

# A New Leadership Challenge

## *Getting the Politics of Development Right*

May I start by saying a special word of appreciation to the Honourable Finance Minister of India, Pranab Mukherjee, for inviting me to Delhi to have some initial bilateral discussions on relationships between India and Trinidad and Tobago and the Caribbean. In his brief introduction this evening he was able to put into perspective some of the global issues which are confronting us and I want to take the opportunity to give a point of view from the Caribbean and Latin America on these issues.

But before I do so let me also say a special word of appreciation to Mr. Godrej and Mr. Mukherjee for given me the opportunity to speak to this very chamber and audience here today. I do appreciate the words that have been given by the Hon. Minister of Finance of Israel when he spoke about the new box arrangements regarding budgeting and I can let him know that he alone is not alone in this challenge for as he spoke I recollected our own challenges in Trinidad and Tobago to redesign their budgetary planning and the delivery process.

### *Introduction*

*Getting the Politics of Development Right* requires solving the alignment gap between the logic of politics and the logic of economics. International, regional and local politics may well be the most significant obstacles to development. It would appear to be also the biggest hurdle in finding solutions to the current

global crisis. *Getting the Politics of Development* right requires cooperation and coordination of priorities, policies and action at all levels.

A new leadership with a global mindset must engage the various communities of interests to find more durable solutions in a volatile global environment. This new international leadership must find the right mix of power, politics and economics to achieve the necessary performance level for sustainable regional and global economic growth and ultimately development benefitting the citizens of all nations.

### *Dimensions of the Global Financial Crisis*

Let us start by giving a brief synopsis of the events that we are facing globally since 2008. In the first instance the so-called *financial crisis* surfaced in the private sector. The bubble of this sub-prime mortgage rate had surfaced as the major indicator of things that had gone wrong and in that sense the response to the crisis was a response to the search for *financial stability*. Not achieving this financial stability was perceived to be the result of market failure in the private sector and in the larger global economy. In the large countries of the world it resulted from bad regulation and poor bank capitalization.

Soon it was discovered that this was only at the surface and within the second round, the issue of *financial solvency* began to show its head, sovereign debt and fiscal deficits emerged. The locus of the articulation of this crisis moved from the private sector to the public sector. The issue moved from market failure to lack of having built-in market confidence that is currently engaging the entire global

leadership. But even before a credible solution appeared, a third dimension of this crisis emerged - *financial sustainability*, which goes beyond the private and public sectors, engaging the national economies of the world. Financial sustainability goes beyond market failure and market confidence into the need for market discipline. A discussion has emerged on the exchange rate levels and regime and the phenomenon of currency realignment in response to world global imbalance. In addition, the source of exposure really comes from the imbalance between our gross assets and our gross liabilities.

### *Impact of the Global Financial Crisis*

How has the global financial crisis affected the Caribbean region and the Latin American space? Clearly, the Caribbean is neither isolated nor insulated. While some have argued that the Caribbean countries are innocent bystanders in this whole phenomenon, this is not so. We do indeed live in a world that is very interconnected, and when Lehman Brothers fell in New York, so too the largest insurance company in the Caribbean, located in Trinidad and Tobago, almost collapsed. This affected over 10% of the gross domestic product of Trinidad and Tobago. In the Caribbean it affected over 17% of the gross domestic product.

The Latin American region however has shown resilience and the recent report from the Economic Commission for Latin America and the Caribbean (ECLAC) and the development committee of the OECD had this to say about Latin America: *“Latin America’s solid economic performance since 2003 has created the possibility for transformation of the state enabling the adoption of ambitious*

*public policies that lock in the prospects of long-term development and mitigate short term risk”.*

The situation in Trinidad and Tobago and the rest of the Caribbean remains very fragile and suspect to external shocks; the Caribbean has always lived with external shocks. Trinidad and Tobago does have immense impact on the small Caribbean economies. Trinidad and Tobago has been able to retain a solid macro-economic performance, the debt to GDP ratio is just over 36% of our GDP. The relationship between reserves, international reserves and GDP is very high despite fiscal deficits. Substantial reserves in the stabilization fund have allowed the country to escape some of the problems in the first round.

#### *Response to a Protracted Slowdown*

Will this be just a protracted slowdown and will we have the ability to handle it, in a part of the world that is open and does not have the benefit of large domestic demand? Therefore, we view the protraction of this development with some concern.

