

Introduction

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One of the main predictions emanating from the Central Bank of Barbados twenty-fifth anniversary publication, *Central Banking in Barbados: Reflections and Challenges*, was that future research at the Bank would focus on various aspects of the globalisation process. Globalisation is defined as a phenomenon with economic dimensions that involve increases in the flows of trade in goods and services, capital, and information, as well as mobility of individuals across borders. This current collection of papers, which celebrates the Bank's thirtieth year of existence, grapples with these issues. It looks at the impact and challenges of globalisation and liberalisation on various sectors of the Barbadian economy and the Caribbean region as a whole.

The first two chapters deal with the trade flows dimension of globalisation. Trevor Campbell investigates the long-run and short-run impacts of foreign direct investment (FDI), an important trade inflow in the context of the Barbadian economy, on the current account of the balance of payments using co-integration techniques. Campbell finds that the relationship is negative under both situations. From a policy point of view, however, he argues that if FDI inflows are to be encouraged, then steps would have to be taken to ensure that more emphasis is placed on attracting inflows to the foreign exchange-earning sectors and less prominence on encouraging inflows to those sectors that consume foreign exchange.

Next, Roland Craigwell, Tessa Francillette and Winston Moore shift to the potential impact of one of the World Trade Organisation (WTO) agreements, that is, to bind tariffs on agricultural products and to reduce these by 24 per cent over the

period 1995 to 2004. The authors discuss its effect in relation to the demand for meat in fourteen Caribbean countries, utilising empirical differential demand systems. The results indicate that given the high price elasticity of demand for poultry in the Caribbean, a reduction in the price of this meat, due to changes in the trading regime, could increase its demand, while decreasing the demand for the other main types of meat, namely beef, pork and mutton. As a result, poultry producers must reduce their production costs and negotiate for the special and differential treatment embodied in the WTO's Ministerial Declaration to remain competitive.

The following three chapters concentrate on the financial aspects of globalisation and liberalisation, looking specifically at their impact and on possible policy options in a globalised environment. Carlene Belford and Kevin Greenidge, in Chapter four, discuss the influence of the international financial liberalisation process on economic growth in the Caribbean Community (CARICOM) for the period 1979 to 1999. Their findings, based on the use of panel data, indicate that economic growth has not been enhanced. In fact, such policies have left many of the regional economies with an undue build-up of foreign indebtedness and Government intervention to prop-up failing domestic institutions. The authors conclude that the reason for this unfavourable situation is that liberalisation of the financial sector was not preceded by the attainment of sound macroeconomic fundamentals.

Chapter five examines the implications and challenges for developing countries' central banks operating in thin financial markets under financial liberalisation. Anton Belgrave and Kevin Greenidge address this issue by looking at the appropriate institutional framework, the conduct of monetary policy and the maintenance of financial stability. They conclude that central banks' credibility is very important in a liberalised environment, and such credibility can be significantly enhanced by increasing the degree of independence vested in central banks. However, as the executive branch of government seeks to expand its autonomy, this must be balanced with

accountability. The authors further surmise that while policy-makers are seeking the appropriate institutional framework, they must simultaneously try to take advantage of the benefits that come from increased financial flows and limit the potential disruptive effects of highly volatile capital flows. Furthermore, financial liberalisation requires enhanced regulation of the financial system, facilitated by the improvement in the legal framework and training of bank supervision officials.

Chapter six, written by Anton Belgrave, Trevor Campbell, Kevin Greenidge and Ryan Straughn, discusses the relative advantages and disadvantages of the now-popular issue of dollarisation to see whether it is a viable option for the countries in CARICOM. The authors' examination of the data suggests that Barbados, the Bahamas and the Organisation of Eastern Caribbean States do not need to officially dollarise since they have maintained a fixed exchange rate, a low inflation regime, small fiscal deficits and a low ratio of foreign currency to the money supply. For the other countries, the authors conclude that dollarisation may be an empty promise rather than a cure, as the fiscal imbalances in these countries need to be addressed first before dollarisation is considered.

The next two chapters focus on the labour market. Roland Craigwell and Ann-Marie Warner, in Chapter seven, present an overview of the policies and implications of globalisation for the labour market in Barbados. They lament that the labour market is relatively rigid, which does not augur well for the survival of a country trying to grapple with the vagaries of globalisation. Hence, current efforts at raising the level of employment through special legislation, schemes and institutions, training, higher productivity levels and suitable placements to match vacancies must be enhanced, and these programmes treated as complements rather than be expected to stand on their own.

Chapter eight develops from Chapter seven, and Harold Codrington analyses the very important issue of the social partnership in Barbados. The author is of the view that the social partnership facilitated the strong growth in the Barbadian

economy between 1993 and 2000. He shows that as long as certain conditions are met, the social partnership can facilitate macroeconomic management because it is a form of cooperation among societal groups that presents a win-win option.

The information flows dimension of globalisation is discussed in Chapter nine by Anton Belgrave, Yvonne Parris and Warrick Ward. The paper focuses on the dramatic changes in the nature of regulation, as a result of technology-induced market activity. It indicates that central banks must be able to discern or even anticipate the implications of "technological revolution" in their operations. The study highlights that there are efficiency gains in operating within a networked environment, but there is a wide range of challenges that, if not properly managed, can have a negative amplified effect on the financial system with wide-ranging repercussions.

The final chapter in the book, written by the current Governor of the Bank, Marion Williams, focuses on the challenges likely to be faced by the Caribbean in the next decade as a result of developments in the international negotiating arena and global trends. It also discusses how these factors will impact on the regional financial system. She concludes that with the irreversible processes of globalisation and liberalisation continuing to reshape the world economy, the appropriate responses of small states should be to raise their respective levels of efficiency and productivity to that of the developed world, forge strategic alliances internationally, while at the same time continuing the fight for special and differential treatment in the various international fora.