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**РЕДАКЦІЙНА КОЛЕГІЯ ЗБІРНИКА НАУКОВИХ ПРАЦЬ
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ПОЛІТИЧНІ ПРОБЛЕМИ МІЖНАРОДНИХ ВІДНОСИН

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THE UNITED ARAB EMIRATES: WHAT IS BEHIND ECONOMIC MIRACLE?

ОБ'ЄДНАНІ АРАБСЬКІ ЕМІРАТИ: ЩО СПРИЧИНИЛО ЕКОНОМІЧНЕ ДИВО?

ОБЪЕДИНЕННЫЕ АРАБСКИЕ ЭМИРАТЫ: ЧЕМ ВЫЗВАНО ЭКОНОМИЧЕСКОЕ ЧУДО?

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***Abstract.** The United Arab Emirates is situated simultaneously in southern region of the Persian Gulf and on the Coast of the Gulf of Oman next to Saudi Arabia and Oman and remain the closest maritime neighbour of powerful Iran. This fact defines geopolitical importance of the country. But environment here is not conducive for economic development. It is distinguished by some of the highest temperatures in the world during warm season and by extreme humidity because of two surrounding bodies of water. It lacks permanent lakes and rivers and the whole area is prone to severe sandstorms. The native population of the UAE is rather small, what forces Emirati rulers to invite foreign workers in growing numbers. Despite domination of crude oil in foreign trade, the ruling elite took a strategic step towards service economy, what represents an interesting example to follow because of the apparent success of such policy. In this article the author makes an attempt to find out what measures at state level made the UAE the most prosperous country in the Gulf.*

***Key words:** UAE, Abu Dhabi, Dubai, airlines, free economic zones, ports, tourism, property.*

***Анотація.** Об'єднані Арабські Емірати розташовані на півдні Аравії на берегах Перської затоки і на узбережжі Оманської затоки поруч із Оманом та Саудівською Аравією, будучи водночас найближчим морським сусідом потужного Ірану. Це визначає важливе геополітичне значення країни. Однак регіональне середовище несприятливе для економічного розвитку державного актора, бо відзначається надзвичайно високою температурою повітря протягом теплої пори року та підвищеною вологістю, оскільки регіон оточено двома водоймами. Країна не має постійних річок і озер, водночас їй притаманні потужні піщані бурі. Чисельність корінного населення тут доволі незначна, що і визначає залежність ОАЕ від імпорту робочої сили, обсяги якого зростають із кожним роком. Незважаючи на важливу роль енергоносіїв у зовнішній торгівлі, політична еліта прийняла стратегічне рішення диверсифікувати її асортимент за рахунок надання імпульсу розвитку сфери послуг. Цей приклад заслуговує на ретельне вивчення завдяки його незаперечному*

успіху. У статті автор намагається з'ясувати, які саме заходи на державному рівні перетворили ОАЕ на найбільш заможну країну регіону.

Ключові слова: ОАЕ, Абу Дабі, Дубаї, авіалінії, вільні економічні зони, порти, туризм, нерухомість.

Аннотація. Объединенные Арабские Эмираты расположены одновременно на юге Аравийского полуострова на берегах Персидского залива и на побережье Оманского залива рядом с Оманом и Саудовской Аравией, а также совсем недалеко от морских границ мощного Ирана. Эти факторы определяют важное геополитическое значение страны. Однако региональная среда неблагоприятна для экономического развития, поскольку она отличается чрезвычайно высокой температурой воздуха во время теплого сезона, а также повышенной влажностью, учитывая, что регион окружен двумя водоймами. Страна не имеет постоянных рек и озер, в тоже самое время для нее характерны песчаные бури. Чисельность коренного населения довольно незначительна, что и определяет зависимость ОАЭ от импорта рабочей силы, объемы которого постоянно возрастают. Несмотря на важную роль энергоносителей во внешней торговле, политическая элита приняла стратегическое решение диверсифицировать ее асортимент за счет развития сферы услуг. Этот пример требует тщательного изучения из-за его неоспоримой успешности. В статье автор делает попытку выяснить, какие именно меры на государственном уровне позволили превратить ОАЭ в самую процветающую страну региона.

Ключевые слова: ОАЭ, Абу Даби, Дубай, авиалинии, свободные экономические зоны, порты, туризм, недвижимость.

The current problem. The region of the Gulf traditionally depended on considerable oil prices and not many local countries tried to change this situation. The attempts to develop agriculture failed, but some energy-dependant industrial enterprises became relatively successful. With the flow of time the political elite of local monarchies understood the need to give the impetus to the sphere of services. The best example that one can find in the region is represented by the United Arab Emirates with free economic zones for any type of economic activity, the top airlines, airports and ports of the Gulf, and developed construction industry that is catering the needs of expats in housing and implementing the projects for numerous international events.

The research assumption is that the UAE can be flexible enough under the influence of unsteady energy prices and ready to embrace the globalization without the fear of growing foreign influence and radical changes in society. **The aim of the article** – is to explore the main reasons behind unprecedented economic success of the UAE as the state that clearly stands out in Arab world for revolutionary efforts in the modernization and diversification of oil-based economy. The author took into account in his research the data from popular Arab news outlets “The Gulf News”, “The Arab Weekly”, “Khaleej Times”, “Trade Arabia”, and “Zawya” that provided the most recent information about economic strategy of this confederation.

The analysis of the latest publications. There are several interesting thoughts explaining the economic rise of the UAE. *Abdulla al-Suwaidi* claims that success of the country is dependant upon the fixed peg of dirham to US dollar, development of local entrepreneurship, invitation of talented workforce from abroad and the emphasis on excellent education among citizens [1]. *Raimundo Soto and Ilham Haouas* underscore that the federation has a strong convertible currency, world-class infrastructure and considerable sovereign wealth fund for investments abroad. Moreover, politically stable UAE escaped the threat of terrorism and efficiently fought with the corruption [2]. *M. Hazem Shayah and Yang Qifeng* point out that since 1980 free trade zones with 100 per cent foreign ownership and tax breaks became the practical tools of development and the main sources of non-oil external trade. As a result, the UAE is considered the third most important re-export hub in the world [3]. *Seltem Iyigun* believes that the country is strategically situated between the East and the West, what is conducive for doing business with Africa. Subsequently, it

serves as the middleman for telecom companies selling products to the continent, and local airlines are carrying African passengers in increased numbers as well [4].

The UAE is relatively young country that declared the independence in 1971 under the leadership of Sheikh Zayed bin Sultan Al Nahyan. It consists of seven emirates: Abu Dhabi, Ajman, Dubai, Fujairah, Ras Al-Khaimah, Sharjah and Umm Al-Quwain. This federation with a moderate land area is populated by 9,1 million people and, in our estimation, is the second most populous among Gulf monarchies only after Saudi Arabia. This is one of several state actors in the world, where residents, who were born abroad, represent a whopping 88 per cent of the population. Among them 3,5 million of Indian citizens, 935,000 Egyptians and 906,000 Pakistanis that are helping to create economic miracle, but at the same time sending home huge remittances [5].

As everywhere in the Gulf, foreigners are mainly working in a private sector, where wages are smaller and their life is regulated by temporary contracts provided by the system, when they are invited and “legitimized” by local sponsor. The people, whose direct relatives resided in the UAE before 1925, are eligible to become citizens and the rest are living here temporary. Only qualified foreign white - collar workers that earn at least 27,000 dollars per year entitled to invite family members, thus making the population explosion and further demographic marginalization of locals by former blue-collar workers impossible [6]. Therefore, one more truly striking feature of the UAE’s demography is that males are represented by 6,298 million and females – by as little as 2,82 million residents [7].

Being home to so many expatriates, the country is famous for Indian, Pakistani, Egyptian, Lebanese and Palestinian restaurants as well as for numerous American fast food chains, what is positive for the development of international tourism. Due to demographic domination of foreigners, UAE is a truly cosmopolitan place with a diverse workforce that looks less and less like traditional Arabian state.

Among seven federal entities only three emirates can be considered powerful economic players. Abu Dhabi (this name probably means “The father of gazelle”), where the federal and banking capital is situated, occupies a lion’s share of the confederation in the West and South with 84 % of the land area of the UAE [8]. Respectively, it produces almost all crude oil and the most self-sufficient. The land of this emirate and adjacent to it Eastern Province of Saudi Arabia and both areas are considered the most productive grounds for extraction of a «black gold» in the world. As a result, in 2019 petrodollars-fed state fund «Abu Dhabi Investment Authority» (“ADIA”) was the largest in MENA region and contained assets worth 696 billion dollars [9]. The emirate boasts the airline “Etihad” (“Unity”) – one of the top three Middle Eastern carriers. It has at its disposal a truly mixed fleet of 101 modern jets, among them such wide-body planes as 38 Boeing 787 and 24 Boeing 777 [10]. Abu Dhabi also hosts highly successful telecom operator “Etisalat” that caters the need of 142 million people, present in numerous developing countries with packages that allows the exchange of unlimited phones calls between clients residing in them, and provides worldwide coverage of roaming services. Finally, “Etisalat” was the pioneer that introduced 4G and 5G mobile networks to the Gulf and one of the top advertisers of its services via expensive sponsorship deals [11].

The city of Dubai (“The Locust”) is situated to the North-East of Abu Dhabi. It is the capital of the emirate that has the same name and boasts the most diversified economy in the Middle East with tourism, successful airlines “The Emirates” and “Fly Dubai”, cruise and multi-purpose ports, construction industry, real estate, retail trade and finances dominating in it. [12]. Dubai, which is the largest in the federation urbanized centre and the hub of entertainments, is considered a very popular place among international tourists. In 2019 it operated 118,000 hotel rooms in 717 hotels [13]. The development of tourism is closely followed by retail outlets for abundant Indian workforce, Arab and European tourists. The emirate is also known for 60 giant shopping malls and by their number lags only behind New York in the list of global cities. In general, Dubai controls almost fifty percent of such outlets in the UAE and considered the main hub of retail trade in the country [14].

And finally, the third among the most influential emirates is Sharjah, as an immediate neighbour of Dubai to the North. It is considered the cultural capital because of numerous museums. The emirate is also attractive as the place of strategic investments, since only this federal unit enjoys an access to both coasts of the country, where one can open factories near local ports like Khor Fakkan next to the Indian Ocean or Port Khalid in the Gulf not far away from old traditional district of Dubai. Moreover, historically the very first airport in the area was opened namely in Sharjah back in 1932 [15].

Today the airport of Sharjah functions as the hub for low-cost carrier “Air Arabia”. This airline has at its disposal the fleet of 55 jets of Airbus A320 family and flies to mainly South Asian, Middle Eastern and post-Soviet destinations. In 2019 «Air Arabia» handled 12 million passengers and agreed at the same time to buy a groundbreaking number of aircraft of Airbus A-320 “Neo” family – 120 units, thus ultimately turning itself with the flow of time into the most important provider of low-cost flights in MENA region [16].

All other emirates are very small and concentrated in the eastern part of the UAE with only mountainous land of forts Fujairah enjoying the access to the coast of the Gulf of Oman. It also occupies strategic position outside the Strait of Hormuz and recognized as a regional hub of ship repair and sale of the foodstuff or fuel to sailors [17].

The UAE was more than self-sufficient even without modernization, strongly resembling oil-rich Kuwait. Indeed, the country had at its disposal 4 per cent of crude oil deposits and 3,5 per cent of natural gas of the world, what corresponded in 2019 to 97,8 billion barrels of a “black gold” and 6 trillion cubic meters of a «blue fuel». Because of such considerable wealth it occupied the 7th position in the list of states that boast the largest energy resources [18].

Of cause, in this field the emirate of Abu Dhabi is undisputed leader. Created in 1971 «Abu Dhabi National Oil Company» (“ADNOC”) is the top provider of jobs in the country and considered among the top producers of crude oil worldwide with 3 million barrels of daily output and the capacity to increase it substantially [19]. Japan is the main international purchaser that satisfies 25 per cent of its needs via “ADNOC” deliveries. Moreover, Japanese corporations that are active in this field are allowed to extract crude oil from Emirati soil – within defined oilfields and at the same time “ADNOC” enjoys the right to exploit storage facilities in Japan. One should say that export of oil abroad (to Japan and other markets) allows the company to remain profitable and compensate considerable losses in domestic market, since the fuel in the UAE is very cheap and locals consumers are paying only 1,91 dirhams (around 0,52 US dollar) for the liter of the most expensive gasoline [20].

“ADNOC” is the top supplier of transport system with developed refining facilities and the net of distribution nationwide. It also operates the one of the largest refining complexes in the world – Ruwais refinery with full capacity of 837,000 barrels per day. Some 360 petrol stations of this corporation are located in all emirates and they are selling not only fuel and lubricants, but also goods, snacks and drinks [21].

It is the company that possesses considerable gas reserves of low quality needed to produce ammonia and urea. The daughter of “ADNOC” under the name “ADNOC fertilizers” controls two fertilizer plants in Ruwais that were opened respectively in 1983 and 2013 with technical assistance and funds from French “Total”. Moreover, in 2019 after parting the ways with “Total” in 2018, “ADNOC” agreed to create a joint venture with minority rights together with “OCI N.V.” from the Netherlands in order to become the top Middle Eastern producer of nitrogen fertilizers and exchange the technology with this European giant. “OCI N.V.” is present in Egypt and Algeria, what will help to promote the products of both corporations in the Gulf and North Africa [22]. This example shows that “ADNOC” is flexible enough to merge with other international players in order to get necessary know-how.

At the same time, the UAE is not completely self-sufficient in natural gas and imports it from the “North Field” in Qatar via the 364-kilometers-long pipeline “Dolphin” that delivers the fuel to Taweelah area in the North of Abu Dhabi and also satisfies energy needs of Fujairah, Dubai and neighboring Oman. The project was conceived in 1999 and later in 2007 it became fully

operational. But not long ago Emirati elite made a decision to get rid of Qatari gas as soon as possible, probably after the introduction of the blockade of official Doha in 2017. The policy of independence in this sphere includes new gas discoveries and a resolute switch to “green” energy. As a result, in 2020 “ADNOC” found a considerable gas field in the area of Jebel Ali at the crossroads between Abu Dhabi and Dubai that increased existing reserves by 20 per cent. Moreover, the most recent discoveries of oil basins elsewhere added some 7 billion barrels to national resources, what shows that the country never stops looking for the ways to be energy-sufficient [23].

In order to diversify the industry away from oil and gas, the UAE stated in 2008 the aim of developing safe nuclear energy that will be considerably cheaper to use than natural gas. Subsequently the country have become the first among GCC members and in the pioneer in Arab world in general in 2012 to go ahead with the construction of nuclear power plant “Barakah” at the desert site in the emirate of Abu Dhabi close to the border with Qatar. In summer of 2020 the first reactor was activated and others will follow in quick succession. Upon final completion of the project it will be equipped with three more South Korean pressurized powerful water reactors “APR – 1400”, fed by nuclear fuel from this North Asian country. Those Korean products are of relatively new design, were created in 2001, can work up to 60 years and earthquake - resistant [24].

In 2017 the country also declared new “green” policy that should be fully implemented by 2050. The main aim behind it – is to reduce huge amount of money that are spent on fossil fuel and substitute it with clean energy. As a result, today the UAE are also increasingly relying on solar panels taking into consideration high annual temperatures and considerable number of sunny days. At the same time, since 2009 the construction of giant solar parks in the desert, where the land is cheap and useless, has been in process [25].

The UAE positions itself as a stable place with low taxes, where is profitable to buy residential and commercial property. Despite the fact that Abu Dhabi, Doha, and even Kuwait City boast more picturesque Corniches next to the Arab Gulf, namely Dubai attracts the largest investments in high-rise buildings. This vertical city next to the coastline of the Gulf can be considered the leader in the field of construction industry in the whole Middle East with numerous skyscrapers that are featured in Guinness Book of Records. This area is not known for seismic activity and as a result, among the tallest buildings in Dubai one can name “Burj Khalifa”, modelled after the famous minaret in Samarra near Baghdad (828 meters high) and located in the northern area of Dubai, one of the tallest residential skyscrapers under the name “Princess Tower” with crown-like top (413 meters) and arrow-like “23 Marina” (393 meters high) near “The Palm Jumeirah” in Dubai Marina [26].

The tendency, seen by the author in Dubai, shows that construction companies mainly open futuristic skyscrapers in the area adjacent to central Sheikh Zayed Road near the tracks for driverless metro and in the district of Dubai Marina to the South of Jumeira beach. On the other hand, the clusters of high-rise buildings in Abu Dhabi are erected along the Corniche and provide a panoramic view of the Arabian Gulf. But in our opinion, the skyline of Dubai is more consistent and impressive.

In May of 2018 the leadership of the UAE took a major step towards further development of the property market by allowing 100 per cent ownership of companies in several fields of economic activity by foreigners and by introducing for them revolutionary multiple ten-year visas. This measure means that such people now may become sole owners of businesses, have property incentives to stay in the UAE for a long time and invest even more [27]. The previous rather restrictive contract-tied visa regime discouraged investors and white - collar workers to buy property in the country, since they had to leave the UAE anyway after pouring huge amounts in the flats or villas.

The Emirati citizens and developing companies are also making investments in real estate for high returns, knowing that new infrastructure and attractions are being built every year and the prices of apartments tend to grow with time because of this. For example, in October 2020 the largest in the world fountain was unveiled next to “The Palm Jumeirah” on the artificial island and

the system of LED lights and nozzles is providing visitors with evening shows every day [28]. Moreover, the flats in condominiums are bought in order to lease them out to tourists or affluent workers from different countries, since Dubai is the hub of multinationals doing business in the Middle East.

In general, locals are confident that construction projects are too big to fail and readily invest into the property market. In the case of economic difficulties more affluent Abu Dhabi is ready to step in and provide a substantial financial assistance to its neighbor Dubai or smaller emirates. This means that the implementation of projects in Dubai is always guaranteed by substantial financial resources of Abu Dhabi. It is widely known that the highest skyscraper is the world “Burj Khalifa” was suddenly renamed right before grand opening in 2010 in honour of UAE’s President Khalifa bin Zayed Al Nahyan, who provided generous loan worth of 10 billion dollars to Dubai during the crisis. However, original name that locals preferred for famous building was “Burj Dubai” – “The Tower of Dubai” [29].

The construction of hotels also continues without breaks to ensure that all foreign tourists will have an opportunity to stay under the roof during 6 months of “Expo-2020”. The UAE won the right to organize this first in MENA region mega event years ago and since that time many of 192 futuristic national pavilions of different countries were fully constructed. The place of this mega exhibition was chosen next to Jebel Ali Free Trade Zone in the deep South, where one can see wide expanses of desert land. The Expo-2020 will be opened in October 2021 and likely to attract 25 million visitors, what will help to mitigate a severe damage to hospitality industry from coronavirus [30].

Construction works and subsequent sales of high-rise buildings not only greatly improved the international standings of Turkish, American and South Korean conglomerates, but also boosted the profits and enhanced profiles of local corporations like “Emaar Properties”, “Nakheel Properties”, “Damac Real Estate”, and “Aldar Properties” that started to conquer international markets [31].

In general, the author believes that the success of construction industry of Dubai is very simple and has to do with the contribution of famous architects from the USA, Europe and Eastern Asia in the design of futuristic buildings, a cheap workforce from South Asian countries, ready to work around the clock for 350-400 dollars per month in unbearable heat in order to implement projects at a quick pace, inexpensive local aluminum as well as steel from nearby metallurgical giant India bought at a modest price and delivered less than in a week. And all this is backed up by financial muscle of oil-rich Abu Dhabi.

The UAE is the most popular destination among foreign tourists in Arab world. This is a well-thought policy of the ruling elite taking into consideration that the country lacks historic monuments of universal value under protection of UNESCO, except for ruins in El Ain in Rub al - Khali desert. Located next to the border with Oman El Ain is one of the largest palm oases with 147,000 trees and the net of ancient canals that used to carry the water from hills towards irrigated zone below [32]. But tourists are visiting the UAE in increased numbers even despite this. The main advantages are: wide selection of hotels of different star rankings that compete for clients, considerable shopping discounts in low (usually hot) season, the status of Arabian capital of entertainment and leading family destination with considerable hotel bargains for group travelers.

Trips to the emirates are often combined with excursions to Oman – traditional Arab country without high-rise buildings, famous for numerous renovated forts in Nizwa, Bahla, Nakhal, and Jabreen, where foreigners can get in touch with local people, what is complicated in other monarchies. A modest and traditional Oman with towering green mountains, canyons, water-filled wadis and forts boasts 5 UNESCO World heritage sites and because of this is well-worth visiting [33]. Thus travellers to Dubai can blend experience of futuristic cities of the UAE with wonders of highly conservative sultanate.

As a result of efforts in many fields, in 2019 Dubai attracted 16,73 million tourists with main contingents coming from India, Saudi Arabia, United Kingdom and neighboring Oman, where

shopping opportunities are limited [34]. The author believes that Indian citizens are visiting to see their relatives and buy golden items, and Omani with Saudi residents – for entertainments.

The rulers of both emirates never stop in their attempts to develop tourist infrastructure and deliver each year new futuristic attractions, so tourists have incentives to come back for more and more entertainment. Political elite is also striving to set records for Guinness Book at every step in order to promote their destination abroad. It is widely known that Dubai has the highest skyscraper “Burj Khalifa” and the first automatic metro in the Arab world with “Golden Cars” of the first class for affluent passengers. By the way, a unique for the Gulf automatic railway with panoramic cars was constructed above the city by consortium of Japanese multinationals and opened for use in 2009. The introduction of this efficient project freed Dubai from traffic jams and provided a greater mobility for residents and undisputed attraction for visitors, taking into consideration that driverless trains are moving along all length of the coast of the emirate on the elevated tracks. Moreover, the line was extended in 2020 in southern direction with 7 more stations and 15 km of railways in order to accommodate visitors travelling to the site of “Expo-2020” located to the South-East of “Jebel Ali” industrial area [35].

From the point of view of the author, more conservative Abu Dhabi became less successful by choosing another, traditional way. The main master plan of the emirate includes development of famous museums that display the artifacts of Arabian and European culture as well as construction of theme parks and venues for sport events. To this end several natural or artificial islands were declared hubs of distinctive types of tourism. For example, Yas island in the East near Abu Dhabi international airport was allocated for “Formula-1” races and “Ferrari World” Park. Moreover, Saadiyat island in North-Central area of the city is known for several famous museums that are being constructed. Abu Dhabi also boasts centrally located “corner” of wild nature known as Mangrove National Park with numerous trees growing in water, what is highly unusual in this sandy place of high-rise buildings. As a result, this emirate attracted some 11,35 million guests in 2019 [36].

The problem with Abu Dhabi concerns insufficient investments in hospitality industry and infrastructure, since the emirate so far lacks the metro, and has at the disposal only limited number of rooms and the modest airport.

Some additional measures to boost the number of travellers were also considered. Among them – introduction of visa on arrivals for citizens of countries with a huge population like India, Russia and China. In 2016 the UAE implemented this step in respect to Chinese citizens and it led to immediate progress, taking into consideration that in 2019 Dubai hosted some 898,000 tourists from China. Moreover, in 2018 the UAE and the Russia Federation signed agreement concerning the abolition of visas, what was supported by considerable number of flights between both countries [37].

However, there is another side of success, since rules and regulations in the country may be very tough for unaware international travellers. The political elite strictly adhere to zero tolerance towards drugs and more than several hundreds of usual in Europe or the USA medical substances are outlawed. Of course, tourists should know the names of prohibited drugs before boarding the aircraft and not take them [38]. Moreover, the hospitality industry is heavily taxed, because it caters the needs of millions of foreign tourists, but not nationals. As a result, the hotels in the UAE are among the most expensive the Middle East, since guests have to pay in one package city tax, service charge, introduced not long ago 5 per cent VAT, and finally – tourism tax. As a result, it is a challenge to find a hotel even with moderate price of the room [39].

The development of tourism is directly connected to the success of aviation industry. The UAE became regional leader by playing the role of the “air bridge” between regions at the crossroads of Asia and Africa. Dubai international airport celebrated in 2020 the 60th anniversary and demonstrated absolutely incredible progress since 2000s, when it introduced in quick succession the world’s largest passenger terminal, electronic gates and powerful A-380 aircraft. In 2019 this hub with 3 terminals again claimed the first place in the world by statistics of international traffic [40]. Staggering numbers of airport’s clients represent the opportunity to increase the visits

to Dubai of stopover tourists, since giant airport is situated in the North only several kilometres away from the oldest part of the city divided by the creek – Deira and Bur Dubai that are famous for their traditional gold, spices and textile markets.

In 2020 the UAE boasted five airlines: “The Emirates”, “Etihad”, “Fly Dubai”, “Air Arabia” and “Air Arabia Abu Dhabi”. Among them “The Emirates” became the most successful, since the company does not use any narrow - body aircraft in order to spend less on maintenance by serving only wide - body fleet that is very young and flying between mega cities of the world [41]. But competitors like Turkish carriers and Qatar Airways are very strong and rely on mixed planes that are expensive to maintain, but more flexible for different destinations. In order to overcome this UAE airlines entered into several strategic partnerships.

Since 2017 “The Emirates” have been cooperating with low-cost airline “Fly Dubai”, which uses the fleet of relatively young medium range “Boeing” 737 - 800 planes to carry the citizens of the GCC, Post-Soviet states, Central and Eastern Europe. The main idea of the partnership is to bring all passengers from those regions to Dubai onboard of “Fly Dubai” and allow them flying from here worldwide with “The Emirates”. Back in 2019 both companies provided to international travelers the combined list of more than 216 destinations, accepted earned miles in their join loyalty program and handled the baggage between flights in more efficient fashion [42]. Moreover, Boeing 737-800 as the workhorse “Fly Dubai” can be used for flights to modest towns with limited size of airport field, what is important in case of numerous secondary Indian, Bangladeshi, Pakistani or cities in MENA region. But operational costs will remain moderate, since both airlines will work as separate entities and continue to cater the aircraft of only one type.

However, “Fly Dubai” suffered completely unexpected damage, when it had to leave on the tarmac new 14 Boeing 737-Max after two crashes of those airlines elsewhere. Today the future of the airline that ordered whopping 251 planes Boeing 737-Max is in doubt as well as the future of Boeing corporation [43]. Rising coronavirus cases in the Middle East also add woes to this industry and only normalization of the UAE’s relations with Israel can cheer up the airline a little.

“Etihad” or “Union” has been the flagship carrier of Abu Dhabi since 2003 and was well-known for a strategy of buying numerous stakes of indebted airlines in Europe, Australia and India in order to gain the access to local markets. However, this policy became a failure in Europe, because airlines, supported by “Etihad”, just could not win a fierce competition against extremely cheap low-cost carriers like “Ryan Air” or “Easy Jet”. Probably the same happened in India. Moreover, many international passengers are also choosing “The Emirates” with considerable wider selection of destinations and huge wide-body fleet, taking into consideration that both Abu Dhabi and Dubai are close neighbors. In general, the UAE is too small to host two huge airlines - competitors within close distance that equals the time of transfer to any airport. As a result, since 2016 “Etihad” lost 5,62 billion dollars and today counts only on fleet of 101 aircraft of many types that is expensive to handle [44].

