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ПОЛІТИЧНІ ПРОБЛЕМИ МІЖНАРОДНИХ ВІДНОСИН

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STRATEGIC COMMUNICATIONS OF UKRAINE ON THE EXAMPLE OF THE "DIIA" APP AS A COMPONENT OF G2C COMMUNICATION IN TIME OF WAR

СТРАТЕГІЧНІ КОМУНІКАЦІЇ УКРАЇНИ НА ПРИКЛАДІ ДОДАТКУ «ДІЯ» ЯК КОМПОНЕНТИ G2C КОМУНІКАЦІЇ ПІД ЧАС ВІЙНИ

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Abstract. *In times of war, effective communication between the government and the population becomes a vital component of maintaining social cohesion, disseminating information, and fostering a sense of unity. This article delves into the strategic communication efforts employed by Ukraine, focusing on the "Diia" app as an innovative tool facilitating communication between the government and its citizens during times of war. By examining the features, impact, and challenges of the "Diia" app, this study sheds light on the significance of leveraging technology to enhance government-citizen communication in times of crisis.*

Key words: *strategic communications, "Diia" app, international communications, G2C communication, war, conflict communication, technology, information dissemination, societal cohesion, crisis communication, digitalization, public engagement, communication strategies, state information policy.*

Анотація. *Під час війни ефективна комунікація між урядом і населенням стає життєво важливим компонентом підтримки соціальної згуртованості, поширення інформації та комунікації з урядом. У цій статті розглядаються стратегічні комунікаційні зусилля України, зосереджені на додатку "Дія" як інноваційному інструменті, що полегшує комунікацію між урядом і громадянами під час війни. Вивчаючи особливості, вплив та виклики додатку "Дія", це дослідження проливає світло на важливість використання технологій для покращення комунікації між урядом та громадянами в умовах війни.*

Ключові слова. *Стратегічні комунікації, додаток "Дія", міжнародні комунікації, G2C-комунікація, війна, кризова комунікація, технології, поширення інформації, діджиталізація, залучення громадськості, комунікаційні стратегії, державна інформаційна політика.*

Problem Statement. In the context of contemporary conflict scenarios, maintaining effective communication between governments and their populations becomes a critical challenge. Geopolitical tensions and military conflicts necessitate the swift and accurate dissemination of information, while countering disinformation and fostering a sense of unity among citizens. Traditional communication methods often fall short in meeting these demands. Thus, there is a pressing need to explore innovative communication approaches that bridge the gap between governments and citizens during times of war. This article addresses the problem of enhancing communication strategies by investigating the role of the "Diia" app as a dynamic component of government-citizen communication in Ukraine, thereby contributing to a deeper understanding of how technology can reshape information flow and societal resilience during war.

The purpose of research is to identify the strengths and weaknesses of Ukraine's digital transformation strategy and to study the effectiveness of the Diia app in the context of war.

Analysis of the latest publications. At the national level, the application of action has received a lot of attention from scholars, in particular, on individual services and their effectiveness. In particular, the works on e-governance by M. Mikhrovska, T. Biletska, and V. Borysenko were studied. However, from the point of view of strategic communications, there have been no studies of the application of Diia in terms of war. All researchers assess the process of digitalization in Ukraine as a positive phenomenon, although one that needs to be improved.

Presentation of the main research results.

Strategic communication is a purposeful and systematic approach to disseminating information with the intent of achieving specific goals. It encompasses the careful planning, crafting, and dissemination of messages through diverse channels to influence target audiences. In the digital era of constant crisis, understanding the intricacies of strategic communication is crucial for individuals, organizations, and governments alike.

According to James Farwell, strategic communication is a “tool that comprehensively employs images, words, and actions to influence target audiences’ perceptions, change their behavior, and accomplish national strategic interests” [Farwell, J. P. (2012)]. It can assist governments in addressing and responding to current and future security challenges, and it should be regarded as “critical to national development and strategy implementation”, states Paul Cornish [Cornish, P., French, J. L., & Yorke, C. (2011)]. Effective strategic communication, according to Lina Jing, can also help to “minimize threats to national security and aid in policy planning and execution” [Jing, L. and Jing, N. (2023)].

In the report "Strategic communications as a key factor in countering hybrid threats" issued at the request of the Panel for the Future of Science and Technology (STOA) for the European Parliament in 2021, the authors emphasize the significance of strategic communication in modern warfare. Report highlights that strategic communication is essential for governments to manage information flow, counter enemy narratives, and maintain domestic and international support for military endeavors [Quirós, C. T. (2021)].

The essential characteristics of strategic communications, according to the report, can be summarized as follows:

- they are executed according to a predefined and systematic plan;
- involve actions at strategic, operational and tactical levels;
- are developed in a competitive, and even conflictive, environment, where audiences are subject to a constant buzz that can hamper their goals being met;
- demand a high level of coordination and synchronization between stakeholders;
- require targeted audiences to be exactly defined;
- require selection of the most adequate communication channels;
- are aimed at informing, influencing or promoting behavioral changes in the target audiences;
- must be aligned with the overall goals of the promoter country or organization;
- must be focused on both the short and long term.

Considering the above-mentioned aspects, we can single out such components of strategic communication in wartime governance:

1. Coordinated messaging: Governments must ensure that messages broadcast across different platforms and channels present a unified narrative that corresponds to their strategies.
2. Differentiation of the target audience: It is crucial to identify and understand the different segments of the audience, including populations, international allies and adversaries. Tailoring messages so that they resonate with each group optimizes the effectiveness of communication efforts.
3. Crisis and risk communication: Governments must have robust crisis communication plans in place to deal with unforeseen events or emergencies. Fast, transparent and accurate communication during crises is essential to maintaining public trust.
4. Media Engagement and Management: Effective engagement with forms of media, including traditional, digital and social media, is essential. Governments must proactively manage media relations to ensure accurate reporting and counter misinformation.
5. Evaluation and adaptation: an ongoing evaluation of essential communication strategies. Governments must be prepared to adapt their messages and approaches based on feedback, changing circumstances and evolving objectives.

Achieving all the above-mentioned components for Ukraine in a time of war is impossible without the use of digital methods and necessary transformation. The digital transformation of society encompasses all types of communication between the state's actors - consumers (households), businesses, and the government.

In Ukraine, the Ministry of Digital Transformation ensures the formation and implementation of state policy: in the areas of digitalization, digital development, digital economy, digital innovations, e-government and e-democracy, development of the information society, informatization; in the area of digital skills development and digital rights of citizens; in the areas of open data, development of national electronic information resources and interoperability, development of broadband Internet access and telecommunications infrastructure, e-commerce and business; in the areas of public and administrative services; in the areas of electronic trust services and electronic identification; in the development of the IT industry [*Government of Ukraine... (2023)*].

The Diia portal, established in Ukraine in 2019, was initially designed to exercise the right of every citizen to access electronic services and information on administrative and other public services, to contact executive authorities, other state bodies, local governments, enterprises, institutions and organizations, to obtain information from national electronic information resources necessary for the provision of services, and to monitor and evaluate the quality of services.

The functioning of the state portal Diia is legally regulated by The Regulation approved by the Cabinet of Ministers of Ukraine "Issues of the Unified State Web Portal of Electronic Services and the Unified State Portal of Administrative Services" No. 1137 of December 4, 2019 [*Resolution ... (2019)*]. Before the war, the portal already offered more than 70 public services online on the portal and 21 in the app, including the ability to become an entrepreneur, change the type of activity or terminate it, obtain a certificate of no criminal record, childbirth assistance, file a lawsuit, register a car or receive services related to driver's documents, apply for a number of licenses, permits or extracts from registers, and obtain COVID certificates.

During the war, access to public services for businesses and consumers in most regions of Ukraine was paralyzed. Thus, the Diia portal, along with a number of other online services, became the only way to maintain communication with the state. For security reasons, state registries were disabled to prevent data leakage. That's why some documents disappeared or were not pulled up. However, the Ministry of Digital Transformation continued to be active and promptly presented a number of relevant services, including:

- "Come Back Alive" Fund for the Army. The app makes it faster and more convenient to transfer funds to the army.
- EWarrrior is a convenient link to a bot for reporting the addresses of military equipment and occupation troops.
- Damaged property. The ability to report damage or destruction of real estate as a result of Russian military aggression.

- Action TV and Action Radio. The ability to connect to television and radio from any location, even from any location, even from a hiding place.
- E-Support. The ability to receive payments of funds to internally to internally displaced persons and persons in the areas of active military operations [*Diia - State services online... (2023)*].

Due to war in Ukraine, digital transformation may have slowed down, but it is gaining momentum, albeit rather chaotically. It is absolutely clear that the future of economic development directly depends on the level of digitalization of the country, and a strategy is needed to realize its full potential. The current strategy does not meet the current challenges of the war and needs to be adjusted in line with general changes.

Diia (short for Ukrainian "State and Me") is a mobile application, web portal and brand of the digital state in Ukraine, developed by the Ministry of Digital of Digital Transformation of Ukraine. Diia was first presented in 2019 and officially launched in 2020.

The application allows one to store your driver's license, internal and foreign passports and other documents in a smartphone, as well as transfer copies of them when receiving banking or postal services, checking into a hotel, and in other life situations. Diia (the app and/or portal) also allows users to access public services such as eBaby (a comprehensive service for the birth of a child), register a business and individual entrepreneur online, pay taxes and file declarations, sign any documents, change the place of registration, and more. By 2024, it was planned to transfer 100% of public services to Diia [*Who is implementing... (2023)*].

The development of the Diia application can be perceived as the existence of a certain system that exists in external circumstances. This system is open, because there is a constant exchange of resources with the environment. The main resource for the exchange is information, there are communication links with the environment and the exchange of services.

By origin, the system is an artificial mixed system - social and technological, because it combines technical devices with human groups. Actually, Diia is not just a program on a phone, it is human labor, thoughts, and ideas behind it. Together, technology and a strong team create an effective mechanism. The system is managed both internally (by the Ministry of Digital Transformation) and externally, as it must meet national requirements and is funded by numerous additional projects. The system is dynamic because the outputs of the system at a given time are influenced by the nature of the inputs in the past. That is, the system is influenced by decisions made in the past and the current threat environment.

The structure of the system is networked, i.e., there are both serial and parallel connections between subsystems both serial and parallel connections. In order for the system to work as a technical and social subsystems are combined.

The technical subsystems are:

1. The Diia application, which helps to build a connection with the environment (users).
2. An online platform with a wider range of services that highlights the main concept and provides links to other government projects. The social subsystem is a staff consisting of: State leadership Committee on Digital Transformation, Ministry of Digital Transformation of Ukraine, Fedoriv Marketing Agency (Product strategy, brand strategy, visual identity, communication), Spilka design büro, EGAP programs (E-governance for government accountability and community participation, Swiss Confederation e-Governance for Government Accountability and Community Participation, Swiss Confederation (SDC)), EGOV4UKRAINE (EU, Sweden (SIDA), Estonia, Denmark, Poland), Office of Administrative Services Reform (EDGE, Canada), TAPAS Project (Transparency and Accountability in Public Administration and Transparency and Accountability in Public Administration and Services, USAID, UKAID), SACCI Project (Project Support to Anti-Corruption Champion Institutions in Ukraine, USAID), EU4PAR project (EU), BRDO (Better Regulation Delivery Office), EPAM. Privatbank, Monobank.

Based on the information about the Diia application as a system, we analyzed the strengths and weaknesses of the system and developed recommendations for its further development strategy under 3 possible scenarios in the context of war (survival, optimization, and development strategies):

<p>Development</p> <ol style="list-style-type: none"> 1. Adopt the experience of countries with a high level of technological development, develop an effective development plan 2. Continue to fight bureaucracy at different levels with the help of new electronic tools 3. Make the process of professional development transparent, advertise forums and accelerators 4. Expand the new project with internships aimed at young people 5. Advertise the application in social networks of different age groups 6. Improve the website, make it more attractive to investors 7. Add new features for refugees abroad (for example, digital diplomas) 8. Join the HealthyMe registry 	<p>Optimization (based on strength)</p> <ol style="list-style-type: none"> 1. Create a group to help older people understand how to manage the application 2. Provide jobs for people who have worked in the bureaucratic system 3. Train these people in mobility from experienced e-system employees 4. Involve Mykhailo Fedorov in creating advertising that will attract investors to optimize infrastructure 5. To interest the population through transparent and open projects 6. Increase the staff with IT specialists who can counteract cyberattacks 7. Develop an even more complex identification process to prevent identity theft
<p>Optimization (based on weaknesses)</p> <ol style="list-style-type: none"> 1. Increase funding through foundations and partnership programs 2. Increase the number of professional staff working with technology 3. Introduce internships for students, which will be funded by partners 4. Disseminate information on e-literacy training among young people 5. Improve the work of registers, deeper coding of information 6. Add lawyers to technical support to help with legal issues. 	<p>Survival</p> <ol style="list-style-type: none"> 1. Explain to the population how digital transformation will affect economic development 2. Correct errors in the application to gain the trust of a skeptical population 3. Adjust the concept and work plan until 2024, paying attention to the challenges faced during the war 4. Coordinate the work with the city authorities at the legal level (what will happen if the government changes, under what conditions, etc.

The Diia app also became a method of communication between Ukrainian citizens and the governments of other countries to which Ukrainians were forced to flee the war. "Diia has been recognized by 58 civilized countries, whose government agencies will be able to use electronic documents in the application. The Cabinet of Ministers of Ukraine adopted the relevant decision by Resolution No. 910 of August 16, 2022 on "Some issues of transferring personal data outside Ukraine through the Unified State Web Portal of Electronic Services" [*Resolution ... (2022)*].

At the same time, the resolution states that "personal data may not be transferred to foreign entities registered in a state recognized by the Verkhovna Rada of Ukraine as an aggressor or occupying state, or to states that are members of customs and military alliances with such states." This suggests that the government is trying to make it impossible for the enemy to steal personal data.

Despite the imperfections of the system, its effectiveness in the context of war has been impressive for other countries. The experience of using Diia has been adopted by other countries,

including Estonia, one of the leaders in digital development. On January 18, 2023, it became known that the United States intends to replicate the success of the Ukrainian e-government program Diia in other interested countries. This was announced by USAID Administrator Samantha Power at the World Economic Forum in Davos.

"USAID has provided funding to the Ministry of Digital Transformation of Ukraine to help develop Diia and improve its cybersecurity, and has allocated another \$8.5 million to help expand the program's services during the war," Power said. She noted that Ukraine is ready to share its approach and technology with other countries, so USAID plans to start discussions with interested countries about potentially using Diia as a template for their own similar programs.

And in February 2023, the Ministry of Digital Transformation of Ukraine announced that it was communicating about the implementation of the Ukrainian Diia app in more than five countries. These include several European countries, Asia, and Africa. The list of countries was not disclosed in detail.

According to the head of the department, Mykhailo Fedorov, such agreements could potentially bring "a lot of money" to the budget. «We are talking about billions of hryvnias for the implementation of Diia in a short period of time. Not only a technological product is sold, but also expertise and consulting» [Fedorov... (2023)].

Conclusions.

The introduction of e-governance ensures openness and transparency of public authorities, access to public information through modern information technologies, improvement of the quality of administrative services, saving time and material resources of both service applicants and officials, and the possibility of receiving administrative services around the clock, which contributes to the democratization of society and overcoming corruption in the public administration system of Ukraine. However, in the context of Russia's military aggression, the process of digital transformation of the state has proven to be effective, and the Ministry of Digital Transformation faces even more challenges.

The analysis examined the work of the portal and the Diia application as a system and identified new priorities and ways of development. These include strengthening the monitoring of the system to prevent data leakage of Ukrainian citizens to Russian databases. Young people should be the driving force behind the development of the app and the portal, so it is very important to encourage them to take an interest in digital projects now, even in such difficult conditions. It is also necessary to help older people get used to using the app. To do this, it needs to be made even more simple and convenient.

It's important since Diia brings Ukraine to the arena as a strong player in the field of e-governance and digitalization and serves as a bridge for communication not only between Ukrainian citizens and the government, but also between Ukraine as a state and other actor in international relations.

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THE SOUTH CHINA SEA DISPUTE AS A THREAT TO ASEAN COOPERATIVE SECURITY IN THE ASIA-PACIFIC REGION

КОНФЛІКТ У ПІВДЕННО-КИТАЙСЬКОМУ МОРІ ЯК ЗАГРОЗА КООПЕРАТИВНІЙ БЕЗПЕЦІ АСЕАН В АЗІЙСЬКО-ТИХООКЕАНСЬКОМУ РЕГІОНІ

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Abstract. *The article provides an overview of the dispute in the South China Sea between China and the member states of the Association of Southeast Asian Nations (ASEAN) through the prism of ASEAN cooperative security. Emphasis is placed on the study of documents that envision mechanisms for resolving the dispute between China and ASEAN.*

It is determined that the activities of the Association of Southeast Asian Nations as a collective actor in resolving the dispute in the South China Sea are limited exclusively to confidence-building measures as the ultimate goal of activities in this area and the development of a code of conduct with the People's Republic of China. At the same time, the main legal instrument of ASEAN's relations with China at the mentioned waters remains the legally non-binding Declaration on the Conduct of Parties in the South China Sea of 4 November 2002, which indicates China's unwillingness to create a direct framework for cooperation in the South China Sea with a view to further strengthening its position in the waters through militarisation and land reclamation activities.

The authors also consider and analyse the main limitations of ASEAN's security policy in the Asia-Pacific region and its cooperative security regime, including absolutisation of sovereignty and non-interference in internal affairs, consensus as the basis for decision-making, adherence to the principle of mushyawarah - consultations as an end in itself, non-use of potential conflict resolution mechanisms due to soft institutionalism and the use of bilateral joint resource development in the South-China Sea, which undermines the principle of multilateralism of ASEAN cooperative security.

Keywords. *Cooperative security, cooperative security regime, ASEAN, Southeast Asia, Asia-Pacific Region, ASEAN Regional Forum, East Asia Summit, South China Sea, ASEAN Way.*

Анотація. *У статті здійснено огляд конфлікту у Південно-Китайському морі між Китаєм та країнами-членами Асоціації країн Південно-Східної Азії (АСЕАН) через призму*

кооперативної безпеки АСЕАН. Акцент зроблено на дослідження документів, що передбачають механізми врегулювання даного конфлікту між Китаєм та АСЕАН.

Визначено, що діяльність Асоціації як колективного актора при вирішенні конфлікту в Південно-Китайському морі зводиться виключно до засобів зі зміцнення довіри як кінцевої мети діяльності у даній акваторії та виробленні кодексу поведінки з Китайською Народною Республікою. При цьому, основним правовим інструментом відносин АСЕАН з КНР у розглянутій акваторії залишається юридично незабов'язуюча Декларація про поведінку учасників у Південно-Китайському морі від 4 листопада 2002 року, що свідчить про небажання Китаю створити безпосередню рамку співробітництва у Південно-Китайському морі, щоб продовжувати посилювати свої позиції в акваторії шляхом мілітаризації та меліоративної діяльності.

Також розглянуто та проаналізовано основні обмеження безпекової політики АСЕАН в Азійсько-Тихоокеанському регіоні та її кооперативного безпекового режиму, серед яких: абсолютизація суверенітету та невтручання у внутрішні справи, консенсус як основа прийняття рішень, дотримання принципу муш'яварах – консультацій як самоцілі, невикористання потенційних механізмів врегулювання конфліктів внаслідок слідування м'якому інституціоналізму та використання формату спільного освоєння ресурсів, який започатковується на двосторонній основі, що підриває принцип багатосторонності кооперативної безпеки АСЕАН.

Ключові слова. Кооперативна безпека, режим кооперативної безпеки, АСЕАН, Південно-Східна Азія, Азійсько-Тихоокеанський Регіон, Регіональний Форум АСЕАН, Саміт країн Східної Азії, Південно-Китайське море, шлях АСЕАН.

Introduction. The Association of Southeast Asian Nations (ASEAN) has declared its subjectivity in the development of the security architecture in the Asia-Pacific region (APAC) – primarily through attempts to extrapolate its intra-regional norms of multilateralism, respect for sovereignty, consensus and consultation to the wider Asia-Pacific. This was manifested in the establishment and development of the ASEAN Regional Forum, one of the few dialogue platforms where the Asia-Pacific countries could discuss issues of cooperative security in the late 20th and early 21st centuries.

This approach has helped to improve the climate of international relations in the Asia-Pacific region and to develop a cooperative security regime based on norms and mechanisms designed to promote constructive cooperation. Such mechanisms include, for example, the ASEAN Regional Forum and the East Asia Summit. However, the ongoing dispute in these waters between ASEAN member states and China undermines the established ASEAN cooperative security regime. Taking into account China's unilateral actions aimed at strengthening its position by militarizing this area, a number of problems arise. Among them are the mechanisms for regulating relations between the parties in the South China Sea; potential opportunities from the use and implementation of the ASEAN cooperative security regime to resolve the dispute and limitations of ASEAN cooperative security, which determine the role of the Association in resolving the conflict with China over islands in the South China Sea.

Recent literature review. ASEAN itself and security in the Asia-Pacific region have received a lot of attention from both foreign and domestic researchers. Among the recognized experts are J. Haacke, M. Leifer, A. Acharya, M. Gund, R. Emmers, E. Tan and R. Severino. At the same time, a number of Ukrainian scholars, including Y. Barshchevskiy, O. Kravchuk, V. Shynkarenko, S. Averyanov, S. Shergin, and I. Krupenia, are engaged in the study of ASEAN and security in the Asia-Pacific region. It is worth highlighting the work of A. Rustandi "The South China Sea: Opportunities for ASEAN to Strengthen its Policy to Resolve the Conflict" [Rustandi, 2016], where the author analyzes ASEAN's involvement in the South China Sea dispute and suggests three ways in which ASEAN can contribute to the resolution of the conflict, in particular through continued diplomatic efforts, recourse to previously unused legal mechanisms and joint resources development in the above-mentioned waters. Other relevant works by Ukrainian researchers include

I. Krupenia's articles "The Problem of Disputed Territories in the South China Sea" [Krupenia, 2019] and "The Conflict in the South China Sea as a Challenge to ASEAN Countries" [Krupenia & Lenskyi, 2022], which describe the origins of the dispute and provide a geopolitical analysis of the positions of the parties, including ASEAN member states, China, and the United States. Similarly, S. Averyanov's study "ASEAN Security Activities in Southeast Asia" [Averyanov, 2021] analyzes the geopolitical positions of ASEAN member states and China on the South China Sea and provides key legal mechanisms for improving the climate of international relations in this area, in particular the 1992 ASEAN Declaration on the South China Sea. The topic of ASEAN cooperative mechanisms, in particular the ASEAN Regional Forum, is also covered in the article by O. Kovtun and T. Dovhai "ASEAN in World Politics" [Kovtun & Dovhai, 2014], where the formation and progress of the ASEAN cooperative mechanism is analyzed.

The aims of the article are to analyze the dispute in the South China Sea in terms of its impact on ASEAN's cooperative security in the Asia-Pacific region and to identify the main limitations of the security policy pursued by ASEAN in the Asia-Pacific.

