

Globalisation: Keeping the Gains



Because globalised economies grow faster than inward looking economies, they can move more quickly to higher income levels where they can enjoy better environmental outcomes. Policies which would lessen such economies' chances of development would worsen total world environmental outcomes, and condemn these populations to long term poverty and deteriorating environments.

But multinationals pay their workers in poor countries less, right?

No. Multinationals actually pay far more than local firms, especially in poor countries (see Table 1).

Most 'sweatshop' style conditions occur in local firms in developing countries. In most cases, foreign multinationals offer superior workplaces and conditions to local operations.

Table 1 Foreign Manufacturers Pay More than Local Companies
Average Compensation US Multinationals Pay, \$US '000s, 1996

	All Economies	High Income	Middle Income	Low Income
Average				
FDI Manufacturing Wage	15.1	32.4	9.5	3.4
Average Domestic Manufacturing Wage	9.9	22.6	5.4	1.7
Ratio	1.5	1.4	1.8	2.0

Source: Graham, E., 2001, 'Fighting the Wrong Enemy', Institute for International Economics, www.iie.com, accessed 13 July 2002

For example, labour groups in Indonesia believe foreign hotel groups offer better conditions and show greater respect for labour rights than most local operators.

Most sweatshops operate in some parts of the apparel, textiles, toy, and sporting goods sectors which account for less than 10 per cent of global merchandise trade. This suggests that sweatshops are not endemic to the global export sector.

Similarly, around 70 per cent of child labour exploitation cases occur in the non-export sectors of developing country. Poor labour standards usually reflect local operator and cultural practices more than the impact of globalisation.¹⁵

What is Australia doing to help developing countries prosper from globalisation?

We are doing a lot.

Australia is at the forefront of global efforts to reform those aspects of the global trade regime which makes it hard for developing countries to export their way to prosperity.

First, Australia is one of only three developed countries in the Cairns Group of agricultural exporting countries, which aims to eliminate the large subsidies and tariffs that other developed regions - including Europe and the United States - use to compete unfairly with the farmers of poor countries.

Developed economies, such as those of Western Europe, the United States and Japan, spend around US\$1 billion per day on supporting their agricultural sectors, which is double the total value of developing economy agricultural exports.¹⁶ Such policies severely damage developing countries' export industries because these industries face major difficulties competing in developed country markets.

Second, Australia's aid programme is focussed on helping regional developing economies develop strong

Want to know more?

For more information on the issues raised in this brochure:

- visit the Department of Foreign Affairs and Trade website: www.dfat.gov.au, in particular www.dfat.gov.au/trade/ and www.dfat.gov.au/students/index.html or
- view the outline, executive summary & Chapter 1 of the full report at www.dfat.gov.au/eau

domestic governance and well functioning markets to help them gain more from global integration.

More specifically, Australia is providing technical assistance to help developing countries participate in the World Trade Organization trade negotiations, including in trade policy development, strengthening of customs and quarantine procedures, taxation, including tariff, reform, trade and tourism promotion and investment policy formulation.

If you would like a copy of *Globalisation: Keeping the Gains*, contact Jane Monico of the Department of Foreign Affairs and Trade on 02-6261-3114 or by email, jane.monico@dfat.gov.au



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Using the themes of the new report by the Department of Foreign Affairs and Trade's Economic Analytical Unit, *Globalisation: Keeping the Gains*, we provide responses to some frequently-asked questions about globalisation and its impact on Australia and developing countries

Hasn't globalisation harmed Australian industries?

Far from it.

Globalisation has meant more open markets, and more open markets have revolutionised Australian industry. Because they now face greater domestic and foreign competition, Australian businesses have upgraded management practices and workplace arrangements. They have adopted a more strategic approach to achieving success.

The proportion of manufacturing businesses with 10 or more employees using advanced technologies increased from 33 per cent in 1988 to 44 per cent in 1997, and expenditure on foreign capital goods, and research and development has increased strongly.¹

In the early 1990s, a survey of 900 firms showed international competitive pressure was the major incentive firms cited for increasing research and development spending.

A one per cent decrease in industry protection for Australian manufacturers led to a permanent 0.15 per cent increase in that sector's output.²

But what has globalisation meant for regular Australians?

Plenty. Most Australians are now better off than they otherwise would have been, because as Australian industry has improved, jobs and pay have increased.

In 2001-02, Australians were around 55 per cent better off than in 1979-80, with real GDP per capita of \$36,000 compared with \$23,000, in 2001-02 dollars.

