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Rivalry or Co-operation?  
Towards New Paradigms  
of International Order

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# Rywalizacja czy współpraca? Ku nowym paradygmatom ładu międzynarodowego

redakcja naukowa  
Józef Antoni Haber



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# Rivalry or Co-operation? Towards New Paradigms of International Order

edited by  
Józef Antoni Haber



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ul. Powstańców Wielkopolskich 5, 61-895 Poznań, tel. 61 655 33 99, 61 655 32 48

e-mail: [wydawnictwo@wsb.poznan.pl](mailto:wydawnictwo@wsb.poznan.pl), [dzialhandlowy@wsb.poznan.pl](mailto:dzialhandlowy@wsb.poznan.pl), [www.wydawnictwo.wsb.poznan.pl](http://www.wydawnictwo.wsb.poznan.pl)

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## Editorial

The deliberations on so called „new international order” are as never ending story. Lately almost every quarter of a century comes renewal of discussion how we can change existing order and develop new one concept. It is obvious, that such an approach to existing order is caused by changing geometry of powers within economic and political area. It makes more requirements for all global players and especially for every Rather who is billing to be one of them. The crucial question is, that every concept must be more complex than previous one. The reason is, that contemporary international relations have three fundamental features: dynamics, rivalry and uncertainty. Those are of such importance because makes possible new idea of a new World order more structured, more multilevel and more differentiated.

The another important question, when as king for new global order, is: to what extent we are really faced with global dis order? Dynamics of changes has caused many transformations on a global scale. Such transformations are not only economic phenomenon but have geopolitical character as well. Therefore there is a necessity to look for a new paradigm, and in fact we are facing with paradigm shift. It means fundamental change on a global scale taking into consideration macroeconomic and geopolitical consequences.

How difficult research problem it is shows the content of this volume. The Authors have made efforts to find new elements having an impact to the general discussion on new World order on different areas.

Professor Ludmila Rosca made a research how power ratio influences international relations, and is convinced that in a contemporary World is an urgent need of cooperation through strategies for survival on a global scale.

Professors Djalal Rezki and Farid Yaïci made an evaluation of Intra-Maghreb economic Exchange as a factor of geopolitical importance within not only that region but the continent.

Professor Margharita Mori draws our attention at the importance of banking sector within international community and to the efforts for sustainable development.

Honorary Mrs Sheila R. Breen with all her experience underlined international cooperation and respect as a crucial factors of every human life and governance.

Professor Oleksandr Shmorgun made valuable analysis of the Crisis of the modern model of globalization giving new impetus to the discussion on the search for an alternative.

Professor Iryna D'yakonova and co-Authors Lyudmyla Pavlenko, Viktoriia Dudchenko and Olena Obod introduced us into the problems of modern trends in the integration of new financial Technologies and banking

The final part of this volume includes reviews of books written by Henry Kissinger and Francis Fukuyama.

*Hon. Prof. multi Dr, Dr h.c. multi Józef Antoni Haber*

**Ludmila Roşca**

Institute of International Relations of Moldova  
orcid.org/0000-0003-0339-7157  
e-mail: roscaludmila@mail.ru  
tel. +373 22 21 09 78

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## **Power Ratio in the Contemporary World: Consolidating Resources on the Account of Rivalry Diminshing**

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**Summary.** The reality of this study is multilaterally justified by the processes / phenomena / trends characteristic of the globalized world, by the presence of global problems that increase and multiply tensions between states, human communities at regional and international level. Their analysis and determination of the political causes that generate them – is one of the main objectives of the study. The theoretical basis of research is the concepts and political theories that resize the peaceful and conflicting approach of relations between states, between human communities. The conflicting approach of politics advances persuasion on the scholars' agenda. From this perspective, force establishes rights, and conflict resolution is accomplished by defeating the other, the enemy. The peaceful, edifying approach of politics is based on the statement that the force must be kept in reserve, as the last ratio, as a last and disagreeable reason, and the settlement of conflicts is done through agreements, courts of justice and fair procedures. In conclusion, the author argues the need to substantiate international cooperation by applying the strategies of survival of the contemporary world.

**Keywords:** power ratio, power balance, power centers, power cycles, cooperation, rivalry, alliances, international relations

*We must become the embodiment of change  
which we are looking for in the world (Mahatma Gandhi)*

### **1. Introduction**

The relevance of the power ratio investigation in the contemporary world stems from the need to reduce rivalry and from the strategy of survival of contemporary

society, characterized by multiple confrontations due to insufficient resources. At the same time, contemporary society is affected by: migration, terrorism, climate change, the consequences of which often come out of the control of humanity and the leaders of developed countries. The systemic, institutional approach of the power relationship, characteristic of the international relations of the monopoly, bipolar and multipolar world, leads us to positive, systemic or destructive, anti-systemic conclusions. It is clear that from a methodological point of view the unilateral approach, the focus on the current state's interest, leads not only to the loss of the position of politicians and state leaders but also to the diminishing of the influence of the state on the international arena, to its disappearance. That is why in estimating the power ratio and the possibilities of the contemporary world to diminish rivalry and to intensify development cooperation, we will apply the methodology of interdisciplinarity, complementarity.

Increased attention is given to the analysis of the power ratio structure, its forms of manifestation. Power is endowed with the ability to structure the international environment. This capacity is materialized in the conditions of increasing international interdependence. Actors, international firms interact with states, influencing international norms and regimes. Rivalries and multiple forms of cooperation characterize the actions of powers. Power rivalries can have either destabilizing or stabilizing effects. Looking for balance of power can stabilize the international environment. Balance either can be retained by international players or may be imposed. However, the balance of power reflects important uncertainties and fragility at the same time. Alliances are the way in which power relations and the way states act to structure international relations. Alliances can try to block the erosion of great powers, to support the security and defense of international actors.

The specific nature of the actors' behavior in bilateral relations is related to the lack of judgments and police, which forces them to deal with the quantification of the forces, especially of the armed forces, which they have in case of war. None of the actors of international relations can rule out the possibility that the other might have aggressive intentions, so they have to ask themselves: What forces does it have in case of necessity? This calculation includes: population, economic resources, military system, quantity and quality of armaments. Thus, actively promoting the ideas of realism, R. Aron, when speaking about international relations, actually describes interstate relations, centered on the interaction of force systems, armed conflicts, issues that relate to strategies [Aron 1972: 93-134].

The practical significance of the investigation is justified also from the perspective of the professional training plans in the fields of political science and public administration, diplomacy and international relations, geopolitics etc. Each specialist in the mentioned fields must know, understand and apply

in the professional practice the following thesis: At the stage of deepening the integrationist processes and globalization, the documents of the domestic and foreign policy of the national state or of the supra-state structures of the regional and international organizations complement each other, giving each other means, resources, practical implementation models” [Roşca 2017: 56-68].

Paul Kennedy in the work *Ascension and Decline of Great Powers*, analyzing the interaction between economic transformations and the power ratio between 1500 and 2000, notes: “Because of man’s innate impulse to improve his condition, the world has never stayed in place. And intellectual advances, beginning with the Renaissance period, driven by the emergence of «exact sciences» during the Enlightenment and Industrial Revolution, have made the dynamics of ever more powerful and more autonomous change” [Kennedy 2011: 391].

