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# UNIT 5 ECONOMIC PROFILE OF AUSTRALIA: IMPLICATIONS OF GLOBALISATION

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## 5.1 INTRODUCTION

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Australia, with a population of around 20.2 million, has one of the strongest economies in the world. The economy is open, vibrant, competitive and innovative with a strong commitment from the government to maintain a competitive performance. Added to this, is an effective economic management of the structural reforms accompanied by low inflation and interest rates. According to the Department of Foreign Affairs and Trade estimates, in 2003-04, the Australian government registered a surplus budget of A. \$ 8 billion – 1 per cent of the Gross Domestic Product (GDP). The GDP is estimated at around A \$ 835 billion, growing at an average of 3.4 per cent since 1998. The low inflation rate since 1990s has been just 2.4 per cent, owing mainly to the economic productivity performance at an annual average rate of over 2.3 per cent. According to the 2003-04 estimates, the exports amounted to nearly A. \$ 143 billion.

One of the unique features is that Australia has a highly multicultural society that has considerable Asian population. This has put it in an advantageous position in terms of national workforce that offers the familiarity of a culture that is conducive to operating business in both Asian and Western business environments. With a greater range of Asian language skills, more than 840 business companies are said to have established their regional headquarters in Australia. This itself speaks volumes of Australia's robust economy.

Apart from the traditional industries, Australia has an advanced services and manufacturing sector with a solid productivity rate. Given its rich natural resources, capital and skilled labour force, and a diverse multicultural society, the foreign companies are naturally attracted towards investing in Australia. Moreover the clean environment, efficient health services, high education standard and lifestyle make it an attractive place to live

in thereby contributing significantly to a vibrant economy. Some of the major industries include food and dairy products, horticultural products like fruits and nuts, grapes, dried vine fruits and nursery products, fisheries, forest products like paper, mining and petroleum. Australia is also famous for its wine industry. Other industries include knowledge-based industries like Information and Communication Technology (ICT), tourism; services and manufacturing, and pharmaceutical industry.

The persistent effects of drought, a rise in the rate of Australian dollar, the impact of SARS, an indolent world economy have made exports difficult in 2003 but Australia had successfully overcome this lean period by consistent and efficient economic performance.

The Department of Foreign Affairs and Trade has contributed in formulating the policies that reaped consistent rewards of the domestic economic reforms accompanied by overseas market access. The Australian government is fully and firmly committed to supporting the innovation and excellence through its ongoing action plan called “Backing Australia’s Ability- Building our Future through Science and Technology”. It is this firm commitment that has elevated Australia as the fourth most competitive economy in the world in 2004, according to the DFAT (as against its seventh ranking in 2003 and tenth ranking in 2002). Australia is now recognised as a producer of quality goods and services. Its priorities include its commitment to a strong multilateral and liberalised trading system.

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## 5.2 OBJECTIVES

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After reading the unit, you should be able to understand:

- the economic profile of Australia in terms of its growth, Gross Domestic Product, global trade and its internal economic management;
- how efficiently it has managed its domestic economy, its various sectors such as agriculture, industry, mining and manufacturing;
- appreciate Australia’s performance in the service sector particularly Information and Communication Technology (ICT);
- Australia’s handling of its science and technology sector, particularly, Biotechnology, Nanotechnology and pharmaceuticals in addition to environmental techniques;
- Australia’s International Trade (Exports and Imports), bilateral, regional and global, foreign direct investments (FDI), and Australia’s International Aid; and
- implications of globalisation for Australia’s domestic economy and its international trade policy.

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## 5.3 DOMESTIC PATTERNS

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Behind the powerful trade performance of Australia, there exist “twin foundations”-the rewards from structural economic reforms and market access overseas. According to the Organisation for Economic Cooperation and Development (OECD), Australia’s resilience to internal and external shocks is due to its efficient economic management. With low inflation and interest rates, the economic growth rate was forecast at 3.75 per cent in 2003-04. Also the unemployment rate fell considerably in late 2003 (to a 13 year lows). The benefits of open market were recognised well in advance and the low tariff rates on imports turned out to be very profitable. For business, this meant lower input costs and increased productivity. The low tax rates for the corporate sector and reforms towards a flexible and labour market reinforced confidence in the quality and reliability of export goods and products. The deregulation of the financial, transport (especially air transport), telecom and electricity sectors further enhanced Australia’s market competitiveness. The extensive use of communication technology in the form of e-commerce and online export opportunities are the key factors underlying the economic strength of Australia. It also continues to focus on the capacity to innovate, fortify skills and open links with other economies and key trading partners. This has resulted in a 7 per cent growth in the Australian exports and imports.