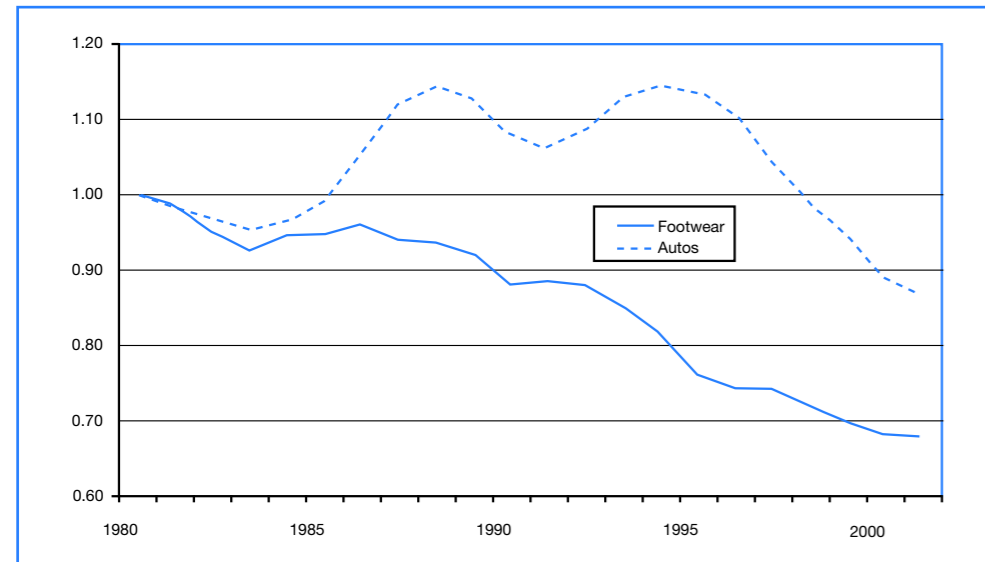
Australia was one of only eight out of 26 OECD countries to grow faster in the 1990s than in the 1980s.

As tariffs have come down, Australians have become better able to afford consumer goods, including major items like cars.

Also, because the Australian Government has invested in education and a strong safety net, inequality in Australia has remained roughly steady since the 1980s.³



Figure 1 Key Products Cheaper Because of Free Trade
Price of Footwear and Autos Relative to All Other Prices, 1970=1, 1970-2001



Source: CEIC Database, 2002.

More and more Australians understand why being involved in the globalised economy is important. In 2002:

- 85 per cent of Australians believed exports made a major contribution to the economy, up from 73 per cent in 2001;
- 46 per cent of respondents believed exports made a direct contribution to their standards of living, up from 34 per cent in 2001;
- 89 per cent believed imports increased consumer choice and 73 per cent believed they kept prices and manufacturers competitive.⁴

Is Globalisation Good for the World Economy?

Yes. There is strong evidence that trade boosts growth, especially for poor economies. A recent study of 72 developing economies found that since 1980 those economies which increased their ratio of trade to Gross Domestic Product (GDP) grew on average faster than those that did not. They also grew faster than developed economies. The economies studied included China, India, Brazil, Malaysia, Mexico and the Philippines.⁵

In the 1990s, these economies' GDP grew an average 5.0 per cent annually, up from 1.4 per cent in the 1960s. These economies have been closing the gap between their income levels and those of the world's rich economies.

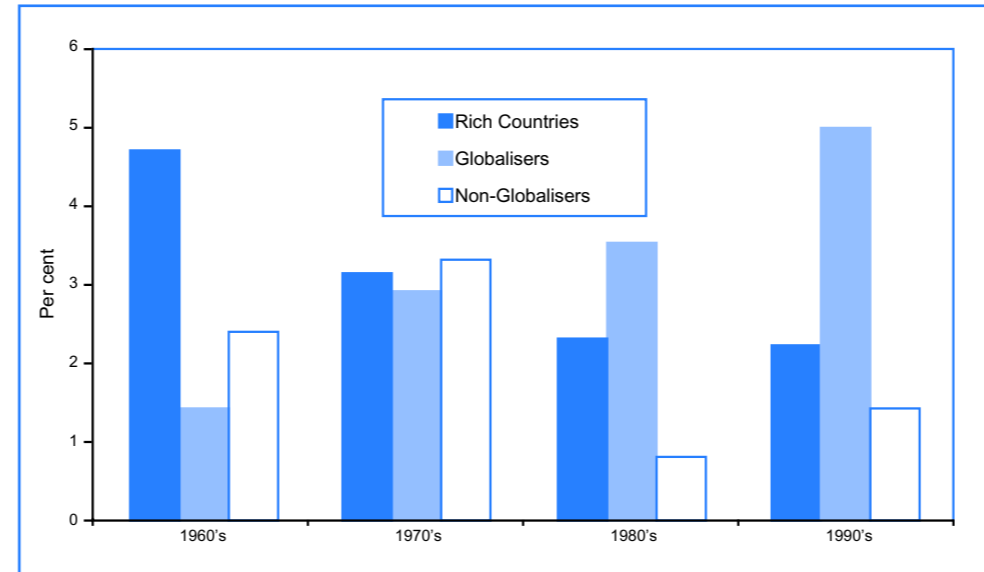
By contrast, economies that did not increase their exposure to international trade reduced their average annual growth from 3.3 per cent in 1970's to 0.8 per cent in the 1980's and 1.4 per cent in the 1990's.

