ECONOMIC RESEARCH PAPER

Globalisation and the Western Australia Economy

JULY 2002

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GLOBALISATION AND THE WESTERN AUSTRALIAN ECONOMY

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Introduction

The latter half of the 20th Century has seen continued improvements in living standards and reductions in poverty[1]. Importantly, recent research has shown that over the last three decades, as trade and investment markets were liberalised, living standards of much of the developing world have been converging slowly towards those of the developed world (Commonwealth Treasury 2001). Despite these benefits, concerns have been raised in Australia and many other countries about the effects of freer global markets in trade and investment.

Globalisation is a controversial issue as seen by the recent unrest at various World Trade Organisation and World Economic Forum conferences. Community concern with globalisation is not isolated to a single issue, however sub-groups are now coordinating their opposition into a single group, which is becoming a more effective threat to globalisation.

Opponents of globalisation have flagged many concerns, including the fear of job losses in developed countries, exploitation of workers in developing countries, the emergence of powerful super-multinational companies, increasing income inequality and loss of cultural autonomy – all of which are attributed to globalisation. In addition, a growing number of environmental issues have been linked to the globalisation process – including ozone layer depletion, the loss of biodiversity, and increases in greenhouse gases and acid rain.

Rodrik (2000) has raised concerns that globalisation is being used as a 'catch-all' slogan within the community, which has resulted in it being blamed for various undesirable outcomes.

As a corollary it is simplistic to examine all the effects outlined above together – in fact it is likely that such an approach would lead to flawed conclusions. It is also important to recognise that globalisation is process-driven, and the merits of each of these processes should be evaluated separately – and not collectively under the banner 'globalisation'.

This paper examines what globalisation is and what is driving it, what is the evidence about the real impact of globalisation, whether there are any myths which should be dispelled and Australia's (and Western Australia's) place in the global economy.

1 World Bank 2001, Globalisation, Growth and Poverty: Facts, Fears and an Agenda for Action, Policy Research Report, Washington, DC.

What is Globalisation?

Globalisation has become one of the most commonly used 'buzzwords' in the community over the past decade, yet many users of the term have difficulty in defining it succinctly. Economists commonly define globalisation narrowly and recognise that its characteristics and processes are quite specific. O'Rourke (2001) in a paper prepared for the World Bank suggested that:

> *"Globalisation as economists define it encompasses declining barriers to trade, migration, capital flows, foreign direct investment (FDI) and technological transfers."*

Mike Moore, Director General of the World Trade Organisation (WTO) suggests that "Globalisation is not an ideology, not a political theory, but economic evolution."[2] Moore's comments suggest that he interprets globalisation as a process – an extension of the traditional Ricardo principles of specialisation and trade. This view is supported by others – for example Held et al. (1999) define globalisation as:

> *"Globalisation can be thought of as a process (or set of processes) which embodies a transformation in the spatial organisation of social relations and transactions – assessed in terms of their extensity, intensity, velocity and impact – generating transcontinental or interregional flows and networks of activity interaction and the exercise of power."*

The views expressed above suggest that globalisation is the culmination of several, sometimes independent, processes promoting increased global economic and social integration. A significant amount of research has been dedicated toward identifying and exploring the drivers of globalisation.

Whilst debate continues around peripheral drivers, it is now generally accepted that the two key processes driving globalisation are trade and investment liberalisation and improving technology.

Economic integration is being driven by a number of processes across national borders. These processes include the increase in short-term capital flows, the size and reach of multinational corporations, the standardisation of technology, and the pace with which events, ideas, and fashions are conveyed around the world (Productivity Commission 2000).

2 WTO conference, Ottawa Canada 26 October 2000.

The identification of these drivers raises questions as to whether increasing economic integration is a new development, or merely a contemporary manifestation of a process that has gone on for centuries. Protectionist government policies were only introduced in the middle of the nineteenth century – prior to this, global trade was essentially free from regulatory intervention.

