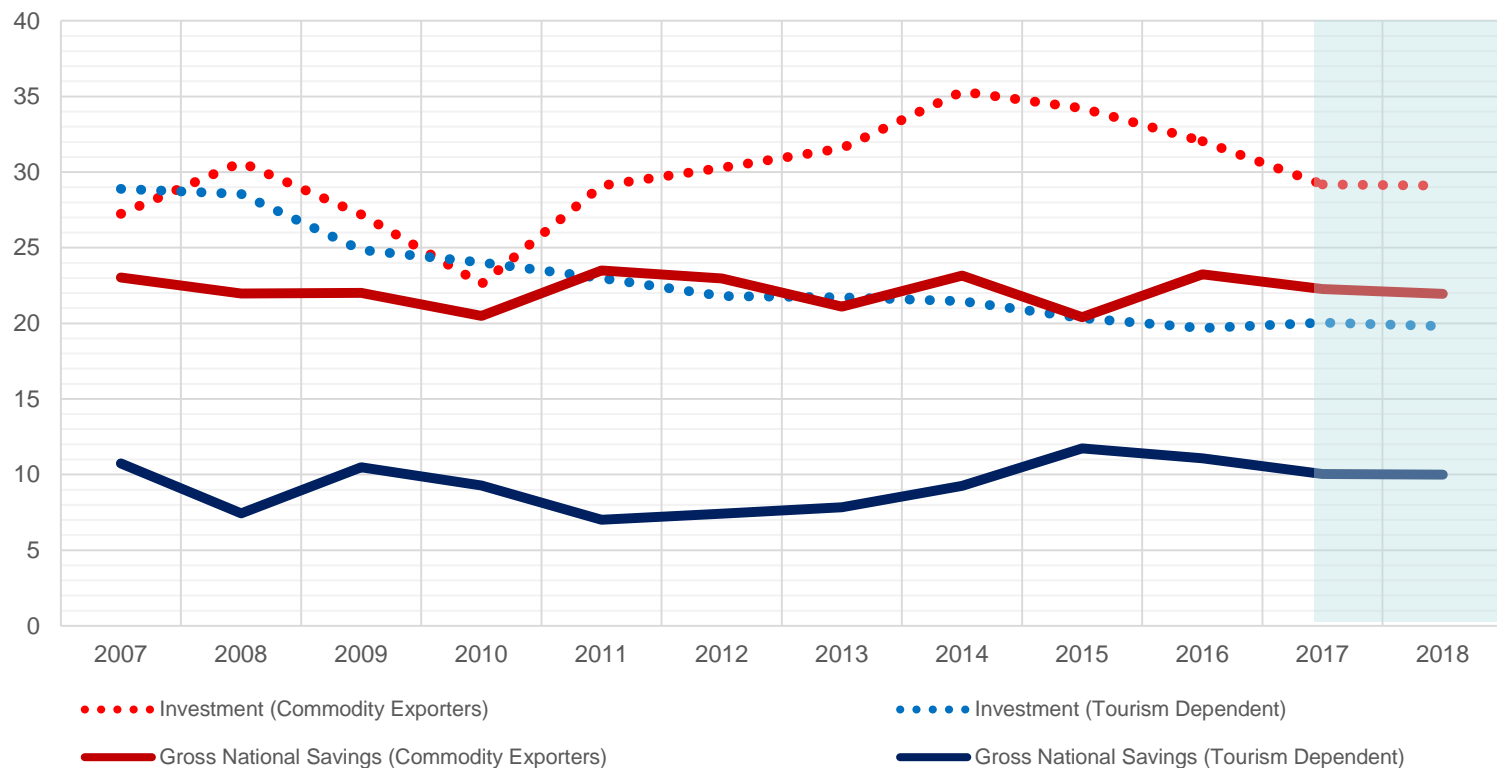


Source: Bhattacharya, IMF World Economic Outlook Database and Brookings staff calculations

Note: W.E.O = World Economic Outlook; Tourism Dependent countries = Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and Grenadines. Commodity Exporting countries = Belize, Guyana, Suriname, and Trinidad and Tobago.

Investment & Savings (% of GDP)

A compilation of historical data and projections for GDP according to the W.E.O



Source: Bhattacharya, IMF World Economic Outlook Database and Brookings staff calculations

Note: W.E.O = World Economic Outlook; Tourism Dependent countries = Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and Grenadines. Commodity Exporting countries = Belize, Guyana, Suriname, and Trinidad and Tobago.