### 5.3.1 Agriculture

Agriculture is one of the most vital sectors contributing substantially to the GDP. As of today, the Australian agricultural sector is one of the most efficient in the world and is well known for its goods and products especially of cotton, sugar, wheat, wool, beef, fruits and dairy products. By adopting new technologies and upgrading the existing technologies, Australia has achieved considerable progress in this sector thereby leading to gains through better output and productivity levels. The use of underground water and improved irrigation facilities, coupled with the development of transportation made agriculture, one of the most profitable sectors. Though the farmers faced rising costs and restrictions on land use in the initial years of modernisation of the sector, they tried to maintain the average output and with the assistance from the government through various schemes, helped in developing this sector as a competitive one at the global level too. This sector employs more than 4.5 per cent of the population; apart from contract harvesters and rural agricultural advisers, people are employed in the food and fruit processing sectors, wine making establishments, flour and pastoral industries.

- 1) The dairy industry is one of the largest primary industries in Australia, the exports of which are valued at A \$ 2 billion per annum. The export of the dairy products amount to nearly 16 per cent of the total world dairy trade. Australia exports over 55 per cent of its milk production and 60 per cent of the manufactured products. With the growth in production and consumer markets along with the growing international demand for processed food and beverages, the demand for Australian goods has increased substantially.
- 2) Australia's fishery products amount to nearly A \$ 12.5 billion, with an annual production of 250 000 tonnes of seafood and with exports at A \$ 1.85 billion per year.
- 3) Australia's food industry is valued at over A \$ 55.2 billion, contributing to a net trade surplus of A \$ 12.5 billion to the economy, and employing over 187 300 people in the sector.
- 4) Sugar remains the second largest export product of Australia and the exports amounted to A \$ 1.4 billion towards the beginning of 2004.
- 5) Australia is the largest supplier of wool in the world, with the annual exports standing at \$ 3.5 bn. About 85 per cent of the finest wool is exported by Australia, to the important markets including India, China, Korea, Japan and some of the European nations. With the restructuring in the wool industry, greater market orientation has been towards supplying high quality wool in both domestic and export markets.
- 6) Wheat is one of the important export items as well as a major source of rural income and employment. Australia supplies more than 13 per cent in the international wheat market and around 50 per cent of wheat exports are to the Asia-pacific region alone.

#### Wine Industry

The wine industry of Australia, for the last few years, has registered significant gains in the production levels, competing even against various longer established wine industries in terms of quality and value. It developed a 10 years marketing strategy, 'The Marketing Decade' in 2000, targeting an annual sale of A\$ 5bn by the year 2010. In 2002, with the production of 1220 million litres, Australia ranked fifth in the list of world wine producers. This industry employs more than 30,000 people in not only wine making but also in the wholesale and retail business. With an increasing number of tourists to Australia, the sale of wine alone constitutes an important share of Australia's (export) earnings, sometimes exceeding even the domestic sales (In 2003, the sale of wine was around 402.5 mn ltrs domestically while the export quantity was around 516.5 mn ltrs, with the exports worth over A\$ 2.4bn.). The important production areas include the states of South Australia, New South Wales and Victoria. In order to maintain the national standards, the Australian Federal Government formulated certain regulations focussing mainly on quality control. The industry engages the services of the Grape and Wine Research and Development Corporation (GWRDC) towards investing in grape and wine research and development. Some of the key R&D sources include Cooperative Research Centre for Viticulture and Australian Wine Research Institute.

## **5.3.2 Industry**

### **Mining**

Australia is reputed for its rich natural resources and continues to rank high as a leading mineral resource nation. It is a major producer of a wide variety of mineral and energy products like coal, bauxite, gold, silver, diamond, copper, iron, lead, lithium, nickel, manganese, uranium and zinc. There are around 400 mines across the nation and Western Australia itself has half of these resources. The key mining regions include Western Australia, Northern Territory, South Australia and Queensland. The minerals and petroleum resources accounted for almost 6.4 per cent of the GDP (in 2003-04) and consisted around 48 per cent of the nation's merchandise exports and 64 per cent of commodity exports. This industry is a highly successful one, with many small and medium Australian companies investing in exploring and mining together with global companies. It employs around 103,000 people. The investments in this sector account for A \$ 9.3 bn and around 9 major projects relating to minerals and energy were completed at an expenditure of A\$ 3.33 bn towards the end of October, 2004 and 73 projects were at an advanced stage around this time. Petroleum activity is concentrated mainly in offshore areas like Bass Strait, Carnarvon Basin (Western Australia) while the primary onshore project is in Cooper Basin (Central Australia). In 2003-04, it produced around 66 per cent of its energy needs, with the exports valued at A \$ 9.9 bn and the exploration costs stood at A \$ 1.73 bn during the same period. On the whole, Australia produces 65 different mineral commodities.