Main research results. The South China Sea (hereinafter referred to as SCS) is one of the most intensive international maritime trade routes in the world. However, activities there are not limited to maritime trade and shipping, as there is significant development and exploration of natural resources, such as natural gas and oil, with a potential production of more than 7.7 billion barrels [Barshchevskyi, 2013]. Coastal countries with certain interests in these resources include China, as well as ASEAN member states, namely: Indonesia, Vietnam, the Philippines, Brunei, and Malaysia. China's long-standing conflict with the aforementioned Southeast Asian countries has led to the South China Sea being referred to as "troubled waters" [Rustandi, 2016]. However, for the purposes of this study, this conflict will be considered exclusively in terms of the activities conducted by ASEAN as a collective actor within the framework of the Association's cooperative security regime. Cooperative security is defined as a concept for developing relations based on ASEAN's cooperation with international actors outside the Southeast Asia, particularly in the Asia-Pacific region. The concept focuses on agreed norms of behavior both in relations between participants and within institutions, despite the heterogeneity of participants. Cooperative security is based on the principles of multilateralism, inclusiveness, transparency, and the use of consultation and consensus mechanisms. At the same time, the ASEAN cooperative security regime includes codes of conduct and agreements between the Association's member states and other partner states, including the establishment of joint security platforms for dialogue. For example, such ASEAN cooperative security platforms are the ASEAN Regional Forum, established in 1994, and the East Asia Summit, founded in 2005. ASEAN has been developing a framework for cooperation in the South China Sea to reduce tensions and improve the climate of interstate relations, in particular, 1992 ASEAN Declaration on the South China Sea and the Declaration on the Conduct of Parties in the South China Sea of November 4, 2002 [Documents on ASEAN and the South China Sea, 2011]. When considering the 1992 ASEAN Declaration on the South China Sea, it is worth noting that it concerns the intra-regional dimension of the conflict in the South China Sea, i.e., exclusively interstate relations between the member states of Southeast Asia. The following main aspects of this document should be emphasized. Firstly, it emphasizes the sovereignty and jurisdictional affiliation of certain territories and waters within the South China Sea, which indicates the sensitive nature of these concepts for ASEAN member states. Secondly, the Declaration calls for resolving jurisdictional and sovereignty issues over the islands, which include the Spratlys, Paracel Islands, Scarborough Reef, Natuna Islands and Pratas Islands [Documents on ASEAN and South China Sea, 2011], by peaceful means without the use of force, and for exercising self-restraint to create a positive climate for conflict resolution. Therefore, the 1992 Declaration is in line with the nature of the ASEAN cooperative security regime, as it aims to improve the climate of international relations through non-military means.

Overall, the 1992 ASEAN Declaration on the South China Sea has helped to reduce tensions among ASEAN member states, and several disputes have been resolved through bilateral agreements or third-party involvement. For example, the 2002 conflict between Indonesia and

Malaysia over the ownership of Sipadan Island and Ligitan Reef, as well as the 2008 conflict between Malaysia and Singapore over Pedra Branca/Pulau Batu Puteh, Middle Rocks and South Ledge were resolved by involving a third party, namely the International Court of Justice. This also applies to the 1997 bilateral agreement between Thailand and Vietnam on the delimitation of the continental shelf and the boundaries of the exclusive economic zone in the Gulf of Thailand; the 2003 agreement between Indonesia and Vietnam on the delimitation of the continental shelf in the area north of the Natuna Islands; and the 2014 agreement on the boundaries of the exclusive economic zone in the Mindanao and Sulawesi Seas between Indonesia and the Philippines [Rustandi, 2016]. Thus, the 1992 ASEAN Declaration on the South China Sea became a framework document that managed to resolve issues related to traditional security threats, but only within the Southeast Asia and in relation to some territorial disputes between the Association's member states in the South China Sea.

The second important document was the Declaration on the Conduct of Parties in the South China Sea, signed by the ASEAN member states and China on November 4, 2002. It is worth noting several important points contained therein. Firstly, as in the case of the 1992 ASEAN Declaration on the South China Sea, the document is based on the principles of cooperative security, as its purpose consists of "promoting good neighbourliness and transparency, establishing harmony, mutual understanding and cooperation, and facilitating peaceful resolution of disputes..." [Declaration On The Conduct Of Parties In The South China Sea, 2002], which coincides with the principles of cooperative security, including transparency, non-violence and good neighborliness based on friendly consultations and negotiations. Thus, the Declaration on the Conduct of the Parties in the South China Sea is based on confidence-building measures, in this case to improve the climate of relations in the given waters, which indicates that there are no prospects for conflict resolution through preventive measures or regional dispute resolution mechanisms. In addition, given the fact that this Declaration is the only legal instrument that directly regulates China-ASEAN relations in the South China Sea, it is worth noting the low level of trust between the participants during the first two decades of the twenty-first century and the impossibility of resolving the conflict solely by ASEAN and its cooperative security regime.

Secondly, the 2002 Declaration refers to the principle of self-restraint, which should serve as an element of deterring the complication and escalation of the conflict in the South China Sea, but it is not in force due to China's continued militarization of this area. Thus, we can state that it is impossible to fully transfer ASEAN's norms and practices beyond the South China Sea, which indicates the limitations of its cooperative security regime and security policy in Asia-Pacific in terms of attempts to resolve the issue of traditional, hard security. Therefore, the best way out for the Association remains to focus on non-traditional security threats, which are widely represented in the 2002 Declaration, namely, protection of the marine environment, marine research, ensuring the safety of navigation and communication at sea, search and rescue operations, as well as combating transnational crime, including piracy, illegal arms trade, etc. [Declaration On The Conduct Of Parties In The South China Sea", 2002]. Thus, it is expected that ASEAN will continue to focus on confidence-building measures in the South China Sea to establish a climate of relations with China in these waters.

Thirdly, the 2002 Declaration states that the next step to promote peace and stability in the South China Sea should be the adoption of a code of conduct, which should be developed on the basis of consensus. The latter is the reason why it has not yet been adopted. This also applies to the document supplementing the 2002 Declaration – the 2011 Guidelines for the Implementation of the DOC, which were developed in 2005 between ASEAN and China, but adopted on July 20, 2011 [Chang, 2020]. They define the following principles: the implementation of the 2002 Declaration should be based on its gradual implementation; the parties to the Declaration will continue to promote dialogue and consultation; cooperation in the South China Sea will be voluntary; the initial steps in implementing the Declaration should be confidence-building measures; implementation of specific actions should be based on consensus, etc [2011 Guidelines For The Implementation Of The Declaration Of Conduct On The South China Sea, 2011].

Thus, the Declaration on the Conduct of Parties in the South China Sea is still the only legal instrument governing relations in this area between ASEAN, its member states, and China. However, the lack of binding nature makes it ineffective, which can be seen in China's continued practice of militarizing and strengthening its territorial claims in the South China Sea. This is a key problem of ASEAN's security policy in the Asia-Pacific region, namely the inability to address traditional, hard security issues and the inability to fully extrapolate its cooperative security regime from Southeast Asia to Asia-Pacific region, especially with regard to the principle of self-restraint. While it has been effective since ASEAN establishment in 1967, and in the case of the South China Sea since 1992, this principle is not accepted by extra-regional powers such as China, primarily because of its non-binding nature and the perception that there are no effective regional mechanisms that could influence confrontational behavior in the South China Sea. This could be solved by a code of conduct, which has not yet been finalized, despite the existence of a draft of such a code that was agreed upon in 2018 [Chang, 2020]. However, its legal nature is still unclear, i.e., whether it will be binding on ASEAN and China.

There are three possible ASEAN responses to China's activities in the South China Sea: compliance with legal mechanisms, continued political negotiations on a code of conduct, and joint resource development [Rustandi, 2016]. As for the first two options, they are important in view of ASEAN's security policy in the Asia-Pacific region, which is based on the concept of cooperative security, characterized by reliance on norms, as well as dialogue, which is a fundamental element of ASEAN's domestic and foreign policy.

Finding and adhering to legal mechanisms will not be easy, but it is the most reasonable option for ASEAN to respond to China's policy in the South China Sea. This option is based on the Association's continued adherence to the 1982 United Nations Convention on the Law of the Sea (UNCLOS), to which not only all ASEAN member states but also China is a signatory [Rustandi, 2016]. Therefore, the Association can use UNCLOS as a framework document to try to resolve the dispute over the South China Sea, as this international convention is a binding document, unlike the 2002 Declaration. However, the main problem with resolving the conflict on the basis of UNCLOS is China's refusal to recognize the July 2016 decision of the Permanent Court of Arbitration, which upheld the Philippines' claim against China regarding the unjustified territorial claims based on the nine-dash line [Rustandi, 2016]. Thus, the use of legal mechanisms will not give an immediate result, but may have an effect in the long run by deteriorating China's international image due to its refusal to recognize the decision of an international judicial body.

In addition, since China is a party to the Treaty of Amity and Cooperation in Southeast Asia, the militarization of the South China Sea, as well as the artificial reclamation of the islands, is a violation of the provisions of this treaty, as such activities reduce the level of peace and stability in Southeast Asia as part of the Asia-Pacific region. And since the Treaty of Amity and Cooperation in Southeast Asia forms the basis of the ASEAN cooperative security regime, China's non-compliance with the Treaty also undermines the security architecture of the Asia-Pacific region, i.e., it shows a de facto dissonance between China's actions and its official position as a responsible state, which has a long-term effect in the form of a deterioration of China's image.

The second option for ASEAN's possible response to China's actions in the South China Sea is to continue political negotiations on a code of conduct. This variant is the most problematic in view of China's insurance strategy, i.e., delaying negotiations on the development of the above-mentioned code of conduct in order to strengthen its claims in the waters by further militarizing and reclamation [Rustandi, 2016]. The option of political negotiations is indeed problematic, primarily because of its time-consuming nature - negotiations on the development of a code of conduct in the South China Sea have been underway for more than 20 years, and the basis of ASEAN-China relations is still a non-binding legal instrument – the 2002 Declaration on the Conduct of Parties. It should be noted that the length of negotiations on the development of a code of conduct in the South China Sea relates to consensus as the basis for decision-making, and consensus makes it impossible to make decisions quickly. In the case of the South China Sea (SCS), the delay is beneficial for

China in order to strengthen its de facto presence in the area and strengthen its territorial claims there.

This is confirmed by the adoption of guidelines to accelerate the negotiation process for the Code of Conduct in the South China Sea at the ASEAN Foreign Ministers Meeting and the Director of the Foreign Affairs Committee of the Central Committee of the Chinese Communist Party in July 2023 [ASEAN-China Agree on Guidelines to Accelerate Negotiations for the Code of Conduct in the South China Sea, 2023].

Therefore, the conflict and territorial claims around the SCS cannot be resolved within the ASEAN cooperative security regime. The absence of a binding regulatory framework, China's refusal to comply with the 2016 Permanent Court of Arbitration ruling, and the lengthy political negotiations on the development of a code of conduct in the South China Sea make ASEAN's security policy in the Asia-Pacific limited and unable to resolve territorial disputes outside the Southeast Asia. At the same time, ASEAN's activities in the South China Sea are at the level of confidence-building measures, and its main goal in this area is to improve the climate of relations between the parties to the dispute, which is another confirmation of the Association's limited security policy in the Asia-Pacific region in general and its cooperative security regime in particular.

When considering ASEAN's security policy in the Asia-Pacific, we note the inability of the Association's cooperative security regime to resolve territorial conflicts outside the Southeast Asia, which indicates the limitations of extrapolating the above-mentioned security regime to the Asia-Pacific region. In this regard, we should highlight the main limitations of ASEAN's cooperative security, which affect its security policy and reduce the role of the Association in building the security architecture of the Asia-Pacific region.

An analysis of the limitations of the ASEAN cooperative security regime has identified two fundamental weaknesses in dispute resolution in the South China Sea. These limitations relate to the internal aspect of ASEAN's functioning, in particular, adherence to some principles of the ASEAN Way, and its extra-regional attempts to create a zone of cooperation in the SCS within the format of joint resource development with China.

ASEAN's internal constraint on conflict resolution in the SCS and its security policy in the Asia-Pacific region in general relates to the concept of the ASEAN Way. This concept is described by N. M. Morada and J. Haacke as ASEAN norms and principles [Haacke & Morada, 2010], while Ralph Emmers defines the ASEAN Way as a process of relations between the member states of the Association based on standard international norms and a number of features through which the ASEAN countries achieve, but also avoid, common solutions [Emmers, 2003].

Despite the lack of legal consolidation of the ASEAN Way, it exists as an awareness of the exclusivity of the ASEAN's functioning based on the principles and practices that it has applied since 1967. Thus, we can distinguish the following components: non-interference in internal affairs, respect for state sovereignty, informal diplomacy, resolution of bilateral conflicts between its members without recourse to ASEAN, and soft institutionalism [Barshchevskiy, 2013]. The latter element means strengthening cooperation while avoiding the use of an institutional framework for cooperation. This type of institutionalism includes informality, pragmatism, non-confrontational bargaining and consensus building. The other type - hard institutionalism - is characterized by recourse to official structures, delegation of provisions to supranational bodies and reliance on legal agreements, etc. [Moldashev, 2018].

Since non-interference in internal affairs and the primacy of sovereignty are most often mentioned as components of the ASEAN Way, it is worth analyzing them in terms of the limitations they may impose on ASEAN's security policy. For example, according to J. Haacke and N.M. Morada, the absolutization of the principle of sovereignty and non-interference in internal affairs due to their colonial past is fundamental for the ASEAN member states, which indicates the perception of sovereignty within the Westphalian world order [Haacke & Morada, 2010, p. 121]. However, according to R. Emmers, the above-mentioned principles helped to avoid interference of

extra-regional powers in the Southeast Asia affairs, which led to a decrease in intra-regional tensions [Emmers, 2003], which made the development of ASEAN possible.

However, the absolutization of sovereignty serves as a key limitation of the ASEAN cooperative security regime, as it prevents it from moving towards preventive diplomacy and conflict resolution outside the ASEAN. For example, the Association failed to establish a peacekeeping force as part of the ASEAN Security Community, as proposed by Indonesia in 1999 during the East Timor uprising for independence. A similar proposal to establish a peacekeeping force was put forward by Indonesia in 2004 at the Fourth UN-ASEAN Conference to strengthen conflict resolution mechanisms within the Association. However, the above-mentioned proposals were not supported by a number of Southeast Asia states, namely: Singapore, Thailand, Vietnam, Myanmar, Laos, Brunei and Cambodia [Tomotaka, 2008]. Thus, it should be noted that the absolutization of the principle of sovereignty is one of the main limitations of ASEAN's transition to preventive diplomacy and practical conflict resolution.

This also applies to the principle of non-interference in the internal affairs of a state. It is worth noting that there have been attempts to modify this principle, in particular during the development of the ASEAN Charter in 2005-2007. For instance, there were proposals to change the principle of non-interference so that the ASEAN Political and Security Community as a collective actor could resolve conflicts in the Southeast Asia, and the Charter itself proposed to introduce sanctions in case of non-compliance with its provisions [Tomotaka, 2008].

In addition, there have been attempts to introduce the concept of "intervention" into the practice of the Association's functioning in order to increase ASEAN's proactivity. For example, in July 1997, Malaysian Prime Minister Anwar Ibrahim (1993-1998) proposed the concept of "constructive intervention," explaining that ASEAN should transit from a reactive organization to a proactive one. A similar initiative was proposed in June 1998 by Thai Foreign Minister Surin Pitsuwan (1997-2001), who suggested modifying the principle of non-interference by introducing the concept of "flexible engagement." These initiatives were aimed at overcoming ASEAN's inability to respond to aggression, as in the case of Hun Sen's seizure of power in Cambodia in 1997, which resulted in the postponement of the process of admission of this state to ASEAN for 2 years – until 1999 [Emmers, 2003].

However, it is the principle of non-interference in internal affairs and the absolutization of sovereignty during decision-making by consensus that have made it impossible to modify the concept of the ASEAN Way. This makes the Association as a collective actor unable to resolve disputes even within the Southeast Asia. In addition, these principles are extrapolated from the intra-regional relations of the Association and its members in the Southeast Asia to the wider Asia-Pacific region, making ASEAN unable to promote preventive diplomacy, resolve conflicts, or even discuss traditional, hard security issues, which include the South China Sea and the dispute over its waters.

The second element of ASEAN Way that makes it impossible for ASEAN to effectively conduct its security policy and resolve the dispute in the SCS is consensus as a basis for decision-making. Its extrapolation as a decision-making practice within ASEAN to the Association's cooperative security mechanisms (the ASEAN Regional Forum and the East Asia Summit) significantly slows down their functioning and progress. For example, the ASEAN Regional Forum, after more than 25 years since its existence, still remains at the stage of confidence-building measures with no prospect of moving to preventive diplomacy in the near future.

The third element of the limited cooperative security regime of the Association, which stems from the ASEAN Way, is the fundamental importance of confidence-building measures, which are mainly implemented through dialogue and consultation in an effort to reach consensus. The focus on these elements of confidence-building is based on the concepts of *mushyavarah* and *mufakat*, which respectively mean consultation and consensus [Mahbubani, 2018]. Building intra-regional relations on their basis and extrapolating them to institutional cooperation with Asia-Pacific actors was key to establishing cooperation and establishing a climate of international relations in the Southeast Asia and the Asia-Pacific in general, but in the case of the ASEAN Regional Forum, their

observance seems to be a goal in itself, rather than being used to advance the regional security architecture. Thus, *mushyawarah* and *mufakat* also do not contribute to the resolution of the dispute in the SCS and indicate that the ASEAN cooperative security regime in the Asia-Pacific will continue to be limited to confidence-building measures based on the above principles.

The fourth element of constraints is the adherence to soft institutionalism, which does not involve recourse to formal mechanisms. For example, despite the existence of the High Council mechanism in the Treaty of Amity and Cooperation in Southeast Asia of 1976 [Rustandi, 2016] and the fact that 33 APR states, in addition to ASEAN member states, have joined this treaty, this conflict resolution mechanism has never been used. This is evidence of both the adherence to the practice of soft institutionalism, which helped to develop the mechanism of the ASEAN Regional Forum in 1994 and increase its membership, and the inability of ASEAN to resolve territorial disputes involving leading actors in the Asia-Pacific region, in particular China.

The second component of the limitations of ASEAN's cooperative security regime and its dispute resolution in the SCS is the creation of a cooperation zone in this water area based on the mechanism of joint resource development, which is considered promising for conflict resolution, as it is provided for by UNCLOS and does not affect the territorial claims of the parties. This mechanism has limitations, as China's policy of joint resource development is pursued bilaterally, not within the framework of multilateral mechanisms. Thus, the bilateral nature of this mechanism of joint resource development and the low probability of its institutionalization on a multilateral basis make this mechanism, despite its prospects, a threat to the functioning of ASEAN and its multilateral cooperative security regime. In addition, the above limitations of the ASEAN Way, especially its soft institutionalism, indicate that joint resource exploration can only become a reality in the long term perspective.

However, it is worth noting that confidence-building measures helped to improve the climate of relations between the parties to the dispute over the South China Sea, which gives grounds to state the value of the cooperative security regime for launching possible cooperation at the bilateral level, especially with regard to the joint development of natural resources.

Conclusions. ASEAN's security policy in the Asia-Pacific region is limited to confidence-building measures and is not aimed at resolving or preventing disputes related to traditional, hard security, such as territorial claims in the South China Sea. This impossibility stems from the following elements of the ASEAN Way: absolutization of sovereignty, non-interference in internal affairs, decision-making by consensus, and conducting the Association's activities on the basis of the principles of *mushyawarah* and *mufakat* - consultation and consensus - which ASEAN has extrapolated to its cooperative security mechanisms - the ASEAN Regional Forum and the East Asia Summit. In addition, despite the promise of the joint resource development format, it could undermine the Association's security regime, as it would be conducted outside ASEAN on a bilateral basis. At the same time, its institutionalization is unlikely, since the practice of both ASEAN member states and the Association itself is based on soft institutionalism, which does not imply supranational character or recourse to formal conflict resolution instruments.

The only way for ASEAN to strengthen security in the South China Sea is to continue to focus on non-traditional security challenges (natural disaster mitigation, combating piracy, illegal maritime trade, etc.) to build trust between ASEAN member states and China in particular.

Prospects for further research on the ASEAN cooperative security regime in the Asia-Pacific should focus on a detailed analysis of specific ASEAN cooperative mechanisms, such as the ASEAN Regional Forum, the East Asia Summit, the ASEAN Defense Ministers' Meeting Plus, the ASEAN+3 and ASEAN+6 formats, and what their role is in strengthening ASEAN cooperative security in the Asia-Pacific.

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NATO ANTAGONIST: NUCLEAR ALLIANCE IN 2024

АНТАГОНІСТ НАТО: ЯДЕРНИЙ АЛЬЯНС У 2024

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Abstract. *The purpose of this study is to analyze the military capabilities of the bloc of Russian-oriented countries and the level of their influence on Russia's support for the war against Ukraine in 2024. In order to effectively identify the links and signs of military cooperation between the countries of this bloc, such research methods as the structural-functional method, comparative analysis, and content analysis are used. The theoretical basis of this work is the theory of structural realism by Kenneth Waltz. Actors of the international geopolitical arena, who have fallen under the tendency of concentration around Russia as opposed to the NATO bloc, interact not only with the totalitarian flagship of this bloc, but also with each other, which is a very alarming sign of consolidation and poses a threat to the entire democratically oriented world. The dynamics of the development of this grouping, which includes both the nuclear countries Iran, North Korea and China, as well as non-nuclear, but quite important European countries that have an influence on the decisions regarding military assistance to Ukraine in the war against the occupation forces of Russia, such as Hungary, Serbia and Slovakia.*

Key words: *US nuclear policy, nuclear blackmail, non-proliferation, NPT, China, Iran, North Korea.*

Анотація. *Метою даного дослідження є аналіз мілітарних можливостей блоку російсько орієнтованих країн та рівень їх впливу на підтримку росії у війні проти України у 2024-му році. Задля ефективної ідентифікації зв'язків та ознак воєнного співробітництва між країнами даного блоку використовуються такі дослідницькі методи, як структурно-функціональний метод, порівняльний аналіз та контент аналіз. Теоретичним підґрунтям даної роботи є теорія структурного реалізму Кеннета Уолтца та теорія «ідеологічних союзників» Марка Хааса. Актори міжнародної геополітичної арени, які потрапили під тенденцію концентрації навколо росії на противагу блоку НАТО, взаємодіють не лише із тоталітарним флагманом даного блоку, але й між собою, що є дуже тривожною ознакою консолідації та становить загрозу для всього демократично орієнтованого світу. Динаміка розвитку даного угруповання, яке включає, як ядерні країни Північна Корея, Китай та потенційно ядерний Іран, так і неядерні, але досить вагомні європейські країни, які мають вплив на рішення щодо військової допомоги Україні у війні проти окупаційних сил росії, як Угорщина, Словачія та Сербія.*

Ключові слова: *ядерна політика США, ядерний шантаж, нерозповсюдження, ДНЯЗ, Китай, Іран, Північна Корея.*

Introduction. This article is the second in a series of posts on the process of forming a bloc of nuclear totalitarian states under the auspices of Russia. The current trend of close military-conventional and nuclear cooperation between the main countries of this bloc: Russia, Iran, South Korea and China is considered. Considerable attention in this article is also paid to forecasting the continued development and possible spread of this association in 2024, since European countries that are potentially loyal to Russia, such as Hungary, Serbia, Slovakia (after the 2023 elections), also act in the geopolitical arena. This trend is a rather negative factor influencing the decision-making policy and the collective security system of the European Union. When new challenges and advantages on the part of a hostile totalitarian alliance emerge, it is first necessary to look for a counterbalance that will keep the balance of forces between NATO and the states of the Russian-oriented coalition at a level where nuclear and conventional deterrence can still be classified as effective. As soon as Russia enlists the more decisive support of other actors in the geopolitical arena, it pours new resources into the war with Ukraine and the propaganda work of its elements in other countries, which undermine the internal political stability of these countries and lead the path of a satellite state of the pro-Russian bloc. Overall, the Russian expansionist-totalitarian mechanism is becoming stronger. As a result, there is a continuous expansion and annexation of sovereign territories of neighboring countries. When Russia was looking for allies in Africa and Asia, it had only an external factor influencing the efficiency of the functioning and well-being of NATO countries, but when Russian-oriented politicians come to power in EU member states and radically change the course of the foreign policy of such countries, this is an internal threat to not only the EU, but also the entire NATO bloc.

