

DISCUSSION PAPER



What is this thing called Globalisation?



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1. Introduction

First of all we have to start with education. I am a big believer in education. I can see the difference it can make to individuals and to society. I remember visiting South Africa in 1994. I saw what had happened to workers who had been denied even the most basic education when they were kids in the townships. They couldn't advance because they didn't have the necessary skills. After all, education is a passport to a better life. Not just economically, but also in terms of personal development. I also remember visiting an Australian aid project in Johannesburg at the Institute of Advanced Journalism (IAJ). Australian teachers and journalists had volunteered to work with young people from the townships about the basics of writing and broadcasting. The project gave them not only a career but also the personal confidence to learn and to grow.

Also, education is intrinsic to the topic of this paper – globalisation. Believe me, if there is one thing you can be sure of after wading through all the globalisation literature is that *education matters*. Investing in human capital by advancing people's skills and developing their know-how is the best thing a country can do in a rapidly globalising world economy. Whatever your tariff level, exchange rate regime or foreign investment guidelines, you must invest in the skills of your people. A well educated, highly skilled workforce is the most valuable asset an economy can have. After all, capital is relatively mobile. It can move and move quickly. Labour, with

some exceptions, can't move in the same way because of the social nature of labour market institutions. So if labour is a 'quasi-fixed' factor of production then human capital investment is a good bet. Therefore education matters especially in an era of globalisation.

So for these reasons, I say we should go forth and educate, especially in relation to economics and business studies. The role that is played by economics and business educators is an important part of this process of investing in human capital for the greater good. What educators teach young people about the ways and means of the economy will not only help them personally but will ultimately benefit the entire Australian community. There are positive externalities in what educators do and I believe Australia will gain from this now and well into the future.

In this paper I was asked to tackle 'globalisation'. It is certainly topical and has been for some time in international circles and here in Australia. It is a term widely used but not always understood. It has several dimensions and therefore can be quite difficult to explain. Because of its complexity, I have structured my paper into discrete parts.

Firstly, I will attempt to get beyond the placards, the headlines and the throwaway lines and see what we mean by this elusive but emotive term globalisation in all its different guises.



Secondly, I will look at the different dimensions of globalisation with particular reference to trade, investment, organisational change and the 'new economy'. In doing so I will make cursory reference to how the 'modern' form of globalisation compares to similar phenomena in the past.

Thirdly, I will briefly outline the role that Austrade plays on behalf of the Australian community to help Australian businesses (especially small and medium sized enterprises – SMEs) as they cope with the forces of globalisation.

Hopefully, by breaking down the topic in this fashion I will have provided some useful information on the topic of globalisation that you can take to the classroom yourselves.

2. Globalisation —what does it mean?

2.1 The Battle for Seattle

When introducing the ‘globalisation debate’ I often think of the ‘Battle for Seattle’. That event certainly captured the public imagination of what had been talked about loosely as ‘globalisation’ throughout the mid to late 1990s.

You may recall the event. In 1999, the leaders of the World Trade Organisation were looking for a venue to launch the ‘millennium round’ of multilateral trade negotiations. This was billed as the final major scale international event of the twentieth century. Seattle seemed the perfect setting for such an event. After all Seattle, is one of the most prosperous cities in the United States and has enjoyed much of its success due to its strategic position in the global economy. It is an important transport hub for ports and railways, the corporate base of international aircraft giant Boeing, and the home of new economy giants Microsoft and Amazon.com. It is also a prominent exporter of entertainment and a setter of cultural trends. It is the self-proclaimed capital of grunge music producing rock bands such as Nirvana and Pearl Jam. It has also been the venue for the popular TV series Frasier and movies such as Disclosure and Sleepless in Seattle. It’s the capital of coffee chains with Starbucks spreading its influence throughout the world. Seattle, it has been claimed, is the city that best symbolised the 1990s so why not end the decade there with a major international event?

Whilst the city of Seattle (and the State of Washington) lobbied hard to host the event, the local dignitaries may not have anticipated what was in store. Despite its credentials as a global city, which has influenced international trends and tastes, Seattle became the site of a mass demonstration not seen in the USA since the 1960s. The streets were blockaded, there were riots and some acts of violence occurred. Real drama occurred as a state of emergency was declared. The city of Seattle looked like a war zone.