### **Manufacturing**

The Australian manufacturing sector contributes around 12 per cent to the GDP and is a strong component of the economy. It provides employment to about 12 per cent of the population and the industry has a strong export oriented growth. Considerable reforms were undertaken in this sector, as it initially imposed high tariffs. By the mid-1990s, the tariffs were brought down to around 5 per cent in order to enhance its competitiveness globally. Ever since, the sector has grown at an average annual rate of 7.6 per cent, exceeding the growth rates of even Japan and Germany. It is now one of the leading suppliers of advanced goods and services, exporting mechanical and electronic equipment, automobile parts, scientific and medical equipment, aerospace and ship building machinery, design and manufacture of wireless communications systems.

### **Transport and Infrastructure**

The expanding needs of trade and economy have ensured the development of sufficient land transport and infrastructure. The transport bodies, together with the minerals and petroleum industry, are working towards investing in the expansion projects of the infrastructure. The improved links of the rail, road and ports have facilitated an easy movement of goods and services to different parts of the country. While the port management is done by public and private undertakings, rail transport is usually managed by the provincial networks. Roads and conveyors also help in the short distance haulage especially for transporting coal; shipping is used extensively for exporting one of the renowned export items, liquefied natural gas (LNG) to countries like the US, Spain, Japan, Korea and others.

## **5.3.3 Service Industry**

The service industry forms the largest component of the Australian economy and has a strong base of support services in information and communication technology. Finance, property, business service together constitute an important part of export services; its scientific and medical equipment, pharmaceuticals, biotechnology, architecture, construction industry contribute substantially to the economy.

### **Information and Communication Technology (ICT)**

At the global level, Australia is ranked third as the users of sophisticated ICT; the government and business sector alike had acknowledged the importance of this and has been increasingly used in day to day business. It has been ranked 11th in the world e-business/ commerce with almost 95 per cent of Australian business connected to the online service or web presence. The export value of these services is at the value of A \$ 4.8 bn in 2002-03 and the exports of computers and other information services touched A \$ 1 bn value. Australia's expenditure on ICT is the 10th highest in the world, in proportion to its GDP and its IT market is the third

largest in the Asia-Pacific region. The use of the ICT has transformed and enhanced the performance of the economy by creating new production methods, streamlining business and e-business.

The investment by different countries in the ICT sector is valued at A \$ 7 billion; they have set up regional and operational centres and are now utilising a high skilled workforce of Australia. Some of the companies that had invested include IBM, Microsoft, Symantec, Motorola, Citrix and Oracle Corporation. In fact, Australia has created and is updating its resources to attract further investment. This is done through national investment promotion and facilitation, innovation action plans, encouraging e-commerce and providing necessary amenities to both domestic and overseas ICT investors.

### **Innovations and COMET Programme**

With a strong knowledge based industry that contributes to half of the GDP, Australia's economy has opened up many avenues for enterprise and innovation, corresponding to its large domestic and international information network. The Australian government, under the Commercialising Emerging Technologies (COMET) Programme, provides the individuals, small business and research institutes, the resources and knowledge to get new ideas and innovations to the market. The programme provides necessary financial assistance towards commercialising, investing capital and forging strategic partnerships. During the first four years, COMET is said to have supported 900 companies. The Australian government intends to spend around A \$ 100 million during 2004-2011 on this programme. It also intends to assist 200 companies annually, expand the expertise by 30 per cent through the network of private sector business and assist over 1000 potential firms that could raise more than A \$ 500 million worth capital. Under this, a subsidised access is provided in marketing, commercialisation, intellectual property and business planning. The programme was expanded under '*Backing Australia's Ability-Building Our Future through Science and Innovation*' programme. This is now showing encouraging results, which is likely to lead to long term benefits.

### **Telecom**

Australia has developed some of the most sophisticated and competitive telecommunication equipment and infrastructure. It has a wide network of cables and uses satellite and communication network between major cities. The users are provided a comprehensive and quality range of data, internet and multimedia services.

### **Science and Technology**

#### **Biotechnology**

Australia has been encouraging the use of biotechnology that has tremendous impact on the environment, agriculture, medicinal drugs etc. Around 370 companies in Australia are involved in doing core business in biotechnology and producing agri food and environmental goods and products, medical and biomedical devices and diagnostics. A well coordinated research and development in this industry has placed Australia as one of the pioneers in biotechnology. The leading biotech companies of Australia include GroPep, Bionomics, Technico and Ernst and Young which are involved in the development of new drugs, gene therapies, genetically enhanced varieties of vegetables etc.

#### **NanoTechnology**

Nanotechnology enables the manipulation of materials and process on a tiny scale, much smaller than micro-technology ([www.industry.gov.au](http://www.industry.gov.au)). It is the creation and use of materials, devices and systems that exploit the novel properties arising from the structure and function of matter in the nano-metre range ([www.csiro.au](http://www.csiro.au)). The Australian government is encouraging a strong and well resourced research in this technology through alliances, collaborations and commercial relations. The networks for the research are well integrated through formal and informal linkages with different organisations. Around A\$100 million is being invested annually for research and commercialisation purposes. Various multinational corporations and foreign government agencies are investing in the development and commercialisation of nanotechnology in Australia. The prime advantages of this technology include efficient means of energy storage, fuel cell development, solar cell technology, and towards product applications-including anti-bacterial and anti-viral coatings for industrial tools, enhanced paints and glasses, cosmetics and sunscreens and also towards pollution control. Due to this, Australia has strengthened its scientific and industrial capability.

