


# The EU in the Global Economy

## Online learning

Document identifier				
Lesson	Title	How to proceed?	Time need	
#2	Introduction to global economy	<ol style="list-style-type: none"><li>1) Introduction (aim of the lesson)</li><li>2) <b>Reading material</b></li><li>3) Video1 (Basic macroeconomic indicators)</li><li>4) Video2 (Country classification)</li><li>5) Video3 (Stages of integrations)</li><li>6) Video4 (TRIAD)</li><li>7) List of terms to remember</li><li>8) Online test</li></ol>	cc. 10 mins.	





## 1 INTRODUCTION

In the 21<sup>st</sup> century, globalization characterizes the economy. It results in that we need to speak about global (world) economy, and we need to take into account the global trends when analyzing the economic performance of a region or a country. It has become essential to be able to put the economic performance and economic activities into a global context. Thus, in order to understand how the EU performs in the global economy, we need to understand what global economy means, who are the main actors and what are the main features and trends in the current global economic trends.



*Thus, this lesson aims to give an overview on the global economy. By the end of the lesson, you will understand the basic trends in global economy and you will be able to identify the main economic actors.*

## 2 DEFINITION OF WORLD ECONOMY

By definition, **world economy refers to the aggregate of economic relations occurring between nations.** The economic relations cover **trade relations and financial relations** as well. Trade includes trade in goods and services, and nowadays, trade in intellectual property rights. Regarding the financial issues, financial markets, capital flows (foreign direct investments, portfolio investments) and aid activity can be mentioned.

- Trade in goods
- Trade in services
- Intellectual property rights

Trade relations



- Financial markets
- Capital flows
- Aid

Financial relations





The world economy is not stable, it is still under continuous changes. We can analyze these from the point of view of geographical (more and more countries appear in the world economy) and context changes (not only trade in goods but trade in services, FDI, financial relations, international development, intellectual property rights, etc). Just two examples for geographical changes: after the 2<sup>nd</sup> world war many colonies became independent and became members of the world economy. Or, after the collapse of the Soviet Union at the beginning of the 1990's, new countries such as Turkmenistan, Tajikistan, Kazakhstan appeared in the world economy.

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*Changes in global economy: in terms of geography and context*

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### 3 WHO ARE THE MAIN ACTORS OF THE GLOBAL ECONOMY?

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The main actors of the global economy can be classified as follows:

- **Countries:** small, middle-sized and large countries; or developed and developing countries. They all represent different power in the world economy.
- **Regions and regional integrations.** Regions refer to either smaller part of a country (e.g. South Plain in Hungary), or smaller part of a continent (e.g. South East Europe, South East Asia). They can be handled as economic actors since they have similar economic problems and they often represent themselves together. These integrations aim to support trade preferences to each member states in order to foster the economy, and they try to represent common interests in the framework of negotiations of international organizations.



#### REGIONAL INTEGRATIONS

*There are several regional integrations in the world. At the Millennium, its number exceeded the 300. One of the most important regional integration is the European Union, but there are integration in North America (e.g. NAFTA), in South America (e.g. Mercosur, Andok Group), in Asia (e.g. ASEAN) and of course in Africa (e.g. ECOWAS).*



There are **seven stages of integrations** based on their deepness.



*Stages of integrations:  
Watch the related video!*

Stages of integrations	
Trade area	<b>Preferential trade area:</b> participating countries provide preferential tariffs to each other.
	<b>Free trade area:</b> participating countries eliminate tariff restrictions but use different trade policies towards countries outside of the integration.
Market	<b>Common market:</b> there is no restriction on the free movement of labor, services, goods and capital (they are the so-called four freedoms).
	<b>Single market:</b> technical, financial and physical barriers are eliminated from the free movement of labor, services, goods and capital (e.g. there is no border control, there is tax harmonization).
Union	<b>Customs union:</b> participating countries eliminate tariff restrictions but use the same trade policies towards countries outside of the integration.
	<b>Monetary union:</b> participating countries use the same currency and have common monetary policy.
	<b>Political union:</b> A larger and consolidated group of nations or states that share a joint government that is internationally acknowledged.

