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Australia's Economic Policies in an Era of Globalisation

by

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AUSTRALIA’S ECONOMIC POLICIES IN AN ERA OF GLOBALISATION

Abstract
Outlines changes in Australian economic policies that have occurred in recent decades in response to growing economic globalisation. It considers microeconomic reforms in Australia and changes to its industry policy (including important changes in national competition policy) its financial reforms (exchange rate and banking reforms), its liberalisation of international trade and of foreign investment, both inward and outward. Furthermore, particular consideration is given to Australia’s policies and its lobbying in relation to The World Trade Organisation (WTO), economic regionalism, and bilateralism. These policies provide further insights into the way that Australia has responded to growing economic globalisation.
AUSTRALIA’S ECONOMIC POLICIES IN AN ERA OF GLOBALISATION

1. Introduction

The Australian economy is relatively open if we judge this by the extent of its international trade in goods and services as a percentage of its GDP. In the early 1900s this trade amounted to about 30 per cent of its GDP but by 2000 it had increased to approximately 45 per cent of Australia’s GDP. This increase is probably due to several factors. At the end of the 1980s, microeconomic and trade reforms began with a view to increasing the international competitiveness of Australian industry. Measures were adopted by government to increase market competition within the country (this was particularly important in the case of industries that had some degree of natural protection from foreign competition) and barriers to international market competition were greatly reduced.

By the end of the 1980s, the Australian Government appears to have been convinced that the Australian economy could only continue to perform well in a globalising economic world if it fully utilised market forces and became much more competitive internationally. Structural adjustment policies were therefore firmly embraced.

The Keating Labor Government started Australia on this economic reformist path and it was subsequently pursued by the Liberal-National Party Coalition Government led by Mr Howard. Policy emphasis from the late 1980s onwards was on supply-side economics, sustaining a low inflation rate and pursuing balanced or surplus government budgets. In line with structural adjustment policies, some measures were taken to reduce public sector activities, for example, many public enterprises were privatised.

In response to the perceived economic pressures on Australia that were expected to flow from growing economic globalisation, Australia’s economic policies became much more outward looking and policy-makers became obsessed with the need to increase the international competitiveness of Australian industry. Protectionist policies were abandoned along with infant industry arguments and the Brigden doctrine (Brigden, 1929). The Brigden doctrine, which had been developed before World War II, was based on the view that protection of Australia’s secondary industry would redistribute income (rents) from Australia’s primary industries (those in which Australia had a comparative international advantage) to labourers mostly working outside of primary industries. In addition, the Keating Labor Government abandoned the long held doctrine of the Australian Labor Party that some public ownership
of key enterprises, such as the Commonwealth Bank of Australia, was desirable. This major trading and savings bank, originally established by a Labor government, was privatised and in ensuing years most of the Australian government’s public sector enterprises were privatised, often on the grounds that this would increase the economic efficiency of these enterprises and reduce infrastructure costs in Australia and so benefit exporters and other users.

This chapter concentrates principally on Australia’s microeconomic reforms, but in addition considers its financial reforms, changes in its international trade policies (these are mainly of microeconomic significance), and its position in relation to foreign direct investment. It examines, as well, Australia’s attitude and lobbying in relation to the World Trade Organisation (WTO), and its position in relation to regional economic agreements and economic bilateralism.

2. Microeconomic Reforms and Changes to Industry Policy

Australian industry policy has undergone considerable reform since the late 1980s. The scope of activities under industry policy include trade, investment, labour, taxation, and technology development. Australian industry policy shifted from a protectionist to an internationalist stance beginning in the second half of the 1980s. Although there were tariff cuts in 1973, these were followed by little action until the 1980s (Garnaut, 1998). Three important changes were announced in government economic policy documents. The first was released in May 1988 Economic Statement, then followed Building a Competitive Australia in 1991 and more recently Investing for Growth in 1997. Reforms to Australian industry policy are based on the view that the markets provide the best mechanism for the efficient allocation of the nation’s scarce resources and that the free and open operation of markets provides the most effective basis for a sustainable and productive economy aimed maximising national welfare and employment opportunities (DITR, 2002).

