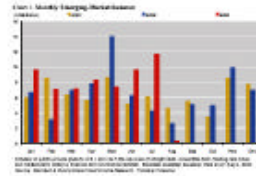




Emerging
Markets
Weekly



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Globalization and Inflation: What's the Link?

Globalization basically refers to the increased trade in goods and services and resources, both human and physical, between countries. The level of cohesion and interrelation in advanced and emerging market economies has far exceeded expectations. World trade of merchandise and commercial services were up 92.4 and 90 percent, respectively, in the past ten years but there are increasing concerns about the effect that globalization has on inflation, which has generally been under control worldwide.

The IMF in its World Economic Outlook April 2006 highlighted four main ways in which globalization can affect inflation: policy incentives, trade integration, productivity growth and fluctuations in business cycles. The IMF report suggests that trade openness contributes almost over 50% to the decline in prices in advanced economies such as Australia, Japan, Germany, Canada, the US and the UK. The remaining 50% arises from credible monetary policy and a low inflation environment. With a specific note on the inflationary effects of imports prices in advanced economies, trends in data and simulations suggest that there was little impact of prices of import goods on overall inflation levels. In the context of the Caribbean Single Market (CSM), which is unfolding, this finding suggests that the further removal of trade and other barriers could see a fall in price levels throughout the region.

Emerging markets have seen inflation levels fall to historical lows over the last few years. This has undoubtedly come as a result of monetary prudence and has been a wise choice following the downside economic performance experienced in the 1970s to 1990s. Brazil, a traditionally a hyperinflation economy, has seen its inflation fall drastically over the past decade, and was down to 5.7% at the end of 2005, the lowest in six years. Also following these inflationary footsteps was Mexico, which had its inflation hit a thirty year low of 3.3% at the end of 2005. But to what extent did globalization help these economies through their transition?

The report analyzed the cause and effect relationship between globalization and inflation, taking into account such factors as openness to trade, inflation in advanced economies, depth of financial sector and fiscal balances for a given monetary and exchange rate regime. The results show that inflation in advanced economies played a large role in influencing emerging market inflation. The outcome of the investigation was such that more open as opposed to autarkic emerging market economies tend to enjoy lower inflation levels. As such, globalization

through greater integration of trade and capital markets does have a substantial effect on inflation, a key finding of relevance to the “economy” aspect of the CSME.

On cautionary note, however, while globalization may help to curb inflationary pressures to some degree, it cannot be expected to substantially contain it. At the same time, developing countries like those in Caribbean will have to find creative solutions to adapting to the adjustment challenges posed by greater integration.

Table: Globalization VS Inflation								
Year	1998	1999	2000	2001	2002	2003	2004	2005
Openness *	17.0	16.8	17.6	16.2	16.3	17.8	19.9	21.0
World Inflation	4.1	2.7	3.45	3.65	2.75	3.15	3.25	4.00

*Openness indicated by the ratio of Total Trade in Merchandise and Commercial services to World GDP

FINANCIAL & ECONOMIC INDICATORS

As at 27 April 2006

Exchange Rate/US\$	Closing Value	Previous Week
Yen	114.11	117.54
Euro	1.25	1.23
Jamaica	65.52	65.48
Guyana	200.70	200.70

Commodity Prices	Closing Value	Previous Week
Crude oil (US\$/bbl)	70.97	71.95
Natural Gas (US\$/mmbtu)	6.94	7.93
Gold (US\$/Troy Ounce)	633.63	612.50

Eurobond Indices (Returns, % YTD as of 27-April-06)

Lehman Brothers Global Aggregate Index	-1.24
JP Morgan EMBI+	-25.52
CMMB Eurobond Index	0.07

Policy Interest Rates (%)	Closing Value	Previous Month
United States	4.75	4.75
Euro Zone	2.50	2.50
Japan	0.00	0.00
Brazil	15.75	15.75
Trinidad	6.75	6.75
Jamaica	12.60	12.60
Barbados	4.75	4.75

Market Interest Rates (%)	Closing Value	Previous Week
US 90-day T-Bill	4.65	4.61
US 10-Yr Treasury	5.07	5.04
3-month UK Libor	4.66	4.63
Japan 90-day T-Bill	0.18	0.18
Brazil 90-day T-Bill	15.30	15.30
TT 90-day T-Bill	5.68	5.47
Jamaica 90-day T-Bill	12.39	12.74
Barbados 90-day T-Bill	5.13	5.13

Sources: Bloomberg, CMMB Research Centre, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, Bank of Guyana

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