Major Challenges in the new global order

1. Headwinds in the global economy
2. **Rising inequality**
3. The future of work
4. Uncertainties about the trajectory of globalization and global governance
5. Threat of climate change

Sources and impact of rising inequality

- Need to distinguish global inequality and its two components: inequality within countries and inequality between countries.
- Over the past generation, between-country disparities fell, due to the fast growth of emerging economies, even while inequality within several countries has risen. The net effect has been a small reduction in recorded global inequality.
- Yet that would not quiet grievances about inequality. Global growth benefits have accrued primarily to high earners in advanced economies along with the expanding middle class in emerging economies, while the incomes of the working class in advanced economies have stagnated. Their sense of being shortchanged is increasingly recognized as a source of political instability.
- Since politics is organized principally around the nation state, it is the level and change in inequality within countries that is the most potent source of tension and debate.
- Nearly all developed economies have seen inequality rise over the past generation. In most developing economies where recent data exist, inequality is trending downward

Major Challenges in the new global order

1. Headwinds in the global economy
2. Rising inequality
3. **The future of work**
4. Uncertainties about the trajectory of globalization and global governance
5. Threat of climate change

The future of work

- A rapid uptick in sales of robots, coinciding with breakthroughs in the capability of machines and artificial intelligence in increasingly complex, non-routine tasks such as driverless vehicles and semi-cognitive skills such as voice-recognition.
- Estimates on the share of jobs that are at risk of automation over the medium term vary from 9 to 47 percent for OECD economies.
- The replacement of workers by machines poses a threat to developing economies' traditional comparative advantage in global markets—their surfeit of cheap labor. Evidence of premature de-industrialization.
- At the same time, the digital economy provides opportunities to link workers in poor economies with companies and customers in rich markets, thus offering a temporary reprieve from the risks associated with labor-saving technologies
- In response to these trends need to develop education systems that will provide digital and broad-based skills for the 21st century labor market demands.
- Modern and sustainable social-welfare systems including fully portable benefits.
- Strategies for managing migration.

Major Challenges in the new global order

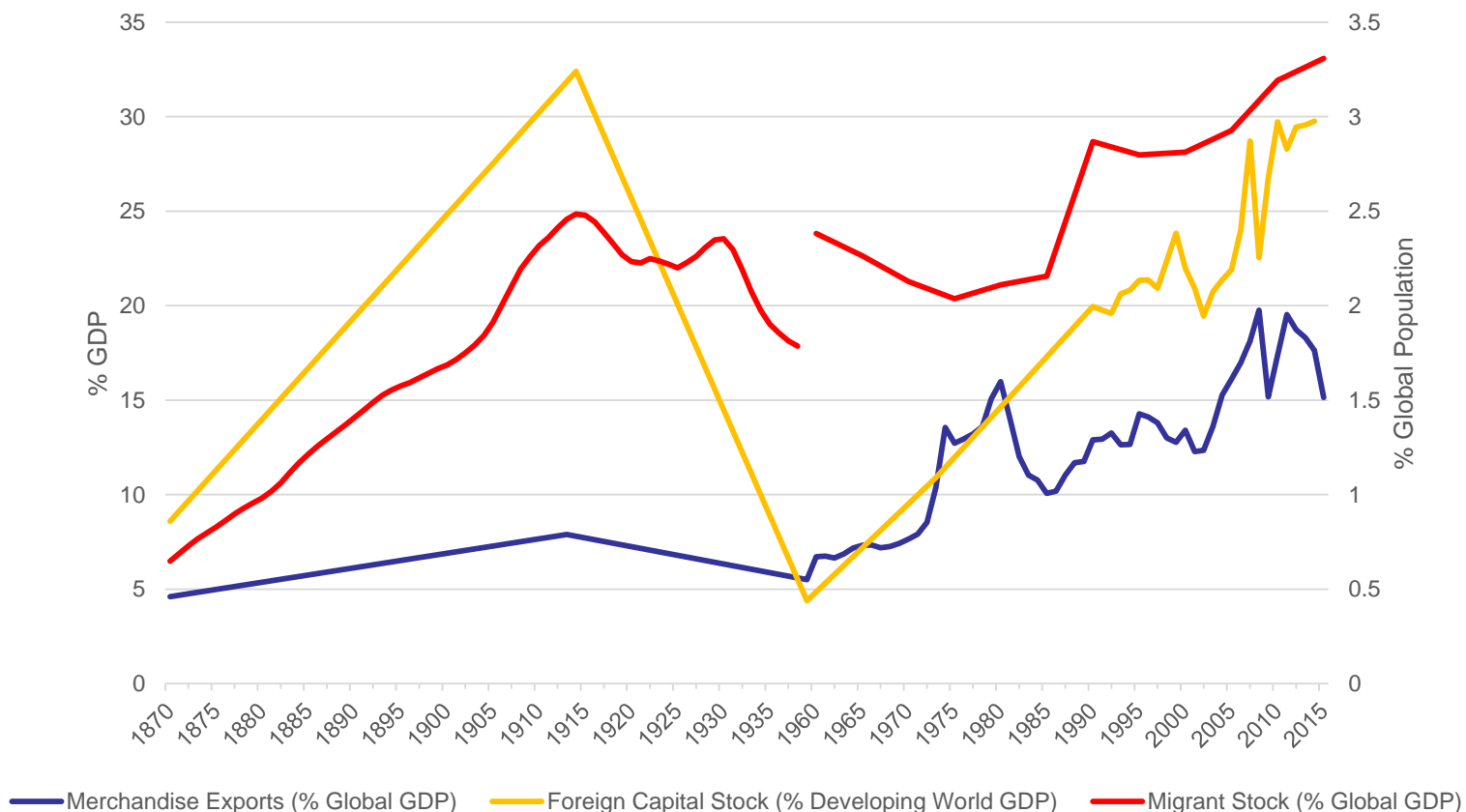
1. Headwinds in the global economy
2. Rising inequality
3. The future of work
4. **Uncertainties about the trajectory of globalization and global governance**
5. Threat of climate change