Australian industry has been facing growing competition both in domestic and international markets. According to the Australian Department of Industry, Tourism and Resources, Australia cannot “hide behind artificial barriers or ignore change” and “stands to benefit significantly from the opening up of world competition” (DITR, 2002).

Since the 1980s, the main focus of Australian industry policy has been on improving the performance of Australian enterprises and its prime purpose has been to strengthen the international competitiveness of Australia’s industry. During the first decade of its reform,
Australia concentrated on creating a supportive environment for industry investment and providing positive assistance programs to help industry upgrade performance in the areas of R&D, innovation, technology commercialisation and marketing (DITC, 1987). Over the last decade, its reforms have focussed on the enhancement of competitiveness of Australian industry by the pursuit of sound macroeconomic conditions and microeconomic reforms; and second, a suite of business programs framed around three suggested drivers of economic growth: innovation, investment, and international competitiveness (DITR, 2002).

Australia’s microeconomic reforms have been undertaken to use competition as a means to promote economic efficiency and the competitiveness of Australian industry. Deregulation has been applied in many sectors including mining, the financial system, agriculture (Withers, 1998). In the 1990s, competition policies were introduced to sectors providing key business inputs. Such reform included deregulating infrastructure industries (electricity, gas, water, transportation, and telecommunications) and promoting increased flexibility in the labour market.

The industry policy statement, Building a Competitive Australia, released in 1991 directed the Bureau of Industry Economics (BIE) to undertake research to assess and compare the economic performance of Australian industries supplying infrastructure services used as business inputs with those overseas. The research assessed the efficiency of these industries and considered the consequences of this for the competitiveness of user industries (BIE, 1995).

Market reforms were applied to Australia’s highly regulated infrastructure industries in the 1990s. The reforms were intended to improve their productivity and efficiency. These industries provide key inputs to all other sectors of the economy. Consequently, these reforms were intended to reduce the production and operation costs for all economic sectors in Australia. They were considered important for increasing the international competitiveness of Australian companies and for making Australia internationally a more attractive investment location.

Since the late 1980s, Australia’s industry assistance policy has also shifted from assistance by means of high trade barriers to assistance for technology development programs. The 1997 industry policy announced the availability of $1 billion over four years starting Financial Year 1998-99 to support business research and development, and commercialisation of Australian research and development (R&D) (DFAT, 1998). The Australian Government’s
Innovation Statement in January 2001, *Backing Australia’s Ability*, committed significant additional funds for science, research and innovation (DITR, 2002, p. 5). Some important initiatives of this package included the research and development (R&D) tax concession, the R&D Start program and the Commercialising Emerging Technologies program.

As indicated above, the 1990s saw considerable change in legal arrangements regulating market competition within Australia. These changes were encapsulated in the *Competition Policy Reform Act 1995*. The effect of this act was to make markets for products and services within Australia much more competitive. Vestiges of protectionism maintained by the various state governments of Australia were to be abolished. Whereas public sector enterprises were previously exempt from competition laws, they were now made subject to such laws. Competition laws were to apply both to public sector enterprises (which in many cases supplied utilities and essential services) and private enterprises. Policies were framed to make public enterprises more subject to processes of market competition. Business competition law was to be unified throughout Australia.

The process of bringing about these reforms was instigated by the Keating Labor Government in 1992. It set up an independent committee to review and report on Australian competition policy. The committee’s report, the Hilmer Report (Hilmer et al., 1993), was completed in 1993 and accepted by the Australian Commonwealth Government and the eight state governments of Australia. This resulted in a National Competition Reform package defined by three intergovernmental agreements signed in April 1995 (National Competition Council, 1999, sec 1.2).