The purpose of research is to analyze and predict the potential military possibilities and threats from Russian bloc of the states against NATO and Ukraine in 2024.

Recent literature review. This article covers the analysis of a wide range of security issues of the EU and NATO, therefore, in the context of this study, it is necessary to note not only the work on nuclear security, non-proliferation and deterrence, but also research on international stability and the security of the EU and NATO countries as a whole. Some of the most relevant works on NATO security and military threats and challenges from Russia belong to the following researchers: Alexandra Gheciu [*Gheciu: 2022*], who concentrates her research on topics such as multilateralism and international institutions: NATO, European Union, Organization for Security and Cooperation in Europe, United Nations Global Governance International Security. Benjamin Schreer [*Schreer and Alberque: 2022*] who is a head of European Security and Defense Program and expertise on defense policy and Indo-Pacific strategic affairs, NATO and German defense policy. On the theory of nuclear deterrence and non-proliferation, the works of foreign scientists are considered: Amy Wolf [*Wolf: 2023*], who is a researcher at the U.S. Congress on the U.S., Russia and China Nuclear Arsenal Programs, Strategic Arms Control and U.S.-Russian Arms Control Policy; Scott Sagan, whose work focuses on U.S. foreign policy and nuclear deterrence; Heather Williams researches international security and nuclear nonproliferation issues in Eastern Europe; Jonathan Eyll during recent years, he has been researching the possible consequences of Iran's nuclear program for Europe, as well as Russia's nuclear threats in the context of its invasion of Ukraine; Eric Heginbotham examines China's nuclear deterrence, as well as US-China relations in the geopolitical direction; Bruce Bennett is an expert on nuclear non-proliferation and deterrence in the Northeast Asian direction, namely North Korea, China, Japan, and South Korea.

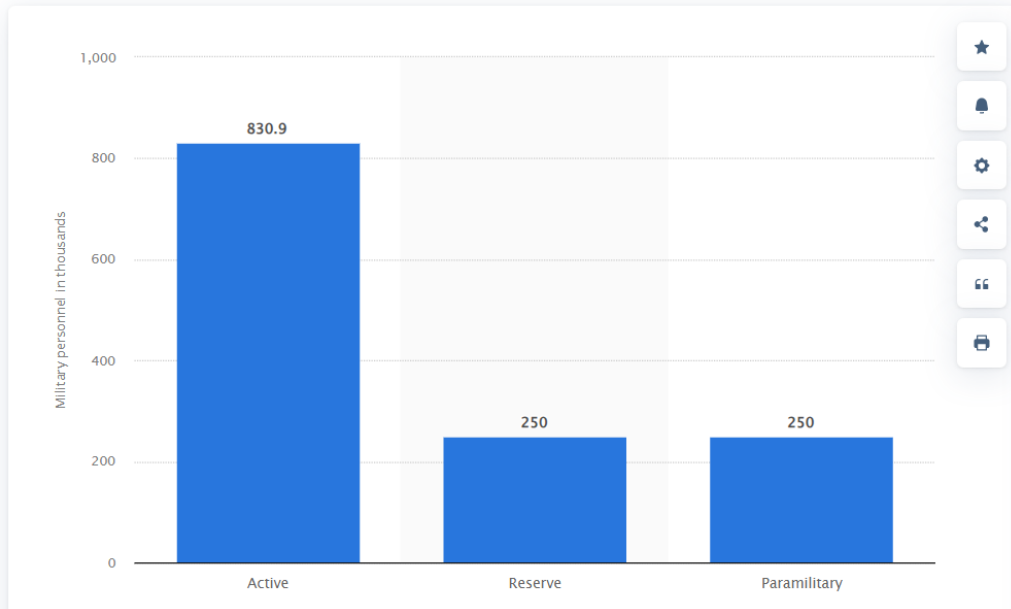
Among the Ukrainian researchers who consider the nuclear policy of the United States, including through the problem of non-proliferation, it is worth mentioning Sergei Galaka [*Galaka: 2011*], Polina Sinovets [*Synovets and Budjeryn: 2017*] and Tetyana Melnyk [*Melnyk: 2021*] among others.

Main research results. The year 2023 was busy, among other things, with high-level visits by representatives of the nuclear states of Russia's allies to Moscow to discuss cooperation and exchange of military technologies not only of a conventional nature, but also of a nuclear nature. The apogee of these visits can be considered Russia's withdrawal of ratification of the Comprehensive Nuclear-Test-Ban Treaty [*Comprehensive Nuclear-Test-Ban Treaty (UN Treaty): 1996*] and simulation of a Russian nuclear strike from land, sea and air on the 25-th of October, 2023: «This year's exercises included a massive nuclear strike by strategic offensive forces in response to an enemy nuclear strike,» Shoigu reported to president Putin [*Wright: 2023*]. There is a correlation between the intensification of visits for the purpose of military-nuclear cooperation between these countries and the act of demonstrating the readiness of Russia's nuclear arsenal for activation. Thus, Putin is trying to prove to his nuclear allies his determination and inevitability in terms of his aggressive military and nuclear policy against the bloc of democratic countries, the United States and Ukraine.

Coming back to a topic of visits themselves and what issues were considered. "That's why we came here. The leader of North Korea is showing a great interest in space, in rocket technology, and they are trying to develop space. We will show our new facilities." Putin told reporters about the purpose of the North Korean leader's visit to Moscow on the 14-th of September, 2023. In contrast to Putin's statement, the visit was mostly focused on military cooperation: «During Kim's visit, Shoigu and Lieutenant General Sergei Kobylash, commander of Russia's long-range bombing forces, confirmed for the first time that the Tu-160 had recently received new cruise missiles with a range of more than 4000 miles (6500 km). Shoigu, who met with Kim Jong Un during a visit to North Korea in July, also showed him another of Russia's latest missiles, the Kinzhal hypersonic missile, carried by a MiG-31 fighter jet that took part in the first fighting in Ukraine. Later, Kim and Shoigu went to Vladivostok on Saturday, where they inspected the frigate Admiral Shaposhnikov. The commander of the Russian Navy, Admiral Nikolai Yevmenov, briefed Kim on the ship's capabilities and weapons, which include long-range Kalibr cruise missiles, with which Russian warships regularly fire at targets in Ukraine. North Korea's state media reported that Kim was accompanied by his top military officials, including the defense minister and senior commanders of his air force and navy, during Saturday's visits. After lunch, Kim Jong Un and Shoigu spoke about the regional security situation and exchanged views on «practical issues arising in further strengthening strategic and tactical coordination, cooperation and mutual exchange between the armed forces of two countries,» according to a North Korean official. Central News Agency. During their July meeting, Kim Jong Un gave Shoigu a similar inspection of North Korea's weapons systems before inviting him to a parade in the capital, Pyongyang, where he fired his most powerful intercontinental ballistic missiles designed to target the United States [*McCurry: 2023*].

So, according to the dynamics of this visit, it is possible to identify more specific areas of military cooperation between Russia and North Korea. Kim Jong-un's main and only lever of pressure on the world community is nuclear weapons. In other words, North Korea's nuclear arsenal is the only guarantee of stability and a guarantor of the existence of the current government of this state. To have such an ideological and military ally as Russia, very important for Kim Jong-un, but most of all he is attracted to this alliance by the fact that Russia is the second largest nuclear arsenal in the world after the United States. Cooperation in the field of nuclear weapons and the exchange of these technologies is exactly what the leader of North Korea is interested in, and Putin, in turn, aims to establish stable supplies of conventional weapons, primarily missiles, kamikaze drones and ammunition to continue intervention in the Ukraine, given that he does not experience a shortage of human resources, such military allies significantly increase the potential of the Russian army in the prospect of a long-term confrontation. According to statistics published by the Statista Research Department [*Statista Research Department: 2023*] at the beginning of 2023, the number of the Russian armed forces was 830 thousands personnel:

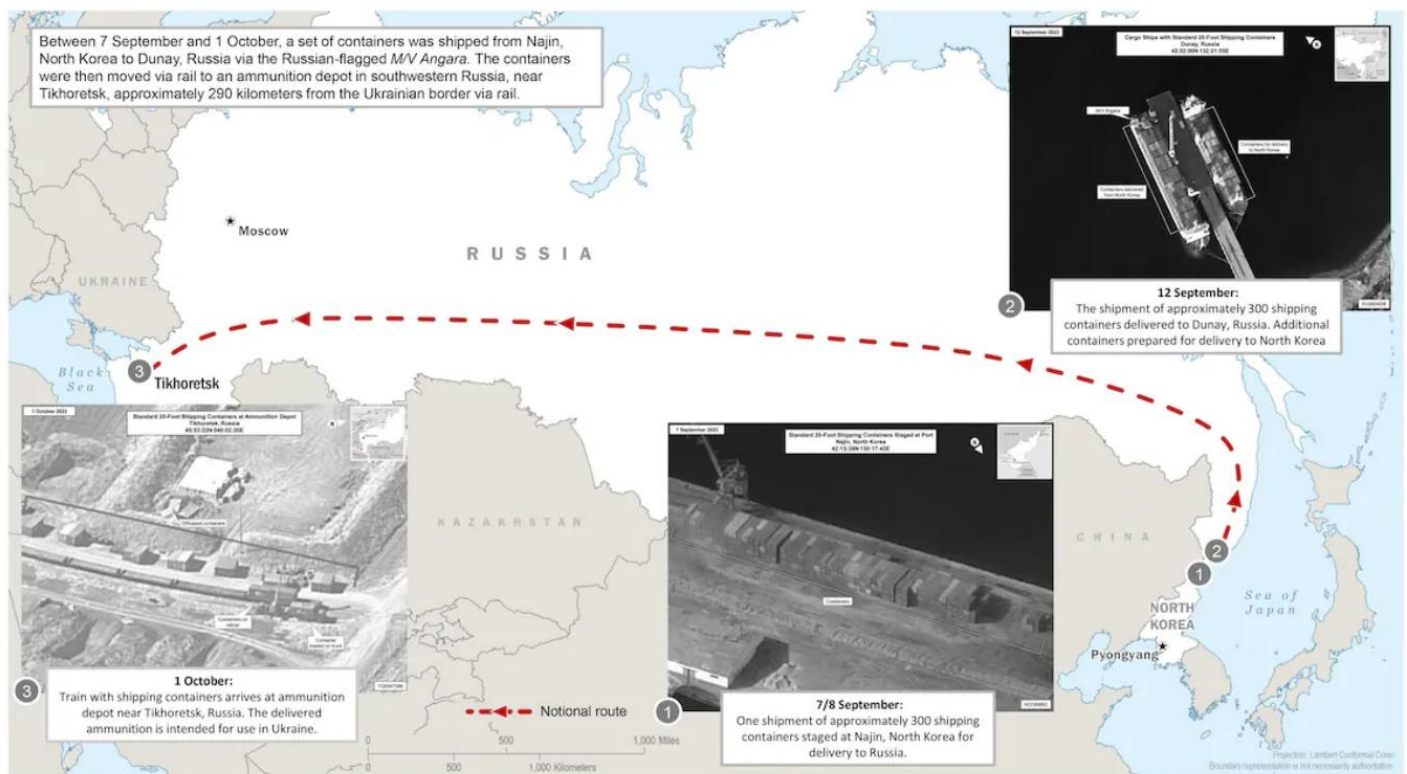
Number of military personnel in Russia as of 2023, by type (in 1,000s)



Source: Statista Research Department.

Two weeks after the above-mentioned visit, information appears in the media about the first deliveries from North Korea to Russia: «There is a sharp increase in rail traffic on the North Korean-Russian border, which likely indicates that Kim Jong-un is helping Russian President Vladimir Putin by supplying ammunition, the US think tank claims, citing recent satellite photos. Satellite imagery from the 5-th of October showed a «dramatic and unprecedented level of freight car traffic» at the Tumangang train station, according to Beyond Parallel, a website run by the Washington-based Center for Strategic and International Studies. Imagery taken last week showed approximately 73 wagons, while previous satellite imagery from the past five years showed a maximum of 20 wagons at the site. » [Rai: 2023] An intensification of deliveries by sea in both directions was also noted, October 13, 2023:

North Korean Munitions Transfer Routes Into Russia



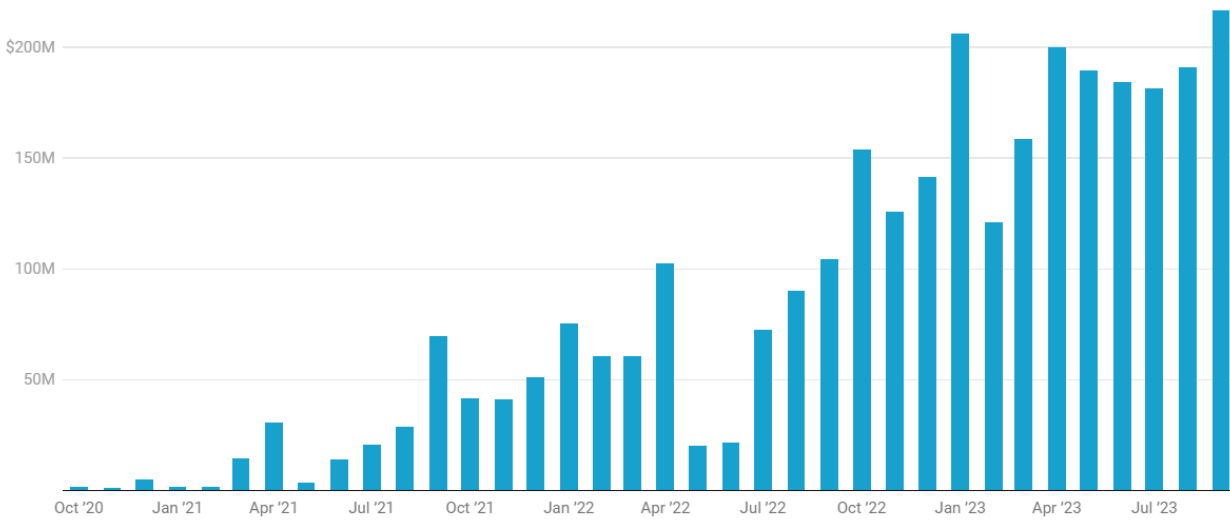
Source: *Beyond Parallel* by the Washington-based Center for Strategic and International Studies.

«National Security Council spokesman John Kirby said about 1,000 containers of «equipment and ammunition» had been provided «in recent weeks». The White House released images showing approximately 300 containers assembled in Najin, North Korea, and delivered by sea and rail to an ammunition depot in southwestern Russia near Tikhoretsk, about 280 miles from the Ukrainian border. Instead, Kirby said that «we've already seen Russian ships unload containers» that «could constitute the initial shipment of weapons from Russia» to North Korea. He did not specify the type of weapons believed to be being transported by one of the parties. The administration has previously said Russia is looking the world for more ammunition as both sides of the war in Ukraine have expended hundreds of thousands of artillery shells.» [DeYoung: 2023]

Such close ties between North Korea and Russia with the potential to supply nuclear weapons technology to the DPRK, in exchange for conventional weapons, should cause concern on the part of China. But as China continues to actively trade with Russia and import goods into North Korea, which reached \$1.63 billion in the first three quarters of 2023, which is three times more than in the same period of the previous year, may indicate that the issue of nuclear proliferation from Russia to North Korea does not really bother Xi Jinping:

Monthly value of China-North Korea trade between Oct. 2020 & Sept. 2023, in USD

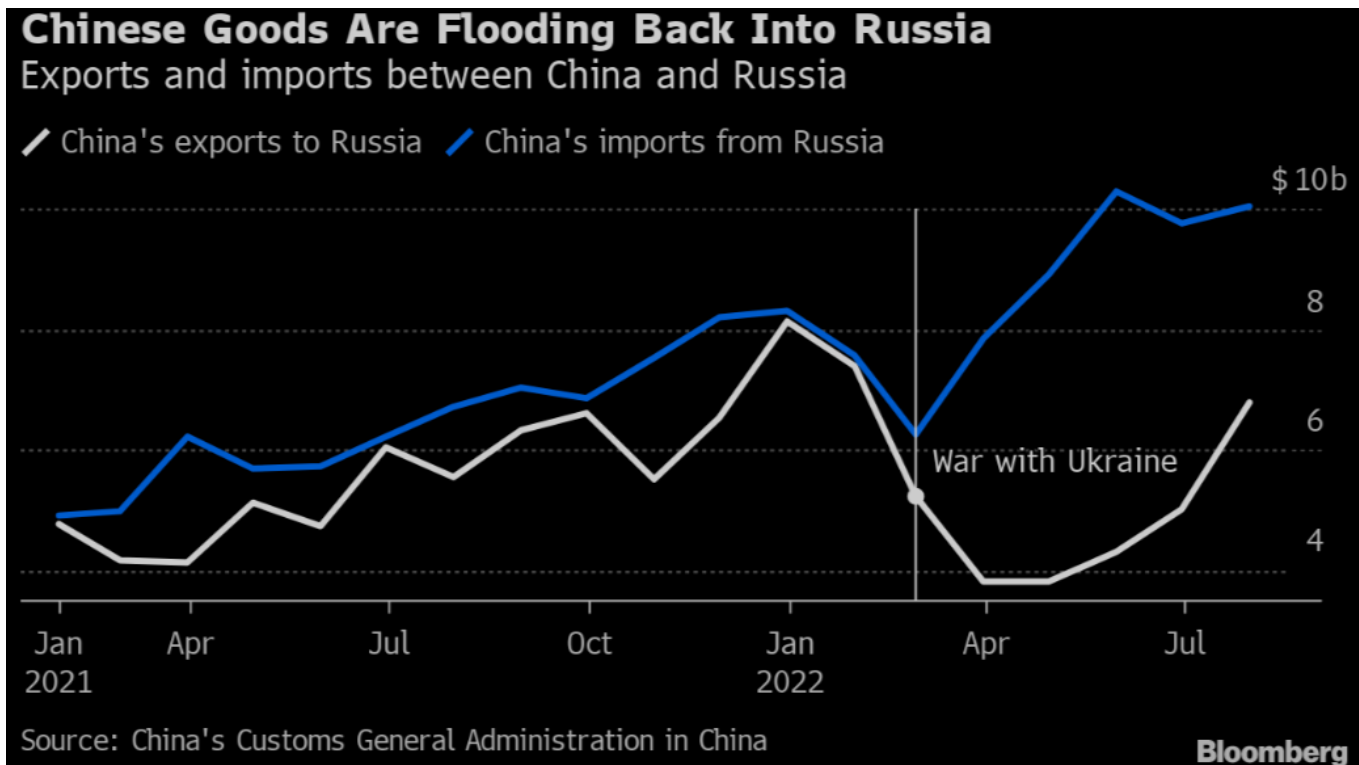
Source: China General Administration of Customs



Source: China General Administrative of Customs.

Chinese exports to Russia increased by 73.4% and reached \$62.54 billion compared to 2022

[Bloomberg News: 2022]:



Source: Bloomberg.

According to these economic statistics, there are signs that China is actively buying agricultural products and raw materials from Russia, including resources that were stolen and exported by the Russian military from the temporarily occupied territories of Ukraine. And what type of imports Russia is primarily interested in is components for missiles and kamikaze drones, radio-electronic equipment, as well as military ammunition of various types, ammunition and automatic weapons. Of course, the fact of China's possession of nuclear weapons is the basis of

authority and the basis for China's most priority position among other countries participating in the pro-Russian bloc.

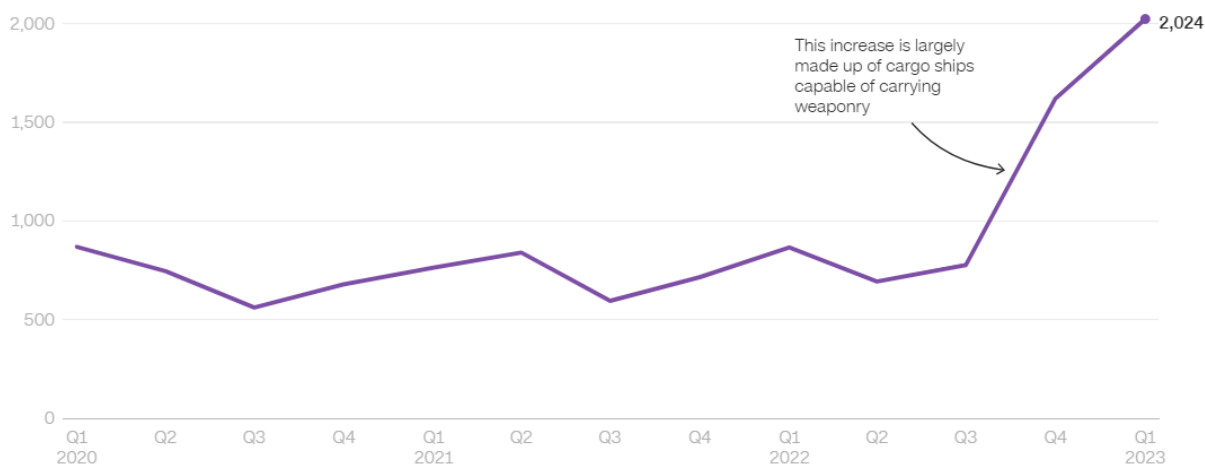
2023 was also a year of significant strengthening of Russia's relations with Iran, namely military collaboration in the context of the supply of various types of weapons to replenish stocks, which are periodically empty due to the war against Ukraine, mostly influenced by the expiration of UN Security Council Resolution 2231 2231, [U.S. Department of State: 2023] which prohibited Iran from exporting, or procuring, ballistic missiles, among other weapons. According to a series of meetings between the Russian and Iranian sides, the 2023 exhibition of military weapons and technologies [Tasnimnews: 2023] in Moscow on the 14-th of August, the meeting of Shoigu and Mohammad Reza Ashtiani at the IRGC Aerospace Forces Headquarters in Tehran on September 20, as well as Shoigu's visit to the Islamic Revolutionary Guard Corps of Iran [Cook E.: 2023]. Iran and Russia discussed the following models of Iranian missiles in the context of procurement: *Ababil* (86 km), *Zolfaghar* (700 km), *Raad-500* (500 km), *Fattah* (1400 km), *Paveh* (1650), *Fateh-110* (200-350 km).