In 2020 “Etihad” proposed a new vector of development by increasing the number of lightweight fuel-efficient Boeing 787 from 38 to 51 and by introducing new cleaning equipment in the age of coronavirus [45]. Moreover, apparently following the earlier example of “The Emirates”, it declared the strategic partnership with “Air Arabia” by introduction in 2019 of joint venture “Air Arabia Abu Dhabi” with “Etihad” controlling 51 per cent of shares [46]. But in general, the question remains: Should more successful carrier “The Emirates” take over “Etihad” in the future in order to save this airline from bankruptcy?

The author believes that among problems shared by all airlines of the UAE are fluctuation of global crude oil prices as well as instability in Asia in general connected to possible US-Iranian confrontation and everpresent tensions between India and Pakistan. Among other typical issues – bad weather conditions over South Asia during spring-summer rainy season and coronavirus.

The ports of the UAE also are playing an increasingly important role in economic diversification, magnets for employment and GDP growth. Dubai port “Jebel Ali” (“The Hill of Ali”) in the deep South is among the top transshipment hubs of MENA region, since emirate depends too much on non-oil trade. In 2019 it celebrated its 40th anniversary, being the top artificial

hub in the Middle East with high level of automation of local cranes. What is amazing, is that gradual expansion of this object continues all the time since its introduction in 1979. In 2019 “Jebel Ali” handled 14 million teu containers, but after the introduction of Terminal №4 this number is set to rise to 22,4 million containers [47]. In our opinion, this port became so successful because of important geographic location at the crossroads between Dubai and Abu Dhabi and the depth of local artificial harbor. Moreover, this area was located outside the urban core of Dubai, what allowed for unlimited expansions of port facilities in order to multiply the capacity to handle containers. As a result, huge container ships are bringing goods here and smaller vessels from the Gulf or even East African countries later deliver them to final destinations.

In 1985 “Jebel Ali” free trade zone (“JAFZA”) was introduced and today more than 8000 companies are busy here in designated areas that represent many particular types of activities like “Internet City”, “Media City”, “Gold and Diamond Park” and other fields like food, oil and gas, electronics, operations with cars [48]. Moreover, “JAFZA” is very conveniently located between the largest port of the UAE and nearby multipurpose Al Maktoum international airport, so investors can easily fly here and inspect their factories or storage facilities.

The normalization of relations with Israel in 2020 promises to boost the profits of “Jebel Ali” and other ports of the UAE because of very important geographic consideration – the access of this country to the Red Sea and the Mediterranean Sea. This means the UAE operators now can bypass expensive Suez Canal and create the land bridge between both international bodies of water via the South of Israel in order to get to the Mediterranean Sea. In October 2020 first ship from Dubai’s “Jebel Ali” departed to Haifa and by doing so she unveiled the new era in the development of the port that will become a cheaper provider of goods from Europe to the Gulf [49].

The neighbor of Dubai Sharjah has at its disposal 3 multipurpose ports with combined capacity to handle 2,5 millions of standard containers, what allows to serve the trade needs of this emirate proper, the North of Dubai and all eastern federal units of the UAE [50]. Abu Dhabi generally follows the suit. In 2012 Khalifa port on the shore of Abu Dhabi was unveiled with semi-automatic container terminal and artificial island in order to serve economically most important and the largest emirate of the country. The modernization of this industrial object will help to create the capacity to serve 5 million standard containers by the end of 2020, but there is a considerable space for several new stages of enlargement in the future, when Abu Dhabi further diversifies away from petroleum economy [51]. In the final count, the North and North-West regions of the UAE are highly integrated into world economy with excellent ports surrounded by free trade zones and airports.

Those ports attract considerable international investments because of extremely fast procedures and the lack of administrative limitations. They have a special regime that allows free transfer of profits abroad, 100 per cent foreign ownership, establishment of multiple ventures with just single permission, tax breaks and liberal visa policy for foreign workers [52].

As a result of many decades of revolutionary developments, the UAE leads the Middle East in the number of prestigious world rankings. In 2020 it occupied the position number 9 in the list of the most competitive state actors, losing 4 stages in comparison with 2019 because of low international price of oil [53]. In “Doing Business – 2020” the UAE was the 16th among 190 economies and the first in the Middle East thanks to the speed of getting of construction permit, fast access to electricity, easy process of property registration and simple procedure of paying taxes, whose number is truly limited [54]. Finally, the UAE is in 18th place in the list of countries with the highest levels of economic freedom in 2020, what is extremely unusual for the region, where economies are mainly state-dominated and controlled by ruling families [55]. The fight against corruption is successful as well, because state sector is not too prominent in economy and regulations for business are few and straightforward. In 2019 the UAE also occupied the 21rd place in the list of the “Transparency International” that can be considered the one of the best results in Asia along with famous in this respect Singapore [56].

But the success has another side of the coin: the expat remittances in 2019 constituted 165 billion dirhams (or around 44,98 billion US dollars) with substantial amounts destined to India,

Pakistan and the Philippines and «money - drain» continues unabated every day. This situation can change only in the case, when the Emirati leadership introduces income tax for foreigners and increases VAT that today constitutes only modest 5 per cent [57].

Conclusion. Despite relatively recent diplomatic rift with Qatar and prolonged engagement in Yemen since 2015, the UAE continues to position itself as a stable, safe and prosperous country that attracts numerous investments from abroad with liberal economic policy and innovations needed to develop “green” and nuclear energy, tourism, aviation, retail trade and re-export facilities. This enlightened monarchy represents the example of man-made wonders in the desert that are within an easy reach from any region of the world, boasts the friendliest business environment in the whole MENA region and easily attracts talented workforce with high salaries and opportunities for shopping and entertainment as well as with ten-year visas. The author believes that by 2021 the UAE will increase its weight in many international rankings to the positions unheard before in Arab world because of “Expo-2020” and subsequent rise in profits of tourism and MICE industry, airlines and port operators.

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DYNAMICS OF IMPLEMENTATION OF THE ASSOCIATION AGREEMENT BETWEEN UKRAINE AND THE EU: PROSPECTS AND NEW CHALLENGES

ДИНАМІКА ІМПЛЕМЕНТАЦІЇ УГОДИ ПРО АСОЦІАЦІЮ УКРАЇНИ З ЄС: ПЕРСПЕКТИВИ ТА НОВІ ВИКЛИКИ

ДИНАМИКА ИМПЛЕМЕНТАЦИИ СОГЛАШЕНИЯ ОБ АССОЦИИИ УКРАИНЫ С ЕС: ПЕРСПЕКТИВЫ И НОВЫЕ ВЫЗОВЫ

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Abstract. *The entry into force of the Association Agreement with the European Union was a fateful event for the contemporary history of Ukraine. Currently, both components of the association: political one, which consists in spreading European values to Ukraine, and economic one, which involves Ukraine's integration into the EU internal market in exchange for legislation approximation, are without exaggeration fundamental factors for further development of Ukraine.*

The results of the previous years of the Association Agreement implementation testify to both significant achievements and a number of problems in Ukraine's fulfillment of its association with the EU "homework". The article is devoted to the analysis of dynamics and the recent trends in the process of the Agreement implementation.

As a result of the political changes that took place in Ukraine in 2019, including the election of a new president, parliament and government, European integration work on the implementation of the Association Agreement began in the new conditions.

The improvement of the national institutional mechanism designed to ensure better coordination of work on the implementation of the Agreement between the competent authorities is among the positive trends in the process of its implementation. The fundamental legal principles and basic directions of work on Agreement updating are analyzed. It is proved that the prospect of updating has become an effective impetus to improve implementation processes. By initiating such an update, in order to strengthen its position in the negotiations with the EU, the Ukrainian side is forced to objectively assess the effectiveness of the Agreement implementation in certain areas and to intensify the completion of processes that are significantly behind.

A new challenge in the process of implementing the Association Agreement was the emergence of the pandemic factor in 2020. The introduction of national quarantine and the incidence rate have significantly shifted priorities and affected European integration processes, both within Ukraine and at the EU level.

At the same time, it was stressed that the situation to ensure the Rule of law, in particular, the fight against corruption is the main challenge not only to obligations fulfillment under the agreement, but also to the entire European integration policy of Ukraine. It is noted that the

decision of the Constitutional Court of Ukraine to repeal a significant part of anti-corruption legislation threatens the further integration of Ukraine with the EU.

It was stressed that the future of not only Ukraine but also the region as a whole depends on whether the Association Agreement with the European Union will continue to serve as a transformational force capable of overcoming the weakness of the Rule of law within the country.

Keywords: *European Union, Association Agreement, implementation of association agreement, legislation approximation, rule of law, anti-corruption policy.*

Анотація. *Набрання чинності Угодою про асоціацію з Євросоюзом стало доленосною подією для новітньої історії України. На сьогодні обидві складові асоціації: політична, що полягає в поширенні на Україну європейських цінностей, та економічна, що передбачає інтеграцію України до внутрішнього ринку ЄС в обмін на наближення законодавства, без перебільшення є основоположними чинниками для подальшого розвитку України.*

Результати попередніх років імплементації Угоди про асоціацію свідчать як про вагомні здобутки, так і про низку проблем у виконанні Україною свого “домашнього завдання” асоціації з ЄС. Статтю присвячено аналізу динаміки та останніх тенденцій в процесі імплементації Угоди про асоціацію.

Внаслідок політичних змін, що відбулися в Україні в 2019 році, включно з обранням нового президента, парламенту та уряду, євроінтеграційна робота з імплементації Угоди про асоціацію почала здійснюватися в нових умовах.

Серед позитивних тенденцій процесу імплементації угоди відзначено вдосконалення національного інституційного механізму, покликане забезпечити кращу координацію роботи з виконання угоди між компетентними органами. Проаналізовано правові засади та основні напрямки роботи з оновлення угоди. При цьому доведено, що перспектива оновлення стала дієвим стимулом до вдосконалення процесів імплементації. Ініціюючи таке оновлення українська сторона для зміцнення своїх позицій на переговорах з ЄС змушена об'єктивно оцінити ефективність виконання угоди за окремими сферами та активізувати завершення процесів, по яким є суттєве відставання.

Новим викликом в процесі імплементації Угоди про асоціацію стала поява в 2020 році фактору пандемії. Запровадження національного карантину та ріст захворюваності істотним чином змінили пріоритети та вплинули на євроінтеграційні процеси, як в середині України, так і на рівні Євросоюзу.

Поряд з цим підкреслено, що основним викликом не лише виконанню зобов'язань за угодою, а й всій євроінтеграційній політиці України стала ситуація із забезпеченням верховенства права, зокрема, боротьбою з корупцією. Відзначено, що прийняття Конституційним судом України рішення щодо скасування вагомї частини антикорупційного законодавства ставить під загрозу подальшу інтеграцію України з ЄС.

Підкреслено, що майбутнє не лише України, а й всього регіону залежить від того, чи продовжить Угода про асоціацію з Євросоюзом служити трансформаційною силою, здатною подолати слабкість основ верховенства права всередині країни.

Ключові слова: *Європейський союз, угода про асоціацію, імплементація угоди про асоціацію, наближення законодавства, верховенство права, антикорупційна політика.*

Аннотация. *Вступления в силу Соглашения об ассоциации с Евросоюзом стало судьбоносным событием для новейшей истории Украины. На сегодня обе составляющие ассоциации: политическая, включающая распространение на Украину европейских ценностей, и экономическая, предусматривающая интеграцию Украины во внутренний рынок ЕС в обмен на сближение законодательства, без преувеличения являются основополагающими факторами для дальнейшего развития Украины. Результаты предыдущих лет имплементации Соглашения об ассоциации свидетельствуют как о весомых достижениях, так и о ряде проблем в выполнении Украиной своего «домашнего*

задания» ассоциации с ЕС. Статья посвящена анализу динамики и последних тенденций в процессе имплементации СА.

Вследствие политических изменений, произошедших в Украине в 2019 году, включая избрание нового президента, парламента и правительства, евроинтеграционная работа по имплементации Соглашения об ассоциации начала осуществляться в новых условиях.

Среди положительных тенденций процесса имплементации соглашения отмечено усовершенствование национального институционального механизма, направленное на улучшение координации работы по выполнению соглашения между компетентными органами.

Проанализированы правовые основы и основные направления обновления соглашения. При этом доказано, что перспектива обновления стала действенным стимулом к совершенствованию процессов имплементации. Иницируя такое обновление украинская сторона для укрепления своих позиций на переговорах с ЕС вынуждена объективно оценить эффективность выполнения соглашения по отдельным сферам и активизировать завершения процессов, по которым имеет место значительное отставание.

Новым вызовом в процессе имплементации Соглашения об ассоциации стало появление в 2020 году фактора пандемии. Введение национального карантина и рост заболеваемости существенным образом сместили приоритеты и повлияли на евроинтеграционные процессы, как внутри Украины, так и на уровне Евросоюза.

Наряду с этим подчеркнута, что основным вызовом не только выполнению обязательств по соглашению, но и всей евроинтеграционной политике Украины стала ситуация с обеспечением верховенства права, в частности, проблема борьбы с коррупцией.

Отмечено, что принятие Конституционным судом Украины решения об отмене значительной части антикоррупционного законодательства ставит под угрозу дальнейшую интеграцию Украины с ЕС.

Подчеркнуто, что будущее не только Украины, но и всего региона зависит от того, продолжит ли Соглашение об ассоциации с Евросоюзом служить трансформационной силой, способной преодолеть слабость основ верховенства права внутри страны.

Ключевые слова: Европейский союз, соглашение об ассоциации, имплементация соглашения об ассоциации, приближение законодательства, верховенство права, антикоррупционная политика.

Articulation of issue. 2020 has become a year of new realities. The emergence of a specific factor – the pandemic of the viral disease Covid-19 and the unprecedented measures taken by most countries to combat the disease – changes radically the agenda of modern international relations. Ukraine's relations with the European Union, the legal basis of which is the Association Agreement, are also facing new challenges.

In contrast to the successful EU-Ukraine summit in October 2020, despite the pandemic, the decision of the Constitutional Court of Ukraine to repeal a significant part of anti-corruption legislation [*Constitutional Court of Ukraine*, 2020] led to a constitutional crisis, its developments define the future of Ukraine's European integration path, without exaggeration.

Recent developments in the international arena and inside Ukraine establish the need for the analysis of further prospects and assessment of the latest challenges in the AA implementation process and Europeanization of Ukrainian legislation.

Analysis of recent studies and publications. Due to its innovative nature and unprecedented importance for the development of international relations, the Association Agreement between Ukraine and the EU (AA) [*Uhoda pro asotsiatsiiu mizh Ukrainoiu ta Yevropeiskym Soiuzom i yoho derzhavamy-chlenamy*, 2014] has been the subject of increased scientific interest in both European and Ukrainian legal doctrines in recent years. Among the European lawyers, the legal aspects of association agreements are studied in the works of M.-C. Cadilhac, P. Dengler, D. Hanf, C. Hillion, C. Rapoport, G. Van der Loo, etc. In the national doctrine, the legal principles of the EU association are covered in the works of T. Anakina, T. Komarova, Ya. Kostyuchenko, M. Mykiyevych, V.

Muravyov, R. Petrov, O. Svyatun, K. Smyrnova, I. Yakovyuk, O. Shpakovych. Recently, having in mind the 10th anniversary of the EU's Eastern Partnership policy, Ukrainian experts have been actively analyzing the directions of the Eastern Partnership evolution and association agreements within its framework. There were the works by Z. Makarukha, V. Martyniuk, I. Nagorniak, S. Sydorenko.

Purpose of the article. Since the general legal framework and characteristics of the EU-Ukraine association are sufficiently covered in the doctrine, the purpose of this article is to analyze the dynamics and recent trends in the AA implementation. The study focuses on the factors that emerged along with the AA implementation since the last presidential election in Ukraine.

Findings of the study. The history of the AA conclusion is often called dramatic in the doctrine [Petrov, 2016: 4]. Indeed, no other country has fought so hard to have the European Union association. Ukraine went through the Revolution of Dignity, Russian aggression, loss of a part of its territory, military actions in the east of the country, an attempt to block the AA entry into force through the referendum in Holland. First steps toward the European Union association were, no exaggeration, a landmark in the recent history of Ukraine. Although the Agreement does not provide for the prospect of Ukraine's accession to the EU, the establishment of the association, including the introduction of a deep and comprehensive free trade area, has launched a new format of relations between the parties, marked by deepening of their interdependence.

Undoubtedly, since its conclusion, the Association Agreement, which according to the accurate description of R. Petrov is characterized by such features as comprehensiveness, complexity and conditionality [Petrov, 2018: 50], changed Ukraine significantly. The introduction of the visa-free regime between Ukraine and the EU, as inextricably linked to the EU's Eastern Partnership policy, has not only opened the door to the EU for ordinary Ukrainians but has also led to key reforms including the public administration corruption prevention ones. So far, both components of the association: the political association, being the expansion of European values of democracy, human rights, the rule of law in Ukraine, and the economic integration into the EU internal market in exchange for approximation to EU *acquis*, are, without exaggeration, fundamental factors for the Ukraine's further development. Since February 2019, the Constitution of Ukraine has got provisions on the state's strategic course toward full membership of Ukraine in the EU and NATO [Verkhovna Rada Ukrainy, 2019a], they are to guarantee the irreversibility of the Ukraine's Eurointegration intentions.

As known, the agreement stipulates further integration by meeting the deadlines, completeness and quality of approximation of Ukrainian legislation to EU legislation including the implementation and enforcement aspects. It is obvious that reforming of the national legislation, due to the AA implementation and the liberalization of access to the EU market, not only affects the development of trade relations with the EU but also leads to the modernization of most areas of public relations within the country. The scope of legal reforms set forth in the AA gives grounds to talk about a significant strengthening of the influence of EU law on the legal system of Ukraine as a result of which the large-scale Europeanization of a number of branches of Ukrainian legislation has already begun [Berezovska, 2017: 53]. Today we can acknowledge that with the AA entry into force the legislation approximation efforts have been launched in all areas of cooperation.

At the same time, the previous years' results show both significant achievements and a few problems in Ukraine's fulfillment of its EU association «home task». The greatest successes have traditionally been associated with the trade. Due to the creation of a free trade area, the European Union has become the largest trading partner of Ukraine, the share of trade in goods and services with the EU in 2019 was 40.1% of Ukraine's total trade [Ministerstvo rozvytku ekonomiky, 2020]. Even in the face of the Russian military aggression and economic pressure, the Ukraine's exports to the EU have grown significantly in recent years. The FTA with the European Union has made it possible to minimize the consequences of trade wars initiated by the Russian Federation. According to experts, the departure from GOST standards inherited from the Soviet Union and the adoption of modern EU technical standards, adaptation of legislation to the EU *acquis* and removal of non-tariff

barriers created long-term prospects for modernization and sustainable economic development of Ukraine [Bloksmans, 2019].

At the same time, along with the growth of Ukraine's exports to the EU, there is significant lagging behind and inefficiency in the AA implementation in many areas. According to government reports and EU estimates, the level of implementation of Ukraine's AA commitments during 2017-2018 was a bit over 50% [Kabinet ministriv Ukrainy, 2019a]. In addition, experts note that the AA implementation process is often accompanied by a kind of «Ukrainization» of the EU law. This means that the developed draft acts do not fully comply with the European legislation and enforcement practice (as certain public bodies interpret the EU acquis at their own discretion, apply regulations in selective way, are reluctant to lose authority, etc.). This leads to systemic errors and inconsistencies with the EU acts [Akulenko, 2018]. Another often and significant problem is the development of high-quality bylaws: the practice shows that the adoption of a Europeanized draft law can be completely neutralized by the ill-timed or poor-quality development of all related bylaws [Berezovska, 2020: 67].

As a result of the political changes that took place in Ukraine in 2019, including the election of the new president, parliament and government, further European integration efforts for the AA implementation happen in the new conditions.

The new parliamentary majority with its «turbo regime» was given an opportunity to make a breakthrough in the AA implementation, ensuring the adoption of respective laws. It should be noted that in a number of industries, due to the approval of new legislation or completion of previous developments, significant progress has been made: electoral legislation, decentralization, agro-industrial complex, energy, banking, public administration, environment and digital economy. The adoption of the Electoral Code of Ukraine, legislation on the land market is worth noting. The launch of the Supreme Anti-Corruption Court of Ukraine and the cancellation of deputies' immunity are major achievements.

Finally, the long preparatory work was completed, and the government opened to the public the long-awaited access to the Pulse of the Agreement, an online system for monitoring of the progress in the implementation of the Action Plan on Implementation of the EU Association Agreement.

However, in 2019, given the presidential and parliamentary elections, the progress of the Association Agreement implementation by the Cabinet of Ministers of Ukraine, the Verkhovna Rada of Ukraine and other interested public authorities was 37% of the planned one [Kabinet ministriv Ukrainy, 2019b].

The plans announced by the new team to activate the AA implementation efforts faced new challenges: the emergence of the pandemic in 2020, the introduction of national quarantine and the increase in morbidity significantly shifted priorities and affected the European integration processes, both within Ukraine and at the EU level.

Describing the dynamics of European integration processes during 2020, it should be noted that even in the pandemic the country is having some improvement in the AA implementation, in particular by strengthening the institutional capacity of responsible authorities. For example, the vast majority of experts welcomed the appointment of a new Deputy Prime Minister for European Integration, whose efforts are expected to make real progress in the European integration processes.

The establishment of the Commission for Coordination of the Association Agreement Implementation and approval of its statute are another encouraging factor in the institutional sphere [Kabinet ministriv Ukrainy, 2020]. The Commission is scheduled to meet quarterly under the chairmanship of the Prime Minister. In addition to the PM and all members of the Ukrainian government, the Commission consists of the first deputy speaker of the Parliament, the deputy head of the President's Office, the chairman of the Parliamentary Committee for European Integration, and Ukraine's representative to the EU.

In our opinion, such composition of the Commission is able to ensure the systematic work and efficient coordination of authorities during the AA implementation, in particular to promote the cooperation between the government, the parliament and the President's Office for the European

integration. As a result of the first meeting of the Commission on October 21, 2020, there was announced an ambition to implement by the end of the year a comprehensive roadmap for the adoption of European integration priority and framework drafts as well as about 100 government bylaws for the AA implementation. Obviously, such an acceleration of the process of development and adoption of the legislation necessary for the AA implementation may be the basis for deepening the Ukraine's European integration.

Analyzing the consequences of the pandemic for Ukraine's European integration plans at the international level, it is worth noting the limitations of physical contacts between the parties. Thus, the Eastern Partnership summit scheduled for June 2020 was to be one of the key events of the year, it was expected to approve the legal framework for the Eastern Partnership policy updating. Due to the pandemic, it was replaced by video conferencing. A full-fledged summit is currently scheduled for March 2021. It is expected to approve the five long-term policy objectives set out in the Joint Communication of the European Commission to the European Parliament, the Council of the EU, the Economic and Social Committee and the Committee of the Regions «Eastern Partnership Policy after 2020» [*Joint Communication, 2020*]. It is expected they will become new areas that will complement the existing instruments of the AA and determine the development of cooperation between Ukraine and the EU in the future.

The successful holding of the 22nd annual EU-Ukraine summit in Brussels on October 6, 2020 was a certain compensation for the postponed Eastern Partnership summit. It is worth noting that the meeting with the President of Ukraine was the first «live» summit between the EU and the partner country since the pandemic outburst. The Joint Declaration adopted after the summit was assessed by Ukrainian officials as one of the most successful in the last 5 years, this was also recognized by the representatives of the European Commission [*Uspikh samitu Ukraina-YeS, 2020*]. The provisions of this declaration reflect further development plans of the EU-Ukraine association [*Spilna zaiava za pidsumkamy 22-ho Samitu Ukraina – YeS, 2020*].

The readiness of the European Union to carry out in 2021 a comprehensive review of the achievement of the objectives of the Agreement, as provided for in the Agreement, should be emphasized. It should be noted that the issue of AA revision is a priority for the Ukrainian party who is trying to give a new impetus to the association turning the trade with the European Union into economic integration [*Kachka, 2020*].

The point is that, given the constant development of the EU law, the AA has the prospect for revision. It can be done both in order to update the annexes containing the list of EU acts that the legislation of Ukraine should be harmonized with, and in order to move to further stages of integration deepening which becomes possible as a result of meeting of the harmonization commitments.

Thus, in accordance with Article 463 of AA, the Association Council may take decisions aimed at achieving the objectives of the Agreement. For example, it may update or amend the annexes to the Agreement to take into account the developments in the EU law and applicable standards set out in international instruments, as the Parties deem appropriate. In addition, Article 481 of AA provides that the Parties shall conduct a comprehensive review of the achievement of the objectives of this Agreement five years after the date of its entry into force as well as at any other time by mutual agreement of the Parties.

The AA revision efforts have already begun. The first example was the ratification by the Verkhovna Rada in June 2019 of the revised «energy» Annex 27 to the AA; it provides for new energy standards and rules, compliance with which will ensure Ukraine's integration into the EU internal energy markets [*Verkhovna Rada Ukrainy, 2019b*].

During the summit, the Ukrainian party presented its concept of the AA revision and the trade and sectoral cooperation deepening; it is to be considered at the meeting of the Association Council scheduled for December 2020 [*Uspikh samitu Ukraina-YeS, 2020*]. Thus, in the near future, Ukraine and the EU shall determine which annexes (i.e. in which areas) are subject to the revision, in particular, the scale of the duty-free quotas revision.

Today it can be stated that the prospect of the AA revision and the preparatory efforts have become an efficient incentive to improve the implementation processes. Initiating such revision, the Ukrainian party, in order to strengthen its position in the negotiations with the EU, has to assess objectively the efficiency of the AA implementation in certain areas and to intensify the completion of processes that are remarkably behind. Active consultations with business and the involvement of experts in the formation of new priorities for possible AA revision and promising areas for integration strengthening are the positive signals.

The conclusion on October 8, 2020 of the Agreement on Political Cooperation, Free Trade and Strategic Partnership of Ukraine with the United Kingdom aiming to continue bilateral cooperation between the parties and the FTA based on the AA after the UK finally leaves the EU is among the Ukraine's latest European integration achievements at the international level. At the same time, the Ukrainian party took advantage of the current situation quite quickly. The signing of the agreement with the UK guarantees Ukraine a preferential access to the UK market and creates conditions for the revival of bilateral trade. Of course, no less important is the political component of the new agreement with an emphasis on security arrangements that may contribute to the implementation of Ukraine's foreign policy priorities.

In contrast to these positive trends in Ukraine's European integration policy and generally positive opinions of the AA implementation progress stated at the Ukraine-EU summit, the main criticism of Ukraine from the European side was the issue of the rule of law in Ukraine especially the anti-corruption problem. In this regard, the summit declaration has a separate emphasis on the importance of reform efforts amplifying, including the judicial reform (including the High Council of Justice reform and the independent selection of bona fide judges) and the anti-corruption efforts, ensuring strong and independent anti-corruption institutions. In addition, the renewed commitment of Ukraine to combat the influence of private interests (“de-oligarchization”) is mentioned [*Spilna zaiava za pidsumkamy 22-ho samitu Ukraina-YeS, 2020*].

