
As the recent financial crisis that started in 2008 in the United States has swept much of the world, the extent that the global economies have become linked together is impossible to ignore.

For example, a drop in real estate values in America brought down a number of European banks.
Although these banks were thousands of miles away, they owned investments that were based on Americans' ability to repay their mortgages. When people had difficulty paying their loans, many of the banks suffered losses.

European governments found themselves in the position of either guaranteeing the assets of these banks or seeing the banks fail and having their customers lose their money. An extreme case was Iceland where the national government was on the verge of declaring bankruptcy following the collapse of the nation's three largest banks.

In America, the largest purchaser of government debt is the Chinese government, which essentially acts as a bank by lending the U.S. money to fund government operations.

*[Image of Shanghai in background courtesy Zhang Zhang. Image of Reykjavik courtesy Srikanth Jandhyala.]*


Technological advances have been one of the main forces behind the global economy.

As transportation companies have developed faster ways to move goods for less money, the production of goods has spread around the world. When you walk into the supermarket, you'll find an array of products from around the world: asparagus from Mexico, blueberries from Chile, and catfish from Thailand, to mention a few. The driving force for where goods come from has become who can produce the goods that people want at the best possible price.

Advances in computer and communications technologies have also had a dramatic impact on the global economy. Companies can set up operations around the world to take advantage of lower labor costs in other countries. Have you ever called a company with a question and someone in another country answered the phone? As the price of a phone call has gone down dramatically, it can be cheaper for companies to set up in foreign countries.

These technologies have also transformed the movement of money around the world. You or your parents may own stock in a foreign company. Many people invest in stock markets in other parts of the world in order to take advantage of growth in these economies. Owning stock in a Chinese company can be one way for you to profit from China's economic growth. The communications networks that link the world make it possible for you to buy and sell stocks around the world with just a click of your mouse. They also create the links that can spread economic problems to other countries as well.

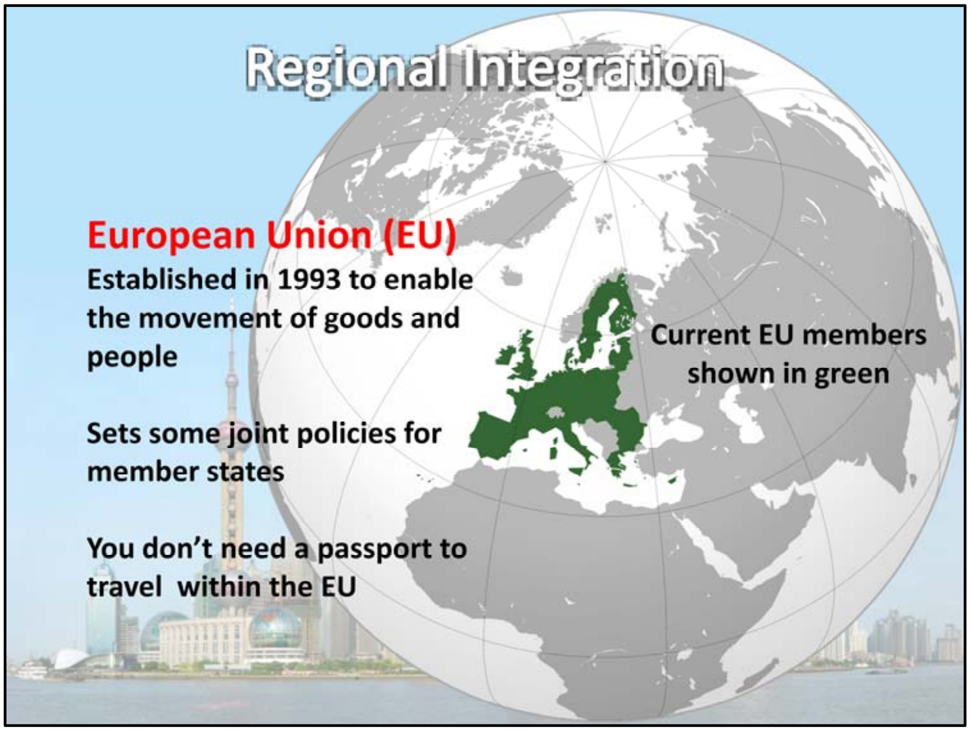
*[Image of Shanghai Port courtesy Wikimedia Foundation, HSBC bank courtesy Amitauti, and Shanghai Stock Exchange Manuel Pajer.]*


In the old days when you went to buy a car, the first choice you might have made was whether to buy foreign or domestic. Nowadays, there's often no easy way to make that choice. An American car may have components that were made in Mexico or Canada, but a Japanese or German car may be made at a factory in South Carolina.

The growth of the global economy and the advances in shipping technology mean that companies can set up operations all over the globe in order to meet their business objectives. While this can have benefits for the people who are getting jobs that have been created, the taxes on the profits that a company makes may not be evenly distributed to the countries where the companies have operations. Some argue that multinational companies take the profits from one region and return them to the wealthy countries of the world where their headquarters often are.