But only a small minority were involved in such incidents. The protestors were, in fact, a varied group. There were representatives of the environmental lobby, human rights organisations, developing country activists, religious organisations, indigenous groups and representatives of both the international and US labour movement. Many of the demonstrators belonged to Non-Government Organisations (NGOs). Most held peaceful demonstrations and were shocked by some of the violent clashes that occurred in some parts of the city.

The protestors came to Seattle to demonstrate against ‘globalisation’ in general and the WTO in particular. To them, the WTO had come to symbolise all that is wrong with globalisation and (what they claimed were) its associated impacts on the economy and the community.



Since Seattle we have seen similar protests in Prague, here in Australia in Melbourne and also in Washington DC and more recently in Quebec City. The World Bank, the International Monetary Fund (IMF) and the World Economic Forum (WEF) have, like the WTO, become targets for anti-globalisation groups. According to the demonstrators, the Seattle protests were possibly represented the high point of a 'campaign against globalisation'. Many of the same groups were involved in the campaign against the Multilateral Agreement on Investment (MAI), which was being negotiated in the OECD in the late 1990s (see Graham, 2000).

2.2 Global sceptics and global advocates

The Seattle protestors form just one part of a diverse group of citizens who are sceptical about the merits of globalisation. They are the 'global sceptics'. But what were 'global sceptics' who protested against the WTO at Seattle really objecting to? What is the intellectual basis of their objections and what are the alternative policy solutions on offer behind the placards? Are their objections to the international economic order new and unique to the new millennium or are they just a re-hash of old debates that have occurred long ago? In some respects, it is hard to know because the demonstrators were such a diverse group. Some clearly objected to free trade, others were concerned about corporate influence on governments whilst others were concerned about

environmental standards and indigenous issues. In fact if you asked each demonstrator at Seattle (or any of the other protests) about their definition of globalisation I am sure you would get different answers. After all they are a diverse group of a variety of interests and causes (and I would imagine, philosophies).

In fact, the global sceptics come from all points of the political compass. Some on the 'left' oppose globalisation because they say that international capital has too much influence compared to national sovereign governments. Others on the 'right' oppose all things that are deemed to be 'foreign' (that is, foreign capital, foreign governments and especially foreign people such as immigrants). Many global-sceptics place blame on a range of outcomes that may in fact have domestic causes rather than international ones.

However, there are many other global sceptics who do not oppose globalisation, as such but argue about what form it should take. They also have policy views that are not anti-trade. A good example is Dani Rodrik of Harvard University who has written about globalisation and social protection (see Rodrik, 1997).

Of course, there are also the global advocates. They are a diverse group too. If you passed around the microphone at the World Economic Forum at Davos and asked the delegates for their definition of globalisation you would get many different views.



For instance, some global-advocates like Ohmae (1990;1995) write enthusiastically about the “borderless world” and “the end of the nation state.” Others focus mainly on trade and comparative advantage. Most economists understand the economic case for free trade and see the modern form of globalisation as part of this process. For instance, ANZ Chief Economist Saul Eslake has put this view eloquently:

“...globalisation, is ...simply the logical extension of the tendency towards specialisation and trade has been going on almost since mankind first walked on the surface of the earth” Eslake (2000:2)

Other global-advocates, like Friedman (Thomas not Milton) in his bestseller ‘The Lexus and the Olive Tree’ see globalisation as not just about trade but about the triumph of market forces, technology and open and democratic forces throughout the world (Friedman, 1998).

In fact, as the diversity of views amongst both global sceptics and global advocates shows how the globalisation debate cuts across many traditional political alliances.

2.3 Is it new?

So is this debate between the global sceptics and global advocates new? Certainly the principles are not, even if the circumstances have changed. In fact if you look at the economic history, the topics of trade, internationalisation, capital flows and the like have always played an important role. The issue of how national economies integrate has always been contestable amongst economists. For instance, if we use trade as a proxy for globalisation, the debate has involved various scholars and philosophers since Moses was in short pants (Munckton, 2001) References were made to foreign trade in the discussions of the classical scholars in Ancient Greece. Foreign trade and the ‘doctrine of the universal economy’ was also adopted by philosophers and theologians in the first and second century (Irwin, 1996). One of major contributions of Adam Smith (the father of political economy) was to put the first economic case for free trade (Smith,1776). This was partially in response to mercantilism but was also done in keeping with Smith’s principles as a moral philosopher. Smith’s analysis of free trade later influenced David Ricardo in the eighteenth century whose principles of ‘comparative advantage’ still survive to this day in the economic textbooks.



