Shaping Globalisation to Benefit All

The opening address by The Hon Peter Costello MP, to the OECD Forum 2000, 26 June 2000.

The OECD Forum 2000 was a major international conference and knowledge fair held in Paris on 26-28 June; forming part of the OECD's discussions with the wider community. The conference was held at the same time as the annual meeting of the OECD Council at Ministerial level, which this year was chaired by the Australian Treasurer, The Hon Peter Costello MP.

Introduction

Baroness Williams, Secretary-General Johnston and Minister Huwart, Ladies and Gentlemen, welcome to the OECD's Forum 2000.

It is an honour for me, as Australian Treasurer and the Chair of the 2000 OECD Ministerial Council Meeting, to help open this important dialogue with representatives of non-government organisations, representatives of employees, businesses and universities. You represent an important part of what has come to be called 'civil society': the voluntary groupings of private citizens who advance particular interests, independent of government.

It has been pleasing over recent years to see the OECD successfully drawing on these groups to help address policy challenges. Good examples are the work on corporate governance, corporate responsibility, anti-bribery and ethical behaviour in business and government; as well as electronic commerce, and Internet issues concerning consumer protection and privacy.

Running through the policy issues on the Forum 2000 agenda is the challenge of globalisation for policy-makers.

Advances in communication, information technology and transport have created international markets in goods and services. Trade and investment flows across national boundaries mean that countries can no longer quarantine themselves from international developments. The developments that are creating global markets and reducing the effectiveness of national boundaries are, in my view, unstoppable and quite likely to accelerate. Our choice is not whether to stop them, but how to manage them for the benefit of our citizens.

As an Australian, I have lived at close quarters with the significant opening up of our economy in recent years. The internationalisation of our economy has not just resulted from trade and investment, technology and communication, but also migration, education, travel and skills transfer.

We enjoy a stable, fast-growing economy that has weathered the storms of the Asian economic crisis while continuing to reduce unemployment. We are convinced that an open economy delivers big net gains, but it requires the right policies and institutions to deliver its full potential.

Economic development and the international framework

In the 20th century, the poorest quarter of the world's population became almost three times richer. The richest quarter became almost six times richer. Notwithstanding this diversity of performance, economic development lifted more people out of poverty than ever before and gave them better health and education and better opportunities in life. Gains of this magnitude are unprecedented in previous human history.

The great bulk of these economic gains were concentrated in the second half of the 20th century. During that period, the multilateral framework was centred on the institutions designed at Bretton Woods in 1944, the International Monetary Fund and the World Bank. These institutions were quite successful in bringing stability and growth to the post-war order. The OECD itself, born in 1948 as the Organisation for European Economic Cooperation, illustrates what can be achieved through well-designed policies and institutions. Through increasingly free trade and investment flows and improved policies and institutions, those founding member economies of the OECD that had been devastated by war rapidly converged from the 1950s to the 1980s on the living standards and the growth rate of the most advanced economies.

A clear majority of those who were poor as recently as 1970 have got richer, in both absolute and relative terms: over the last 30 years, about 70 per cent of the population of developing countries have experienced sufficiently fast growth in real per capita GDP to converge towards rich countries' levels. Poverty has worsened in some nations, particularly in Africa. But there are major developing countries, particularly in Asia, with large populations that have been growing quite strongly and lifting millions out of poverty.

In East Asia alone, the number living in extreme poverty was halved in only 10 years. The recent Asian crisis temporarily undid some of those gains, but

East Asia and South Asia are again the fastest growing emerging markets. Hopefully that growth is now better founded on more robust institutions and more transparent policies than before the crisis.

Notwithstanding the overall improvement, about 30 per cent of the poor have become relatively poorer over the last 30 years — and a third of them even poorer in absolute terms. This, of course, is a matter of deep concern and reminds us there is still such a lot of work to be done. Those countries where poverty is worsening have been unable to participate in globalisation. They face many obvious social, health and political challenges. And their economic institutions are weak. Their share of global trade has actually halved over the last 20 years. They are isolated from global trade opportunities and in some cases isolated by protectionist policies pursued in more developed countries.

