



Annex 1. The nature and future of globalisation

The proposal for a Free Trade Agreement between Australia and the United States needs to be seen in the context of a steady process of trade liberalisation and economic integration which has been one of the distinguishing features of international relations in the twentieth century.

Globalisation is a more important and more profound process than most of its critics suggest. It has altered the way in which nation-states cooperate and created new opportunities for states to enhance prosperity and, in certain circumstances, improve national security. Its impact on countries is not even. But in Australia's case it is distinctly positive. The nature of the benefits globalisation bring Australia will be similar to those achieved under an FTA with the United States.

The twentieth century was the most innovative yet in human history. All aspects of human relations were altered, including how nations deal with each other. The twentieth century produced the worst wars in human history and the most destructive weapons ever devised. At the same time, it also created the most effective system yet devised to promote order among nations and to resolve differences peaceably.

Protecting the security of its people is the first obligation of any government and, accordingly, this has always been given highest priority in foreign affairs. For a long time the most important relationship one state might have with another has been a military alliance. Australia's treaty alliance with the United States underpins Australia's national security and the relationship with the United States is therefore, arguably, Australia's most important.

One great innovation of the twentieth century was establishment of an international framework for managing conflict among nations. This is the system of collective security and conflict resolution established under the United Nations. It was the United Nations community that collaborated to drive Iraq's forces out of Kuwait during the Gulf War. This system is not so effective as to render redundant the need for states to seek alliances to maintain national security, nor does it prevent powerful states from taking independent military action if they choose to do so. But it has been sufficiently effective to bring a level of order to the management of global security that is greater than any in previous experience.

A second great innovation in international relations in the twentieth century was the development of a common accord among nations, bound in international law, to give freedom to citizens from all countries in the accord to conduct commerce with each other. These rights were established by the General Agreement on Tariffs and Trade (GATT) as global rights in a multilateral trading system. They have also been created in regional agreements among groups of states and in bilateral agreements. The extent to which states collaborate together for mutual advantage has been elevated to an entirely new plane.

The initial goal of these arrangements was to remove barriers to trade so that each country could export what it produced best and import what other countries could produce best. Under such a system, all would achieve optimum growth. This system worked. It has evolved and has promoted a process of deeper economic integration. In Europe it has resulted in the formation of the European Union, the foundation of which has created such a level of interdependence among members that it is unthinkable today that Germany and France would make war on each other again. Contrast this with the period between 1870 and 1939 when both countries went to war three times, twice generating world wars.

This new system has generated extraordinary benefits. Never has the standard of living of so many people been lifted in such a short period. Never have so many people been lifted out of absolute poverty. The point is often made that the gap between the rich and the poor has never been wider. That is a statistical fact. But it must be considered for its relative significance, in particular the circumstances of the nations with the greatest number of poor. It is also a fact that the nations who have reduced poverty and lifted the standards of living of their people the most are those who have opened their economies and participated more actively in the global system of open economic exchange.

The result is the emergence of a global community, which makes the twentieth century a watershed in human history. Global markets have been created. Producers in one country can sell almost anywhere. The application of information technology in the global markets created by this process has fused to create the Information Age. This new system has emerged in parallel with the traditional system of managing relations among states to promote political goals and advance national security. It is a new tool in international relations. Where economic interdependence between states is deep, it can directly enhance national security.

It is going too far to say that economic interdependence is replacing collective security as the principal tool in international relations to maintain peace among states. On the other hand it is plain to see that members of the European Union no longer need armed forces to protect their people from military threat from other members. It is difficult to predict how the international system for managing relations between states will evolve.

But it is clear that building strong economic linkages has become a new feature of the global system of relations among states.

The importance of globalisation to Australia

In the decade between the mid-1980s and the mid-1990s, there was a significant institutionalisation of international arrangements to promote economic integration. The European Union was consolidated and expanded. The North American Free Trade Agreement was negotiated and the Uruguay Round of trade negotiations refurbished and expanded the multilateral trading system, in the process creating the World Trade Organization.

These arrangements were designed to increase the benefits that trade liberalisation and economic integration based on open markets had already delivered in the period since the Second World War. However they also spawned an anti-globalisation backlash which has had expression in riots in North America and Europe against meetings of international economic organisations as well as a vociferous body of literature against globalisation.

The anti-globalisation critique does not represent a single coherent idea; other than that agreements to liberalise trade should pay more regard to social issues, in particular measures to protect the environment and promote labour rights. This is in part because the groups that lead the anti-globalisation movement have disparate interests. The violence in Europe and North America is led by a minority of self-described anti-capitalist protesters and anarchists. Broader support for the critique comes mainly from two quarters: from organised labour in North America, and in Europe from environmental groups.

Increasingly, the anti-globalisation rhetoric has incorporated more traditional arguments against free trade. These are that globalisation forces workers in all economies to compete against each other, that permitting imports from the cheapest producers forces jobs offshore and that, as the AFL-CIO in the United States puts it, globalisation is forcing a race among countries to push labour standards to the bottom. There is also an anti-free market strain in the critiques. It is commonly said that globalisation gives new power to massive multinational corporations and it is also claimed that the interests of poorer countries are overridden in this system.