As O'Rourke and Williamson (1999) detail, European tariffs were raised in the late 1800s, when the importation of keenly priced grain from the Americas, Russia and Australia began to have an impact in European markets. The United States, Canada, Latin America and Australia also adopted protectionist policies at around the same time. It would appear just as we see today, this was a period in which 'globalisation' prompted a political backlash.

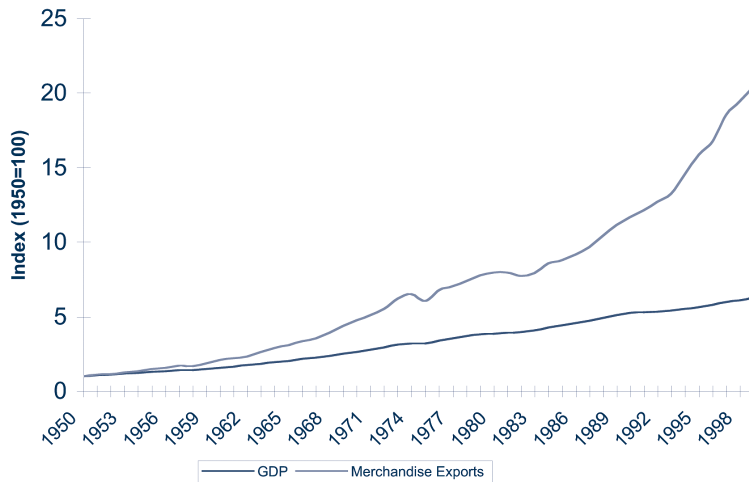
Observed evidence supports the notion of globalisation not being new. Since 1720 the rate of growth in real merchandise trade has been greater than global GDP growth – the only exceptions being periods of major global conflict (WTO 1998,1999).

Indeed Maddison (1995) in his examination of global economic trends found that world trade as a proportion of world GDP grew more rapidly during the latter parts of the nineteenth century than the corresponding period in the twentieth century. Concurrently a number of technological improvements occurred – which saw reductions in the costs of both transport and communications.

Whilst it is questionable whether globalisation is a truly contemporary phenomenon, it is clear that public interest concerning this issue has increased significantly in recent times.[3] Accelerated growth in global trade has occurred since World War II (See Figure 1 overleaf), however it is doubtful whether increasing merchandise trade is the underlying cause of public concern about globalisation.

3 It is interesting to note that political and community interest in free trade experienced a similar 'peak' just after Australia's Federation (1901). Australia's fourth Prime Minister George Houstoun Reid (later Sir George) was a member of the Free Trade party, whilst the fifth Prime Minister Alfred Deakin was a member of the Protectionist Party (NB. Free trade in this instance was more concerned with interstate trade, as against global trade.)

Figure 1: Global Export and Output Indices (1950 – 2000)



In fact public anxiety appears to centre on the distributional effects of globalisation – the winners and losers. However, globalisation is not a zero sum game – Hufbauer and Wada (1999) after using partial and computable general equilibrium models suggested that GDP gains from trade liberalisation ranged between 20-50 per cent of the increase in trade values.[4] Nevertheless concerns persist as to whether globalisation's processes benefit large corporations and developed countries to the detriment of developing nations and the less well off.

These concerns need to be addressed because, notwithstanding the frequency with which it is asserted that globalisation is 'inevitable' and 'unstoppable', a key lesson of history is that it can not only be stopped, but reversed, if governments choose to do so. There is no guarantee that trade barriers will continue to diminish, or that developing countries will continue to increase their involvement in global trade.

4 Increasing exports and/or imports by $1m will lead to an increase in GDP of between $0.2m to $0.5m.

The Drivers of Globalisation

Trade and Investment Liberalisation

The process of implementing (and subsequently raising) tariffs began during the middle part of the nineteenth century (O'Rourke et.al. 1999). Australia did not detach itself from protectionist policies – in fact domestic tariffs prior to Federation were close to 50 per cent[5].

