

## AUSTRALIA, 100 YEARS ON – WHAT DOES GLOBALISATION MEAN FOR US AS WE ENTER THE 21<sup>ST</sup> CENTURY?

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### I INTRODUCTION

One of the requirements for a practical politician is to accept the realities of what is achievable by way of reform. I do not, therefore, repeat in detail the thread of my arguments in the 1979 Boyer Lectures for the abolition of State governments.<sup>1</sup> I then regarded it as anomalous that the governance of Australia, in terms of the distribution of legislative powers, reflected the wanderings of British explorers and the lines they drew on the maps of the 'Great South Land' in the late 18<sup>th</sup> and early 19<sup>th</sup> centuries.

In the last decade of the 19<sup>th</sup> century, representatives of the colonies, after three conventions, finally settled on a constitution – the *Australian Constitution* ('Constitution') – representing the cession of the minimum powers they regarded as necessary to make the new federal entity viable. Creative judicial interpretation by the High Court of Australia has changed the balance of power in important respects. I doubt however that, even with this, anyone would argue that if we were creating afresh a constitution for Australia, in the world we now face at the beginning of the 21<sup>st</sup> century, that it would bear much resemblance to the present arrangements.

I emphasise that I do not, despite this fact, contemplate any political consensus in the foreseeable future sufficient to change those basic constitutional arrangements of our federation. Nevertheless, we must understand the full significance of a world so different from 1901, and particularly the fundamental forces for change that have been operating since I addressed this issue in 1979, if we are to begin to be able to meet the challenges posed by these changes.

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1 Bob Hawke, *The Resolution of Conflict* (1979).

## II FROM WESTPHALIA TO KYOTO AND BEYOND

Australia emerged in 1901 as a federation in the Westphalian tradition. Under the *Treaty of Westphalia* in 1648 – which brought to an end almost 150 years of continuous struggle in Europe and marked the end of an era of religious war – the nation state emerged and predominated as the basic unit of governance. The Westphalian system was characterised by five underlying principles:

- (1) the principle of sovereignty – or supreme power in the state;
- (2) the importance of control over geographical territory, reflected in the acquisition of colonies;
- (3) the central role of national governments, with economic interests being harnessed – and, if necessary, subordinated to – national goals;
- (4) the gradual emergence of a body of international law based on treaties between sovereign nation states; and
- (5) the retention of war as a recognised instrument of relations between nation states.

That Westphalian system, and those principles embodied in it, characterised governance and relations between nation states for over 300 years. Indeed, they were substantially reflected in the *United Nations Charter* drawn up at the end of the World War II in 1945, a charter which recognises the legitimacy of war in certain circumstances.

But this last half-century, and particularly the latter part of it, has witnessed quite fundamental changes to that matrix, which had come to shape perceptions of the power and role of governments, the relations between them, and between governments and their citizens.

This dynamic process can best be understood if we imagine the nation state being subjected to a massive and inexorable pincer movement. One arm of the pincer has been the historically unparalleled technological revolution and the associated phenomenon of globalisation. The other arm has been the dramatic political transformation that has extended the forces of the market economy to a significantly larger proportion of the world's population.

The revolutions occurring in the fields of computers, telecommunications and bio-technology are transforming the processes of production, the provision of services, communication and transportation. The costs of communication, travel and transportation have been drastically lowered and remarkably facilitated. Professor Geoffrey Blainey wrote of *The Tyranny of Distance*<sup>2</sup> – an appropriate title now would be *The Death of Distance*.

This technological revolution has stimulated the growth of the multinational corporation and the emergence of globalisation. The rise of multinational corporations, with the capacity to evade the jurisdiction of national governments – including that of the country in which they are headquartered – has involved a distinct shift in emphasis from political to economic decision-making. Corporations can jump over what they regard as objectionable regulations and

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2 Geoffrey Blainey, *The Tyranny of Distance: How Distance Shaped Australia's History* (1968).

pit government against government. In fact, one of the major results of globalisation has been the extension of competition from the level of firms to the level of governments.

