The impact of economic globalization on the transformation of the international system

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Abstract. *The article examines possible variations in the transformation of the international system under the influence of the ongoing processes of economic globalization. The author comes to the conclusion that financial globalization has a serious impact on the international system, both on its structure and on the properties of its constituent parts.*
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An international system is a collection of political units or parts that interact with each other to the extent that they can be considered a single whole. The international system includes two elements: the actual set of parts and the mutual relations that form a certain structure [1]. For the international system, the parts are still States, despite the fact that they have lost their influence against the background of the activation of various non-state actors. It is worth noting that States have never been the only international actors, but they have occupied and continue to occupy a special, leading position. And since the system is determined not by all the actors that succeed in its framework, but only by the main ones, then only states remain parts of the international system in the strict, formal sense. The parts of the international system that differ in size, shape, and wealth are the same in terms of the functions performed. States solve or try to solve problems common to all of them. The same can be said about the goals they strive for. A single State largely duplicates the activities of other States. Each of them has bodies responsible for the development and implementation of laws, for filling the treasury, for national defense. Each state provides its citizens with various benefits, relying on the resources available to it. Being functionally the same, the parts of the international system are seriously different in their capabilities. This is where the difference between the international political system and the national political system lies. In the last part, they perform different functions, having generally the same capabilities. In the international system, some parts have significantly greater capabilities than others, which puts them in a special position associated with a greater potential for influence. The distribution of opportunities among the parts of the international system determines the structure of this system itself.

The structure of the system, being its second key feature, is a pattern of interaction of parts, expressed in the mutual positioning or arrangement of parts relative to each other. Individual units can approach each other, forming various alliances, or move away from each other, forming opposing blocks. At the same time, individual parts can fall under the influence of others or, on the contrary, gain influence over others, thereby forming some international hierarchies. It follows that the structure can imply both horizontal and vertical interactions of parts of the system. The structure is formed by the joint actions of the parts of the system that care about their own interests. Its appearance is explained by the fact of the coexistence of parts. Although it affects the behavior of all parts of the system without exception, none of them is involved in its development, establishment and preservation. In other words, it is produced spontaneously, being an unintended consequence of the interaction of international actors. Structure is the arrangement, the order of the parts of the system, and how these parts are compared and combined will determine the functioning and characteristics of the entire system. Different structures will produce different results, even if the list of interacting parts does not undergo any changes.

The international system does not function in a vacuum, but is placed in a certain environment that constantly influences it. This environment is complex, including many components: the economic segment, the technological segment, the environmental segment, the social segment, the regulatory segment, and so on. Thus, the invention of nuclear weapons, which is a technology of mass destruction, has had an impact on the international system, destroying, in the opinion of many, its fundamental principles. Even at the dawn of the nuclear revolution, many well-known scientists, including the founders of the theory of international relations, such as G. Morgenthau, J. Hertz and K. Boulding [2], believed that nuclear weapons deprive states of the ability to defend themselves by their own means, making them rudimentary elements in terms of the security function. Later, nuclear weapons forced a revision of the concept of a monopoly on violence, acting for states, according to D. Dodni, in the same role as gunpowder once played for feudal possessions [3].

However, most of the discourse devoted to the transformation of the international system under the influence of the environment is occupied by the processes of economic globalization, which undermine the state's ability to control cross-border exchanges and perform traditional functions in the field of security and well-being. J. Agnew compares the state to a large «territorial container» [4], which has now leaked. According to S. Strange, «the impersonal forces of world markets, integrated not by joint decisions of governments, but by private initiatives in the areas of finance, production and trade, are now more influential than the states that are supposed to have supreme political power over society and the economy. ... If earlier the states were the masters of the markets, now the markets have become the masters of the states» [5]. According to R. Gilpin, «in a highly integrated global economy, the state, according to some estimates, is losing its position, becoming an anachronism»[6]. S. Sassen later noted that the processes taking place today in the global economy denationalize everything that was once created as exclusively national [7].

Financial globalization, which involves the removal of all obstacles and barriers to the cross-border movement of capital, has had and continues to have a special impact on the international system. The global economic crisis of 1929-1939, accompanied by the rejection of liberal principles in the field of finance, led to the fact that parts of the international system dramatically increased control over the movement of capital across their territorial borders. Previously, such control was practiced, but on a much smaller scale and only for a relatively short time. France, Germany, and even the main defenders of the liberal financial order, Britain and the United States, have taken various measures to control the movement of capital. However, until 1931, these measures were imposed for a limited time in order to achieve certain political goals (for example, to close access to financial markets to hostile states). After the crisis, they have become an integral and permanent attribute of economic policy, set at the service of higher, national goals.