However, the decision of the Constitutional Court of Ukraine, made shortly after the summit, made the issue of the rule of law and the fight against corruption a major challenge to the further rapprochement between Ukraine and the EU.

On October 27, 2020, the Constitutional Court ruled on the constitutional submission of deputies regarding the compliance of a number of anti-corruption legislation provisions with the Fundamental Law and declared some provisions unconstitutional [*Constitutional Court of Ukraine, 2020*]. In particular, the Constitutional Court declared unconstitutional Article 366-1 of the Criminal Code providing for penalties for false declarations by persons authorized to perform the functions of the state or local self-government. In addition, the Constitutional Court declared unconstitutional the powers of the National Agency on Corruption Prevention to verify declarations of public officers, to monitor the way of life of declarants, to establish the timeliness of declaration submission, and the provisions on open access to declarations in the Unified State Register.

This study is not to analyze the legal aspects of this decision, though we would like to note its enormous impact on the future of the Ukraine-EU relations. The European Union representatives have already expressed hard opinions on the decision and consider it a strong ground for the European Commission to launch a visa-free regime suspension mechanism.

It is worth noting that the political association implies the spread of European values to Ukraine above all [*Petrov, 2018: 50*]. In the light of the current EU practice of promoting its values in foreign relations, the AA declares that the basis of home and foreign policy of the EU and Ukraine shall be formed by common democratic principles, there are “basic elements” of the agreement including the respect for democratic principles, human rights and fundamental freedoms and the respect for the rule of law (Article 2 AA) [*Uhoda pro asotsiatsiiu mizh Ukrainoiu ta Yevropeiskym Soiuzom i yoho derzhavamy-chlenamy, 2014*].

And the AA has a special mechanism to hold parties liable in case of violation of these basic elements, this may include the suspension of any rights or obligations under Section IV of the AA regulating the FTA between the parties (point 3 of Article 478 of the AA). The existence of such a mechanism is an efficient guarantee of the Ukrainian authorities’ commitment to European values.

Thus, it should not be forgotten that a breach of obligations under the political part of the AA, in particular, regarding the respect for the basic elements of the Agreement, may result in the termination of economic preferences.

It should be noted that compared to the AA trade provisions that clearly establish the Ukraine's obligations to harmonize the respective national law with the EU law, neither the AA itself nor its annexes have detailed obligations of Ukraine in the field of rule of law. To some extent, this gap has been filled by relevant provisions of the EU-Ukraine Association Agenda, the Justice and Home Affairs Action Plan, and the working documents developed under the Eastern Partnership policy. In particular, in 2016, with the EU funding and technical assistance, the project "Pravo-Justice" was launched, in recent years it contributed to tremendous changes in the judicial system of Ukraine aimed at ensuring the rule of law [*Proekt YeS "Pravo-Justice"*, 2020].

Therefore, based on the experience of EU member states from the Eastern Europe, and given the prospect of review of the Eastern Partnership and the AA, the European Union and Ukraine should rather update the proposed AA instruments to strengthen the EU influence on Ukraine's internal reforms for the rule of law. This is about the possible adoption of a special annex to the AA as well as possible involvement of Ukraine in the work of EU rule of law bodies (EU Justice Scoreboard). Defining the commitments in the political and legal sphere in an annex to the AA should be the optimal response to existing threats and challenges in Ukraine, and implementation plans for these commitments may be, if necessary, in the form of appropriate "action plans" or "road maps" [*Shulha*, 2020]. It should be noted that, although the EU does not have common legislation on anti-corruption and judicial reform, it has developed the best tools to measure Member States' progress in these areas. For example, as experts rightly point out, the condition of Ukraine's judicial system may be regularly assessed according to the EU Justice Scoreboard methodology, and the anti-corruption performance – in accordance with the EU Anti-Corruption Report [*Shulha*, 2020].

Recent developments in Ukraine are likely to prompt the EU to define in a clearer way the Ukraine's commitments to the political component of the association. Thus, in the Report of the Foreign Affairs Committee of the European Parliament of November 10, 2020 on the AA implementation, the deputies urged the European Commission to develop "qualitative and quantitative mechanisms to monitor Ukraine's implementation of reforms, including clear benchmarks, recommendations and principles of conditionality" [*Ukraine: MEPs call for results in fight against corruption and dismantled oligarchies*, 2020]. It is expected that this Implementation Report will be submitted to the plenary session of the European Parliament this December. Along with the prospect of holding a meeting of the Association Council, the Ukrainian authorities shall urgently take measures to restore the basic principles of anti-corruption legislation.

Conclusions. Therefore, over the last year, the Ukraine's European integration policy, based on the AA implementation, has faced new challenges. At the international level, the pandemic factor has a substantial impact on the European integration processes. At the national level, there are positive trends to strengthen the fulfillment of AA obligations: improvement of the internal institutional mechanism and compliance monitoring by competent authorities and an intention to accelerate the implementation of obligations to harmonize the legislation under the trade section of the AA. The prospect of AA review was an important motivator for improving the implementation process. In contrast to positive trends, the rule of law situation, in particular the corruption combating issue, has become the main challenge not only to the AA implementation but to the entire national European integration policy. The decision of the Constitutional Court of Ukraine to repeal a significant part of anti-corruption legislation threatens the Ukraine's further EU integration. The future of not only the country but also of the region, without exaggeration, depends on how Ukraine will observe the political part of the association and whether the Agreement will continue to be a transformational force able to overcome the weakness of the rule of law.

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SOUTH CAUCASUS IN THE NETWORK OF INTERNATIONAL RELATIONS

ПІВДЕННИЙ КАВКАЗ В СИСТЕМІ МІЖНАРОДНИХ ВІДНОСИН

ЮЖНЫЙ КАВКАЗ В СИСТЕМЕ МЕЖДУНАРОДНЫХ ОТНОШЕНИЙ

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***Abstract.** The article considers the problems of divisive lines, separating nations and diminishing prospects of shared prosperity in South Caucasus. Following the collapse of the Soviet Union and the resultant independence for Armenia, Azerbaijan and Georgia, the South Caucasus has primarily been associated with conflicts, hostility, military actions, closed borders. The article highlights the causes of problems and directions for their solutions. An assessment of the development potential of the South Caucasus and tendencies of establishing a stable and secure space with broad prospects for economic cooperation in the region based on geopolitical and geo-economic opportunities is made. Arguments are based on variety of different factors, such as the facts that the region has inexhaustible transit and tourist potential, important natural resources of international significance, and an educated, relatively cheap labour force. Attempts are made to resolve issues such as prospects for the South Caucasus to become an attractive region, determined desirable further actions of the regional states and external players (Russia, United States of America, European Union) which are necessary to achieve a result. Expanding European principles, standards and criteria for cooperation in the South Caucasus is the most realistic way for the three states to achieve shared success. Nothing better has been offered in practice with respect to international regional cooperation. The future of the South Caucasus primarily depends on the three states themselves, their ability and vision, the capacity to observe the overall picture of regional developments and assist each other, and shared activity in order to help the population of the states perceive a new reality. The stable and integrated South Caucasus will make a serious contribution to the security system in a broader regional context and will bring greater stability in adjacent areas.*

Key words: international conflicts, security system, regional stability, international cooperation, geopolitical opportunities.

Анотація. У статті розглядаються проблеми розмежувальних ліній, поділу націй і зниження перспектив процвітання держав Південного Кавказу. Після розпаду Радянського Союзу і здобуття незалежності Вірменією, Азербайджаном і Грузією Південний Кавказ, в першу чергу, став асоціюватися з конфліктами, ворожістю, військовими діями і закритими кордонами. У статті висвітлено причини такої ситуації і напрямки для їх вирішення. Дана оцінка потенціалу розвитку Південного Кавказу і тенденцій створення стабільного і безпечного простору з широкими перспективами економічного співробітництва в регіоні на основі геополітичних і гео економічних можливостей. Аргументи засновані на безлічі різних факторів, серед яких наступні: регіон володіє невичерпним транзитним і туристичним

потенціалом, важливими природними ресурсами міжнародного значення і освіченою, відносно дешевою робочою силою. Визначено напрямки подальших дій держав Південного Кавказу і зовнішніх гравців (Росія, Сполучені Штати Америки, Європейський Союз) з метою перетворення Південного Кавказу в привабливий регіон. Впровадження європейських принципів, стандартів і критеріїв співпраці на Південному Кавказі - найбільш реальний шлях для досягнення успіху. Стабільний і інтегрований Південний Кавказ внесе серйозний внесок в систему безпеки в регіональному контексті і принесе стабільність в прилеглі регіони.

Ключові слова: міжнародні конфлікти, система безпеки, регіональна стабільність, міжнародне співробітництво, геополітичні можливості.

Анотація. В статті розглядаються проблеми роздільних ліній, розділення націй і зменшення перспектив загального процвітання на Южному Кавказі. Після розпаду Радянського Союзу і набуття незалежності Армєнією, Азербайджаном і Грузією Южний Кавказ, в першу чергу, став асоціюватися з конфліктами, ворожістю, військовими діями і закритими границями. В статті освічені причини такої ситуації і напрямки для їх рішення. Дана оцінка потенціала розвитку Южного Кавказу і тенденцій створення стабільного і безпечного простору з широкими перспективами економічного співробітництва в регіоні на основі геополітичних і гео-економічних можливостей. Аргументи ґрунтуються на множині різних факторів, серед яких наступні: регіон має невичерпним транзитним і туристичним потенціалом, важливими природними ресурсами міжнародного значення і високою, відносно дешевою робочою силою. Визначені напрямки подальших дій держав Южного Кавказу і зовнішніх гравців (Росія, Сполучені Штати Америки, Європейський Союз) з метою перетворення Южного Кавказу в привабливий регіон. Впровадження європейських принципів, стандартів і критеріїв співробітництва на Южному Кавказі - найбільш реальний шлях для трьох держав для досягнення загального успіху. Стабільний і інтегрований Южний Кавказ внесе серйозний внесок в систему безпеки в більш широкому регіональному контексті і принесе стабільність в прилеглі регіони.

Ключевые слова: международные конфликты, система безопасности, региональная стабильность, международное сотрудничество, геополитические возможности.

The main text of article. Geographically, the South Caucasus is undoubtedly a region with well defined natural borders, its space being covered by three independent states – Georgia, Armenia and Azerbaijan.

In the course of its 25 years of independence, the South Caucasus lost the chance, unlike the Baltic states, to establish a stable and secure space with broad prospects for economic cooperation. Just the opposite happened, with the emergence of divisive lines, separating nations and diminishing prospects of shared prosperity. Can this tendency be turned round? One shouldn't underestimate reality. Nevertheless, there is still a chance to ensure a joint contribution to the region's prosperity and sustainable development.

If one does not take the conflicts into account, a simple glance at the map and assessment of the of the South Caucasus' potential is enough to make it clear that there are very few regions that possess such immense geopolitical and geo-economic opportunities. In addition, the region has inexhaustible transit and tourist potential, important natural resources of international significance, and an educated, almost 100% literate, relatively cheap labour force. In other words, all the necessary factors are in place for the South Caucasus to succeed and to occupy, as a region, a worthy place in international relations networks and to respectively ensure average European living standards for a population with sustainable prospects of further improvement.

Unfortunately, no such positive tendencies can be traced. Following the collapse of the Soviet Union and the resultant independence for Armenia, Azerbaijan and Georgia, the South Caucasus has primarily been associated with conflicts, hostility, military actions, closed borders (this happens in the 21st century), tensions and negative expectations. Why is this happening?

Could this have been avoided earlier and what should be done to disallow such developments from happening again in the future? Do the three South Caucasian states have a vision, the political will and resources to reverse this situation?

Many publications are devoted to these questions. Almost all authors agree that the South Caucasus is an arena where the interests of major regional and global scale players clash - players who, in pursuing their goals, are guided by their own values and principles of cooperation. Naturally, they affect the development of the situation in a different manner, either motivating regional cooperation and opening up new prospects for the South Caucasus, or else pushing it deeper into the swamp of confrontation and inciting hatred.

What are the prospects for the South Caucasus to become an attractive region and tap into the virtually unlimited potential it possesses, which, until now, has largely gone with the wind? What should the states of the South Caucasus do to achieve this and how can external players influence this process? This study is a modest attempt to answer these complicated questions.

What did we lose in the past and what can we gain in future?

The South Caucasus is a champion of lost opportunities. Three countries – Armenia, Azerbaijan and Georgia – could have created unique conditions for common development, allowing them to capitalise on their a) lucrative geopolitical and geostrategic location, b) rich natural resources, c) well educated and comparatively cheap labour force, d) good understanding of mutual problems and existing personal channels of communication in practically all groups of society, and e) foreign investor interest. In the case that the South Caucasus become stable, this interest will increase multifold and additional billions will flow into the region from powerful Armenian diasporas alone.

Instead we were dragged into confrontation. External force was skilfully manipulated, along with historic memories and emotional feelings, in order to utilise the classic imperial model of influence based on the “divide and rule” principle. Therefore, the peaceful resolution of the Nagorno - Karabakh conflict is of key importance for regional consolidation. Surprisingly, we must pay tribute to Russian diplomacy – both Armenia and Azerbaijan claim they have perfect relations with Russia.

In the case that the Nagorno-Karabakh conflict reaches a consensus-based resolution, the conflict resolution process regarding Abkhazia and Samachablo will have a strong positive impact. Although we consider this option theoretically, all of this could be realised on the precondition of diminishing Russian capacity to influence regional affairs. Armenia and Azerbaijan, both of which are interested in regional stability due to their individual interests in achieving political success and economic development, will support Georgia, which will feel more confidence and comfortable in seeking peace solutions to its own internal conflicts.

Therefore, first Georgia should assist Armenia and Azerbaijan in finding an acceptable resolution of the Nagorno-Karabakh conflict, and then Armenia and Azerbaijan could help Georgia to find a solution regarding the situation with Abkhazia and Samachablo. Meanwhile, we are losing out, both together and individually.

What are we losing together as an outcome of regional conflicts?

- Stability and security in the region would contribute to the success of the three individual countries;
- Integration and trust would trigger a cumulative effect;
- The South Caucasus region could follow good examples of regional cooperation like the Benelux and Visegrad groups;
- Eventually building up a European model of cooperation: a common space, the four freedoms, and symbolic borders;
- Billions of dollars could be saved, military expenditure substantially downgraded, and living standards upgraded;
- Geopolitical potential is unexploited and the region’s common economic and transit potential is underdeveloped;

- Lacking confidence in the future.

What are we losing individually?

a) Armenia:

- Investment;
- Trade;
- Transit role;
- Influence in Azerbaijan, the opportunity to participate in Azerbaijan's economic projects;
- The Armenian diaspora would gladly invest in Armenia and the other two countries, thereby reinforcing Armenian influence in the region;
- European prospects.

b) Azerbaijan:

- Investment;
- Trade;
- Territorial integrity.

c) Georgia:

- Investment;
- Trade.

What did we gain individually?

d) Armenia:

- 20% of their neighbouring state's territory;

e) Azerbaijan:

- Nothing;

f) Georgia:

- Nothing.

In addition to that, we have lost both our authority and reputation in the world community, earned mistrust on the part of international investors, and first of all this applies to Armenia. As an outcome, the region's main investment projects (Baku – Supsa oil pipeline, Baku – Tbilisi – Jeyhan oil pipeline, Baku – Tbilisi – Erzerum gas pipeline, Baku – Tbilisi – Kars railway, Caspian Sea – Black Sea Highway) are implemented without Armenian participation.

As a consequences of the Nagorno-Karabakh conflict, the following facts can be confirmed and the following observations made:

1. Casualties, wounded, demolitions, material and immaterial losses, amounting to \$ bln.
2. Generations, raised in the face of hostilities, lack of understanding, non-acceptance of opponents' arguments and unwillingness to listen;
3. Governments are focused on hostilities and predetermined to lag behind as the rest of the world moves forward;
4. Governments are investing our limited resources into war, falling well behind the average world figures regarding GDP per capita;
5. Prospects in the region are aggravated. People in this region have become used to the idea that this is a natural state of affairs;
6. There is a waning sense of stability and security;
7. Trust and understanding between these nations is decreasing.

Analysis of collective GDP (Armenia, Azerbaijan, Georgia, 2019, \$ bln.) [1;2]

	Azerbaijan	Armenia	Georgia	Aggregate
GDP (nominal, \$ bln.)	47.17	13.44	15.93	76.54
GDP (nom., p/c, \$ th.)	4.689	4.528	4.289	4.502 (average)
Population (mln.)	10.02	2.95	3.72	16.69
Area (th.sq.km.)	82.7	28.5	69.5	180.7

Military expenditure of Armenia, Azerbaijan and Georgia, \$ mln., years of 2010 – 2018. [3;4;5]

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Armenia	380	348	356	401	407	441	433	444	591
Azerbaijan	1025	1951	2024	2047	2054	1195	1456	1529	1624
Georgia	402	362	375	341	331	294	316	308	312

The volume of military expenditures in aggregate for Armenia for the period 2010-2018 amounted to \$3.801 bln., fluctuating from 2.7% to 4.3% of GDP. For Azerbaijan, this was \$14.905 bln., fluctuating from 2.2% to 4.6% of GDP. For Georgia, it was \$3.041 bln., fluctuating from 0.7% to 9.2% of GDP. In total, three countries spent almost \$22 bln for military purposes in the period 2010-2018 alone. In previous twenty years at least \$ 30 bln. was spent for military purposes in the region. As conflicts are there, billions are being spent in addition every year. These developments are aggravated with the feeling of corruption as well. “Expenditures are of course not the whole story. The arms race between Armenia and Azerbaijan has been constantly accompanied by reports and anecdotal evidence of corruption in procurement processes and within military structures... Whatever the scale of corruption, however, there is no doubt that military capabilities have significantly increased”. [6]

At the moment, the three South Caucasus countries are drifting in different directions, thus further deviating from each other. New divisive lines are being established in a small geographically integrated space. The individual security of our countries is downgraded and is costing us much more. Assuming that we are under the same umbrella of security, from three sides we are covered by seas and mountains from the South facing Turkey and Iran. Turkey is NATO member country. Provided we have good relations, NATO offers additional security guarantees. If we were acting together, we would not be dedicating resources to confront each other, but instead we would be collectively strengthening our external perimeter, which is only to the North and South. In this case, this would both be cheaper and more secure.

There are two options regarding collective security arrangements in the South Caucasus: a) Russia and a Russia-dominated Eurasian Union and the CSTO, or b) the EU and NATO. Georgia has already clearly voiced out its choice, when Armenia and Azerbaijan are still manoeuvring. “Armenia has prioritized practical cooperation with NATO over political cooperation, due to circumstances stemming from Russian politics... President Ilham Aliyev, in accordance with his father’s approach, has proceeded to implement a partnership with NATO primarily via strategic cooperation with Turkey“. [7]

Three countries policies with respect to these options:

	EU	NATO	Eurasia	CSTO
Armenia	Seeks to establish political contractual relations	Limited contractual cooperation due to CSTO membership	member	member
Azerbaijan	Seeks to establish economic contractual relations	Close cooperation with NATO key member Turkey	X	X
Georgia	Seeks membership	Seeks membership, close cooperation with NATO key member Turkey	X	X

These tendency is recognized my many authors. “For the small and economically weak South Caucasus states, efforts to reform their economies and foster good governance should have been areas of cooperation with the West. However, this was not consistently the case in practice. The prioritization of security imperatives continued to a large degree to determine foreign policy orientations – and, by extension, attitudes towards external actors. Thus while the three countries started in broadly the same position in 1990, today their foreign policy paths have diverged”.[8]

Respectively, the region’s economic space will be divided along the Georgia-Armenia and Azerbaijan-Armenia borders, and the NATO-CSTO border will again be the Georgia-Armenia border and the Azerbaijan-Armenia border, taking into account bilateral strategic military cooperation between Turkey and Azerbaijan, as well as the quickly developing trilateral military cooperation between Turkey, Georgia and Azerbaijan. After Georgia ultimately joins NATO, Azerbaijan’s involvement in the NATO security network will inevitably and considerably be upgraded. We will see friendly neighbouring NATO member countries – Turkey, Georgia and Azerbaijan intensively and closely cooperate with particular interests in security, trade, infrastructure projects, etc.

Under these circumstances, the region will be divided by new lines and Armenia will be marginalized. At the moment, there are no relations with Azerbaijan and Turkey. In addition, a customs border will be established with Georgia that would be legally equal to the Russia-Finland border, as well as a visa regime, that is also similar to the one in force at the Russia-Finland border.

Now there exists a fantastic option: following the positive example of the Baltic States, the three South Caucasian countries are moving towards the European Union and NATO. They are supporting each other, rather than competing. Eventually Georgia and Armenia will become EU and NATO members, while Azerbaijan, similarly to Norway, is a NATO member with a strong contractual relationship with the EU, including upholding the four freedoms (free movement of goods, services, capital and people), energy cooperation, etc. A South Caucasian version of Benelux could be called Azgear.

Azgear would mean:

- A common market;
- A shared external security system;
- Strong stability and security guarantees;
- Much more resources with a multiplication effect;
- Shared infrastructure projects;
- Increased attractiveness of the region;
- Dozens of billions in additional FDI;
- Better living standards;
- Better prospects for future generations.

These opportunities are well described by many experts, including former Heads of Diplomatic Missions to the region. “It is time for the South Caucasians to make up their minds about their future. If they want closer cooperation with the West, they must pursue reforms for transparent governance and wider economic opportunity. As the countries grapple with their choices, the West must keep faith with those advocating reforms and freedom”.[9]

We face two possible ways of development: further deviation / separation from each other or a South Caucasus Union, like the Azgear mentioned previously. This entails a choice between fantastic, immense prospects or endless fighting and turbulence. Generations are being brought up with such negative experience. Those who were born in 1985 or after hear only about hatred and war. Today they are over thirty, entering an active phase of activity, including in politics. We have only ten years to establish peace and stability in the South Caucasus - time is running out and prospects are fading.

We have some important examples in history to recall and draw conclusion from. Many thousands of French and German soldiers gave their lives over centuries of fighting for Alsace and Lorraine. Nowadays, the border between France and Germany exists only on the map. When

crossing, one can hardly notice it. More than that, Germany and France constitute the backbone of the EU, pushing together a shared European agenda.

What will happen if this separation continues and the set of foreign policy priorities for Georgia, Armenia and Azerbaijan end up moving further from one another? The worst possible option would be to draw new dividing lines, if not implementing an iron curtain in the region. This sounds like a fantastic theory, although a lot of scenarios that were treated fantastic some time ago, had already been turned into reality. “As Georgia has recently deepened its ties with the European Union and Armenia has committed itself to the Eurasian Economic Union, the whole region will be affected”. [10]

External players play their games with conflicting interests and goals, some of whom exploit differences and contradictions. In addition, one of the main regional powers – Russia – is openly fuelling hostilities among the three countries. As a result, the South Caucasian states don't have a common agenda, a collective vision, or even shared goals and objectives. Georgia, Armenia and Azerbaijan are weaker separately than they would be united.

Strengthening Democracy, Promoting Reform and Reducing Poverty

Every government's mission is to ensure better living standards for its population. This can be reached by strengthening democracy, rule of law and the market economy. But, in a state of war, the government pretends, some think rightly, that its main Mission is to defeat the enemy – this message is clear, understandable and easy for people to share. And this is a rather strong temptation that should be avoided.

For any government to develop democracy, it is necessary to have political will, vision and resources (both human and financial). This is a lengthy and capacity consuming process, which requires a sustainable approach and continuity to ensure development and consolidation, and to increase the stability and effectiveness of democratic institutions.

An integral part of this process is strengthening the rule of law, the independence of the judiciary, pursuing public administration reform, establishing a compact, well – structured, concise and professional civil service, and the effective functioning of institutions in the areas of law enforcement and market economy.

For a state in war, the political will lies in defeating the enemy, and its vision doesn't typically reach beyond defeating the enemy. In such a situation, it is very easy to label opponents of the government as enemies of the state/people. [11] Hostility and the factual state of war diverts resources that are vitally needed to develop democracy and fight poverty. What is also dangerous is that conflicts stimulate authoritarianism; they demand authoritarian rule. “The irony of the Nagorno-Karabakh situation is that, over the last two decades, two states brandishing almost civilization differences have turned into uncanny mirrors of one another. Their political developments haven't been so much paralyzed by the conflict as altogether hijacked by it: electorates in Baku and Yerevan are hostage to mimicking narratives claiming that national prosperity will come only when Nagorno-Karabakh is under their country's own undisputed control”. [12]

Due to the fact that living standards are not at the top of the government's agenda, it is difficult to defeat poverty. Resources, even limited, are directed toward military needs, poverty grows, and the opposition's capacity dwindles.

Some food for thought on the reforms implemented by Georgia, Armenia and Azerbaijan, can be derived from several indices, which have been provided by international institutions.

Position of the South Caucasian states in Corruption Perception Index 2014 - 2019 [13]

Country	2019 rank	2018 rank	2017 rank	2016 rank	2015 rank	2014 rank
Georgia	44	41	46	44	48	51
Armenia	77	105	107	113	95	94
Azerbaijan	126	152	122	123	119	126

Position of the South Caucasian states in World Rankings [14;15]

	Hunan development (2018)	Ease of doing business (2019)	Global competitiveness (2018)	Corruption perceptions (2019)	Economic freedom (2019)	Property rights (2019)
Georgia	0.79	83.50	60.88	56.00	75.90	5.25
Armenia	0.76	73.19	59.86	42.00	67.70	4.81
Azerbaijan	0.75	73.59	60.04	30.00	65.40	5.12

Position of the South Caucasian states in Easy Doing Business Index 2019 [16]

Country	2019 rank	Starting Business	Dealing with Construction Permits	Registering Property	Getting Credit	Trading Across Borders
Georgia	7	2	5	2	4	16
Armenia	47	5	13	5	14	14
Azerbaijan	34	4	12	12	2	19

The main conclusion that can be drawn from the above tables is that all three countries of the South Caucasus are carrying out impressive economic reforms, especially in the field of facilitating business freedom. One can only regret that the “political breaks” in the region do not provide an opportunity to use the emerging opportunities in aggregate. On regional level this would significantly enhance the positive effect. What is particularly important, the authority and reputation of the South Caucasus in the network of international relations would be significantly upgraded with all the respective consequences.

Who is interested in South Caucasus conflicts?

The South Caucasian states have a long and complicated history of relations dating back thousand years and its analysis would extend far beyond the format of this article. At the beginning of the 1920s, all three states lost their independence upon being invaded by Soviet Russia, after which they lived together with “the family of brother nations” for almost 70 years. These “brotherly relations” turned out to be an illusion, as they couldn’t manage to resist the first serious challenge triggered by an external source. This policy was generated in Moscow, then capital of what was then Armenia’s and Azerbaijan’s common country – the Soviet Union. Only with Moscow’s consent could a big amount of weapons be flown into the region.