An active increase in the volume of arms supplies from Iran to Russia has been noticed since the second half of 2022, and the upward trend in supplies continues in 2023. According to analytics provided by Lloyd's List Intelligence [Abdelaziz and Kent: 2023], the active increase in ship traffic between Iran and Russia through the Caspian Sea, as well as the zone of "temporary shutdown of ship tracking systems" is one of the components that give reason to believe that the trend of increasing the supply of weapons by Tehran to Moscow continues.

Data shows an increase in the number of gaps in tracking data for Russian and Iranian ships in the Caspian Sea

Experts say suspected weapons transfers from Tehran to Moscow are taking place using this route. By turning off AIS vessel tracking, these vessels are able to hide parts of their journeys, destinations or ship-to-ship transfers.

Number of tracking system gaps in the Caspian Sea for Iran- and Russia-flagged cargo ships



Note: Automatic Identification System is a mandatory automatic tracking system that uses transceivers on ships to aid safe travel and allow maritime authorities to track and monitor vessel movements.

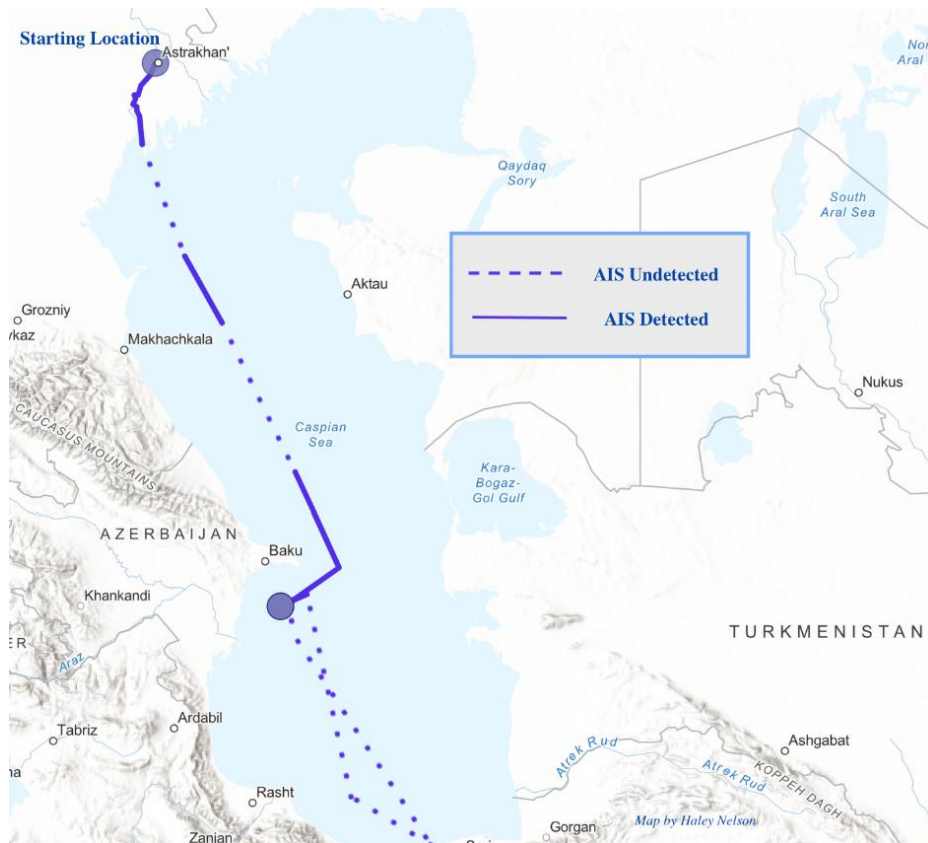
Source: Lloyd's List Intelligence
Graphic: Lou Robinson, CNN

Source: CNN.

According to data published by Sky News [Haynes: 2023] on the 8-th of March, 2023, Tehran provided Moscow with 100 million small arms rounds and 300 thousand shells. This delivery was carried out along the same route through the Caspian Sea, as covered according to the data provided by the previously indicated source. From the port of Amirabad in Iran to the Russian port in Astrakhan, as well as to the port of Makhachkala, there is the main traffic of Russian and Iranian ships with weapons for use in the war against Ukraine. Detailed analysis of sea routes of this

traffic and patterns of disconnection of track equipment on these vessels was recorded by the Caspian Police Center, statistics provided for the period during May 2023:

«In May 2023, a total of 138 Russian-flagged vessels in the Caspian Sea had approximately 657 cases of no AIS signal, while 48 Iranian-flagged vessels had 199 such cases. Since June, Russian-flagged ships have shown 625 gaps in their AIS signals, while 48 Iranian-flagged vessels have shown 218 gaps. In July, this trend continued, with 630 AIS gaps, including 157 Russian-flagged vessels, and 47 Iranian-flagged vessels with 192 gaps.» [Nelson: 2023]



Source: Caspian Policy Center.

But among the other types of weapons provided by Iran, as during the previous year, Russian troops most often use Shahed 131/136, Mohajer-6 and Shahed 131/136 kamikaze drones. One of the first deliveries of which was recorded at the beginning of the year, in February 2023:

«Most of the drones sent to Russia were secretly picked up by an Iranian vessel from a base on the Caspian Sea coast and then transferred by sea to a Russian Navy boat, the sources said. Others were sent by Iran's state-owned airline, they added.» [Chulov, Mando and Sabbagh: 2023].

In addition to the traffic of a large assortment of weapons from Iran to Russia, another threat to democratic Europe and the world as a whole is Iran's military collaboration with Russia in the context of the development of military infrastructure on the Russian coast of the Caspian Sea, as well as the cooperative construction of a plant for the production of Geran 2 kamikaze drones according to the Iranian model, which announced the production of 6000 units of this type of drone in two and a half years starting from January 2023. A detailed analysis of the development of this cooperation between Iran and Russia was conducted by the Institute for Science and International Security:

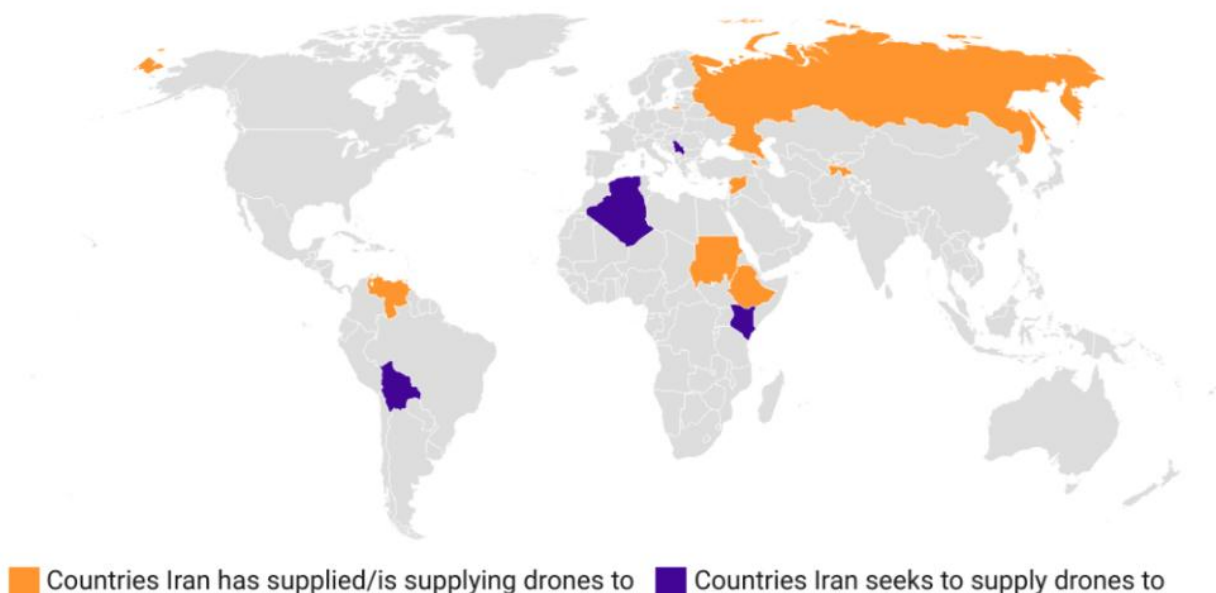
«At the request of the Washington Post, the Institute analyzed a set of internal documents of the Russian OJSC SEZ PPT "Alabuga"1 on its production of Geran-2 military drones with the assistance of Iran. On the 17-th of August, 2023, the Washington Post published its story "Inside Russian Attempts to Build 6000 Attack Drones with Iran's Help.»

The Geran 2 is actually a replica of the Shahed 136 drone, a kamikaze-type munition that Iran supplies by the hundreds to Russia for use against fixed Ukrainian targets, where its targets and routes are pre-programmed before launch. Geranium 2 is the most important combat drone of the Russian army mentioned in the documents. The Russian Ministry of Defense has signed a contract with Alabuga to produce 6,000 Geran 2 drones, sometimes referred to in documents as Geranium 2, as part of a two-and-a-half-year project that will begin on the 2-ns of January 2 2023 on the basis of significant assistance from Iran and the transfer of technology to Russia.» [Albright, Burkhard and Faragasso: 2023]

Iran has a fairly powerful potential as a supplier for the military bloc of Russian-oriented countries. Already today, in addition to Russia, Tehran also supplies its military drones to countries such as Sudan and Ethiopia. The latter recently suppressed the war for the independence of the Tigray region in 2023. Ethiopia also took measures to involve locals to the Russian armed forces into the war against Ukraine. On July 26, 2023, Ethiopian Prime Minister Abiy Ahmet Ali met with Putin in St. Petersburg, and a month later, Chinese leader Xi Jinping met with Ethiopian Prime Minister in Johannesburg on the eve of the BRICS summit, the latter stressed the importance of promoting «stability in the region», Addis Ababa's transport ties with the most important port in the region, Djibouti, as well as the prospect of Ethiopia's accession to BRICS: «China is ready to work with Ethiopia to promote the implementation of the Peace and Development Projections in the Horn of Africa and contribute to regional peace and stability.» [The Herald :2023]

Ethiopia, due to its unique geographical location, size, and population, is one of the most strategically attractive countries on the African continent. But, considering the foreign policy sentiments of Abiy Ahmet Ali and the ruling elite of this country, they joined the bloc of totalitarian Russian-oriented countries. Returning to the export of kamikaze drones by Iran, Ethiopia is the second largest supply of this type of weapon:

Iran Drone Exports



Map: AEI's Critical Threats Project • Source: Author's Research • Created with Datawrapper

Source: *The New York Times*.

«Western diplomats confirmed to The New York Times that Ethiopia received Iranian drones, and this was later publicly acknowledged by the U.S. Treasury Department last October when they imposed new sanctions on Iran's drone program.» [Fassihi and Ward: 2022]

So, referring to current events in the geopolitical arena of Northeast Africa, which include visits at the highest level, the conclusion of cooperation agreements and, most importantly, the traffic of military equipment and weapons to support the leadership of the allied countries of the bloc of totalitarian states in continuous confrontation with the forces of NATO countries, the sphere of influence of the United States, as well as local national movements. The activities of such movements, as in the case of Tigray in Ethiopia, are aimed at eliminating de facto dictators, representatives of the totalitarian or authoritarian ruling elite, which is closely connected and even obliged to fulfill the tasks of such totalitarian superpowers like Russia and China, absolutely not taking into account real national interest of their citizens and ensuring the well-being and freedom of their existence. In 2023, Ethiopia suppressed activity of the Tigray People's Liberation Front, which advocated lifting of the food and energy blockade of Tigray, which was imposed by Abiy Ahmet Ali, and the change of the country's leadership to a democratically oriented elite, which should act regulated by such bases of domestic state policy as human rights, the rule of law and other principles of a democratic society, where the people independently choose their future. which is most likely in no way related to the reality into which the current leadership plunged Ethiopia, turning the country into a resource and transit base for an alliance of totalitarian states under the auspices of Russia. The case of Ethiopia is one of many, but in general, more or less typical examples of involving allies in a large totalitarian alliance of Russia.

2023 was also the year of Slovakia's ideological accession to the group of European countries, such as Hungary and Serbia, in the context of supporting Russia. This happened immediately after Robert Fico's victory in the parliamentary race in Slovakia 2023. Fico was also an active participant in negotiations between the EU and Russia on the Nord Stream 2 project and, which is a fairly significant sign of Robert Fico's "special" contacts with Putin, it is that at a meeting in Moscow on August 26, he supported this project, despite the fact that it would be a significant blow to the Slovak economy, because it would also significantly reduce the demand for transit through the joint Ukrainian-Slovak pipeline. [*Spectator*: 2016] Loyalty to the totalitarian occupier from the north within the EU is a rather disappointing indicator for the EU and NATO itself, as it could potentially change Russia's status in the eyes of other figures in the international arena, giving Russia the status of a party that can theoretically be joined, since in addition to nuclear totalitarian states of the East, including European democracies, support this country despite repeated violations of fundamental international treaties, human rights violations, genocide of civilians and the status of Russia's leader as a criminal according to the decision of the International Criminal Court in The Hague on the 17-th of March, 2023. [*International Criminal Court*: 2023]

«We leave all lines of communication open for the Russians. Otherwise, there would be no chance for peace,» Orban said. It's a strategy. Such statements were made by the Hungarian Prime Minister at the EU summit on the 26-th of October in Brussels, a week after his marginal act against the EU's official position in the form of a meeting with Putin in Beijing on the 17-th of October, which included a provocative handshake photo with a totalitarian leader. [*Washington Post*: 2023] In turn, Fico made the following statement regarding assistance to Ukraine in the fight against the Russian occupation forces: «We all see that there is no military solution.» So, as can be seen from the official position of Hungary and Slovakia, these two countries carry an active narrative of support for Putin in the European Union, and what privileges they will receive from the dictator for such a contribution to the advancement of a totalitarian bloc into democratic Europe is currently unknown.

«I think that the Russian Federation, which fought hard for its security and tried to provide these guarantees earlier, was simply forced when it comes to this military operation,» said President of Republika Srpska in Bosnia and Herzegovina Dodik during a meeting with Putin on the 24-th of May in Moscow, also summed up cooperation in the economic sphere: «economic cooperation between Russia and the RS will be continued.» [*European Western Balkans*: 2023] Just like Serbian President Aleksandar Vucic, who had, as he himself summed up, journalists, «as always, a friendly meeting» with Putin in Beijing during the visit of the Chinese Belt and Road Initiative. [*Taylor*: 2023] But during these meetings, attention was not focused on military

collaboration against Ukraine, namely the recruitment of military personnel into the ranks of the Russian army from Serbian citizens. «Most of the foreign volunteers in the Russian army are from Serbia,» said a Serbian man who gave an interview to The Guardian about the Serb's journey from the moment he was recruited into the ranks of the Russian army until he was transported to the Ukrainian front line. [Sauer: 2023] As he also notes in his report, reducing the contract service to 1 year from 5 for foreigners has significantly increased the interest of Serbs in the prospect of fighting for Russia in the war against Ukraine.

And here again the question arises of the effectiveness of the collective security of the European Union and the level of consolidation of its members, or, as in the case of Serbia, candidates for EU membership. Since 2012, Serbia has had the status of an official candidate for EU membership and all these years has been continuing the process of preparation for accession in accordance with the requests and criteria of the EU, which, in turn, actively finances the development of various spheres and the economy of Serbia as a whole, which can be seen from the report published and updated on the official website of the European Commission. [European Commission: 2023]



Source: European Commission.

The principle of the formation of the EU should consolidate countries and have a positive impact on both collective development and collective security. The example of Serbia shows that while EU members supply Ukraine with military equipment and weapons, a country with the status of a candidate for membership declares economic cooperation with Russia and supplies it with its citizens as recruits, who die there from the same EU weapons.

Conclusions. The theory of structural realism, or neorealism according to Kenneth Waltz, [Waltz: 1979] can explain and partially predict the trend of the development of an alliance of totalitarian states and their satellite states: "With many sovereign states, among which there is no system of law, in which each state evaluates its grievances and ambitions according to its own reason or desire, a conflict that sometimes leads to war is bound to arise." [Waltz: 2010] In parallel

with the desire of these states to meet their needs in the geopolitical arena at the expense of other states, there is also an ideological affinity in the ruling elites of these countries and in the means and direction of their domestic policy. Analyzing the vector of movement of the pro-Russian alliance of states and the principles of their collaboration, one can also find an obvious coincidence with the theory of «ideological alliances» of Mark Haas [Haas: 2012], which is also relevant to neorealism, since in this case we have an alliance of countries of totalitarian or authoritarian internal order, which have been concentrated and are rallying around Russia, at the same time, through mutually beneficial exchange, these countries, or their leaders, will receive certain tools and opportunities to satisfy personal interests in the geopolitical arena at the expense of the countries of the democratic vector of internal governance. «Ideological distance and polarity are analogous to the two main variables that systematically shape the results in theories of structural realism: the relative distribution of power and the number of large forces in the system (power polarity),» [Haas: 2012] Mark Haas noted in the paradigm of understanding trends in the formation of ideological alliances. Today, the world is considered multipolar, but in fact, since Russia's full-scale offensive on the Ukraine in 2022, two completely opposite ideological blocs have been formed. This trend will lead to the continued consolidation of ideologically related countries of the totalitarian-authoritarian vector of domestic policy around Russia and China, as well as in the case positive for NATO, the concentration of ideological democratically oriented allies and NATO expansion in 2024 and beyond, until the totalitarian antagonist ceases its systematic activities.

So, according to the trend of increasing interaction between Russia and its allies in the Eastern (Iran, North Korea, China, Ethiopia) and Western (Hungary, Slovakia, Serbia) blocs of states that share the ideology of Putin and the Russian elite, we can conclude that 2023 was the most successful year for Russia in the context of consolidating its allies around the war against Ukraine, and strengthening the alliance of totalitarian states as opposed to the democratic world. An unprecedented amount of weapons transported from Iran and North Korea through the Caspian Sea and rail to Russia. Establishment of uninterrupted production of kamikaze drones in Russia with the support of Iran, as well as an active exchange of nuclear technologies, and the possible supply of nuclear weapons elements to North Korea and Iran from Russia in exchange for conventional weapons and strategic military support in the international geopolitical arena. The sale of grain stolen and exported from Ukraine by the Russian military to China, the import from China, in turn, of electronics and various types of equipment necessary for Russia's military needs. Active action of Russian foreign ministries to attract new satellite states and allies to satisfy the strategic and geopolitical interests of the flagship of the totalitarian alliance. The example of Ethiopia clearly reflects the model of Russia's interaction with a local corrupt leader, whose government is supported by Russia, while the latter receives a wide range of opportunities to manipulate and dispose of local resources and geostrategic position with indirect proximity to the most important ports of the Horn of Africa. And as can be seen from the trend in the development of Russia's relations with its supporters from the Western bloc about totalitarian states, thanks to his direct influence on the leaders of Hungary and Slovakia, Putin has influence on the decision-making of the European Union, namely the ability to block military aid from the EU to Ukraine, as happened repeatedly during 2023, when Hungary blocked the package of military aid to Ukraine. At the same time, there are no similar obstacles to the flow of weapons from Iran and North Korea to Russia.

«This relentless pursuit of power means that great powers tend to look for opportunities to change the distribution of world power in their favor. They will take advantage of it if they have the necessary opportunities. In this way, a great power will protect the balance of power when threatening change favors another state, and will seek to undermine the balance when the direction of change is in its own favor. » [Mearsheimer: 2001] - as John Mearsheimer noted in his work «The Tragedy of Superpower Politics», and this is exactly the global task that Putin set for Russia in the 21st century. The aggressor state continues to increase momentum in this vector of its foreign policy and will continue to do so in 2024 according to the analysis of the current dynamics of the development of this process.

We are witnessing the birth of the Grand Alliance of totalitarian states and their satellite states, which is rapidly and increasingly effectively consolidating around Russia and its war against Ukraine and the democratic world, thanks to which they are practically and already today working out military collaboration in all possible directions, including cooperation in nuclear weapons, and attracting, directly or indirectly, more states to their bloc. The most obvious factor that can stop the process of further consolidation of this formation against NATO and the majority of the democratic world is Ukraine's victory in the war with Russia with the support of NATO forces and other actors in the international arena who are not interested in the domination of Russia and other states of the totalitarian alliance in the global geopolitical space.

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CONCEPTUAL AND THEORETICAL ASPECTS OF THE NARRATIVE APPROACH TO STUDYING PROBLEMS OF THE BALANCE OF POWER IN CENTRAL-EASTERN EUROPE

КОНЦЕПТУАЛЬНО-ТЕОРЕТИЧНІ АСПЕКТИ НАРАТИВНОГО ПІДХОДУ ДО ВИВЧЕННЯ ПРОБЛЕМ БАЛАНСУ СИЛ У ЦЕНТРАЛЬНО-СХІДНІЙ ЄВРОПІ

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Abstract

In the international sphere, which is currently in crisis, Central and Eastern Europe remains a region that strives for a stable balance of power. Among the tangled and networked relationships in the region, strategic narratives play a key role in overcoming communicative and cognitive vulnerabilities. This article examines the theoretical aspects of a narrative approach to the study of the properties of the balance of power used by CEE countries to self-identify and negotiate the distribution of power in the region. Using narrative analysis, this article examines how these narratives influence perceptions of the balance of power in the region and delineate networked communication channels.

Key words: narratives, balance of power, Central and Eastern Europe, international communication, discourse, network relations, resilience

Анотація

У міжнародній сфері, що зараз перебуває у кризовому стані, Центрально-Східна Європа залишається регіоном, який прагне до стабільної рівноваги сил. Серед заплутаних та мережових відносин в регіоні стратегічні наративи відіграють ключову роль у подоланні комунікативних і когнітивних вразливостей. У цій статті розглядаються теоретичні аспекти наративного підходу до дослідження властивостей балансу сил, яку використовують країни ЦСЄ для самоідентифікації та переговорів щодо розподілу сил у регіоні. Використовуючи наративний аналіз, у цій статті досліджується, як ці наративи впливають на сприйняття балансу сил у регіоні та окреслюють мережові комунікаційні канали.

Ключові слова: наративи, баланс сил, Центрально-Східна Європа, міжнародна комунікація, дискурс, мережові відносини, стійкість

Problem statement. The properties of the balance of power in the world and regions are changing. While in the modern era kinetic weapons were crucial and in the postmodern era - cognitive ones, so in the matamodern period both are important. In particular, the media, along with the armed forces of countries, have become a key factor of influence in international relations, which requires new methodological and theoretical approaches to analysis.

The contemporary discourse of international relations is aimed at destroying existing and forming new interpretive and semantic mechanisms of perception of reality. The intensity of the war for cognitive and communication control, for power over consciousness and emotions, thinking and behavior is increasing [Parakhonsky, Yavorska, 2019].

