Globalisation effectively aims to create a 'global market mechanism' by increasing international interdependence and integration through such means as tariff reductions and trade liberalisation. In theory, globalisation attempts to promote higher levels of equality and greater access to world markets by 'opening up' more economies, thereby creating a trading environment with an increased number of nations actively engaged in higher levels of exporting and importing. Such practices should indeed increase efficiency and create greater global market participation. However, it is manifest that commodity dependant nations (particularly developing nations) encounter difficulties when engaging in global trade with more industrially and technologically advanced economies such as America and other G7 nations. Whilst globalisation endeavours to create a situation characterised by a higher level of free trade, national interests and lobbying power within the World Trade Organisation invariably influence the level of tariff reduction by respective nations. Thus whilst globalisation does, theoretically, support actions to reduce the global gini coefficient, it is nevertheless evident that trade liberalisation and tariff reduction must be undertaken universally, with respect for developing economies, to achieve higher levels of international equity and increased efficiency.

The increased push for globalisation is predominately driven by the expansion of market specialisation to gain comparative advantage in international trade, consequently increasing both efficiency and domestic activity, which invariably has a 'drip on' effect to the global economy. Similarly, a greater reliance on technology has helped to characterise the nature of globalisation, with communication becoming increasingly effective and cost efficient. As such, international relations are enhanced, leading to greater freedom and opportunity to engage in trade. Globalisation is also aimed at increasing nations' terms-of-trade which is also addressed by individual economies domestically through microeconomic, monetary and sometimes budgetary policy to increase the volume of exports whilst simultaneously attempting to reduce the CAD. In this way, Australia's Gross Domestic Product is forecast to grow by 3.4 per cent during 2003-04.[1] The movement of capital or intangible resources throughout the global economy creates interdependence and international relationships without direct government intervention; foreign investment is almost impossible to stop and

[1] ANZ Forecast for the June Quarter: www.anz.com (accessed 22/9/03, 3:30pm)

succeeds in increasing the level of international reliance and connection. Globalisation is driven predominately by the World Trade Organisation, the members of which, especially those with greater economic and military bargaining power, attempt to increase market equality through a focus on tariff reduction to increase international trade and the ability of all nations to engage in these transactions. Globalisation is motivated by forces such as an increase in nations seeking comparative advantage (an offspring of specialisation), a greater utilisation of technology and improved international relations along with a long term view of increasing productivity and efficiency on a global scale.

Globalisation is palpably weighted to benefit economies with embedded and efficient infrastructure: those which have already established relatively stable economic growth and low inflation (between 2-3 per cent as an Australian government objective)[2] within their domestic market. Thus developing nations with insufficient GDP to acquire the level of savings needed to improve infrastructure are much more susceptible to highly variable terms of trade and real shocks within, relying much more heavily on lower-scale production commodities such as agricultural products. Because of the nature of international trade and the trend of trade liberalisation, countries struggling to establish their domestic economies rely heavily on these tangible exports. As evident in the agricultural sector, African nations often face a 'closed-door' market when dealing with America and much of the European community, with such nations lowering their tariffs too slowly, or even raising them in some instances to allow for sufficient international competition. Whilst tariffs protect the large agricultural industry in the US for example, which is a major political support base, making the reduction of tariffs highly contentious it does have the effect of limiting the domain in which globalisation can occur. Whilst economically advanced nations can persuade less developed economies to 'open up' to free trade it is clear that the converse does not always occur. Globalisation allows developed economies to increase their market share and their export volumes whilst, generally, creating a situation where developing economies struggle to compete with the large-scale and highly technology based economies. Similarly, in nations with inefficient industry and work practices, the cost of production will inevitably be higher than in developed economies (excluding wage levels, which must be looked at in relation to the cost of living with each respective nation). Thus "Many of the poorest commodity-dependant developing countries would benefit greatly, in terms of overall economic growth and poverty alleviation, if they were granted better access to developed-country markets."[3] Developing nations are therefore disadvantaged when competing on the international stage, for whilst G7 and other dominant economies are able to define efficiency as their target and foremost goal, many developing economies are forced to concentrate on merely producing, not promoting the best conditions of trade or efficiency. Conversely, China has developed to become a major economic power within a short period of time under the system of Special Economic Zones that are an attempt to encourage foreign investment and capital. Whilst China's economic growth has expanded significantly, it is evident that wealth is concentrated in certain areas of the country, predominately along the coast creating "narrowing income equality"[4], which is becoming a major economic problem for China and many other developing economies.