The sheer comparative size of corporations – as measured by their annual sales or capitalisation, compared with government budgets – dramatises this power-shift. The point has been made, at the Organization for Economic Co-operation and Development ('OECD'), that if the top 100 economic entities were now assembled in a new OECD with both private and public participation, 52 of these major players would be corporations, and 48 would be national governments.<sup>3</sup>

The other arm of the pincer is reinforcing this process, and its dimension, I believe, is not so well appreciated. Consider these facts:

- the collapse of the former centrally planned economies of Eastern and Central Europe;
- the opening up of China and its irreversible move towards a market economy; and
- the more global orientation of India away from its previous more restrictive attitudes and tilt towards the former Soviet Union.

All of this has meant that an additional 40 per cent of the world's population is becoming increasingly enmeshed in a globalised world economy.

The process of globalisation is accelerating. One of the single most important indicators is that, generally, the volume of world trade is growing twice as fast as the volume of world output<sup>4</sup> – which means, simply, that the international division of labour is deepening and the world economy is becoming increasingly integrated.

One of the most profound implications of all that I have written to this point is that the capacity of many national governments to sustain the revenue base necessary to undertake the services expected of them by their citizens is increasingly at risk. This risk occurs at the end of a century that has witnessed an enormous expansion in the scope of national governance. At the beginning of the 20<sup>th</sup> century, governments of European states taxed and spent somewhere between 5 per cent and 10 per cent of Gross National Product ('GNP').<sup>5</sup> At the close of the century, between one-third and one-half of the GNP of industrialised countries passed through the public exchequer.<sup>6</sup> The main (non-military) impetus behind this expansion of the public budget has been the substantial growth of publicly provided services and infrastructures, and income redistribution through the welfare state.

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3 Kimon Valaskakis, 'From "Westphalia" to "Seattle": Long Term Trends in Global Governance' (Paper presented at the OECD Forum on 21st Century Governance, Expo 2000, Hanover, Germany, 24-25 March 2000).

4 Horst Siebert and Henning Klodt, (Paper presented to the OECD Forum, *The Future of the Global Economy: Towards a Long Boom*, Paris, France, 1999).

5 Daniel Tarschys, (Paper presented at the OECD Forum on 21st Century Governance, Expo 2000, Hanover, Germany, 24-25 March 2000).

6 Ibid.

The indisputable fact is that the increased mobility of capital can undermine the capacity of governments to do their job of providing effective governance either by themselves, through market forces, or through the civil society. Income distribution is shifting towards capital and away from labour. The distribution of capital assets is more skewed and concentrated so that the income tax base is more unequally distributed, nationally and globally. And the tax rates that can be applied may be lowered because of competition between governments and the capacity of those with wealth to organise their affairs to minimise tax. As a practical matter, loss or serious erosion of the tax base is one of the most serious threats to the provision of good governance. This is not just a question of the capacity to provide services, but goes to the very stability and workable cohesion of society. How to handle this problem in an equitable and efficient way will be one of the more important questions to be faced in the new century.

Like capital, environmental pollution is mobile across borders. The existence of the threat of global warming is becoming increasingly indisputable. It is global in its impact and therefore requires constraints upon the exercise by individual nation states of their sovereign powers. There have been some tentative steps – the *Kyoto Protocol to the United Nations Framework Convention on Climate Change*,<sup>7</sup> for instance – but the measure of our collective maturity and responsibility to future generations will be how quickly we transform these steps into effective supra-national mechanisms.

### III AUSTRALIA'S ROLE IN THE GLOBAL COMMUNITY

The developments I have outlined have involved the erosion of many of the basic characteristics and assumptions of the Westphalian model. The economy and society no longer have boundaries that coincide with the nation state. Increasingly, our economic well-being and the quality of our society will be affected by what happens in other countries and by major international economic players who owe allegiance to no country. Australia will have to speak with a more cohesive and united voice if it is to:

- (a) contribute meaningfully to the international co-operation that will be necessary to ensure that globally mobile capital is adequately regulated and contributes significantly to the countries in which it operates, and
- (b) optimise decisions both in regard to domestic resource allocation and to attracting, on the right terms, foreign investment into Australia.