After the beginning of Russia's invasion of Ukraine in February 2022, the countries of Central and Eastern Europe (hereinafter - CEE) once again found themselves at the intersection of international megatrends of global development, which include, in particular, qualitative and quantitative changes in the participants of international relations, transformation of the role of the state and strengthening of non-state actors, increasing interdependence, blurring of national borders and erosion of sovereignty, ideologization of international relations, and the growing role of network structures in world politics [Koppel, Parkhomchuk, 2021].

The complexity of international network structures is characterized by the growing role of transnational relations involving migrants, new diasporas, national minorities, NGOs, gender and religious communities, as well as the growing influence of extreme political movements - far-right and left-wing parties. It is also obvious that the ideological factor in the CEE region did not disappear after the end of the Cold War, but was transformed into one or another type of narrative - liberal, conservative, isolationist, nationalist, pro-Euro-Atlantic, anti-American, etc.

On the one hand, in Central and Eastern Europe, it is possible to see signs of "mosaic communication," which implies the relationship between united but closed, protected and competing political and media cultures under the influence of superpowers and international organizations. On the other hand, the objective resource insufficiency of each individual country necessitates resource optimization and decentralized reintegration: joint management of distributed historical experience, regulation of consensus on common meanings, design of inter-municipal, inter-party, inter-agency, inter-sectoral and other network interconnections.

In this intertwining of multi-level relations, it is important for CEE countries to find ways to maintain the balance of power in the region, to make claims about their identity and vision of the future. In the new metamodern environment, CEE countries are trying to find ways to influence international relations.

The purpose of the article is to substantiate the use of a narrative approach to studying the problems of the balance of power in the CEE region, as well as to consider narratives as tools for overcoming communication vulnerabilities and gaps in connectivity between transnational actors in the region and the CEE states.

Analysis of research and publications. After Russia's annexation of Crimea, the international scientific discourse has intensified research related to strategic communication in international relations, information security, international hybrid influences, discourse and language of war, framing in information policy, semiotics of interpretive mechanisms, and, ultimately, narrativism in international relations. Mostly based on an axiological methodology, the research examines the extent to which ideas, meanings, and ideologies influence global and regional fragmented environments, social groups, and communities.

First of all, the essence of the problem is outlined by developments in the field of megatrends in international relations and network theory. For example, the synergistic analysis of Manuel Castells and Van Dyke helps to formulate the key vulnerabilities of modern international communication - cognitive gaps in connectivity between actors at the global, regional and local levels [Livingston, 2010, Dijk, 2018].

The point is that network theory emphasizes the study of specific connectivity between certain nodes and components. At the same time, communication theory actively considers new international network formations through structural-functional and structural-activity methodology.

In this sense, it is narrativistics that explores ways to overcome the gaps of connectivity. A group of authors, including Alister Miskimmon, Ben O'Loughlin, and Laura Roselle, made a significant contribution to the development of strategic communication, in particular in their works on the connection between international relations and narrativism [Alister Miskimmon, Ben O'Loughlin, Laura Roselle, 2017].

Strategic narratives, in their view, are the means by which political actors shape the shared meaning of international politics and shape the perceptions, beliefs, and behavior of domestic and international actors. These authors believe that communication studies in general, and the narrative approach in particular, significantly expand the understanding of contemporary international relations.

The traditions of communication studies provide new opportunities for understanding the behavior of multinational audiences and the changing information field, which provides an invaluable resource for international relations specialists. Communication researchers can use cognitive approaches to study meaningful interactions. For example, Ukrainian authors Borys Parakhonskyi and Halyna Yavorska in their work on meanings, narratives and framing during the war [Parakhonskyi, Yavorska, 2019] believe that, in fact, today, public discourse is a mirror, an embodiment and at the same time a mechanism for reproducing current ideas common to certain communities. Discourse is a mechanism for exchanging meanings and creating versions. Public discourse goes beyond the media - it is also non-public, diplomatic and informal communication. In addition, the means of hybrid influences are symbolic and signifying in nature. This applies to both military and non-military instruments. Public discourse creates an environment for the creation and replication of various versions and includes traditional media, social networks, public speeches, public events, diplomatic activity, etc.

Indeed, communication scholars can enrich the field of international relations studies (especially those that study international organizations, regional alliances, conflict resolution, and the balance of power) through their expertise in framing, semiotics (the science of signs and symbols), narratology, and discourse.

Research in this area points to the problems of modern "quick coalitions" where key participants often have opposing positions and are more like communities than traditional actors of international relations. The essence of communities a priori implies both symbolic and semantic boundaries of these groups, which is the basis for choosing communication methods to reach agreements, coalitions, and conventions. The complexity of the newest communication paradigm is related to the need to find areas of commonality within a diversified and fragmented communication environment. In particular, the place and role of communication in the process of creating new meanings in contemporary transnational and post-Soviet social relations deserves special attention. Political and communication technologies for building civil society in transitional democracies are undergoing significant acceleration under the influence of the global information and communication revolution, when the processes of political civil communication become transnational, and people's civic initiatives turn into a catalyst for intergovernmental and inter-societal dialogue in a globalized world [Danylenko, 2011].

The modern theoretical and methodological communication discourse clarifies the dialectic of splitting and integrity of any communication. The key hypothesis of our work is that polarization and fragmentation in societies and international relations are not an obstacle but a condition for the emergence of a "field of the common". Studies in this area point to the problems of modern "quick coalitions" where key participants often have opposing positions and are more like communities than traditional subjects of international relations. The complexity of the newest communication paradigm is related to the need to find areas of commonality within a diversified and fragmented communication environment.

Speaking of new knowledge in international relations through the study of narrativistics, we cannot ignore the latest phenomena and megatrends, such as transnational relations, the erosion of state sovereignty, and the growing influence of communication practices on international politics.

The study by Olena Koppel and Olena Parkhomchuk on current global trends is noteworthy [Koppel, Parkhomchuk, 2021].

During 2020-2023, domestic organizations such as the Ukrainian Institute, BrandUkraine, Media Detector and others conducted a series of media and social media monitoring, which allows us to see vulnerabilities in communication between the countries of Central and Eastern Europe, including in relation to Ukraine.

Polish authors traditionally pay a lot of attention to understanding the processes in Central and Eastern Europe, so it is worth noting that Lukasz Adamski described the painful history of the term "Central and Eastern Europe" [Adamski: 2021].

To understand the conceptual and theoretical foundations of the analysis of the narrative approach in international relations, fundamental developments in the field of communication studies, semiotics and framing by Charles Osgood, Charles Peirce, Gert Hofstede, Edward Hall, Umberto Eco, Algirdas Greimas, Ferdinand de Saussure, Jean Baudrillard and others remain relevant.

The main material. War is a determining factor in international relations. During a war, ideas, ideologies, histories, and narratives take on a practical dimension. Today, war, which can change the international security system, is both kinetic (conventional weapons) and cognitive (meanings and narratives). Moreover, the bloodiest clash is not a war until it is narrated and called a "war" [Parakhonsky, Yavorska, 2019].

According to researchers, modern warfare is a war "in the minds and for the minds". We can say that modern international relations are also a struggle for cognitive and communicative control, for power over consciousness and emotions, thinking and behavior.

In fact, today's war is not so much about information as about visions of the world, worldview concepts, myths about peoples and goods, sewn into complex communication strategies and tactics [Kuleba, 2022].

After the end of the bipolar system, the factor of ideologies adapted to the networked type of information storage and dissemination. Since the early 1990s, the constructivist paradigm seemed to have shown its viability, declaring interaction and interdependence as the basis of international relations, as well as narratives that embody the struggle for consciousness through ideas, ideologies, discourses, and beliefs. While realists and rationalists focus on studying the behavior of states and assessing their power potential, constructivists focus on communication and processes that occur at the moment of contact between representatives of states.

Russia's large-scale invasion of Ukraine has demonstrated the transition to metamodernity - the world is dangerously oscillating between realism and constructivism, although the media has been talking a lot about the irrationality of using weapons to resolve conflicts in the modern world in recent decades.

The war has changed the state of affairs in CEE. After February 2022, the region found itself under an existential threat from a formal superpower and at the center of potentially new geopolitical shifts. The membership of many countries in NATO and the EU has not relieved tensions and the desire to pay more attention to the balance of power in the region and their own security. Moreover, locked between Russia and Germany, the CEE countries have their own historical stereotypes, which have only been reinforced and revived by Russia's attack on Ukraine.

The very concept of the name CEE, on which there is a relative consensus in historical and political research circles, has a complicated history that reflects the way countries between the Baltic and Black Seas negotiated their self-definition and self-identification. For Ukraine, before and during the large-scale invasion, the CEE region was of great military, logistical, and humanitarian importance, but the persistent cognitive gaps in communication within the CEE and in relations with Ukraine appear to be a vulnerability that carries strategic risks.

Traditional networked transnational relations, historical intertwining, and being a geopolitical object of superpower policies for a long period of time are factors that require expanding the established methods of studying international relations among CEE countries with modern knowledge of communication studies. For example, existing network theories indicate that

a cognitive network system is a set of nodes and links united by a particular problem, values, or narrative. Such a system is characterized by integrity, functionality, and expediency [Castells, 2009]. From this point of view, the CEE region has the characteristics of a network: in different periods of history, and especially after 1991, transnational horizontal relations in ideological, party, humanitarian, security, media, energy, transport, municipal, civil and other spheres have been actively developing here. At the same time, the signs of a system appear only when there is semantic coherence and interaction between actors.

From the point of view of Manuel Castells, a researcher of network structures, the space of information flows plays a central role in understanding the network society [Castells, 1996]. It is a network of communication between certain nodes where subjects intersect. In contemporary social and international relations, the key property of a network is its substantive or narrative coherence. If narrative ties disappear or their intensity decreases between nodes, then the network dysfunction is observed.

On the one hand, the problem is that during Russia's war against Ukraine, clusters (nodes) are actively forming in the CEE region, but they often have unstable ties (political, border, agricultural, security, interethnic relations, etc.). On the other hand, the problem of identifying nodes, i.e., identifying network participants, has arisen again. Countries and nations can associate themselves with the EU, Western Europe, CEE, or no one, declaring their otherness, while being influenced by powerful actors such as the EU, NATO, the US, the UK, Germany, and Russia. The war leaves no guarantees or stable security forecasts for any CEE country and revives discussions about future ties within blocs, alliances, and international organizations.

In fact, along with the EU and NATO agenda, CEE countries continue to search for their own narrative, regional identity and cohesion, as evidenced by the emergence of new regional formal and informal associations that form network relations in one way or another. In our opinion, communicative interaction leads to the fact that actors, reaching agreement in the process of such interaction, simultaneously interact, as a result of which they create, confirm and renew their belonging to social groups, and at the same time their own individuality [Danylenko, 2011]. The key issue is to find ways to ensure the coherence of communication interaction.

The answer to this question can be understood through strategic narratives. There are three categories of strategic narratives. The international narrative system describes how the world is structured. For example, one can understand the relationship between the global liberal and anti-Western order, gender, religious and political ideologies, as well as the influence of international organizations. Identity narratives describe the histories of political actors, their values and goals, which makes it possible to understand the coherence and contradictions of, for example, right-wing and left-wing movements. Issue narratives respond to the demand for resolving a specific conflict using applied tools.

From the methodological and theoretical point of view, narrativistics can include the following key blocks: framing (basic optics, narrative focus), semiotics (symbols and signs that construct the narrative) and discourse (exchange of meaning within a certain framework, interpretive mechanisms). By purpose, there are the so-called "master narratives" (or strategic and dominant narratives) and "counter narratives" (or oppositional and opposing narratives). The common tasks of narratives are to legitimize any actions and create a negotiating field.

In fact, strategic narratives are the ordering of events and identities that politicians use to shape their goals by defining the past, present, and future. Narratives combine goals and interests, the goal and explain how to get there. From the point of view of Alistair Miskimmon, Ben O'Loughlin and Laura Rosel, strategic narratives are the means through which political actors shape the shared meaning of international politics and shape the perceptions, beliefs and behaviors of domestic and international actors. According to them, by tracking the formation, design, and perception of strategic narratives, we can explain how states plan to organize the world order, achieve political outcomes, strengthen policies, and increase legitimacy [Miskimmon, A., O'Loughlin, B., & Roselle, L., 2017]. Important features: on the one hand, a strategic narrative is always focused on future achievement of tasks (a kind of target model), on the other hand, it is a

statement of identity with a certain retrospective. In addition, a strategic narrative can articulate a positioning (for example, regional or global) on any issue. The key thing about a narrative is that it is a story about events and phenomena that have an evaluative component, a moral of the story, or an interpretation of reality.

A narrative is information organized into a story (as a logically connected narrative, not a description of the past alone). From the point of view of the Minister of Foreign Affairs of Ukraine Dmytro Kuleba, stories are the main ammunition of war. They begin to be shaped and introduced into the cognitive space even before the war begins. History is the spark that is used to ignite the flame [Kuleba, 2022].

Obviously, narratives are a key cognitive element of modern international relations, international communication, and hybrid warfare. While information warfare affects the processes of information transmission, cognitive warfare affects the processes of thinking and decision-making [Pocheptsov, 2019]. This is where interpretations and versions of events are born, which can be completely opposite. The world is moving to cognitive warfare, the strength of which is not in lies, fake news, or disinformation, but in supporting a polemic that is verified by objective facts [Pocheptsov, 2019].

According to Ukrainian researchers, cognitive warfare distorts public perceptions of the meaning of events, creates contradictory versions of what is happening, and, acting almost imperceptibly, the conflict of interpretations gains powerful (destructive) force. Hybrid conflicts have no borders and are not tied to borders because they are about the exchange of meanings and ideas [Yavorska, 2015].

The large-scale invasion in 2022 was preceded by years of information warfare. This discursive war was aimed at three types of audiences: some destructive discourses were spread within Ukraine, others were aimed at consumers in Russia, and still others were created for audiences in other countries, including CEE. In today's total information world, these discourses intersect, reinforce each other, and also compete with other discourses: democratic, liberal, human rights, minority rights, etc. Together, they pose internal and external threats to Ukraine's national security [Dziuba, 2023].

Thus, the narrative approach plays an important role in understanding the balance of power in a regional context such as Central and Eastern Europe. Below are some thematic or issue narratives that can be taken into account when examining the dominant identity narratives among CEE countries:

1. Historical narrative. Consideration of historical ties between the countries of the region and their impact on the current balance of power. Analyzing the historical circumstances that shaped regional dynamics and identifying the narratives that emerged as a result of these events.
2. Ethnic and cultural narratives. Study of ethnic and cultural narratives that influence relations between countries and the internal balance of power. Examination of different identities and their impact on political dynamics in the region.
3. Political narratives. Analysis of right, left and center political discourses and ideologies that shape the internal and external balance of power. Assessment of the role of international actors and their influence on the regional balance of power through political narratives.
4. Economic narratives. Analysis of economic stories and their impact on the socio-economic structure of the countries of the region. Consideration of the role of global economic changes in shaping the balance of power.
5. Media narratives. Assessment of how media narratives reflect and shape power relations in the region. Analyzing the role of the media in shaping public opinion and influencing political decisions.

This multifaceted approach allows for a deeper understanding of the dynamics of the CEE region's balance of power in the military, political, and economic spheres.

Obviously, the region's self-identification has been under consideration for a long time, including the spectrum of self-definition - Eastern Europe, Central Europe, or Central and Eastern Europe. Immediately after the collapse of the USSR and the Eastern bloc, Poland, as in the

interwar period of the early twentieth century, became one of the key initiators of the search for new regional meanings in CEE. For example, the Intermarium and later the Three Seas projects are part of the CEE narrative discourse and reflect a certain range of hopes and fears in the region. Against the backdrop of Poland's historical and security narratives, for example, the Czech Republic has expressed concern about whether the Three Seas Initiative would harm relations with the EU in general and Germany in particular, while Slovakia has been under the discursive influence of pan-Slavism for a certain period and had its own vision of the future. To remove geopolitics from the agenda, the founding countries focused on energy, transportation, telecommunications, and other applied areas.

The "Eastern Partnership", which was also co-initiated by Poland, directly affects the perception of Ukraine's identity, which from the beginning was in the "basket" with Azerbaijan, Georgia, Armenia, Moldova, and Belarus. Formally, the partnership focused on the adaptation of legislation to the European one, trade, cross-border relations, regional cooperation, energy and cybersecurity.

At the same time, the EaP has repeatedly recorded cognitive gaps in coherence caused by potentially different perceptions of the partners' narratives, which could even lead to demarches by some participants. For a long time, the media showed relatively different interpretations of the processes. While Poland associated this project mainly with strengthening its eastern policy, a kind of soft power ("pulling" some post-Soviet countries out of the Russian orbit of influence), leadership in the EU in the eastern region of Europe, assistance in adapting the norms and legislation of the participants to European rules, etc., in the same time for Ukraine, Moldova, and Georgia, for example, this project was perceived, among other things, as a tool and lever for full accession to the EU. Belarus generally reduced its participation in the initiative and later declared its unwillingness to continue the dialogue. From the point of view of observers, the project sometimes demonstrated a clash of different identity narratives, semantic gaps, and different interpretations of a common future.

One way or another, the CEE countries officially declare that all integration projects, including the Visegrad Group, the Lublin Triangle, the Bucharest Nine, and others, should be seen as a complement to European and transatlantic structures, not as an alternative. At the same time, the United States, NATO, the United Kingdom, Germany, and the EU have their own interpretive mechanisms for processes in CEE, which traditionally complicates dialogue and common ground in the region. Under the pressure of Russian aggression, the processes of military and humanitarian cooperation in the region have accelerated, while the question of common meanings, vector and sustainability of these relations remains open.

Today, the war requires dozens of communication channels besides purely military ones - energy, transportation, agrarian, migration, medical, media, party, parliamentary, educational, and so on - which are supported by horizontal communication between regional neighbors. Moreover, all other relations, including military relations, depend on party communication during the pre-election period. Political rhetoric in the CEE countries, in turn, is often divided into extreme right and left trends, conservatives and liberals, isolationists and globalists. Each spectrum, in turn, relies on its own traditional interpretation of history, on the basis of which it develops the current agenda and outlines future steps in all types of activities. In this context, we are actually saying that a narrative, or a subjective story of causal events, has a significant impact on reality.

Thus, analyzing strategic narratives between CEE countries is a rather complex task that requires a deep study of the political context, historical relations, cultural characteristics, and current geopolitical trends. Here are some common examples of gaps in the perception of strategic narratives:

1. Relations of some CEE countries with Russia and Germany. The Baltic states (Lithuania, Latvia, Estonia) and Poland are the most critical of Russia, especially after the annexation of Crimea in 2014, and support Ukraine's Euro-Atlantic integration. Hungary and Bulgaria may have a less critical view of Russia, due to economic and energy ties. Similarly, in

Poland, unlike the Czech Republic, historical stereotypes have led to a critical perception and specific interpretation of Germany's eastern policy.

2. European integration and NATO enlargement. Poland and the Baltic states are the most active supporters of further EU and NATO enlargement to the east, including the accession of Ukraine, Moldova, and Georgia. Hungary and the Czech Republic may express doubts about further enlargement, either because of their own domestic political issues or because of their attitudes toward EU migration policy.

3. Migration crisis. There is a certain gap in perception between Western and Central and Eastern EU countries regarding the open door policy and the distribution of refugees.

4. Geopolitical orientation of CEE. Countries that actively support transatlantic ties (e.g., Poland and the Baltic states) may have a gap in the perception of strategic narratives with countries that demonstrate a more restrained or openly pro-Russian stance.

Certain gaps in the perception of reality are recorded in the discourse around Ukraine - after and before the start of Russian aggression in February 2022. According to a study conducted by the NGO BrandUkraine in the first year of the war, in Central and Eastern Europe, the majority of the population in mid-2022 recognized that by fighting against the Russian invasion, Ukraine was also fighting for democracy in Europe. However, there is a significant gap in the perception of this narrative. The message of the Ukrainian authorities that "Ukraine is fighting for Europe" was positively supported in Poland by 83%, Lithuania by 82%, and the Czech Republic by 81%, which is 2 times higher than in some other countries in the region: Romania 42%, Hungary 44%, Bulgaria 46% [BrandUkraine: 2022].

Since narratives do not emerge out of the blue and always have historical reasons and social consensus, it is worth looking at the perception of Ukraine in the prewar period. A study conducted by the Ukrainian Institute shows that for Poles, Ukraine was mostly correlated with historical events [Ukrainian Institute: 2022].

Socio-political and economic processes until 2022 were associated in Poland with negative connotations - "annexation of Crimea," "war in the East," "uncertainty," etc. In other words, it could be interpreted that the war was a problem, and Ukraine was part of the problem, not part of the solution. In fact, it is important to understand this today, when Ukraine is analyzing the involvement of CEE countries in various kinds of assistance.

More attention in Poland was paid to countering Russia's military aggression, so Ukraine could probably be perceived as a "fortress" or "buffer."

In general, according to the study, Polish society did not have a well-formed attitude toward its neighbor.

Prior to February 2022, the priority countries for Poles were those with whom they believed there was a "commonality of views" - the Visegrad countries of the Czech Republic, Slovakia, Hungary, so and the Baltic states.

According to the same study, Hungarians' general perceptions of Ukraine are superficial: beautiful cities, churches, Kyiv, Uzhhorod, Berehove. The attitude of ordinary Hungarians is neutral, in fact, a "clean slate."

In the absence of other points of interaction, the main source of narratives about Ukraine in Hungary was the media, which emphasized the "oppression" of the Hungarian minority in Ukraine, the "language issue," and so on.

The cohort of countries of professional interest in Hungary included neighboring countries with a Hungarian diaspora, as well as countries with which economic and cultural ties have been established - the Visegrad Group, as well as Austria, the United States, Russia, and Germany [Ukrainian Institute: 2022].

Conclusions. Thus, the application of a narrative approach to the study of the problems of the balance of power in the CEE region, as well as the consideration of narratives as tools to overcome communication vulnerabilities and disconnections between transnational actors in the region and the CEE states, is substantiated. The authors provide a theoretical description of the

narrative approach methodology for a more comprehensive understanding of the properties of the balance of power in the CEE region and the dynamics of relations with superpowers.

It is stated that narrativism is an effective tool of modern international relations in the information and cognitive part. The properties of the balance of power in the CEE region is determined by historical circumstances, geopolitical interests of superpowers, and strategic communication of international organizations and transnational actors. Narratives are managed on an interdisciplinary level, involving diplomats, international communication specialists, linguists, historians, and psychologists. Rapid connectivity in the CEE region requires a policy of shared meanings and non-standard communication approaches to create an effective negotiation field.

The narratives of CEE countries often repeat historical fears and the constant desire for a balanced matrix of relations. Societies try to create narratives that strengthen their geopolitical position, often reflecting the complex interplay of historical alliances, contemporary geopolitical interests, and perceived future trajectories.

At the same time, the international community's perception of Central and Eastern Europe is often shaped by the strategic narratives promulgated by the countries of the region. These narratives, in turn, trigger a series of international reactions that either reinforce or challenge existing structures of relations. Examining specific examples, such as narratives on NATO involvement, EU integration, and bilateral relations among CEE countries, can shed light on how narratives are shaped and evolve.

