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The global economy is the interactions of all world economies that are now increasingly linked into one unit. The major changes in the world economy throughout the 1990's are due to globalisation. Globalisation is the internationalisation of goods, services and finance material due to the removal of geographical and artificial barriers to trade and relations between nations. Globalisation has resulted in changes in the global economy in 10 main areas: trade, investment, convergence, international organisations, international business cycle, government policies and independence, environmental issues, labour markets, financial

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markets and economic equality and development. These all have major impacts on Australia's current account and net foreign debt - collectively referred to as external stability

Australia's current account is part of our balance of payments - a systematic record of all transactions with the rest of the world. The Current Account has 3 main parts - Balance of Goods and Services (BOGS), Net Income and Net Current Transfers.
BOGS is exports minus imports and is currently a \$2.4 bn deficit helping to create a \$22.2 bn CAD (Current Account Deficit) which is 3.1% of GDP. This is lower than the

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"trigger figure" of 6% hit in the early 1990's but has been increasing since the mid 90's. BOGS fluctuates due to cyclical factors ~~and~~ (such as domestic and global economic growth) as well as ~~[illegible]~~ seasonal factors (such as the current drought in Australia which reduces primary exports that are 60% of all exports)

Net Income is a significant deficit (in 2001: 8(0.4 of $10.7 bn deficit) which records all payments of income to foreigners. This includes interest on borrowings and profit on investments. It is a structural problem that arises from Australia's low savings rate -Only 4.7% of National income. This means

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Australians borrow money to supplement ~~low~~ savings and servicing this debt is recorded as the net income component of CAD

Net Current Transfers are payment of money to foreigners with no expectation of return. It is usually a small surplus but not regarded as a problem when analysing the CAD.

Net Foreign Debt is all monies owed to foreigners by Australian individuals, firms and governments minus all money owed to Australians by foreign individuals firms and governments. Net Foreign Debt is currently $329.8bn which is 47.3% of Net Foreign Debt. 9% of this debt is public debt (owed by governments) due to budget deficits in the early 1990's. Therefore most debt is private but the Pitchford thesis states that this can be good if firms ensure that profit on investment exceeds servicing costs on the debt.

Globalisation has resulted in increased trade levels in the global economy. The presence of many trade agreements and international organisations has lowered the level of trade protection so that trade is now 16 times the level it was in the 1950's.

For example Australia is a

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member of APEC (Asia Pacific Economic Cooperation) which aims for 0% tariff by 2010.
Australia is also a member of CERTA (Closer Economic Relations Trade Agreement) which is a bilateral trade agreement with New Zealand.
Organisations such as the WTO (World Trade organisation) aim to implement and advance global trade agreements and resolve disputes between nations. They can impose trade sanctions on any countries that refuse to comply with a trade agreement. The WTO provides Australia with greater access to overseas markets while at the same time raising the level of

imports.
The increased trade due to globalisation has therefore made BOGS very fluctuating but also made BOGS reliant on the international business cycle.

The international business cycle is the way economies tend to experience similar levels of economic activity at the same time. Economic growth in one nation is transferred to another through trade. For example, currently, Australia is growing at 3.8% which is the highest of any OECD nation. The USA, one of Australia's main trading partners is only growing at 0.3%

following low consumer and business confidence after the September 11 terrorist attacks. Similarly, Japan, another major trading partner of Australia is ~~[illegible]~~ in a recession, with economic growth at −1.9%. This means a reduced demand for Australia's exports and thus, coupled with high demand for imports due to domestic growth will make BOGS a deficit. This will most likely create a deficit on the CAD

Thus, Australia's CAD is affected by changes in the global economy that have resulted in increased trade reliance on international organisations and the international business cycle

Another change in the global economy has been the deregulation of financial markets and the increased level of foreign investment. There are two types of foreign investment - Foreign Direct Investment (FDI) and portfolio investment.

FDI is the development of operations in another country. FDI levels are 6 times the level they were in 1950. FDI results in the establishment of transnational corporations (TNCs) that split production across many countries to take advantage of different

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abundant resources eg china has cheap labour.
Establishment of TNC's in Australia has resulted in an increased level of exports (around 1/3 of world trade is the movement of unfinished products from TNCs). This creates a BOGS surplus and helps to make CAD a surplus.

Portfolio investment is money placed in ~~[illegible]~~ financial institutions or used to buy shares. It is called "hot money" as it is very volatile due to the role of speculators. Portfolio investment in Australia requires interest to be paid, and this is recorded on the Net Income component of CAD, therefore increased portfolio has worsened the CAD.