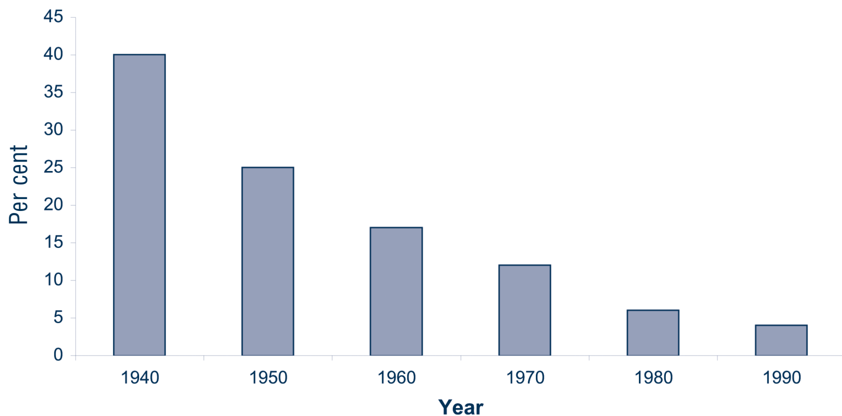
Protectionism remained largely unchallenged by the global community until the late 1940s. After World War II many countries took an active role in reducing legislative and regulatory barriers that inhibited international competition. The General Agreement on Trade and Tariffs (GATT) in 1948 signalled that there was a philosophical desire among many participating countries to remove protectionist policies and encourage free trade.

In fact, since the original GATT agreement, global tariffs (on average) on manufactured outputs have fallen by over 90 per cent to about 4 per cent. Restrictions on direct investment in manufacturing have been reduced substantially over the past decade in nearly all OECD countries, but controls on foreign investment in service sector activities remain common. Many developing countries in Asia and Latin America moved from inward to outward-looking trade and investment policies in the 1980s.

Australia, which had amongst the highest tariffs of any OECD country in the 1950s and 1960s, was a late comer to trade reform. This was costly, since Australia's productivity growth performance during the 1950s and 1960s was below that of almost every other developed country except the United States. Australia has opened its economy substantially in more recent decades and summary measures now place Australia amongst the more open OECD countries to both trade and investment (OECD 2000).

5 Victoria raised its maximum tariff from 10 per cent in 1865 to 45 per cent by 1893, and as the dominant colony was then able to impose its protectionist policies on the rest of Australia. Tariffs (and excises) have been the preserve of the Commonwealth Government (and hence uniform nationally) since 1901 under the Australian Constitution)

Figure 2: Average Global Tariffs



A key issue in future debate over trade liberalisation is the power and involvement of smaller (and weaker) nations in setting the agenda. Currently many reforms are being delayed by the actions of developed countries at the expense of developing nations. This is especially so for agriculture.

As the poorest economies seek access to world markets, some of their best export potential is likely to be in agricultural products and simple manufactures like textiles, clothing and footwear. But rich countries discriminate against poor countries in exactly these markets. So poor countries access to the richest consumer markets in the world is impeded[6].

It should be noted that lowering trade barriers is not an exercise in charity. Lowering trade barriers and allocating resources efficiently benefit the countries that do it. But they also help the poorer countries with market access. The World Bank (2001) has estimated that protection in industrialised countries costs developing countries over US$100 billion a year – and nearly half of this is caused by tariffs applied by industrial countries, particularly against textiles, clothing and agriculture.

6 The pressure of vested interests usually drives this government policy stance. A good case study is the extent of political lobbying undertaken in Australia during the mid-1990s prior to the 'tariff pause' decision on textiles, clothing and footwear and motor vehicles.

Improvements in Transport and Communications Technology

Significant technological advances over the latter half of the twentieth century have been a powerful force in the evolution of global markets. Transport, telecommunications and information technology developments have resulted in: a lowering of the costs of transportation and transactions; the time required for transactions; and information barriers to international trade – all of which have promoted global economic convergence.

