

# GLOBAL ECONOMIC INTEGRATION- CHALLENGES AND PROSPECTS

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*“We are convinced that globalization is good and it's good when you do your homework...keep your fundamentals in line on the economy, build up high levels of education, respect rule of law...when you do your part, we are convinced that you get the benefit.”*

*– President Vicente Fox of Mexico.*

## ABSTRACT

The advancement in scientific and technological development has facilitated the trade and commerce and thus leads to globalization. The migration of the people from one place to another helps in emergence of new civilizations and therefore started the concept of global economic integration. This paper discusses about the meaning and concept of global economic integration and three fundamental factors that have affected the process of globalization.

This paper also discusses about various instances and examples of global economic integration which encompasses how the global economic integration emerged through ages. Any market-based economy utilizes the economic forces of demand and supply in order to distribute these limited resources. It also discusses the working conditions pertaining to economic integration.

Stages of economic integration envisions seven stages of global economic integration which are a preferential trading area, a free trade area, a customs union, a common market, an economic union and monetary union, and complete economic integration.

**Keywords:** Globalization, Global Economic Integration, Regional Integration, Trade and Commerce.

## INTRODUCTION

Trade and commerce with various civilizations from the time immemorial had facilitated globalization. The travel of, Hiuen Tsang, Marco Polo, the Britishers who initially came with a motive to engage in trade gives initiation to Global Economic Integration through trade and commerce, culture and knowledge new inventions and technologies. This rising trend in the process of globalization in the economic domain has an uneven road. The instances like collapse of Roman Empire, the World War I and II, the degree of economic integration among different societies around the world has negative effect also. Again, with the exception of human migration, the global economic integration today has a prodigious and pronounced effect and is going forward with the wheels of time.<sup>i</sup> Global economic integration sometimes refers to regional integration as it occurs frequently among neighboring nations.

Every Nation seeks to govern whether they are gaining or losing in international trade flows. Now, the traditional economic typically focuses levels of economic flows and imbalances. In the literature and popular press, what have been given less focus are the impacts of trade on natural resources and the natural environment although these topics remain important and controversial.<sup>ii</sup>

Thus, International trade practice flows are associated with comparative advantages or nations and regions. Comparative advantages occur for many reasons, some of which are natural resources availability and capabilities, such as water, land and carbon efficiency resources. The favorable aspects of international trade and natural resources may be exemplified by global water resource balances. Therefore, Countries and regions rich in water resources may be beneficial partners to those regions with water scarcity. This can be possible through global economic integration.

## MEANING AND CONCEPT OF GLOBAL ECONOMIC INTEGRATION

Global Economic Integration is the terminology that refers to the arrangement among the nations which embraces the reduction or elimination of trade tariffs or trade barriers and synchronization of monetary and fiscal policies. It also aims to diminish the costs for both consumers and producers thereby increase in trade between the nations who are involved in the

agreement. The economic integration also entails the process in which two or more countries reduce a range of trade barriers to advance or protect a set of economic goals. Again, when regional economies agree on integration, trade barriers lessen and thereby an increase will be visible in economic and political union coordination.

The peculiar conflict in the world economy is the growing trend toward economic integration without a concomitant (simultaneous) growth in global political and social institutions to regulate and arbitrate this trend. Multinational corporations are rapidly adopting advanced information technologies to increase the efficiency and capabilities of their operations. Valuable information, such as software or financial services, is transmitted digitally.

The three fundamental factors that have affected the process of globalization and likely to continue driving it in the future.<sup>iii</sup> Firstly, advancement in the technology of transportation and communication have reduced the transportation expenses of goods, services and factors of production and of communicating economically useful knowledge and technology. Secondly, the perceptions of individuals inclined in taking advantage of the opportunities provided by deduction of the costs of transportation and communication through increasing economic integration. Lastly, public policies have considerably influenced the character and pace of economic integration. These three essential factors have influenced the design and pace of economic integration in all of its important dimensions. The three important magnitudes of economic integration through: (1) human migration; (2) trade in goods and services; and (3) movements of capital and integration of financial markets.<sup>iv</sup>

Economic integration is relentless with the economic theory, which argues that the global economy is enhanced when markets can function in unanimity with minimal government intervention. It also involves the integration of countries' economies and it can be linked with the globalization that refers to the interconnected aspects of business and trading among nations.<sup>v</sup> An economy is demarcated as a set of interconnected activities that determine the how limited resources are allocated.

All features of an economy form a market system in a modern economy. Any market-based economy will use the economic forces of demand and supply in order to distribute these limited resources. Thereby economic integration has increased the consumer purchasing power in member nations. The public policy toward economic integration is to an important extent,

responsive to the tastes that people have regarding various aspects of such integration, as well as to the technologies that make integration possible. It is pertinent to note the current issues pertaining to public policy with respect to commerce conducted over the internet.<sup>vi</sup>

There are seven stages of economic integration, which are a preferential trading area, a free trade area, a customs union, a common market, an economic union, an economic and monetary union, and complete economic integration. The final stage represents a total harmonization of fiscal policy and a complete` monetary union. There is no such nation whose economy that functions completely isolated from other economies. There is a simple reason for such an occurrence – trade benefits all economies in most cases. It allows for specializations of economies with comparative advantages and can trade with other economies that possess alternative comparative advantages.