The role of media and social media in disseminating and reinforcing these narratives cannot be underestimated. They play a crucial role in international communication, often becoming the conduits through which narratives are disseminated and challenged.

For Ukraine, it is crucial to master the mechanisms of issue communication, which involves inter-industry, inter-sectoral and inter-professional communication with CEE using subject or problematic narratives.

Thus, it is important to have a methodological and theoretical understanding of the methods of analyzing the nuances of power dynamics in Central and Eastern Europe. This suggests that the narrative-centered approach provides a subtle understanding of the region's international communication channels and the constantly changing properties of the balance of power in the military, political, and economic spheres.

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**ОСОБЛИВОСТІ РОЗВИТКУ
СВІТОВОГО ГОСПОДАРСТВА ТА МЕН**

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**Z-INEQUALITY IN THE CONTEXT OF THE FORMATION OF A DIGITAL
SOCIETY: INTERGENERATIONAL DIFFERENCES IN THE PERCEPTION
OF NEW THREATS TO ECONOMIC SECURITY**

**Z-НЕРІВНІСТЬ В КОНТЕКСТІ ФОРМУВАННЯ ЦИФРОВОГО
СУСПІЛЬСТВА: МІЖПОКОЛІННІ ВІДМІННОСТІ У СПРИЙНЯТТІ
НОВИХ ЗАГРОЗ ЕКОНОМІЧНІЙ БЕЗПЕЦІ**

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Abstract. *The presented work analyzes the peculiarities of the formation of modern intergenerational interaction and its impact on sustainable development. It should also be noted that the presented research can be used as a basis for the formation of consumer behavior under the conditions of digitalization. The rapid development of digital technologies, their penetration into all spheres of life led to the formation of the first digital generation in human history (Gen Z). The aim of the presented work is based on defining a new level of digital development and establishing the dependence of the development of new generations on the development of digital technologies. The use of the method of analysis, abstraction and synthesis, induction and deduction, as well as the system-structural method, the method of idealization made it possible to identify new forms of manifestation of inequality in the conditions of digitalization and establish characteristic manifestations of Z-inequality. Correlation and regression analysis was used to estimate the relationship between age, digital and economic indicators of countries. It is substantiated that Gen Z differs from other generations in its alienated attitude to the traditional value system and reorientation to post-material values, for which virtual reality combines the real and virtual worlds. The introduction of the “Z-inequality” categories into the scientific circulation is proposed, which helps to analyze the impact that digitalization processes provide on the formation and development of generations. Along with the politics and ideology that shape the causes of inequality, the impact of the digital divide increases, as access to modern information and digital technologies becomes a powerful source of inequality. As a result of the digital divide, digital inequality arises, unequal access to technology limits access to a significant number of goods. The importance of implementing national digitization strategies to ensure the competitiveness of national economies is substantiated. The research is based on categories of theoretical and empirical levels of knowledge. It was determined that despite the rapid spread of the digital economy, access to digital technologies remains asymmetric. Digitalization is most widespread in countries with a high and medium level of economic development that have completed the demographic transition. There is a deepening of the digital divide according to the criterion of fixed broadband Internet availability and rather convergence according to the availability of the general Internet. Practical implications mean that digitalization can become an efficient tool for enhancing accessibility of financial services, especially for youth.*

Keywords: *economic security, digital inequality, digital divide, digital transformation, digital security, digital economy, digital labor market, digital migration, sustainable development, generation Z, mobility between generations, digital financial services, income distribution, consumer behavior, threats and risks*

Анотація. *У статті аналізуються особливості формування сучасних міжгенераційних взаємодій та їх вплив на економічний розвиток з точки зору економічної безпеки в контексті становлення цифрового суспільства. Представлене дослідження може бути покладено в основу управління споживчою поведінкою в контексті цифрової трансформації соціально-економічних систем, що дозволить підвищити рівень економічної безпеки особистості. Стрімкий розвиток цифрових технологій, їх проникнення в усі сфери життя призвело до створення першого в історії людства цифрового покоління (Gen Z). Метою даного дослідження є визначення нового рівня цифрового розвитку та визначення залежності розвитку нових поколінь від розвитку цифрових технологій, що дозволить переосмислити проблеми управління економічною безпекою. Використання методу аналізу, абстрагування та синтезу, індукції та дедукції, а також системно-структурного методу ідеалізації дозволило виявити нові форми нерівності в контексті оцифрування та визначити характерні прояви Z-нерівності як нової. загрози економічній безпеці не лише особистості, а й економічній безпеці країни. За допомогою методів регресійно-кореляційного аналізу*

проаналізовано зв'язок між віковими, цифровими та економічними показниками країн. Доведено, що покоління Z відрізняється від інших поколінь відчуженим підходом до традиційної системи цінностей і переорієнтацією на постматеріальні цінності, для яких віртуальна реальність поєднує реальний і віртуальний світи. Пропонується ввести в науковий обіг категорію «Z-нерівність», яка допомагає аналізувати вплив процесів цифровізації на формування та розвиток поколінь з точки зору економічної безпеки. Разом із політикою та ідеологіями, які формують причини нерівності, вплив цифрового розриву зростає, оскільки доступ до сучасної інформації та цифрових технологій стає потужним джерелом нерівності. В результаті цифрової нерівності створюється цифровий розрив, а нерівний доступ до технологій зменшує доступ до багатьох переваг. Обґрунтовано важливість запровадження національних стратегій цифровізації для забезпечення конкурентоспроможності національних економік, що частково сприятиме забезпеченню цифрової безпеки країни. Дослідження базується на категоріях теоретичного та емпіричного рівня знання. У ньому зазначено, що незважаючи на стрімке поширення цифрової економіки, доступ до цифрових технологій залишається асиметричним. Виявлено, що цифровізація найчастіше відбувається в країнах з високим і середнім рівнем економічного розвитку, які завершили демографічний перехід. Збільшується цифровий розрив щодо доступності високошвидкісного Інтернету, а точніше конвергенція щодо доступності універсального Інтернету. З практичної точки зору діджиталізація може стати ефективним способом покращити доступність фінансових послуг, особливо для молоді, що підвищить рівень економічної безпеки людини.

Ключові слова: економічна безпека, економічна нерівність, цифрова нерівність, цифровий розрив, цифрова трансформація, цифрова безпека, цифрова економіка, цифровий ринок праці, цифрова міграція, сталий розвиток, покоління Z, мобільність поколінь, цифрові фінансові послуги, розподіл доходів, демографічний перехід, загрози і ризики

Introduction. The economic security of the country is a fundamental component of national security, essentially the basis of the basic structure. At the same time, it is a relatively independent system that has its own structure, internal logic of development and functioning, ways of influencing all other aspects of the safe existence of the individual, society and the state. Global economic security is a set of measures aimed at ensuring sustainable world economic development, the purpose of which is to achieve maximum security and a high standard of living for every individual, regardless of nation or nationality, while maintaining peace for future generations. The economic security of the individual, in our opinion, is the main object of the system of economic security and represents the state of protection of its vital interests in the economic sphere. The economic integrity of the individual is expressed in the preservation of the most important interests of the individual included in socio-economic relations and forms the basis of his progressive development. In addition, it must be taken into account that the economic security of an individual acts as a set of economic, social, demographic, environmental, technological, scientific and information relations. Digitalization can radically change our lives: on the one hand, by providing new opportunities (access to educational platforms, digital migration opportunities, digital work opportunities); on the other hand, nullifying the existing skills and knowledge, specialization, sharpening the threats to economic security at all levels.

The process of determining generations is greatly influenced by social, cultural and economic conditions, which can vary greatly in different countries, which makes the definition of generational boundaries an insoluble task. After all, any turning point that affects the process of development of society can occur in different countries with a difference of decades. Research on intergenerational mobility is of interest, which is defined as the extent to which some key characteristics and outcomes of individuals differ from those of their parents (OECD, 2022). Structural intergenerational mobility is a consequence of differences in the hierarchical structure of professions: if a society is going through a period of changes in the professional structure, then its

members experience mobility under the influence of external factors. It is not related to the openness or closeness of society, since it is based on the previous mechanisms for the distribution of opportunities. Relative intergenerational mobility is beyond the limits of structural changes (Piketty, 2000). This is what fully reflects the openness of the structure and the distribution of relative opportunities for upward mobility in children with different family backgrounds (Featherman, & Hauser, 2018). At the end of the 80s. 20th century in the United States, the first attempts were made to analyze the scope and direction of intergenerational mobility by comparing the situation of representatives of different generations on the basis of economic indicators (individual earnings or total family income). Representatives of this trend analyze mobility between generations using a special tool – the “Great Gatsby curve” (Corak, 2011). It shows what are the chances of young people from poor families to increase their incomes and how much the income of parents determines the future financial condition of their children. The higher the level of inequality, the lower the mobility between generations (Durlauf *et. al.*, 2022). The digital transformation of world production and, in the broader context of the world economy, can radically transform the predetermination of intergenerational ties, but this transformation itself will not be unambiguous.

The purpose of the research is to identify new manifestations of the digital divide, designating it as “Z-inequality”, and to assess the relationship between digital and economic inequality, taking into account the age structure of the population, which directly affects the threats to the country's economic security.

Recent literature review. The concept of “digital transformation” covers a wide range of changes associated with the following trends: 1) expanding the functionality of the “Internet of things” (in such areas as Edge Computing and 5 G technologies); 2) widespread development and dissemination of blockchain technologies; 3) the development of Artificial Intelligence not as a new one, but as an already defining trend. Of particular interest are studies of intergenerational inequality, that is of inequality between generations (Rubtsova, M., & Reznikova N., 2018, Björklund, A., Lindahl, M., Plug, E., 2006, Beller, E., 2009, Hansen, M., 2010).

If the development of “Gen Baby boomer”, Gen X and “Gen Y (millennial)” coincided with the beginning of the formation of the digital economy (the active spread of digital innovations began in the 1960s), the formation of Gen Z actually coincided with the global spread (from the mid-1990s years) of mobile communications, the Internet, digital technologies, etc.

The influence of information technologies, digitization of many processes will directly determine the prospects for the development of the labor market (from local to global levels). This applies not only to changes in the structure of employment or directly to the organization of the labor process (Rubtsova, & Reznikova, 2018, Prensky, 2001, Ewa Łażniewska, Artur Boháč, Joanna Kurowska-Pysz, 2023). Representatives of Gen Z often become so-called “postmodern nomads”, because their system of value orientations, as well as their location, is easily changed, therefore Gen Z, following Gen Y, chooses freelancing and digital migration, realizing themselves through digital information technologies.

Using the term “digital migrant”, M. Prensky (Prensky, 2001) focused on the generational gap, which consists in the fact that the generation of the information age speaks a language different from the language of the older generation. The term “digital migrant” is used to define a new type of relationship that develops in the digital labor market – an international segment in which the demand for and supply of digital labor resources is established using information and computer technologies. Consequently, the concept of “migration of human capital” is being rethought, when access to the Internet determines the potential for the use of human resources and labor mobility (Corak, 2013). According to the results of a study of the global freelance market (Worksome, 2022), a significant segment of this market is formed by millennials – those who were born in 1983-1992 (Gen Y) – 33.85%, 26.23% of the market is formed by freelancers belonging to Gen X (those born in 1973-1982). Transformations in the labor market lead not only to the disappearance of professions or specialties. Significant problems are associated with the fact that in modern conditions, due to the loss of stable sources of income, there is a loss of life orientations

(Pyshchulina, 2020). Therefore, one can witness changes in relations that affect the development of society.

B. Milanovich's approach to distinguishing three concepts of inequality (Unweighted International Inequality (Concept 1); Weighted International Inequality (Concept 2); "True" World Inequality (Concept 3)) received many followers (Milanovic, 2005). When assessing inequality within a single country (World Bank, 2005), it is characteristic to single out as a unit of analysis statistical groups of the country's population (for example, deciles or quintiles) within the working population. The inequality of income distribution at this level is affected by various factors: demographic (Galor, & Moav, 2004), structural, technological, institutional and other (IMF, 2015). The study of income inequality between individual countries involves comparing the average level of income in the country (Perotti, 1992, IMF, 2014, Elina Boichenko, Nataly Martynovych, Iryna Shevchenko, 2021). When it comes to global inequality, it examines income inequality on a global scale, the causes of income polarization (Duclos, Esteban, & Ray, 2004), while comparing individuals without taking into account their nationality (Claessens, & Perotti, 2007). A "zero concept of inequality" is sometimes used, when inequality between countries is measured on the basis of total income (rather than per capita income) (OECD, 2014). Paul Hufe, Ravi Kanbur and Andreas Peichl proposed a new measure of unfair inequality that reconciles two widely-held normative principles, namely equality of opportunity and freedom from poverty, into a joint indicator (Hufe, Kanbur, & Peichl, 2020). When considering the problem of inequality, the category "wealth" is not reduced only to the actual ownership of some asset, but in the stratification analysis, property and income determine the inequality of individuals (Autor, 2014). A new direction in the study of inequality problems is not only the age approach, but also the gender approach (Thaning, 2018, Kleven, Landais, Sjøgaard, & Egholt, 2018, Heise, Greene, Opper, & Stavropoulou, 2019). Kenneth Keniston distinguishes the "digital divide" as a unitary phenomenon: 1) The first divide is that which exists within every nation, industrialized or developing, between those who are rich, educated, and powerful, and those who are not; 2) A second digital divide, less often noted, is linguistic and cultural. In many nations this divide separates those who speak English or another West European language from those who do not; 3) The third digital divide follows inevitably from the first two – it is the growing digital gap between the rich and the poor nations; 4) The fourth divide is the emergence of a new elite group, which can be called the "digerati." By "digerati" Kenneth Keniston means the beneficiaries of the enormous successful information technology industry and the other knowledge-based sectors of the economy such as biotechnology and pharmacology (Keniston, & Kumar, 2003). The proposed concept of Z-inequality does not imply a reference to either the concept of "digerati" or the concept of intergenerational inequality. A feature of the latter is the assessment of inequality through the analysis of the socio-economic situation of one of the parents. At the same time, the multidimensionality of the transmission of inequality between generations is ignored, and not only from the standpoint of material resources, which is directly related to the level of economic security of the country, but also from the standpoint of value and non-material guidelines that predetermine, among other things, the level of economic security of the individual, his self-perception of security.

Methods. Besides qualitative assessment of the phenomenon, quantitative analysis methods were applied. The annual data of the World Bank (World Bank, 2022) for 2015-21 were used. In particular the following variables were selected:

1. The share of younger generation in population (age structure): AD – Age dependency ratio, young (% of working-age population), i.e. a ratio of the number of persons under the age of 15 to persons aged 15-64.
2. Indicator of the level of economic development: GNIpc – GNI per capita, PPP (current international \$).
3. Indicators of digitalization (general and advanced): Inet – Individuals using the Internet (% of population); FBS – Fixed broadband subscriptions (% of population).
4. Indicator of population income growth: EG – GNI per capita growth (annual %).
5. Indicator of income inequality: GINI – Gini index.

6. Indicators of availability of financial services (overall and for population groups by income and age): Ac – Account ownership at a financial institution or with a mobile-money-service provider (% of population ages 15+); AcP – Account ownership at a financial institution or with a mobile-money-service provider, poorest 40% (% of population ages 15+); AcY – Account ownership at a financial institution or with a mobile-money-service provider, young adults (% of population ages 15-24); AcO – Account ownership at a financial institution or with a mobile-money-service provider, older adults (% of population ages 25+).

Indicators of age structure and level of economic development were used exclusively as independent variables. The remaining variables can be both independent and dependent variables. 3 variants of values are used: static values for the middle of the period (2018) – marked with the index m; static values at the end of the period (2021 for most indicators, 2020 for digitization indicators) – marked with the index e; dynamic values (the difference between 2021 and 2017 for indicators of the availability of financial services, the difference between 2021 and 2015 for most other indicators, and the average growth rates of GNI per capita during 2015 – 2017 for EG) – marked with the index g.

Static values are not relevant for EG and dynamic ones are not used for GNIPc. For GINI, the period may start in 2015 or 2016, end in 2020 or 2019, depending on data availability. It was assumed that dynamics indicators can depend on both dynamic and static indicators (medium-term influence), static indicators – only on static ones (long-term influence), which is especially important to consider when determining the economic security management system.

Correlation analysis was used for the initial selection of potential factors. The possibility of the interaction effect of factors, when one factor affects the effect of another factor, was also checked. This was achieved by using the product of factors as a term in the model.

The selected factors were used in the regression analysis. Inspection of the final models showed significance of regression coefficients, normal distribution of residuals, absence of multicollinearity, and overwhelmingly absence of significant heteroscedasticity and autocorrelation. In the case of a non-linear relationship, the variables were transformed. The removal of statistical outliers from the residuals showed the stability of the regression coefficients and their significance.

Main research results. A generation is most often understood as the totality of all those born in a time period corresponding to a specific phase of the historical cycle and covering a period of approximately 20 years. Using a span of birth years to define generations under the conventions Gen X (those born from 1960-1979), Gen Y (those born from 1980-1994) and Gen Z (those born from 1995-2012) (Twenge, 2017) without reference to specific countries or regions can be an extremely vulnerable approach, although representatives of the same generation undergo socialization within a common historical context, and are also characterized by the presence of common beliefs, similar behavior, and a sense of belonging to the same social community. Most often, the “generation” obviously acts as a built-up theoretical construction that does not pretend to accurately reflect reality and is used for further empirical analysis. In this case, however, it is no longer possible to speak of any clear boundaries of this generation or that, with age, its representatives will retain the specificity of their psyche and thinking that is characteristic of them.

The key problems underlying the destabilization of the current model of “global capitalism” are social in nature, and above all, it is the growth of inequality (Piketty, 2014). One of the arguments of the proponents of neoliberal economic policies has been that they can increase income inequality, but by removing restrictions on economic growth and stimulating entrepreneurship, such policies also create opportunities for social mobility. However, in the most developed countries, more and more people believe that their generation lives worse than the generation of their parents, with more skepticism characteristic of young people.

Fully agreeing that politics and ideology shape the causes of inequality, as they determine the essence of property and distribution relations, access to modern information and digital technologies should not be underestimated as a source of inequality (digital inequality resulting from the digital divide). Unequal access to technology limits the possibilities of access to a significant number of benefits (low-quality Internet has prevented access to quality education

provided remotely, or limited access to the Internet closes access to modern telemedicine, etc.). It is because of this that national governments are developing appropriate digitization strategies, realizing that the competitiveness of countries will depend on their implementation. On the other hand, the Internet economy favors natural monopolies, and due to the lack of a competitive environment, there is actually an increase in concentration. The lack of effective institutions (transparent and accountable) that ensure state investment in the development of digital technologies will contribute to the influence of elites, which, as noted by World Bank experts in the “Digital Dividends” Report, can lead to increased state control and the subordination of politics to the interests of the establishment World Bank (World Bank, 2016).

Regulatory perceptions of Gen Z capital are critical to shaping tax policy preferences toward greater progressivity, when inequality is perceived as unfair, society creates a demand for progressive taxation. Economic crises more often lead to a situation where the burden of instability falls more on the poorer sections of society, which for Gen Z is a manifestation of injustice. In response, they are willing to support the government’s policy of increasing taxation and, as a result, reducing consumption. The perception by representatives of “Gen Z” of representatives of “Gen Baby boomer”, “Gen X” and “Gen Y (millennial)” as guilty of building an unfair world and an international economic system prone to crises forms a negative perception of the economic elite. In part, this behavior contributed to the formation of government policy in the context of the corona crisis, when aid and financial support were redistributed to the population, and not limited to helping banks and financial institutions from the “too big to fail” category (which happened after the 2008-2009 crisis). Therefore, according to the position of representatives of Gen Z, wealth should perform a social function, and therefore the world elite should ideologically go beyond shareholder capitalism and abandon the perception of property as sacred.

At the quantitative analysis stage, first, the digitalization factors were considered (Table 1). In the long term, there is a non-linear effect of economic development: the countries with a high and medium level of development are the most digitized. Economic growth affects the dynamics of the spread of fixed broadband Internet, but the dynamics of the spread of the general Internet in the considered medium-term period does not significantly depend on economic growth. A high birth rate is de facto associated with a lower level of digitization according to static models. A high birth rate has a negative effect on the dynamics of the spread of high-speed Internet, but not on the dynamics of general digitalization. In static models, it is not possible to completely exclude the cross influence of fertility and economic development, because as a rule, it is the poorest countries that are at the early stage of the demographic transition.

Table 1.

Models of digitization factors

Dependent variable	Inet_e	FBS_e	Inet_g	Inet_g	Inet_g	FBS_g
Y- crossing	-89.2*** (16.5)	-74.9 *** (12.1)	21.0*** (1.01)	20.8*** (0.98)	1.44 (2.36)	4.69*** (1.23)
AD _e	-0.215*** (0.077)					
AD _m						-0.055*** (0.019)
1/ AD _e		397*** (135)				
GNIpc _m			-0.000087** (0.000044)			
Ln(GNIpc _e)	17.1** (1.42)	9.09*** (1.46)				

GINI _e		-0.186* (0.11)				
Inet _m					0.823*** (0.096)	
Inet _m ²					-0.0068*** (0.00090)	
FBS _m			-0.209*** (0.071)	-0.188*** (0.068)	-0.385*** (0.067)	0.052** (0.029)
EG						0.224** (0.111)
Inet _m * GNIpc _m				-0.0000011** (0.0000004)		
R ²	0.87	0.82	0.26	0.28	0.49	0.28
p	0.000	0.000	0.000	0.000	0.000	0.000
N	144	61	142	142	145	145

Notes: e – end of period values, m – values in middle of the period, g – growth. Standard errors are in parentheses.

Significance of coefficients: * for p<0.1, ** for p<0.05, *** for p<0.01, according to the t-criterion.

Source: authors' calculations based on the data from World Bank (2022)

Economic inequality within the country has a negative impact on the prevalence of high-speed Internet, that is, it is an obstacle to in-depth digitalization and a factor of the digital divide. Digital stratification between countries occurs in such a way that fast Internet develops the most where it already has high availability indicators. At the same time, at the global level, digital inequality is decreasing in the provision of basic digital services. Thus, in recent years, the prevalence of the general Internet has been increasing in countries with less availability of high-speed Internet, which is confirmed by models with three different specifications. The influence of the accessibility of the general Internet on its dynamics is nonlinear in the form of an inverted parabola: according to the 5th model, general digitalization develops the fastest in countries where 40-65% of the population are Internet users. In one of the specifications of the model of the growth of general Internet availability, an interaction of factors is observed: The Internet spreads more slowly in developed countries, where it is already sufficiently widespread, which probably indicates the saturation of demand.

Next, the impact on per capita income and income distribution was considered (Table 2). The dynamics of the average income of the population is faster in countries with low income inequality. The insufficient level of social cohesion is an obstacle to further development at the current stage. Per capita incomes are also growing more slowly in countries that have not begun the demographic transition, since countries with high birth rates lack capital accumulation and have a smaller share of the working population that can make savings. However, indicators of digitization do not have a separate significant impact.