Others argue that the multinational companies can have a large influence in some countries and that this may not be in the best interest of the local populations. An example of this is the extraction of oil by multinational companies in Nigeria. While the foreign oil companies make profits and the Nigerian government makes tax revenue, the local populations have to deal with the environmental degradation caused by the oil drilling. The local people do not receive the well-paying jobs created by the oil wealth. Also, the oil revenues that the government makes often go to other regions or to pay for other programs. The local people do not get the improved infrastructure, environmental clean-up, or increase in the standard of living that this money could buy.

*[Image of oil pollution courtesy Sosialistisk Ungdom (SU).]*




Many countries belong to regional organizations that address economic, as well as political and social issues. One of the most prominent examples is the European Union (EU).

The EU was established in 1993 to enable the movement of goods and people within Europe. It is responsible for setting certain policies that apply to all member states such as environmental laws. The goal of the organization is to make the economies of the member nations more efficient by removing boundaries between countries. Also, the EU ensures that all of these countries follow many of the same rules so that no one gains an unfair advantage.

One striking feature of the European Union is that you don't need a passport to travel between member countries. Once you are in the EU, you can travel freely to other member states.

*[Map courtesy Wikimedia Foundation.]*


Some EU countries are part of the eurozone, a group of countries that all use the Euro as their currency. This helps enable trade between member countries since they do not have to exchange individual types of currencies in order to do business. In order to be part of the eurozone, countries have to agree to certain restrictions as far as how much money they can borrow to cover their national budgets.

In the past few years, problems in Greece and other countries where the governments have had difficulty paying their debts has led some to wonder whether the eurozone will be successful over the long term.

Regardless, the trend in much of the world is toward greater regional integration among countries to resolve issues and promote trade.

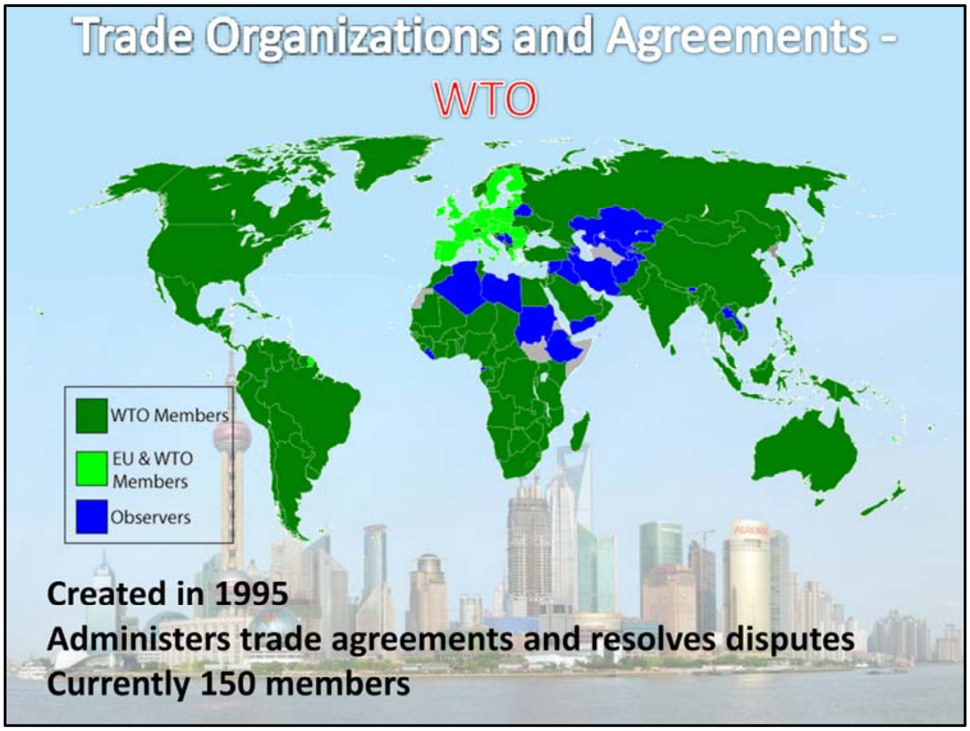

Trade agreements among regions and different countries are an important tool for increasing trade among members.

In 1994, the United States, Canada, and Mexico signed the North American Free Trade Agreement (NAFTA). The goal of the agreement was to eliminate barriers to trade and investment among the three countries. This trade bloc is currently the largest in the world, based on the GDP of the three countries.

When NAFTA was implemented, tariffs were eliminated on more than one half of U.S. imports from Mexico and more than one third of U.S. exports to Mexico. Most U.S.-Canada trade was already duty free. By reducing barriers, trade has increased greatly among the three nations. NAFTA includes important provisions which make sure that environmental concerns are addressed in each country, and that no country can produce goods cheaper simply by polluting the environment.