Due to the global economic integration, the liberalization of trade leads to market expansion, sharing of innovative ideas pertaining to advanced technology, cross-border investment, tend to improve the employment opportunities in various countries. Political cooperation among nations can able to develop through strong economic ties which thereby will provide an incentive to solve disputes amicably restring the peace and security among member states.

## **INSTANCES AND EXAMPLES OF GLOBAL ECONOMIC INTEGRATION**

It is very evident that there is no economy that functions completely isolated from other economies. Cross-border exchanges of people, goods and ideas are commendable. This is to keep in mind that the relations should be negotiated among peers, not imposed by the World Bankers and multinationals. Generally, all economies feature a form of a market system in the modern economy and any market-based economy utilizes the economic forces of demand and supply in order to distribute these limited resources.

For instance, when any country happens to possess an abundance of oil located within its borders. Then that country can extract the oil and trade it for other resources where it lacks, perhaps in crops such as corn or wheat or any spices. Another country may enjoy optimal weather for growing such crops and therefore can specialize in growing corn or wheat and trade

it for oil to provide energy for their society by fixing price rates through agreement. It exemplifies how trade can benefit all economies by taking advantage of specialization and comparative advantages.

The European Union (EU) was formed in 1993 which included 28 member states in 2019. There are 19 of those nations have adopted the euro as a shared currency since 2002. According to the International Monetary Fund (IMF), the EU accounted for 16.04% of the world's gross domestic product. The United Kingdom voted in 2016 to leave the EU. In January 2020 British lawmakers and the European Parliament voted to accept the United Kingdom's withdrawal. The aim is to finalize the exit by January 2021.

For example, it has been found that international global water resources trade of agricultural products is 352 cubic gig meters per year (average over the period 1997–2001), greatly aiding water scarce areas.<sup>vii</sup> Another example is exports growth of carbon-intensive goods from Australia to China. This international trade relationship has helped in global carbon emissions reductions since Australian goods manufacturing carbon intensity is much less than China goods manufacturing carbon intensity (Tan et al., 2013).<sup>viii</sup>

## **WORKING CONDITIONS VIS-À-VIS GLOBAL ECONOMIC INTEGRATION**

Generally many people perceive globalization to be economic integration through trade and foreign investment with merits and demerits of globalization at macro level<sup>ix</sup>. Though, there are debates going as to what extent the employers and employees of different nations are benefited from globalization or whether all the nations are equally benefited from this. This is mainly in case for East Asia and the Pacific which has been appreciated for its successful economic integration in world market.<sup>x</sup>

The major international trade assessment metrics and environmental indicators are called “embodied flows.”<sup>xi</sup> Therefore, embodied flows quantify the natural resource or environmental quantities required directly or indirectly to make a product or provide a service. Embodied flows analysis helps identify and illustrate environmental burden shifts associated with raw

materials extraction and processing, and product manufacture and further studies help to identify international trade balances.

International economic integration vis-à-vis globalization has a sustainable growth in recent years. International economic integration has continued to grow in recent years. Its main features include the reduction or removal of trade tariffs and of restrictions on capital flows either by policy change or simply through the spread of new communication technologies, which put distant production areas directly in competition. It has resulted in greater cross-border capital mobility, the freer movement of goods, and the development of production processes ('production chains') that span national boundaries. This pattern holds particularly for manufacturing and, increasingly, for service activities such as call centers or records transcription.<sup>xii</sup>

Over the past five decades, real world GDP has risen at somewhat more than a 4 percent annual rate, with real GDP in developing countries (as a group) growing in per capita terms at about the same pace as the industrial countries. The consequence has been that real living standards, as measured by real per capita GDP, have improved on average about three-fold in just half a century. During this era of remarkable economic growth, world trade in goods and services has expanded at nearly double the pace of world real GDP. As a result the volume of world trade in goods and services (the sum of both exports and imports) rose from barely one-tenth of world GDP in 1950 to about one-third of world GDP in 2000.<sup>xiii</sup> By this measure and by others as well there has indeed been an increase in the degree of global economic integration through trade in goods and services during the past half century.

The two fundamental factors that appear to have driven this increasing global economic integration are:

- ▲ continuing improvements in the technology of transportation, and
- ▲ communication and a very substantial, progressive reduction in artificial barriers to international commerce resulting from public policy interventions.

For transportation, the most dramatic improvements have been for air cargo, which except for airmail, did not exist as a commercially important phenomenon fifty years ago. Now, for a wide array of products from fresh flowers to electronic components to airplane parts, air cargo

is the speedy and cost-effective means of international transport. For some of these products, international trade would not be feasible without comparatively cheap air cargo. Also, many modern production management practices (including just-in-time inventory techniques utilized by different divisions of multinational corporations) are heavily reliant on the use of air cargo.