One hundred years after Adam Smith enunciated the economic case for free trade, the world, in fact, experienced a major expansion of the international economy as the nineteenth century version of 'globalisation' took hold. As Kozul-Wright (1995) has pointed out, the globalisation of the nineteenth century was sometimes referred to as the 'Golden Age' of economic integration. At the time of this Golden Age, Australia became a nation and grappled with our own free trade versus protection debate at the beginning of the twentieth century.

The economic integration of the nineteenth century, flowed into the twentieth but came to halt due to the effect of two world wars and the Great Depression. The effects of these events took their toll on the world economy, only to recover after the establishment of international economic institutions (under the leadership of John Maynard Keynes) at Bretton Woods. This allowed a second 'Golden Age' under the post-war consensus to continue until the breakdown of those institutions in the 1970s following the OPEC oil shock and the Vietnam War. Since that time, we have seen a twentieth century version of globalisation emerge. This has comprised multilateral tariff reductions, floating exchange rates and an expansion of international capital flows. These trends, quickened by the technology of the 'new economy', set the scene for the globalisation debates we are having today.

History shows that whilst the principles are not new the circumstances are. To look at this more closely I have come up with a framework to look at the economic evidence on globalisation. I have decided to break globalisation down into four dimensions: trade, investment, organisational change, and the 'new economy' technologies.

3. The dimensions of globalisation

3.1 Trade

Trade is the dimension of globalisation that receives the most attention. Trade liberalisation refers to the removal or minimisation of formal trade barriers through the processes of the WTO and other regional and bilateral trade agreements. Trade liberalisation receives much public scrutiny because it involves direct policy decisions by national government to reduce trade barriers. It involves legislation and negotiation with other governments in highly visible public fora. This is perhaps why trade liberalisation has received so much public attention compared to other dimensions of globalisation. It is more “visible” and “discrete” than other more evolutionary processes that companies implement in escape of the public eye.

The case for trade was put succinctly by WTO Director General Mike Moore on a recent visit to Australia (see Moore, 2001) Moore has publicly commended Australia’s support for open trade and has seen it as a major contributor to Australia’s economic success in recent years. He regards trade as an important ingredient to improved living standards:

“Trade works its wonders in many ways. Higher exports pay for goods and services that are more cheaply priced abroad. The need to compete in world markets forces companies to become more efficient. And exporting firms provide good, high paying jobs...Imports too bring many benefits. Cheaper food and clothing for working families. Cheaper and better cars and electronic goods.

Cheaper inputs to make businesses more competitive. And last but not least, new technologies and greater competition, both of which boost economic growth.”

According to economic historians, Trade was important in nineteenth century globalisation too. “Large scale international trade was ‘born’ in the nineteenth century. Between the defeat of Napoleon and WWI European trade multiplied nearly forty-fold, having only doubled in the previous 100 years” (see Bairoch, 1989 in Baldwin and Martin, 2000).

Trade was important to the Australian colonies at this time too. Exports as a percentage of Australian GDP was, in fact, higher in the nineteenth century than it was for most of the twentieth (See Pinkstone, 1992).

I recall having a look at this historical data during the Sydney Olympics last year. I found that our ‘gold rush’ did as much for our trade balance in the nineteenth century as Ian Thorpe’s efforts did for our swimming team at Sydney 2000 (Harcourt, 2000b)

Trade liberalisation has been important to Australia’s economic performance in modern times. Successive Australian governments have delivered on commitments to reduce trade barriers (with bipartisan support). Australia has opened up its trade and diversified its export base. This has helped us cope with external shocks like the Asian financial crisis of 1997-99. According to Jacqui Dwyer of the Reserve Bank of Australia, we did so whilst being a price-taker not price-setter in most world markets (see Dwyer and Fabo, 2001).