The theoretical basis of the investigation is the work of realism and liberalism representatives. A fundamental thesis for political theory and international relations suggests that the intensification of interdependence and the globalization of the contemporary world erase the differences between internal and external policy. Raymond Aron emphasized that International Relations Theory cannot ignore social relations within states. We also want to promote the values of political communication: political dialogue, social dialogue, mutual respect with regard to the national interests of actors of the international political field, and the non-interference in the domestic affairs of the national states. Political dialogue, social dialogue, applied inside and outside the contemporary states, is the fundamental condition of expanding the space of collaboration and cooperation on the international arena and of reducing the weight of force, rivalry, confrontation.

The practical significance of the power ratio investigation in the contemporary world is justified by updating Hans Morgenthau’s conclusions, presented in the work *The Scientist Against Politics of Power*, published in 1946. Morgenthau emphasized: “The scholar’s magnitude depends not only on his ability to distinguish the truth from lies. His greatness opens in the capacity and determination to select from all the truths, which may be known, those that must be known of necessity [...] who is able to discern the truth of lies, is wrong even in what he knows, because he does not know which knowledge is necessary and without which he cannot handle it. By realizing this distinction or by being able to do so, the scholar implicitly discovers the moral standards by which he leads or finds their absence. Morgenthau criticizes the heuristic and moral standards of scientific knowledge and their bearers because he has disappointed himself in the potential of Western social sciences and democracies that have failed to protect the world from the coming of power of the Nazis” [Ачкасова, Гуторова 2008: 571-590]. Morgenthau stressed that the strategic objectives of foreign policy must be justified on the basis of national interests and supported by an

appropriate force. In English, the term “national force” is applied, the content of which must be related to the external potential of the state. The state can use these resources in the process of achieving foreign policy objectives. In deciphering the content of the concept of “national force”, representatives of post-war realism are influenced by geostrategic concepts, which in the structure of the phenomenon include: geographic situation, natural resources, production capacities, military potential, population number, diplomacy quality.

An important aspect of the substantiation of international political relations, addressed in Morgenthau’s work, is the relationship of politics, morality and law. Morgenthau emphasizes political realism recognizing the moral value of political action, although in social reality there are contradictions between the moral imperative and the requirements of effective political action. The state in its work cannot be guided by the principle: Let the world die, but justice triumph. From this perspective, the moral criteria related to the actions of the people, which determine the state’s policy, must be analyzed in the concrete conditions of time and place, and superior virtue in international relations is moderation and fairness. Morgenthau has ruled against the imposition by one state of its own principles on other states.

Justifying Mahatma Gandhi’s appreciation, we will argue about the need to change attitudes, approaches, the perception of the power ratio, the policy in general, which in our opinion is inevitable; a world order is built and maintained by actors who manage to establish a balance between the interests of the great powers and their allies. We also update the situation of developing countries, underdeveloped countries, whose fate is decided by world leaders.

## 2. Research results

At the base of domestic and foreign policy, the national interest is placed with the multitude of forms of manifestation, with the diversity of aspects that characterize it. Although the hierarchy of national, regional and global interests is subordinated to the regional and global one, the dialectical unity between the internal and external policies of the contemporary states suggests the following: stability, peace, security and prosperity of the regions is ensured by the presence in their structures of democratic, legal, developed states, with political, economic, social dynamic systems. It is not by accident that contemporary political science pays much attention to the dynamic aspect of social-political life, political processes, the essential element of which is movement, development and rather than stability or rest.

An important role in determining the position of the national states in the structure of the power ratio is their image, appreciated as actors of international relations. Michel Petit in *L'Europe interculturelle Mythe ou realite?* stresses that the image plays an important role in Europe [Petit 1999]. Image formation is synergized by the impact of external and internal factors, and the importance of internal factors is more relevant. There are many examples where internal changes have led to the metamorphosis of external actors' attitudes. An example was offered by Yugoslavia, a country where the change of political regime has led to a substantial improvement of its image abroad. Internal factors are: political life, social and economic situation, geographic and ecological environment, natural resources. The external framework that supports and reproduces the image of a contemporary state outlines bilateral and multilateral interstate relations, participation in the work of international organizations, assertion on the world arena as an observer or its active subject.

Theoretically, the issue of global development is the first position in the agenda of political scientists and specialists in the field of international relations theory. Global development involves the correlation of the environmental topic with the economic and social topic. Karl M. Deutsch [1978] points out that states are not just seeking power: they can foster interdependence to create security combinations. The contemporary world, variegated in terms of economic development, living conditions and activity, has common interests: maintaining peace, creating conditions for preserving and reproducing the potential of the Biosphere. In the context of tensions caused by the global problems of contemporary times, the political class of each national state must draw up the priorities agenda: the elaboration of the environmental protection policies: aquatic basins, flora and fauna; policies to explore underground riches and their distribution among members of the region, local communities; security policies and sustainable development, social policies, public policies. The complexity of the problems faced by mankind, regions, national states is creating new demands for leaders of political parties, NGOs, professional associations.

Stephen Krasner points out that international norms can correlate with power [Krasner 1983]. These are reports of domination among international actors. Power policy is held responsible for major armed conflicts in the 20<sup>th</sup> century. Most specialists fall into the category of power factors: territory, population, natural resources, economy, technology, financial situation, good governance, military power, culture etc. John Mearsheimer [2014] in the work *Tragedy of Great Power politics* mentions that threatened powers practice the strategy of swinging, seeking regional domination. Powers have a natural tendency to become more economically and militarily important. Ascendant powers follow

the natural tendency to question the existing international order. It is the tendency of new powers to change the traditional international institute. In this context, the G20 format, which replaces the G8 format, is given priority.

In the dynamics of the international environment, characteristic of 1990-2016 period, the following political tendencies are highlighted: the end of the Cold War (1990-1991) has produced serious changes at the following levels: global, regional, national; intensifying political processes; reducing the role of communist ideology; abandoning social-political systems of socialist type in Central, Eastern and Southeast Europe, Central Asia, China, Vietnam, Laos, Cambodia; strengthening the democratic international political system in the West; the inauguration of international organizations as the most extensive process of creating or strengthening international organizations: the EU, the MAFTA, NATO.

After the collapse of the Union of Soviet Socialist Republics, the US adopts as the main objective of foreign policy the assertion of unipolarity, which includes Washington's intention to remodel its "Great Orient" Middle East expanded to Afghanistan and Pakistan through the military, political forces in Afghanistan and Iraq. On the other hand, the establishment of President Vladimir Putin's authoritarian regime in Russia leads to the launch of the program, focusing on the expansion of Moscow's "close neighborhood" and CIS; Putin's rejection of the idea of NATO enlargement in Eastern Europe and Southern Caucasus; coercive pacification of Northern Caucasus by Russia, and the establishment of the Collective Security Treaty Organization in the CIS and Central Asia; the conclusion of a political-economic alliance between Moscow and Beijing in the organization cooperation from Shanghai etc. All this influences the changes that are gradually taking place in the global and regional power ratio.

Thus, we observe how the intention to establish and strengthen unipolarity is rejected, moderated by Russia's foreign policy and its leader Putin. Since 2008, Putin has opted for a direct force measurement with the United States, NATO and the West, materialized by military punishment for Georgia's intent to integrate into NATO. Supporting Crimean Secession in 2014; transforming China into the world's second-largest power, almost equal to the US; Conflict in Syria, etc. have produced, after 2011, important changes in the rules of multilateral relations, equivalent at the moment, with a new confrontation of the great powers. The new mutations in the social, political, global economic system shade as positive cooperative or negative rivalry depending on the capability and authority of the UN Security Council, where permanent members are: USA, Russia, China, Britain, France, to manage the most acute global issues.