Globalization in retreat?

- Threat to globalization now comes from the center.
- Long-term trends in trade, capital and migration shows that the current wave of globalization is deeper than the first.
- US actions unlikely to cause large reversals but adds major new uncertainties with prospects for retaliation. Major impact could be on migration.
- Countries may also *repudiate* global norms and institutions that underpin the globalized economy.
- An erosion of multilateral institutions would be damaging for global cooperation in key areas like trade and climate action and development finance.

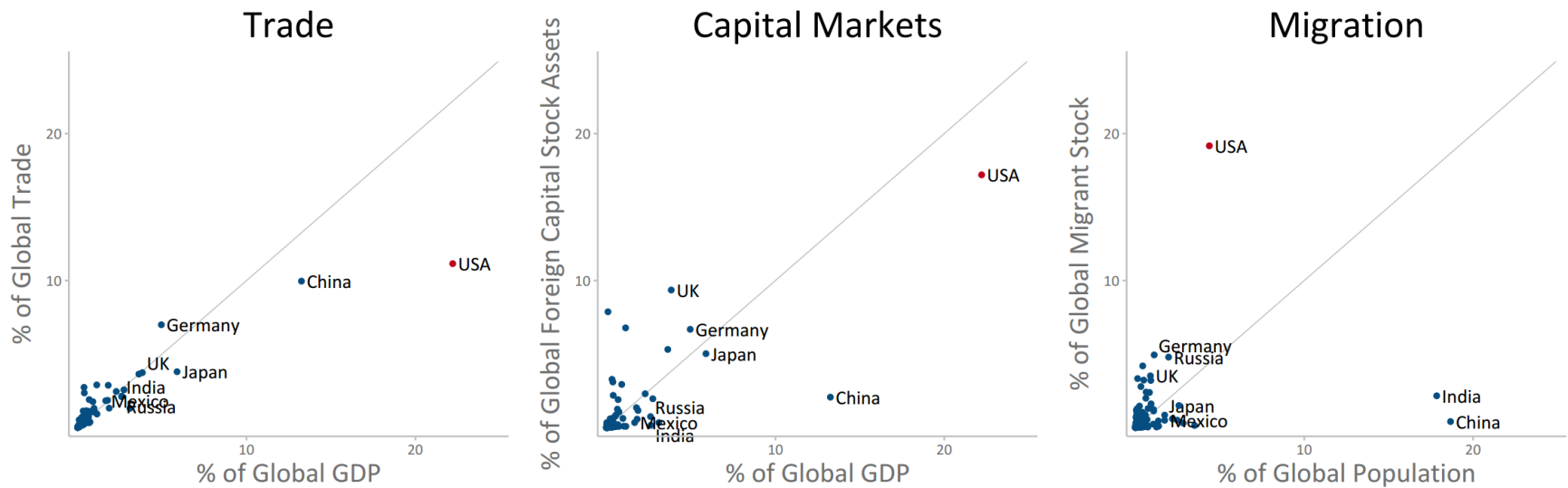
Globalization trends, 1870-2015

A compilation of historical data and projections for GDP according to the W.E.O



Source: Originally published in Brookings report by Laurence Chandy and Brina Siedel; based on IMF 2015, Lane and Milesi-Ferretti 2013, Maddison 2001, the Maddison Project 2015, McKeown 2004, McKeown 2010, Riley 2009, U.N. 1999, U.N. 2015a, U.N. 2015b, UNCTAD 2015, U.S. Census Bureau 1975, World Bank 2015, World Bank 2016, and WTO 2016. Merchandise exports and foreign capital stock are expressed in market dollars as a share of global income expressed in international dollars, and will therefore differ with those cited elsewhere.

Global shares of trade, capital markets, and migration



Source: Originally published in Brookings report by Laurence Chandy and Brina Siedel; Authors' calculations based on Lane and Milesi-Ferretti 2014, U.N. 2015a, and World Bank 2016. Capital stock assets include estimates of external debt, foreign direct investment (FDI), and portfolio equity stocks..

Major Challenges in the new global order

1. Headwinds in the global economy
2. Rising inequality
3. The future of work
4. Uncertainties about the trajectory of globalization and global governance
5. **Threat of climate change**

The Paris agreement

- Remarkable that **195 countries** agreed. Foundation of agreement in understanding of i) scale of risks ii) attractiveness of low-carbon paths as sustainable routes to lasting development and overcoming poverty (no horse-race between development and climate responsibility).
- This was based on **anticipated** risks rather than the grim experience that drove Bretton Woods and other post-war collaborations; makes it all the more remarkable.
- It agrees action to keep warming “**well below 2°C**” and “**pursue efforts for 1.5°C**”.
- Forms the basis of **new, international, cooperative, long-term action** on climate change. New and shared sense of direction.
- Remarkable too that the agreement has been ratified faster than any other major international agreement because of the leadership of major economies especially China and the US.