NAFTA has been controversial because many American companies moved their manufacturing facilities just inside the Mexican border to take advantage of cheaper labor. Whether this has hurt American workers is a subject of debate, but there is little doubt that many new jobs were created in Mexico as a result.

*[Image of NAFTA logo courtesy Alex Covarrubias.]*




When countries have trade agreements with one another, they have shared policies on imports and exports, and a means of resolving any disputes. What happens when there is no trade agreement between countries? How do they resolve disputes?

The World Trade Organization (WTO) is an organization created just for this purpose. Created in 1995, the WTO's mission is to administer trade agreements, resolve disputes, and provide a venue for negotiating among its one hundred fifty member nations. The WTO replaced the General Agreement on Tariffs and Trade (GATT), which was signed near the end of World War II. GATT set up the rules and policies for international trade and created the WTO.

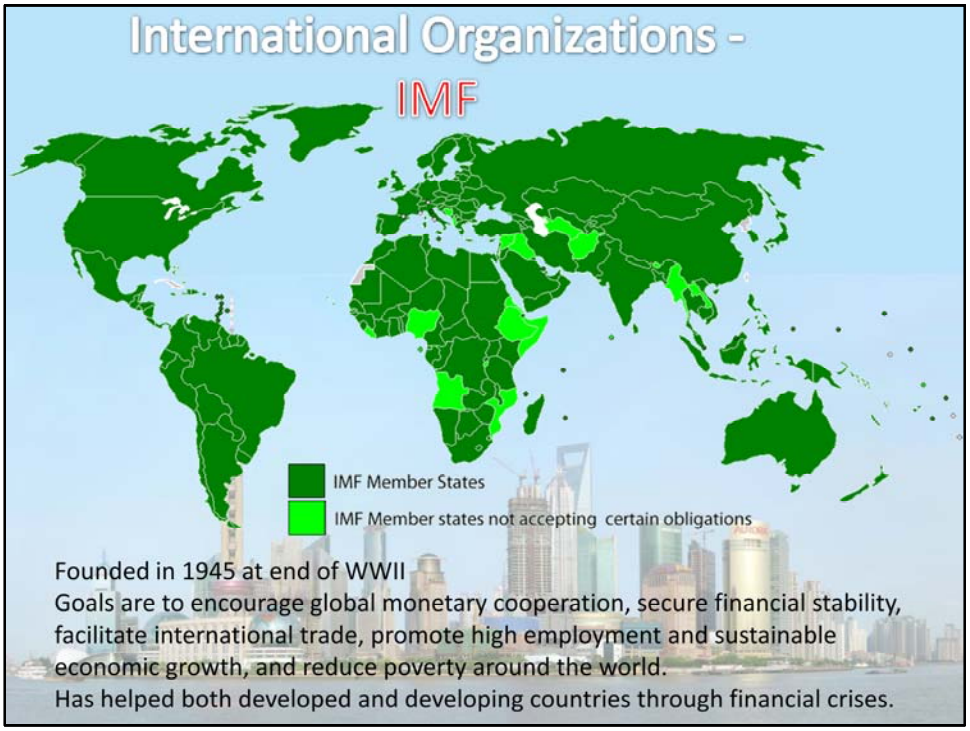
*[Map courtesy Muso.]*


At the end of World War II, countries came together to try and build organizations that could help address problems of international interest. Two of these institutions were the United Nations and the International Monetary Fund (IMF).

In addition to its role as peacekeeper between member nations, the U.N. also has a number of offices dedicated to environmental and social issues. Since environmental concerns often cross international boundaries, the U.N. plays an important part in helping to work with member states to address problems.

The U.N. helps to improve the lives of people through a number of programs that address food and agriculture, human development, health issues, education, as well as refugees.

*[Map courtesy Wikimedia Foundation.]*




One of the causes of World War II was the economic collapse of the world economy during the Great Depression. As economies shrank, countries put up barriers to world trade in the hopes of protecting their own industries. As a result, world trade collapsed.

The IMF was set up to try and prevent this from happening again. Its goals are to encourage global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

Often, you hear about the IMF when there's a financial crisis in the world at the level of a national government. The IMF has come to the aid of developed and developing countries alike in order to secure funding to get through these crises. Countries from Haiti to the United Kingdom have received help from IMF as part of its operations.

*[Map courtesy Alinor.]*


As you can see, there are many ways in which the economies of the world are more tightly connected than ever before. Events on the other side of the globe can have major impacts. If oil supplies are disrupted in the Middle East, you will probably pay more for gas in America.

No nation can go it alone as a strategy to limit the impact of external events. Although it may seem like a good idea for a country to try and produce all of its own goods and energy, this doesn't make economic sense in a world where items can be transported easily. It also denies the reality that, like it or not, the world is tightly connected and that what happens in the country next door, or around the world, matters.

Look at these questions. Your responses to these questions may be different from the responses of someone living in Mexico or in parts of the country where they used to make clothing.