

# globalisation and deglobalisation

*Andrew Leigh*

The term "globalisation" seems to sweep over us daily. No business manual, no strategic plan, no political speech appears complete without some reference to "the forces of globalisation". It has countless definitions. Images of American cultural imperialism, the borderless world, the internationalisation of markets and interconnections through cyberspace are all evoked by this one simple word.

The extent of globalisation is also under question. Some view it as a world-shaking transformation. Others are more circumspect, recognising that globalisation is a steady process, and that whilst the Internet is changing the way some of us work, half the world's population have never made a phone call.

Yet globalisation is not inevitable. It is a choice that nations make, and a choice that can be unmade. We should embrace globalisation not because we feel that there is no alternative, but because it represents the best way of building communities and creating opportunities.

## **Globalisation**

It is sometimes forgotten that the world has seen a wave of globalisation before. At the beginning of the nineteenth century, Europe was insular. The Napoleonic wars had choked off trade, migration and even normal political relations. Yet during the 1840s and 1850s, world markets began to integrate. In these years, tariffs fell, migration was boosted, financial markets were linked across the Atlantic, and European merchants and their money flowed into Africa, Asia and the Americas.

*Globalisation and History*, a new book by Kevin O'Rourke and Jeffrey Williamson, puts it starkly:

*"By 1914, there was hardly a village or town anywhere on the globe whose prices were not influenced by distant*

*foreign markets, whose infrastructure was not financed by foreign capital, whose engineering, manufacturing, and even business skills were not imported from abroad, or whose labour markets were not influenced by the absence of those who had emigrated or by the presence of strangers who had immigrated. The economic connections were intimate, poor regions had enjoyed significant convergence gains by erasing part of the gap between themselves and rich regions, and flourishing export sectors enjoyed the benefits associated with the global trade boom."*

This boom in globalisation affected Australia as much as any other country. In 1870, our exports made up 6.3 percent of GDP. By 1914, they had grown to 10.9 percent of GDP.

## **Deglobalisation**

Then came the bust. The interwar period saw a dramatic rise in tariffs, as "beggar-thy-neighbour" protectionism reigned. International capital markets broke down, and have only recently returned to their pre-1914 levels. Mass migration ceased, and is unlikely ever to rise as high as it was before World War I.

Once again, Australia was a part of this deglobalisation as much as anywhere. Our exports as a proportion of GDP fell from 10.9 percent in 1914 to 7.8 percent in 1950. Australia retreated into isolationism, and stayed there through the 1950s and 1960s. During the salad days of the Menzies era, our manufacturing sector focussed on serving a small domestic consumer base. Tariffs were high, and strict quotas allowed the import of only one car per 190 people, and a single shoe per person per year.

The result, hardly surprisingly, was an uncompetitive manufacturing base, and low exports. When Labor came to power in 1972, exports were still just 9.3 percent of GDP – below the 1914 level of 10.9 percent. By this measure, Andrew Fisher's Australia was more globalised than Gough Whitlam's.

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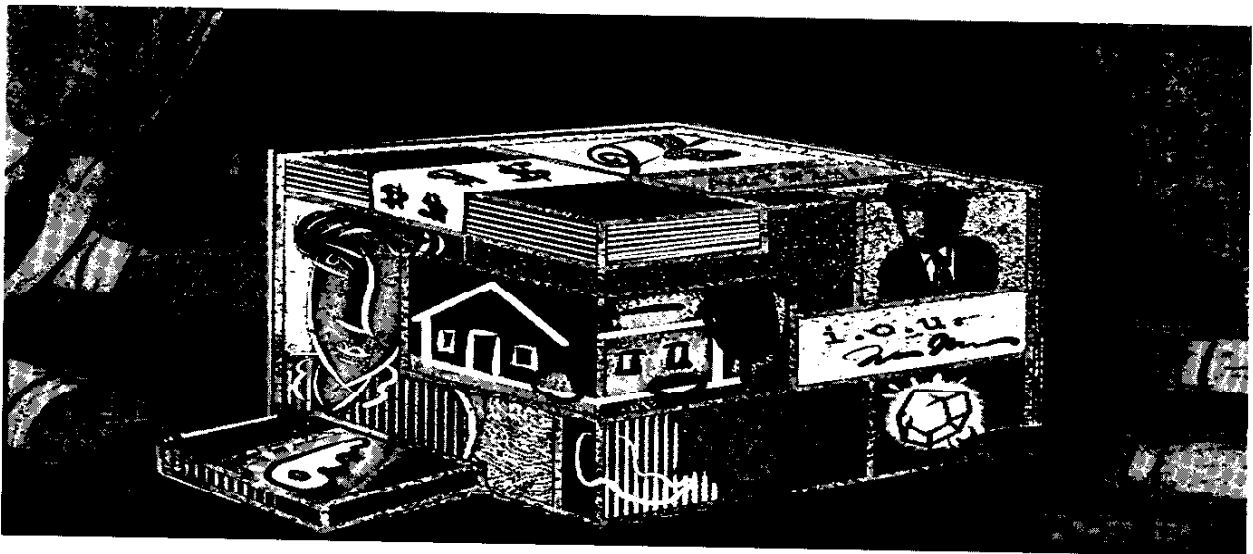
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### Reglobalisation