But we cannot measure fiscal sustainability solely on the basis of arithmetic ratios in finance as practiced by many of the rating agencies. As we search for a way forward to deal with a potential protracted slowdown and a continuing deepening of the financial crisis in the global economy, our imperatives are three fold: the flexibility to adjust, the resilience to cope, and the capacity to employ buffers.

Unlike large economies who would have time and mass, small economies in the Caribbean have neither and therefore flexibility to adjust has to be a daily resolve. Whether adjustment involves revenue and expenditure or changes in regulatory adherence, it is important to measure financial sustainability by the capacity to have flexibility to adjust.

The resilience to cope brings into play the narrow economic and the larger political issues. The best safeguard to this resilience has to do with addressing inequality of incomes in the country. In the final analysis that is the source of resilience.

Are there enough resources put away for the rainy day? Unfortunately, many Caribbean countries are devoid of the capacity to employ buffers. However, Trinidad and Tobago, some time ago, established a heritage and stabilization fund - a wealth fund. It represents just near to 20% of the GDP in active resources. Still, it is a visible buffer that provides a sense of security for the future. More important for the Caribbean region is the issue of external buffers; buffers that are put into place by institutions like the International Monetary Fund which provide lines of credit to economies facing external shocks. But such buffers are inadequate to the problems not only of the Caribbean but of many small economies worldwide.

It is for that reason that Trinidad and Tobago took the initiative recently to start a conversation within the governance of the International Monetary Fund to ensure that small economies are given an active political presence in the deliberations of

such bodies. We live in an interconnected world, one in which the periphery may have significant ripple effects on the center, as Greece and Iceland have shown within recent times. The core countries are at greater risk as they are holding more of the periphery countries' assets.

### *The Missing Links in Development*

The last time when there was a serious attempt by international bodies to look at the future of the global economy was in 2008. The *World Bank Commission* produced the Growth Report of 2008. But the Growth Report did not in any way anticipate or articulate the problems of the turbulence ahead.

There were missing links in this articulation of the global paradigm. One such missing link in the search for development was the exclusion of the politics of development. We cannot exclude the politics of development from the search for that development. Secondly, prescription to *inclusive growth* has been without a strategy for basic development. Inclusive development does not necessarily provide basic development in society.

### *A New Leadership Challenge*

The time has come for a new leadership to search for a new paradigm for development; one that will identify *political logic and economic logic*; one that would construct new measures for financial sustainability; and one that will design a strategy for basic development that puts equity at the center.

We know that we need to build a competitive world. How can we arrive at the global and regional compacts based on policy coordination in a period of market

convergence? This is an issue that should bring together the public sector and the private sector in order to find the right compacts. Recent attempts by leaders in the European Economic Union failed to produce an enforceable fiscal compact to support the monetary union. While this is happening in Europe, global leaders in South Africa came together at the United Nations Framework Convention on Climate Change to draft a global compact on climate change following the Kyoto Protocol.

The compacts have already begun to show cracks: the UK's decision not to be party to the European Union treaty and Canada's withdrawal from the Kyoto Protocol. In spite of the challenges to such regional and global compacts, in today's world it is necessary to arrive at such compacts in order to mitigate against the risks that are globally generated.

Can we build a consensus on changing the global financial architecture and do so within a political framework like the G 20? In today's interconnected world we may find that even that wider political framework is not sufficient to build consensus. To achieve consensus is to build on the politics of the situation. The technical arguments are persuasive but the political will to adhere to such solutions is critically important. Trinidad and Tobago has begun to seek that space in the global financial architectures.

The most important question has emerged out of the Delhi Economic Conclave in 2011. Is a financial crisis really a reflection of the deeper development crisis? Are

we treating the financial stability issue? Are we treating the solvency issue? Or should we treat the sustainability issue?

This requires us to drill deeper into development. This is where the real challenge lies. This conclusion should be a turning point in the intellectual pursuit of the search for that paradigm. It is useful to think out-of-the-box and search for the space within which new solutions can be found that are sustainable and anchored in the issues of inequality in our society and jobless growth.

We in the Caribbean and Latin America look to the future; we look to the countries in the Far East and countries in Asia, like China and India. Together with the advanced countries of North America and Europe, we should articulate new thinking to ensure that smaller economies like ours do not have to be mere bystanders in this scenario.

This is a global challenge in leadership, the world is waiting on its leaders to show them the way forward.