## **Pharmaceuticals**

Australia was ranked 18th in the pharmaceutical market by sales, with the manufacturing of medicinal products turnover amounting to A\$ 7.8 bn (in 2003-04). The cost of the government's 'Pharmaceutical Benefits Scheme' (PBS) has doubled over the last few years from around A \$ 2 bn (1995-96) to A \$ 5.6 bn (2003-04). The industry invests around A \$ 520 mn annually on pharmaceutical research and development. Australia's contribution to global medical research is about 3 per cent and is supported enormously by the Australian government in terms of investment in scientific research and development. The R&D activity is a combination of its innovation system coupled with interaction between different entities like National Health and Medical Research Council, Institutes of medical research, hospitals, Cooperative research centres, and Commonwealth Scientific and Industrial Research Organisation.

## **Environmental Technologies**

Australia has one of the fastest growing environment industries that generate an income of around A \$ 9 bn a year and the export of environmental goods worth A \$ 1.6 bn. It has developed efficient systems in water waste treatment, monitoring, recycling and renewable energy.

### **5.3.4 Tourism**

Tourism sector is one of the fastest developing one and key economic contributor to the economy of Australia with an increase in the number of international visitors to Australia especially from the Asian region. The emerging tourism markets and related developments have provided Australia an opportunity to sell a wide range of tourism products which are around A \$ 16 bn worth of goods and services and with the total export earnings at 10.8 per cent (in 2002-03). The number of visitors grew from 2.8 million (1992-93) to 5 million (2002-03) and is expected to increase by 2012, attracting almost 8 million visitors and generating A \$ 27 bn export earnings. The Australian government has been focussing on various factors to turn Australia into one of the most favoured tourist destinations by developing "*Emerging Markets Strategy*", especially focussing on India and China. Strategies are being developed through various groups such as tourism operators, aviation and accommodation suppliers to receive large number of visitors. The Australian tourism industry is taking steps to remove impediments to growth in this sector and foster sustainable tourism strategies ([www.industry.gov.au/tourism](http://www.industry.gov.au/tourism)), with a package assistance of A \$ 235 million from the government. The government has established '*Tourism Australia*' by tourism Australia Act 2004 to attract international visitors, encourage domestic tourism growth, conduct research and analysis, and also attract major events to Australia. A package of A \$ 45.5 million has been allocated to encourage domestic tourism; A \$68.9 million has been allocated towards structural initiatives and A \$ 120.6 million for International marketing (Tourism White paper Initiatives).

### **5.3.5 Small Business**

A small business defined as one with fewer than 20 employees. It is a "business which is independently owned and operated, with close control over operations and decisions held by the owners. Business equity is not publicly traded and business financing is personally guaranteed by the owners. The business will have less than 20 employees." (Prof. Scott Holmes and Brian Gibson in their final report on Small Business, 2001). Around 1,233,200 private sector small business entities are said to be operating in Australia (2001) whose numbers would have definitely increased and represented around 97 per cent of the private sector business, with 3.6 million people employed in this sector. It constitutes 56 per cent of all private sector employment. The firms usually employ more than 5 people but less than 20 and is independently owned and operated and principal decisions are taken by owners. They contribute significantly to the national economy and are sources of employment, income, trade, entrepreneurship and economic growth. The Australian government is now taking up measures to provide advice and assistance and enhance their operating environment. E-commerce is seen as an opportunity to generate economic growth by developing information and telecom infrastructure. ([www.smallbusiness.org.au](http://www.smallbusiness.org.au)).

### **5.3.6 Education**

Of late, Australia has become one of the most favoured destinations for pursuing higher education, especially the students from Asia. Australian educational institutions are committed to quality, equity and high academic

standards. According to the DFAT Report 2005, more than 250 000 overseas students are pursuing higher studies in Australia. The top 10 countries of origin of overseas students are India, China, Malaysia, HongKong, Indonesia, Thailand, Japan, Singapore and the US. In 2004, the Australian government has allocated a budget of A \$ 6.6 bn towards the expenditure on higher education. The Australian Universities, reputed for excellence in teaching and research, have attracted more than 900 000 students with an offer of wide ranging academic programmes. Over 1.7 million students are reported to have registered in vocational education and training. A high standard of education alongwith flexible visa regime and permission to work part time have also provided incentives to the students to earn while they learn. The diverse society with a large number of English speaking people is an added advantage for the international students studying in Australia.