In the theory of hegemonic cycles, according to which the international system follows a cyclical evolution in which a great power imposes a world order in



accordance with its interests. Against the backdrop of hegemon's decline, the world tends to multipolarity. In the specialized literature four cycles of power are characterized, which are ascension, stagnation, recession, collapse. In the system of international relations, the nature of the collapse influences performances of the actors. It is easier to conquer a position than to preserve it, and over-expansion increases the costs of great powers and can exhaust their resources. The most important system control tools are focused on the power distribution of the system and the prestigious hierarchy. The power transition theory also includes the scenario of systemic withdrawal by which the hegemon gradually and partially succumbs to the prerogatives of power in the system, especially in the context of nuclear over-arming.

The power transition means a period between two successive hegemonic cycles. It is a controversial, disorderly period. Current multipolarity represents a major change in the global balance established with the cessation of the 1990-1991 Cold war and the US unipolarity found in 2008. Kennedy in the work *Ascension and Decline of New Powers. Economic transformations and military conflicts from 1500 to 2000*, argues that the process of ascension and decline of the great powers is the growth and technological change that causes changes in the balance of the global economy and influences the military and political balance [Kennedy 2011: 391]. In the contemporary world, specialists highlight five major political, economic, power centers: the US, the EU, China, Japan, Russia, who are concerned about the correlation of national goals with available means. Pierre Hassner [1997] appreciates that the US is still the main actor in any balance of power.

Joseph Nye suggested the concept of soft power, which refers to informal mechanisms to exert influence on developing countries [Nye 2005]. The soft power concept generalizes the experience of developed countries that manifest their power and the diffusion of their own model. Thus, over the years, the US has promoted its foreign policy that served the hegemonic position of the state by imposing its own model of democracy and the American way of life and management. Based on several studies of the phenomena and political processes in the post-war and 60's of the last century, David Easton [1965] and Gabriel A. Almond [1956] argued that it is impossible to implement the American democracy model in Islamic states because authentic democracy carries out its potential organizer, only in the conditions of a developed civil society and a participatory political culture. These observations suggest that in a globalized world the power ratio, maintaining or expanding the space of influence is a topic that does not lose its relevance and practical significance.

New aspects of the power ratio harness the concept of development cooperation. It is precisely this purpose that should be subject to investigations

by political scientists and specialists in the field of international relations. To protect the interests of the peoples exploited in the colonialist system, the group of states that want to manifest and promote their interests on the international arena, beyond the relations and cleavage of the Cold War in relations between the US and the USSR, has been consolidated [Negrescu 2016: 17].

Development cooperation requires a support relationship between developed donor countries and developing countries. From the perspective of major post-war politics, Robert Jervis and Irving Yanis study the power ratio for development cooperation. Robert Jervis believes that international relations' decision makers in all developed countries have demonstrated an ethnocentric approach, and the culture of ideological conflict has only increased the idea of group thinking in terms of ideological relations [Morgenthau 2007: 14]. Development cooperation policy also refers to the establishment of relations based on the national interest of developed donor states that use development assistance as a means of exerting economic power in the world. By providing assistance, developed countries place developing countries in their sphere of influence, thus contributing to the maintenance of international forces that could be changed by the emergence of a new power or a group of associated countries. The formula: Developing countries was adopted in 1955 at the Bandung Conference (Indonesia), attended by the leaders of 29 Asian and African states.

The Liberal Perspective explains development cooperation through humanitarian mobilization to help people in need. The soft power concept is conditioned by the developed countries' interest in maintaining international peace, and development cooperation allows for this Kantian desideratum for the development of democracy and the economies of developing countries. The concept of power, the power ratio from this perspective is explained by the pacifying power of development assistance. Development assistance aims to help and stimulate the economic development of developing countries by providing artificial assistance.

The Realistic Perspective starts from the premise that there is an anarchic, disorderly Hobbesian state in which states as main actors of international relations act in a Machiavelli style, according to their selfish interest, determined by the fear of a threat to territorial integrity [Ashley 1984: 225-286]. Richard Ashley in the work *The Poverty of Neorealism, International Organization*, points out that humanity is unable to meet its needs because of scarce global resources. As a result, states seem prone to violence, and their actions involve a rational cost-benefit calculation. The world order is determined by the powerful nations, which, by their power, impose rules and law at the international level. From this perspective, development cooperation is only a mechanism implemented by developed countries to capitalize on their resources and to maintain and demonstrate their weight on the international arena.

In 1995, the Barcelona summit was approved for the EU-Mediterranean Project (PSEM) project. The project aims at political cooperation to create a common space of peace, security and stability through political dialogue and respect for the norms of international law. The project includes the EU, on the one hand, and Morocco, Algeria, Cyprus, Malta, Israel, the Palestinian Authority, Libya, Tunisia, Turkey, Jordan and Syria on the other. To achieve the suggested objectives, it has been agreed that states will work together to create a rule of law and promote democracy by intensifying information campaigns on human rights issues, terrorism and organized crime.

### **3. Conclusion**

The power ratio in the contemporary world is difficult to establish, to maintain, to appreciate, but without its systemic approach, the conditions that ensure its dynamics, it is impossible to explain both major actions of the developed states and foreign policy programs of the small developing countries. In the context of the latest military actions in Syria, we can see that the multipolar world is not prepared to diminish the force in resolving regional problems / confrontations, but it does not assume the responsibility of expanding the space of influence at any cost.

Development cooperation has resources to change existential conditions of the contemporary world for the better, to establish a new foundation for the development of international, interstate relations, in which the principles of equity and social justice would be prioritized. At the same time, it is important to know and appreciate adequately the consequences of double standards policy, which neglects the principle of fairness, non-interference in domestic affairs of national states. It is also important to decipher the true essence of development cooperation policy: Through aid to small developing countries, the leaders of international relations pursue their own interest – to maintain and expand their space of influence at regional and global level.

There is a question: Is man an absurd being, that is, predominantly violent? We answer: No, he is not, but leaders are people who tend to expand their influence on the weaker ones than they are. Therefore, at the level of interstate, international relations, state leaders with imperial ambitions, such as the Russian Federation, the USA, Korea, etc. are in permanent competition for subordination, financial, military, energy control of other states and regions.

In the world of confrontation, the role of mediator between the powerful and the weak belongs to international organizations responsible for creating

mechanisms of cooperation, collaboration of states, including the rational use of natural resources, to diminish violence / rivalry and to establish dynamic stability of the world order.