Australia, being an advanced economy, benefits quite significantly from globalisation because of increasing numbers of export markets and increased international competition reducing the cost of imports, as in the car industry where tariffs are now aimed at 10 per cent (to be reduced slowly so as not to flood the domestic market and cause mass redundancies). Whilst increased trade liberalisation and the accompanying tariff reforms have indeed allowed Australia's exports to grow, the reverse has also occurred. With imports becoming more accessible and Australia's import restrictions falling, Australia's current account deficit has increased quite significantly whilst gross domestic product grew more slowly. With the GDP reaching $87531 billion seasonally adjusted and the CAD reaching $-724 billion in the June Quarter in 1980 when the Australian economy seriously undertook means to engage in trade liberalisation, the gap between the two was significantly less than their counterparts in the June Quarter of 2003 when the CAD swelled to $-12686 billion and the GDP grew to $183 578 billion sa[5] reaching 6 per cent of the GDP[6]. It is evident that although globalisation has certainly benefited Australia's GDP, the CAD has expanded to levels much higher than those prior to the increase in international transactions, although Australia's CAD does not pose an

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2 Marie McKee and Ken Nailon. *The 2003 Study Guide to Economics Units 3 and 4*, Eighth Edition. (2003) (accessed 19/9/03, 2:30pm)

3 David Gruen (Reserve Bank of Australia) and Terry O'Brien (Department of the Treasury Australia) *Does Globalisation Make The World More Unequal?* (2001) (accessed 18/9/03, 8:40pm)

4 David Dollar. (accessed 18/9/03, (:00pm)

5 Reserve Bank of Australia Statistics: www.rba.gov.au/Statistics (accessed 21/9/03, 4:00) (sa: seasonally adjusted)

6 ANZ Economic Outlook (accessed 22/9/03, 5:00pm)

imminent threat and is, in relation to many other major economies, in quite a favourable position. Because of the nature of Australia's CAD, with the majority of the international

borrowing attributed to the private sector (comprising around 92 per cent of net foreign debt whilst the public sector forms only about 8 per cent)[7] rather than the government, it is clear that globalisation has helped to increase Australia's economic activity, with the growing, but not dangerously high CAD merely an indicator of this increased progress, allowing exports to increase by an average of 8.5 per cent over the past ten years[8]. The level of increased trade has also contributed directly to foreign investment within Australia, expanding both the infrastructure and the workforce of the economy. Foreign Direct Investment in the economy can certainly raise the level of GDP and create more job openings, stimulating economic activity. Nonetheless, FDI poses an inherent threat to the economy, with business profits returning overseas, usually to the mother corporation and not being reinvested within Australia. Therefore, although foreign investment within Australia does help to stimulate growth and increase production, the profits derived from these enterprises are often sent overseas, depriving Australia of remuneration for the use of land, labour and capital: the economy's productive resources.

Globalisation has undeniably improved efficiency and market access throughout the world. Trade liberalisation and the consequent reduction of tariffs have seen competition rise and domestic prices fall. Yet the removal or reduction of tariffs does have significant political and social implications for domestic economies, with short-term 'restructuring' or job losses overriding ideals of long-term productivity and improved efficiency. Also, because of the inherent nature of tariffs, which are designed to protect domestic industry, nations are tentative in undertaking significant reforms, for such actions will expose inefficient industry to competition and quite possibly result in internal redundancies. Whilst globalisation in its purest form represents the ideal of free trade globally - in a perfectly competitive market economy - national and political interest will continue to subvert the process of trade liberalisation, with established economies predominantly benefiting from the current trend and developing nations struggling to meet such high levels of output in an equitable and efficient manner.

[7] www.vcta.asn.au (accessed 23/9/03, 12:30pm)
[8] Australian Department of Foreign Affairs and Trade, *Exploding the Myths – Facts About Trade and International Investment.* (accessed 19/9/03, 2:40pm)