This will require a strengthening of consultative mechanisms between the Commonwealth, States and Territories.

The horrendous events of 11 September 2001 demonstrate graphically that the very nature of conflict and war between states will never be the same again. Terrorism, and the capacity for terrorism, has been globalised. It is entirely appropriate that Australia, in this tragically revealed new context, should align

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7 Opened for signature 16 March 1998, 37 ILM 22.

itself with that wide alliance of nations committed to tracking down and bringing to justice those responsible for these disasters.

But we must go beyond this. There is no one single explanation for the new crisis in world affairs, and I certainly do not subscribe to Samuel Huntington's facile thesis of *The Clash of Civilisations*.<sup>8</sup> Nevertheless, there is one thing of which we can be absolutely certain: if the developed countries of the world do not address, in a substantial way, the endemic poverty and deprivation of so much of the underdeveloped world, the recruiting fields of terrorism will be enriched.

In the context of the Cold War, the developed Western world and Japan had a sharper perception of obligation to developing countries. The OECD pointed out last year that in the seven year period following the Cold War (1992-98), official aid to those developing countries fell by US\$88.7 billion<sup>9</sup> – if I may play on words, that's a lot of dollars and not much sense. The OECD estimates that those countries will have 90 per cent of the world's population by 2056.

The Australian born Jim Wolfensohn, a graduate of Sydney University and now President of the World Bank, addressed the issue squarely on a visit to Sydney last year, pointing out that 20 per cent of the world's population has 80 per cent of the world's Gross Domestic Product ('GDP'):

The other 80 per cent, the 4.8 billion people who live in developing countries, have to live on the other 20 per cent. So you have this fundamental inequity, and at its base you have 3 billion people who live on US\$2 a day. ... Now all that is hard enough, but in the next 25 years you add another 2 billion people ... so the challenge of globalisation is increasing dramatically.<sup>10</sup>

That is an essential part of the challenge of globalisation confronting this country. Australia ranks only 52<sup>nd</sup> in the world in terms of the size of its population but has the 12<sup>th</sup> largest economy. We cannot impact significantly on these inequitable global imbalances by our own resources alone, but we should be at the vanguard of mobilising action by developed countries to deal with the issue.

A comprehensive approach to the challenge involves more than direct financial assistance, as important as that is. A more liberalised international trading regime is essential to open up the markets of developed countries to exports from the Third World. Australia has demonstrated leadership in this area particularly through the creation and guidance of the Cairns Group, which played a crucial role in the liberalising process of the Uruguay Round. That much more remains to be done has been ominously reflected in the decision on 5<sup>th</sup> October by the United States ('US') Congress to add US\$146 billion to the existing US\$190 billion ten year agricultural subsidy and support programs.<sup>11</sup> The House

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8 Samuel P Huntington, *The Clash of Civilisations and the Remaking of World Order* (1998).

9 Jens Martens, *Overcoming the Crisis of ODA: The Case for a Global Development Partnership Agreement*, Statement (7 November 2000) <<http://www.weedbonn.org/ffd/odafuture.htm>> at 8 November 2001.

10 See Peter Hartcher, 'Imperfect Force to Fight Poverty', *The Australian Financial Review*, 19 September 2000, 35.

11 Brendan Pearson, 'Farmers Crying Foul at \$340bn US Subsidies', *The Australian Financial Review*, 8 October 2001, 3.

Agriculture Committee Chairman defended the legislation as 'a balanced approach that recognises the very real economic and societal problems that are pressing rural America'.<sup>12</sup>

Australia should take a leading role in exposing the dangerous, self-defeating nonsense reflected in this line of reasoning. The Bush Administration has pointed out the intrinsic absurdity of the proposal which would simply encourage domestic overproduction and exacerbate the impact of the existing scheme whereby nearly half of all recent government payments have gone to the largest 8 per cent of farms, while more than half of all US farmers share in only 13 per cent of the payments.<sup>13</sup> But Australia should emphasise to our American friends who are strenuously attempting to build an alliance against terrorism that the issue goes much deeper than the perpetuation of domestic inequities.