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## Racja siły we współczesnym świecie – konsolidacja zasobów na rzecz zmniejszenia rywalizacji

**Streszczenie.** Treść tego studium uzasadniona jest procesami, zjawiskami, trendami charakteryzującymi zglobalizowany świat oraz obecnymi problemami globalnymi, które rosnąc, zwiększają napięcia między państwami, społeczeństwami na poziomie regionalnym czy też szerzej – międzynarodowym. Jednym z głównych celów tego studium jest analiza i określenie wywołujących te napięcia przyczyn politycznych. Teoretyczną podstawą badań są pojęcia i teorie polityczne zmieniające proporcje pokojowego i konfliktowego podejścia do stosunków pomiędzy państwami a społeczeństwami. Wśród naukowców przeważa konfliktowe podejście do polityki. Z tego punktu widzenia to siła ustanawia prawa, a rozwiązanie konfliktu osiąga się przez pokonanie wroga. Podejście pokojowe oparte jest na stanowisku, że siła powinna pozostawać w rezerwie jako ostatnia racja, a rozwiązanie konfliktu osiąga się drogą porozumienia lub poprzez orzeczenia

trybunału sprawiedliwości i uczciwe procedury. W zakończeniu autorka wskazuje na potrzebę rzeczywistej współpracy międzynarodowej drogą przyjęcia strategii przetrwania we współczesnym świecie.

**Słowa kluczowe:** racja siły, równowaga sił, centra sił, współpraca, rywalizacja, sojusze, stosunki międzynarodowe



Djalal Rezki

University of Bejaia, Algeria  
Faculty of Economics  
orcid.org/0000-0001-7012-9289  
e-mail: djalal\_rezki@yahoo.fr  
tel. +213 791 416 795

Farid Yaïci

University of Bejaia, Algeria  
Faculty of Economics  
orcid.org/0000-0003-2892-6211  
e-mail: farid\_yaici@yahoo.fr  
tel. +213 (0) 559 945 200

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## Evaluation of Intra-Maghreb Economic Exchanges in an Opposing Geopolitical Context

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**Summary.** Contrasting with the rise of globalization, the regional integration (or regionalism) has emerged as an ambitious project in almost every region of the world. This initiative is undertaken according to the objectives sought and the specific motivations of each regional economic group. On the other hand, the Maghreb is a region with an important economic potential but that has not been fully exploited. The Maghreb Economic Community, composed of Algeria, Tunisia, Morocco, Libya and Mauritania, shares several assets that plead to its success but is also handicapped by political and institutional obstacles that prevent its realization. Through this article, we will first explain the concepts of globalization and regionalization. We will then evaluate the process of Maghreb Economic Integration by focusing on its various attempts at cooperation and political obstacles that prevent unification. Finally, we will try to highlight the opportunities for intra-Maghreb cooperation through identifying growth sectors and harmonization of macroeconomic policies. Our contribution will progress through three sections. The first section will develop the two concepts of globalization and regionalism. The second section will present the attempts of the intra-Maghreb cooperation and the political conflicts that the Maghreb countries are confronted to. The third section will assess the situation of the Maghreb economies and will examine the macroeconomic opportunities for intra-Maghreb cooperation.

**Keywords:** globalization, regionalism, cooperation, conflict, Maghreb

### 1. Introduction

Contrasting with the rise of globalization, regional integration (or regionalism) has emerged as an ambitious project in almost every region of the world. This

initiative is undertaken according to the objectives sought and the specific motivations of each regional economic group (peace, trade, political security). Regional economic integration has finally proved to be a powerful economic and especially commercial tool. It can create more dynamic, competitive and diversified economies [Banque Africaine de Développement 2012: 7].

Faced with globalization, the Maghreb is irrefutably a region with strong economic potential that has not been fully exploited [Mebtoul 2012: 1]. The Maghreb Economic Community composed of Algeria, Tunisia, Morocco, Libya and Mauritania shares several assets that plead its success; but also handicapped by political and institutional obstacles that prevent its realization.

The assessment of economic reality in the Maghreb requires combining the two aspects of regional economic integration: regionalization (economic aspect) and regionalism (political aspect). To this end, the political stability, the concentration and the intensification of the commercial exchanges, as well as the convergence performance of the different economies of the Member States are thus the essential and preliminary conditions for the construction of a Maghreb Economic Community.

The approach adopted for this work is based on a historical analysis, a geopolitical analysis and an economic analysis based on the tools offered by the international economy (commercial indicators, indicators of macroeconomic convergence, the sigma convergence method).

The study covers the period from 1990 to 2016. This choice is explained by two main reasons. On the one hand, 1990 represents the year that followed the creation of the UMA after the signing of the Marrakech Agreement in 1989. On the other hand, 2016 represents the last year for which statistics are available before the submission of our article. Finally, the period represents that of the emergence of regional groups in all continents of the world. We are talking about the development of regionalization and globalization.

To do this, we will progress in three sections. The first section will develop the two concepts of globalization and regional economic integration. The second section will deal with the various attempts at intra-Maghreb cooperation and the political obstacles that block its unification. The third section will evaluate the Maghreb economic reality by highlighting the economic possibilities for intra-Maghreb cooperation.

## **2. From globalization to regional economic integration**

Economic globalization is accompanied by a large number of regional processes with a wide variety of forms [Hugon 2001a, 2001b]. For developing economies,



and even for developed economies, the construction of regional blocs seems to be a process that responds to the dynamic evolution of globalization. This leads precisely to a theoretical and contradictory debate on the very essence of regionalization in the face of globalization. For some, the renewal of regionalism is an alternative response to the difficult deepening of multilateralism at the universal level [Siroën 2004]. Frédérique Sachwald [1997: 260] finds that regionalization is a component and an adaptation factor that would make globalization more sustainable at the national level. For others, the community preference that emerges from regionalism is seen as a form of new inter-bloc protectionism [Krugman 1987]. For still others, the pursuit of regional constructions is part of the continuity of the process of globalization and does not hinder its evolution [Bhagwati 1993].

Globalization is seen as a process essentially structured by a set of regional processes that sometimes develop to resist certain globalized market forces and preserve certain national situations but also often to facilitate an opening to these same multilateral tendencies and to provoke a transformation in the long term national situations.

In the economic literature, the definitions associated to the concept of regional economic integration differ across regional areas and change over time. So, several explanations are given by the authors to better explain this phenomenon.

According to Jan Tinbergen [1954: 95] regional economic integration is considered as “The creation of the most desirable structure of the international economy, by removing artificial barriers to optimal functioning and deliberately introducing all the desirable elements of coordination and unification”.

As for Bela Balassa [1961: 174] “He sees regional integration as both a situation and a process. Considered as a situation, integration refers to the absence of all discrimination between national economies. As a process, regional integration is a set of measures designed to eliminate discrimination between economic units belonging to different countries with a view to intensifying trade”.

Philippe Hugon [2002: 10] points out that regional economic integration (RIR) can appear as a multidimensional process. This process is characterized by the interconnection and convergence of economies that can be assessed in terms of convergence indicators, economic and financial, coordination and harmonization of regional projects, unification of economic policies that translate by transfers of sovereignty.

Catherine Figuière and Laëtitia Guilhot [2006: 83] define regional integration as a combination of regionalism and regionalization, ie “A regional area will be said to be integrated regionally, if and only if it registers a concentration of flows between the nations that constitute it and if it reveals an institutional coordination establishing lasting common rules”.

The combination of these different definitions quoted on the RIR leads us to conclude that the process of regrouping which leads to the birth of a regional economic bloc is an economic process (commercial and monetary), political and institutional which must pass by the satisfaction of a number of conditions among which we can mention:

- the existence of a common will that brings together the respective potential of each of the member countries for the development and intensification of trade, including commercial potential,
- the coordination and unification of the economic and macroeconomic policies of each of the member countries,
- the existence of a political will between the states for the formation of a regional economic bloc.

