LOWY INSTITUTE

FOR INTERNATIONAL POLICY

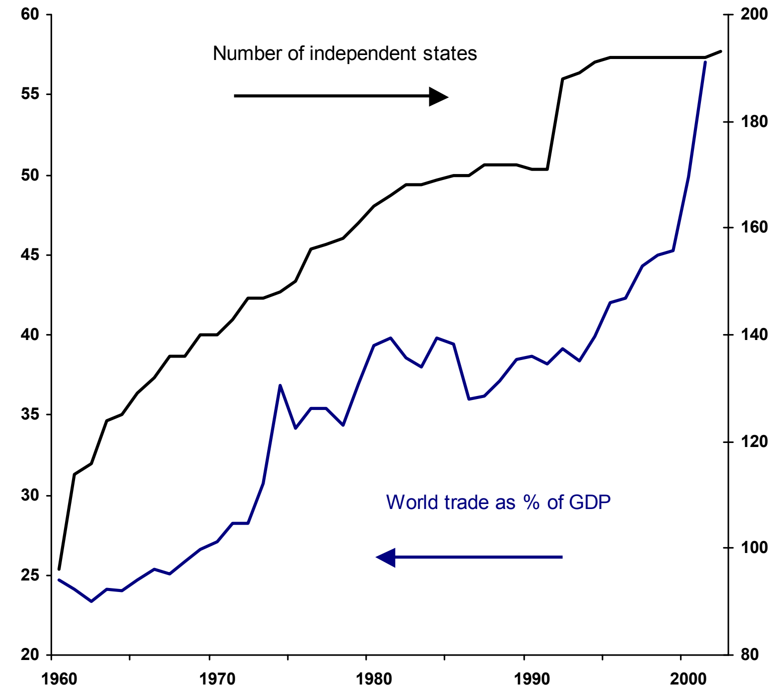
DOES ECONOMIC INTEGRATION PROMPT POLITICAL DISINTEGRATION?

- Over the past 40 years world trade as a proportion of global output has more than doubled. At the same time, there has been a marked increase in the number of independent countries in the world. While non-economic factors – such as decolonisation – have clearly been important, does the growing economic integration of markets for goods, services and financial assets somehow encourage political disintegration?

- Some economists have explained the apparent correlation in terms of market size.* In their model the optimum size of a country depends on a trade-off between the *political* costs of greater size (more scope for different political preferences) and the *economic* benefits of being larger (which include the ability to spread the cost of public goods such as defence across more tax-payers and reduced transactions costs associated with national as opposed to international trade).

- International economic integration - in the form of lower barriers to international trade - alters this cost-benefit equation. By reducing the relative importance of national borders, greater integration reduces the economic benefits of size, and therefore would be expected to lead to an increase in the "equilibrium" number of countries.

* Alesina, A., E. Spolaore and R. Wacziarg (2000). Economic integration and political disintegration. *American Economic Review* 90(5): 1276-1296.



Sources: World Bank for trade data; number of countries 1960-1996 provided by Professor Romain Wacziarg and then updated from *Independent States in the World* by the Office of the Geographer and Global Issues

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