But despite this people still worry about trade. They say it costs jobs and hurts people. They don't like imports and think they displace home-grown products. They blame governments and bodies like the WTO. This occurs despite considerable economic evidence that trade and openness supports growth and distribution objectives in rich and poor countries alike (Moore, 2001).

In Australia, the anti-trade criticism is also concentrated mainly on imports and tariffs. Little is ever said about exports and the important role that the exporter community plays in the Australian economy. In order to focus public attention on the exporting side of the trade equation, Austrade produced a discussion paper called 'Why Australia Needs Exports: The Economic Case for Exporting'. The paper discusses the macroeconomic and microeconomic arguments for exporting as well as some of the social benefits of trade. For instance, the paper looks at the links between trade and immigration, and the cultural and diplomatic benefits of trading with other nations. The paper also looks at the characteristics of exporters in comparison to non-exporters in terms of the labour market, business practices, innovation and the 'new economy' (Harcourt, 2000a).

This evidence shows that trade does bring net benefits to the community. Choosing not to trade could in fact lead to worse economic circumstances for the Australian community. Since the fall of the Berlin Wall, more countries do now engage in trade and are reaping rewards albeit at different rates and magnitudes.

3.2 Investment

Despite the capacity of capital flows to outstrip trade flows there is less public debate about the role of investment in this aspect of globalisation relative to trade. Part of the reason is that there are few formal regulations of investment made by governments on an international scale to the same extent as there are trade regulations in the WTO. Yet the opening up of the domestic economies to foreign direct investment (FDI) is an important part of modern globalisation.

Whilst investment was important in nineteenth century globalisation, it was very different to today's.

As Eslake writes:

"Foreign investment then was overwhelmingly portfolio investment – that is purchases of stocks and bonds – rather than, as is increasingly the case today, direct investment in the establishment, expansion or acquisition of branches, subsidiaries and affiliates in other countries. ...Moreover most of the capital flowed to labour-scarce and resource-rich countries (as the US, Australia and Argentina then were) rather than to relatively poor and labour abundant countries as is the case today."

In Australia's case in 1901, Britain accounted for just over half of our capital needs (Pinkstone, 1992). Most of it was in infrastructure.



However, FDI is an important part of modern globalisation. On the microeconomic side, FDI flows have changed sharply in the last twenty years.

As demonstrated by the United Nations Conference on Trade and Development (UNCTAD), FDI flows rocketed in the mid-1980s. The agency estimates that the global sales of MNC's foreign affiliates now exceed the world trade volume by 30% (See Baldwin and Martin, 2000).

There are of course, certain benefits to be had from FDI. In the Australian context, FDI has been shown to benefit both Australia and the source countries. It has also been demonstrated that FDI ultimately assists all sectors of the Australian economy (Department of Foreign Affairs and Trade (DFAT), 1999).

Open investment regimes are said to assist exports and exporters. There is a close link between FDI and exporting (DFAT, 1999). FDI is helpful to the domestic economy too as it assists in technology and knowledge transfer and raises productivity and growth. For instance, the presence of foreign firms encourages more domestic firms to export (see Sousa, Greenaway and Wakelin, 2000). This occurs for two reasons. One is competition. The second is the effect of spillovers in knowledge and technology, which the foreign firms bring to local industry.

Whilst FDI is shown to be a major source of employment opportunities, most of the debate about foreign investment in the labour market is over wages and conditions. Evidence shows that wholly and

partially foreign owned companies in Australia, are likely to pay higher wages and be more productive than wholly owned Australian firms.

Foreign investment, like exporting is said to contribute to improved productivity, higher skills and higher wages (DFAT, 1999). This is supported by international evidence that foreign-owned employers pay better than domestic ones. For instance, Graham (2000; 93-4) has calculated that in manufacturing, across a range of countries, foreign affiliates pay one and half times the wage paid by their domestic counterparts.

However, it should be noted that the size and pace of these FDI flows have caused concern in the globalisation debate. In some respects, this is the key to the globalisation debate. Capital moves faster because of information technology and without appropriate prudential supervision, there is a high chance of instability and 'contagion' across world financial markets. This was highlighted during the Asian financial crisis of 1997-99. Fortunately, Australia has a well-developed financial infrastructure with transparency, stability and high standards of corporate governance. This has enabled Australia to play a constructive important role in rebuilding financial infrastructure in the region (see Grenville 1999).