### **3. History and political obstacles to the creation of Maghreb Economic Community**

Like countries of the European Union, NAFTA, MERCOSUR, and other regional economic groups in the world, the Maghreb countries are also committed to the path of regionalism. The first attempt at post-colonial Maghreb cooperation dates back to 1964 in Tunis [Benchenane 1983: 903]. This date corresponds to the launching of a Permanent Consultative Committee of the Maghreb (PCCM) by the four countries: Algeria, Morocco, Tunisia and Libya. These countries have set the following tasks [Boussetta 2004: 53]:

- the gradual creation of an economic union,
- the harmonization of national economies for the construction of a real Maghreb Economic Community (MEC) like the European Economic Community (EEC),
- development and liberalization of trade accompanied by coordination of economic and industrial policies.

During the period of its existence, this organization has not experienced motivating concretions. Inter-Maghreb relations have remained confined to bilateralism. Some multilateral agreements have been signed in the context of transport and telecommunications. Other areas have not made progress, especially industry, and trade and trade have remained weak. The last meeting of the PCCM was held in May 1975 [Aghrout, Sutton 1990: 117]. The North African Maghreb Community stopped and had to block the functioning of the PCCM and froze its activities and eventually buries the latter.

At the end of the eighties, and with the rise of the liberalization of the world economy, awareness by the leaders of the Maghreb countries was proclaimed another time. The Maghreb countries found that the union could be a solution to the economic and socio-political problems of the region, and that regional integration will put an end to external pressures. This desire to relaunch the Maghreb integration process resulted in the creation of the Arab Maghreb Union (AMU) in 1989. AMU refers to the economic and political organization formed by the five Maghreb countries: Algeria, Tunisia, Morocco, Libya and Mauritania and which forms a geographical, linguistic and religious unit for several centuries, even millennia. Later, the implementation of the Maghreb strategy resulted in the organization of six Maghreb summits of heads of state held respectively in Tunis (21-23 January 1990), Algiers (21-23 July 1990), Ras Lanouf (Libya) (10-11 March 1991), Casablanca (Morocco) (15-16 September 1991), Nouakchott (10-11 November 1992), Tunis (2-3 April 1994).

The most important of these summits is that of Ras Lanouf. This summit articulates steps defining the modalities of Maghreb integration in well-planned sequences.

First step (1992-1995): This step aims at the establishment of a free trade zone through the exemption of customs duties and the progressive elimination of non-tariff barriers;

Second step (1996-1999): Its objective is the creation of a customs union aimed at establishing a common external tariff to protect local productions in relation to the external market;

Third step (from 2000): It concerns the institution of a Maghreb economic union which will have to represent the final step of the integration process. It will be concretized by the unification and coordination of the economic policies and development programs of the member countries.

According to Robert Bernier [2006: 170] "If the AMU were able to achieve its objectives, it would provide the means for integration into the world economy that would not only allow it to avoid the negative effects of competition on a globalized arena, but also to position advantageously on the international economic and political scene".

The non-stabilization of the economy and the extent of the political problems clearly show the lack of concreteness or even the discrepancy between the discourses of the legislative texts in the AMU treaties and the observable realities on the grounds that affect the achievement of objectives.

Indeed, every economic integration project will face difficulties that will have to be solved. This can be done in particular by satisfying a few preconditions that may be of a different nature: political prerequisites such as political stability in the candidate countries, for example, economic prerequisites (the economic system to

adopt, the development of commercial exchanges, macroeconomic convergence: levels of inflation, annual budget deficit, public debt, acceptable by all parties). The main political obstacles that have blocked Maghreb unification are:

– **Western Sahara conflict:** The conflict in Western Sahara appears to be the main factor in the blockage in the construction of AMU [Martinez 2006: 7]. This conflict dates back to the mid-seventies due to a break-up of the war between the Polisario front and the Moroccan army. Algeria has lent its support to the Polisario front, which has led to regional rivalries between Morocco and Algeria. This is a long conflict for which all attempts at conciliation have so far failed and whose lack of rapprochement between Algeria and Morocco has affected Maghreb relations [Guichi 2002: 19].

– **The problems between Algeria and Morocco:** This is an obstacle that was born following a terrorist attack in 1994 against a hotel in the city of Marrakech. Without waiting for the conclusions of a serious investigation, the Moroccan authorities directly accused Algeria of being the person in charge of this criminal attack and impose the visa for the Algerian nationals wishing to go to Morocco and also for foreigners of Algerian origin. Algeria reacted by closing the land border with Morocco by introducing the visa for Moroccans. In addition, it subsequently emerged that the attack was committed by Moroccan nationals.

– **Political dissensions within a few countries:** At the national level, all countries in the region have at one time or another, or are still in the grip of political crises, or at least an uncertain political environment, leading to political instability very worrying for all countries in the region. However, any political or other instability (social, economic, etc.) not only hampers the economic development of these countries, but at the same time and unfortunately delays regional integration. We can mention the political crisis undergone by Algeria in the 1990 that led to its isolation in the Maghreb, because it has long focused on its internal situation. In recent years, there has been deterioration in the political situation in Libya and Tunisia following the advent of the Arab Spring.

#### 4. Evaluation of macroeconomic reality in the Maghreb

To reach the first empirical objective of this part of the work, we will analyze the set of macroeconomic convergence indicators for the period from 1990 to 2016. All of these indicators are inflation rates, indicators of fiscal imbalance, external debt ratios, current account rates, exchange rates. We will then apply the sigma convergence method on all these variables. This approach makes it possible to measure the degree of reconciliation, over time, between several

economies with respect to one or more indicators or criteria. Its analysis is based on the study of the evolution of the dispersion of the series considered. There will be convergence of the whole sample when the dispersion decreases over time [Diarra 2014: 5]. The dispersion indicator used can be the variance or the standard deviation of the series. If  $X_{it}$ ,  $t$  represents the value of the variable  $X$  for country  $i$ , at the date  $t$  (with  $i = 1, \dots, n$  and  $t = 1, \dots, p$ ), the variance is determined from the following relation:

$$Var (X_{it}) = \frac{1}{n} \sum_{i=1}^n (X_{it} - \mu)^2 \quad \text{with} \quad \mu = \frac{1}{n} \sum_{i=1}^n X_{it} \quad (1), (2)$$

The standard deviation is obtained from the following relation:

$$\text{with } \sigma = \sqrt{Var (X_{it})} \quad (3)$$

A graphical analysis of the evolution of the standard deviation over the period of analysis ( $t = 1, \dots, p$ ) would make it possible to assess the process of convergence of economies with respect to variable  $X$ . A trend towards decreasing dispersion indicator would indicate the presence of a good convergence process. Otherwise, the indicators diverge.

## 4.1. Inflation rate

### 4.1.1. Evolution of the inflation rate in the Maghreb countries (1990-2016)

On the basis of the evolution of the inflation rate represented in table 1, we try to follow this evolution for each of the Maghreb countries, for the period from 1990 to 2016.