The national competition reform package included the implementation of the *Competition Policy Reform Act 1995*, the review of legal restrictions on competition, the reforms of government business enterprises and included market reforms in such industries as electricity, gas, water and road transport (National Competition Council, 1999). The *Competition Policy Reform Act 1995* extended the reach of the anti-competitive conduct laws in the *Trade Practices Act 1974* and *Price Surveillance Act 1983* to all private and public sector businesses. It also developed a national regime for access to ‘essential facilities’. In addition, the *Competition Policy Reform Act 1995* established the Australian Competition and Consumer Commission (ACCC), responsible for enforcement of competition policy, consumer protection and prices surveillance in Australia. A National Competition Council was also established to provide advice on future policies relating to national competition policy.
The role of the ACCC has grown since its establishment. The government appears to centralise regulatory responsibilities with the ACCC rather than having a number of separate public utility regulatory agencies. For example, in 1997, competition regulation and access regimes were transferred to ACCC under the new *Telecommunication Act 1997*. Consequently, the ACCC is now the focal point of competition and consumer protection in Australia.

Australia’s national competition reform, reforms in infrastructure industries and government business enterprises have had significant effects on domestic production and competitiveness of Australian companies. These reforms have, in the view of the National Competition Council (1999), directly lowered domestic production costs for Australian companies and reduced domestic market transaction costs for both companies and consumers. They may have also stimulated productivity improvement and the rate of innovation by Australian companies. According to the National Competition Council (1999), these effects have enhanced Australian export performance in particular and the competitiveness of Australian companies in global context in general.

Clearly the reforms to Australian competition policies and the alteration of Australia’s competition laws in the 1990s were largely a response to growing and anticipated challenges arising from increasing economic globalisation. They complemented Australia’s reforms in international trade policies, finance and other economic areas.

3. **Financial Reforms**

*Exchange rate policy and exchange rate control*

Australia had a fixed exchange rate regime and it was in place from 1931 until the late 1970s. At first, the Australian pound – the dollar from 1966 – was pegged against sterling from December 1931 until 1973. During the period 1960-1970s, the US dollar and sterling were devalued significantly. The devaluation of these currencies made it difficult for the Australian dollar to remain stable. Many measures to control foreign exchange transactions, therefore, were used. From July 1972, Australia moved to restrict capital inflows by extending existing exchange controls to the “sterling area” transactions, prohibiting short-term overseas borrowings, introducing controls on direct foreign investment, and abolishing the guidelines policy on local borrowing by foreign companies and the long-standing ban on overseas portfolio investment by Australian residents (Snape et al., 1998, pp. 659-60). With this strict
foreign exchange control, the economy fell into depression with high inflation and falling national output during the early 1970s.

Starting in 1974, some restrictions on foreign exchange trading were relaxed but the fixed trade-weighted exchange rate system was in place until 1976. The new regime called as “managed float” by the Treasurer applied from then until 1983 with differing degrees of rate flexibility. In the late 1970s, controls on private short-term capital inflow was removed completely; the requirement for foreign income earned by Australian residents to be remitted home within 30 days was eased in 1979; the currency futures trading centre was established in Sydney; and restrictions on investment aboard by Australian residents were relaxed further in early the 1980s.

During the 1970s and early the 1980s, Australian dollar was devalued a few times (e.g. 17.5% in 1976 and then 10% in 1979). The devaluation in 1979 was aimed at halting speculative capital outflows and the move was successful in this respect. However, the capital outflow intensified again and the Reserve Bank of Australia could no longer manage the market (Snape et al., 1998, p. 660). In October 1983, the Bank allowed the exchange rate to be market-driven. “Floating the dollar” put an end to the intervention by the Reserve Bank of Australia (RBA) to maintain a particular exchange value of the Australian dollar. The abolition of exchange controls in 1984 also removed the direct control over capital inflows by the RBA.

The floating of the Australian dollar and the deregulation of currency flows in late 1983 and early 1984 respectively were responses to deep turbulence in its financial system. These crises were caused by strong Governmental interventions intended to protect the national financial system from global trends towards more liberal financial markets. The floating of Australian currency was the first step in its financial reform, which became “the hallmark of government efforts to internationalise the Australian economy.” (Snape et al., 1998, p. 662).

**Removal of restrictions on entry into the banking market in response to development in the unregulated non-bank sector**

Another important move in the reform of the financial system was the removal of entry into the banking market. Historically, the Australian banking sector was highly protected against foreign investment. Legal barriers to this investment were set out in the *Banking Act 1945* and again in the *Bank Act 1972*. Technological and institutional developments and the deregulation of exchange rates and capital flows during the late 1970s and early the 1980s
resulted in Australia’s unregulated non-banking sector growing rapidly, leading to diminution of traditional banking services in Australia.