I view this indicator of falling trade shares for the poorest countries as not a sign they are exploited by globalisation, but rather an indicator they are missing out on the great opportunities that can be created, with the right policies and institutions, from increasing trade and investment flows.

Many of the problems attributed to international trade rules or international institutions (such as apparently intractable poverty in the poorest countries, persistently high unemployment and resultant social exclusion among the low skilled in higher-income countries, or public concerns about food safety) are in fact failures of national policies and institutions. Failures of national policy can only be corrected at home.

I want to return shortly to what we in the OECD can do to help the poorest non-member countries. But first, I would like to touch briefly on the contribution good national policies can bring to harness the benefits of globalisation.

Building 'new economies'

In an increasingly integrated world economy with vast cross-border capital flows, poor national policies are penalised and good policies rewarded. Global developments are likely to leverage the penalties or the rewards.

In the first report on the OECD Growth Project to this MCM which discusses the idea of a 'new economy', the OECD identifies Australia as one of only six OECD economies (together with the United States, Denmark, Ireland, the Netherlands and Norway) to have raised its trend real per capita growth rate in the 1990s. The OECD notes that all six also achieved improved labour market outcomes and most lifted growth rates in total factor productivity.

In contrast to the performance of these six, the OECD area as a whole grew more slowly in the 1990s, and the economies which slowed the most (including some large European economies) experienced higher unemployment and lower labour force participation rates. Their measured labour productivity growth was high, but this seemed to have been achieved largely by shedding the low-skilled into unemployment.

It may surprise those who still think of Australia as an 'old economy' of mining and agriculture that we share many of the characteristics of a so-called 'new economy', where productive use of information and communications technology has helped lift productivity growth to around US rates, and sustained real GDP growth at rates of over 4 per cent a year for the last 12 quarters.

In OECD comparisons, Australia rates third in the number of secure Internet servers per million inhabitants, and has amongst the highest percentages of the total population with Internet access. But I believe the key issue is not producing lots of computers. This is not a question of manufacturing technology but of using technology in manufacturing, or agriculture or mining or financial services. And the key to finding productive uses for any technology is intense competition and continuous structural reform to keep an economy open and receptive to innovation in a sustainable macroeconomic environment. In this way, new technologies permeate the entire 'old economy'.

In Australia, we see information technology contributing to productivity gains in manufacturing, agriculture and other sectors, not just in the information and communications technology sector itself.

With fiscal and monetary probity and comprehensive structural reforms, countries can lift their economic performance, create jobs and produce social dividends.

In this way, national economic reform can become a key contributor to social cohesion and progress. There is no better path to social inclusion and individual advancement than expanding employment opportunities in a flexible, dynamic and growing economy.

The Australian Government has implemented wide-ranging macroeconomic reforms and a continuing program of structural reforms. We have undertaken substantial regulatory reform and rejuvenated competition. We have eliminated budget deficits and reduced government net debt to just over 8 per cent of GDP.

These reforms have lowered unemployment to around the lowest levels in a decade; raised the sustainable, non-inflationary growth potential to around 3½ to 4 per cent; and kept inflation at about 2½ per cent. We are now implementing thorough-going reforms of personal, indirect and business taxes.

Five years ago, the Australian Government spent nearly as much on servicing public net debt as it did on schools and hospitals. Now, spending on debt service has been cut by about half, while public spending on schools and hospitals has doubled. Taxes can be spent on the future, not the past.

Yet even with a strongly growing economy, governments have an important role in sharing the benefits of economic growth so that people are not left behind.

A competitive, market-based economy and a compassionate society are mutually reinforcing. Each needs the other to work best and to prove sustainable into the new millennium, when ageing societies will pose new challenges for economic and social policies.