Ironically, the main mediator of the Nagorno-Karabakh conflict is Russia, who is not interested in reaching a peaceful resolution to this conflict. In other words, to be more precise, Russia is interested in keeping this conflict outside the framework of peaceful resolution. In this case, the “divide and rule” principle, which is already well tested in conflict regions of independent states, has been used to organise a clash between two neighbouring states. Surprisingly, both Armenia and Azerbaijan claim to have excellent relations with Russia. Obviously Armenia has greater grounds for such a claim. The other sad side of this story is that: a) the elites of both rivals are likely to speculate and manipulate the current situation to ensure their self long-standing political and economic interests, and b) the peoples of these conflicting states are getting used to this state of affairs.

The peaceful coexistence of Azerbaijani and Armenian diasporas in Georgia and namely in Tbilisi demonstrates that ethnic hatred between the two is not inevitable. In the Georgian state, as well as in its capital, the two nationalities managed to live in peace through these turbulent years, when tensions accelerated between Armenia and Azerbaijan over the Nagorno-Karabakh war. Ethnic minorities, including Armenians and Azerbaijanis, together with the Georgians, have gotten through difficult times together – with no job, no salary, no pension, no medical service, no heating season, and no electricity – but still we all managed to live peacefully. This may be one of the most

important achievements of the Georgian state, the importance of which is still underestimated. This is a vivid demonstration of the fact that Azerbaijanis and Armenians can live in peace as neighbours, provided that the environment is healthy and there is no force coming from outside to try pollute the atmosphere in order to play the specific game of implementing its own agenda.

The Role of Regional Cooperation in Promoting Security and Stability

Regional cooperation, a manifestation of multilateral interaction of neighbouring and adjusting states, is based on and is dependant on the quality of bilateral relations, and also eventually contributes to regional security and stability through better trust and understanding, developing a common feeling of the region, its role and place in the network of international relations. Each state strives to upgrade its “weight” in the sphere of regional cooperation, as it leads to improved authority and reputation. Consequently, when it occurs simultaneous to bilateral cooperation, regional interaction gives the state the additional capacity to assert its interests on the international arena and to implement its national foreign policy agenda.

A state’s security is based on many components and depends on the quality of the cooperation space established in the immediate neighbourhood. The concept of “common and indivisible security” has been established in practice, which means that each state has an equal right to be secure and that a state’s security is inseparably linked to that of all others. This is true, both universally and regionally. In addition, if neighbours share common values and cooperation standards, the region becomes secure, competitive and prosperous. Although experiencing some problems currently, the European Union may still serve as a good example.

We have witnessed a lot of dramatic developments in the last decade, but this is not the end of the story. Much needs to be done to prevent further aggravation of the situation in the region and to consolidate efforts in order to ensure full respect for the principles and norms of international law and their unconditional implementation. The OSCE’s 10 basic principles are of particular importance in this respect, as they establish a solid foundation for the new security system in Europe.

Concerted effort is needed to force states that violate internationally recognized norms and principles of international law, to return to the commonly accepted rules of the game. This concerted effort is needed both at a universal and the regional level. Is the South Caucasus a region with the capacity to contribute to this process?

Different focus groups are trying to find answer to this question. One of the attempts was made by the Georgian Foundation for Strategic and International Studies on 19 February 2016. [17]

Representatives of the Ministry of Foreign Affairs, the President’s Administration, and independent experts from various institutions have elaborated on the matter, trying to visualise prospective formats for regional cooperation. An attempt was made to assess the regional set up and to leverage multilateral diplomacy to promote lasting and sustainable security. A number of regional formats were analysed, three of which were recognised as particularly interesting: the Black Sea Economic Cooperation (BSEC), the Organization for Democracy and Economic Development - GUAM (GUAM), and the Turkey-Georgia-Azerbaijan trilateral format. GUAM and the Turkey-Georgia-Azerbaijan trilateral format have an advantage in this sense, as the participating states share the same vision and goals, based on the same understanding of the norms and principles of international law.

It is worth mentioning that, in the discussions, Armenia was mentioned only hypothetically. The fact is that 10 out of 14 Armenian check points are not operational. They are blocked due to a hostile relationships with Turkey and a state of war with Azerbaijan. “Of course, Yerevan would like to diversify its international ties, including deepening its economic relationship with Europe, but the closure of its own borders with Azerbaijan and Turkey and the presence of more than 5000 Russian troops on its territory limit Armenia’s options”. [18]

At the same time, all participants shared the same attitude which is that, provided that Armenia resolves its problems with two (Azerbaijan and Turkey) of its four immediate neighbours, this would open fantastic opportunities for the South Caucasus region. It was unanimously felt that

this will become possible when Russia's influence on the elaboration and implementation of Armenia's eventually decreases dramatically. The Russian Federation demonstrated its influence when, in November 2013, Armenian authorities decided almost overnight to put aside the Association Agreement with the European Union, which they were ready to sign, in favour of a Russian-led Eurasian Union. [19]

The declared goals of all international regional organisations virtually coincide – promoting regional interaction through the establishment of a respective legal basis and implementation of regional projects and programs of cooperation, which should eventually contribute to greater stability, security, understanding and trust in the region. But a big question remains: how successful are existing regional formats in implementing these goals?

Unfortunately, these goals cannot be realised through existing formats. Accordingly, the process of searching out alternatives is also not completed. It would be better if this process were guided by the common vision to establish stronger consolidation based on shared values, as well as standards and principles of cooperation.

In the current situation, due to the Russian Federation's strong influence/interference in regional affairs, the prospect of this happening is gloomy. As a result, Armenia's role in the regional cooperation network is limited, and all regional projects implemented so far in the region have bypassed Armenia's territory. With the Baku-Tbilisi-Kars railroad connection becoming operational later this year, even the existing infrastructure of the railroad network in Armenia will become obsolete and unnecessary for international transportation needs. It is time for Armenia to think about more active regional engagement.

The Role of Russia

Russia has problems of a different quality and character than almost all of its neighbours, from the Baltic States to Japan. Only a couple of Russia's neighbours, Armenia being one of them, pretend to have excellent relations with the Kremlin. Although this is a highly disputable assertion, considering the latter's policy towards its neighbours, particularly during last decade.

The first vivid demonstration of Russia's true intentions in the post-Soviet space surfaced as an outcome of the August 2008 Russian-Georgian war, the first war of the 21st century. After this happened, the Russian Federation occupied two disputed regions of Georgia and recognised them as independent states.

Foreign Minister Lavrov, apparently in aims of appeasing world opinion, declared at a meeting of the Federation Council on September 18, 2008: "Russia will actively promote the peaceful resolution of all conflicts in the CIS area on the basis of international law, respect for the UN Charter principles, and agreements reached earlier between the parties involved in the conflict. We will pursue our mediation in the negotiation process; this fully applies to Transnistria and Nagorno-Karabakh. There exist their own peculiarities, formats and mediation mechanisms everywhere. But the South Ossetian crisis does not create any precedent for them". "There are no parallels here. Thank God, Saakashvili is the only exceptional event of this kind," emphasized the head of the Russian Foreign Ministry. [20] Many experts and politicians in Europe and the former Soviet Union then sighed with relief. The hypocrisy of this statement was fully manifested only five and a half years later, on March 18, 2014, when Russian President Vladimir Putin addressed the State Duma with the request to include two new legal entities into Russia's composition – the Crimea and the city of Sevastopol. It worth recalling that the Ukrainian army did not make a single shot in the Crimea, but Russian military troops landed on the territory of a sovereign state, seized the authorities, including the local parliament and, under military threat, organized a so-called fancy "referendum". "Russia's annexation of Crimea and subsequent support of the insurgency in the Donbass region of Ukraine beginning in 2014 brought on the biggest crisis in post-Soviet relations between Russia and the West and this situation has deeply impacted the states of the South Caucasus".[21]

Looking back, in the autumn of 2008, Georgian diplomats had tried to explain, during meetings in public and with colleagues, that Russia's policy towards Georgia is not an exception,

but rather an extreme manifestation of its usual policy towards neighbouring countries. Now this extreme manifestation can be witnessed with regard to Ukraine. One day, the Kremlin may decide it is necessary to further assert its influence in the region and no international agreement, even legally binding ones, will constitute any problem for it. We have now seen this number of times. [22]

In this light, it is worth mentioning, in particular, the Budapest Memorandum of 1996. The signatures of United Nations Security Council permanent members, which are not regular Russia's neighbours, were ignored. As an outcome, a crisis of trust between the main international players erupted, dragging the world back to the cold war period. Under existing circumstances, what was done to Georgia or Ukraine can ultimately happen with any neighbour of the Russian Federation.

Still there is a sign of hope because, despite all these problems, the South Caucasus is still a region: the three countries have too many factors in common, although this will not last forever. We need a permanent solution to this problem, which should accommodate the interests of all sides and provide respective guarantees.

The Madrid Principles represent one of the most successful attempts to find a solution to peace settlement of Nagorno Karabakh conflict. Based on Helsinki Final Act, they contain still unexplored opportunities. The most controversial of the Principles seem to be number six, referring to Peace Keeping Forces (PKF). "PKF units shall be drawn from nations that volunteer troops. The selection of troops for the PKF shall be done by the parties by mutual consent. Each party has the right to veto the other's choice". [23] "Although the deployment of peacekeepers has been hypothetically accepted by the parties and the OSCE, there is no consensus on scenarios. For the conflict parties, it is hard to imagine the introduction of a major new actor on the ground in a context that has seen no change in more than 20 years". [24]

Below are presented some ideas in development of Madrid Principles with special emphasis on the issue of PKF, outlining possible contribution of Georgia.

A permanent decision could be a sustainable conflict resolution process with guarantees to all sides, containing a number of main components: a) ceasefire and withdrawal of heavy weapons under international control, like the OSCE, declaring a 20-kilometre weapon-free zone; b) returning all districts beyond the administrative borders of Nagorno Karabakh to Azerbaijan, with guaranteed access between Armenia and Nagorno-Karabakh; c) opening all communications in the region, including the Armenia-Turkey border; d) postponing consideration of the status of Nagorno-Karabakh for ten years; e) horizontal economic cooperation regarding Nagorno-Karabakh with both Azerbaijan and Armenia; f) returning the displaced population to their homes in Nagorno-Karabakh, and later to Azerbaijan and Armenia; g) the composition of the OSCE lead PKF should be carefully crafted to involve nations that enjoy the full trust of all sides. Possibly these can be units of the Georgian army, consisting of ethnically Azerbaijani and Armenian Georgian citizens (Georgians would be included as well), trained together through a special program. Georgian units trained for participation in NATO operations may serve as a basis.

However, this could all happen when Russia's capacity to influence the situation will be restricted. Despite the fact that nearly three decades of Russian mediation didn't produce any tangible results, Russian diplomacy is not particularly concerned about this. The magic position for Russian diplomats is that after the Parties to the conflicts themselves reach a consensus on the formula for conflict resolution, Russia will support it. This is a rational position, provided that the mediator is not supplying weapons to conflicting States and that it is sincerely interested in the conflict resolution process. This is true not only to Nagorno-Karabakh, but any other conflict in the post-Soviet space. As an outcome, Russian mediation efforts lead either to a continued conflict (Nagorno Karabakh, Transdnestria), usurping part of the territory of a neighbouring state (Abkhazia, South Ossetia), direct annexation (the Crimea), or provoking hostilities and conflict (eastern Ukraine).

Role of the European Union

The role of regional cooperation in European integration processes is increasing and the European Union encourages such cooperation, in particular in the Caspian-Black Sea region, of which the South Caucasus is an integral part. [25;26;27]

The EU has a long history of cooperation with all three South Caucasian countries. The EU, despite differences between countries, has always promoted regional projects, motivating Georgia, Armenia and Azerbaijan to become closer to the EU, to implement the respective reform policy, and to improve understanding and trust amongst each other. This approach offers an excellent opportunity for South Caucasian states to demonstrate sustainable and predictable policy, based on European values and standards of cooperation.

Demonstrating the EU's strong regional approach is the fact that Partnership and Cooperation Agreements have been signed at a joint ceremony in Luxemburg on April 22, 1996 [28], and that the same European Neighbourhood Policy [29] and Eastern Partnership [30] instruments were offered later to all three states. To date, only Georgia had signed a EU Association Agreement [31]. Later EU – Armenia Comprehensive and Enhanced Partnership Agreement [32] was signed. EU is continuing the negotiation process with Azerbaijan, aiming to promote European standards and principles of cooperation in the whole region of the South Caucasus.

The experience of the Baltic and Visegrad 4 countries has proven that, when applying European standards, principles, traditions and the spirit of cooperation, a group of neighbouring countries can impressively progress towards and become closer with the EU. This is a good example to follow. Provided that the three states will follow the Baltic and Visegrad 4 pattern and philosophy of cooperation, qualitatively new, immense development opportunities will surface in the South Caucasus.

In basing cooperation in the South Caucasus on European principles and practices and trying to approach European standards, Georgia, Armenia and Azerbaijan can ultimately establish much better living standards in the region, as well as developing a cooperative spirit.

Consequently, it is difficult to overestimate the place and role of the EU in the process of bringing the South Caucasian states closer to one another and also in promoting better security and stability within the region. Although this is long process, there is no alternative. New EU – Armenia Comprehensive and Enhanced Partnership Agreement and EU – Azerbaijan negotiations give hope for the further Europeanization of the South Caucasus. [33]

What can Georgia contribute to improve the cooperative spirit in the South Caucasus?

Georgia is a multinational country, wherein Armenians and Azerbaijanis have traditionally comprised the biggest national minorities. According to census of November 2014, a total of 233,024 Azerbaijanis and 168,102 Armenians were registered in Georgia.

The Georgian region of Kvemo Kartli is predominantly inhabited by Azerbaijanis (177,032), just as Samtskhe - Javakheti is inhabited by Armenians (81,089). Although these regions neighbour each other, during years since the Soviet Union's collapse, when the Nagorno Karabakh conflict was going through the different phases of hostilities, there were no clashes happening between neighbouring Armenians and Azerbaijanis.

Neither were there any conflicts between the two national minorities in Tbilisi, where 15,187 Azerbaijanis and 53,409 Armenians live predominantly in neighbouring districts of Avlabari and Abanotubani [34]. This is a promising sign and vivid demonstration of the fact that cooperation, a good neighbourhood, and even friendship between Azerbaijanis and Armenians is not something unimaginable.

Regions of Georgia [35]



Probably the best example of peace and the friendly attitude of Azerbaijani and Armenian diasporas can be found in the two Georgian villages of Tsopi and Khonjurni, which are located near the Georgia-Armenia border. Both diasporas live in these villages, with Azerbaijanis dominating in Tsopi and Armenians in Khonjurni. [36]

The peaceful and even friendly coexistence of two ethnic groups is impressively described by British journalist and photographer Onnik James Krikorian as detailed on his website. [37]

In the case that the Georgian Government pays more attention to the mentioned villages by allocating more investment into infrastructure and jobs, this pattern may play a more significant role for the region as a whole. One of the options is to utilise these villages to create a platform for dialogue regarding the South Caucasus, leading to greater understanding, stronger security and increased stability. At the minimum, we will gather some additional hope for future.

Conclusions

1. During the thirty years that have passed since the collapse of the Soviet Union and achieving independence, the states of the South Caucasus have not taken advantage of the impressive potential entailed in regional cooperation, their attractive collective geopolitical and geo-economic position, and transit capacity.

2. The South Caucasus has gone through different periods of history, but this stage of development is particularly important, as its ability to build a strong, developing and successful region is decreasing. In theory, it is possible to build a successful state individually, outside the regional context, although the EU accession process demonstrates that a regional collective effort proves to be much more effective.

3. The establishment of a community of states in the South Caucasus like the Baltics, the Visegrad 4, or moreover, Benelux, is still a hard-to-imagine dream. This dream is described in the study as Azgear.

4. Armenia's accession to the Eurasian Union and the Customs Union has limited the possibilities for regional cooperation in the South Caucasus. In the long term, this may even lead to problems implementing the Bilateral Free Trade Agreement with Georgia.

5. The Madrid Principles seem to be providing the most realistic prospective vision to date in terms of a peaceful process for resolving the Nagorno-Karabakh conflict. Success may turn into an important contribution to a comprehensive European security system and Georgia, as a homeland to numerous Armenian and Azerbaijani diasporas, may play a more active role at the stage of implementing decisions, including future peace keeping operations.

6. The European Union and Armenia initialled the text of the EU-Armenia Comprehensive and Enhanced Partnership Agreement on March 21, 2017. On November 14, 2016,

the Council adopted a mandate for the European Commission and the High Representative for Foreign Affairs and Security Policy to negotiate a comprehensive agreement with the Republic of Azerbaijan on behalf of the EU and its member states. Such developments leave hope in regards to promoting European principles, standards and criteria for cooperation in the South Caucasus.

7. Expanding European principles, standards and criteria for cooperation in the South Caucasus is the most realistic way for the three states to achieve shared success. Nothing better has been offered in practice with respect to international regional cooperation. A perfect example in this regard is overcoming the long bloody confrontation between neighbouring states over the problem of Alsace and Lorraine.

8. The states of the South Caucasus spend large amounts of state finances on military expenditures – this entails the risk of corruption, limits development opportunities, and ultimately weakens both collective and individual security.

9. Conflicts and confrontation reduce the international community's credibility towards the states of the South Caucasus. Investors are scared to invest in the region. Armenia apparently suffers the most from this, but, given the appropriate conditions, Armenia could become the region's leader in terms of attracting foreign direct investments, particularly taking into account the opportunities of the Armenian diaspora.

10. The future of the South Caucasus primarily depends on the three states themselves, their ability and vision, the capacity to observe the overall picture of regional developments and assist each other, and shared activity in order to help the population of the states perceive a new reality.

11. There is still an opportunity to give the South Caucasus a new lease of life and a second wind, which can take it through the problems lying ahead. This would be possible, provided that it is accompanied by patience and tolerance. A restructured political will and efforts to understand the opponent's view could become the heart of change.

12. The security and stability, economic development and integration of the South Caucasus largely depends on the degree of democratization of Russia as the most powerful regional player; At present the Russia is only external force, which links its own interests and influence strengthening capacity in the South Caucasus with destructive actions, including using brutal military force and arms trade.

13. The European Union and the United States of America should play a stronger and more active role in all formats of the negotiation process in order to achieve the peaceful settlement of conflicts in the South Caucasus, as well as in the process of building a stimulating environment for the region's political stability and economic prosperity.

14. Time is running to show radical improvements in the culture of cooperation and the quality of targets, ultimately building up a common vision to treat the region as a shared space for three nations and a means of embodying common interests. Otherwise, the South Caucasus will lose the chance to modernise the region and further integrate it into the wider dynamic tendencies entailed in trans European cooperation processes.

15. The stable and integrated South Caucasus will make a serious contribution to the security system in a broader regional context and will bring greater stability in adjacent areas.

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THE ROLE OF THE CIVIL SOCIETY IN GLOBAL CLIMATE CHALLENGES COMBATING

РОЛЬ ГРОМАДЯНСЬКОГО СУСПІЛЬСТВА У ВИРІШЕННІ ГЛОБАЛЬНИХ КЛІМАТИЧНИХ ВИКЛИКІВ

РОЛЬ ГРАЖДАНСКОГО ОБЩЕСТВА В БОРЬБЕ С ГЛОБАЛЬНЫМИ ВЫЗОВАМИ КЛИМАТА

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***Annotation.** Humanity faces the challenge of identifying ways how to adapt and mitigate the effects of global climate change. A thorough analysis of all the adaptive capabilities and institutions involved in this process is required to meet this challenge. Climate change mitigation and adaptation is a cross-border, multi-level, multi-sectoral and multi-activity challenge with long-range, specific characteristics and many uncertainty parameters. Therefore, many different actors from different sectors are involved in regulating this process with their strategies and interests. There are several key players who play a special role. These include civil society institutions. The article analyzes the Ukrainian and international practice of involving civil society in solving global climate problems. It is shown that public organizations and movements, celebrities and individuals act as incubators and accelerators of new strategies to address climate challenges.*

***Keywords.** Global climate change, adaptation, civil society, social movements, celebrities.*

***Анотація.** Людство стикається з проблемою визначення шляхів адаптації та пом'якшення наслідків глобальних кліматичних змін. Для вирішення цієї проблеми необхідний ретельний аналіз усіх адаптаційних можливостей та установ, що беруть участь у цьому процесі. Пом'якшення наслідків зміни клімату та адаптація до них є транскордонним, багаторівневим, багатогалузевим та багатопрофільним викликом з дальніми, специфічними характеристиками та багатьма параметрами невизначеності. Тому багато різних суб'єктів з різних секторів беруть участь у регулюванні цього процесу зі своїми стратегіями та інтересами. Є кілька ключових гравців, які відіграють особливу роль. До них належать інститути громадянського суспільства. В статті проаналізовано українську та міжнародну практику залучення громадянського суспільства до вирішення глобальних кліматичних проблем. Показано, що громадські організації та рухи, відомі особистості та окремі індивіди виступають як інкубатори і прискорювачі нових стратегій вирішення кліматичних викликів.*

***Ключові слова.** Глобальні зміни клімату, адаптація, громадянське суспільство, соціальні рухи, знаменитості.*

***Аннотация.** Человечество сталкивается с проблемой определения способов адаптации и смягчения последствий глобального изменения климата. Для решения этой задачи необходим тщательный анализ всех адаптивных возможностей и институтов, вовлеченных в этот процесс. Смягчение последствий изменения климата и адаптация к ним*

- это трансграничная, многоуровневая, многоотраслевая и многоотраслевая задача с долгосрочными, специфическими характеристиками и множеством параметров неопределенности. Таким образом, в регулирование этого процесса вовлечено множество различных субъектов из разных секторов, исходя из своих стратегий и интересов. Есть несколько ключевых игроков, которые играют особую роль. К ним относятся институты гражданского общества. В статье проанализировано украинский и мировой опыт вовлечения гражданского общества в решение глобальных климатических вызовов. Показано, что общественные организации и движения, известные личности и отдельные индивиды выступают как инкубаторы и ускорители новых стратегий решения климатических вызовов.

Ключевые слова. Глобальное изменение климата, адаптация, гражданское общество, общественные движения, знаменитости.

Introduction. Addressing Global Climate Change rise a number of topical issues. The key issue is to identify the participants in the climate change management process and the scope of their competencies and areas of responsibility. Practice shows that current global problems, which are related to global climate change, cannot be solved individually and straightforwardly without involving all stakeholders and the general public. Another pressing issue is the development of management mechanisms that would facilitate the implementation of adaptation strategies, mitigation and enhancement of adaptive capacity of society and planetary ecosystems, including such mandatory elements as problem definition and problem statement, defining synergies and coordination actions between the participants of the process, timing of tasks implementation, choice of tools and organization of scientific support. Climate change requires collective action at the global level; major changes must be initiated by the most influential international actors representing the largest emitters, economies and potential for influence.

UN Secretary-General Antonio Guterres called the problem of climate change "a major issue of our time, and its solution is a turning point in history. We still have time to put an end to the negative effects of climate change, but this requires unprecedented efforts from all walks of life" [UN: 2019] That is, according to the Secretary-General of the United Nations, addressing global climate change is the area of competence of all stakeholders, which can include states, governments, international organizations, corporations, public movements, the scientific community, individuals, the media, etc. This idea is supported by the 2007 Nobel Peace Prize laureate, former Head of the Intergovernmental Panel on Climate Change (2002 to 2015), Rajendra K. Pachauri, who states that "the most driving force behind the implementation of adaptation and mitigation climate change programs are governments and political parties, the UN, international organizations, corporations and every citizen of the planet" [Буняк: 2017]. Particularly important role in overcoming global climate change, Pachauri pays to civil society institutions, in particular public movements and associations, public initiatives of celebrities and the activities of individuals.

Recent literature review. Studies of the risks of global climate change and the role of civil society structures in overcoming them are reflected, in particular, in international documents (UN Framework Convention on Climate Change (UNFCCC), Kyoto Protocol, Paris Agreement), materials from UN conferences (UNFCCC), official publications of the UN specialized agencies (Evaluation reports of the Intergovernmental Panel on Climate Change, UN Climate Change Reports, World Meteorological Organization Research, Global Atmospheric Service, etc.), publications by other UN agencies (including Food and Agriculture Organization, World Food Program, United Nations High Commissioner for Refugees, International Organization for Migration, UN Intergovernmental Commission on Oceanography, UN Environmental Programme), open materials of national meteorological and hydrological services, regional climate centers, international agreements.

The most extensive publications on this issue are presented in the work of the Intergovernmental Panel on Climate Change under the leadership of R. Pachauri and, in particular, British researchers M. Allen, J. Brum, German V. Kramer, O. Edenhofer, J. Marotzke, and American L. Clarke, K. Field, K. Mach, M. Mastrandrea, B. Preston, Norwegian J. Fuglstedt, K.

Oberin, Australian M. Hofden, S. Power, Russian V. Kattsov and others. These studies look at global causes and possible scenarios for managing global climate change.

Specific areas for tackling global climate change, including contribution of civil society and research centers are contained in the work of the Spanish researcher X.K. Abanades, Japanese M. Akai, American S. Benson, K. Keldeira, R. Doctor, Dutch H. De Koninko, B. Metz, L. Meyer, British P. Freund, D. Gale, E. Palmer and others; the role sub-national actors are in the work of Hsu, A.; Widerberg, O.; Weinfurter, A.; Chan, S.; Roelfsema, M.; Lütkehermöller, K. and Bakhtiari, F.

Also information about the role of civil society communication in addressing global climate challenges is also provided in the specialized communication programs and researches on climate change at Yale University, George Mason University, the Adam Corner British Project and the Adelphi Platform. These documents identify the interplay between global climate and non-climate risk factors and the role of international organizations, sub-national actors and research centers in overcoming them.

However, the new realities of global climate change and the impact of international actors require further exploration of this issue. Unfortunately, the role of civil society in the development of global climate change policy and its communicative support has not yet been given sufficient attention in Ukrainian and foreign literature. Therefore, the study of these issues is an urgent problem of modern international communication, and their solution will be of considerable practical importance.

The purpose of the article is to identify the contribution of civil society institutions as new actors of international relations in addressing global climate change and to characterize their role in managing global climate change.

Methods. This scientific intelligence not only emphasizes the need to address the current problem of climate change, but also points to some important trends related to the formation of appropriate climate behavior in the conscious part of humanity. The predictive component of this work is, at least, that in the context of managing the effects of global climate change, the role of the civil society institute is outlined, its prospects and place in enhancing the adaptive capacity of society are defined. To address this range of challenges, the authors have used a number of methods, including systematic analysis, which has provided an insight into the elements of civil society represented by civic organizations and movements, celebrities, and individuals acting as generators of new climate change coping strategies. Dialectics, synergetics, and case-study methods used in the work have made it possible to explore the development of environmental initiatives by civil society institutions and individuals who are able to raise local proposals and ideas internationally.

Main research results. Let us analyze the activities of individual civil society institutions, namely public movements and organizations, projects initiated by celebrities and individuals to address global climate change.