Australia removed restrictions on foreign entry into local banking sector in 1985 ostensibly to increase foreign competition in this sector. Then, further liberalisation was introduced in 1992 to facilitate additional entry. The 1985 change resulted in a more competitive banking market with the participation of thirty banks, compared with sixteen banks previously dominating the market since the Second World War till 1985 (Meredith and Dyster, 1999). The primary objective of opening up the banking sector was to encourage “speedy establishment of strong and innovative new banks” (Keating, 1984) but another objective of the changes was to gain reciprocal access rights for Australian banks overseas (Snape et al., 1998, p. 300).

4. International Trade Policies

Trade liberalisation
In line with the shift in Australian industry policy from protecting domestic producers to enhancing international competitiveness of Australian industry, Australia’s international trade policy has involved significant tariff reduction since the late 1980s and growing emphasis on export promotion since the early 1990s.

After World War II and until tariff reforms began in 1988, tariffs were a key tool for assisting Australian industries. The May 1988 Economic Statement initiated Australia’s trade liberalisation and announced a phased tariff reduction program: tariffs above 15 per cent were to be reduced in annual steps to 15 per cent by 1992, while rates of 15 per cent or less were to be reduced to 10 per cent over the same period (BIE, 1995). Trade policy in the 1991 Industry Statement announced further tariff reductions, with most tariffs to be reduced to 5 per cent by 1996. The statement confirmed Australia’s commitment to liberalising its international trade and to an across-the-board approach to reducing its assistance to industry and abandoning protectionism. In 1997, Australia announced that tariffs protecting its textile, clothing and footwear industries and its automotive industries were to be frozen at the year 2000-levels until a further reduction in 2004 (Industry Commission, 2000).

As the result of these reforms, the average effective tariff rate on manufactured goods imported to Australia fell from 22% in 1984-85 to 7% in 1996-97 and to 5% in 2000-01 (DFAT, 1998). Trends in the effective tariff rate can be seen in Figure 1.
Source: Based on BIE (1995)

Figure 1: Average effective tariff rates, 1968-69 to 2000-01 for Australia

Export promotion
In the 1990s, Australia’s international trade policy changed its emphasis to “export promotion”. Since then Australian trade policy has focused on creating new opportunities for Australian enterprises by securing better and easier access to overseas markets (Feaver et al., 1998). A recent announcement of Australian trade policy reflects this approach:

“Australia will focus on expanding its export market to increase trade performance and to reduce impediments to free and open trade. Exports are critical to generating wealth, creating jobs and raising living standards for all Australians. The Government is aiming to double the number of Australian businesses exporting by 2006. To this end, it is providing information campaigns on the role of exporting and the benefits of trade as well as committing resources to encourage businesses to export.” (DFAT, 2002, p. 12)

Australia has promoted this policy by export and marketing assistance programs and negotiated reductions in trade barriers as a result of multilateral and bilateral trade negotiations.

The Export Market Development Grants (EMDG) Scheme is the principal Government financial assistance program aiding aspiring and current exporters. The Scheme encourages
small and medium-sized Australian businesses to develop export markets. In the Financial Year (FY) 2002-03, the scheme provided AU$143.9 million to 3,843 businesses for developing overseas markets (Austrade, 2004). The question of whether the scheme should continue was raised in the early 1990s but it has been extended until FY2005-06.

5. Foreign Investment Policy

Inward foreign investment

A clear statement of Australia’s foreign investment policy does not exist (Bora and Lewis, 1997; Meredith and Dyster, 1999, p. 808). Until the late 1970s, foreign investment flows into and out of Australia were highly regulated through the foreign exchange control mechanism (Treasury, 1999) and at times, “controls on direct foreign investment in Australia had been used as an adjunct to exchange rate policy” (Snape et al., 1998, p. 663). Considerable liberalisation of the controls on foreign investment occurred in the mid-1980s. The changes in Australian foreign investment policy were closely connected to its trade policy reform and its microeconomic reforms.