Table 1. Evolution of inflation rates in the Maghreb countries (1990-2016, in %)

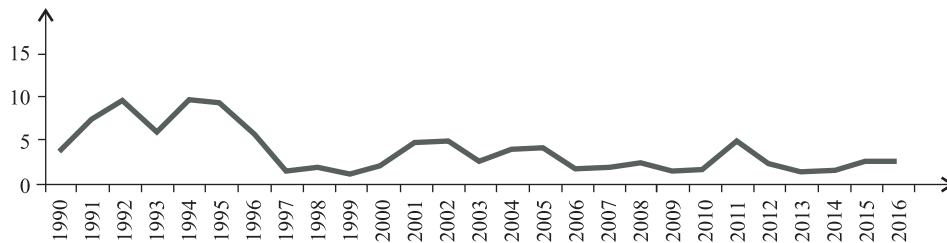
Country	1990-1995	1996-2000	2001-2005	2006-2010	2011-2016	Average
Algeria	24.360	6.450	3.048	4.100	5.040	9.27
Tunisia	5.900	3.190	2.160	3.508	4.660	4.21
Morocco	6.200	1.877	1.406	2.235	1.220	2.66
Libya	8.060	2.193	-16.850	4.596	9.278	4.12
Mauritania	7.068	4.930	7.250	5.868	3.750	5.74

Source: constructed by the author, based on IMF data.

Inflation rates are within convergence limits. For the region as a whole, the average annual rate for the period 1990-2016 is 4.45%, which is a satisfactory rate. At the country level, the rates are quite different. Morocco represents the lowest rate of inflation, so the best performance in the Maghreb region, its rate is estimated at 2.66%, while other countries have rates above 3%.

#### 4.1.2. Sigma convergence of the inflation rate

The graph 1 traces the evolution of the convergence sigma for inflation rates in the Maghreb community for the period from 1990 to 2016.



Graph 1. Sigma convergence of the average annual inflation rate (1990-2016)

Source: constructed by the author, based on IMF data.

From this graph, it appears that the dispersion of the average annual inflation rate does not decrease continuously, but nevertheless shows a downward trend. Examination of this graph reveals that, overall, the analysis period can be broken down into several small periods, since the standard deviations of inflation rates are constantly fluctuating downwards and upwards. We have cut this graph into two periods. The first period runs from 1990 to 1996, and the second period goes from 1997 to 2016.

The evolution of the standard deviation of the inflation rates in the AMU countries during the first period was relatively erratic, and this is due to the hyperinflation observed in the Maghreb countries which accounted for 7.38%, especially in Algeria, where the inflation rate is estimated at 24.60% during the same period. On the other hand, in the second period, the standard deviations tend to decrease, which may explain a tendency towards slight convergence. It was relatively more marked in the sub-periods (1997-2000), (2006-2010), (2011-2014). In other words, it is generally observed a reconciliation of the inflation rates recorded in the different countries during these short periods.

In the end, we can conclude that the overall analysis of inflation rates for all AMU countries shows more divergence during the period studied, from 1990 to 2016.

## 4.2. Budget balance rate

### 4.2.1. Evolution of the budget balance in % of GDP in the Maghreb countries (1990-2016)

Table 2 shows the evolution of the budget balance as a percentage of GDP in the five Maghreb countries for the period from 1990 to 2016.

Table 2. Evolution of the budget balance as a % of GDP in the Maghreb countries (1990-2016)

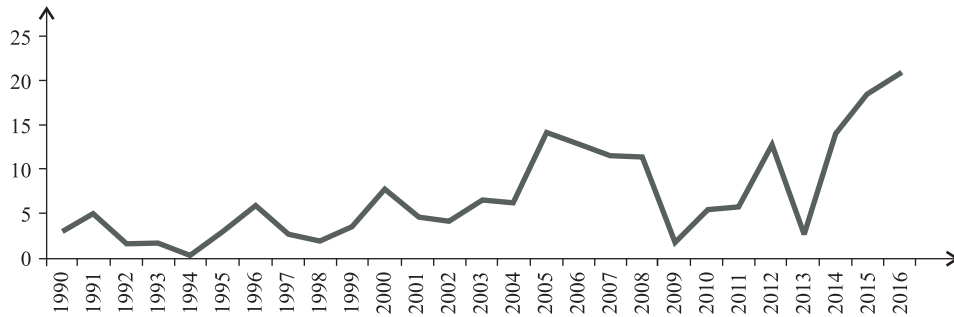
Country	1990-1995	1996-2000	2001-2005	2006-2010	2011-2016	Average
Algeria	0.090	2.210	5.7338	4.6558	-6.994	0.81
Tunisia	-3.110	-3.445	-2.6180	-1.4100	-4.870	-3.10
Morocco	-2.005	1.097	-4.4700	-1.4800	-5.307	-2.52
Libya	1.244	5.400	11.3358	14.2190	-23.590	1.62
Mauritania	ND	ND	-6.6300	-1.4190	-0.940	-3.05

Source: constructed by the author, based on IMF data.

In terms of the budget balance, average relative balances are quite different. Libya but also Algeria are the only countries that achieved budget surpluses during the period studied. Their budgetary balances are estimated respectively at 1.62% of GDP and 0.81% of GDP. We can emphasize that the average of these budgetary balances is relatively low in these two countries known by their budget surpluses in the past years (from 1990 until 2008). This decline in the budget balance is due to the weakness of the oil recovery which began to experience a decline because of the various external shocks experienced by both countries namely the global and financial crisis triggered in 2008 and which affected these two oil countries in 2009. Then the events of the Arab Spring for Libya, and finally the decline in oil prices in recent years in Algeria and Libya. Tunisia, Morocco and Mauritania have run budget deficits. These budget deficits are within the relatively acceptable limits. They are estimated at -3.10% GDP in Tunisia, -2.52% GDP in Morocco, and -3.05% GDP in Mauritania.

### 4.2.2. Sigma convergence of budget balance

The graph 2 traces the evolution of the convergence sigma for the budget rate in the Maghreb community for the period from 1990 to 2016.



Graph 2. Sigma convergence of the budget balance as a % of GDP (1990-2016)

Source: constructed by the author, based on IMF data.

The evolution of the budget balance indicator showed in the graphic 2 shows a strong tendency towards divergence. Indeed, the trend is mixed during the study period and growing towards the end of the period from 2013 to 2016. This dispersion of the standard deviation can be explained by the large difference in budgetary balances observed within the Maghreb. Given the importance of oil in Algeria and Libya, these two countries realize budget surpluses during booming oil prices and budget deficits in a situation of decline in the latter, while the rest of the Maghreb countries only realize deficits during the period studied. This situation leads to the dispersion of the standard deviations of all countries. This result seems logical to the extent that the budget deficit is the only instrument to deal with external shocks in the process of economic integration. Indeed, the structural dissimilarity of economies and the extreme vulnerability of these economies force governments to use non-co-operatively budgetary instruments. We can mention the example of Algeria and Libya, which have suffered the recent oil crisis since 2014 and which has resulted in budget deficits very inflated compared to their neighbors.

### 4.3. External debt ratio

#### 4.3.1. Evolution of external debt in% of GDP in the Maghreb countries (1990-2016)

Table 3 shows the evolution of the external debt as a percentage of GDP in the four Maghreb countries (Algeria, Tunisia, Morocco, Mauritania) for the period from 1990 to 2016. For reasons of the unavailability of external debt data for Libya, it will not be analyzed.