Civil movements. International and national grassroots movements and organizations help promote ideas of responsible climate behavior. One of such project is the international alliance Zero Waste International, which promotes the concept of “no waste”, the main idea of which is to reduce the amount of garbage produced through the use of reusable items and things, just as they would be used in nature. By its own definition, “Zero Waste is a moral, economical, effective and global goal aimed at changing people's lifestyles and creating sustainable natural cycles where all surplus materials can become resources, not garbage” [ZWIA: n.d.]. In addition, the Alliance fights for the reduction of hazardous waste and opposes their incineration or disposal. From a global perspective, the Zero Waste concept should help eliminate harmful emissions of soil, water or air, damaging the planet, as well as human, animal and plant health.

The term "zero waste" was first used publicly on behalf of Zero Waste Systems Inc. (ZWS) in the mid-1970s in Oakland, California. ZWS's mission was to find use for the most of the chemical waste generated by the growing electronics industry. Subsequently, they saw an interest in the initiative and began to accept laboratory chemicals for free, which they resold to experimenters, scientists and companies. ZWS also collected all used engine oils, filtered them and sold them to oil

companies. The movement received recognition and distribution in 1998-2002. Today it continues to grow, with offices in the US, the European Union, Russia, Ukraine, Brazil, Argentina, Puerto Rico, Mexico and other countries. The main benefits of the movement are not only the philosophy of smart consumption, but also financial savings, because according to the organization, following the concept of "zero waste" can save up to 40% of the family budget.

In Ukraine, the idea of "zero waste" is being promoted, in particular, by the organization "Ukraine without garbage". As part of their educational projects, interactive lectures are held for teachers, students, listeners of international and Ukrainian companies, ordinary residents and other interested and indifferent categories of the population. Successful has been the experience of introducing public sorting stations "NO WASTE recycling station" and eco-friendly social goods store "NO WASTE shop", own brands like #nonplasticbags. In addition, as stated on the website of the project "Ukraine without garbage", "we strategically cooperate with the Ministry of Ecology and Natural Resources, administrations and municipal enterprises of cities; provide expert evaluation of existing waste management issues to the leading Ukrainian media; we conduct surveys at festivals, forums and other activities regarding the care of people about environmental problems" [*Україна без сміття*: 2018].

The ideas of "Ukraine without garbage" are supported by other organizations. For example, the Klitschko Foundation, together with a partner of the Coca-Cola Foundation and Coca-Cola, have launched an educational project called "Zero Waste School", which aims "to introduce a waste sorting culture among schoolchildren and teachers in their school, community, and later in the world" [*ZeroWasteSchool*: 2019]. As of August 1, 2018, 50 Ukrainian schools, over 12,000 students, parents and teachers became participants of the project; 212 garbage cans were installed; 33 tonnes of recyclables (paper, metal, plastic, batteries, glass) were collected [*ZeroWasteDay*: 2019]. In 2019, the implementation of this project was continued.

Interesting experience of the environmental project is "Green Library Movement", which has been developing in libraries around the world for 20 years and is associated with the involvement of libraries in protecting the environment. Green Libraries offers ecology-related services, literature and electronic resources, demonstrating the social role and responsibility of libraries as environmental education leaders. In Ukraine, the Children's Library in Priory was the first to join this project. According to project manager Anna Kobets, "we have created a unique ecological space in the library that will provide theoretical and applied information on environmental topics for children and their parents" [*Зелена бібліотека*: 2018].

The goal of the project is to convince everyone of the necessity to follow the basic rules of environmental management in everyday life, in nature, in the workplace. The main focus is the upbringing of children, the formation of appropriate aesthetic flavors in order for them to understand and be able to see the beauty of the environment, were able to save and protect nature. All this will contribute to the formation of ecological culture, without which the future may not be. The new space will include: creative eco-design (natural colors, natural materials); elements of decor made of recycled materials (recyclables); a selection of books and electronic media on environmental topics and the outside world; thematic program (lectures and master classes on environmental topics, sorting of garbage and recycling, ecolub, etc.). What has already been done? The library is actively working on completing the thematic program, nature and environmental events are held weekly, partnerships with environmental initiatives and activists are established. Creative design of the ecological space was developed. Due to philanthropists and publishing partners, books on environmental topics have been purchased.

Zero Waste Life has been gaining popularity lately among the members of the Green Library. Its main purpose is to minimize waste arising from production processes and human-generated household waste. The movement's strategy is to abandon consumer lifestyles and to establish a closed cycle of resource use that will not result in the waste being dumped into landfills but receiving new life in the form of recycled raw materials. For example, at the household level, we are talking about the rejection of disposable products (plastic bags, plastic tableware, durable clothing, etc.), responsibility for the further processing of human-generated waste and the

prolongation of the life of the things it uses. This project has become a model for the introduction of Green Libraries across the country.

Integrated eco-projects have become a new level of activity of public movements in Ukraine in environmental protection. The International Renaissance Foundation, in the framework of a competition aimed at activating joint initiatives of territorial communities, supported one of the projects of environmental orientation - "Implementation of joint initiatives of communities as a guarantee of social development". The idea of the project was born in the process of active fundraising work for the all-Ukrainian volunteer eco-project "Let's do it, Ukraine: Let's make Ukraine Clean". The Integrated Environmental Initiative was first supported in 2011 by the Krona CF when the AIESEC Ukraine Green Rush project, a new OSCE "Green Pack" project and the All-Ukrainian initiative "Let's Do It Ukraine" were combined. The essence of the project was that for 2 months international volunteers of AIESEC conducted ecological lessons on the methodical basis "Green Pack" and announced all-Ukrainian cleaning in secondary schools of Ukraine, while providing organizational assistance to the regional coordinators "Let's Make Ukraine Clean". It has been found that the biggest environmental problems of the urban communities of Ukraine are the lack of properly equipped and sanctioned garbage disposal sites and the creation of new landfills in a geometric progression.

The results of the cooperation were very positive, the number of partners expanded, the local authorities were involved. In the first stage (working with local authorities) the main goal was to solve key environmental issues - garbage collection in the region, technical equipment, disposal, sanitary landfills, etc. To address this challenge, a series of social surveys and polls were conducted, attracting the maximum number of interested and active residents (entrepreneurs, public figures, authorities), identified and discussed the most problematic issues. With the participation of the authorities, roundtables / public hearings and other public events on environmental issues were held. In accordance with the results of the event, proposals were formulated and submitted to local authorities.

The aim of the second stage (implementation of the Green Package OSCE eco-lesson system) was to educate eco-awareness among young people and the local population. For this purpose, environmental lessons and trainings were conducted in schools with the involvement of volunteers. It is gratifying to note that school teachers often supported the initiative and independently conducted thematic classes. With the expansion of the target audience - implementation of environmental initiatives aimed at raising environmental awareness among the population, there were many problems with the involvement of locals in the actions to clean the green areas, landfills. An important effect was recorded: after 2 such clean-ups, residents not only stopped throwing garbage in the nearby ravines, but quickly began to be interested in the activities of the authorities in this area and the possibility of effective solution of eco-problems in the region. This means that an integrated approach to solving environmental problems not only solves environmental problems, but also nurtures a European-level ecological culture in any region, city and village of Ukraine.

Today, Ukraine allocates much less funds for the development of eco-projects than is a real need. Accordingly, members of public movements are beginning to seek help from global companies, which are often willing to invest in interesting ideas from civil society. The issue of investments in ecology in recent years has become urgent. Thus, in February of this year, the Verkhovna Rada of Ukraine ratified an agreement between the Cabinet of Ministers and the Government of Germany on financial cooperation. Ukraine will soon be able to receive a grant of up to 14 million euros for the implementation of the project "Support to nature reserves in Ukraine". The explanatory note emphasizes that this "project is aimed at building infrastructure facilities in nature conservation areas, developing a management system based on local community involvement, preserving biodiversity based on sustainable regional development" [Доскiч: 2016].

A step-by-step approach is planned to be pursued. It will initially include two nature conservation areas in the Carpathians (Gorgany Nature Reserve and Carpathian Biosphere Reserve). Further objects for the project implementation will be added during its implementation. It is stated

that they should be selected mainly from the short list defined in the Feasibility Study of the project and meet the criteria that were applied in the shortlisting (first of all, the level of biodiversity conservation, project implementation potential). However, the agreement stipulates that the project "Support to nature reserves in Ukraine" by mutual agreement between the governments of the two countries may be replaced by other projects.

Today, Ukraine doesn't have a large number of programs aimed at developing the environment. One of the successful is "Let's build ECO Ukraine together". It exists in the form of a competition that anyone can join by registering their environmental project in the program. After voting for all projects submitted to the program, the winner receives a certain amount for its reproduction. The ECO projects are implemented by the International Charitable Foundation "Ukrainian Charity Exchange". The winners are chosen by both qualified jury members and Ukrainians themselves, who are able to vote online. Another all-Ukrainian environmental competition is the ECONATION grant. It was created with the assistance of the Ministry of Ecology and the International Charitable Foundation Konstantin Kondakov. The project aims to change the ecological situation on the planet and promote the scientific potential of young scientists in the field of nature and environmental activities. The project addresses both urgent environmental issues and support for innovation. With the assistance of the authorities, for 15 years there has been an all-Ukrainian environmental competition "To Clean Sources". It has been held annually since 2001 and aims to engage the general public in practical environmental work. First of all, it is about protection and improvement of the state of springs, rivers and reservoirs of Ukraine, rational use of water resources, raising of environmental and legal awareness of Ukrainians.

Georgia harbors the largest and most active movements and non-governmental actors working on global climate change and its mitigation in the South Caucasus region. Caucasus Environmental NGO Network (CENN) is the biggest of them covering all three countries of the region (i.e. Armenia, Azerbaijan, Georgia) and specializing, apart from others, in areas of sustainable management of resources and combating climate change. It is one of the most influential civil society actors in the field because it can steer the climate change and mitigation discussions via using its vast environmental research and policy expertise. It closely partners with governments, other non-governmental and international organizations as well as various societal groups and individuals to promote environmental-friendly and climate-smart ideas and action. Its two programs (one on Climate Change & Disaster Risk Reduction, and the other on Rural Development & Climate Smart Agriculture) are seminal in its efforts to foster relevant structural reforms and raise awareness on these issues. However, CENN's expertise goes beyond these two areas and covers everything from resources management to green economy to gender and environment to compliance management, and others.

CENN is valuable for its energetic public awareness raising campaigns too. It has four major footprints in this regard. First, Green Office campaign urges the office holders and workers to reconsider their working behavior by making more sustainable actions and implement green initiatives in the workplace. It also offers green office checklist and recommendations on all relevant issues from paper management to waste recycling to energy saving to bonus system for carpooling/public transportation. Its slogan "Make An Impact While Working" speaks itself on the essence of the campaign. Second, new legislation introduced a total ban on the use of plastic bags in Georgia. Therefore, the Green Bag campaign aims at discovering the alternatives and using the CENN-produced green bags. Third, CENN initiated a famous and large-scale environmental campaign – Keep Georgia Beautiful, oriented on cleaning littered areas. It is funded by US Agency for International Aid and has its hashtag #KeepGeorgiaBeautiful. Its success is very much intertwined with the engagement of actors of the private, public and civil society sectors. The program assists "the Government of Georgia to modernize the country's waste management sector and support sustainable and inclusive economic development. The program supports responsible natural resources management to minimize adverse impacts on human health and natural resources" [CENN: 2020]. And fourth, CENN manages a vast electronic library with open access, with slogan "Green Reading".

CENN's wide network, high level of professionals and its close cooperation with important stakeholders (such as governmental bodies, European Union, USAID, National Geographic, academic institutions, Forest Group, etc.) ensure the quality results and are the main source of the organization's high reputation.

Nevertheless, CENN is not the only organization on this challenging road. There are several other groups who are actively engaged in the process. This includes non-governmental organizations (e.g. Black Sea NGO Network, Green Alternative, Caucasus Nature Fund), local branches of international environmental organizations (e.g. Friends of the Earth Georgia), major international organizations (e.g. European Union, United Nations, World Bank), international and local foundations and donors (e.g. Heinrich Boell Foundation, German Society for International Cooperation [GIZ], Bank of Georgia), and foreign governments/diplomatic institutions (e.g. Embassy of France, German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety).

Therefore, the role of public movements as participants in the process of overcoming global climate challenges is that they, as representatives of civil society, have the opportunity to identify the problem and raise it from the bottom up. Practice has also shown that positive results using an integrated and phased approach can be obtained in partnership with "NGOs - authorities". The "think globally - act locally" principle exemplifies the philosophy of NGOs to address global climate challenges.

Celebrities. Since the mid-2000s, famous people (or celebrities), actors, singers, and athletes have begun to play an increasing role in informing the public about certain aspects of climate change, in addition to environmental experts and politicians. Some have relevant social media pages or fan groups with millions of supporters and subscribers, others provide financial support for environmental initiatives, participate in information campaigns, make films on global climate change, speak at UN climate conferences, and inspire people to be more environmentally conscious. Climate-oriented activity of celebrity helps to bring this problem to a wide and socially active audience.

A study by the British Greenmatch Project identified 10 global celebrities who invest most in environmental projects and use their prominence to raise awareness of the international community about climate change and ways to help save the planet. The Greenmatch list includes Leonardo DiCaprio, Brad Pitt, Matt Damon, Kate Blanchett, Don Cheadle, Cameron Diaz, Emma Watson, Farrell Williams, Natalie Portman and Justin Timberlake [*GreenMatch*: 2016].

The Leonardo DiCaprio Foundation was established in 1998 to "support projects around the world that create climate resilience, protect vulnerable wildlife and restore balance between threatened ecosystems and communities" [*Leonardo DiCaprio foundation*: n.d.]. To date, the fund has funded more than \$ 80 million in projects in 50 countries around the world, from preserving mangrove forests to supporting indigenous peoples and nationalities. In 2016, a wide-ranging resonance (and the Audience Award at the Toronto International Film Festival) received Mark Monroe's documentary "Before the Flood" starring Leonardo DiCaprio. He talks about climate change caused by human activity and how humans can try to prevent the death and extinction of species and natural ecosystems on the planet. The world-famous actor, Oscar winner, Honorary Ambassador of the United Nations is the central figure in the film's plot. As he travels the planet, in his own experience, he is convinced that the problem of global warming really exists, and that it is serious enough not to pay attention to it. Using his privileges and social status, DiCaprio meets with community activists, scholars, and the most influential people on the planet, including Barack Obama, Elon Musk, and His Holiness Pope Francis.

The Make it Right Foundation, founded by Brad Pitt, has built 150 green energy-efficient homes for victims of Hurricane Katrina. Matt Damon has launched a charity project, water.org, to help bring clean water to African citizens. Kate Blanchett is a supporter of sustainable development ideas and is working with SolarAid, a charitable foundation that seeks to minimize and subsequently stop the use of kerosene lamps in Africa by 2020. Together with her husband Andrew Epton, Kate Blanchett has funded the installation of two thousand solar panels on the roof of the

Sydney Opera House. Emma Watson supports People Tree organic products, all of which are made of organic fabrics and materials that can be safely disposed of. Natalie Portman, who promotes a vegan, non-violent lifestyle, is the recipient of the EMA (Environmental Media Awards) for her continued support of environmental issues and her continued support of ethics for animals and wildlife. She is also a designer of vegan shoes. The EMA's Climate Change Contribution Award winner is Justin Timberlake.

It can be also argued that the role played by celebrities as actors of addressing climate change challenge is the result of a political environment increasingly influenced by public relations and the media, reflecting particular political ideas, policies and attitudes. Celebrities act as representatives of a segmented mass audience operating in the centers of elite political power. At the same time celebrities present environmental concerns to their audiences; that is, they actualize the feelings of their audience on the political scene. It is in this context that celebrities have gained their prestige as political, social and environmental “experts”, and celebrity’s political appearances provide important ways to engage voters and viewers in climate change action.

Other climate celebrity initiatives can be cited. Thus, in 2010, Ben Affleck, together with Whitney Williams, founded the Eastern Congo Initiative, which became “the first American grant-making initiative entirely focused on working with and for the people of the Eastern Congo” [ECI: 2010]. They have partnered with several Congolese NGOs to increase agricultural productivity and improve the lives of small farmers - from coffee farmers in the eastern part of the country to sustainable cocoa producers seeking to create ethical production facilities and infrastructure to supply such international ethical buyers as Lush Cosmetics. Actor Channing Tatum collaborates with PlantMed, an organization that takes care of the indigenous peoples of the Amazon, the world's epicenter for medicinal plants and seeks to address the rapid threat of the destruction of tropical forests and indigenous knowledge of plant and botanical medicine [PlantMed: n.d.]. The Hilaria & Alec Baldwin Foundation (co-founded by Alec Bolwin) has been providing grants in New York and Long Island since 2006 to support Central Park and charitable initiatives such as supporting yoga lessons in New York City public schools.

Ukrainian celebrities are also holding actions to address global climate challenges. Well-known magazine Marieclaire lists the cases of designer Xenia Schneider, musician Ivan Dorn and band Onuka [Зализницька: 2018]. Yes, Ukrainian designer Xenia Schneider has launched a action “Clean Challenge UA”, which could be attended by anyone from August 1 to August 8, 2019. For this purpose it was necessary to make a photo in a place where there is a garbage, to remove it and again to be photographed, but against the background of pure nature. Then send the pictures to the brand mail and post to your account with the hashtag #cleanchallengeua. Promotions to participate in the action were gifts from the Ksenia Schnaider brand: T-shirts, organic linen, vegan desserts and handmade cosmetics. Musician Ivan Dorn in a series of videos titled “About Me - About Her - About Us” read the text of the eco-manifesto and urged people to unite to save nature, and warned that the planet could very soon be like a city-the ghost of Pripyat, which suffered the most from the Chernobyl accident. The artist himself says that he began to think seriously about environmental problems a year ago when he introduced hiking into his practice. The clip of the popular Ukrainian group Onuka, nominated for the prestigious Social World Film Festival Award, tells about the problem of garbage in Ukraine and created within the framework of Ecostrum initiative with the organization “Ukraine without garbage”. For clarity, the video was filmed at a dump near Kiev to show the problem on a full scale. Another popular singer, Nata Zhizhchenko many years ago, abandoned genuine leather and fur and, together with her husband, Yevgeny Filatov, began to consciously approach garbage sorting. All money from the clip were directed to support “Ukraine Without Trash” organisation.

Thus, the special role of celebrity as an actor in overcoming global climate change lies in the fact that they have the resources to support charitable organizations and the ability to influence the public, offer new climate actions that go beyond classical scientific approaches and foster more emotional and intuitive connections between their audiences and climate change in their daily lives. Contemporary celebrities are thus working to shape how audiences and citizens should feel about

climate change, trying to get them to act or change their behavior. On the one hand, celebrity, acting as “emotional witnesses”, can draw attention to the problem of global climate change, but on the other, they increase the value of their brand by joining an acute global problem. Climate change activism is often transformed into a spectacle, thus stimulating the audience with the necessary emotions and actions to address global environmental change. Some researchers also see a political implication in the climate activity of celebrity.

Individual citizens. Nobel Peace Prize laureate Rajendra Pachauri believes that the newest actors that can leverage global climate change issues may be individual citizens, and states: “we need to change our lifestyles... a lot of unnecessary things happen in a consumer society... it would be good to review our eating habits as well: you need to stop eating so much meat, in which case you will be healthier and the planet” [Сметанская: 2017]. A well-known scientist assigns a separate role to the youth, who must draw up a “road map for change, that is, each young person must calculate his or her own carbon footprint and think about how to reduce it.” [Сметанская: 2017]

The World Wildlife Fund (WWF) has developed and issued a leaflet on how each individual can contribute in mitigating global climate change. They offer a range of activities that people can do in the bathroom, on the go, in the store, at the office, or on vacation. These recommendations can be read on the organization's website at: https://wwf.ru/upload/iblock/461/eco_tips_wwf.pdf. Among the simplest ways are the following: “in the house to timely adjust the flowing taps, install an economical shower nozzle; on the road, try to use your car or plane less often. But if you can not do without an aircraft, it is recommended to fly direct flights, since the largest amount of fuel is consumed during takeoff. To buy only the food that is needed, since one third of all food in the world is thrown away, and to reduce the consumption of meat, because its production requires a large amount of resources - water, energy, feed. In the office it is possible and necessary to reduce energy consumption and volume of waste, to print only the necessary and on both sides of the sheet, etc.” [WWF: 2003].

The initiators of the “Open School of Sustainable Development” agree that one of the first steps in fulfilling the UN’s thirteenth sustainable development goal to tackle global climate change is conscious steps of every planet citizen [#ЗнайСвоиЦели: n.d.]. Their recommendations are in line with the recommendations of the World Wildlife Fund and emphasize that changes in the world begin with changes in the creed and behavior of each individual.

Thus, initiative citizens as representatives of civil society are an important component of attracting attention and addressing global climate challenges, as they know their country much better than the government. Given the large size of this category, interest and criticality, citizens have the opportunity to achieve greater success than government organizations. Therefore, the participation of citizens as representatives of civil society is a significant factor in the formation of an effective system of adaptation to global climate challenges.

Conclusions. Thus, the adaptation of humanity to global climate change is now regarded as a necessity for solving technical, managerial and communication problems. Managing Global Climate Projects involves interaction between many international actors and addresses global climate challenges. Today, there is a strong understanding of the important role of civil society institutions in managing climate challenges.

Civil society, represented by grassroots organizations and movements, celebrities and individuals, act as incubators and accelerators of new strategies for addressing climate challenges. Own projects of NGOs and movements, celebrities and individuals are increasingly becoming the platform for the demonstration, testing and dissemination of new, cutting-edge climate adaptation technologies. In other words, civil society is a group of people with a common interest who, on the one hand, play a positive role in a democratic and pluralistic society, defining the principles and style of climate policies of national governments, and on the other, affecting the activities, hopes, and beliefs of society. Civil society is also a source of information on global climate change, how to adapt and mitigate, and the role of the individual in the issue.

When considered by NGOs, they have the opportunity to raise local proposals and ideas to an international level. The activities and climate projects of celebrities and individual citizens are advisory and informative and affect a segmented audience. These projects are funded by their own funds, donations, contributions and implemented through the creation of special funds, raising public awareness of climate challenges through social networks, holding promotions, attracting other thought leaders and personalities, participation in forums, conferences, discussions on global climate challenges and the dissemination of educational literature. Due to small management structures, the climate projects of these actors are realized much faster than the states and international organizations.

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СУЧАСНА СИСТЕМА МІЖНАРОДНОГО ПРАВА

УДК 341.485:[94:323.282](477)"19"

INDIVIDUAL AND COLLECTIVE INTENT IN THE CRIME OF GENOCIDE (ON THE EXAMPLE OF THE HOLODOMOR-GENOCIDE AGAINST THE UKRAINIAN NATION)

СПІВВІДНОШЕННЯ ІНДИВІДУАЛЬНОГО ТА КОЛЕКТИВНОГО НАМІРУ В ЗЛОЧИНІ ГЕНОЦИДУ (НА ПРИКЛАДІ ГОЛОДОМОРУ- ГЕНОЦИДУ ПРОТИ УКРАЇНСЬКОЇ НАЦІЇ)

СООТНОШЕНИЕ ИНДИВИДУАЛЬНОГО И КОЛЕКТИВНОГО УМЫСЛА В ПРЕСТУПЛЕНИИ ГЕНОЦИДА (НА ПРИМЕРЕ ГОЛОДОМОРА-ГЕНОЦИДА ПРОТИВ УКРАИНСКОЙ НАЦИИ)

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Abstract. *The article deals with the definition of the concept of intent to commit genocide in the Statute of the International Criminal Court, in the document "Elements of Crimes" adopted by the International Criminal Court, as well as in decisions of the International Criminal Tribunal for the Former Yugoslavia, International Criminal Tribunal for Rwanda, International Criminal Court and in practice of the International Court of Justice. The author reveals constitutive elements of the concept of intent to commit genocide: intent to be engaged in the conduct which would cause destructive consequences for a national, ethnic, religious or racial group as such; intent to reach these consequences; or awareness that they will occur as a result of this conduct in the ordinary course of events. The author indicates slightly different approaches of the international criminal tribunals and courts to knowledge of the consequences as a result of destruction of a group. It is stated that the intent should not necessarily be fixed in documents or formulated in public oral speeches, but may also be certified by facts and circumstances of a crime. The author analyzes different circumstances which may evidence the intent to commit genocide. Special attention is paid to differentiation between individual and collective intent to commit genocide. The author examines the intent to commit genocide in the Holodomor organized against the Ukrainian national and ethnic group.*

Key words: *Genocide, the intent to commit genocide, collective and individual intent, the Holodomor-genocide.*

Анотація. *У статті розглядається питання визначення поняття «намір» вчинити геноцид у Статуті Міжнародного кримінального суду, в документі «Елементи злочинів», прийнятому Міжнародним кримінальним судом, а також у рішеннях Міжнародного кримінального трибуналу щодо колишньої Югославії, Міжнародного кримінального*

трибуналу щодо Руанди, Міжнародного кримінального суду та в практиці Міжнародного Суду ООН. Розкриваються складові поняття «намір» вчинити геноцид, а саме намір вчинити дію, яка спричинить руйнівні наслідки для певної національної, етнічної, релігійної чи расової групи, як такої; намір досягти цих наслідків або усвідомлення, що такі наслідки неминуче настануть в результаті цієї дії. Авторка вказує на децю відмінні підходи в позиціях зазначених трибуналів і судів до елемента усвідомлення наслідків (обізнаності з наслідками) знищення вказаних груп. Зазначається, що намір вчинити геноцид не обов'язково повинен бути зафіксований в документах чи висловлений у публічних промовах, але може також бути виведений із фактів і обставин злочину. Розглядаються обставини, які можуть свідчити про намір вчинити геноцид. Акцентується увага на розмежуванні та співвідношенні колективного та індивідуального намірів, які мають місце у злочині геноциду. Проаналізовано намір вчинити геноцид в Голодоморі проти української національної та етнічної групи.

Ключові слова: Геноцид, намір вчинити геноцид, колективний та індивідуальний намір, Голодомор-геноцид.

Аннотация. В статье рассматривается вопрос определения понятия «намерение» совершить геноцид в Уставе Международного уголовного суда, в документе «Элементы преступлений», принятом Международным уголовным судом, а также в решениях Международного трибунала по бывшей Югославии, Международного трибунала по Руанде и в практике Международного Суда ООН. Раскрываются составные понятия «намерение» совершить геноцид, а именно намерение совершить действие, которое вызовет разрушительные последствия для определенной национальной, этнической, религиозной или расовой группы как таковой; намерение достичь этих последствий или осознание, что такие последствия неминуемо будут иметь место в результате этого действия. Автор указывает на несколько отличные подходы в позициях указанных трибуналов и судов к элементу осознания последствий (ознакомления с последствиями) уничтожения указанных групп. Намерение совершить геноцид не обязательно должно быть зафиксировано в документах или высказано в публичных речах, но может быть выведено из фактов и обстоятельств преступления. Рассматриваются обстоятельства, которые могут свидетельствовать о намерении совершить геноцид. Акцентируется внимание на размежевании и соотношении коллективного и индивидуального намерений, которые имеют место в преступлении геноцида. Проанализировано намерение совершить геноцид в Голодоморе против украинской национальной и этнической группы..