Australia's social safety nets are well targeted to provide adequate benefits to those in real need. But we want to make further improvements. Like other OECD members, we are trying to reduce work disincentives from the interaction of the tax and benefit systems, and focusing on assisting long term benefit recipients back into employment.

Governments do not have all the answers to these problems. Centralised solutions are not always appropriate; nor can governments alone implement solutions.

So in Australia, we have sought to develop a social coalition to tap the insights of charitable organisations and churches, voluntary groups, businesses, communities, families, individuals and all levels of government.

We are applying the principle of mutual obligation, whereby those who benefit from government support have an obligation to give something back to the community in return.

We have worked to ensure accessible, better quality, relevant education and training to allow better employment opportunities. A key element of Australian education and training policy has been to ensure that the sector is accessible in rural and regional areas and for disadvantaged groups — a task that can be made easier by the use of the Internet. Similarly other essential areas of community support such as health, welfare, and family and community services have all been upgraded, with a view to improving the delivery of these services to remote locations.

Building better national institutions

Robust domestic economic institutions are necessary to maximise the benefits from trade and investment and withstand the rigours of globalisation. Markets only work efficiently and stably with a robust rule of law, an independent judiciary, good insolvency regimes, sound financial institutions, good prudential supervision, sustainable fiscal and monetary policies, good corporate governance and low corruption.

Experience has shown this in three ways.

First, the Asian crisis showed that when the storms of economic crisis hit, institutions matter. They count in preserving confidence. Second, the formerly centrally-planned economies have shown that building sound market institutions takes time, and that without them instability and poor growth will persist. Third, the persistent difficulties of the very poorest countries show that neither domestic markets nor participation in international markets can develop very far without building better economic institutions.

It is one of the strengths of the OECD that it has been particularly active in drawing out the best of its members' institutional designs and supervisory practices, such as in its analysis of corporate governance and regulatory reform, and its achievements in improved anti-corruption and anti-money-laundering measures.

In the task of building good institutions and regulatory practices, enhancing transparency, and in the conduct of fiscal and monetary policies, newly developed international standards and codes can be of considerable help. Key work is being done in the IMF, the World Bank, the OECD, the Financial Stability Forum, the G-20 and APEC.

Interestingly, some key codes such as those on accounting, auditing, and corporate governance have been as much or more the products of robust civil society, as of governments. This reflects the reality that laws can only achieve so much — at the frontiers of rapidly emerging issues, good conduct is often a matter of community standards, of business ethics, and of peer standards in key professions within civil society, such as accountants, auditors, and company directors.

The OECD can play a valuable role in encouraging the implementation of international standards and codes among its own members, and indeed more broadly, and to assist those who want to move towards best practice. We should strive to maintain the momentum of these reforms internationally, through this period of strong growth. We should be reinforcing the architecture of our national institutions and supervisory practices now, to meet the challenges of tomorrow.

Building better international institutions

In a similar vein, we need to persist in continuously reforming international institutions to cope with global developments in which private capital flows are larger and official capital flows less important than in the past.

We should seek to ensure each of the major international institutions is focused on the objectives it is best able to implement. If we can achieve that, the operations of the institutions will be mutually supporting. One can see this principle usefully applied in the recent debate about sharpening the respective roles of the IMF and the World Bank.

The same approach would serve us well in considering the roles of the other international institutions. For example, the Australian Government believes the WTO ought to focus on trade liberalisation supported by effective rules, the ILO[1] on labour standards, and the relevant UN agencies on specific environmental and human rights issues. To try to achieve every objective in every institution is likely to lead to poorer performance in all institutions at all objectives.

Trade, agriculture, debt and extreme poverty

A significant part of the problem of disengagement of the extremely poor from the benefits of globalisation is attributable to selective protectionism in developed economies.