It is somewhat ironic that these arguments were being mounted in the United States during the 1990s, a time when the United States had its highest sustained growth, highest job growth and lowest unemployment for decades. The most potent complaint in the US is that real wages of low wage earners have not increased at the same rate as those of high-income earners during this period of high prosperity. This is partly true. Robert Reich¹ argues that this is true of unskilled (mostly male white) workers in the old economy industries, particularly manufacturing. Not surprisingly, there have

1 Reich Robert B, "The Future of Success" Knopf, New York, 2001

been significant rises in wages for skilled and semi-professionals (mostly women) in services industries. As noted in the next chapter, the greatest job growth in the United States has been in services industries, which now generate 80 per cent of the growth in the United States.

The anti-globalisation critics in Australia employ most of the arguments of the critics in Europe and North America, as well as the element of anti-foreign populism that is common in anti-free trade debate. However, except for some parts of the union movement and in some rural areas, there has been little direct anti-free trade sentiment in Australia. One reason is that Australians had to confront the consequences of long-term protection of manufacturing at an earlier stage when Australia found that the sector had become so uncompetitive that it was diminishing the national wealth and putting standards of living at risk. Removal of protection of manufacturing has led to a turnaround in competitiveness. Australian manufacturing is now Australia's strongest export growth sector. The nature of the manufacturing sector has changed. It will no longer be the mass employer it once was. But it now provides well-paying work, especially in the industries that export.²

The issue that generated the greatest anti-globalisation passion in Australia was the campaign against the proposed Multilateral Agreement on Investment.³ It won support from both the left and the right of Australian politics, although it had little impact on the two mainstream parties. The reason was clear. More than most countries, Australia has developed and thrived on foreign investment and until national savings levels increase, Australia will continue to rely on foreign investment to fund growth.

The same could be said for open trade and migration, both of which are also opposed by leading anti-globalisation forces.⁴ Globalisation is fundamentally about open societies and freer movement of goods, services, capital and people. These are threatening to some societies. But in Australia's case they are more part of a tradition that stretches back to European settlement.

Australia depends greatly on foreign trade and investment and will benefit from more global liberalisation. Markets for farm products in the European Union, Japan and the United States remain largely closed to Australian exports. There are significant barriers to Australian exports of automobiles and processed food in the East Asian region. Australia has already reaped the benefit of opening up its own economy. As the next

2 The study by Austrade and ABS. *A Portrait of Australian Exporters* (2000) demonstrates this clearly

3 This was a draft convention prepared in the OECD to set global rules to remove restrictions on foreign investment. The proposal was shelved after a global campaign of protest and trenchant opposition by the French Government. The latter feared France would be required to expose cultural industries to competition, particularly from the US.

4 While most of the anti-globalisation critics are opposed to free trade, the picture is more mixed on the question of immigration. Environmental groups generally want migration wound back to reduce the size of the population. In this they make common cause with groups like One Nation, but not many other NGOs who are cool on free trade but not opposed to migration.

chapter shows, growth in Australia has been at near record levels. Australia has a great deal to gain from seeing others open their markets. This will mean more business for Australian companies and more, well-paying jobs for Australian workers. To the extent that the anti-globalisation campaign supports those who do not want to open their markets to Australian exports, the anti-globalisation campaign works against fundamental Australian interests.

The advent of the New Economy

It is sometimes said that globalisation has peaked, that the public policy mood in leading Western economies is now turning away from it. Time will tell what effect the public mood will have on the process of policy formulation. However, the reality of globalisation is continuing regardless in most countries and it is being pushed along by the advent of the Information Age, or the era of the New Economy. Comparisons are drawn with the Industrial Revolution in terms of the depth of the change being wrought. Furthermore, the rate of change and innovation appears to be accelerating.

It is worth reflecting on the impact of information technology. A more detailed analysis of the importance of Information and Communications Technology (ICT) for the economies of both Australia and the US is set out in Chapter 6 and Annex 4. The largest single impact of information technology has been on communication. The capacity to digitize information and then transmit it instantly has profoundly altered the capacity of people everywhere to communicate with each other. Instant communication is immensely popular, if the extent of Internet use around the world for non-commercial transaction is any guide. All commercial transactions depend on communication. When that is made instant, commercial exchanges proceed across geographical and political boundaries much more quickly and already governments are finding it difficult, if not impossible, to control them.

We have also observed that there is an enormous momentum behind IT. The amount of computer power available is steadily increasing and the cost is steadily falling. As noted above, we should assume that the fundamental capacity of people to communicate will continue to expand and that therefore, an inevitable consequence will be greater freedom to communicate. There is every reason to assume that the process of globalisation will continue. In fact, this process may be seen as a natural consequence of the Information Age.

The lesson is not to try to control the development and spread of communications technology, but to understand its implications, to anticipate its consequences and to manage those effects. This would be a much more productive approach for those who are concerned about the effects of globalisation.

Trade agreements are instruments for the long-term. Both the United States and Australia have embraced information technology with enthusiasm. While commerce and economic exchange between the two countries have traditionally been seen in terms of trade - exports from Australia of raw materials, and lately manufactures, and imports from the US of capital and consumer goods - and in terms of investment, it is imperative to think about the nature of the economic relationship between the two countries from the standpoint of New Economy issues.

Those who aspire to see the end of the age of globalisation should reflect on the fact that everything upon which the Information Age is based is derived from the same drivers that created globalisation. The Information Age will encourage those same drivers to shape the future.

The countries that continue to liberalise, that seek to integrate their economies with others, that foster adoption of the technologies and processes of the Information Age are those that will have the best opportunity of raising the standards of living of their people in the Information Age. A Free Trade Agreement with the United States is a valuable piece of policy infrastructure for that purpose.