Containerisation fostered a revolution in transport that allowed a wider range of goods to be exported at substantially lower costs. For example, the unit cost of sea freight fell by around 70 per cent between the late 1980s and late 1990s. According to the Productivity Commission (2000):

> *"Rapid technological advance has seen the price of computing power fall by more than 99 per cent in the past 45 years. The cost of a three minute telephone call from Australia to the UK fell from about $350 in 1926 (in today's prices) to $13 in 1980 and to around 65 cents in 2000. An e-mail via the Internet is possible for not much more than the cost of a local telephone call."*

Other Drivers

Strategies of Corporations

Corporations have increasingly emphasised the pursuit of scale and consequent reductions in operating costs. So many goods and services are provided by companies to a wide array of international markets to achieve these economies (Eslake 2001).

While multinationals have been a force in global trade since the days of the East India Company[7] their significance has become extremely prominent in recent decades. In addition to being the mainstay of global investment flows and technology transfer, multinational corporations account for about a quarter of global output.

Regulatory Frameworks

Most of the economic gains in the 20th Century have been concentrated in the second half after the negative impact of war and financial collapse in the first half. During this period, the multilateral framework was centred on the institutions designed at Bretton Woods in 1944[8]. These institutions brought a degree of stability to the world at the end of World War II.

The formation of GATT/WTO, the International Monetary Fund (IMF) and the World Bank has led to a more efficient regulation of international transactions resulting in a reduction in the sovereign risk associated with cross border transactions. These institutions have jointly worked to increase global financial market stability, efficiency and transparency. This objective is succinctly addressed by Article I of the *Articles of Agreement* of the IMF:

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

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7 The East India Company formed in the 1600s under the reign of Queen Elizabeth I engaged in multinational trade between England and colonies in the Eastern Hemisphere.

8 An international conference was held at Bretton Woods, New Hampshire to discuss proposals relating to post-war international payments problems. The agreement resulting from this conference led to the establishment of the International Monetary Fund and the International Bank for Reconstruction and Development (now the World Bank).

In addition to equity and financial market stability, the WTO has acknowledged the need to protect[9] property rights (both tangible and intellectual). The members at the Uruguay Round of GATT (1986-1994) formally recognised these rights and established a framework for protecting and licensing property rights – Trade Related Aspects of Intellectual Property (TRIPS). The protection of these commercial interests by TRIPS provides the corporate world with incentives to innovate and diversify geographically by reducing the risk (ie. the ability for uncompensated free riding) of foreign investment.

Consequences or Myths of Globalisation?

Views on globalisation generally reflect concerns about the pace of structural change occurring in the economy and the cost of adjusting to this change. But they frequently also involve misunderstandings about the real impact of globalisation.

Increased Income Inequality?

A commonly cited objection to globalisation concerns its perceived adverse impact on global income inequality.

> *"Inequality between the First and Third Worlds is growing, not decreasing: the average per capita income of the richest countries was 11 times that of the poorest countries in 1870, 38 times in 1965 and 58 times in 1985." Greenleft Organisation*[10]

The view expressed by the Greenleft organisation is supported by sections of the academic literature. Most notably the IMF (2000) found that over the course of the 20th Century the richest quarter of the world's population became almost six times richer while the poorest quarter became almost three times richer. Similarly, Korzeniewicz and Moran (1997) concluded that the (statistical) variance in global income inequality has risen significantly since World War II. Their approach involved comparisons of exchange rate adjusted incomes to determine changes in global income inequality.

Castles (2000) is highly critical of this method in determining changes in global income inequality. He argues that an exchange rate approach inevitably provides a biased measure of global incomes due to its disregard of price effects. Castles empirical conclusions contrasted with those of Korzeniewicz and Moran – in fact he suggested global incomes converged during the latter half of the twentieth century.

9 Agreements from the WTO Tokyo Round allow certain exemptions in exceptional circumstances.
10 http://www.sistm.unsw.edu.au

Dowrick and Akmal (2001) reiterated the concerns of Castles in their work and proposed a new methodology for comparing global incomes. Their technique involved an examination of Purchasing Power Parities[11] adjusted for (price) substitution biases. Using this technique and data from 115 countries, Dowrick and Akmal concluded that no statistically significant change had occurred in income inequality over the last twenty years.