Ключевые слова: Геноцид, намерение совершить геноцид, коллективное и индивидуальное намерение, Голодомор-геноцид.

Introduction. The concept of the intent to commit genocide as the key issue in qualification of this crime is determined in the Rome Statute of the International Criminal Court (ICC) and in the “Elements of Crimes”, adopted by the ICC. This concept has been further developed in the case law of the International Court of Justice (ICJ), the International Criminal Tribunal for the Former Yugoslavia (ICTY) and the International Criminal Tribunal for Rwanda (ICTR). However, elements of intent, distinction between collective and individual intent to commit genocide have not been sufficiently investigated by scholars. Moreover, elements of the collective and individual intent in the Holodomor-genocide in Ukraine have not been investigated at all.

The purpose of research is to determine correlation of the collective and individual intent elements in the crime of genocide, in particular in the Holodomor-genocide of the Ukrainian nation in the first half of the XX century.

Recent literature review. There are many works of historians, sociologists, demographers and lawyers analyzing separate cases of genocide and different aspects of the crime of genocide. The main element of this crime – intent to commit genocide (*dolus specialis*) has been researched by M. C. Bassiouni, M. Boot, I. W. Charny, R. Lemkin, J. Quigley, W. A. Schabas, and other

scholars. L. May has paid special attention to the correlation of individual intent elements and a collective intent element in the crime of genocide [May: 2010]. Human Rights Watch has prepared Topical Digests of the Case Law of the ICTY and ICTR which include chapters on special intent or *dolus specialis* of genocide on the examples of cases of these Tribunals.

The case of the Holodomor-genocide against the Ukrainian national group has been analyzed mainly by historians [Mace: 1988; Naimark: 2010; Serbyn: 2010]. Of great importance for the qualification of the Holodomor as a crime of genocide was R. Lemkin's paper "Soviet Genocide in Ukraine" which placed the destruction of the Ukrainian nation by the leaders of the Soviet Union among three main genocides of the first half of the XX century [Lemkin: 2009].

Main research results. Under article 30 of the ICC Statute, a person shall be criminally responsible and liable for punishment for a crime within the jurisdiction of the Court only if the material elements are committed with intent and knowledge, unless otherwise provided. A person has intent where: (a) In relation to conduct, that person means to engage in the conduct; (b) In relation to a consequence, that person means to cause that consequence or is aware that it will occur in the ordinary course of events [2].

Article 30 of the ICC Statute also foresees that 'knowledge' means awareness that a circumstance exists or a consequence will occur in the ordinary course of events [2]. Where no reference is made in the "Elements of Crimes" to a mental element for any particular conduct, consequence or circumstance listed, it is understood that the relevant mental element, i.e., intent, knowledge or both, set out in article 30 applies [3].

The special intent (*dolus specialis*) to destroy, in whole or in part, any national, ethnic, religious or racial group as such is the key issue for the qualification of a crime as genocide, and for determining if a state has violated its obligations under the UN Convention on the Prevention and Punishment of the Crime of Genocide (Genocide Convention) [1]. The ICJ has paid special attention to this, when, in particular, answering the request of the Federal Republic of Yugoslavia in 1999 for the indication of provisional measures, stated in its order of 2 June 1999 that the Court at the present stage of the proceedings does not consider that "the bombings which form the subject of the Yugoslav Application 'indeed entail the element of intent, towards a group as such, required by the provision quoted above' (Legality of the Threat or Use of Nuclear Weapons, Advisory Opinion, I. C. J., Reports 1996 11) , p. 240, para. 26)" [17, para. 35].

In a number of cases the ICTR stated that a special intent of a crime of genocide which demands that the perpetrator clearly seeks to produce the act charged is required as a constitutive element of the crime. The Trial Chamber found in *Prosecutor v. Akayesu Case* that "the offender is culpable only when he has committed one of the offences charged under article 2(2) ... with the clear intent to destroy, in whole or in part, a particular group" [11, para. 522]. In *Rutaganda Case* ICTR ruled that "A person may only be convicted of genocide if he committed one of the enumerated acts with the specific intent to destroy, in whole or in part, a particular group" [19, para. 59].

The ICTY also emphasized in its cases that "Genocide is a unique crime where special emphasis is placed on the specific intent. The crime is, in fact, characterized and distinguished by a 'surplus' of intent. The acts proscribed in Article 4(2) of the Statute, sub-paragraphs (a) to (c) are elevated to genocide when it is proved that the perpetrator not only wanted to commit those acts but also intended to destroy the targeted group in whole or in part as a separate and distinct entity" [20, para. 520].

What concerns knowledge of the consequences as a result of destruction of a group, positions of ICTR and ICTY slightly defer. While ICTR ruled in *Prosecutor v. Akayesu Case* that "The offender is culpable because he knew or should have known that the act committed would destroy, in whole or in part, a group [11, para. 520], ICTY stated in *Blagojevic and Jokic Case* that "[i]t is not sufficient that the perpetrator simply knew that the underlying crime would inevitably or likely result in the destruction of the group. The destruction, in whole or in part, must be the aim of the underlying crime(s)" [13, para. 656]. ICC indicated in the "Elements of Crimes" that "[n]otwithstanding the normal requirement for a mental element provided for in article 30, and

recognizing that knowledge of the circumstances will usually be addressed in proving genocidal intent, the appropriate requirement, if any, for a mental element regarding this circumstance will need to be decided by the Court on a case-by-case basis” [3].

Circumstances which may evidence the intent to commit genocide are different, and intent may be inferred from the following factors: “the scale of atrocities committed”; the “general nature” of the atrocities committed; the fact of deliberately or systematically targeting victims on account of their membership of a particular group, “the general political doctrine which gave rise to the acts; “the repetition of destructive and discriminatory acts” and others [11, para. 523-524]. In *Kayishema and Ruzindana Case*, ICTR Trial Chamber stated that as intent might be difficult to determine “the perpetrator’s actions, including circumstantial evidence, however may provide sufficient evidence of intent”, and that “intent can be inferred either from words or deeds and may be demonstrated by a pattern of purposeful action” [15, para. 93, 527].

ICC also explained in the “Elements of Crimes” that “[e]xistence of intent and knowledge can be inferred from relevant facts and circumstances” [3]. It means that the intent should not necessarily be fixed in documents or formulated in public oral speeches, but may also be certified by facts and circumstances of a crime. Moreover, as ICJ ruled in *Bosnia-Hertzegovina v. Yugoslavia case*, it is “sufficient that the State was aware, or should normally have been aware, of the serious danger that acts of genocide would be committed” [12].

Each genocidal act, enumerated in the Genocide Convention, includes an element of the intent to destroy, in whole or in part, a national, ethnical, racial or religious group, as such, namely, genocidal acts of killing members of the group; causing serious bodily or mental harm to members of the group; deliberately inflicting on the group conditions of life calculated to bring about its physical destruction in whole or in part; imposing measures intended to prevent births within the group; forcibly transferring children of the group to another group.

As stated by Lauri Mälksoo, a crime of genocide may have two levels of intent. First of all, it is “an individual crime in which case the question is whether this particular person acted with the intent to destroy the particular group. However, genocide may also have a “state level” – it might be planned and organized by a few individuals who are acting as highest state organs. Their – “state’s” – intent does not necessarily imply the genocidal intent of the lower state officials [Mälksoo, 2001: 780]. L. Mälksoo makes a reference to James E. Mace who suggested in the context of Stalinist repressions that “[i]n such circumstances, subordinates might well be unaware as to the rationale for a given action or the official reason might not be the real one. We have little choice, in such a situation, but to attempt to extrapolate intent from circumstantial evidence” [Mace, 1988: 118]. L. Mälksoo gives examples of court cases in Latvia and Lithuania in which the general “circumstantial evidence” in the context of the Soviet repressions in the Baltic states indicated the crime of genocide.

The concept of “collective intent” is not clearly determined in international law. As stated by Larry May, “[s]ometimes the term is used to mean that a number of people are working loosely toward the same end, perhaps unbeknownst to one another. To say that there is a collective intent in this sense is just to say that a number of individuals all have roughly the same intent to accomplish the same end. Sometimes the term is used to mean that there is concerted action in that the individual acts of many people are coordinated so as to achieve a single end [May, 2010: 115-116]. L. May considers this second view to be kind of collective intent that the crime of genocide depends on – “[it] is not mere aggregation of intents, but some type of nonaggregated collective intent that is contemplated in the international crime of genocide” [May, 2010: 116].

Following L. May’s view, if to see genocide on the model of the Holocaust, the collective intent element seems to be easily met by showing that Hitler and his henchmen planned the extermination of the Jews in great detail and then initiated their plan. “The plan plus the initiation is a form of collective intent in that the plan organizes the acts of many people and directs those acts toward the destruction of a group” [May, 2010: 116].

However, the ICTR found in *Kayishema and Ruzindana Case*, that “although a specific plan to destroy does not constitute an element of genocide, it would appear that it is not easy to carry out

a genocide without such a plan, or organization” [15, para. 94]. ICTY also ruled in a number of cases that “the existence of a plan or policy is not a legal ingredient of the crime” of genocide [14, para. 48; 16, para. 225; 13, para. 656].

It is worth mentioning that the Ruling of the Kyiv Court of Appeal on 13 January 2010 confirmed the conclusion of the pre-trial investigatory body – Chief Investigation Department of the Security Service of Ukraine upon the fact of the crime of genocide committed in Ukraine in 1932-1933 pursuant to section 1, art. 442 of the Criminal Code of Ukraine. The Court ascertained that the Communist Party of the USSR and the Communist Party of Ukraine (Stalin, Molotov, Kaganovich, Postyshev, Kossior, Chubar, and Khatayevich) with the purpose of suppressing the national liberation movement in Ukraine and preventing the restoration and consolidation of an independent Ukrainian State, masterminded the genocide of a part of Ukrainian national group by creating conditions of life calculated to bring about its destruction through the Holodomor of 1932-1933 [18, pp. 294, 356].

It was a collective special intent to destroy a Ukrainian national group in part. This plan has not appeared in 1931 or 1932 – the national liberation movement in the Ukrainian SSR has started immediately after joining Ukraine to the USSR. That is why the time frames of the Soviet genocide in Ukraine should be expanded to the period from beginning of 1920s with the culmination in 1932-1933, following the scheme of the Soviet genocide in Ukraine proposed by Rafael Lemkin, the author of the term “genocide” [Lemkin, 2009: 32-35], .

What concerns individual intent in genocide, L. May considers that a subjective side of genocide (*mens rea*) involves two distinct types of individual intent: the intent to kill or assault another person and additional special intent to destroy a group by his or her actions. “The question is not whether the individual has a genocidal intent, but whether there is a collective plan that the individual intends to participate in and knows the aims of, including the destruction of a group” [May, 2010: 121-122]. .

It is obvious that a person who plans, initiates or incites to commit genocide more clearly instantiates the collective intent than a person who is just participating in committing a crime. That is why, as L. May explains, the planners and inciters “should be more clearly responsible for the collective crime than are those who participate, although those who participate can also instantiate the collective intent as well” [May, 2010: 122-123]. Put it differently, “the planner plays a more significant role in the sharing of this intent than does the one who merely knows that he or she intends to contribute and knows of what is planned” [May, 2010: 123]. That means that share of participants is present in the intent, however lesser than share of organizers and inciters.

The connection between individual and collective intent is not always easy to establish. Answering the question if an individual intent can be the same as a collective intent, L. May analyzes putative and likely intentions of Hitler. “As he set out the plan of the Holocaust there seems to have been both a collective intent through establishing a master plan to destroy the Jewish people and also a personal intent to aim at the same end” [May, 2010: 124]. It is difficult to state whether one of the organizers of the Soviet Holodomor-genocide in Ukraine – Stalin was as personally committed to a plan to partially destroy the Ukrainian people during the Holodomor as Hitler was during the Holocaust. Stalin hardly had any personal motives, but a collective intent through planning and organizing the Holodomor is obvious.

Cases when an individual does not have the intention to destroy the group but knows that his acts will contribute to this end and knows that others are pursuing this aim are very difficult ones. As L. May considers, for being responsible for genocide it is sufficient that an individual aimed at participating in realization of such plan or campaign and at least understood what the aims of the plan or campaign are, but not necessarily pursue this aim by himself [May, 2010: 124]. As Trial Chamber of the ICTR stated in *Kayishema and Ruzindana Case* “it is unnecessary for an individual to have knowledge of all details of genocidal plan or policy” [15, para. 94].

What concerns the intent of the All-Union Communist Party of Bolsheviks (AUCPB) to selectively exterminate Ukrainians, according to Rafael Lemkin’s view, it appeared from the beginning of 1920s, when in 1920, 1926 and again in 1930-33, teachers, writers, artists, thinkers,

political leaders – the national brains – were liquidated, imprisoned, or deported. Later an offensive against the national churches – the ‘soul’ of Ukraine – was committed, when between 1926 and 1932, the Ukrainian Orthodox Autocephalous Church, its Metropolitan (Lypkivsky), and 10,000 clergy were liquidated. In 1945, when the Soviets established themselves in Western Ukraine, a similar fate was meted out to the Ukrainian Catholic Church. The next step was the starvation to death of a significant part of the Ukrainian peasantry – the repository of the national spirit of Ukraine; followed by the fragmentation of the Ukrainian people at once by the addition to Ukraine of foreign peoples and by the dispersion of the Ukrainians throughout Eastern Europe. In this way, ethnic unity was destroyed [Lemkin, 2009: 32-35].

All the stages of the Soviet Holodomor-genocide enumerated by Lemkin constituted actions committed in the context of a manifest pattern of similar actions directed against the Ukrainian national group or were actions which could themselves bring about such destruction. The term “the Holodomor” might thus be used in a broad sense to the whole Soviet genocide of the Ukrainians, and in a narrow sense to one of the stages of this genocide – famine of 1932-1933. That genocidal act – 1932-1933 man-made famine – was the culmination of the Soviet genocide against the Ukrainian national group, and on the other hand, that act itself constituted a crime of genocide.

There were all the enumerated genocidal acts in the Holodomor as (a) people who resisted were killed; (b) there was huge bodily and mental harm caused to all victims of the Holodomor (those who died and those who survived), (c) there were artificially created conditions of life calculated to destroy the Ukrainians, (d) all those measures prevented births within the Ukrainian national group and (e) famine caused transfer of children from their parents. It is worth mentioning that the list of genocidal acts in Article II of the Genocide Convention is exhaustive: (a) through (c) list the acts of physical genocide; (d) contains a concept of biological genocide; (e) includes an act of cultural genocide. Thus in the Holodomor there were acts of physical, biological and cultural genocide.

The intent of Stalin and his henchmen to exterminate Ukrainians in part was implicit. Indeed we cannot find a single Soviet document, where it were stated that there should be killing of Ukrainians, creation of appalling conditions of life for them, starvation to death, prevention of birth or transferring of children from the Ukrainian national group to another with the aim of destroying the group. However, this intent to commit genocide and knowledge can be inferred from relevant facts and circumstances [3]. As it was stated above, genocidal intent does not necessarily have to be fixed in documents or expressed in public speeches. Moreover, as ruled by the ICJ in *Bosnia-Herzegovina v. Yugoslavia* case, it is “sufficient that the State was aware, or should normally have been aware, of the serious danger that acts of genocide would be committed” [12]. The Soviet government was aware that millions of people including women and children were starving to death as there were plenty of documents from regional authorities and foreign diplomats informing about famine. In particular, the report of a secret officer of Odesa regional department of the GPU (State Political Department) from 9 June 1932 informed that there was famine among peasants who had no bread at all [21, p. 280]. Such evidences of the state’s awareness of murderous famine are more than enough.

Stalin and his henchmen knew what the consequences of the famine would be for the Ukrainians and they foresaw and planned these consequences. Even those scholars who deny that the famine in Ukraine was genocide stress, “Ukrainian nationalism was attacked because it was perceived as a threat to Stalin’s procurement policies” [Green, 2009: 194], which in legal terms means culpability, the intent to destroy people on the basis of their nationality.

The intent of the AUCPB to exterminate the Ukrainians in part may be inferred from its resolutions and directives, as well as from its actions and their consequences. On 22 January 1933, Stalin sent a secret directive ordering Ukraine, Belarus, and the neighboring regions of the RSFSR to prevent the exodus of peasants from the Kuban and Ukraine to the nearby regions of Russia and Belarus. The directive insisted that the exodus was organized by Polish agents and enemies of the Soviet regime in order to agitate against collective farms and the Soviet system. Local authorities and the OGPU were ordered to prevent mass departures and to immediately arrest the “peasants” of

Ukraine and North Caucasus who made their way north [Serbyn: 2010: 224; Green, 2009: 193]. Roman Serbyn considers this directive to be “perhaps the best available evidence of the dictator’s genocidal intent against the Ukrainian people” [Serbyn: 2010: 224].

Conclusions. Thus the intent to commit genocide as a key element of this crime was present in the Holodomor-genocide against Ukrainians. “The Ukrainian peasantry was also ‘doubly suspect’ to the center: as peasants, who were considered inherently counterrevolutionary and hopelessly backward by the Bolsheviks, and as Ukrainians, whose nationalism and attachment to their distinctiveness grated on Stalin and the Kremlin leadership. That the proponents of Ukrainian nationalism among the intelligentsia focused in their writing and speeches on the inherent characteristics of Ukrainian national culture that were preserved by the masses of Ukrainian peasants only increased Stalin’s suspicions of rural Ukrain” [Naimark, 2010: 71-72]. Those suspicions which most likely were at the basis of criminal intents of Soviet leadership resulted in martyr death of more than 7 million Ukrainians majority of whom were children and women. That was a collective intent of the USSR Communist Party of Bolsheviks to destroy Ukrainians as the main enemy to communist system.

To conclude with, as in any genocide, in the Holodomor a perpetrator – AUCPB – had intent to commit a genocidal act of destroying a national and ethnic group, to cause ruining consequences and was aware that the consequences would occur. The offenders who organized the Holodomor were ascertained to be culpable in genocide by the Kyiv Court of Appeals because they knew that the acts committed would destroy a Ukrainian national and ethnic group, and the destruction, in whole or in part, was their aim. Circumstances which evidence the intent of the AUCPB to commit genocide of Ukrainians are different: they may be inferred from numerous resolutions and directives, as well as may be certified by facts and circumstances of that crime. Individual intent of those persons who just participated in committing the Holodomor depends upon their aim at participating in realization of a genocidal plan or campaign and upon their understanding what the aims were, but not necessarily pursuing these aims by themselves. Such cases should be investigated on a case-by-case basis.

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**ОСОБЛИВОСТІ РОЗВИТКУ
СВІТОВОГО ГОСПОДАРСТВА ТА МЕН**

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**POTENTIAL AND ROLE OF UNDERSERVED FOREIGN MARKETS FOR
THE DEVELOPMENT OF UKRAINE'S TRADE WITH THE EU**

**ПОТЕНЦІАЛ ТА РОЛЬ НЕДОТОРГОВАНИХ ЗОВНІШНІХ РИНКІВ ДЛЯ
РОЗВИТКУ ТОРГІВЛІ УКРАЇНИ З ЄС**

**ПОТЕНЦИАЛ И РОЛЬ НЕДОТОРГОВАННЫХ ВНЕШНИХ РЫНКОВ
ДЛЯ РАЗВИТИЯ ТОРГОВЛИ УКРАИНЫ С ЕС**

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Abstract. *The article identifies the volume of underserved markets for the development of Ukraine's foreign trade with the EU. The Ukraine's export potential on the EU underserved market is analyzed. It is established that the intensification of trade relations between the Ukraine and EU is a mutually beneficial process, and export potential of Ukraine in the EU market for goods whose exports to the Russian Federation have decreased is of particular importance. The main foreign markets of Ukraine for the export of agricultural and industrial goods from Ukraine have been identified. The main commodity groups of underserved markets to the EU have been identified, the exports of which to the Russian Federation have decreased the most. According to the results of the study, it has been concluded that the underserved markets of the European Union play an important role in the development of Ukraine's trade: first, they allow reorientation of exports of Ukrainian goods, the import of which is prohibited into the customs territory of the Russian Federation, to EU*

markets; secondly, they help to identify directions for the modernization of Ukrainian production in accordance with the unmet needs of the European goods market. It is concluded that the process of deepening mutual trade in underserved markets in a free trade area is mutually beneficial for Ukraine and the European Union, as trading partners can benefit from increased trade flows, and establishing international partnership between the parties can bring additional benefits in the long run.

Keywords. Deep and comprehensive free trade area, foreign trade effects, underserved markets, international trade, trading partners.

Анотація. У статті визначено обсяг недоторгованих ринків для розвитку зовнішньої торгівлі України з ЄС. Проаналізовано недоторговану частину експортного потенціалу України на ринку ЄС. Встановлено, що активізація торгівельних відносин між Україною та ЄС являється взаємовигідним процесом, а особливого значення набуває експортний потенціал України на ринку ЄС за товарами, експорт яких в Російську Федерацію зменшився. Визначено основні зовнішні ринки України щодо експорту сільськогосподарських та промислових товарів з України. Встановлено основні товарні групи недоторгованих ринків в напрямку ЄС, експорт яких до Російської Федерації скоротився найбільше. За результатами проведеного дослідження підсумовано, що недоторговані ринки Європейського Союзу відіграють важливу роль в розвитку торгівлі України: по-перше, дають можливість переорієнтації експорту українських товарів, ввезення яких заборонене на митну територію Російської Федерації, на ринки країн ЄС; по-друге, допомагають виявити напрямки модернізації українського виробництва відповідно до нереалізованих потреб європейського ринку товарів. Зроблено висновок, що процес поглиблення взаємної торгівлі на недоторгованих ринках в умовах зони вільної торгівлі є взаємовигідним для України та Європейського Союзу, адже торговельні партнери зможуть виграти в результаті збільшення торгівельних потоків, а встановлення міжнародної партнерської кооперації між сторонами може принести додаткові вигоди в довгостроковій перспективі.

Ключові слова. Поглиблена та всеохоплююча зона вільної торгівлі, зовнішньоторговельні ефекти, недоторговані ринки, міжнародна торгівля, торговельні партнери.

Аннотация. В статье определен объем недоторгованных рынков для развития внешней торговли Украины с ЕС. Проанализирована недоторгованная часть экспортного потенциала Украины на рынке ЕС. Установлено, что активизация торговых отношений между Украиной и ЕС является взаимовыгодным процессом, а особое значение приобретает экспортный потенциал Украины на рынке ЕС по товарам, экспорт которых в Российскую Федерацию уменьшился. Определены основные внешние рынки Украины относительно экспорта сельскохозяйственных и промышленных товаров из Украины. Установлены основные товарные группы недоторгованных рынков в направлении ЕС, экспорт которых в Российскую Федерацию сократился всего. По результатам проведенного исследования сделано вывод, что недоторгованные рынки Европейского Союза играют важную роль в развитии торговли Украины: во-первых, дают возможность переориентации экспорта украинских товаров, ввоз которых запрещен на таможенную территорию Российской Федерации, на рынки стран ЕС; во-вторых, помогают выявить направления модернизации украинского производства в соответствии с нереализованными потребностями европейского рынка товаров. Сделан вывод, что процесс углубления взаимной торговли на недоторгованных рынках в условиях зоны свободной торговли является взаимовыгодным для Украины и Европейского Союза, ведь торговые партнеры смогут выиграть в результате увеличения торговых потоков, а установление международной партнерской кооперации между сторонами может принести дополнительные выгоды в долгосрочной перспективе.

Ключевые слова. Углубленная и всеобъемлющая зона свободной торговли, внешнеторговые эффекты, недоторгованные рынки, международная торговля, торговые партнеры.

Introduction. The creation of a free trade zone with EU partners gives Ukraine the opportunity to diversify the geography and range of export potential in the long run and attract significant investment in various sectors of the economy. Effective integration processes between Ukraine and EU countries are formed on the basis of complementarity that exists in trade relations. However, in the mutual trade relations of Ukraine and the EU underserved markets have been formed which requires a thorough analysis of goods with high export potential.

The purpose of research. The purpose of this article is to investigate the export potential of Ukraine and underserved markets in EU countries.

Analysis of the latest publications. In recent years, Ukrainian scientists have been actively studying the export potential and trading opportunities in the European market of Ukraine. In particular, Y. Poliakova studies the innovative components of Ukraine's export activity, the priorities of export potential in the direction of, in particular, EU countries [Poliakova, 2020]. O. Lytvyn studies the export potential and opportunities of Ukrainian small and medium enterprises in the European market and third countries after creation of a deep and comprehensive free trade area between Ukraine and the EU [Lytvyn, 2016]. M. Serpukhov explores the question of finding new, more attractive markets for Ukraine with easier access and better trade conditions [Serpukhov, 2019].

The important research results. Despite the fact that Ukraine has returned its vector in the trade aspect from Russian to European over the last decade, its export flows to some EU countries are currently quite low, due to a number of reasons:

- the presence of a significant gap between the economic development of Ukraine and the EU [Honcharuk, 2018];
- non-optimized procedure for crossing the EU customs borders, which requires harmonization of customs legislation of Ukraine [Sardak, 2019];
- production processes in Ukraine are mainly focused on the needs of the domestic market and those external partners with whom trade relations have been established for a long time [Pozhyeva, 2017];
- the potential of underserved foreign markets remains out of the attention of domestic enterprises, that are markets that have a potential consumption of goods that meet the specialization of the exporting country and provide easier trade conditions than others, which makes foreign trade attractive in terms of product range and geographical diversification [Ministry for development of economy, trade and agriculture of Ukraine, 2018].

Regarding the above, EU markets remain outside of the most promising at agriculture. According to the WTO, the most promising agricultural trading partners of Ukraine are Georgia, Malawi and Moldova. This statement is based on the ranking of Ukraine's trading partners by the volume of agricultural exports to countries. The rank of these countries and indicators that affect the export regime of agricultural goods of Ukrainian origin are given in Table 1.

The products with the greatest export potential from Ukraine to Georgia and Malawi are wheat (except for durum wheat), sunflower and safflower oils. Ukraine has high potential to supply sunflower and safflower oil to Moldova and meets demand for the following goods: bird skin and other parts of birds, sugar from sugar cane or sugar beet, as well as solid sugar.

Promising export markets of Ukraine for agricultural products

	Georgia	Malave	Moldova
Rank of partner by export volume	3	5	5
Weighted average rate of preferential duty, %	0	1	0
Weighted average rate of duty, %	7.7	1	11
Simple average rate of duty, %	12.7	2.8	11.7
Weighted average preferential margin, %	7.7	0	11
Volume of exports to a partner from Ukraine, million \$	82	43	25
Share of duty-free export to partner, %	100	0	100
Share of duty-free tariff items exported, %	100	22.2	100
Number of exported groups of goods	3	1	12
Number of exported subgroups of goods	8	2	28

Source: [The World Trade Organization. Data. URL: <https://data.wto.org/>].

Ukrainian exports of agricultural products are characterized by dependence on some major commodity items, which creates the danger of significant fluctuations in the volume and magnitude of export supplies. In 2019, more than half of the revenues from the export of agricultural products were covered by only three groups of goods, such as corn (24%), sunflower oil (19%) and wheat (17%) [State fiscal service of Ukraine, 2020].