The most recent phase of globalisation – or “reglobalisation” as it should perhaps be called – has been substantial. Since 1970, world tariffs have more than halved, and world trade as a proportion of GDP has tripled. Capital flows have increased 25-fold. The cost of air travel continues to fall. The number of pages on the

For social democrats, however, trade, capital flows and the Internet are all very interesting, but they are only a means to an end. The real issue for us is this: has this latest wave of globalisation boosted living standards here and in the rest of the world?

In short, the answer is yes. Although a billion people still live on less than a dollar a day, the past generation has seen billions more brought out of poverty – in large



World Wide Web has grown from around 50 just a decade ago to over 50 million today – linking together companies, non-governmental organisations and individuals in new and unexpected ways.

Australia has changed dramatically too. In the past thirty years, our average tariff rate has fallen from over 30 percent to under 5 percent. Exports have grown every year (with the exception of 1998-99) and are now 13.6 percent of GDP. Millions of Australians are connected via their computers to the world – where our share of the web is ten times higher than our share of the global population.

part because of open markets and rules-based trade. In South Korea, Mexico and Thailand, trade liberalisation has doubled real incomes, and improved literacy, education and life expectancy. Gains in these nations have far outpaced those in countries that chose to remain more isolated. In fact, from the 1970s to the 1990s, developing countries that chose growth through trade grew at least twice as fast as those who chose not to open to the world. The most open grew six times as fast.

Australia has also gained substantially from globalisation. The growth in real wages has been fastest in those companies that are engaged with the world economy. In the manufacturing sector, for example, jobs in exporting companies pay on average 30 percent more

than jobs in non-exporting companies. Why? As a 1994 study by the Australian Manufacturing Council pointed out, exporting companies have an entirely different outlook. Their growth comes through finding new markets, and embracing new technologies – not through suppressing wages.

Exporting companies are also more likely to grow, and this means more opportunities for workers. Currently 1.7 million Australian jobs – or one in five – depends on exports. Not just wool, wheat and coal, but also exports of cars, software and financial services now create many sustainable, well-paying jobs.

Globalisation has also brought prices down, putting extra dollars back into tightly stretched family budgets. Trade liberalisation under the Hawke and Keating Governments gave an extra \$1000 to each Australian family. Because tariffs are a flat tax – like the GST – those who benefited most were the lowest income earners.

### The choice

None of this is to say that globalisation is perfect. Governments still have a critical role in bridging the gaps in society – of resources, education, geography and technology. Globalisation has increased the size of the national pie. The increase has been so great that almost everyone now has a larger slice than a generation ago. But the differences between the smallest slice and the biggest slice have also grown.

At the international level, there is also a powerful role for government. Bodies like the World Bank, the International Monetary Fund and the World Trade Organisation are increasingly seeing poverty alleviation as at the core of their mandate. Australia should encourage this trend, and provide expertise and resources to support such work.

We should maintain the pressure for more democracy in the international institutions, and more inter-agency cooperation, if we are to deal with complex problems like child labour and the greenhouse effect. But the way of tackling poverty is more globalisation, not less. Lower tariffs in the developed world would mean more jobs and better wages for textile workers in Bangladesh, farmers in Zimbabwe and engineers in Mexico. Incidentally, Australia would also benefit. Our farming, smart manufacturing and education sectors could all create more jobs if other countries' trade barriers were brought down.



### Conclusion

Ultimately, we must remember that globalisation is a choice. As former Prime Minister Paul Keating has pointed out in his book, *Engagement: Australia Faces the Asia-Pacific*:

“Any country can resist globalising forces. It can opt out, in whole or in part, by erecting barriers to openness. But it can only do this at the expense of a more impoverished and restricted future for its people.”

Engaging is in some ways more difficult than erecting barriers. It requires accepting that change is permanent, and that the pace of change will only accelerate. For social democratic governments, globalisation throws up its own particular challenges – as they work to look after those most at risk. Ultimately, however, social democrats are better able to deal with globalisation than those who oppose intervention in the market. Only a strong social safety net and active investment in education will ensure we avoid a repeat of the last wave of deglobalisation – and reap maximum benefits for all.