Since 1991, the financial sector and financial markets have been highly deregulated. Australia has a very low rate of household savings (4.7% of national income) and so Australian individuals and firms borrow money in order to supplement national savings. This raises foreign debt and since ~~[illegible]~~ the mid 1980's foreign debt has risen from $6.8 bn to $329.8 bn. Therefore, changes in the global economy have negatively influenced foreign debt in

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Australia.

Foreign Debt and the CAD lead to the growth of each other over time, this is known as Passive Accumulation. Foreign Debt needs to be serviced and these interest payments are recorded on the Net Income component of the CAD. The CAD must then be balanced by a Capital/Financial Account Surplus. Funds must be borrowed to pay for this and these borrowed funds add to Australia's foreign debt problem.

The deregulation of the labour market also leads to increased speculation of the Australian Dollar

AUD. The AUD is currently at $0.5645 US afte depreciating 14.2% since 1998. For the early 1990's the average level was $0.72 US but for the late 1990's the level has been around $0.52 US. Speculation of the AUD account for 95% of trade of the currency. Monthly trade of the AUD is twice Australia's GDP. Speculators will demand, or buy the AUD (resulting in an appreciation) if they believe the economy is growing. Speculators will sell the AUD (resulting in a depreciation) if they believe the Australian economy is contracting.

The volatility of the AUD leads to volatility in export and import

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prices. This results in a highly fluctuating BOGS and CAD.

In an attempt to avoid a ~~flex~~ depreciating AUD the Australian government finds itself converging with other leading economies such as the US. For example, if the US raised interest rates, the RBA would also raise interest rates so that ~~a depreciation of the~~ capital outflow and a depreciation of the AUD do not result. This is not the case currently, as the US has just (in ~~Sept~~ November) reduced interest rates to 1.25% in an attempt to raise economic activity - Australian interest rates on the other hand are at 4.75%.

The ~~ability~~ threat of companies ~~the~~ moving ~~more~~ production to nations where cheap labour is abundant has reduced wage growth in Australia. This results in lower cost-push inflation which raises the international competitiveness of Australia's exports, this result in an increased demand for exports, ~~and~~ — a surplus on BOGS and a likely reduction in the CAD (and therefore foreign debt falls due to the theory of passive accumulation)

Due to changes in the global economy, the Australian government has less control over the policies it implements. The Washington Consensus was an agreement between the 7 largest AIE's on which policies best promote growth. These included deregulation, floating exchange rate and openness to FDI. If the Australian government does not ~~accept these~~ adopt these policies, the economy faces reduced confidence of investors resulting in a currency crisis as well as a CAD and foreign debt blowout.

Similarly, the government is restricted in its actions to increase external stability by international organisations such as the IMF. The International Monetary Fund is an organisation of 182 nations that is designed to promote financial stability internationally, especially in relation to foreign exchange markets.

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it has certain polcies it requires nations to adopt (Structural Adjustment policies) before offering them assistance

Changes in the global economy have negatively impacted the Australian environment. 60% of Australia's exports are primary goods such as coal, wheat, rice and so on. These goods face low world prices and according to Engel's law the growth in demand for primary goods ~~[illegible]~~ is always less ~~growth in demand for~~ than world economic growth.

While the AUD has been depreciating, the price of exports has been falling. This results in an

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increased demand for exports. Australian farmers try to increase production of exports by planting more crops - this creates land clearance and salinity problems. These restrict further increases in production of exports and eventually Australia will face a BOGS (and CAD) crisis as export production falters due to lack of resources. This is why Australia should achieve ecologically sustainable development (ESD) - a rate of growth that does not deplete natural resources so as to ensure economic growth for future generations.

Recent changes in the global economy have raised economic growth in Australia due to increased trade which accounts for half Australia's GDP. Unfortunately, increased economic growth results in reduced saving and increased borrowing which raises net foreign debt. At the same time, high domestic growth increases demand for imports which results in a BOGS deficit that worsens the CAD.

In conclusion, recent changes in the global economy such as increased trade, investment and convergence have negatively affected Australia's external balance - resulting in a worsened CAD and increased foreign debt. In order to alleviate these problems, the government needs to implement

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budget surpluses (to reduce public debt) as well as Microeconomic Reform (MER) to promote efficiency and international competitiveness. The government also needs to encourage national savings through policies such as ~~[illegible]~~ superannuation measures.

A worsening of Australia's CAD and foreign debt lead to reduced confidence of speculators and reduced economic growth. Therefore while economic growth & trade have been increased by globalisation and recent changes in the global economy, this has resulted in a worsening of Australia's CAD and foreign debt. These in turn reduce the potential for future growth.