1 International Labour Organisation.

As the poorest economies enter the world of international trade, some of their earliest export opportunities are likely to be in agricultural products and simple manufactures like textiles, clothing and footwear. But developed countries impose high tariffs on exactly these products, and compound the damage with heavy use of trade distorting production and export subsidies. So poor countries can't get market access to the richest consumer markets in the world.

An OECD study to be released at this Ministerial meeting shows that the cost of agricultural support and protection in the OECD area increased again last year, for the third year in a row, to about USD360 billion. Support levels in 1999 have again approached the record levels of the mid-1980s.

Australia, with the second-lowest agricultural protection level in the OECD after New Zealand, was one of only two OECD members not to increase overall levels of support and protection in 1999. To put these figures into perspective: farm protection in the OECD area is about seven times as high as its members' total Official Development Assistance, and almost 13 times as high as the net present value of estimated total debt forgiveness to the heavily indebted poor countries under the enhanced HIPC initiative.

A similar situation applies to textiles and clothing, where a number of developed countries have negotiated the WTO *Agreement on Textiles and Clothing* to enable them to regulate the trade in these products. Quota arrangements established under the auspices of that agreement will be in force until 1 January 2005. Australia has chosen not to use the provisions of this agreement and has fully implemented its Uruguay Round commitment to tariff reductions on textiles and clothing on 1 January 2000.

We should remember that we do not lower trade barriers as charity.

Lowering trade barriers and allocating resources efficiently benefits the countries which do it. But it also helps the poorer countries with market access. This is another reason why a new WTO round should go ahead. The extremely poor can achieve little by trade liberalisation among themselves. The WTO is the poor countries' best chance for improving market access for their exports.

This was recognised at the meeting of APEC Ministers responsible for trade hosted by Australia in May. This diverse group of developed and developing economies reaffirmed strong commitment to the launch of a new round of multilateral trade negotiations in the WTO at the earliest opportunity and called for renewed efforts to build the necessary global consensus.

Food safety and biotechnology

Food safety has become a highly controversial subject over recent years due to a number of high profile food safety scares from ‘old technologies’ and the advent of new and novel foods, including those produced using biotechnology.

When it comes to food safety, all countries share a common objective — we want to protect our consumers and ensure their access to good, safe, nutritious and affordable food.

We need to ensure that food regulators maintain and strengthen public confidence in national and international food safety policy and regulatory frameworks are built on the foundation of scientific, factual and internationally acceptable evidence. Those frameworks must operate transparently, objectively, accountably and without political interference.

Australia believes the same principles that guide international regulatory best practice in trade and protection of human health and plant and animal life apply equally well to the regulatory challenges posed by biotechnology.

Biotechnology offers the prospect for greater food production to help feed the additional 3 billion people projected by the mid 21^{st} century, with less reliance on pesticides and the undesirable fertiliser and feed practices that have already caused health and environmental concerns. But governments, working with scientists, industry and public interest groups, must do better in explaining this new technology to the public. We must listen to public concerns about biotechnology and food safety and respond effectively to those concerns.

Sustainable development

The OECD is doing valuable work on sustainable development, and a progress report will be released at this Ministerial. We see that the concept of sustainable development is becoming more significant for resources such as fisheries, tropical forests and fresh water, all of which are coming under heavy pressure. The final outcomes will be a major report for the 2001 Ministerial.

Conclusion

I know I speak for all of my OECD ministerial colleagues when I assure you we are keen to incorporate the insights from the Forum 2000 dialogue into the OECD's work.

I have asked to be kept informed of the Forum 2000 discussions as I chair the Ministerial Council Meeting over the next two days.

Your views have the capacity to improve the performance of all member governments in delivering the benefits of globalisation to all, both within OECD members' communities and in the broader global community.

May I wish you well in your work. I hope that Forum 2000 will be merely the first in a series of working arrangements that will enrich the OECD's work, improve its relevance, increase the influence of the OECD's findings, and enrich the lives of all our citizens.