Other studies confirm that freer trade benefits workers. In Australia, for example, exporting companies provide higher wages, greater job stability, safer workplaces and more training; they also invest more in new technology.⁶

Globally oriented US companies pay 5 to 20 per cent more than other companies. Even companies that export only a small share of their output employ 2-4 per cent more people, sell 1 per cent more per year and are 8.5 per cent less likely to go out of business than non-exporting firms.⁷

Meanwhile, in the United States, blue collar workers in exporting companies on average receive 13 per cent higher wages than those in non-exporting companies.

Figure 2 GLOBALISERS GROWING FASTER
Decadal Average Annual GDP Growth for Rich, Globalising Developing and Non-Globalising Developing Countries



Source: Dollar, et al., 2001.

Foreign Direct Investment (FDI) also plays a positive role in economies. A recent study of 20 developed and 20 developing economies found that FDI had a strong positive effect on economic growth, after holding other factors constant.⁸

But is Globalisation good for the world's poor?

Certainly.

According to the World Bank, between 1993 and 1998, the number of people in absolute poverty in globalising developing economies declined by 14 per cent. That amounts to approximately 107 million people no longer living in poverty.

Other indicators of welfare used by the World Bank also suggest that the quality of life of people in globalising economies has improved significantly in recent years. For example, average years of schooling and life expectancy in globalising economies have now roughly reached the levels of the developed economies in 1960.

Meanwhile, amongst developed economies, countries such as Ireland that have integrated into the world economy have closed the income gap with neighbours such as the United Kingdom. Wealth inequalities amongst developed economies more than halved between 1960 and 1995.⁹

By contrast, the same World Bank study found poverty in the less globalised developing economies rose by 4 per cent between 1993 and 1998. That's 17 million **more** people living in poverty in these economies.

Between 1980 and 1998, the net effect of these diverging trends was a reduction in global poverty of around 200 million people.¹⁰ And it's worth noting that these declines in world poverty took place when the world's population was increasing by around 2 billion.

Does Globalisation undermine the authority of national governments?

No. In fact, countries cannot globalise unless their governments choose to do so.

Only in the 1990s have levels of international economic integration surpassed those of a century ago, the first great age of globalisation, as governments around the world have seen the benefits of integrating with the world economy.

Unless governments lower trade barriers and reduce restrictions on foreign direct investment, countries will remain outside the global economic system.

Once a part of the globalised economy, national governments in fact have a greater, not lesser, responsibility to provide the right economic environment so that their citizens are able to keep the gains of globalisation.

But don't financial markets force governments to spend less on schools and hospitals?

No. At the end of the day, governments answer to their electorates and communities.

Many countries, like Denmark, that are open to world financial markets have very large governments that have large public health and education systems.

Doesn't globalisation force developing countries to lower their environmental standards in a "race to the bottom" so that they can attract foreign investment?

No. In fact, most foreign direct investment (FDI) flows to developed economies where environmental standards are high. Very little FDI goes to poor regions with weak environmental standards.^{11,12}

Globalisation can improve environmental outcomes directly. FDI and trade often introduce more efficient technologies that use fewer natural resources and generate less pollution.¹³

Trade also can allow economies to import renewable substitutes instead of using scarce domestic natural resources. For example, in the past few years, the Chinese Government has prioritised re-afforesting large tracts of marginal land throughout China to prevent flooding, soil erosion and dust storms. China is also now importing significant quantities of cut renewable plantation timber to meet local demand.¹⁴ In such ways, trade is helping to reduce and ultimately reverse the environmental impact of early industrialisation stages and related high population growth.

UGANDA LEADS THE WAY FOR AFRICA

Prior to 1980, Uganda isolated itself politically and economically from the world economy. In 1986, the Government began dismantling its complex system of trade barriers and by the late 1990s, Uganda enjoyed one of the freest trading regimes in Africa, with a maximum tariff of 15 per cent applying to consumer goods, 7 per cent for intermediate goods and zero tariff rates on capital goods. Between 1986 and 1999, its growth averaged 6.3 per cent and in the 1990's averaged 6.9 per cent, far exceeding growth rates achieved in bordering economies. In the 1990s export volumes adjusted for inflation grew by an annualised rate of 15 per cent and imports by 13 per cent. Importantly, Uganda diversified its exports, with non-coffee exports increasing five fold between 1992 and 1999. Poverty has declined from over 50 per cent in the 1980s to 35 per cent in the late 1990s.