

# TOPIC 1: ECONOMIC INTEGRATION



**CUTTING**  
EDUCATION

## KEY IDEAS:

- The global economy refers to the way in which domestic economies are becoming evermore integrated, to form one large economy
- The increase in globalisation over past decades can be seen through various indicators
- Different organisations and bodies support the global economy and promote economic growth and development in all nations

### The Global Economy

The global economy refers to the overarching trend of economic integration between nations. It encompasses the way in which nation economies are become evermore integrated, in turn merging into one.

### Gross World Product

Gross world product measures the total output of all economies in the world. It is calculated as the sum of the GDPs of all nations.

### International and Regional Business Cycles

Given the interconnection between domestic economies in the world, the business cycle has naturally started to align between nations. This sees many, if not all, economies experiencing upswings and downswings at similar times, such as throughout the GFC.

### Globalisation

The growing trend of globalisation over past decades can be seen through the following indicators:

- Trade in goods and services
- Financial flows - Financial investment between countries
- Investment and transnational corporations - Worldwide corporations operating in various nations
- Technology, transport and communication - Increased ability for businesses and individuals to conduct work in different nations
- International division of labour, migration - Outsourcing of employees to overseas nations where labour is cheaper.

### Free Trade

Free trade involves nations exchanging goods and services without any artificial barriers to trade, such as protection.

Free trade is advantageous to as it allows for nations to capitalise on comparative advantages. Through using free trade, nations are able to purchase items which they can produce at a lower opportunity cost, thereby increasing purchase power.

Free trade can, however, be disadvantageous, as it will often come at the cost of domestic industries. Given free trade will often lead to some industries becoming unable to compete with cheaper overseas imports, this may lead to job losses and structural unemployment.

### International Organisations

Various international organisations aim to promote economic growth and development across the world, including:

- World Trade Organisation - Promotes free trade through dispute resolution and rounds of negotiations
- World Bank - Provides loans to developing nations in order to support economic development
- International Monetary Fund - Provides assistance to nations to ensure economic stability
- United Nations - Provides a forum for all nations to resolve disputes and to negotiate environmental targets and goals
- OECD - Forum through which economic policies are discussed amongst developed nations
- G20/ G7 / G8 - Forum for discussing major global issues, such as economic stability and environmental challenges

## TRADING BLOCS & MONETARY UNIONS

Trading blocs are groups of nations which trade with fewer protections between member nations.

Monetary unions are groups of nations which adopt a singular currency, such as European nations which have adopted the Euro.

## ADVANTAGES & DISADVANTAGES OF MULTILATERAL AGREEMENTS

Multilateral agreements are advantageous as they may lead to an increase in trade between nations. This brings all of the advantages associated with free trade, supporting economic development in all nations.

However, multilateral agreements may be disadvantageous as they increase the reliance on a specific group of nations for economic growth. This may make a nation more susceptible to downturns in their economy if the other nations also experience a slowdown in economic activity.