Additionally, Dowrick and Akmal provide an interesting comparison between the three methodologies used in measuring income inequality (forex, PPP and PPP-adjusted). Using the same data set Dowrick and Akmal showed that the exchange rate technique resulted in increasing disparity, the PPP technique (not adjusted for substitution bias) reducing disparity and PPP-adjusted technique no change.

One could argue that economic/pecuniary comparisons are not the best measure of true inequalities – should educational standards, life expectancies and disease rates be included in these measures? The IMF is of the view that they should – furthermore they suggest that a triple bottom line style approach yields interesting results on the 'true' disparity:

> *"The fruits of economic growth have been distributed unevenly between countries, but the extent to which this is true depends on the indicators chosen. Inequality between the world's rich and poor regions, measured by output per capita, has increased dramatically over time. However, alternative measures of development de-emphasising output per capita beyond a certain threshold but including non-pecuniary aspects, such as life expectancy and levels of education actually show some convergence in the course of the twentieth century, although large differences between nations remain for these measures as well." (IMF 2000)*

Whilst academic and political opinions vary regarding the credibility of various inequality measures it is important to investigate whether globalisation is to 'blame' for the poor economic performance/increasing inequality of many underdeveloped countries. Whilst a statistical correlation may exist between globalisation and income inequality, one must ask whether this establishes a causal nexus.

11 Purchasing Power Parities (PPPs) are ratios of the national currency prices of the same good or service in different countries. At the GDP level, PPPs are ratios which allow inter-country comparisons of real GDPs in a common currency (usually the US dollar) that eliminates the effect of different national price levels.

The Productivity Commission (2000) identified that many nations – Rwanda, Burundi, North Korea, Albania and Chad have all had significant internal problems – civil unrest, political/institutional instability and policies inimical to increased economic integration. Failures of national policies and institutions can only be corrected at the domestic level and should not be blamed on globalisation.

Given the circumstances within these countries their poor economic performance is not unexpected. This potentially biases data sets used in empirical studies, as globalisation may not truly be a global phenomenon. Again this becomes a causation issue – should globalisation be tarnished by events within these countries that are independent of it?[12]

Clearly, this is an issue that demands investigation. Lindert and Williamson (2001) have suggested that most observable correlation is misleading. Their research suggests that globalisation and its drivers have actually mitigated cross-country inequality. In addition, they concluded that developing countries (like those in East Asia) that have adapted favourably to globalisation's processes have gained much more than those which have not (much of Africa and Latin America).

The sensitivity of income inequality measures to the methodology, time periods and data sets used presents a major problem in that it reduces the reliability of conclusions drawn from cross sectional comparisons of international incomes (Productivity Commission 2000).

From a theoretical standpoint it is apparent that the most credible conclusion is that both pecuniary and non-pecuniary measures of inequality have not changed significantly over recent decades - globalisation has not caused or worsened poverty. The fact is that there has been a significant turnaround in average living standards over the course of the 20th Century, and in particular the second half of the century.

Notwithstanding the fact that on some measures, the benefits have accrued disproportionately to richer countries, globalisation has improved the living standards of millions of people in both the developed and the developing world. Despite the world population growing, the proportion of the world'population in extreme poverty has fallen, and the absolute number in poverty has stopped rising and in recent years appears to have fallen (World Bank 2001).

12 However, this creates a further problem – how are data sets 'representative' of globalisation chosen?

More people have been lifted out of poverty than ever before resulting in better health and education and a better quality of life. Indicators of life expectancy, infant survival, malnutrition, literacy and primary school enrolments have all improved since 1970 for most of the developing world (Sab and Smith 2001).

Negative Economic Growth and Employment Effects?

> *"Open economies fare better in aggregate than do closed ones, and there is no evidence that, overall, they experience worse poverty than closed ones. Indeed, the evidence is just the contrary: trade liberalisation is found generally to increase economic opportunities for consumers and producers and to raise earnings for workers."*[13]

Economists have generally been hesitant to draw the conclusion that trade liberalisation unilaterally increases employment. Whilst not explicitly rejecting this conclusion, the WTO is keen to point out that there is strong evidence from the services sector that trade liberalisation increases employment (WTO 2001).