Ukraine's significant potential to increase the domestic market, stable and relatively high rates of economic development in recent years and expanding access to European agricultural markets for Ukrainian producers are important in the development of trade. However, in a free trade environment, there is a potential medium- and long-term risk for some of Ukraine's agricultural food producers (of meat and dairy products) who are not sufficiently competitive in EU markets.

For the Ukrainian agricultural sector, European economic integration will lead to the modernization of domestic enterprises, attracting foreign investment and advanced technologies, competitive recovery of Ukrainian products, new financial resources for economic development and improving the living standards of its citizens. However, creation of free trade zone may not guarantee the start of positive changes in economy of Ukraine. Ukraine's integration into the EU will be long-lasting due to the problems and tasks that need to be fulfilled before the full development of the Ukrainian agricultural sector. The raw material orientation of Ukrainian exports reveals the low-paid compensation for agricultural producers, as well as the technological underdevelopment of agriculture [Yatsenko, 2017].

The main foreign markets of Ukraine for the export of non-agricultural goods, according to WTO studies, are Azerbaijan, Belarus, Guinea, Guyana and Moldova. The prospects of these trading partners caused by demand for Ukrainian goods and the creation of trade regime between the partners (Table 2).

Table 2

Promising export markets of Ukraine for non-agricultural products

	Azerbaijan	Belarus	Guinea	Guyana	Moldova
Rank of partner by export volume	5	3	5	5	3
The weighted average rate of preferential duty, %	0	0	0	0	0
Weighted average rate of RNS duty, %	0.1	2	0	0	2
Simple average rate of RNS duty, %	3.1	4.2	0	0	4.6
Weighted average preferential margin, %	0.1	2	0	0	2
Volume of exports to a partner from Ukraine, million \$	445	3.8	118	76	92
Share of duty-free export to partner, %	100	100	100	100	100
Share of duty-free tariff items exported, %	100	100	100	100	100
Number of exported groups of goods	2	37	1	1	24
Number of exported subgroups of goods	3	141	1	1	61

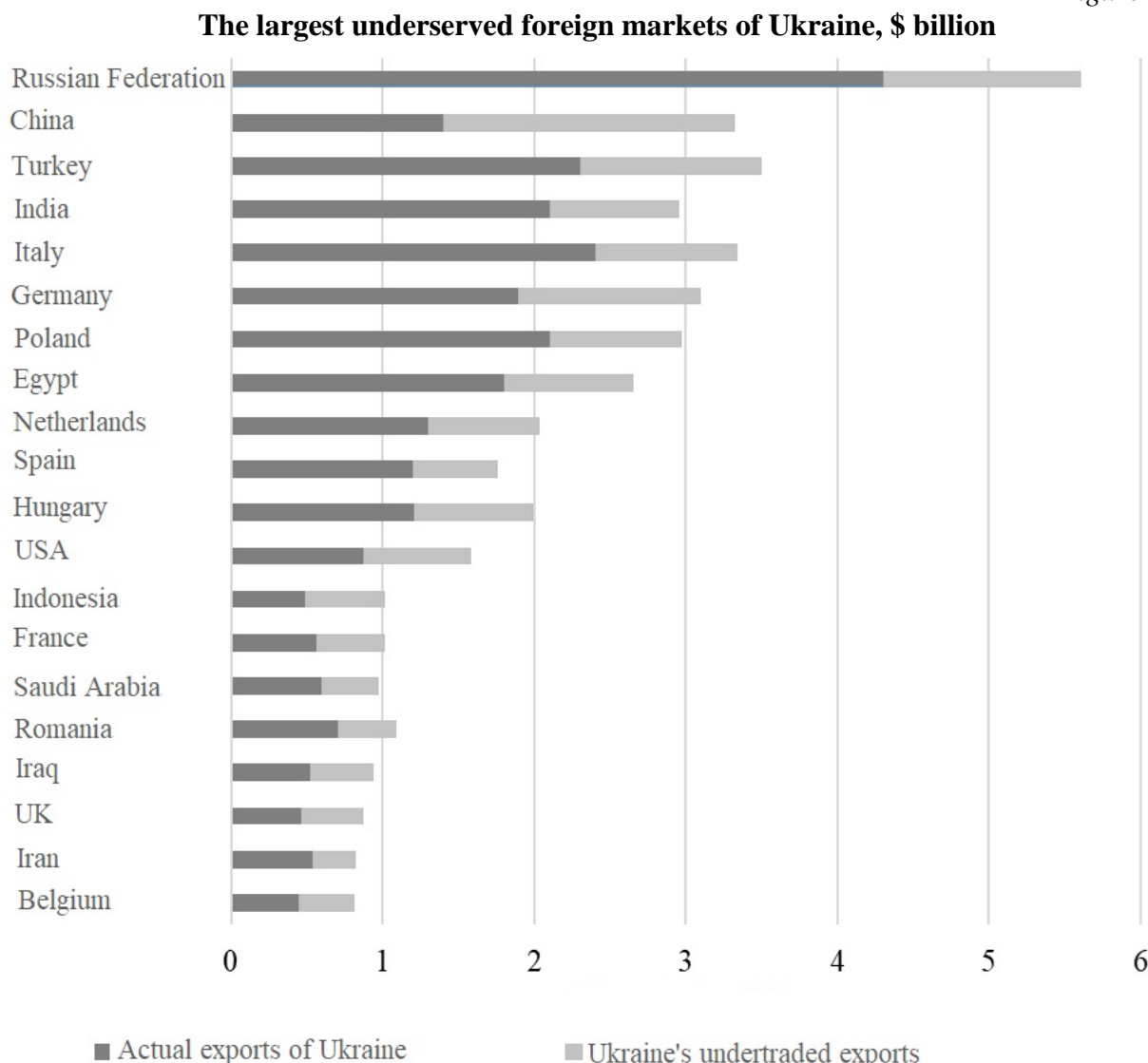
Source: [The World Trade Organization. Data. URL: <https://data.wto.org/>].

Ukraine's export potential on the Azerbaijan market is \$241.8 million, of which the underserved share is 50.4%, Belarus - \$609.4 million (underserved share - 19.7%), Guinea - \$34.9 million (underserved share - 72.5%), Guyana - \$2.2 million (underserved share - 95.5%), and Moldova - \$369.3 million (underserved share - 27.2%).

It is worth noting that the customs duties of countries on industrial products under the most-favored-nation treatment are lower than on agricultural products (except for Malawi). In addition, these markets have a wider diversification of goods, in contrast to agriculture market.

Globally, Ukraine's main underserved markets are Russian Federation, China, Turkey and India (Figure 1).

Figure 1.



Source: [International Trade Centre. Export potential map: spot export opportunities for trade development. URL: <https://exportpotential.intracen.org/en/markets/gap-chart?fromMarker=i&exporter=804&toMarker=j&whatMarker=a&what=a>]

Export potential of Russian market for Ukraine is \$4.1 billion. However, Russian Federation is less accessible because of the development of a political and trade disputes between the partners since 2013. Only in 2019 exports of goods to Russian Federation decreased by 11%. Such a tense trade and economic situation has led to a change in the entire structure of exports to the Russian Federation, including agricultural products. A few years ago the main share of exports to Russian Federation were dairy products, cheeses, fats, oils, confectionery and beverages. Today Ukraine exports mostly meat products, alcoholic beverages, products including cocoa. Some Ukrainian manufacturers, whose activities were focused on the Russian market, suffer certain losses. Companies that export vegetables, meat and fish suffer the most from recent trade restrictions. Bilateral restrictive actions have led to a reduction in export-import flows between countries.

During 2013-2018, there was an annual decrease of Ukrainian exports to Russian Federation in relation to different groups of goods:

- on average by 7.13%: railway locomotives (group 86);
- on average by 1-5%: cocoa and its products (group 18), other base metals; cermets, articles thereof (group 81), salt; sulphur; earths and stone; plastering materials, lime and cement (group 25), preparations of cereals, flour, starch or milk; pastrycooks' products (group 19), ferrous metals (group 72).

The annual decrease in the share of Russian exports in the total volume of imports of Ukraine during 2013-2018 was typical for the following groups of goods, namely:

- on average by 51.81%: products of inorganic chemistry (group 28);
- on average by 5-6%: other base metals; cermets, articles thereof (group 81), mineral fuels; petroleum and its products (group 27), fertilizers (group 31), copper and articles thereof (group 74);
- on average by 1-5%: gunpowder and explosives (group 36), various finished products (group 96), organic chemical compounds (group 29), finished grain products (group 19).

Therefore, there is a need to reorient to other markets to ensure a stable export flow of Ukraine. In this aspect, the underserved EU markets play a key role.

Then, China shows the largest absolute difference between potential and actual exports in value terms, leaving room to realize additional exports worth \$2.2 billion. Export potential of China market for Ukraine is \$3.4 billion.

Exports of goods to China are growing rapidly - among the counterparties of Ukraine, China is the biggest country-importer. Exports to China increased by 63% in 2019 compared to 2018. In 2019, the structure of Ukrainian exports to China was as follows: ore, slag and ash - 32.8%; cereals - 23.9%; fats and oils - 20.6%; residues and waste from the food industry - 7.6%; boilers, machines - 4.9% [Embassy of Ukraine in the People's Republic of China, 2020].

Export potential of India for Ukraine is amounted to \$2.5 billion. Thus, the untapped potential remaining in individual products is \$861.2 million. At the same time, Ukraine is losing the initiative in export relations with India. In 2019 India became one of the negative leaders in the fall of exports from Ukraine.

As for Turkey, its export potential for Ukraine is amounted to \$2.3 billion. The untapped potential remaining in individual products is \$999.2 million [International Trade Centre, 2020].

Regarding the EU market, the growth of exports to the EU slowed to 3.9% in 2019 from 14.3% in 2018. In 2019, Ukraine had a negative balance of trade in goods with the EU that is amounted to \$4.3 billion. However, despite large volumes of trade with Russian Federation, China, India and Turkey, the EU remains one of the most promising markets for Ukraine: trade with the EU in 2019 amounted to 41.5% of total trade. The share of imports from the EU is 41.13%, exports - 41.46%. As of 2019, the EU is Ukraine's main trading partner. During 2013-2019, there was a reorientation of exports of goods by Ukraine to the European direction. At the same time, the volume of exports to Asian countries and the CIS countries has a general tendency to decrease during 2013-2019.

Geographical representation of largest underserved European markets of Ukraine is presented below (Figure 2).

Figure 2.

Geographical representation of largest underserved European markets of Ukraine, \$ million



Source: [International Trade Centre. Export potential map: spot export opportunities for trade development. URL: <https://exportpotential.intracen.org/en/markets/gap-chart?fromMarker=i&exporter=804&toMarker=j&whatMarker=a&what=a>]

Based on the data on the assessment of the export potential of the world in various markets, it is possible to identify those European areas of export that will minimize the negative effects of the Russian trade war against Ukraine.

The volume of Ukraine's underserved market in the EU is \$8.3 billion, of which: \$61.6 million - group 4 "Milk and dairy products, poultry eggs; natural honey", \$28.6 million - group 11 "Products of the flour and cereals industry", \$7.6 million - group 16 "Meat and Fish Products", \$50.4 million - group 17 "Sugar and sugar confectionery", \$68.4 million - group 18 "Cocoa and Cocoa Products", \$83.8 million - group 19 "Finished grain products", \$11.8 million - group 20 "Vegetable Processing Products", \$48.2 million - group 22 "Alcoholic and non-alcoholic beverages and vinegar", \$1.6 million - group 25 "Salt; sulfur; earth and stones", \$61.9 million - group 27

"Mineral fuels; oil and products of its distillation", \$137.8 million - group 48 "Paper and Cardboard", \$35.2 million - group 69 "Ceramics", \$1780.2 million - group 72 "Ferrous Metals", \$217 million - group 73 "Ferrous metal products", \$4.2 million - group 81 "Other base metals" and \$18.2 million - group 89 "Ships". The list covers these groups of goods, as their share in total imports of the Russian Federation decreased the most.

Equally important for the development of trade with the EU is the potential of the underserved Ukrainian market: the EU's export potential for the Ukrainian underserved market is \$12,638 million. Therefore, exporters of EU member states are also interested in the development of trade with Ukraine, as it is a promising market for the sale of European products.

Analyzing the possibility of access to underserved European markets, it should be noted that the conditions are quite unfair and discriminatory against Ukraine. The European Union has its own combined import duty rates. In addition to the specific structure of combined duty rates of EU, EU also applies a system of entry prices. The European Union also applies export subsidies for agricultural products unlike Ukraine. However, it should be noted that agriculture plays one of the key positions for the Ukrainian economy in contrast to European countries. More than thirty groups of products are covered by tariff quotas by EU, including: animal products (milk, honey, cheese, etc.), vegetable products (vegetables, fruits, grains), some ready-made food products (sugar, juice, etc.), alcohol, tobacco products etc. This list of products is quite vulnerable for Europe and are under strict control in EU.

In addition to customs duties, the main barriers for trade of Ukrainian on EU markets are non-tariff barriers, such as: compliance with EU standards, differences in customs systems and various procedures for determining the conformity of industrial products. An additional barrier for Ukrainian goods is the preferential rules of origin applied by the European Union.

Thus, the existence of underserved EU markets for Ukraine can be explained by the negative impact of various non-tariff barriers (both at European and national levels) or other factors such as low competitiveness (in terms of price or quality) of Ukrainian goods compared to similar goods supplied by other countries, taste preferences of EU consumers, etc.

Conclusions.

As a result of the analysis of the underserved part of Ukraine's export potential on the EU market (\$8.3 billion), as well as underserved part of the EU export potential on the Ukrainian market (\$12.6 billion), it was established that the intensification of trade relations between the states is a mutually beneficial process. Of particular importance is the export potential of Ukraine on the EU market of goods whose exports to Russian Federation decreased during last years.

The trade war between the Russian Federation and Ukraine led to a reorientation to European markets in the context of the creation of a free trade zone with the EU. Also, in contrast to deteriorating relations with Russian Federation, we can see an improvement in relations with the EU, as evidenced by the introduction of a number of EU economic sanctions against Russian Federation in response to actions against Ukraine. In general, there is a gradual convergence of relations with the EU: today the EU is Ukraine's main trading partner.

Thus, according to the results of the study, we can conclude that the role of the underserved market of the European Union plays two main roles in the development of Ukraine's trade: first, the possibility of reorientation of exports of Ukrainian goods banned in Russian Federation; secondly, identifying areas for modernization of Ukrainian production in accordance with the needs of the European market.

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HOME BIAS AS A KEY BEHAVIORAL DEVIATION OF PORTFOLIO INVESTORS DECISIONS

СХИЛЬНІСТЬ ДО ІНВЕСТИВАННЯ НА ЛОКАЛЬНИХ РИНКАХ ЯК КЛЮЧОВЕ ПОВЕДІНКОВЕ ВІДХИЛЕННЯ РІШЕНЬ ПОРТФЕЛЬНИХ ІНВЕСТОРІВ

СКЛОННОСТЬ К ИНВЕСТИРОВАНИЮ НА ЛОКАЛЬНЫХ РЫНКАХ КАК КЛЮЧЕВОЕ ПОВЕДЕНЧЕСКОЕ ОТКЛОНЕНИЕ РЕШЕНИЙ ПОРТФЕЛЬНЫХ ИНВЕСТОРОВ

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Abstract. *The comparative analysis of the main approaches to the reasons for the home bias is explored. The main factors of home bias are identified. The reasons for the existence of home bias are determined on the basis of systematization of the existing discourse. The main stages of the evolution of approaches to determining the reasons for home bias are identified. It was found that the most promising approach is the behaviourist approach, as well as the institutional approach and the transaction costs approach. The historical and current dynamics of the home bias in the investment portfolios of different countries is studied. A comparative analysis of the home bias for different groups of countries according to their level of economic development is carried out. It was found that developed countries have the lowest share of local market assets in the portfolio. The evolution of approaches to the home bias has been studied. The main scientific publications on the issue of home bias in the historical perspective are analysed and systematized. The main quantitative dimensions of the expression of home bias are highlighted. The main forms of quantitative expression of home bias, which received relative expression in the form of indices, are studied. The qualitative and quantitative composition of modern investment portfolios of the countries with the largest shares in the world market capitalization is studied and analysed. It has been found that there are countries with traditionally low and high levels of international diversification, such as China and Luxembourg, respectively.*

Key words: *home bias, behaviorism, investment portfolio, international diversification, institutionalism, transaction costs.*

Анотація. Досліджено та проведено порівняльний аналіз основних підходів до визначення причин схильності до інвестування на місцевих ринках. Ідентифіковано основні фактори схильності до інвестування на місцевих ринках. Визначено передумови існування схильності до інвестування на місцевих ринках на основі систематизації наявного дискурсу. Виявлено основні етапи еволюції підходів до визначення причин існування схильності до інвестування на місцевих ринках. Виявлено, що найбільш перспективним напрямом є бігевіористський підхід, а також інституційний підхід та підхід трансакційних витрат. Досліджено історичну та сучасну динаміку рівня схильності до інвестування на місцевих ринках у інвестиційних портфелях різних країн. Проведено порівняльний аналіз схильності до інвестування на місцевих ринках акцій і облигацій для різних груп країн за їх рівнем економічного розвитку. Виявлено, що розвинуті країни мають найнижчу частку активів місцевого ринку у портфелі. Досліджено еволюцію підходів до визначення схильності до інвестування на місцевих ринках. Проаналізовано та систематизовано основні наукові публікації з проблематики схильності до інвестування на місцевих ринках у історичній перспективі. Виокремлено основні кількісні виміри вираження схильності до інвестування на місцевих ринках. Досліджено основні форми кількісного вираження схильності до інвестування на місцевих ринках, які отримали відносне вираження у формі індексів. Досліджено та проаналізовано якісний та кількісний склад сучасних інвестиційних портфелів країн з найбільшими частками у світовій ринковій капіталізації. Виявлено, що існують країни з традиційно низьким та високим рівнем міжнародної диверсифікації, як, наприклад, Китай та Люксембург, відповідно.

Ключові слова: *схильність до інвестування на локальних (місцевих) ринках, бігевіоризм, інвестиційний портфель, міжнародна диверсифікація, інституціоналізм, трансакційні витрати.*

Аннотация. Исследованы основные подходы к определению причин склонности к инвестированию на местных рынках и проведён их сравнительный анализ. Идентифицированы основные факторы предрасположенности к инвестированию на местных рынках. Определены предпосылки к существованию склонности к инвестированию на местных рынках на основе систематизации имеющегося дискурса. Выявлены основные этапы эволюции подходов к определению причин существования склонности к инвестированию на местных рынках. Выявлено, что наиболее перспективным направлением является бихевиористский подход, а также институциональный подход и подход транзакционных издержек. Исследована историческая и современная динамика уровня склонности к инвестированию на местных рынках в инвестиционных портфелях разных стран. Проведён сравнительный анализ склонности к инвестированию на местных рынках акций и облигаций для различных групп стран по их уровню экономического развития. Выявлено, что развитые страны имеют самую низкую долю активов местного рынка в портфеле. Исследована эволюция подходов к определению склонности к инвестированию на местных рынках. Проанализированы и систематизированы основные научные публикации по проблематике склонности к инвестированию на местных рынках в исторической перспективе. Выделены основные количественные измерения выражение склонности к инвестированию на местных рынках. Исследованы основные формы количественного выражения склонности к инвестированию на местных рынках, которые получили относительное выражение в форме индексов. Исследованы и проанализированы качественный и количественный состав современных инвестиционных портфелей стран с крупнейшими долями в мировой рыночной капитализации. Выявлено, что существуют страны с традиционно низким и высоким уровнем международной диверсификации, как, например, Китай и Люксембург, соответственно.

Ключевые слова: *склонность к инвестированию на локальных (местных) рынках, бихевиоризм, инвестиционный портфель, международная диверсификация, институционализм, транзакционные издержки.*

Introduction. The modern portfolio theory of international investments has a long history of development, during which it has been transformed and improved, expanded and deepened many times. Today the theory is characterized by the complexity of its epistemological structure and multidisciplinary approach to its research. In the theory of investments, the behaviour of an investor in making investment decisions is characterized as rational. However, empirical research and long-term record of portfolio investments do not confirm this assumption. In modern discourse, behavioural theories that oppose the concepts of rationality have received considerable empirical evidence. On the other hand, the behavioural approach to portfolio investments examines the irrational nature of the investment process and the behavioural deviations in portfolio investors' investment decisions.

One of the behavioural deviations in behavioural theory is the home bias. The theory of international portfolio investments clearly defines and substantiates the benefits of international diversification of the investment portfolio. However, investors do not enjoy the benefits of international diversification to the extent that traditional theories suggest. Despite the steady, moderate increase in the level of international diversification, local market financial instruments make up a significant share of modern investment portfolios. Despite the profound research, scientists have not been able to definitively identify and justify the reasons for the home bias.

The purpose of the research is to determine the place of home bias in the modern system of knowledge about international portfolio investments and the prerequisites for the existence of home bias through the systematization of existing scientific discourse. Identify the main stages in the evolution of approaches to determining the reasons for the home bias. To reveal the key features of the home bias. Identify the features of modern dynamics of home bias based on the systematization of modern empirical research. Identify special features of the home bias at the present stage of development. Identify the main ways of the interaction between the home bias with other components of existing knowledge based on the study of its main features and shortcomings.

Recent literature review. The topic of home bias has been in focus of the following researchers and scientists such as B. Solnik [2, 8], H. Levy [6], F. Grauer [7], P. Sercu [9, 32], K. French and J. Poterba [11], N. Coeurdacier [13, 26], L. Tesar [12, 20], T. Dvořák [18], C. Daude and M. Fratzscher [19], M. Fidora [24], I. Cooper and E. Kaplanis [25], F. Bransch [30], R. Vanpee [32], K. Ardalán [33], B. Florentsen [34], D. Schumacher [38], S. McDowell [41] etc.

Research results. The three main characteristics of the investment portfolio are risk, return and investor's risk tolerance. If the investor's risk tolerance is an individual feature, then the risk and return indicators can be selected and adjusted using different methods. One of the most important achievements of the theory of investment management was the theory of international diversification, the main provisions of which were formulated by the French scientist B. Solnik [2]. The theory is that investors benefit from international portfolio diversification because it can significantly reduce risks and increase returns.

However, investors do not always adhere to the theory of international diversification. The actual composition of investment portfolios often contradicts the provisions of investment management and contains a significant share of local market financial instruments. This behaviour deviation is called «home bias». Here are some of the suggested definitions of this term. K. Chan suggests the following definition: «a state in which investors do not use the opportunities of international diversification, because they allocate a relatively large part of their capital to local market instruments» [3]. M. Lin defines this phenomenon as «suboptimal behaviour in making investment decisions, which leads to economic inefficiency in the market» [4]. M. Levis, in turn, gives the following definition: «the tendency for investors to rely on investments in local markets, without making full use of international diversification» [5]. In our opinion, any of the suggested definitions reflects the essence of a particular deviation.

The home bias has attracted the attention of leading scholars and researchers in the field of international finance. In the early 1970s, H. Levy and M. Sarnat first noticed that the share of foreign assets in the portfolio of American investors is lower than predicted in portfolio theory [6]. In 1986, I. Cooper and E. Kaplanis questioned the assumptions of the models on international diversification by F. Grauer [7], B. Solnik [8], P. Sercu [9], pointing out that empirical studies of investment portfolios show their different quality composition [10]. I. Cooper and E. Kaplanis noted that within the existing models of diversification it is impossible to explain the phenomenon of home bias [10]. Researchers have suggested that such investor behaviour is caused, firstly, by differences in expected returns and, secondly, by differences in the regulation of cross-border capital flows [10].

Scientists K. French and J. Poterba noted that most investors in the stock market kept almost all their capital in stocks in local markets [11]. Japanese investors, for example, invested only 1.9 % in foreign equities, American investors invested 6.2 %, and British investors held 18 % of their portfolio in foreign equities. The researchers concluded that the main reason for the low level of international diversification was not institutional constraints on the capital market, but independent decisions of investors [11].

In 1992, other scholars L. Tesar and I. Werner investigated the level of international diversification in the securities markets [12]. They found that the level of international diversification for the portfolio of stocks and bonds for Canada was 3.6 %, Germany – 10.3 %, Japan – 16.8 %, the United Kingdom – 33.3 %, the United States – 4.0 % [12]. Researchers have suggested that in such portfolios, investment decisions are made not only for reasons of diversification [12].

Currently, there is no reasonable quantitative expression of the home bias in financial mathematics. It is important to note that the home bias has been relatively expressed in the form of an index. Here are the following two formulas [13, 14]. Firstly, the Index of Home Bias in Equities.

$$HBE = 1 - \frac{\text{Share of foreign equities in the country's i stock portfolio}}{\text{Share of foreign equities in the global stock portfolio}}, \quad (1.1)$$

Secondly, the Index of Home Bias in Bonds.

$$HBB = 1 - \frac{\text{Share of foreign bonds in the country's i bonds portfolio}}{\text{Share of foreign bonds in the global bonds portfolio}}, \quad (1.2)$$

The index is zero when the share of foreign assets in the country's portfolio is equal to their corresponding share in the world portfolio. This indicator takes a positive value when the portfolio is dominated by the share of local market assets. If the portfolio consists exclusively of local market assets, the figure is 1.

Figure 1 presents a graphical expression of the level of home bias for groups of countries at different levels of economic development. The vertical axis shows the aggregate Index of home bias for stock and bond markets ranging from 0 to 1.

It can be noted from Figure 1 that the lowest level of home bias is observed in developed countries. Until 2009, there was a downward trend, but after the global financial crisis of 2007-2009, the share of local market assets in the portfolio increased again. Only since 2013 has there been an increase in the level of international diversification. Developing countries in the Asian region follow the trends of developed countries but remain at a slightly lower level in terms of international diversification. Developing countries in Central and Eastern Europe, Africa and Latin America are showing a gradual decline in the index, but still have a high share of local assets in the portfolio.