Table 2.

Models of population income factors

Dependent variable	EG	GINI _e	GINI _e	GINI _e	GINI _g
Y- crossing	3.05*** (0.57)	41.0*** (0.69)	39.9*** (1.61)	40.9*** (1.56)	-1.18** (0.55)
AD _m	-0.048*** (0.071)				

GNIpc _m					0.000026* (0.000014)
GNIpc _e					-0.00016*** (0.00005)
GINI _g	-0.217** (0.101)				
FBS _e					-0.248*** (0.066)
Inet _m *FBS _m					-0.0031*** (0.00076)
EG					-0.329** (0.162)
R ²	0.20	0.19	0.15	0.23	0.13
p	0.003	0.000	0.002	0.000	0.029
N	54	62	61	58	54

Notes: e – end of period values, m – values in middle of the period, g – growth. Standard errors are in parentheses.

Significance of coefficients: * for $p < 0.1$, ** for $p < 0.05$, *** for $p < 0.01$, according to the t-criterion.

Source: authors' calculations based on the data from World Bank (2022)

The influence of the level of economic development on the inequality of income distribution is controversial. In developed economies, inequality is lower, but it is growing more often. In poorer economies, it is higher, but usually shrinks more. The prevalence of high-speed Internet may limit inequality, but since this is confirmed only by models based on static data, it is quite possible that it is a reverse effect, because digitalization actively developed later than the stratification of countries into more and less socially oriented economies had taken place. Finally, inequality increases usually in countries with worse economic dynamics, which becomes a new challenge for the economic security of individuals.

The dynamics of the availability of financial services (in general and for older adults or persons with lower income) negatively depends on the level of economic development, which also indicates the saturation of demand (Table 3). But the influence of the level of development on accessibility for young people depends on the age structure of the population: the negative influence is weaker under a small share of children in the population.

Table 3.

Models of financial services availability factors

Dependent variable	Ac _g	Ac _g	Ac _g	AcP _g	AcY _g	AcY _g	AcO _g
Y- crossing	10.2*** (1.11)	7.34*** (1.10)	6.61*** (1.17)	10.44*** (1.42)	13.6*** (2.88)	13.9*** (3.13)	8.89*** (1.06)
GNIpc _m	- 0.00015* ** (0.00004)	- 0.00012* ** (0.00003)	- 0.00013* ** (0.00003)	- 0.00018* ** (0.00004)			- 0.00016* ** (0.00003)
FBS _g		0.392* (0.201)		0.587*** (0.239)	1.03** (0.41)		
EG*AD _g	0.326*** (0.074)			0.340*** (0.093)	0.484*** (0.164)	0.473** (0.186)	0.383*** (0.083)
EG*AD _m							0.0129* (0.0069)

$AD_m * GNI_p$ c_m					- 0.0000063 ** (0.000003)	- 0.0000075 ** (0.000003)	
$Inet_g * FBS_m$			0.011*** (0.0040)			0.023** (0.0087)	
R^2	0.22	0.11	0.14	0.24	0.17	0.19	0.25
p	0.000	0.002	0.000	0.000	0.000	0.000	0.000
N	109	113	105	104	104	99	109

Notes: e – end of period values, m – values in middle of the period, g – growth. Standard errors are in parentheses. Significance of coefficients: * for $p < 0.1$, ** for $p < 0.05$, *** for $p < 0.01$, according to the t-criterion.

Source: authors' calculations based on the data from World Bank (2022)

There are also several interaction effects with the age structure of the population. All indicators of the availability of financial services depend on the product of the economic growth rate (usually positive) and the growth rate of the share of children in the population (usually negative). The availability of financial services for older adults grows stronger under the rapid growth of the population's income and the higher share of children in the population.

There is a positive impact of digitalization on the availability of financial services in general and for the considered categories of the population, except for older adults. In various model specifications, either the speed of the spread of high-speed Internet or the general Internet under the conditions of developed high-speed Internet are important. For GenZ, this effect is 2-2.5 times greater than average indicators (see coefficients for FBS_g and $Inet_g * FBS_m$ in models for Ac_g and AcY_g in Table 3), which can be explained by the greater adaptability of young people to digital technologies, which have become a modern access channel to financial services.

In comparison to most previous studies, this paper uses later data. We also apply an age dependency ratio as a proxy variable reflecting the share of Gen Z in the population in various countries. Financial services accessibility divide is also considered as one of the dimensions of inequality, besides intra- and international income inequality and digital services accessibility.

Like in Keniston & Kumar (2003), this study confirms that income inequality leads to a digital divide inside a country, but when it is measured with access to high-speed internet and not the internet in general. Income inequality between the rich and poor countries also is associated with existing digital divide between them. But the results in this paper do not support the view of Keniston & Kumar (2003) about growing digital gap between the rich and the poor nations. Moreover, this gap is decreasing since the advanced economies have largely reach saturation in internet access, while developing economies provide better demand growth for the market. The digital divide exists between the poor economies and the rest of the world, while there is already no substantial digital divide between high-income and middle-income economies. The difference in results may be explained by the later period that we analyze, while Keniston & Kumar (2003) used the period when the Gen Z has not entered even education.

Contrary to Galor & Moav (2004) we have found no evidence that the demographic indicator (age dependency considering the share of youth) affected income inequality in the analyzed period of time, although we considered only one demographic variable. There may be potentially other demographic factors affecting it. No significant effect of income inequality on availability of financial services for the poor also indirectly contradicts the statement by Durlauf et. al. (2022) that youth from poor families has lower chances to improve financial conditions under large inequality. But the difference in the specification of the dependent variable may be a possible explanation.

Conclusions. If belonging to a digital reality is a key marker of the generation of Gen Z, then it is necessary to avoid interpreting the concept of “inequality” through a comparison of material and financial assets, which, in fact, is typical for “Gen Baby boomer” and “Gen X”. **Z-inequality** – is a concept that goes beyond comparing social, economic or environmental asymmetries between individuals, groups or countries in the results and opportunities provided. **Z-inequality** – is an

inequality that increases the asymmetries of outcomes and opportunities for representatives of different generations. The results of the digital revolution experienced by Gen Z affect the reduction of opportunities for previous generations and, moreover, lead to the transmission of inequality from generation to generation in countries where the digital transition is limited due to the technological and economic backwardness of countries. **Z-inequality** describes differentiated access to opportunities to introduce new technologies and gain access to new opportunities in education and healthcare. The digitalization of employment has the potential to increase inequality of opportunity within and between societies.

The digital economy has influenced the migration of human capital, and digital migration and freelancing fully correspond to the interests of Gen Z representatives. Despite the rapid spread of the digital economy, access to digital technologies remains asymmetric (“Z-inequality”). Having a mobile phone does not guarantee access to high-quality Internet, and access to the Internet does not mean the ability to pay for it. Along with the politics and ideology that shape the causes of inequality, because they define the nature of property and distribution relations, the impact of the digital divide increases. Access to modern information and digital technologies is becoming a powerful source of inequality under modern conditions. The digital divide results in digital inequality, as unequal access to technology limits access to a large number of goods, which becomes a new challenge for the economic security of the country and individuals in particular.

At the current stage, the dynamics of the average income of the population and the dynamics of the income stratification of the population are negatively related: as a rule, rapid economic growth is accompanied by a decrease in income inequality, but the direction of the causal relationship cannot be precisely determined. Also, the traditionally higher inequality in poorer economies tends to decrease. Rich and poor countries are converging on the level of accessibility of financial services. It is also influenced by the age structure of the population and economic growth rate, but the interpretation of the effect is complicated by a number of interaction effects between these factors. Thus, evidence is provided for a link between digital and economic inequality. At the same time, it can be said with sufficient confidence that digitalization contributes to the greater accessibility of financial services in general, and in particular for the poorer segments of the population and young people.

Digitalization strategies implemented by national governments to address this issue are essential to ensuring the competitiveness of national economies. On the other hand, the Internet economy can strengthen the influence of natural monopolies and promote concentration, which, in the absence of effective and transparent institutions in society, can lead to increased state control and subordination of politics to the interests of the relevant elites.

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УДК 339.9

NON-FINANCIAL CORPORATIONS IN US ECONOMY: PERFORMANCE COMPOSITION

НЕФІНАНСОВИЙ КОРПОРАТИВНИЙ СЕКТОР США: СКЛАДОВІ КАПІТАЛУ У ДИНАМІЦІ

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Abstract. *The capital structure of nonfinancial corporations is an important determinant of their overall financial performance. In recent years, the capital structure of US nonfinancial corporations has evolved significantly, due to a number of factors, including globalization, technological change, and regulatory changes.*

This paper examines capital structure of US nonfinancial corporations over the last decade. Visualizing US net savings dynamics helps to explain identified alerting trends in net savings structure. Global change in trends is highlighted.

It also finds that the negative net worth of the US non-financial companies sector is a concerning trend, and that it is important to address the factors that have contributed to this trend in order to strengthen the non-financial companies sector and protect the long-term health of the economy.

The paper also identifies a number of general and specific trends that have influenced the formation of multinational corporation (MNC) capital structures over the last decade. It argues that the capital structure of an MNC can have a significant impact on its financial performance, and that the optimal capital structure for an MNC will vary depending on the specific circumstances of the company. However, in general, MNCs should strive to maintain a capital structure that is both financially sound and sustainable.

Keywords: *MNE, capital structure, nonfinancial corporations, United States economy, net worth, net savings.*

Анотація. *Структура капіталу нефінансових корпорацій є важливим чинником їхньої загальної фінансової діяльності. Останніми роками структура капіталу нефінансових корпорацій США суттєво змінилася внаслідок ряду факторів, включаючи глобалізацію, технологічні зміни та нормативні зміни. У цій статті розглядається структура капіталу нефінансових корпорацій США за останнє десятиліття. Візуалізація динаміки чистих заощаджень у США допомагає пояснити виявлені тривожні тенденції в структурі чистих заощаджень. Підкреслюється глобальна зміна тенденцій. Він також вважає, що від'ємний чистий капітал сектору нефінансових компаній США викликає занепокоєння, і що важливо*

розглянути фактори, які сприяли цій тенденції, щоб зміцнити сектор нефінансових компаній і захистити довго - термін здоров'я економіки. У статті також визначено ряд загальних і специфічних тенденцій, які вплинули на формування структури капіталу транснаціональних корпорацій (МНК) протягом останнього десятиліття. Він стверджує, що структура капіталу ТНК може мати значний вплив на її фінансові показники, і що оптимальна структура капіталу для ТНК буде змінюватися залежно від конкретних обставин компанії. Однак, загалом, МНК повинні прагнути підтримувати структуру капіталу, яка є фінансово надійною та стійкою.

Ключові слова: БНП, структура капіталу, нефінансові корпорації, економіка США, чистий капітал, чисті заощадження.

Introduction. The capital structure of a corporation is the mix of debt and equity that the company uses to finance its operations. The capital structure decision is a complex one, as it involves balancing a number of factors, such as the cost of debt and equity, the risk of bankruptcy, and the tax implications of different financing options. To properly study the capital structure of corporations, it is important to understand how its structure evolved over the last decades. The capital structure decision is a complex one, as it involves balancing a number of factors, such as cost of debt and equity, risk of bankruptcy, tax implications. The capital structure of corporations has transformed over time in response to a number of factors, such as changes in the financial markets, technological advances, and regulatory changes.

In the early 20th century, most corporations were financed primarily by equity. Debt was generally only used to finance major investments, such as the construction of a new factory. However, after the Great Depression, corporations began to rely more heavily on debt. This was due to a number of factors, including the rise of institutional investors, the development of new debt markets, and the introduction of tax advantages for debt financing. In the 1970s and 1980s, there was a wave of mergers and acquisitions, which led to a significant increase in corporate debt. This was because many companies were using debt to finance acquisitions. However, the high levels of debt that were incurred during this period made many companies more vulnerable to bankruptcy during the recession of the early 1990s. In recent decades, there has been a trend towards lower corporate debt levels. This is due to a number of factors, including the increased availability of equity financing, the rising cost of debt, and the increased risk of bankruptcy associated with high levels of debt.

The scientific study of capital structure has evolved over time along with the evolution of corporate capital structure itself. Early research on capital structure focused on developing models to explain the optimal capital structure for a given firm. However, more recent research has begun to focus on the dynamic nature of capital structure and the role of factors such as managerial incentives and investor preferences in shaping capital structure decisions. One of the most important advances in the scientific study of capital structure has been the development of dynamic capital structure models. These models take into account the fact that a firm's capital structure can change over time in response to changes in its financial situation and the external environment.

The purpose of the research is to help to better understand the current state of corporation's capital structures and how they may transform in the future by identifying and understanding structural trends.

The latest literature review. Despite a significant number of publications on the issues of capital structure by foreign [1-8] and national [9-20] authors, the general overview with global trends have yet been left aside.

Research results. The capital structure of corporations is the mix of debt and equity that a company uses to finance its operations. It is an important determinant of company's financial risk and cost of capital.

To properly study the capital structure of corporations, it is important to understand how it has evolved over time. This is because the optimal capital structure for a company can vary depending on its industry, stage of development, and the overall economic environment.

In recent decades, the capital structure of corporations has undergone significant changes. The evolution of the capital structure of corporations has important implications for the real economy. Nonfinancial corporations are the backbone of the real economy, and their access to capital is essential for economic growth.

The evolution of the capital structure of corporations is a complex and dynamic process. It is influenced by a variety of factors, including economic conditions, technological change, regulatory changes, and the preferences of investors and managers. To properly study the capital structure of corporations, it is important to understand the forces that have shaped it over time. This will help us to better understand the current state of corporate capital structures and how they may evolve in the future.

Nonfinancial corporations represent the real economy, which is the primary driver of economic growth and wealth distribution. For example nonfinancial corporations in the United States play a critical role in the economy by steadily generating half of domestic income (Figure 1).

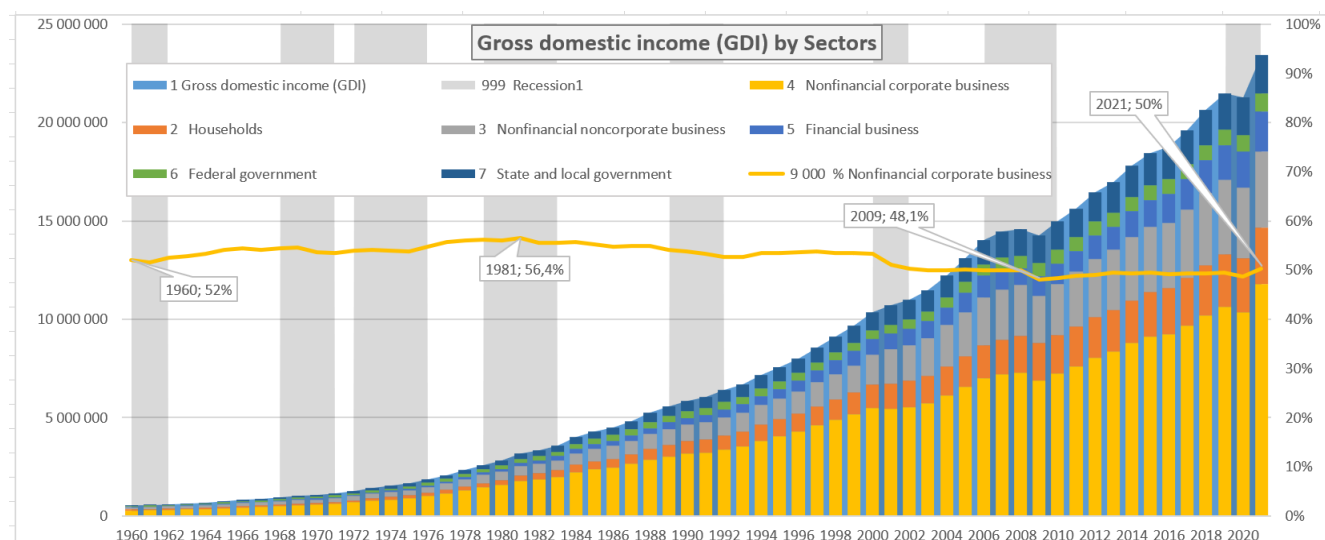


Figure 1: US gross domestic income by sectors. Developed by the authors on [Source: U.S. Federal Statistical System, 2023].

Nonfinancial corporations are the backbone of the real economy. They produce goods and services that people need and consume, and they employ millions of workers. When nonfinancial corporations do well, the economy tends to do well.

In contrast, the financial sector is often seen as being more speculative and less productive. While the financial sector can play an important role in supporting economic growth, it is important to remember that it does not create value on its own. It simply allocates capital from one place to another.

The non-financial corporate sector has shown a steady increase in absolute GDP contribution, but its share of total GDP has remained relatively constant at around 50%. Conversely, the US net savings contribution by nonfinancial corporations has also grown steadily, but it exhibits a cyclical pattern that correlates with periods of economic expansion (Figure 2).

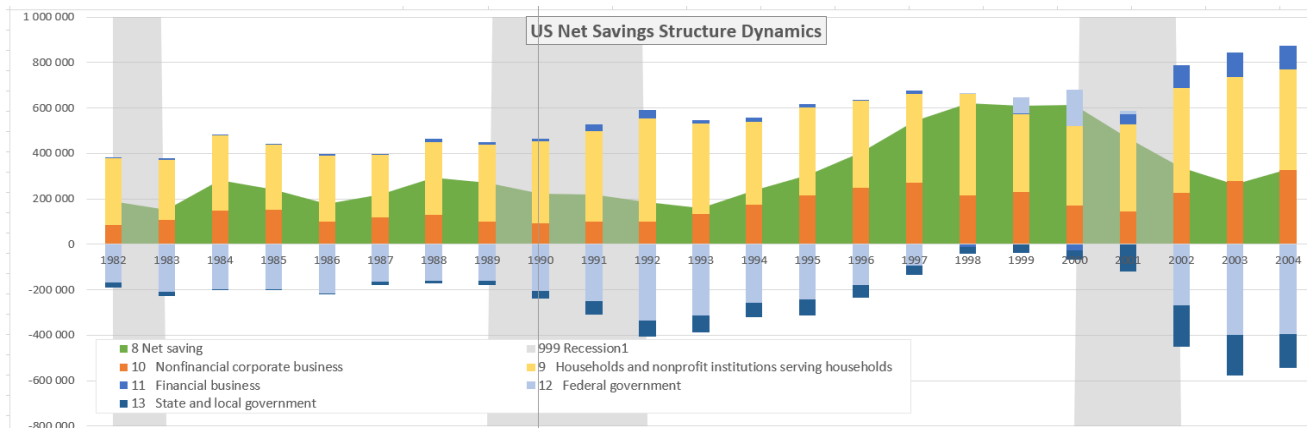


Figure 2: US net savings structure (before 2004). Developed by the authors on [Source: U.S. Federal Statistical System, 2023].

The dynamics of US net savings in the US have been concerning since the 2001 recession. Prior to 2001, the US economy experienced cyclical growth with periodic downturns. During downturns, the net savings of the US would typically decline. However, following each downturn, the net savings would rapidly recover. This pattern of rapid growth following periods of decreasing budget expenditures was broken by the recent pandemic and geopolitical tensions. The pandemic caused a severe recession in the US economy, and the net savings of the US declined sharply. However, the recovery from the pandemic has been slow, and the net savings of the US has not yet fully recovered. The geopolitical tensions caused by the war in Ukraine have also contributed to the slow recovery of the US economy. The war has led to higher energy prices and supply chain disruptions, which have increased costs for businesses and consumers [Khaki, Akin, 2020].

Another intriguing observation about US macro trends is that prior to the 2001 crisis, the economy's net savings were consistently several times greater than those of nonfinancial corporations (up to three times) (Figure 2).

After 2001, the net savings of the economy as a whole fell (the economy was spending more than the real economy was generating). Since the recovery in 2014, the net savings of the economy as a whole have surpassed those of the real sector alone, but have declined steadily since 2021 (Figure 3).

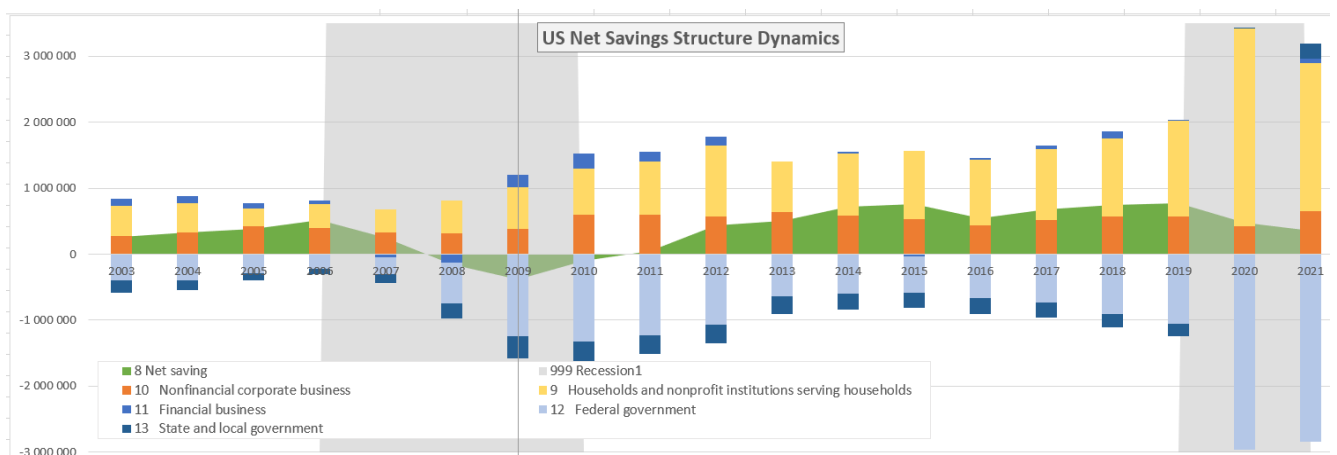


Figure 3: US net savings structure (after 2003). Developed by the authors on [Source: U.S. Federal Statistical System, 2023].

The slow recovery of the US economy and the low net savings are concerning because they could make the US more vulnerable to a future economic downturn. A downturn could lead to a decline in the net savings of the US, which could further weaken the economy.

One possible explanation for the decline in net savings is the aging population. As the population ages, a larger share of the labor force retires and begins to draw down on their savings. This reduces the amount of savings available for investment.

Another possible explanation is the rise of income inequality. As income becomes more concentrated in the hands of a few wealthy individuals, the overall savings rate tends to decline. This is because wealthy individuals tend to have lower savings rates than middle-class and lower-class individuals.

The decline in net savings is also a reflection of the country's long-standing trade deficit. When the US imports more than it exports, it is essentially borrowing from the rest of the world. This increases the country's net debt and reduces its net savings.

The decline in net savings is a complex issue with no easy solutions. However, it is important to understand the causes of this trend and to develop policies that can address them. This could include policies to boost household savings, promote investment, and reduce the trade deficit.

Additionally, the decline in net savings could make the US more vulnerable to external shocks, such as a global recession or a financial crisis. The decline in net savings could also lead to higher interest rates, which could slow economic growth and investment. It also could make it more difficult for the government to finance its budget deficit, which could lead to higher taxes or cuts to government programs [Dao, 2020].