## **STAGES OF ECONOMIC INTEGRATION**

Regional trading agreements vary depending on the level of commitment and the arrangement among the member countries. There are seven stages of global economic integration. They are as follows:

### **1. Preferential Trade Areas**

The preferential trading agreement requires the lowest level of commitment to reducing trade barriers, though member countries do not eliminate the barriers among themselves. Also, preferential trade areas do not share common external trade barriers. This is the term used in the WTO for trade preferences, such as lower or zero tariffs, which a member may offer to a trade partner unilaterally. These include the Generalized System of Preferences schemes, under which developed countries grant preferential tariffs to imports from developing countries. They also include non-reciprocal preferential schemes granted through a waiver by the General Council, meaning the member has been exempted from applying the most favoured nation (MFN) principle.

### **2. Free Trade Area:**

In a free trade agreement, all trade barriers among members are eliminated, which means that they can freely move goods and services among themselves. When it comes to dealing with non-members, the trade policies of each member still take effect.

### **3. Customs Union:**

Member countries of a customs union remove trade barriers among themselves and adopt common external trade barriers.

4. Common Market:

A common market is a type of trading agreement wherein members remove internal trade barriers, adopt common policies when it comes to dealing with non-members, and allow members to move resources among themselves freely.

5. Economic Union:

An economic union is a trading agreement wherein members eliminate trade barriers among themselves, adopt common external barriers, allow free import and export of resources, adopt a set of economic policies, and use one currency.

6. Complete Economic Integration:

The complete and full integration of member countries is the final level of trading agreements.

## MERITS AND DEMERITS OF GLOBAL ECONOMIC INTEGRATION

The merits and demerits of Global Economic Integration are as follows:

▲ *Merits of Global Economic Integration:*

- Member countries benefit from trade agreements, particularly in the form of generation of more job opportunities, lower unemployment rates, and market expansions. Also, since trade agreements usually come with investment guarantees, investors who want to invest in developing countries are protected against political risk.
- Businesses in member countries enjoy greater incentives to trade in new markets, thanks to attractive trading conditions due to the policies included in the agreements.
- Economic integration is beneficial in many ways, as it allows countries to specialize and trade without government interference, which can benefit all economies. It results in a reduction of costs and ultimately an increase in overall wealth.



- Trade costs are reduced, and goods and services are more widely available, which leads to a more efficient economy. An efficient economy distributes capital, goods, and services into the areas that demand them the most.
- The movement of employees is liberalized under economic integration as well. Normally, employees would need to deal with visas and immigration policies in order to work in another country. However, with economic integration, employees can move freely, and it leads to greater market expansion and technology sharing, which ultimately benefits all economies.
- Lastly, political cooperation is encouraged, and there are fewer political conflicts. Political conflicts usually end with economic losses stemming from trade wars or even military wars breaking out, resulting in extreme costs for all combatants.

▲ *Demerits of Global Economic Integration:*

There is no doubt that advances in information and communications technology are the most important technological advance of the past quarter century. In the United States, technological advances in these areas account for much of the rise in total factor productivity in recent years. As a result of these technological advances, the costs of processing and communicating all forms of information have been all declining very rapidly; i.e., by a factor of two or more within a two year period.<sup>xiv</sup>

Despite the benefits, economic integration has costs. They are as follows:

- Diversion of trade: That is, trade can be diverted from nonmembers to members, even if it is economically detrimental for the member state.
- Nationalists, or people who believe that their country is superior to others, are critical of economic integration.<sup>xv</sup> In order to appeal to nationalists, some countries employ forms of protectionism, which leads to higher tariffs and less free trade between other countries.
- Erosion of national sovereignty: Members of economic unions typically are required to adhere to rules on trade, monetary policy, and fiscal policies established by an unelected external policymaking body.

Because economists and policymakers believe economic integration leads to significant benefits, many institutions attempt to measure the degree of economic integration across countries and regions. The methodology for measuring economic integration typically involves multiple economic indicators including trade in goods and services, cross-border capital flows, labor migration, and others. Assessing economic integration also includes measures of institutional conformity, such as membership in trade unions and the strength of institutions that protect consumer and investor rights.

## CONCLUSION

The investment promotion community broadly defined includes a diversity of practices and actors that have intermediated or facilitated international economic integration via FDI. The boundaries of this community are hard to define and tend to cut across some quite important professional distinctions. To date, the community's quantitative significance in stimulating FDI flows may be rather minor. However, the qualitative role played by the constituents of this community in transmitting myriad signals regarding FDI may be much more significant. It is this qualitative role which positions the community as part of cadres concerned with articulating national and international economies with processes of international economic integration.

In my opinion, economic integration is the most beneficial outcome of Globalization. It's the trade and commerce, business dealings and agreements that have encouraged this economic integration. Trade barriers have reduced to a much extent and there is exchange of commodities increasing GDPs of the nations engaged in cross borders business due to the global economic integration. There has been exchange of culture, innovative ideas, knowledge, etc. which has extended cordial relationships between nations thus promoting peace among them.

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## ENDNOTES

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