The first states to resort to large-scale capital controls were Japan and Germany, which were the first to reject liberal practices. Initially, the measures were developed for purely practical purposes, which were to maintain the balance of payments in the context of the global crisis. However, these two States soon adopted capital controls as an integral and permanent component of their economic policies. [8]

The countries of the so-called «golden bloc», first of all France, Belgium, the Netherlands and Switzerland, being under the stronger influence of liberal ideas, significantly longer refused any serious restrictions on the balance of payments. In the early 1930s, their financial markets remained relatively free, as their governments took only minor steps in the area of capital controls. Only the monetary crisis that occurred in the second half of the 1930s forced them to reconsider their economic policy [8].

In the United States, the economic crisis caused a marked reconfiguration of the political landscape, culminating in the election of President F.D. Roosevelt in 1932. The new administration, backed by an alliance of farmers, workers, and individual business leaders, blamed the economic chaos on New York's financial community and made a series of efforts to put monetary policy under tighter government control. The reforms were intended not only to moderate competition and limit the power of bankers, but also to increase the political responsibility of the Federal Reserve System (Fed) [9].

Important political changes also occurred in Britain, which was forced by the crisis to abolish the gold standard, but despite the political changes that were taking place, Britain remained true to basic liberal principles until the Second World War. The war forced not only to introduce currency control, but also to attract a number of economic scientists to the Ministry of Finance, who advocate the need for an interventionist economic policy [8].

At the moment, the scientific community has developed several approaches to explaining the reasons for the revival of financial globalization in the 1970s. Some authors believe that financial globalization is a consequence of technological changes that break down the barriers that separate some financial markets from others [10]. The information and communication revolution has made it more difficult for Governments to control incoming and outgoing financial flows. The reduction in the time and cost of international communications, as well as the emergence and development of the inherently limitless Internet, have reduced the effectiveness of any capital controls, undermining the very foundations of Keynesian economic policy. Today, agents who are interested in non-legal financial transactions have many channels and offshore jurisdictions that allow them to circumvent almost any prohibitions [11]. From the point of view of technological determinism, the current globalization differs from the one that took place in the world before 1914. At that time, more time-consuming communications, as well as the general lack of development of financial markets and related services, even in advanced countries, allowed governments to exercise some control over the movement of capital. Thus, Germany and Sweden, which were not as strongly committed to the principles of the free market as Britain, were quite simply able to control the movement of capital [12]. Today, it is much more difficult to control financial flows, as globalization has taken a different form.

Whatever the reasons for its revival, financial globalization has a serious impact on the international system, both on its structure and on the properties of its components. As financial interdependence increases, parts of the international system receive additional incentives to group into different formal and informal currency zones, which increase the stability of their currencies, which are subject to market fluctuations. States that have entered the currency area strengthen confidence in their currency, while gaining access to a joint reserve that allows them to finance emerging balance of payments deficits on a much larger scale. An example of a modern currency zone that promotes the stability of monetary relations of its members is the African franc zone. In turn, currency zones influence the political behavior of their constituent parts of the international system.

At the same time, financial globalization changes the very properties of parts of the international system, primarily eroding their sovereignty, and each of them weakens in a financially integrated world.

This manifests itself in the following.

First, globalization increases the likelihood of internal conflicts and civil war. It breaks the economic ties that have developed within a single state, weakening the dependence of different regions and social groups on each other. With the change of sources of income, which are now located not inside the country, but outside it, the potential costs of the conflict decrease and, consequently, the probability of its beginning, continuation or aggravation increases [13].

Secondly, financial globalization affects the universalization of monetary relations, thereby turning any attempts to gain monetary independence made by any part of the international system into a serious threat to other parts that are interested in maintaining interdependence and are ready to fully intervene for this purpose. Such attempts deprive the states that issue the world's fiat currencies of a powerful tool of political influence, causing an extremely negative reaction on their part that ignores sovereign rights.

Third, financial globalization favours the survival of the so-called unrecognized States. Despite the challenge they pose to the principles of territorial integrity, the unrecognized States do not attempt to undermine the established system of sovereign States or create any alternative forms of statehood. They simply seek a place in a system that does not accept them as eligible members.

Fourth, financial globalization encourages technological innovations to reduce the costs of communication and physical movement. Today, States cannot fully control the cross-border movement of capital, losing the ability to perform the full range of their traditional financial functions, in particular, to conduct an effective monetary policy. These processes affect the sphere of control, but not the authorities, since States are not deprived of the right to manage their borders, despite the fact that globalization seriously weakens this ability.

In a financially integrated world, it is the financial environment that is becoming one of the most important factors generating transformational impulses for the international system. Financial globalization is changing the structure of the international system, setting different criteria for grouping the parts of the international system that form new political alliances and hierarchies. It also changes the properties of individual parts of the international system, primarily weakening all types of their sovereignty – internal, external, status and functional. Moreover, with the intensification of financial globalization, it affects not only the structure of the international environment and the main properties of its individual parts, but also the relationships between such parts. In such circumstances, various financial means of interaction, through which some parts of the international system try to influence other parts in their political interests, become particularly important.

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