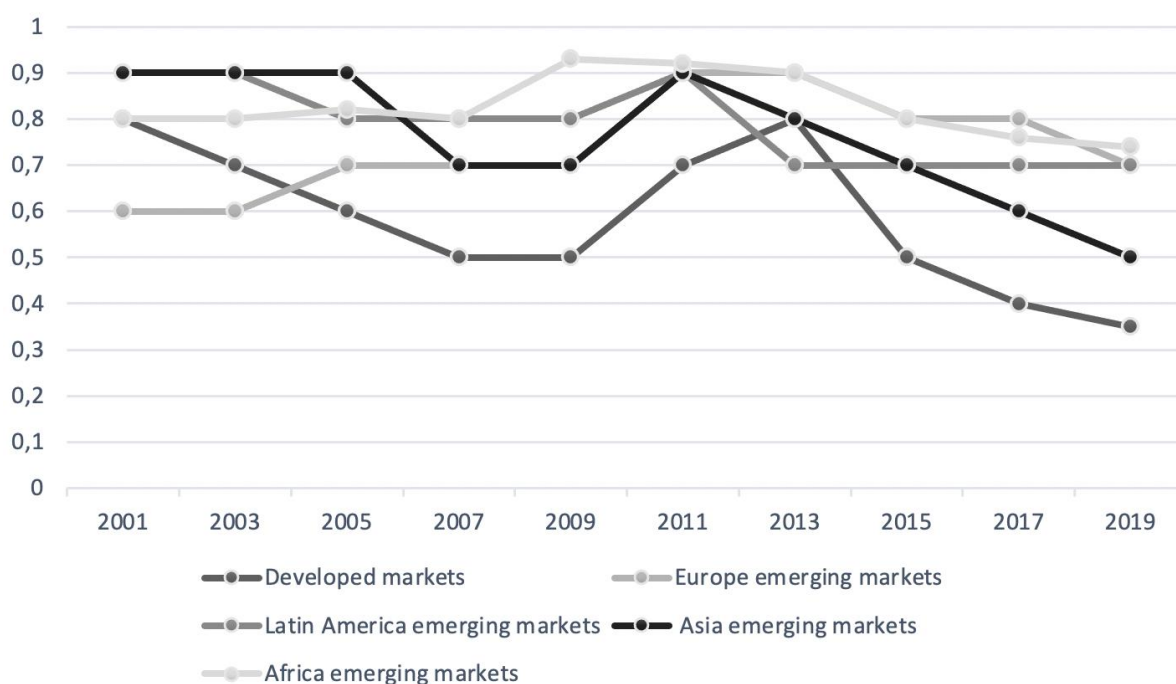


Рис. 1. Home bias for stock and bond markets

Source: authors' calculations based on the [15].

Table 1 provides data on the shares of market's average portfolios in the assets of foreign and local markets. Markets are in descending order from the largest share of local market assets in the portfolio to the smallest. The first two places are occupied by China and Japan, markets with traditionally low levels of international diversification due to a number of institutional and behavioural factors. The United States ranks third, due to the largest number of investment funds in the world, so it makes no sense for investors to invest in foreign funds. Markets that have the status of international financial centres, such as Luxembourg, Switzerland, and Ireland traditionally have a low share of local market assets, as they are the embodiment of the benefits of international portfolio diversification.

Table 1

Shares of portfolios of countries in the assets of foreign and local markets as of 2020

Country	The country's share in world market capitalization, %	Average number of investment funds	Share of portfolio in foreign assets, %	Share of portfolio in local market assets, %
China	4.0	900	2.9	97.1
Japan	7.9	740	3.8	96.2
The USA	48.4	7000	14.3	85.7
France	3.4	1400	37.7	62.3
The United Kingdom	8.1	2300	48.7	51.3
Germany	3.7	4500	65.3	34.7
Canada	2.7	1300	69.8	30.2

The Netherlands	1.4	230	72.6	27.4
Luxembourg	0.3	350	86.9	13.1
Switzerland	2.7	700	89.8	10.2
Ireland	0.29	800	97.5	2.5

Source: authors' calculations based on the [15].

Despite numerous studies, the question of the reasons for the existence of home bias still remains open. Scientists have not been able to reach a consensus on the main factor influencing the decision to place a share of the portfolio in local market instruments. Most researchers of the home bias call the main reason for this deviation transaction and information costs, which are always present in imperfect capital markets and cause a high share of local market assets in the portfolio. Researchers such as A. Ahearne, W. Grier and F. Warnock [16], F. Kai and F. Warnock [17], T. Dvorak [18], C. Daude and M. Fratzscher [19] substantiate the significant role of information costs in forming the home bias.

In contrast to this group of scientists, some researchers disagree with the impact of transaction costs on portfolio composition. In 1995 L. Tesar and I. Werner concluded that significant cross-border capital flows and high rates of return on investment in foreign equity indicate that transaction costs were not the main reason for the high share of local assets in the portfolio [20].

Other researchers consider, in particular, the home bias in terms of behavioural theories. According to the behavioural approach, the reason for this behavioural feature is psychological factors, as investors perceive foreign markets as something unknown, unexplored, uncertain. This perception leads to the fact that the real preconditions for increasing the efficiency of investment portfolios due to their international diversification are ignored, and such investors prefer to invest in local markets. Local markets are psychologically close, safe, understandable, and comfortable for investors. The home bias is more inherent in private rather than institutional investors. The reason for this is the fact that institutional investors have a professional portfolio management staff. They are well acquainted with existing theories and approaches, much less driven by emotions. Private investors are more likely to be influenced by mental factors that are incorporated into their demand for investment strategies (portfolios). In this way, they deter institutional investors from investing abroad. Modern scientists have conducted many theoretical studies and empirical tests of this predisposition [21-23]. Of course, the behaviourist approach takes into account other important reasons, such as institutional barriers, taxes and transaction costs, the need to hedge the risk of purchasing power, real information asymmetry etc.

M. Fidora, M. Fratzscher and C. Thimann in the study conclude that about 20 % of fluctuations in the levels of local assets in the portfolios of different countries exist due to volatility in real exchange rates [24]. With real exchange rate volatility, the share of local assets will be higher for the portfolio of assets with lower volatility in local currency yields. Researchers point out that the share of local assets will be higher for the bond portfolio than for the stock portfolio because bond yields are less volatile than stock yields.

Another group of scientists approaches the study from the standpoint of the International Capital Asset Pricing Model (ICAPM), considering the possible role of risks. I. Cooper and E. Kaplanis in the article note that the hypothesis of the practicability of local investment for hedging against inflation is not confirmed [25]. In turn, N. Coeurdacier and P. Gourinchas confirm that the international bond portfolio hedges the investor from real exchange rate risks, and local stocks are able to diversify non-financial risks to returns [26].

The ECB study indicates that the home bias in euro area countries is much lower than previously thought [27]. The problem is the methodology of measuring the indicator. If the origin of the investment is taken as the country of origin of the investor, and not the place of registration of

the investment fund, the rate of home bias is three times lower. This is due to the fact that investors in euro area countries invest most of their capital in funds registered in financial centres, such as Luxembourg and Ireland, which have a higher degree of international portfolio diversification than funds registered in other euro area countries [27]. D. Schoemaker and T. Bosch point out that the introduction of the euro has reduced the home bias for bond portfolios, as a result of which investors have shifted their investments from domestic markets to euro area markets [28]. The authors argue that the country's membership in the economic integration group plays an important role in investment decisions [28].

In the paper by U. Bose, R. MacDonald and S. Tsoukas, the authors concluded that the level of education plays an important role in reducing the home bias, especially for developing countries compared to developed countries [29]. F. Bransch notes in his work that for the United States, the level of financial education of households also increases the share of local market assets in the portfolio [30]. Moreover, the advice of professional investment advisers does not influence household decisions on international diversification [30]. E. Te Chen in a study on the composition of the investment portfolio of socially responsible investment companies, concluded that in addition to the geographical factor, the home bias of portfolio investors is also influenced by the factor of ethical beliefs [31].

In 2007, P. Serku and R. Vanpee expressed the opinion that neither a purely institutional approach nor a behaviourist approach fully explains the phenomenon of home bias [32]. They found that the level of the home bias largely depends on the method of measurement [32]. In addition, researchers have indicated that there has been a steady, moderate trend of increasing portfolio diversification over the past 20 years [32]. K. Ardalan, studying the influence of various factors on investment decisions, concludes that no factor is unique in its influence on investor behaviour and indicates that the theoretical model, taking into account all empirically confirmed factors of influence will be extremely complex [33]. In Table 2, we tried to systematize the factors described in the main publications on the home bias.

Table 2

Factors influencing home bias

Institutional factors	Complementary services or benefits to local investment instruments; institutional and legal restrictions on foreign investment; restrictions on short sales; non-market sectors of the economy; degree of economic development; degree of development of the educational system; degree of development of capital markets; degree of investor protection; weak foreign trade relations; weak migration flows; other institutional barriers.
Behavioural factors	Investors' expectations regarding future returns on investments; fear of unknown; political and cultural barriers; absence of common language; other behavioural deviations.
Transaction factors	Information costs; real exchange rate risk; purchasing power parity risks; other currency risks; income tax on foreign investment; capital export tax; information asymmetry; other transaction costs.
Other factors	Lack of experience in assessing the benefits of international diversification; political risks; corporate governance practices; the need to hedge debt financial instruments; hedging against the risk of inflation; lack of education in the field of finance; problems of empirical testing.

Source: authors' own research.

Difference in expectations and asymmetry of information. One of the most probable reasons for the home bias is the investor's behaviour and beliefs. For example, an overly optimistic attitude to the opportunities of the domestic market. Some investors believe that local market assets have higher returns and are better able to hedge against inflation risks. For the opposite reasons, investors have a negative attitude towards foreign markets. B. Florentsen, studying the decisions of portfolio investors, concluded that 14% of the home bias is due to asymmetries of information and the degree of familiarity with the market [34]. The researcher also claims that individual foreign investors who have recently moved to a new country have a lower share of local market assets in the portfolio, but this share increases with the length of stay in the country [34]. In addition, investors may treat foreign markets as riskier due to the lack of information about such markets, which encourages them to invest a significant part of investments in local market assets. Investors are willing to invest in financial assets about which they have enough information and, in general, know more. Any things unknown to the investor are perceived as potentially risky. M. Liao notes that the level of investment concentration and home bias are directly related to the availability of information [35]. So, if investors do not have enough information about a certain foreign market, they simply will not invest in it. Moreover, even if there is no exchange rate risk, investors will still view foreign assets as more risky than local market assets. Therefore, they prefer to construct an investment portfolio with a large share of local market assets. If an investor decides to invest in foreign market instruments, he will choose known MNEs, which preferably have a division in the country of origin, even if such MNEs have a higher level of risk and lower profitability than companies unknown to the investor. L. Ng explored the fact that the management of mutual funds prefers to invest in those companies that have offices in the investor's country, even if such the company is less well known [36]. S. Blank in his study finds confirmation that the shares of multinational companies with a high level of transnationalization provide a higher level of diversification for investors [37]. D. Schumacher in his study on the home bias in stock markets confirms that mutual funds prefer companies that are more represented in the local investor market [38]. Moreover, a study by J. Cornaggia and K. Cornaggia reveals that even information about investment products used by investors can also be distorted by the home bias [39]. Researchers have found that the credit rating of a security paper is influenced by the country of origin of the issuer and the credit analyst [39].

Non-tradable sector of the economy. The non-tradable sector of the economy accounts for about 60 % of total consumption. The presence of this form of consumption forces investors to invest a significant share of the portfolio in the assets of the local market. In this way, the investor hedges the risks associated with the non-tradable sector by investing in the local tradable sector. In other words, the investor sees that it is better to invest in local assets, as there is a negative correlation between the tradable and non-tradable sectors. However, the study of M. Baxter and U. Jermann does not confirm that the non-tradable sector of the economy is the cause of the home bias [40].

Inflation hedging. Another reason for the home bias is that investors thus protect themselves from inflation risks. However, there are no studies that directly confirm the close relationship between stock yields and inflation. To a greater extent, investors are trying to hedge the value of their assets, rather than general inflation. Because securities in local markets correlate with the value of the investor's assets, investors prefer to invest in local assets. However, this hypothesis is not empirically proven [25].

Transaction costs. Another possible explanation for the home bias is the cost of investing abroad. Such costs consist largely of taxes, such as capital gains tax or foreign investment income tax, and other transaction costs. S. McDowell, studying the impact of taxes on the share of local market instruments in the portfolio, concludes that the difference in tax rates explains from 7 % to 11 % of the level of home bias [41]. C. Sialm in his work on hedge fund portfolios shows that due to the home bias of fund of funds to invest in local hedge funds, their financial performance is better

[42]. However, the researcher points out that such behavioural deviation contributes to market segmentation and destabilizes the underlying hedge funds [42].

Control over the flow of capital. Although there has been significant liberalization of cross-border capital flows in recent decades, some countries still restrict foreign investment in equity and capital outflows. Thus, such a policy significantly affects the structure of the investment portfolio. When a state introduces control over the flow of capital, it creates obstacles for local or foreign investors to cross-border flow of capital, so the level of home bias in such countries will be higher.

The degree of development of financial markets. All other things being equal, investors tend to invest in countries with more developed capital markets, which have a higher level of liquidity and lower transaction costs. L. Ng concludes that «reducing the home bias in a given country can help reduce the level of segmentation and cost of capital» [43]. L. Ng notes that despite the policy of liberalization of capital flows in developing countries, the share of local assets in their investment portfolios remains quite high [43]. The author suggests that the competent authorities of developing countries encourage investors to invest in foreign assets and promote the benefits of international diversification among local investors.

Experience of working with a specific market. Another possible explanation for the home bias is that investors are less aware of foreign markets. When an investor does not have enough information, he faces significant information costs that deter him from foreign investment. Investors are more inclined to invest in securities of companies that have in common with the native language and cultural background of the investor, the so-called regional home bias. The geographical proximity of the foreign market also plays a significant role.

Protection of investors' rights. Investors are more inclined to invest in the markets of countries with developed legal systems. As a rule, in countries with developed financial markets there is a developed legal system. Investors take into account the following characteristics, such as type of legal system, rule of law, accounting and auditing standards, degree of protection of minority shareholders' rights, risks of expropriation, efficiency of the judicial system, etc.

Conclusions. The theory of international diversification is one of the most important foundations of international investment management. The benefits of international diversification, such as reducing portfolio risk and increasing its return, are beyond doubt among researchers. However, investors do not take full advantage of international diversification, as theory suggests. The actual composition of most investment portfolios contains a significant share of local market instruments. This contradiction is called home bias. Since the 1970s, researchers in the field of international finance have drawn attention to this deviation. They questioned the model of international diversification, but as a result of a large number of empirical tests found that the main reason for the low level of international diversification was not theoretical omissions, but independent decisions of investors. Although the share of local assets in the investment portfolio remains very high for some countries, scientists note a steady moderate trend towards increasing international portfolio diversification, which was interrupted by the global financial crisis of 2007-2009.

Despite the research, scientists have not been able to definitively answer the question of the reasons for the propensity to invest in local markets. Many different assumptions were substantiated, from transaction costs and real exchange rate risks to low levels of financial education. We tried to systematize the various factors of home bias and concluded that they should be grouped into four categories: (1) institutional factors, (2) behavioural factors, (3) transaction factors, and (4) other factors. We prefer to explain the reasons for the home bias by behavioral factors that are gaining more and more empirical support.

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THE BELT AND ROAD INITIATIVE: THE SIGNIFICANCE OF THE CHINESE RAILWAY EXPRESS TRAINS

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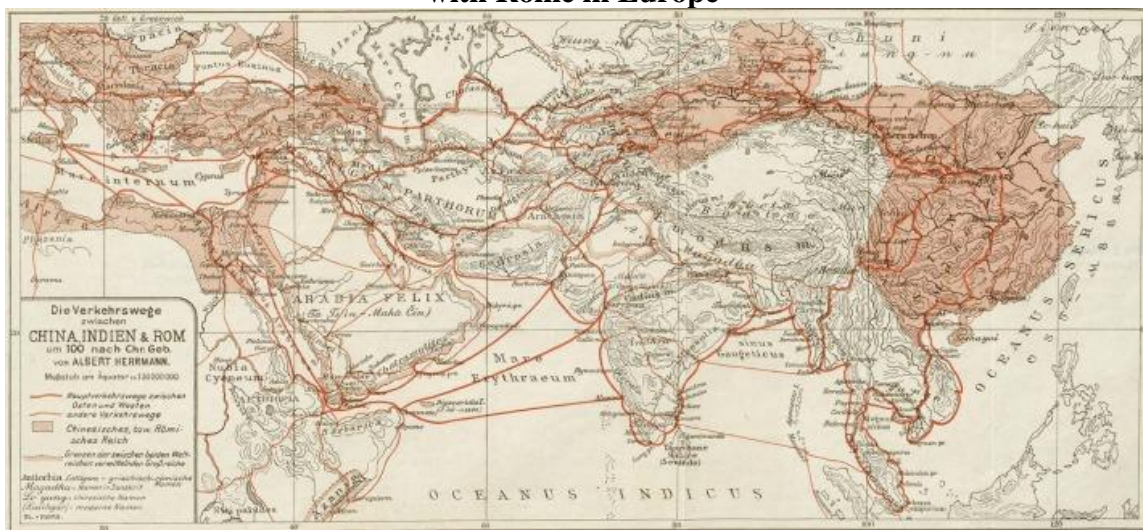
Introduction. Belt and Road Initiative of China is not something novel. It is the present-day continuation of the millennium-old Eurasian Silk Road that had been disrupted by the colonial expansion of the European powers. After the Cold War even the US and EU have attempted to restore the old Silk Road but with limited success. It was only in 2013 when the Chinese Government announced the Initiative that the world, not just the great powers, has begun once again to speak and think of the revival of the old Silk Road with enthusiasm.

Main research results. The Chinese government sees the Initiative only as initiative, intending it to be collective efforts for all interested countries for collective benefits. Of course, China will take the lead and it has pooled all its overseas investment projects under it and initiated even more especially through the newly established Asian Bank of Infrastructure Investment, plus its other overseas investment vehicles, including the Silk Road Fund. Apart from investment projects that help underdeveloped countries that have not won the favours from international agencies and multinational corporations, China has been rebuilding the lapsed Eurasian connectivity overland and restoring the networking multi-modal transport system of the old Silk Road (Figure 1).

These have taken the form of China-Europe and China-Central Asia Express Freight trains (officially named as China Railway Express). The service started in 2011 as block trains for foreign companies in China. With the launch of the Belt and Road Initiative, local governments in China have competed to set up new routes for the new overland Eurasian connections. Local governments have used subsidies to encourage corporate uses of the new transport option. Cities like Chengdu and Chongqing in western China and Wuhan and Zhengzhou in central China, which have been far outside of the economically dynamic coastal regions, have leveraged on the availability of the convenient means for Eurasian links to attract overseas investment for export markets in Europe, and have been successful. The resulting increases in tax revenues have more than compensated for the freight subsidies.

Figure 1

The network system of the old Silk Road that connected China, India and Central Asia with Rome in Europe



Source: [Herrmann, 1922], reproduced in [Galli, 2017].

Their successes have provided a strong demonstrative effect on other Chinese cities. Freight routes have thus proliferated (Figure 2) and they have promoted further their uses by Chinese and foreign firms with greater number of options of routes and schedules. Since 2011, the number of trains per year has jumped from 17 to 12,400 in 2020 (Table 1). Their share in Eurasian freight volume has come from almost non-existent to probably a few and even closing to 10 percentage points during the global pandemic in 2020 and early 2021.

Figure 2



Source: [Chinese Government, 2016].

Note: The map shows only the current situation and vision of the development in 2016 by the Chinese government. It has not incorporated the recent southern extension of the intermodal connections of China Railway Express routes originated in Chengdu and Chongqing to Baohai ports and Chinese overland borders with countries in the Indo-China Peninsula plus the coming passage through the China-Lao Railway that will be in operation in 2021 and the Thai railways under construction. There are also a route from China to ports of the Persian Gulf from Tehran, a new China-Kyrgyzstan-Uzbekistan Road-Rail Connection launched in 2020, and another road rail link through Tibet to Nepal.

Table 1

The growth of China Railway Express trains, 2011-2020

Year	No. of trains
2011	17
2012	42
2013	80
2014	308
2015	815
2016	1,720
2017	3,673
2018	6,300
2019	8,255
2020	12,400

Source: China State Railway Group Co., Ltd.

The global pandemic shows the importance of China Railway Express in filling the gap when both the conventional air and sea transport fail. The sudden explosion of demands helps to break the stubbornness and inertia as well as vested interests of governments and firms to explore the new (in fact the revival of the old) options of Eurasian linkage. The inter-continental transport scene has long been dominated by oligarchies. The routing, stops and hubs, fares, and the vessels used serve mainly the profits and competitive advantages of the dominating parties with little regard to SMEs and developing countries and economies. The opening of the overland routes provides an alternative that could benefit those that have seldom been served by the big carriers and agents. After two or three centuries of negligence, the overland routes would need massive investment to build the necessary infrastructural facilities and institutional arrangement to compete even at a disadvantage with the well-established system of sea transport. The Chinese initiative to at least partially divert the transport of its overseas trade and to invest politically and economically is crucial for making the overland alternative possible and viable.

Compared with container shipping which has increasingly relied on scale economy and caters therefore mainly for mass production of large corporations, freight trains have the advantages of smaller scale, greater frequency in schedules, shorten traveling time (hence lower capital costs and speed to the market), all of which serve very well smaller firms with smaller scale of production and smaller batches of cargoes to be shipped. One could say the container shipping is a product of mass production and mass consumption of standard commodities typical of the American version of capitalism, whereas freight trains serve flexible mode of production of quality and of greater variety and limited production that may represent Post-Fordism. In addition, trains could have many stops in the journey for uploading and offload cargoes, whereas large container ships normally have few stopovers and in the case of Eurasian transport could have little cargoes back on the Europe to Asia trips. Freight trains' lower scale economy is often more than compensated by their flexibility. In particular in supply chain management, freight trains like China Railway Express excel in the facilitation for integrated management (the entire logistic network within the supply chain could be constantly customized according to the market situation), flexible routing, special role of nodes, inter-modality, and regular transport services.

At present, the basic framework for the trade route structure of the old Silk Road could still be found but lacks upgrading and modernization. To compete with sea transport that utilizes state of art technology and management, any revival of the overland and intermodal Silk Road needs massive investment to realize its general and niche advantages. China's Belt and Road Initiative is the answer to the need and the China Railway Express is instrumental in reviving, repairing and further improving with innovations the millennium old Eurasian connectivity. The Chinese initiative has already attracted similar efforts by countries along the old Silk Road.

In 2020, 29 cities in China had over 100 direct China Railway Express trains running in the year with the five major hub cities contributed more than half of the trains. This means that almost most of the cities in China are connected with and have access to the Eurasian service by the domestic railway system and by intermodal means. Over 90 cities in 20 plus countries in Europe have been served by the Chinese intercontinental services, the farthest being London across the British Strait, and covering the four corners of Europe in a network fashion. Towards the end of 2020 some Chinese cities had launched super express services of freight trains at 300 km/hour running on the high-speed railway tracks for passengers. They were for domestic delivery of e-commerce orders. They would easily be converted to become a domestic leg of China Railway Express trains, thereby reducing further the journey time before crossing the national borders.

Apart from routes going into Europe, the new iron Silk Road has also branched into Central Asia, entering the ports in the Persian Gulf with an onward journey by seas to coastal regions of the Indian Ocean. In the last few years, the China Railway Express trains coming from Europe have continued to go to countries in Southeast Asia either by existing railways to Vietnam and in the coming year to Laos via the China-Laos Railway that would come into operation at the end of this

year, or by ships to the Philippines, Indonesia, and Singapore. The end of 2020 also saw the launch of a rail-truck route across Tibet into Nepal.

More significantly, even Japan and Korea have been using the China Railway Express trains for sending their export cargoes by sea to Chinese coastal ports and onboard trans-continental Chinese trains to Europe. Nippon Express, Japan's top logistics company, is scheduled to double the freight trains it operates between China and Europe in 2020. Currently it runs 23 round trip routes using the China Railway Express services. Rail accounted for only about 10% of Nippon Express' total cargo transported between these two regions in 2019. The room for expansion would be very great. In view of the potential business opportunities, Danish company A.P. Moller - Maersk, the world's largest container-shipping operator, has offered a combination of a short-sea and intercontinental rail transport for permanent weekly service since September 2020. The service takes cargoes from ports in South Korea, Japan, or China to the port of Nakhodka in the Russian Far East via sea, then transports it by train to northern Europe via the Trans-Siberian Railway.

The competition with the Chinese services will in fact supplement the Chinese initiative, especially since the explosion of rail transport demands in 2020 has overloaded the various Eurasian routes from within China. The move of the Japanese and Danish logistics firms confirms the market confidence in the Eurasian transport trade. Such a new development has transformed the role of China in the Belt and Road Initiative and in the globalization process of the world economy. China is more than the production base for world demanded products and the market for imported goods by virtue of its being the largest manufacturing economy and market in the world. It is emerging as the strategic intermodal transport hub for trade and exchanges with East Asia in the east, Southeast Asia in the south and Central Asia, West Asia, Europe, and Africa in the west. The shift in Eurasian trade is just the beginning.

There are also possible strategic changes to the Eurasian trade flow pattern by the improved inter-modality of the new Silk Road. The role of the Greek port of Piraeus used by the Chinese shipping companies to join the sea transport from the East via the enlarged Suez Canal with the so-called Balkan Silk Road by trucks and rail would pose a strong challenge to the century-old route terminated at Atlantic ports of Europe, in particular Rotterdam and Amsterdam. The Piraeus option presents a more direct and speedier overland approach to other parts of Europe and cuts short the overall traveling time of cargoes from a wide area in the East. This would complement the various routes from Asia into Europe via Belarus, Poland, Ukraine, Hungary and even the Baltic ports and most recently Turkey. The Eurasian trade flow would be less going through a circular pattern through the Mediterranean Sea and entering Europe from the Atlantic seaboard moving westward. The old Silk Road trade flow directly from the East to the West is now revived and will probably reveal its competitiveness in the coming years when old infrastructures are restored and improved, thanks to the Chinese Belt and Road Initiative and the economic impacts of China Railway Express trains.

The Chinese initiative has a strong demonstration effect on other countries. In terms of railway links, many other countries have, for their own reasons and in response to the opportunities created by the Chinese efforts, launched ambitious investment projects. The early success of Kazakhstan in straightening its domestic east-west rail link has cut short the traveling of Eurasian trains traversing the country. The BTK (Baku in Azerbaijan, Tbilisi in Georgia, Kars in Turkey) Railway was completed in 2017. From 2020 it has begun to serve as the middle route of the new Silk Road going all the way from the East in China and Central Asia to the European part of Turkey through the new Marmaray tunnel line beneath the Bosphorus Strait that continues to Erdirne at the border with Greece & Bulgaria. The Russian is also planning to upgrade the Trans-Siberia Railway, which carries now half of the cargoes to Europe from East Asia. Even the EU is increasing its efforts to modernize its Trans European Transport Network in particular the Eastern corridors to compete perhaps with the Chinese funded Budapest-Belgrade Railway (part of the Balkan Silk Road from Piraeus) now under construction.

The Chinese initiative and its immediate consequence in the past few years have unleashed a competition for infrastructure investment first for railway and for all possible transport modes as

well. The Lapis Lazuli route that predated the old Silk Road by thousands of years has been revived by the joint efforts of Turkey, Afghanistan, Turkmenistan, Azerbaijan, and Georgia. Negotiation started in 2012, before the Chinese initiative, but agreement was only signed in 2017 and the project has been inaugurated in December 2018. Once in operation it has been incorporated into the new Silk Road as during the times of the old Silk Road.

Conclusions. The old Silk Road was not about politics, but about the desires of societies for trade and exchange and connectivity of all kinds. Similarly, the new Silk Road in the form either of China's Belt and Road Initiative or other programmes of other countries and regional organizations should be about trade, exchange and collectivity of people and ideas. The progress in the past few years seems to confirm this, even though more efforts need to be done by all parties concerned and interested in.

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**АКТУАЛЬНІ ПРОБЛЕМИ
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