It is important to note that the decline in net savings is not inevitable. There are a number of things that can be done to reverse this trend, such as increasing household savings rates, promoting investment, and reducing the trade deficit.

For these reasons, it is important to focus on the capital structure of nonfinancial corporations when trying to understand the overall health of the economy. By examining the capital structure of nonfinancial corporations, we can gain insights into the factors that are influencing investment and growth.

The capital structure of a multinational enterprise (MNE) is the mix of debt and equity that the company uses to finance its operations. The capital structure decision is a complex one, as it involves balancing a number of factors, such as the cost of debt and equity, the risk of bankruptcy, and the tax implications of different financing options [Multinational Enterprises, 2020].

We have identified some general trends that have influenced the formation of MNC capital structures over the last decade:

- Globalization: MNCs have increasingly become global entities, with access to capital markets and investment opportunities all over the world. This has given them more flexibility in terms of how they finance their operations.

- Technological change: Technological change has also had a significant impact on MNC capital structures. For example, the rise of e-commerce has led to increased investment in technology and infrastructure, which has required additional funding.

- Regulatory changes: Regulatory changes have also played a role in shaping MNC capital structures. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act has imposed new capital requirements on banks, which has made it more difficult for MNCs to obtain debt financing.

- Increased use of debt financing: MNCs have increasingly relied on debt financing in recent years. This is partly due to the low interest rates that have prevailed in many developed economies. It is also due to the fact that MNCs have become more diversified, which has reduced their overall risk profile.

- Growing importance of emerging markets: Emerging markets have played an increasingly important role in the global economy over the last decade. This has led to an increase in MNC investment in these markets. However, financing in emerging markets can be more expensive and risky than in developed markets. As a result, MNCs have often had to use a mix of debt and equity financing to finance their investments in emerging markets.

- Rise of sustainable finance: Sustainable finance has become increasingly popular in recent years. This is a type of financing that takes into account environmental, social, and

governance (ESG) factors. MNCs are increasingly using sustainable finance to raise capital, as this allows them to demonstrate their commitment to ESG principles to investors [Multinational Enterprises, 2020].

In addition to these general factors, there are also a number of specific factors that can influence the capital structure of an MNC, including:

- Industry: Some industries, such as the airline industry, are more capital-intensive than others, and therefore require a higher level of debt financing.
- Riskiness: MNCs with more volatile earnings or higher operating risk may need to use more debt financing to reduce their overall risk.
- Tax laws: The tax treatment of debt and equity can vary from country to country, and this can affect the optimal capital structure of the MNC.
- Agency costs: Debtholders have a higher claim on the MNE's assets than equityholders, and this can lead to agency problems. Equityholders may take on more risk than is in the best interests of the MNE in order to increase their returns.
- Access to capital markets: MNCs with a good credit rating and a strong track record may be able to borrow at lower interest rates than MNCs with a weaker financial position [Filipenko, 2021].

The capital structure of an MNC can have a significant impact on its financial performance. A high level of debt can lead to higher interest expenses, which can reduce the MNE's profits. However, a high level of debt can also lower the MNE's cost of equity, which can boost its profits.

The optimal capital structure for an MNC will vary depending on the specific circumstances of the company. However, in general, MNCs should strive to maintain a capital structure that is both financially sound and sustainable. The capital structure of an MNE is a dynamic decision that should be reviewed regularly. As the MNE's circumstances change, so too should its capital structure. By carefully considering all of the relevant factors, MNCs can choose a capital structure that is right for them and that helps them achieve their financial goals.

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To comprehensively analyze the capital structure of multinational corporations (MNCs), we have chosen to commence our investigation with the largest economy, the United States, and its historical capital structure. We have chosen to focus on nonfinancial corporations, as per the United States Bureau of Economic Analysis (BEA).

Empirical evidence on the capital structure decisions of US non-financial corporations is slightly different from theoretical groundings resulting in negative net worth of the US non-financial companies sector (Figure 4).

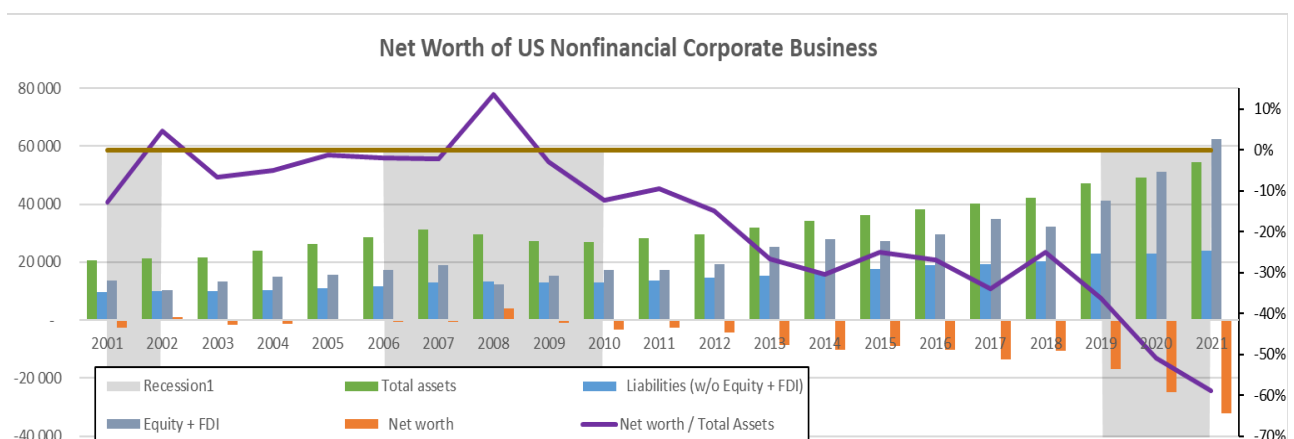


Figure 4: Capital structure of US non-financial corporations. Developed by the authors on [Source: U.S. Federal Statistical System, 2023].

The negative net worth of the US non-financial companies sector is a concerning trend. It means that these companies are more vulnerable to financial distress. If a company's debts become too large, it may be forced to declare bankruptcy. This can have a ripple effect on the economy, as it can lead to job losses and a decline in investment.

It is important to address the negative net worth of nonfinancial companies, as it is a threat to the long-term health of the economy. One of key reasons to this are:

- the increasing cost of doing business: The cost of labor has been rising in recent years, due to factors such as a tight labor market and rising minimum wages. The cost of energy has also been rising, due to factors such as the COVID-19 pandemic and the war in Ukraine. These rising costs have made it more difficult for companies to generate profits.
- the financial crisis of 2008: The financial crisis of 2008 led to a decline in corporate profits and a tightening of credit markets. This made it more difficult for companies to borrow money and invest in their businesses. The crisis also led to a number of bankruptcies, which further weakened the non-financial companies sector.
- the rise of shareholder activism: Shareholder activists are investors who pressure companies to make changes that will increase shareholder value. This can include returning more money to shareholders in the form of dividends and share repurchases. However, it can also lead to companies taking on more debt to finance these payouts [Contemporary Trends, 2019].

The negative net worth of the US non-financial companies sector is a complex issue with no easy solutions. However, the factors discussed above are some of the most important ones that have contributed to this trend. It is important to address these factors in order to strengthen the non-financial companies sector and protect the long-term health of the economy.

Conclusion.

The evolution of corporate capital structure has a number of implications for managers, investors, and policymakers. Managers need to carefully consider their capital structure decisions and balance the risks and rewards of different financing options. Investors need to understand the capital structure of the companies they invest in and assess the risks associated with different levels of leverage. Policymakers need to consider the implications of corporate capital structure decisions for the overall economy, such as the potential for excessive leverage to lead to financial crises.

The capital structure of nonfinancial corporations is a dynamic decision that should be reviewed regularly. As the corporation's circumstances change, so too should its capital structure. The optimal capital structure for a corporation will vary depending on the specific circumstances of the company. However, in general, corporations should strive to maintain a capital structure that is both financially sound and sustainable for their specific business model.

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EXPLORING HEDGE FUNDS: A COMPREHENSIVE LOOK AT THEIR HISTORY, CURRENT STATUS, ANALYSES, AND EMERGING TRENDS

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ABSTRACT

This research paper provides a foundational overview of the hedge fund industry. Focusing on the historical evolution and fundamental principles of hedge funds, the paper aims to familiarize readers with the industry's key aspects and current trends.

1. INTRODUCTION

The hedge fund industry plays an increasing role in financial markets. However, most research papers and articles target hedge fund managers and investors with quantitative insights about the industry. Only a few introductory hedge fund papers can be found. Some of them were written 20-30 years ago and are simply outdated, while the recent ones include an excessive number of quantitative insights and are aimed at hedge fund managers and investors. As a consequence, we saw a need for an empirical study that would lift the curtain of this rather mystical type of investment funds primarily for those who are starting their journey in exploring hedge funds.

First of all, we will attempt to discuss and propose improvement of the definition of hedge funds. Afterwards, we will briefly go through history of the industry and describe common investment strategies employed by hedge funds e. g. global-macro, and long/short equity. In the next sections, we will cover and discuss fees' structure, regulations, and risk-management of hedge funds. In the end, we will finish by providing our unbiased views about current condition of the industry as a starting point in analyzing the hedge fund industry.

2. HEDGE FUNDS FUNDAMENTALS

2.1 What Are Hedge Funds?

Hedge Funds is the type of investment funds which is usually associated with more risks and higher rates of return than common types of funds. For example, Getmansky (2015) states that 47% of hedge funds close after 5 years of existence. However, it should be noted that there is no ultimate definition of hedge funds. Therefore, we will describe the distinctive features of hedge funds in this chapter.

2.2 Hedging

The term "hedge" originally referred to the practice of using financial instruments, such as derivatives, to offset or "hedge" against potential losses in the value of securities held by the fund.

However, contemporary hedge funds can engage in a wide range of investment strategies, and not all of them involve hedging in the traditional sense.

2.3 The Ultimate Goal of Hedge Funds

Unlike Exchange-Traded Funds (ETFs) or Mutual Funds, which benchmark their performance against a market index, hedge funds typically aim for absolute returns. This means they seek to generate positive returns regardless of the overall market conditions.

2.4 Leverage

In pursuit of amplified returns, many hedge funds use leverage to increase the size of their positions relative to their capital base. Common leverage strategies include margin trading, borrowing, and using derivatives. However, many researchers try to exclude derivatives when calculating leverage of a hedge fund.

2.5 Lower Regulatory Oversight

Funds of this type can potentially invest in a wide range of asset classes and markets and do not have as many restrictions as, for example, mutual funds or ETFs. Moreover, hedge funds are exempt from some disclosure requirements and are overall less regulated than more common investment vehicles.

2.6 Suggested Definition of Hedge Fund

As a result of the above discussion and analysis, the following definition of hedge is proposed: A hedge fund is an actively managed investment vehicle that invests pooled money from a limited group of investors in a variety of assets.

3. HISTORY OF HEDGE FUND INDUSTRY

While there is a more than sufficient number of research papers dedicated to history of the industry, we decided to make an emphasis on two descriptive examples- the “story of success” and “the biggest disappointment”.

3.1 The first hedge fund by Alfred W. Jones

According to Connor and Woo (2000), the term "hedge fund" originated in the 1940s when a financial journalist Alfred W. Jones created a fund that was exempt from The Investment Company Act of 1940. As a consequence, it enabled him to employ greater investment flexibility. The investment strategy of the fund was simple, yet innovative for its time: borrowing money (using leverage) to invest in equities that Jones thought would appreciate and short-selling assets that were in his opinion overpriced, i. e. long/short strategy. In addition, unlike other types of investment funds, Jones' partnership was charging both management and incentive fees, being two and twenty percent respectively. Seven decades later such practice is still widely used by hedge funds.

The year after the creation of the fund, it earned 17.3%, and during the next decade, it surprisingly outperformed every mutual fund by 87% (Smigel, 2023). The tremendous success of the partnership attracted a lot of attention from investors all-over the world. As a result, an increasing number of hedge funds evolved.

3.2 Long-Term Capital Management (LTCM)

Over the years hedge fund industry witnessed many collapses. The most notable hedge fund failure was arguably the fall of LTCM. Initially, LTCM had a tremendous success. From 1994 to 1997 AUM of the fund grew from \$1 billion to more than \$7 billion. Moreover, the performance of the fund during that period was over 20% each year (Jorion, 2000).

Unfortunately, The Russian Default of 1998 and the subsequent market turmoil caused severe losses for LTCM. Having \$5 billion equity and \$125 billion balance sheet, the fund's highly leveraged asset allocations (25:1 and afterwards 45:1) led to a margin call, and its attempts to unwind positions quickly further increased market volatility. As the assets of LTCM became illiquid and the fund was expected to collapse at any moment, such adverse circumstances drew the attention of the regulators. Ultimately, the Federal Reserve facilitated a \$3.65 billion offer for 90 percent of the firm's equity by systematically important banks and brokerage houses. The offer was accepted by the managers of the fund, so the failure of LTCM was avoided.

4. HEDGE FUND INVESTMENT STRATEGIES

Hedge funds employ a variety of investment strategies to generate alpha. These strategies can be broadly categorized based on the types of financial instruments traded, the investment approach, or the level of risk involved. Since the industry is driven by innovation, there is no widely accepted list of hedge fund strategies. While some research papers include up to 15 strategies, this work provides 5 common, yet distinct from each other strategies.

4.1 Long/Short Equity Strategy

As the name suggests, the long/short strategy involves taking both long (buy) and short (sell) positions in equities. Although the initial purpose of using derivatives in this strategy was hedging, most modern long/short hedge funds use them rather as a way to achieve absolute returns than a hedging tool.

4.2 Event-Driven Strategy

Event-driven funds take advantage of specific corporate events, such as mergers and acquisitions, bankruptcies, reorganizations, restructuring, asset sales, or other significant corporate developments. Hedge fund managers seek to profit from price movements driven by these events, often taking both long and short positions.

4.3 Quantitative Strategy

Quantitative hedge funds (“quants”) employ systematic and algorithmic approaches to make investment decisions. These funds use mathematical models, statistical techniques, and computer algorithms to analyze large sets of data and identify patterns or trends in financial markets. The goal of quantitative strategies is to generate returns by exploiting quantitative insights and executing trades based on predefined rules.

4.4 Global-Macro Strategy

Global macro funds take a broad approach to financial markets by making investment decisions based on macroeconomic trends and geopolitical events on a global scale. These funds seek to profit from shifts in global economic conditions, interest rates, currencies, commodities, and other macro-level factors. Global macro strategies are known for their flexibility and the ability to invest across various asset classes and regions.

4.5 Multi-Strategy

Multi-strategy hedge funds employ a diversified approach by combining various investment strategies within a single fund. This strategy allows hedge fund managers to navigate different market conditions, minimize risk, and potentially enhance returns by leveraging the strengths of multiple strategies. Multi-strategy hedge funds have generally low risk tolerance and are designed to provide flexibility and adaptability to changing market environments.

5. FEES STRUCTURE

5.1 Management Fee

Hedge fund’s revenue consists of two types of fees: a management fee and an incentive fee. The management fee is an annual fee that is charged by hedge funds for managing and overseeing the fund's investment portfolio. Being a steady source of income, it is structured as an annual fee based on the fund's assets under management (AUM) and is assessed regardless of the fund's performance. Commonly, the fee ranges from 1% to 2% of AUM.

5.2 Incentive Fee

Hedge fund incentive fee (performance fees) is a key component of the compensation structure for hedge fund managers. Unlike management fees, which are charged regularly, incentive fees are calculated as a percentage of the fund's profits. The typical rate is 20% of profits.

5.3 High-Water Mark and Hurdle Rate

The high-water mark is a mechanism designed to ensure that the fund manager only earns an incentive fee on new profits that exceed the highest previous NAV. The high-water mark is not reset at the beginning of each calendar year. Instead, it continues to track the fund's highest NAV over time and increases only when the fund surpasses its previous peak value.

The hurdle rate is a specified minimum rate of return that fund managers must achieve before they can start earning performance fees or incentive fees. The hurdle rate is usually expressed as a percentage, and it represents a minimum return that the hedge fund must generate. For example, if

the hurdle rate is set at 10%, the fund manager will only be eligible for performance fees on returns exceeding 10%.

6. LEGAL STRUCTURE AND REGULATION

6.1 Legal Structure

The majority of hedge funds are set up as Limited Partnerships or Limited Liabilities Companies (LLC). In this structure, the fund itself does not pay income taxes. Instead, the profits or losses are passed through to the individual investors, who report the income on their personal tax returns, i.e., “pass-through tax treatment”. In the United States, hedge fund advisers are generally required to register with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Registration is mandatory for advisers with assets under management (AUM) exceeding a certain threshold, which changes over time. However, some hedge funds that meet certain criteria can qualify for the exemption.

6.2 Regulation

As stated before, one of the key features of hedge funds is that they are not as regulated as other types of investment funds. Overall, hedge funds try to be exempt from as many regulations as they can. The reasons are threefold: lower compliance expenses, unwillingness to disclose their investment decisions so that others would not comprehend their investment algorithm, and flexibility in deciding the leverage and risk-exposure levels, which some regulations might limit.

Hedge funds had very little regulation until the beginning of the 2000s. After the collapse of LTCM, there is a trend of increasing regulation and transparency. Honigsberg (2018) argues that after the fall of LTCM, most hedge funds were not regulated by the SEC. As a consequence, the SEC introduced a rule that closed the legal gap in the Investment Advisers Act. Even though the SEC “leads the show” of hedge fund regulatory oversight, after the FED facilitated the take-over of LTCM, it became clear that in case there is a systemic risk to the whole financial system, the FED is ready to intervene. According to Bernanke (2006), “regulators and supervisors should foster an environment in which market discipline- in particular, counterparty risk management- constrains excessive leverage and risk-taking” (para. 5). In our opinion, the aforementioned statement means that FED indirectly regulates hedge funds.

7. RISKS AND RISK-MANAGEMENT

7.1 Risks

Hedge funds are exposed to various risks depending on the fund's strategy. Common risks associated with hedge funds include:

- leverage risks- amplified losses due to borrowed capital or the use of financial derivatives
- liquidity risks- inability to quickly sell or liquidate the fund's assets without causing a significant impact on their prices
- redemptions- requests of investors to withdraw their capital from the fund

7.2 Leverage Risk-Management

During periods of high uncertainty in financial markets hedge funds tend to review their leverage ratios and, in most cases, lower their risk exposures by lowering leverage, i.e., delever. This was especially the case in the first half of 2020, when the mean leverage ratio in hedge funds decreased for more than 60% (Board of Governors of the Federal Reserve System, 2021).

7.3 Quantitative Risk-Management

Quantitative risk management involves the use of mathematical models and data analysis techniques to measure and monitor risk exposures, optimize portfolio construction, and implement risk mitigation strategies. Amongst the most popular approaches to measuring portfolio risk are the variance-based approach and the value-at-risk approach (VaR). However, the variance-based approach cannot be used if a portfolio includes derivatives. Given that derivatives are employed in many hedge fund strategies, VaR might seem as a more appropriate tool for assessing and managing risk. On the other hand, one significant challenge associated with VaR lies in the highly challenging task of accurately estimating the actual probability of low-probability events (Connor & Woo, 2004). As a result, most hedge funds have their own risk management techniques that are not documented in any research papers and remain a secret.

7.4 Lock-up Periods and Redemption Gates

Most hedge funds have lock-up periods during which investors are prohibited from redeeming their investments. Lock-up periods are designed to discourage short-term trading and provide fund managers with stability in managing the fund's portfolio.

While being a less popular mechanism, redemption gates may be implemented by hedge funds to limit the total amount of redemptions during a specific period, especially during times of increased redemption requests.

Both instruments help manage the fund's liquidity and protect remaining investors. Xiao (2020) finds that limiting investors' ability to withdraw funds can decrease the likelihood of failures.

8. TRENDS OF THE INDUSTRY

8.1 A New Level of Diversification

While many multi-strategy hedge funds diversify investment strategies, the largest of them try to diversify not only their investment approaches but entire business. For instance, Citadel LLC and Two Sigma Investments LP were founded as hedge funds. However, they expanded their operations to include market-making businesses separate from their respective hedge funds, Citadel Securities and Two Sigma Securities.

8.2 Lowering Fees

The two and twenty fee structure model introduced by Jones' partnership was an industry standard for many years. However, given that there are over ten thousand hedge funds and the number steadily increases nearly every year, the players of the industry face a fierce competition. Therefore, in the last few years many hedge funds lowered their fees as a way to attract more capital. According to Xiao (2020), the mean management fee of the industry is 1.4% and the mean incentive fee is 17%.

8.3 Liquid Alternatives

Liquid alternatives refer to mutual funds that are designed to replicate the investment approaches associated with hedge funds, offering a more accessible and liquid format compared to traditional hedge funds. While liquid alternatives have generally lower expected rates of return compared to hedge funds, some of them, for example, Managed Futures liquid alternatives outperform their hedge fund counterparts (van Engelen, 2018). Therefore, liquid alternatives can become a full-fledged competitor for hedge funds in the long run.

8.4 Educating Hedge Funds Cadre

Due to a rapid growth of the industry, many hedge funds faced a shortage of talent. A few decades ago, it was very unusual for undergraduate students to land a job in a hedge fund straight after completing a bachelor's degree. Therefore, prominent educational institutions established student-managed investment funds to give an edge to students during the recruiting process. Many of such funds are structured as hedge funds or have significant alternative investment asset allocations. According to Zucker (2023), Black Diamond Capital Investors, a student-run hedge fund ran by Harvard University students, can be named as one of the "world's most exclusive hedge funds".

Moreover, with the rise of quantitative hedge funds and increasing qualitative and quantitative research analysis demand, some hedge funds established separate pipelines for PhD students. Investment banking and asset management firms that are considered to be the best career choices before making a transition to hedge funds don't have such practice.

8.5 Increasing Regulation

Press releases and publications of U.S. regulators imply that Hedge Funds have to be more regulated since they impose an increasing influence on financial markets and the financial system as a whole. The main reason that both regulators mildly enforce new regulations might be their fear of hedge funds' immigration to jurisdictions with more favorable regulatory oversight. In this scenario, U.S. regulators will have very few, if any, instruments to regulate hedge funds. Therefore, instead of implementing new fundamental rules, regulators are either "repackaging" the old ones like in the Investment Advisers Act or are implementing new but rather insignificant rules regarding the transparency of hedge funds.

CONCLUSIONS

1. Hedge Funds represent a complex and distinctive investment vehicle capable of delivering both remarkable profits and hedge is an area of huge profits, but at the same time it is a risky area of potentially significant losses.
2. Thriving on the unregulated nature of their operations, they have given rise to various innovative investment strategies. It is only in the last two decades that regulatory authorities have turned their attention to hedge funds oversight, aiming to prevent past uncertainties such as the LTCM crisis and protect investors.
3. As the hedge fund industry continues to transform, one can see that hedge funds are driven by the expansion of their business activities and face an increasing challenge of competing with liquid alternatives.
4. In order to address current talent shortages in the industry, further educational initiatives should be designed and implemented.

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