The reform to inward foreign investment policy began with the establishment of the Foreign Investment Review Board (FIRB) in 1976. FIRB was to advise the Government on all ‘examinable’ direct foreign investment proposals. The proposals were only to be approved if they generated either directly or indirectly a “net economic benefit to Australia” in terms of certain criteria. From 1978 to the early 1980s, restrictions on foreign investments were removed gradually. In 1983, foreign entry was allowed in the banking industry, marking another important step toward an open investment policy. During mid-1980s, the thresholds for Government approval of new foreign businesses and projects and foreign acquisitions of real estate were increased to higher levels and the liberalised policy on banking sector was extended to other non-bank financial intermediaries.

The “net economic benefit to Australia” test was replaced with the “not contrary to the national interest” test in 1986. The new test was applied to most sectors including banking, tourism, and parts of the non-bank financial sector, services, and primary industries. Australia further reduced foreign investment controls during the mid-1990s, e.g. additional licences were granted allowing foreign banks to operate in wholesale financial markets as branches rather than as locally incorporated subsidiaries, the threshold was raised in all non-sensitive sectors, controls were eased on foreign direct investment in real estate and mass circulation newspapers. During the reforms to infrastructure industries and privatisation of some of
these, the controls on their foreign ownership were very restrictive at first but were also relaxed later on.

Australia has increasingly faced a world environment where global capital is more mobile than in the past (DITR, 2002, p. 11). Both domestic and international capital tends to flow to locations where owners of the capital feel that they can earn adequate returns securely. Therefore, the Australian Government, in dealing with the threat of substantial capital outflow and competing with other economies to receive international capital, has to demonstrate that it provides an attractive investment environment both to local and foreign investors. Recent Australia industry policy and investment policy reflect this approach. Invest Australia has been established as the national investment agency, responsible for promoting Australia as an attractive investment location, facilitating major projects and providing a wide range of services to companies seeking to establish or invest in Australian operations (DITR, 2002, p. 11). In addition, incentives have been given for investment in a number of specific industries. Relevant schemes include the Automotive Competitive and Investment Scheme, the Textile, Clothing and Footwear Strategic Investment Program Scheme, the Pharmaceutical Industry Investment Program, the Shipbuilding Innovation Scheme, and the Pooled Development Funds scheme. Support under these schemes is available to both domestic and foreign investors.

**Outward foreign investment**

Reforms in Australia’s financial system in the early 1980s significantly removed restrictions on Australian investment aboard. Since the early 1990s, the Australian government has played a key role in removing barriers to capital outflows and discrimination against Australian investors in overseas locations. The latter has been achieved through multilateral and bilateral negotiations on trade and investment liberalisation. By 2003, Australia had signed investment promotion and protection agreements (IPPAs) with 21 countries.

6. **Australia’s Policies in Relation to the WTO, Regionalism and Bilateralism**

Australia is active in supporting multilateral trade negotiations focused on market access (DFAT, 2002), especially in agriculture. The Australian Government initiated the establishment of the Fair Traders in Agriculture Group (known as the Cairns Group) to press for agricultural protection to be included in negotiations under the General Agreement on Tariffs and Trade (GATT). This group has continued to press, in the World Trade Organization (WTO), for greater freedom in trade in agriculture. As Chair of Cairns Group, Australia has lobbied for the elimination of agricultural export subsidies.
Though the WTO system has achieved significant reductions in actual applied tariff rates, its speed of liberalisation of trade and investment is impeded by complexity and benefit conflicts among 141 current member countries. Moreover, regionalism has been growing with the establishment of many free trade areas, such as North American Free Trade Agreement (NAFTA) or ASEAN Free Trade Area (AFTA). These trade blocks have discriminated against traders and investors outside their blocks.

What has Australia done to respond to these trade and investment impediments? First, Australia has participated in regional trade and investment forums like APEC or initiated free trade blocks, such as Closer Economic Relations (CER) between Australia and New Zealand and then AFTA-CER Closer Economic Partnership (CEP). Second, it has been engaged in free trade agreements with strategically important economies such as Singapore (DFAT, 2003d), Thailand (DFAT, 2003a) and the USA (DFAT, 2004), and may do so with Japan in the future.