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## **5.4 AUSTRALIA'S INTERNATIONAL TRADE**

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Australia's international trade policy is characterised by the importance it attaches to bilateral and regional relations that help in advancing its national economic interests. Its close association with Asia and western nations has resulted in productive trade agreements, advancing its strategic as well as economic interests. It has earned the reputation as not only one of the fastest growing economies of the world but also as a reliable business/ trade partner. The process of globalisation and liberalisation has enormously benefited Australia; by a well coordinated and integrated policy framework and network- through bilateral, regional and multilateral- it has been able to enhance its competitiveness at the global and regional level.

### **5.4.1 Bilateral Trade**

The Australian government has set its priorities to enhance relations through bilateral agreements with some of the key trade and investment partners. Through these agreements, Australian government intends to improve market access and trade flows. Australia's bilateral trade agreements include the following:

*Australia-US Free Trade Agreement:* Australia has vibrant bilateral relations with the US, the world's largest economy. This agreement which came into force in February, 2004, is one of the most significant agreements Australia has ever entered into, promising long term benefits and closer economic partnership.

*Thailand-Australia Free Trade Agreement:* In a bid to boost its relations with Thailand, the second largest economy in South East Asia, Australia had concluded negotiations in 2003 establishing new strategic and economic partnership. Thailand is Australia's 13th largest export market and the bilateral trade worth A \$ 6bn; they decided on extending preferential access to a range of products and certain tariff free export items.

*Singapore-Australia Free Trade Agreement:* This agreement came into force in 2003, beginning a new chapter in the bilateral trade between Singapore and Australia. Singapore is Australia's 7th largest trading partner and one of the most important factors is the investment, with the Australian investment in Singapore at A \$ 10.1 bn and Singapore's investment in Australia at A \$ 33 bn (2002-03, DFAT).

*Australia-New Zealand CER:* Australia-New Zealand Closer Economic Relations agreement that came into force in 1983 is one of the most important agreements of Australia with its closest neighbour. The bilateral trade covers a number of customs, transport and business, law and services issues.

*Bilateral Trade Frameworks with China and Japan:* Australia-China Trade and Economic Framework was signed in October, 2003, covering trade in goods, services, e-commerce and trade and investment facilitation. In July 2003, Australia-Japan Trade and Economic Framework came into force reiterating Australia's commitment to strengthen its trade and investment with Japan. Japan is Australia's largest export market for coal, iron, LNG, aluminium etc. with the exports worth A \$ 22.9 bn in 2003 (DFAT).

*Australia-India Bilateral Trade:* With the opening up of the Indian economy in the early 1990s, Australia realised the export market potential for India under the 'New Horizons' project (1996), and both the countries renewed their economic ties, through development cooperation programme. India's emergence as a major economic force in the Asian Region, second only to China, could not be ignored by Australia. After decades of indifference, both the nations came together to forge strong economic relations. During the last six years the bilateral trade between India and Australia gathered momentum and now India is an important market for Australian exports. In 2003-04, India ranked 7th in Australia's export market. India's share of Australia's

total exports was 4.5 per cent and its share of Australia's total imports was 0.8 per cent. India ranked 13th as Australia's trading partner during the year 2003-04. The bilateral trade between both the nations in 2004 touched a record A\$ 6.54 billion. The value of total trade saw a steep increase of nearly 52 per cent or A\$ 2.23 billion, over the corresponding figure of A\$ 4.31 billion in 2003.

India's exports to Australia include textiles and clothing, pearls, precious, semi-precious stones, floor coverings, jewellery, textile yarn, crustaceans (sea food), engineering goods/ manufactures, manufactures of base metal, footwear, travel goods and handbags, chemicals and related products, plantation & agricultural products. India's exports increased by 14.6 per cent to A\$ 1.12 billion in 2004. This was 14.6 per cent higher than the corresponding figure of A\$ 977.7 million in 2003. India's imports from Australia consist of primary commodities such as non-monetary gold, coal (cooking), wool, copper and concentrates, silver and non ferrous metal scrap. India's imports also include chickpeas, dried fruits, peas, pulses, apples and manufactured items. India's imports from Australia recorded a high of A\$ 5.42 billion. This was a phenomenal 62.7 per cent or A\$ 2.08 billion higher than the 2003 figure of A\$ 3.33 billion. The trade in LNG products, services and manufactured products is also under negotiations; financial services, education services, retail, processed food and wine, consumer products, interior design and lifestyle goods are now some of the fastest growing sectors in India and Australia is a potential supplier in these areas. Australia can immensely benefit from India's expertise in IT.

#### **5.4.2 Regional Trade**

Australia's regional trade with its neighbouring countries has enhanced the overall regional cooperation in economic and security aspects. The lowering of tariffs and free and open trade and investment has contributed to the prosperity of the region as a whole. Some of the important regional trade agreements are given as below.

*IOR-ARC*: The Indian Ocean Rim Association for regional Cooperation (IOR-ARC) came into force in 1997, consisting of different Indian Ocean littoral and island states. Australia has been an active member of the group and continues to facilitate trade and investment in the region and boost economic cooperation through formal and informal policy inputs via academia and business.