- The Paris Agreement comes into force on November 4, less than 12 months after the Paris meeting.

The science underlying the Paris Agreement is clear

- Climate science is built on **two centuries of theory and evidence**.
- CO₂e concentrations currently around 450ppm. At current rates (2.5 ppm increase per year and rising compared with 0.5 ppm 70 years ago) will reach 750 ppm by 2100 → temp increases of 4°C or 5°C in global average surface temperature above second-half of the 19th century.
- **Stabilising temperatures requires stabilizing concentrations, i.e. net zero emissions.** The lower the target temperature, the earlier the necessary achievement of net-zero.
- Necessary emissions path for 50-50 chance of 2°C:
 - **under 35Gt** in 2030; **under 20Gt** in 2050; zero before end century.
- Can do a little more earlier and a little less later and vice versa but shape of feasible paths similar, and **costly to catch up if we postpone action** (e.g. sometimes find 40Gt for 2030 to reach 2°C).

Ramping up

- The Paris Agreement **recognises need to ramp up ambition and actions:**
 - Current pledges (NDCs) are around 55-60 GtCO₂e per annum in 2030, an improvement on BAU (ca. 65-68 GtCO₂e per annum).
 - A 2°C path would require GHG emissions around 40 GtCO₂e or less per annum by 2030 (depends on assumed path thereafter).
- **Recognises that gap;** peaking of emissions must happen “**as soon as possible**”.
- Also recognizes that climate change requires significant investments in adaptation especially in vulnerable countries.
- It agreed conventions on measurement and to meet **every five years** to look at progress towards meeting NDCs with a view to **enhancing levels of ambition**.
- Will require **actions, collaboration and commitment** from many parties (countries, cities, private sector and the MDBs.).
- Coming into force of the Paris agreement allows and requires focus on ramping up.

The central role of fiscal policy

- All of these challenges in the new global order highlight the central role of fiscal policy.
- Fiscal policy has a greater role to play in fostering sustainable and inclusive growth. At the same time, the high degree of uncertainty as well as stretched government balance sheets require a better understanding and management of risks.
- Fiscal policy therefore has the difficult task of achieving more and better in a more constrained environment (IMF Fiscal Monitor April 2017)
- Three key challenges: how to preserve countercyclical fiscal space; how to support growth; and how to promote inclusion.
- For the Caribbean dealing with debt overhang and coping with shocks are two additional challenges requiring national and international actions.