**APEC**

APEC’s (Asia-Pacific Economic Co-operation) economies are the main markets for exports of Australian goods and services and also a key source of foreign investment in Australia and key destinations for Australia outward investment. Export of goods and services to APEC countries accounted for over 70 per cent of Australia’s total export value in FY2001-02. Foreign investment from APEC in Australia was around 50 per cent total foreign investment in Australia by end of FY 2001-02 and Australian investment to APEC was over 61 per cent of total overseas investment (ABS, 2003).

Barriers to trade and investment of APEC countries, particularly tariffs, have declined significantly as the result of unilateral economic liberalisation taken by member economies and successful multilateral negotiations for reducing tariffs and trade barriers. The Bogor Declaration in November 1994 commits APEC member countries to achieve “free and open trade and investment” no later than 2010 by industrialised economies (including Australia) and 2020 by other economies. The White Paper on Australia’s Foreign and Trade Policies, *In the National Interest*, released in August 1997 confirmed Australian commitment to the Bogor Declaration (Industry Commission, 2000).

The majority of APEC economies have reduced tariffs and non-tariff measures and liberalised their investment regimes. National competition policy has been strengthened and
many economic activities have been deregulated. In addition, these economies have done extensive work to streamline their customs procedures and harmonise their standards. Australia has actively liberalised its economic activities and engaged in commitments under APEC and in return, Australia has received concessions from its partners. These have created new markets, eased difficulties in market access, and reduced transaction costs for exports of Australian goods and services, and for its foreign investment.

**ASEAN Free Trade Agreement (AFTA), Closer Economic Relations Agreement (CER) and Free Trade Agreements**

Free trade agreements enable Australia and its partners to ‘globalise’ their economies at a faster than has been achievable under WTO multilateral agreements. Australia initiated a free trade agreement with New Zealand and their Closer Economic Relations Agreement (CER) was signed in 1983. CER has expanded free trade by eliminating barriers to trade between Australia and New Zealand. By the year 1990, all tariffs and quantitative restrictions had been removed from the trans-Tasman in trade goods. The agreement also significantly improved the investment links between two countries. Two-way trade in goods increased by more than 560 per cent between 1983 and 1999 and two-way investment rose from $1.5 billion in 1983 to over $47 billion at the end FY2001-02 (DFAT).

AFTA-CER Closer Economic Partnership (CEP) established a further means to expand trade and investment and encourage regional economic integration between ASEAN and CER nations. AFTA-CER CEP agreed to an Australian initiative to adopt a target for doubling ASEAN-CER trade and investment by 2010. The CEP identified non-tariff barriers as a major impediment to increasing ASEAN-CER trade flows and has focused its work on what can be done to remove them (DFAT).

Australia approached Singapore in 2000 and subsequently the Singapore-Australia Free Trade Agreement (SAFTA) was concluded. It came into effect in July 2003. The most important areas covered in the SAFTA are trade in services and investment. SAFTA significantly reduces barriers for Australian companies to entering service industries such as telecommunication services, financial services and other professional services (legal, education, accounting and architectural services) in Singapore. Australian investors will enjoy protection against expropriation (FIRB, 2003). The agreement also promotes direct investment from Singapore in Australia by Australia providing more certainty and tangible assistance to Singaporean investors (Access Economics, 2001).
Australia announced the successful conclusion of negotiations for a free trade agreement with Thailand in October 2003. This agreement is the first comprehensive free trade agreement by Thailand with an OECD country. This agreement, which was expected to be signed in the first half of 2004, will eliminate most of Thailand’s tariff and quota barriers on imports from Australia. Thailand will eliminate its tariffs on nearly 3,000 tariff items, around 53 per cent of all items, accounting for 78 per cent of current Australian exports to Thailand. A further 41 per cent of Thai tariffs will be reduced to zero by 2010 and then all remaining tariffs will be reduced in steps to zero in 2015 or 2020 (DFAT, 2003c). It includes initiatives to free up and facilitate trade in services and two-way investment. Australian investors are looking forward to investment opportunities in such areas as mining operations, distribution services, construction services, management consulting services, education and maritime cargo services (DFAT, 2003b).