*AFTA-CER*: In 2002, Australia and New Zealand signed an agreement with the ASEAN nations to form ASEAN Free Trade Area, through closer economic partnership. Australia is also a key dialogue partner of the ASEAN forum; this agreement aims at enhancing the trade and investment prospects in the region by lowering tariffs, eradicating non-tariff barriers, identifying key areas of cooperation and improving commercial partnerships between the members.

*Asia-Pacific Economic Cooperation (APEC)*: APEC is a unique regional trade group that brings together 21 nations together, representing over 2.5 million people to enhance regional cooperation and share economic prosperity. The group constitutes around 60 per cent of the world trade and is one of the most dynamic trade groups that is committed to trade liberalisation and policy consultation. It was created in 1989 as an informal dialogue group to promote regional economic cooperation. Australia is a key initiator of this group and APEC is crucial to Australia's economic opulence. The three pillars of cooperation are:

- 1) trade and investment liberalisation that aims at the elimination of tariffs and non-tariffs and increase the standard of living
- 2) trade and investment (business) facilitation that aims at reducing the costs of business transactions, access to trade information, cooperation in policy and business strategies.
- 3) economic and technical cooperation that provides training to enhance the capacity to take part in global trade, provide institutional assistance to members, and also enhance economic potentials and strengthen regulatory frameworks. APEC also strongly supports the private sector participation, exchange of business expertise and resources, and policy discussions with concerned officials.

According to the DFAT report, nearly three quarters of Australian merchandise exports worth A \$ 83 bn went to the APEC members in 2002-03. The group generated 70 per cent of global growth, GNP of lower



income economies of APEC increased by 74 per cent and 195 million new jobs were created over the past one decade ([www.dfat.gov.au/facts/bilateral.html](http://www.dfat.gov.au/facts/bilateral.html)). The GDP grew by about third overall, FDI investments grew by 210 per cent, exports worth increased to over A \$ 2.5 trillion, increased access to ICT, provided training and cooperation to micro, small and medium business and also enhanced security through counter terrorism activities.

### **5.4.3 Global Trade**

Australia has been an ardent supporter of the multilateral trading system vis-a vis WTO. For Australia, it offers the best deals and prospects to have greater access to the markets worldwide for its goods and services. Its economic prosperity depends much on its trade relations with the rest of the world, thereby creating a conducive atmosphere for its exports and business. Australia's objective is to actively participate in various rounds of trade negotiations and work towards removal of trade barriers thus creating an improved market access for the members in agriculture, industrial and service products. It leads one of the influential groups, Cairns Group that assists agricultural traders. Through this group, Australia has been working consistently to further WTO's commitment to agricultural trade reforms; a number of developing countries from Asia, Africa and Latin America voiced their concerns, demanding a fair share of the trade.

Australia is also an enthusiast for reforms in market access for industrial and service products. It has been participating actively in the negotiations on services within the framework of GATS, rules regarding dispute settlement mechanisms, removal of non-tariff barriers and the issues related to trade and environment, trade related intellectual property rights (TRIPS) and access to medicines and related services to the developing countries. Australia has been assisting these countries in articulating their demands and extends technical assistance. Towards this end, it has even pledged financial commitments in trade worth A \$ 245 million. It has been trying to maintain a fine balance by integrating its bilateral and regional trade commitments in tandem with the multilateral framework of the WTO.

### **5.4.4 Foreign Direct Investment**

According to the World Investment Report 2004, Australia is one of the four top countries in the Asia Pacific region to attract a foreign investment of A \$ 8bn in 2003, inspite of declining trends in world economy during that time. According to the IMF Report, Australia registered a "strong performance, with six years of budget surpluses, falling public debt, low inflation, high and rising productivity, and a long period of uninterrupted growth that had underpinned a dynamic job market" ([www.fdimagazine.com](http://www.fdimagazine.com)). During 2003-04, it has also registered its 13th year of consistent economic expansion which is an encouraging factor to attract the FDI.

The inward FDI into Australia is an important element in developing Australian industries' competitiveness, increasing exports and for generating employment; FDI into Australia accounted for A \$ 1058 bn in mid 2004. In order to expand its business and market access abroad, Australia invested A \$ 557 bn in June, 2004. 'Invest Australia', Australia's prime agency responsible for attracting FDI, is instrumental in promoting Australia as a competitive investment location. It provides the right environment for the potential investors in the form of project facilitation, immigration assistance, site visits, identification of joint ventures, government assistance schemes and incentives. Australian Trade Commission is responsible for facilitating trade and investment and assists Australian businesses to increase their exports. Australia has one of the largest managed investment markets in the Asia- Pacific region, with the total funds exceeding A \$ 767 bn (DFAT, 2005).

