

Globalisation

by Dan Nguyen

Globalisation, an important characteristic within the contemporary economic environment has resulted in significant changes to individual nations in terms of economic development strategies undertaken by national governments. The term globalisation refers to the integration of local and international economies into a globally unified political, economic and cultural order. In relation to Australia, this process is important to the future of the economy, due to Australia's small open nature. Globalisation however in the broadest sense, is not a singular phenomenon, but a term used to describe the forces that transform an economy such as Australia's into one characterised by the embracement of the freer movement of trade, investment, labour and capital. Over the last half century Australia has opened up itself to this phenomenon, and has brought a myriad of benefits in the trade and financial sectors, which have experienced phenomenal growth. Yet with these benefits come associated costs and disadvantages, especially to those firms and individuals unable to keep up with the pace of the economic process.

International trade has historically played a significant role in the development of the Australian economy. Annual trade adds up to about half of Australia's economic output, but by global standards, but by global standards Australia is a small economy, producing only 2% of global output. As a result, Australia does not have a strong influence on developments, yet world economic developments may have a very significant impact on Australia. Over the last few decades, Australia has experienced a subtle shift in direction and composition of trade, in particular response to the growth in the "global economy". Instead of exporting heavily to Europe and the UK, Australia now finds its largest trading partners in Asia, reflecting the difficulties in accessing the European Union, and therefore acknowledging the advantages of trade with nations in close proximity, especially as those Asian nations have experienced the fastest economic growth rate of any region in the world, through the process of structural change and efficiency improvements. Australia's traditional focus of exports to these nations has been primary produce, where Australia held a perceived comparative advantage in agricultural products and minerals. As a result, Australia contributed almost no manufacturing trade, which now, along with services, has

been one of the fastest growing industries among high-income nations. In recent years, this trend has been slowly changing, as manufacturing industries set up new firms in Australia, yet primary produce is still the major source of export revenue, and economists argue that Australia cannot continue to rely on agriculture and mineral exports, namely because of the high volatility in world prices for these exports, resulting in Australia's persistently high trade deficits. Growth in service industries such as tourism provide a stepping stone towards gaining access to greater export revenue, and by improving its manufacturing trade, this may provide a catalyst toward sustaining acceptable levels of economic growth, as well as easing the current account deficits.

While Australia's trade flows have increase substantially over recent decades, the rate of financial transfers has been even greater, as international businesses have expressed confidence in our growing economy, and investing in Australian firms and industry. It is no doubt that globalisation has resulted in the increased flows of finance, as international capital markets opened up, exchange rates were floated, and technological advancements made it easier to shift finance between economies. Portfolio investment has emerged as the major form of financial inflow, as investors realised potential gains in the growth of the Australian economy, and this increased portfolio investment has resulted into greater injections of finance into developing established Australian companies. However, an imbalance exists between investment in Australia and Australian investment overseas, simply because of the fact that Australia has historically been a net capital importer, and this stimulates rapid economic growth, however by definition, this results in large current account deficits. To demonstrate the extent of this growth in financial flows, portfolio investment, in the space of two decades, has grown from \$13 billion to \$131 billion. In order for Australia to maximise the benefits from its growth in trade, export industries must diversify into sectors of high growth, and to achieve this, Australia must improve it international competitiveness, and efficiency of production. Over the last couple of decades, there has been some progress in addressing this issue, through the successive governments' promotion of structural change through a multitude of microeconomic reforms. Successful

structural change relies on keeping labour costs low, in order for Australia to have a chance of competing against more efficient Asian nations. Also, resource management must be improved, in order to maximise efficiency in production. During the 1990's, Australia's productivity improved dramatically thanks to successful labour market reform.

However, probably the most fundamental aspect of structural change has been the phasing down of protectionist policies that harboured inefficiency. The process of globalisation has had a marked difference on nations, especially Australia, by almost forcing them to remove these policies, in order to benefit from being part of global organisations such as the World Trade Organisation (WTO). In the past, protection had been favoured as a means to help infant industries establish themselves on a global scale, yet local statistics show that, these infant industries that relied on heavy government subsidies grew to become inefficient due to the lack of proper competition. The argument for the removal of these protections were put forward to try to help these local export industries become more competitive by exposing them to international competition, therefore forcing them to allocate resources more efficiently to survive. By the government's gradual phasing out of protection, Australia has opened up towards freer trade, allowing for the benefits of globalisation, namely the integration of economies giving consumers greater access to goods and services. Also it has allowed nations such as Australia to focus production to more efficient industries, allowing for the benefits of comparative advantage. The current Howard government has contributed to this deregulation process and has implemented a freeze on tariff levels until 2005, with reductions of up to 10% each year on industries such as the motor vehicle industry and the textiles/ clothing/ footwear industry, in order to comply with its APEC commitments of zero tariffs by as early as 2010, meaning the removal of all trade barriers.

The trends over recent years suggest that globalisation will continue to transform the structure of Australian trade and industry over the years, with rapid growth in services

and financial sectors. Technology progress globally will also help Australia establish itself as an industry front-runner. Manufacturing exports have grown from \$9.5 billion to \$27.3 billion in the last decade, showing the extent of the diversification process.

While globalisation and integration of world economies has resulted in greater trade and financial diversification, there are significant drawbacks to this process, especially for the lower income earning individuals and nations that cannot keep up with this process.

Firms that cannot compete internationally face difficulties such as the Australian car industry, which have lobbied against further protection cuts.

The government itself is faced with new challenges by globalisation, by having to adopt its economic policies to changes in the international business cycle, and the impact of these changes on key economic objectives such as growth, inflation and external stability. In order to integrate Australia into the global economy, the government has shifted focus of policy into microeconomic reform, involving the removal of protection, but also deregulating other key industries that can compete against cheaper overseas goods and services. However, this policy shift has impacted on the individual, where in the short term, unemployment stagnated at a rate over 6.5%, placing strain on the welfare system.

Therefore, it has become obvious over the last couple of decades, that there are clear winners and losers from the advent of globalisation within Australia. Over the years globalisation has resulted in the greater integration of world economies, through deregulation, increased structural change and removals of trade barriers and technological change. While this process has resulted in greater world standards of living, and economic growth in Australia, there has been increasing inequality in the distribution of wealth and income, and also increasing detrimental effects on the environment, due to rapid industrialisation. In order to maintain ecologically sustainable development, the Australia government must

provide greater emphasis towards addressing environmental problems, and poverty levels, rather than simply focussing on the achievement of economic growth through the globalisation process. However, the long term benefits of globalisation are favourable, with greater standards of living, improved profitability of firms, and greater access to goods and services, and in the coming years, provided conditions remain stable, these benefits will continue to manifest themselves.