3.3 Organisational change

The third dimension of globalisation relates to organisational change in the corporate sector. Examining trade and investment flows between countries may provide some indication of intentional economic integration but it may miss major developments in corporate restructure and firm behaviour that may have major affects. There has been a whole change in the nature of the firm due to the globalisation of the production and distribution process. Firms are now part of global supply chains with widespread global networking. This has led to new management strategies such as outsourcing. Eslake (2000) has also noticed this trend. He writes:

“For both corporations and governments, the drive to lower costs has in turn spawned a variety of management strategies such as ‘outsourcing’ non- core activities to outside specialists, striving for economies of scale by acquiring and consolidating the operations of other businesses producing similar or compatible products, and shifting activities to locations where the most important inputs (such as labour or energy) may be obtained on the most favourable terms. For each of these strategies, reaching across national borders is a distinctly possible outcome.”

Of course, this corporate strategy might take place within a nation too. In some instances, it may not have anything to do with trade or investment but the latter may be an easier target (see Quiggin , 1999). The strategy may be purely a domestic one.

However, exporters and the affiliates of international firms are often the first to implement organisational change in Australia. One characteristic of exporters relative to domestic firms, is that they tend to adapt international business practices much earlier than firms in the domestic market do. Hence, practices like benchmarking, business networking, contracting out, out-sourcing are more likely to be pronounced in the exporting sector of the economy at least in its initial stages. These pressures are later translated to the rest of the economy. But these also coupled with the improvements in wages, productivity, safety standards and education and training which are characteristic of the exporting sector.

This dimension of globalisation is new. There were corporate changes in the nineteenth century as there were multinational companies (such as the East India Company). But control was often done on a colonial and geo-political basis. It also occurred at a much slower pace. Corporate strategic options that took place within nation borders can now take place beyond national borders in quick time due to the technological advances of the ‘new economy’. This is the final dimension of globalisation to which we now turn.



3.4 'New Economy' technologies

In terms of real economic impact, the rise of the 'new economy' (or 'the information age') is perhaps the most important part of the globalisation phenomena. The new economy is a shorthand reference to how a whole range of technological phenomena including information exchange, business systems, and commercial transactions and simple communications drives economic behaviour. The phenomenon of globalisation is in fact driven by the technologies associated with the new economy and the business practices that are available due to the adoption of these technologies. These changes are not only affecting business, but also are also creating anxiety between the information rich and the information poor and affecting the macroeconomic statistics that central banks rely upon when formulating public policy.

The new economy has captured the imagination of many prominent decision-makers in the global economy from Bill Gates to Alan Greenspan. It has greatly impacted on business processes and through the rise of the Internet and e-commerce. Both Gates (1999) and Friedman (1998) refer to the importance of speed in the global economy and the increased competitive pressures that information technology has induced. Greenspan (1999) has linked the *"...synergies in laser, fiber and optic satellites and computer technologies"* to the increase in the return on capital and the accelerated rate of growth in productivity.

In fact, the recent growth of measured productivity in the new economy has come to notice in both; the USA (see US Department of Commerce, 1998) and in Australia (see Parham, 1999). The increase in measurable productivity has seemingly resolved the puzzle several years ago by Robert M. Solow who had commented:

"You can see the computer age everywhere these days except in the productivity statistics..."

(The Economist July 24-31, 1999)

The Information Age or "New Economy" is already affecting the behaviour of exporters. As mentioned, Austrade research already shows the tendency of exporters to use the Internet and e-commerce to a greater extent than domestic firms do (see Harcourt, 2000a)

But is it new? There certainly were equivalent considerations in the nineteenth century. For instance, there was the impact of the telegraph wire, electricity and rapid improvements in transportation. In modern globalisation it has been mainly communications and information that have permitted a faster flow of ideas across the world economy. The lower cost in telecommunications has especially promoted the rapid increase in investment, especially in the services sector where knowledge-based skills matter (See Baldwin and Martin, 2000). There are also greater expectations on governments to respond to quickly to these flows of information and capital (which was not the case in the nineteenth century)