Australia's advantages include rich natural resources, agricultural resources, biotech, ICT, energy and other service sectors that contribute to nearly 80 per cent of its GDP. It had moved up from 19th to 7th most attractive markets and US is the largest contributor to Australia's FDI stock. Singapore also ranks Australia as its 7th most attractive FDI destination while global rankers placed Australia as the 4th most preferred FDI location in the world. Various tax reforms, restructuring of real estate industry, and liberalisation in media industry which imposed barriers earlier, helped in boosting Australia's inward investment. The power companies are now luring regional players like Singapore Power Limited bought US-based TXU's Australian assets for A \$ 5.1 bn (A.T.Kearney, FDI Confidence Index, p.33). With the forecast growth of 2.5 per cent in 2005 and 3.4 per cent in 2006, it is likely to witness uninterrupted economic growth; in 2003, Australia was the 4th

largest recipient of FDI in the region after China, Hong Kong and Singapore. According to the June quarter 2005 survey of New Capital Expenditure, released by Australian Bureau of Statistics on 1st September, 2005, the business investments totalled A \$ 15 bn to bring the total investments level to A \$ 57 bn; it grew by 7.3 per cent. Mining industry alone accounted for A \$ 10bn, at 29.5 per cent; the manufacturing sector grew at 13.7 per cent.

The reasons for the success can be attributed to incentives like Australia's strong economic credentials, transparent and efficient regulatory environment, predictability in business planning; capital flows and profit remittances, protection of intellectual property rights, trade related payments, patent and copyright enforcement, reforms in labour market, highly skilled and multilateral workforce, comprehensive education and training system, cost competitive location for business operations, sophisticated infrastructure like transport, telecom, logistics system, and a strategic time zone that operates 24 hours a day internationally. These, in turn, are increasing net economic benefits, generating employment, business investment, boosting Australian research and development capabilities and providing fair share in trade, thus enhancing Australia's competitive advantage. The Foreign Investment Review Board (FIRB) is instrumental in recommending and approving investment projects in Australia.

#### **5.4.5 Australia and International Aid**

The Australian government's aid programme aims to 'advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development'. AusAid, the Australian Agency for international development, coordinates the management of the aid programme and supports the developing countries in the areas of governance (economic institutions, peace and security), delivery of basic services (education and health), infrastructure and sustainable resource management. The aid programme also covers humanitarian and emergency assistance and supports the global community, through UN Agencies, by contributing to multilateral development banks (DFAT, 2005). Its aid aims at delivering basic facilities and services to all the citizens and improves solidarity between nations. Australia's efforts are guided by five themes that include the following:

- 1) improve governance to promote democratic and accountable government
- 2) reap benefits of globalisation through trade and new information technology
- 3) build human capital by providing basic services like education, health and sanitary facilities
- 4) promote regional security, prevent conflicts and coordinate in trans-boundary security measures
- 5) manage sustainable resources through rural development and natural resource use.

The aid is delivered through bilateral, multilateral and emergency humanitarian relief and by coordinating with NGOs. During the year 2004-05, Australia aimed at providing A \$ 2.133 bn on Official Development Assistance. The aid reaches around 58 million people, and the Asia-Pacific region alone has more than 800mn people who survive on less than A \$2 per day. It also provides assistance to the countries of Africa and West Asia through multilateral agencies. The top six countries that receive Australian Aid include Papua New Guinea (435.6mn), Solomon Islands (201.6mn), Indonesia (160.8mn), Vietnam (73.7mn), Philippines (62.2mn) and China (49.3mn).

#### **Australia's Aid to South Pacific Countries**

Australia has strong and closer links-historical, political, economic and community links with the South Pacific countries. It is committed to play an active and constructive role in the development of these nations devoting substantial resources and extending aid programmes. These island countries often face crisis of political instability and underdevelopment apart from sluggish economic growth. Australia extends development assistance, renders support to local initiatives for stability and viability to establish various institutions that help in development programmes. In fact, Australia is the largest donor of development assistance towards the Pacific nations' efforts towards sustainable economic and social development. It is also a major trade and investment partner for these countries. Australia has entered into defence cooperation and maritime security pacts, thereby enhancing the regional security measures in the region. Australia, since 2003, has been helping

the Solomon Islands in addressing its security and economic problems. The assistance package helped in the deployment of police, military and civilian personnel. Australia also assists Papua New Guinea, through constructive and friendly bilateral relationship, in promoting its political stability, governance and economic self-reliance. Through RAMSI- Regional Assistance Mission to Solomon Islands- Australia helped Solomon Islands to restore law and order and stabilise government finances, undertake reforms politically and economically. Australian aid assisted the State of East Timor to make its beginning as a new state. Australia also assists Papua New Guinea in undertaking public sector and economic reforms, security and for health programmes to more than 15 million children.