If they are going to be truly concerned with America's 'societal problems', indeed, with the very security of America, then they must address the 'societal problems' of the developing world. The challenge was best put by Professor Jeffrey Sachs, of Harvard University, writing in *The Economist* just two months before the tragedy of 11 September 2001. He wrote:

Although its prosperity depends on a worldwide network of trade, finance and technology, the United States currently treats the rest of the world, and especially the developing world, as if it barely exists. Much of the poorer world is in turmoil, caught in the vicious circle of disease, poverty and political instability. Large-scale financial and scientific help from the rich nations is an investment worth making, not only for humanitarian reasons, but also because even remote countries in turmoil can become outposts of disorder for the rest of the world. ...

Fifty years ago a soldier-statesman, General George Marshall, then Secretary of State, explained to Americans that urgent financial support for Europe would stabilise societies destroyed by the Second World War and the post-war economic crises. Such aid would unleash Europe's potential for recovery to everyone's mutual benefit. Winston Churchill called the resulting Marshall Plan 'the most unsordid act in history'.

The United States once again has a soldier-statesman, Colin Powell, as secretary of state. A new Powell Plan to mobilise American technology and finances, both public and private, on behalf of the economic development of the world's poor countries would be a fitting follow-up to the Marshall Plan. The world, and America, would be enormously safer and more prosperous as a result.<sup>14</sup>

Sachs' contribution could not have been more prescient. Australia's major contribution to the attempt to move the world towards a global democracy – in which peoples' creative talents are released, their welfare increased and their security enhanced – would be to press for and participate in an American-led onslaught against global poverty in the broad terms envisioned by Sachs.

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12 Ibid.

13 Ibid.

14 Jeffrey Sachs, 'What's Good for the Poor is Good for America', *The Economist*, 14-20 July 2001, 36, 36-7.

#### IV THE CHALLENGES OF GLOBALISATION IN AUSTRALIA

Australia will only be able to speak with real authority abroad if it effectively addresses the implications of globalisation at home. I have already alluded to some of these implications, but I conclude by going to four other relevant issues.

First, while we have had the good sense during the last century to draw, to a significantly greater extent, upon the resources of that half of our population – women – previously precluded from meaningful participation in national affairs, there is still more to be done. The impact of that increased participation, in economic terms, is indicated by the statistics. In 1901, women constituted 21 per cent of those employed; by July 2001, that figure had more than doubled to 44 per cent – ie, the best part of half the employed workforce are now women.<sup>15</sup> A breakdown of these figures shows the broad lateral extension of women across the work force and a less marked but significant permeation of management positions. The further facilitation of this process will be one of the most important issues in shaping our approach to the 21<sup>st</sup> century.

In operating as we will, in an increasingly competitive globalised economy, we will need to shape our institutions and our attitudes in a way that optimises the opportunities for women to contribute their talents to the national enterprise. Some of my unreconstructed male colleagues may see this as a peripheral matter – it is not. In that competitive globalised economy which, whether we like it or not, will constitute the environment for the 21<sup>st</sup> century Australia, those nations that do not best harness the capacities of half their populations will be at a serious disadvantage.

This will require more than the elimination of any remaining explicit or practical discrimination in the areas of education, employment and remuneration. In a very positive sense, flexible arrangement will have to become the norm, for both women and men, to balance the demands and obligations of employment with those of child-rearing.