Whilst a degree of ambiguity exists on the employment effects of trade liberalisation, it is generally accepted that trade liberalisation and global integration increases GDP (see Hufbauer and Wada 1999). Additionally, a recent investigation suggested that developing countries 'aggressively' embracing globalisation had growth rates up to 4 per cent higher than those more reluctant to embrace globalisation (AT Kearney 2000).

Freer trade and investment and greater exposure to the markets of industrialised countries should therefore be seen as part of the solution rather than the problem for those people looking to escape poverty. The most convincing evidence of this is the divergent economic performance of the East Asian tigers[14], on the one hand, and countries such as India, and many from Latin America and Africa on the other, that chose the road of self-sufficiency and Import-Substituting Industrialisation (ISI). The East Asian countries, characterised by an outward orientation, performed much better than those which shut themselves off from the rest of the world.

Trade provides countries with the ability to gain access to cheaper, better and different goods and services. It also provides opportunities to source new technology and creates scale opportunities that allow specialisation and productivity improvement and provide a competitive spur to domestic producers thereby increasing their competitiveness.

13 Winters, A., (2000), *Trade Liberalisation and Poverty*, Centre for Economic Policy Research London and Centre for Economic Performance London School of Economics

14 Indonesia, Malaysia, Singapore, Thailand, Hong Kong, South Korea, and Taiwan.

A Threat to First World Living Standards?

Many opponents of globalisation in the developed world argue that competition from imports from less developed countries, that employ cheap labour, threaten the living standards of developed countries. This is too broad, some workers will indeed be worse off, but others will be better off, and in aggregate living standards in the developed country will rise.

By ensuring that each nation directs resources to areas where it has a comparative advantage, trade generates higher living standards for both developed and developing countries. Trade allows a country's pattern of production to change in such a way that it can consume more without there having been any increase in available resources (The Economist 2001).

In Australia, both imports from and exports to developing countries have grown rapidly over the last twenty years. And despite Australia being a 'high wage' country (relative to developing countries) exports to these countries now account for nearly 50 per cent of Australian merchandise exports. Wage levels are not necessarily the deciding factor in determining where goods and services are produced, national productivity is also important.

Even with continued reductions in tariff protection over the last thirty years manufacturing output and exports have continued to grow. And protection does not necessarily 'save' jobs – in the decade to 1984, the effective rate of assistance to the textile, clothing and footwear industries increased by 12 per cent a year while employment fell by 3 per cent a year[15].

Both overseas and Australian studies[16] show that the wage and employment effects of reducing barriers to trade in developed countries are minor, with the influence of technology (requiring more high skilled labour) being by far the dominant factor.

However, it cannot be denied that a number of Australian workers in certain industries exposed to overseas competition have lost their jobs. Trade, like technological progress, creates winners as well as losers, even though in aggregate it makes the community better off. Lower prices for consumers are the crucial element explaining why real incomes rise in the aggregate.

It is the people that have been left behind by the economic and technological change that should be the focus of governments in their consideration of the management of change. Adjustment policies need to help individuals, industries and regions adapt to new market circumstances. Spending on education and training and perhaps more generous and effective help for people forced to change jobs would address the problem directly.

15 Department of Foreign Affairs and Trade, T*rade Liberalisation: How Australia Gains*, 1997.
16 Industry Commission, *Trade Liberalisation and Earnings Distribution in Australia*, Staff Research Paper, Canberra, 1998.

Exploitation of Labour in Developing Countries

It is often suggested that Trans-National Corporations (TNCs) exploit workers in developing nations.[17] However, it is important to note that large companies operating in developing countries provide opportunities that otherwise would not be available. Moreover, evidence suggests that TNCs do pay a wage premium – perhaps indicating these companies are prepared to pay more to attract higher-skilled workers. According to Graham (2000) wages paid by TNCs to poor-country workers are about double the local manufacturing wage.

Therefore whilst some may criticise a large multinational for exploiting cheap labour one must question what those workers would be doing without that company. The most likely answer is a lesser-paid job.