Austrade and globalisation

So how is Austrade faring with globalisation? We have traditionally been a trade promotion agency focussing on helping Australian firms export. In recent years, we have also turned our attention to increasing inward and outward investment. But the different dimensions of globalisation are changing the role that we play in helping Australian companies. As Charles O'Hanlon, Austrade's Executive General Manager for Europe puts it:

"Under globalisation, the paradigm is changing. International business is no longer about putting boxes on ships, or selling your technology and getting royalties or a license fee. It is now about enmeshing yourself in the markets of industrialised countries it is all about finding global opportunities for Australian businesses and helping them benefit from internationalisation by helping them source capital, skills and new technologies as well as export opportunities" (O'Hanlon, quoted in Harcourt, 2001).

Some of our key strategies to deal with globalisation include:

- Growing the number of Australian firms that are exporting through the 'Knowing and Growing' project.
- Assisting Australian businesses to get on-line and deal with the new business practices associated with the new economy through the 'Information Age' project.

- Helping explain the benefits of trade and investment to the Australian community through the 'Exporting for the Future' campaign.
- Helping build Australia's 'knowledge capital' in international trade and investment through networking, knowledge transfer and building educational capacity with strategic partnerships (through the establishment of the Austrade Institute)

The economics of networking and the new literature on knowledge capital provides a rationale for government to assist in trade promotion.

Many Australian SMEs are not in exporting despite there being good economic reasons why they should be. Therefore Austrade can and should play a role in overcoming obstacles to exporting and making sure that potential exporters that should be exporting are able to enter international markets. This is the focus of our Export Market Development Grants Scheme.

In short, with the prominence that globalisation is playing, and given our mandate to help Australian businesses advance on the world stage there is no better time than the present to be working for Austrade.

5. Conclusion

In conclusion, this paper has provided a synthesis of various aspects of the debate about globalisation that drew the world media's attention to the streets of Seattle in November 1999.

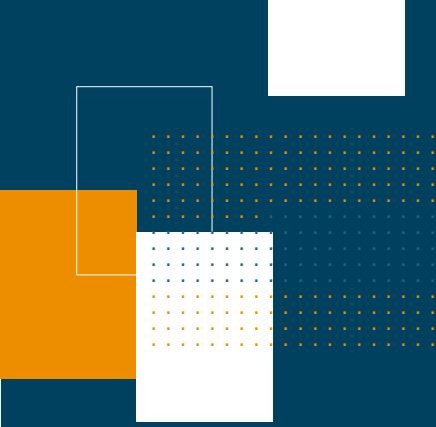
The first section placed the 'Battle for Seattle' and the debate between global sceptics and global advocates in its historical context. It seems that the principles of international trade have always been similar throughout the ages even if the circumstances have changed.

The second section dealt with 'modern' globalisation as we understand it. It analysed the four 'dimensions' of globalisation: trade, investment, organisation change, and the 'new economy' technologies.

The third section briefly outlined how Austrade helps Australian companies in dealing with globalisation.

My final message goes back to the importance of *education*. In the heat of the debate there has been lots of emphasis on rhetoric and not enough analysis or understanding (especially of the economic evidence that is available). Both the global sceptics and the global advocates have played a part in this. I think economists have a key role to play in communicating the analysis and the evidence to non-economists throughout the community. After all, the main social responsibility of the economist is to explain and to persuade *but not to ridicule*. I have just read Robert Skidelsky's spell binding third and final volume of the life of John Maynard Keynes (Skidelsky, 2000). What struck me about the account is how good a communicator and persuader Keynes was of economic ideas. No doubt this was why he was not only a brilliant economist but also such an influential public figure of international standing in times of both war and peace and boom and depression. This is an important lesson for all economists who are trying to understand and explain 'modern' globalisation to students and to the community.

I hope that this paper will serve as useful background and provide some clarity and simplicity to the debate. I hope it will help you when you explain to your students the processes at work and the eventual effects of what has been termed globalisation.



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Useful Websites for Economics and Business Students:

For information on trade and international economics see “Economists corner” on the Austrade web site at:

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

Other useful economics sites include:

Australian

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

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

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

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

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

International

<http://www.iie.com>

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