Global Risks and the Influence of Integration Trends on Them

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Abstract: In a globalized world, risks have reached a new level; some of them have become global. The main objective of the article is to demonstrate the impact of integration trends on global risks and to prove the inefficiency of traditional methods of assessing global risks today. The authors aim at classification, systematization and assessment of the global risks influence on integration and the opposite connection. The authors use inductive analysis in order to form interconnection between the global level and the regional integrational tendencies. The authors propose a theoretical analysis to identify correlations between the two concepts and analyze the transformation of the concepts of global risks and integration. The key finding of the article is that the only way to make the integrational and global risks lower is to promote tight cooperation within the integrational organization and to foster higher integration levels.

1. Introduction

The current trends in the global economy are forcing countries to take risks associated with globalization. In this regard, there is a problem of identifying and reducing global risks. The relevance of this issue is justified by the fact that in the modern world national security is becoming one of the priority directions of state policy. The purpose of the article is to identify the main global risks and ways to reduce them. The authors substantiate the possibility of reducing the impact of global risks by creating integration organizations. Therefore, this article focuses on the study of global risks and ways to reduce them. The article concludes that global risks are inevitable for any state in the modern world, and one of the ways to reduce their impact is integration with other states.

The article contributes to the risk-management on global scale and to the formation of a clear vision of the common strategies of risk-management in the integrational institutions. The research is based on the work by Stiglitz [1], who offers his vision of full integration risks, while today the opposite tendencies are observed [2]. In addition to that, the key concepts on integration development are expressed in [3], so the article reflects them too.

2. Methodology

The article is theoretical in nature and is based on the study and development of the theory of global risks of Beck [4]. In the framework of the article, a synthesis of the theoretical practices of Beck and Balassa [3] was made, and the result is transposed to modern conditions.

To achieve the goal set in the article the following approach was applied (Fig. 1).

The article is based on the WEF Global Risk Report 2019 [2] and a comparative analysis of approaches to risk assessment by rating agencies, demonstrating the limitations laid down in the rating methodology itself. Based on the results of the analysis, the main aspects of the impact of integration on risks that arise from the analysis of theoretical approaches to the issue are given.

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Figure 1 Research Methods

3. Results

3.1 The Current Global Risks Situation

Every year the World Economic Forum in Davos analyzes and summarizes the most dangerous risks for the world community, and also contributes to solving the problems of managing global threats to humanity.

As usual, the global risks of 2019 are divided in five groups: economic, environmental, geopolitical, social and technological. It should be noted that a certain global threat can be attributed to either one or several risk groups in most cases.

The interviewed experts primarily expect the growth in 2019 of risks associated with "the economic confrontation between the leading powers" (91% of respondents), "the erosion of international trade rules and agreements" (88%) and "political confrontation between the leading powers" (85%) [2]. Today's complicated geopolitical environment may hamper a collective progress in making decisions on important global issues. At the same time, the International Monetary Fund predicts a slowdown in the growth of developed countries from 2.4% last year to 2.1% in this and 1.5% in the next [5].

In the current situation, decreasing of the US dollar's role as a reserve currency in the world assumes a special importance for developing countries. This has a serious impact on the global economy and global finance, since it has an influence on the current geopolitical balance of power between the blocs of states and on the current dependence on traditional international financial institutions. Agreements between many countries (first of all, BRICS members) on mutual settlements in national currency are the first, but a very serious step in this direction. The US securities market is also experiencing a crisis. Large lenders are actively getting rid of the US debt.

To assess the solvency of the country using ratings compiled by international rating companies. However, unfortunately, rating agencies cannot be completely impartial and are also subject to political influence. For example, for the United States in 2018, the largest rating agencies Fitch, S & P and Moody's rated the United States, respectively, as AA A, AA + and Aaa, which indicates the country's highest creditworthiness [6], although the country's economy is not experiencing the best period [7].

However, not all countries can show such a high rating due to the instability of the political, economic and social situation in which global risks arise. At the same time, it is worth noting that the risks investigated by rating agencies are assessed quite subjectively and are only informative and do not take into account integration trends and their impact on global risks.

3.2 The Impact of Integration on Risks

In order to stabilize and improve in various parts of the world, integrated trade and economic, currency, customs and political organizations are being formed that help reduce the impact of global risks on participating countries. In fact, the whole world today is a series of interconnected integration associations. The experience of states demonstrates that the autonomous development of any country in the current situation is impossible. It means that a country, which is unable to integrate and to join forces, is doomed to an economic and political defeat. Thus, international integration leads to a global reduction of risks.