Australia and the United States (US) reached an Australia-US Free Trade Agreement (AUSFTA) in February 2004. However, it has yet to be ratified by the respective governments. It is too early to say whether the agreement will bring positive net benefits to Australian economy. However, there should be an immediate benefit of attracting greater investment from the United States and increased trade as a result of the removal of trade barriers. The US is the single largest source of foreign direct investment (FDI) in Australia and the largest destination for Australian FDI abroad. US direct investment in Australia at 30 June 2002 was AUD80 billion, some $16 billion more than the stock of Australian investment in the US (FIRB, 2003). In the long term, Australia hopes the AUSFTA will reduce any disadvantages it might experience in access to the US market if a Free Trade Area among the Americas (FTAA) consisting of North and South American economies is established in 2005 (AASC, 2001).

7. Concluding Comments
The exact period at which economic globalisation accelerated is difficult to determine because economic globalisation is multi-dimensional. However, in the last part of the 1970s there was major acceleration in the proportion of the world’s GDP entering into trade and in the last half of the 1980s foreign direct investment as a proportion of global GDP accelerated (see Chapter 1). Once the Australian Government because aware of such trends it began to alter its industrial policies from comparatively protectionist ones to ones involving greater use of less regulated and more open.
Initially, however, Australia lagged in its response. Liberalisation of financial markets did not really get under way until the 1980s and decisions to reduce tariff protection substantially were not made until towards the end of the 1980s. In fact, in the period between 1974-75 and into the late 1980s effective tariff protection for Australian manufacturing industry increased considerably. Towards the end of the 1980s, the then Australian Labor Government came to the conclusion that the Australian economy could not hold out against the growing forces of economic globalisation, except by forgoing significant economic benefits. It then began to alter Australian industrial policy to make the Australian economy more open and competitive with a view to making Australia’s industries more efficient and competitive with overseas industries.

Measures were adopted to increase market competition within Australia. Many public enterprises were privatised in order to increase economic efficiency in the supply of infrastructure services. The national competition package adopted in the mid-1990s substantially altered the legal framework of market competition within Australia. It resulted in greater market competition within Australia. Tariffs were slashed and as can be seen from Figure 1, kept falling in the early 21st century. In industrial policy, emphasis changed from protectionism to promoting competitiveness: extra incentives were introduced in the 1990s for export promotion and for supporting business research and development and innovation. Australia has also undertaken a series of reforms since the early 1980s that have helped to make its capital markets very open.

In international fora, Australia became a strong advocate in the 1990s for multilateral free trade and has continued this advocacy, particularly in relation to agricultural products. However, multilateralism progresses at a slower rate than desired by the Australian Government.

Consequently, Australia has also been very active since the early 1980s in negotiating and fostering multilateral and bilateral agreements designed to liberalise trade and investment between itself and individual nations or with groups of nations. This is seen as a supplementary strategy to supporting multilateral free trade. In many cases, Australia’s bilateral agreements have been forerunners to multilateral agreements providing greater freedom in trade and investment.

It is difficult to determine to what extent the economic policy responses of Australia to growing economic globalisation have been motivated by prospects of Australia’s economic
gain from participating in the globalisation bandwagon, and to what extent they are defensive; that is, intended to avoid losses that may flow from non-participation. For example, the Australia United States Free Trade Agreement appears partly to be motivated by defensive factors given the proposed Free Trade Agreement among the Americas. What is obvious, however, is that the Australian Government in last decade or so has become one of the most enthusiastic supporters of the process of economic globalisation and policies to advance it further. In line with this, it has adopted industrial policies that have made the Australian economy much more competitive and opens than previously. In addition, by international agreements, the Australian government has extended the globalisation of the Australian economy, a process that it wishes to carry further. This is a major change in its policy direction compared to that which prevailed in Australia from the end of World War II until the early 1970s.

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