Rodrik (1996) found that low wage levels alone did not encourage increased foreign investment into those nations. This conclusion is intuitively appealing – a firm's decision to invest is going to be based on total factor productivity. Consequently, low wages if accompanied by low productivity will not result in a developing country being placed at a competitive advantage.

Deterioration in Environmental Standards?

Critics of globalisation say that fierce competition is pressuring firms to lower their environmental standards in order to keep uncompetitive industries commercially viable in developed countries or to transfer polluting producing processes to developing countries. However, according to the WTO (1999) there is little evidence to suggest that such pressures are having much affect on firms' location choice.

In fact, as the Chamber of Commerce and Industry of Western Australia (2001) recently pointed out:

> *"Capital may be often deterred from locating in countries with poor environmental standards, not attracted to them. Industries which prefer clean water and inputs and a safer environment will look elsewhere."*

This might change depending on the outcome of the Kyoto protocol which could see industries that produce large amounts of greenhouse gases locate to countries that are not signatories to the protocol. However, increasing awareness of greenhouse issues is also impacting on developing countries and their domestic policies. The World Bank (1999) recently concluded "that poorer nations are acting to reduce pollution because they have decided the benefits of abatement outweigh the costs."

17 The use of child labour remains an issue demanding action, as the exploitation of child labour is morally reprehensible. The International Labour Organisation is seeking to eliminate child exploitation through regulation and product boycotts.

In Australia and most developed countries tighter environmental standards are proceeding at the same time as trade liberalisation. Free trade boosts economic growth, which enhances the environmental protection effort: as people's incomes rise they begin to demand a cleaner environment. And demand for environmental protection in developing countries generally increases as income levels rise as well.

History shows that those countries with the worst environmental records are also those that kept their economies closed for much of the latter half of the 20th Century. For example, environmental damage in India, China and the former Soviet Union is only now being unwound as sections of these economies are opened to competition and investment in newer and cleaner technologies (The Economist 2001).

Despite a clear trend towards tighter environmental regulation, the developed world can do more to conserve the environment. Many industrialised countries including Australia continue to subsidise such staples as water and electricity: an end to such subsidies would do much to protect the environment.

Australia's and Western Australia's Place in the Global Economy

Australia recorded one of the strongest levels of growth among all developed countries in the 1990s, with per capita income growth averaging just under 3 per cent a year. Macroeconomic policies focused on keeping inflation low have created a stable environment for investment and consumer demand.

But the acceleration in Australia's productivity growth in the 1990s reflects more fundamental influences. Over the past two decades, Australia has progressively opened its markets to trade and foreign investment, reformed the financial sector, increased competition in the markets for goods and services (particularly infrastructure services) and improved flexibility and productivity in the labour market.

These policy reforms created better incentives for Australian companies to apply new technology and to be more efficient and innovative. They also provided Australia with the capacity to contend with the challenges and disciplines of the globalised economy. Australia's resilience in the East Asian financial crisis confirmed the fundamental strength of the microeconomic reforms undertaken (Productivity Commission 2000).

Western Australia, being particularly dependent on trade as a contributor to economic growth, has gained much from Australia's reductions in protection against imports, and has more to gain through continued reductions in trade barriers. With cuts in tariffs and the removal of other non-tariff barriers, businesses as well as consumers in Western Australia have a wider range of products to choose from, at cheaper prices.

Given the long-term decline in commodity prices, the prospects of Western Australian farmers and miners rests on their ability to improve productivity. With the relaxation of trade barriers and lowering of tariffs, the prices they pay for plant and equipment and other inputs are now lower than they otherwise would be.

Exports are important to the prosperity of many Western Australian companies. Lower tariffs on inputs, coupled with domestic structural reforms, have enabled many Western Australian firms to increase their competitiveness and their exports as a share of total production.

The benefits to Western Australia from trade liberalisation are significant. Both urban and regional areas can make substantial gains from greater access to world markets. Relative to

other states, exports make a very strong contribution to incomes, particularly in regional areas of the state (see table below). Western Australia has only a small domestic market: we cannot consume all our iron ore and wheat internally.