The risk reduction in the process of international integration can be achieved using a number of tools.

The first of these is the diversification of operations by countries (regions) and the ability to enter new promising markets and use more diverse marketing facilities. It is worth noting that when involving partners from among national investors in cooperation, a reduction in the risk of investment is possible.

Acting through the alliance, countries or enterprises can agree on the division of the market and the sphere of influence on it. Moreover, the alliance, compared with companies working alone, can reduce the risk of each partner by dividing the stages of a large project between several participants, diversifying the range of products, ensuring a quick entry to the market and selling products.

The second way is the formation of sustainable GVCs (creation of joint ventures, development and implementation of joint investment projects) within an integration association, which leads to closer economic ties between the states and creates a synergistic effect with the previous tool.

The third tool is data collaboration. In a globalized world, information is becoming one of the most expensive products, respectively the creation of common information markets and financial information institutions (exchanges, fintech incubators, general fintech markets, etc.).

The fourth tool is agglomeration of resources arising from a closer integration. For example, in the EU, one can clearly distinguish the economic specialization of a country, as in the EAEU. This is especially evident in a single market.

4. Discussion

Thus, global risks are reduced with the help of tools of international organizations and integration associations. It should be noted that within the framework of integration associations there is a more complete and comprehensive reduction of risks. For example, the activities of the World Bank Group are aimed at supporting the economic development of member countries. At the same time, the efficiency of its activities is much lower than that of the EAEU, where the main and only financial institution is the Eurasian Development Bank, whose capital is much lower than that of the WB Group.

Based on the above example, we can say that the depth of integration is closely correlated with a decrease in global risks. If we analyze the most significant global risks in 2019 identified by WEF experts, it is worth noting their transformation in the context of globalization and integration. The economic confrontation between the leading powers (for example, between the PRC and the USA) becomes not so much interstate as a confrontation between integration associations. Initially, the EU imposed sanctions against the Russian Federation, but gradually developed the country aspect, despite the dissatisfaction of other members of the EAEU. The counter-sanctions were applied by the whole association, and there is an active struggle against the import of sanctioned goods through the territory of neighboring EAEU member states. When confronting the PRC and the United States, it is worth considering the confrontation of geopolitical institutions - it was originally planned to put pressure on the PRC by the Trans-Pacific Partnership, as an alternative to which the Comprehensive Regional Partnership (WEP) was created. It was the sharpening of these contradictions, which led to the acceleration of the Belt and Road Initiative.

At the same time, the international trading and financial foundations are eroding - both TPPs and WEPs are institutions capable of replacing the IMF, while the abundance of regional development banks casts doubt on the credibility of the WB Group and the IMF. At the same time, the interweaving of financial, economic and political confrontation is becoming closer and closer, therefore, the intensification of political confrontation between the leading powers inevitably leads to a new global financial crisis.

Thus, global risks lose their political and economic character and become comprehensive. Proceeding from this, the concept of the country's financial security is being transformed - it is becoming more complex and, in the future, may incorporate both political stability and the risk of international conflicts and likely tracks of the country's further integration policy.

5. Conclusion

During the formation of integration associations, priorities are selected and development programs are developed. Reducing global risks requires mandatory continuous monitoring of the situation with a view to comparing the selected program, the identified risks and ways to manage them, as well as changes in the external environment. It is necessary to regularly question the validity of the current strategy and the adequacy of the adopted risk compensation program in the light of ongoing changes. Proper integration of risk management can ensure the continuity and effectiveness of the economies of the participating countries in the long term. When all the countries understand well what the strategy consists of and why its implementation is necessary, their participation in the process will guarantee a more efficient activity and completeness of information for timely changes.

Defining and adjusting the future priorities and directions of development of the national economy ensures the financial and economic security of the country and its population. One of the duties of the state is to monitor financial and economic risks constituting by their nature a threat to the national economy, which was clearly identified during the previous crises.

Due to international economic sanctions, not only the border security, but also the security associated with business entities and the country's economy as a whole becomes one of the priority areas of the country. This implies the term “the financial security of the country”, which is closely connected with financial and economic risks.

The concept of financial security of a country implies a situation in which the state ensures the security of its national economy from financial threats from the global market.

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