

Tigers who develop too fast for comfort

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Some are scared by the success of globalisation in creating powerful new competitors. Booms in China and India have worried the champions of globalisation, writes Mark Thirlwell

FOR Australia, the economic take-off of China, and to a lesser extent India, has provided a welcome boost to national prosperity. The present era of globalisation has clearly been a good news story for the Australian economy. But much of the rest of the rich world seems to be increasingly nervous about whether globalisation can survive the arrival of the two Asian giants.

Signs of a backlash are not hard to find. Earlier this week, EU trade commissioner Peter Mandelson described China's huge trade surplus as unsustainable, and following a meeting with his Chinese counterpart, warned that a failure by Beijing to alter aspects of its trade policy would serve only to trigger rising anger and impatience on the part of European public opinion, and hence pressure for a policy response from Brussels.

This month's EU-China trade discussions followed on from last month's US-China Strategic Economic Dialogue, where Beijing was again subjected to pressure from Washington to deliver a significant exchange rate appreciation in an effort to limit the ballooning US bilateral trade deficit with China. The Chinese, after offering up a token policy adjustment immediately prior to the discussions, failed to blink, prompting members of the US Congress, grown increasingly impatient with the inability of the executive to deliver a change in Chinese policy, to intensify their efforts at drafting legislation designed to punish what they see as unfair Chinese policies.

The Chinese export juggernaut in particular is clearly placing the present version of globalisation under growing strain.

Not that long ago, the international economy was viewed as a tool of the rich countries, and critics called for a new international economic order that would restructure the world economy in order to better serve the interests of the developing world. Times have changed.

While such criticisms can still be heard, their force has been muted by the economic acceleration of developing countries such as China. Instead, many of the loudest attacks on the consequences of globalisation now come from those countries that have been the architects and builders of the global economy. Today, it is the developed world that is having second thoughts about globalisation.

Much of this re-evaluation of globalisation is being spurred not by its failures, but by its successes, and in particular, by the globalisation-powered emergence of China and India. Rich world fears about globalisation have become synonymous with concerns about the economic expansion of these two Asian economies.

There is a powerful irony here. Policy-makers in the developed world spent decades preaching to their developing country counterparts that the path to greater prosperity lies in closer integration with world markets. Their opposite numbers in Beijing, and more recently in New Delhi, finally paid attention. The good news is that this particular piece of policy advice turned out to be right on target. Last year, for example, China's economy grew at more than 10 per cent in real terms, its fastest pace in more than a decade, while India's growth rate of about 9 per cent was that country's best performance in more than 15 years.

Global growth and inflation have also benefited from the success of these two developing economy globalisers, which between them account for more than one in three of the world's population. Indeed, on most estimates, developed economies themselves have been clear winners from globalisation.

Yet the reality of intensifying economic competition from huge, dynamic new challengers, and the consequent adjustment strains in rich country domestic economies, is now triggering a sustained bout of developed world angst. Some are scared by the success of globalisation in creating powerful new competitors in global markets, or spooked by the strategic and security implications of the resultant redistribution in economic power.

For this group of rich world globalisation sceptics, an unqualified support for open markets on the part of the developed world increasingly seems to be viewed as a variant on the idea of capitalists happily selling the rope that will be used to hang them.

Such worries represent new variants on long-standing protectionist arguments. But there are also other fears at work. The rise in income inequality within countries that appears to be a side effect of globalisation is making many observers ill at ease, for example, troubled by the implications for income distribution in the rich world of the rapid growth in trade with low-wage developing economies.

The resource security implications of the arrival of big new commodity consumers, and the associated scramble to lock up strategic commodities, is fuelling another set of worries. Finally, the serious environmental consequences of the rapid industrialisation and urbanisation of the world's two most populous economies are also sounding warning bells, with China poised to take over from the US as the largest emitter of greenhouse gases.

For most of the past quarter century, governments in the developed world have tended to foster policy regimes that have been broadly supportive of globalisation. They have cut tariffs and other trade barriers, and liberalised capital flows, seeking to create a generally permissive policy environment for economic integration.

It is this globalisation-friendly policy environment that is now under challenge, as the developed world starts to re-evaluate the costs and benefits arising from the present operation of globalisation.

A swing of the policy pendulum is not a done deal, as there remain powerful forces driving continued international economic integration.

Technological change, in the form of lower transport and communications costs, will continue to bind national economies closer together, for example. Similarly, existing deregulation and liberalisation have created winners who will lobby to defend the status quo against the claims of those who feel they have lost out. Nevertheless, it is increasingly clear that the foundations of globalisation are no longer as solid as they once were.

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