Contribution of exports to income by State/Territory

State/Territory	Regional Areas %	Metropolitan Areas %
New South Wales	22	13
Victoria	20	14
Queensland	30	13
South Australia	29	15
Western Australia	55	22
Tasmania	23	14
Northern Territory	34	-
Australian Capital Territory	-	4
Total Australia	**27**	**14**

Source: Department of Foreign Affairs and Trade, derived from data from MONASH database for export incomes and value added, 1998-99.

Not only is foreign trade important to the Western Australian economy but so is foreign investment. Foreign investment accounts for around 25 per cent of Western Australia's total private new capital expenditure. Most foreign investment flowing into Western Australia is directed towards the capital-intensive mining industry (ABS 2000).

Foreign investment makes a significant contribution to Australia's economic development, in particular by providing access to finance for economic infrastructure. A good example of this is the North West Shelf Venture[18], which is one of the biggest natural resource developments ever undertaken in Australia. Over $9 billion of capital investment has been undertaken since commencement. This project exports more than $2 billion a year of liquefied natural gas (LNG) and condensate and is responsible for more than 60,000 jobs Australia-wide through the economic activity generated by the project.

18 The North West Shelf Venture consists of several production joint ventures. Participants include: Woodside Petroleum Ltd, Shell Development (Australia) Pty Ltd, BHP Petroleum (NWS) Pty Ltd, BP Developments Australia Ltd, Chevron Asiatic Ltd and Japan Australia LNG (MIMI) Pty Ltd, a company jointly owned by Mitsubishi Corporation and Mitsui & Co Ltd.

In addition to building Australian exports and increasing employment opportunities, foreign investment also enhances competitiveness by exposing Australian companies to new technologies, managerial skills and marketing networks. These benefits have enabled many local companies to take advantage of overseas business opportunities that previously would have been beyond their capability (DFAT 2001).

Increasing integration into the world economy has had a significant impact on Australia's and Western Australia's economic performance. So recent efforts to stop or reverse this process are disturbing.

Conclusion

Globalisation is positive for Australia and even more so for Western Australia given it is highly reliant on global trade and investment for its continued economic prosperity. Greater exposure to world markets has encouraged Australian companies to develop new techniques and further product innovation. As these technological advances spread throughout the economy, national productivity rises, along with income levels.

To continue to share in the benefits of globalisation Australia needs to support policies that further the liberalisation of trade and investment. Ultimately the continuation of the globalisation process in Australia depends on it achieving a better understanding of the benefits and costs of its own liberalisation. That requires not only political leadership to articulate the net benefits of embracing globalisation, but also that the adjustment consequences of such actions be addressed.

Managing change is important. Although the community-wide benefits of globalisation are significant, some groups of people can be left behind by the economic and technological change. It is an important part of a country's successful management of the process that the needs of these people are met.

It is imperative that governments not only implement change that takes advantage of the benefits offered by the global economy. They must also ensure an equitable distribution of the gains among their citizens. Moreover, policies to assist workers whose jobs have been made obsolete by technology (or to a lesser extent trade), to implement social spending programs and protect the environment are all easier to pay for with globalisation than without.

In addition, action must be taken in Australia to reduce the dominant but negative influence of those vested interests that benefit from stifled competition. Accessible information about the costs of anti-globalisation policies would be useful in promoting a wider and better understanding of what is at stake in the globalisation debate.

Advances in communication, information technology and transport have created global markets in a wide range of goods and services. Global trade and investment flows mean that individual countries can no longer cut themselves off from the international marketplace without a significant cost to economic prosperity.

Governments must speak out about the reality of globalisation, and carry their communities with them in meeting its challenges. For Australia, it is not a question of whether or not to impede or stop the process but rather one of how the process should be managed for the benefit of all Australians.

Globalisation is a process that provides benefits for all countries, not just advanced countries like Australia, to grow and improve living standards. An impressive body of evidence indicates that it has been the 'globalising' developing countries that have grown the fastest in the second half of the twentieth century and achieved the greatest reductions in poverty.

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