Table 3. Evolution of external debt in % of GDP in the Maghreb countries (1990-2016)

Country	1990-1995	1996-2000	2001-2005	2006-2010	2011-2016	Average
Algeria	0.612	0.6078	0.319	0.045	0.020	33.21
Tunisia	0.602	0.533	0.619	0.515	0.564	56.85
Morocco	0.722	0.584	0.376	0.263	0.339	46.33
Mauritania	169.750	177.490	146.780	55.550	76.080	124.97

Source: constructed by the author, based on IMF data

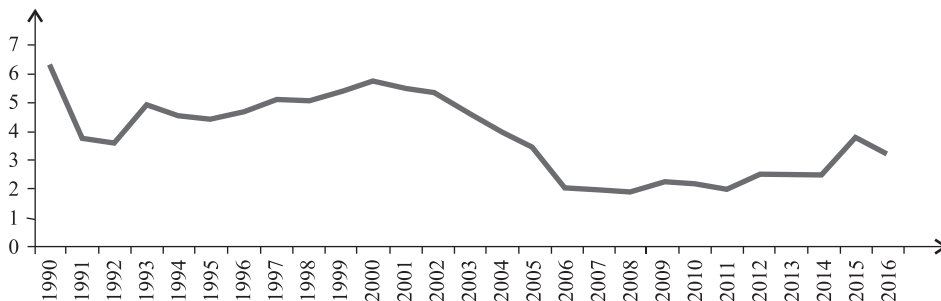
With regard to external debt, we can classify countries into four categories:

- the country with moderate debt, namely Algeria with an estimated average of 33.21% of GDP for the period studied. The solvency of this country is due to the oil rent generated by the oil revenues of this country’s exports,
- Morocco has medium debt, with an indebtedness ratio estimated at 46.33% of GDP during the period studied,
- Tunisia has a high debt with an average debt ratio estimated at 56.85% of GDP,
- Mauritania has a very high debt with an average of 124.97% of GDP during the period studied.

The external debt ratio represents a continuous improvement in the Maghreb region. It went from an estimated 90.12% of GDP for the period 1990-1998 to 39.76% of GDP for the period from 2008 to 2016. The improvement is therefore estimated at more than 50% of the reimbursement debt.

### 4.3.2. Sigma convergence of the external debt ratio

The graph 3 traces the evolution of the sigma convergence of the external debt ratio in the Maghreb community for the period from 1990 to 2016.



Graph 3. Sigma convergence of the external debt ratio in % of GDP (1990-2016)

Source: constructed by the author, based on IMF data.

From this graph, it appears that the dispersion of the external debt ratio does not decrease continuously during the period studied. The trend observed for the ratio (external debt / GDP) shows that there is a change in the decline of this indicator from 2000. So, we can distinguish two periods of analysis:

- the first period runs from 1990 to 2000, where the standard deviations are very high, which explains a divergence of the indicator between countries, this is mainly due to the high debt in all the Maghreb countries and the gap between the situation external debt between the Maghreb countries,

- the second period runs from 2000 to 2016, where the graphic shows an overall trend of decreasing external debt ratios in the Maghreb countries from the late nineties and early two thousand years.; as a result, we can see that this ratio started a process of convergence within the Maghreb during this period.

#### 4.4. Current account rate

##### 4.4.1. Evolution of the current balance in% of GDP in the Maghreb countries (1990-2016)

Table 4 shows the evolution of the current account as a percentage of GDP in the five Maghreb countries for the period from 1990 to 2016.

Table 4. Evolution of the current account in % of GDP in the Maghreb countries (1990-2016)

Country	1990-1995	1996-2000	2001-2005	2006-2010	2011-2016	Average
Algeria	0.3100	4.934	13.420	15.079	-3.280	5.53
Tunisia	-4.3010	-2,810	-13.954	-3.132	-8.340	-4.42
Morocco	-3.6558	-2.377	0.553	-4.183	-5.550	-3.02
Libya	3.5300	9.110	17.100	34.410	-10.920	9.58
Mauritania	-5.0870	-2.690	-17.399	-11.240	-25.489	-12.60

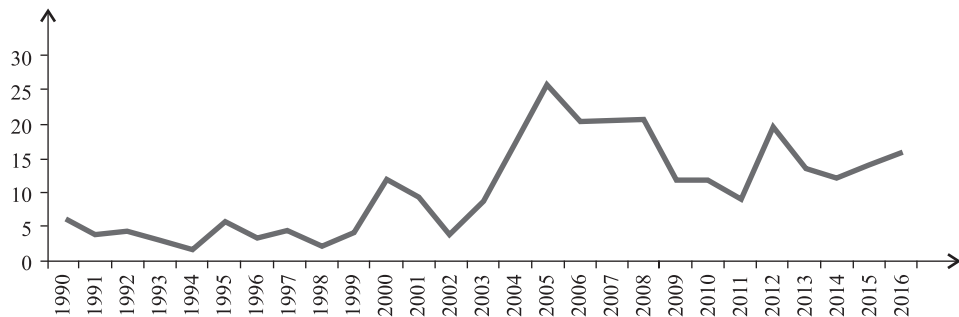
Source: constructed by the author, based on IMF data.

With regard to the current balance rates in the AMU, we can classify the countries in two categories, since their situations are very heterogeneous over the period (1990-2016); countries with a positive current balance ie Algeria and Libya with an average of 5.53% of GDP and 9.58% of GDP respectively, countries with negative current balances, but with degrees of deficit very different, the deficits are estimated at -3.02% of GDP in Morocco, -4.42% of GDP in Tunisia, and -12.60% of GDP in Mauritania.

Current account surpluses in Algeria and Libya are the result of hydrocarbon export earnings. Despite the current account average which is positive during the period under review, the current account balance began to show a deficit from 2014 in both countries at the same time, and this is due to falling oil prices and spending imports that exceed the budget revenue from hydrocarbons.

#### 4.4.2. Sigma convergence of the current account

The graph 4 shows the evolution of the convergence sigma for current balances in% of GDP in the Maghreb community for the period from 1990 to 2016.



Graph 4. Sigma convergence of the current % of GDP (1990-2016)

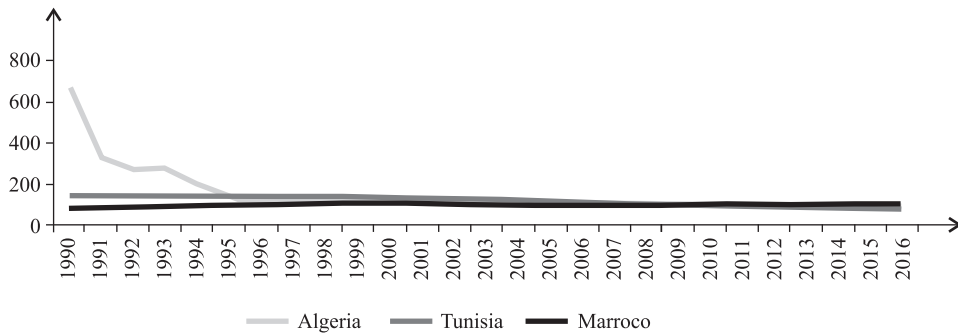
Source: constructed by the author, based on IMF data.

The shape of the curve related to the convergence criterion of the current balance is unstable. The curve marked a bullish trend at several sub-periods, which explains why the standard deviation between countries tends to disperse. This makes us suspect the presence of a mechanism of divergence between all the Maghreb countries.