- **International organizations** like the United Nations, OECD, International Monetary Fund or World Bank have larger and larger influence on the world economy.
- **Companies:** we often mention the multinational and transnational companies as players of the world economy, but the small- and medium-sized enterprises (SMEs) must be mentioned too, because if they export anything to another country, they become active participant of the world economy.
- **Civil organizations, NGOs:** NGOs represent the interests of “simple people”. We can mention here, for instance, the activities of the Greenpeace (environmental issues) or the Red Cross (humanitarian issues). There are many other NGOs.

## 4 COUNTRY GROUPINGS

Countries in the world can be classified from several points of view. We look at some examples, however, this list is not full.



*Country classification:  
Watch the related video!*



1) According to the income level

- **Least developed countries (LDCs):** they are the poorest countries in the world. Their income level is low, the quality of human asset is also low, and the country is vulnerable. The United Nations determines which countries belong to this group (based on three indices: GNI per capita, Human Assets Index, Economic Vulnerability Index) and the UN examine this list every three years and decides which countries can graduate.
- **Low-income Countries (LIC), Middle-income Countries (Lower-middle-income Countries – LMIC, Upper-middle-income Countries – UMIC), and High-income Countries (HIC).** See their geographical distribution in Table 1. Most of the low-income countries (LIC) can be found in Sub-Saharan Africa, and most of the Sub-Saharan African countries belong to the LIC group. Latin-America is the opposite, here richer countries can be found.

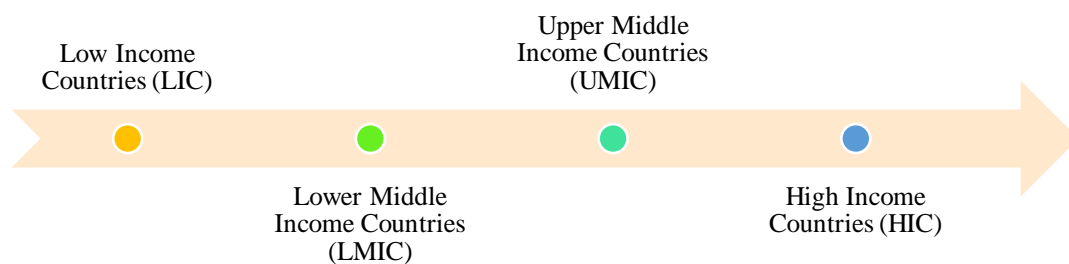


Table 1 Distribution of countries by geographically and income groups (number of countries)

	LIC (<1045\$)	LMIC (1046\$–4125\$)	UMIC (4126\$–12.745\$)	Total
East Asia and Oceania	3	12	9	24
Europe and Central Asia	1	7	14	22
Latin America and the Caribbean	1	7	17	25
Middle East and North Africa	0	6	7	13
South Asia	3	4	1	8
Sub-Saharan Africa	26	14	7	47
<b>Total</b>	<b>34</b>	<b>50</b>	<b>55</b>	<b>139</b>

Source: The World Bank

2) According to human development:



According to the HDI (Human Development Index), countries are classified as Low, medium, and high human developed country.



*HDI: Watch the Basic macroeconomic indicators video!*

3) Other groups:

- Emerging countries, like BRIC and BRICS:

B	Brazil	Their cooperation became formal and the name of the group was given in 2001. South Africa joined the group later.
R	Russia	
I	India	
C	China	
S	South Africa	

- G7, G8, G20, G77+ and so on. G20 consist of developed and developing countries, too. China and Mexico are members of this group, and the European Union as an independent integration appears as a member.

G7	G8	G20
France	+	+
Germany		
Italy		
Japan		
United Kingdom		
USA		
Canada		
	Russia	
		Australia
		Saudi Arabia
		South Africa
		Turkey
		Argentina
		Brazil
		Mexico
		Indonesia
		South Korea
		China
		India
		European Union



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