Second, Australia must invest the resources necessary to equip itself to operate in what, I emphasise, will continue to be an increasingly competitive global economy. In this respect, our performance over recent years has been appalling. The Federal Government's Chief Scientist, Dr Robin Batterham, last year in a report, *The Chance to Change*, observed in respect to business involvement in research and development that 'Australia has been on the downward slide since 1995-96. In contrast business investment in R & D in other industrial nations has increased markedly'.<sup>16</sup> This concern was repeated, more dramatically, by David Miles, Chairman of the Implementation Group of the National Innovative Summit:

Our R & D intensity has fallen in recent years, running counter to the general OECD trend ... for R & D expenditure in the business sector there has been both an absolute decline since the mid 1990's and a relative decline experienced as a share of GDP.

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15 Australian Bureau of Statistics, *Commonwealth Year Book 1901* (1908).

16 Robin Batterham, *The Chance to Change*, Final Report (2000).

Australian business expenditure on R & D as a share of GDP is markedly lower than the OECD average (ranking 7<sup>th</sup> lowest of 24 OECD nations) and is falling while the average for OECD countries continues to rise.

Without strong public and private sector funding for research and development Australia is at risk – we will not be able to compete in a modern, knowledge-based economy. Downward swings which go against international trends or Australia's own past performance should ring alarm bells.<sup>17</sup>

In *The Chance to Change*, Dr Batterham sounded those alarm bells throughout the whole spectrum of what is happening in our schools and universities – in a state of crisis according to Professor Ian Chubb, President of the Australian Vice-Chancellors' Committee<sup>18</sup> – within an overall picture of what he identified as inadequate and declining funding as well as the reduced incentives to industry to undertake innovative Research and Development. The Government has failed to face up adequately to the fact that our capacity to compete successfully in the increasingly competitive and innovative world of tomorrow – and to contribute to resolving the problems of that world – will depend on what and how we invest in education and research and development today.

Third, we must understand the sense of insecurity felt by so many of our own citizens as they are confronted by a world changing so rapidly and where so many of the certitudes of the past – including security of employment – are disappearing. We must be prepared to embrace change if it is in the national interest but that preparedness must carry with it a necessary corollary. If some people, in an immediate sense, are adversely affected by such change required in the national interest, then the nation as a whole must accept the responsibility of protecting them – either by financial recompense, retraining, relocation or a combination of such measures. If we are not prepared to do this, we cannot expect to maintain a cohesive civil society.

Fourth, the inexorable processes of economic globalisation should strengthen an Australian social and legal commitment to the repudiation of discrimination based on race, colour or creed. This is not only morally right, it is also a matter of economic self-interest. Australia's future well-being will continue to be determined significantly by our economic relationship with the Asian region. If we are seen, in any way, to tolerate discrimination, Asian countries will be much more likely to look elsewhere for trading partners, and for places to educate their children, visit as tourists or invest their capital.

## V CONCLUSION

We celebrate the centenary of the Constitution in a world unrecognisably different from that for which the 'federation fathers' prepared us. In war and in peace we have shown a remarkable capacity to adapt ourselves to a changing external environment. Not least, we have changed from being a country of

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17 Innovation Summit Implementation Group, *Innovation: Unlocking the Future*, Final Report (2000).

18 See Gerard Noonan and Aban Contractor, 'Universities Unite to Warn of Funds Crisis', *The Sydney Morning Herald* (Sydney), 18 July 2001, 1.



overwhelmingly Anglo-Celtic stock to one which has added to the immediate post-World War II population of seven million another seven million – six million immigrants and the best part of a million settlers under refugee or other humanitarian programs, from more than 140 countries. No country in history, in such a short period, has so massively, and yet so peaceably, transformed its ethnic composition.

There have been great achievements and there have been shortcomings – not least our failure, yet, to achieve a true reconciliation with Indigenous Australians. The challenges are daunting, but I believe that if we draw upon the best of our past we can successfully meet those challenges. We can create a cohesive, tolerant, prosperous society in this country and an Australia able and willing to contribute to a more secure world.