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## 5.5 IMPLICATIONS OF GLOBALISATION

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Globalisation is a much-contested concept. Broadly it means an increasing interaction between nations, encompassing territorial boundaries and forging linkages through transnational activities including trade and commerce. Communication technology plays an important role in intensifying these links. Precisely, it leads to opening up to and competing with the world markets. What impact does it have on Australia? Australia, as a middle power, as it is called in the post war order, has been playing an important role deeply influenced by its association with the US and other regional forces. At the global level, the principles of free market competition have changed the economic profiles of many a country. On its part, Australia adopted these policies in the 1980s. The ICT revolution has accelerated the interaction between various nations. 'The ascendancy of neo-liberalism and expansion of new technologies have created a proliferation of divergent paths and invigorated global politics. Global competition has broken down national boundaries and opened up regional trading blocs'. (Galligan, et. al, 2001). Global capitalism and geo-economics have increasingly affected Australia and it is now a significant player in the matters of multilateral trade and security. Australia has forged significant partnership with both the western world as well as its regional neighbours – far and near – through a series of strategic and economic agreements. Its role in the multilateral institutions is demonstrated by its participation in the influential Cairns group, its role in APEC and its participation in various trade rounds of WTO. It has entered into partnerships ranging from trade and security to research and development.

Australia's integration into this array of relations was not easy. It gradually but increasingly became independent from Britain in a wider framework and pursued its strategic and economic interests successfully in the new international order. To quote Galligan, "finding a place and a national role with which Australians are comfortable has proved rather more difficult. Underlying the heightened attention to national identity and the challenges of globalisation is a curious blend of uncertainty and exhilaration about the changes that are transforming Australia and its place in the world" (Galligan, et.al 2001). The effective linking of foreign policies with that of the domestic ones by various governments demonstrates its continuity in the policy framework. The close ties with the immediate and distant neighbours the world over has placed Australia in an advantageous position, having the best of both worlds. Its middle power status has conferred on it the benefits of credibility, independence and integrity. Its selective and gradual integration has, nevertheless, resulted in its economic growth, increasing jobs and higher standards of living.

As of today, Australia has become a home away from home to many immigrants merging easily into the values and traditions of the Australian society. Its multicultural society is a sufficient evidence of this. The internationalisation of its economy and the eventual benefits it has brought about can be attributed to its capacity of absorbing the positive aspects of globalisation, though many would contest this claim; the neo-liberal economic policies have drawn flak and a series of protests from various domestic quarters about its giving in the sovereignty to the pressures of globalisation.

The pro-globalisation groups consider Australia as a clear case of success. The lowering of tariffs had facilitated a higher growth rate of economy, boosted the exports, gave a new lease of life to manufacturing sector, and also improved the agricultural output. With a strong vested interest in agriculture, it tied up with many developing countries to press for liberalisation in this sector, thereby making gains for its farming community. Its business abroad has been quite encouraging and making considerable gains for its economy.

Whatever may be the anxieties associated with it, the process of globalisation is here to stay. It continues to influence the national economic policies. The solution lies in effectively redressing these concerns. Considering the fact that Australia is strategically placed, the best options lie in forging cooperative relationships with

various nations. Economic cooperation is more likely to contribute to this kind of relation than any other factor. Taking into view Australia's relations-bilateral, regional and global- it can be aptly said that Australia will continue to play a significant role in the broader context of globalisation.

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## 5.6 SUMMARY

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Australia has a vibrant and open economy and is one of the strongest economies in the world. Its structural economic reforms reaped consistent rewards and are well complemented by its efforts to expand its markets abroad. Australia has strong traditional industries apart from an advanced services and manufacturing sector with a solid productivity rate. Given its rich natural resources, capital and skilled labour force, and a diverse multicultural society, it is but natural that Australia has been able to strengthen its economy. With an extensive array of bilateral and regional trade agreements along with its commitment to the multilateral trading system and trade liberalisation, Australia has been able to merge easily into the global economic system and has responded favourably to the process of globalisation. Its strong performance, with budget surpluses, falling public debt, low inflation, high productivity, had underpinned a dynamic job market. It is one of the most attractive FDI destinations and has created favourable conditions for the investors. Its close association with Asia and western nations has resulted in productive trade agreements, advancing its strategic as well as economic interests.

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## 5.7 EXERCISES

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- 1) Briefly discuss Australia's role in the bilateral and regional trade agreements.
- 2) Explain Australia's contribution towards a strong rule based multilateral trading system of the WTO.
- 3) Write short notes on the following:
  - 1) Innovations and COMET Programme
  - 2) Australia's International Aid programme
  - 3) Small Business in Australia
  - 4) Australia and APEC
- 4) What is the impact of globalisation on Australia?

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## 5.8 SUGGESTED READINGS

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Galligan, Brian, Winsome Roberts and Gabriella Trifiletti, *Australians and Globalisation: The Experience of Two Centuries*, Cambridge University Press, 2001.

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*Important Websites:*

<http://www.dfat.gov.au/>

<http://www.industry.gov.au/>

<http://www.investaustralia.gov.au/>

<http://www.abs.gov.au/Ausstats/>

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