

EXECUTIVE SUMMARY

GLOBALISATION WORKS

The experience of Australia and many of its successful East Asian neighbours shows globalising economies, those that are open to international trade and investment, deliver their populations higher growth in per capita incomes and better living standards than those that remain closed to the world. In the 1980s and 1990s, developing countries that increased their exposure to international trade grew about four times faster than those that did not. Over this period, the faster income growth of globalising economies reduced the number of people in the world living in poverty by about 200 million, even though poverty increased in more closed economies, especially in Africa, and the world's population grew by about 2 billion.

Globalising economies typically enjoy rising wages and environmental standards; they are not involved in a so-called 'race to the bottom'. Exporting labour intensive industrial and agricultural products has proved the fastest way to expand productive employment opportunities and raise incomes for millions of low skilled, asset poor workers in developing countries. Openness to the world economy, functioning markets and sound regulatory settings also can improve developing and developed countries' environmental standards. Globalising economies are better placed to acquire environmentally friendly technologies and knowledge and move into industries and services that place less demand on scarce environmental resources like clean air and water.

DOMESTIC POLICIES MATTER MORE THAN EVER

Far from weakening governments' influence, globalisation makes it even more vital that governments develop sound domestic policies and institutions so citizens and corporations can prosper in open markets. To export successfully, local firms, investors and workers must be able to respond flexibly to market derived prices so exporters can specialise in areas in which they are internationally competitive. To attract and prosper from foreign and local investment, economies need to guarantee property rights and provide efficient capital markets governed by effective, accountable and enforceable regulatory regimes. To be successful, globalising economy governments also must provide efficient infrastructure services; and to reap the benefits of new technologies, societies that seek to globalise require well educated work forces, credible intellectual property rights protection and access to venture capital. Governments also play an important role in reducing entrenched inequality and spreading the gains from globalisation by providing all citizens access to basic education and supplying at least some social safety nets.

GETTING INTERNATIONAL POLICIES RIGHT

International trade barriers can prevent developing countries taking the first steps towards export-oriented growth. Developed country trade barriers and production subsidies cost developing countries more than current aid flows benefit them and impose significant costs on their own consumers and producers using imported goods and services. High trade barriers against developing countries' agricultural products and labour intensive manufactures and developed country agricultural subsidies of around US\$1 billion per day shrink markets and lower prices for developing country farmers and also damage efficient developed country agricultural producers.

The World Trade Organization's Doha Round of trade liberalisation negotiations, the so called Development Round, has as one of its central aims increasing developing countries' access to developed country markets and addressing other trade related issues concerning developing countries, as well as expanding markets for efficient agricultural exporters like Australia.

As the world integrates further, the international community is under increasing pressure to provide solutions to a wide range of other global problems. These include ensuring international capital markets function efficiently and addressing effectively trans-nationality issues ranging from terrorism to containing the spread of communicable diseases.

AUSTRALIA'S GLOBALISATION EXPERIENCE

Australia's experience shows how a medium sized open economy with appropriate domestic policies and strong institutions can succeed in a more integrated and competitive global economy. Over the past two decades, Australian governments have cut tariffs, opened capital markets to international flows and promoted competition. By 2002, Australia enjoyed one of the world's most open trading and investing environments. Over time, these reforms transformed Australian industries and service sectors, encouraging them to adopt new technologies, increase training efforts and seek export markets. Successive governments also increased the transparency and accountability of important economic governance institutions, enabling Australia to respond effectively to the demands of a globally integrated economy.

Opening to world markets also increased pressure for other domestic reforms, including in labour and capital markets, taxation and utilities, generating higher productivity and living standard growth. As a result, in the 1990s, Australia's productivity and living standards grew much faster than in the preceding three decades. By 2001, Australians were around 55 per cent better off than in 1980, after adjusting for inflation.

As Australia globalised, its economy and exports also have become more diversified. As trade and investment barriers fell from the 1980s, Australia's manufacturing and services sectors became more efficient and they now provide over 40 per cent of Australia's exports, providing new jobs and income growth. Domestic reforms and a globalised economy also help Australia to remain a profitable exporter of minerals and agricultural products, even though the latter often confront high trade barriers. While agricultural producers in protected economies typically resist reforms and remain inefficient, Australia's agricultural sector is open to world markets, boosting farm efficiency.

GLOBALISATION PART OF EAST ASIA'S SUCCESS

Opening to world markets also has been central to East Asia's rapid growth over the last 30 years, delivering more people from poverty more quickly than ever before in human history. Labour intensive export oriented industries productively employ millions of surplus agricultural workers across the region and foreign direct investment provides new skills, technologies and markets vital to expanding exports. East Asian governments generally created the policy environment to support this success, investing in education and infrastructure, operating stable macroeconomic policies and providing political stability. As a result, in just 12 years from 1987 to 1998, the number of East Asian citizens living below the international poverty line of US\$1 per day dropped from 417 million to 267 million. However, to encourage FDI and domestic investment and regain past growth rates, East Asian governments are aware they must strengthen market discipline and regulation of their financial and corporate sectors.

IMPLICATIONS

Over the past three decades, the experience of Australia and successful East Asian countries shows that economies gaining most from globalisation have governments which provide effective and accountable economic policies and institutions, flexible markets, efficient infrastructure and quality mass education and training. Opening international markets to developing country exports is a key priority to help low income countries gain from globalisation; all economies also would gain significantly from further trade and investment opening, including through the WTO's current Doha Round. Development assistance to help regional economies strengthen their key economic institutions also can help our neighbours maximise their gains from globalisation.