### 4.5. Exchange rate

#### 4.5.1. Nominal exchange rate developments in the Maghreb countries (1990-2016)

From graphic 5, we note that Morocco's exchange rate remained within the normal fluctuation margins throughout the period studied, which explains why Morocco is fully compliant with the convergence criterion standard. In Tunisia, the trend has not remained at the same level as the case of Morocco, but shows a trend towards acceptable convergence. Algeria has started to moderately



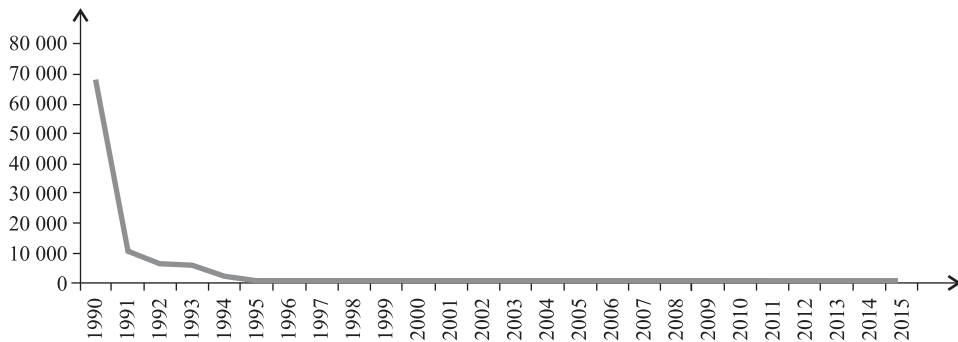
Graph 5. Nominal exchange rate developments in the Maghreb countries (1990-2016)

Source: constructed by the author, based on IMF data.

meet the convergence standard from 2000 and strongly from 2005. While the period from 1990 to 1999, we note that the differences in convergence rates are enormous.

#### 4.5.2. Sigma convergence of the nominal exchange rate

The graph 6 traces the evolution of the convergence sigma for exchange rates in the Maghreb community for the period from 1990 to 2015.



Graph 6. Sigma convergence of the nominal exchange rate (1990-2016)

Source: constructed by the author, based on IMF data.

From this graph, it appears that the dispersion of the exchange rate decreases continuously over the years and with a standard deviation that gets closer and closer to zero. However, an increase in the standard deviation is noted between

2000 and 2001, also between 2012 and 2014, but which remains very minimal and in very respectable standards. The graph also indicates that the observed convergence is a good and global convergence as it is obtained with a reduction in the dispersion of exchange rates. This overall downward trend in the standard deviation, which therefore represents the approximation of the exchange rate, could be the result of the similarity of the exchange rate policies in this area in at least two Maghreb countries studied.

## 5. Evaluation of intra-Maghreb trade

Using different quantitative tools proposed by different authors of the international economy [Sachwald 1996; Unal-Kesenci 1998; Sakakibara, Yamakawa 2003; Petri 2006] we will proceed with the evaluation of inter-Maghreb trade. These indicators are: the intra-regional trade share, the trade matrix, the trade intensity indices.

### 5.1. Share of intra-regional trade (coefficient of commercial integration)

This indicator represents the ratio of the sum of regional exports and imports to the sum of global exports and imports of the regional economic community. This indicator gives an insight into the degree of concentration of intra-regional trade.

Table 5. Trade of the Maghreb countries as % of total flows (1990-2016)

	1990	1995	2000	2005	2010	2011	2012	2013	2014	2015	2016
Exports											
Intra AMU	2.86	3.90	3.26	1.92	2.63	3.05	3.26	3.68	4.56	4.11	4.14
RW	97.14	96.10	97.74	98.08	97.37	96.95	96.74	96.32	95.44	95.89	95.86
Imports											
Intra AMU	2.67	3.63	3.27	3.04	3.04	3.03	3.91	3.56	3.91	2.66	2.51
RW	97.33	96.27	96.73	96.96	96.96	96.97	96.09	96.44	96.09	97.34	97.49
Global trade											
Intra AMU	2.76	3.76	2.76	2.48	2.83	3.04	3.60	3.62	4.23	3.38	3.32
RW	97.24	96.24	97.24	97.52	97.17	96.96	96.40	96.38	95.77	96.62	96.68

Source: The statistical manuals of Unctad, [www.unctad.org](http://www.unctad.org) [accessed: January 2018].

$$\text{global trade} = (X + M / 2) \quad (4)$$

$X$ : exports,

$M$ : imports,

$RW$ : the rest of the world (it represents extra-regional trade).

The indicator shows that intra-Maghreb global trade represents a relatively small part of their global trade. They revolve around 3%. In addition, this situation does not seem to improve, they went from 2.76% in 1990 to 3.32% in 2016. The trade with the rest of the world remains predominant; the members of the UMA realize exchanges between 95% and 98% of their trade with countries outside the zone, in particular with the European Union.

## 5.2. Trade Matrix

The trade matrix completes the indicator of the share of intra-regional trade and explains the flow of trade between countries in the same regional economic group. Its purpose is to compare commercial performance in intra-regional trade. It represents the destination of exports ( $X$ ), imports ( $M$ ) and bilateral global trade.

We used the formula below to calculate the averages of exports, imports and global trade over a 27 year period:

$$\text{average of } X \text{ or } M = 1 / n \sum x_{ij} = 1 / 27 \sum x_{ij} \quad (5)$$

$x_{ij}$ : trade flows from country  $i$  to country  $j$ .

Overall, this matrix more accurately illustrates the weakness of trade between the Maghreb countries and the marginal role in which intra-Maghreb trade is confined.

The objective of the construction of these matrices on trade is to try to understand the course of intra-Maghreb trade flows and to highlight some dynamic parts in this region and comparative performance between the Maghreb countries.

In terms of exports, Tunisia is the most integrated country in the Maghreb economic area. In terms of imports, Tunisia still shows the best performance but this time accompanied by Libya and Mauritania. So, in terms of global trade, Tunisia is the most integrated country in the Maghreb economic area.

Tunisia has much more relations with Libya and Algeria, with rates of 49.51% and 38.77%, respectively. Majority of its trade with the two neighboring countries: Tunisia and Morocco which are respectively of 52.16% and 41.69%, while with

Libya and Mauritania, shares are very marginal: 2.72% with Libya and 3.41% with Mauritania. As for Libya, 82.36% of its trade is only with Tunisia (80.87% in terms of exports and 83.30% in terms of imports). The remaining 17.64% is shared between Algeria, Morocco and Mauritania. In Morocco, despite the closure

Table 6. Intra-Maghreb trade (1990-2016), in millions of US dollars

	Algeria	Tunisia	Morocco	Libya	Mauritania	Total	Degree of integration
Intra AMU exports							
Algeria	–	397.90	386.00	12.32	34.52	830.74	2.46
Tunisia	214.28	–	101.99	454.89	10.31	781.47	8.12
Morocco	82.35	67.31	–	81.24	42.88	273.78	2.50
Libya	17.19	305.48	54.87	–	0.17	377.71	1.80
Mauritania	3.94	1.06	0.75	0.00	–	5.75	0.47
Intra AMU imports							
Algeria	–	195.68	88.37	18.68	4.34	307.07	1.31
Tunisia	397.54	–	71.60	326.34	0.85	796.33	5.77
Morocco	424.80	111.06	–	60.58	0.80	597.24	2.81
Libya	13.60	497.26	86.04	–	0.00	596.90	5.87
Mauritania	37.22	11.34	47.26	0.17	–	95.99	6.13
Global intra-AMU-trade							
Algeria	–	296.79	237.18	15.50	19.43	568.90	1.88
Tunisia	305.91	–	86.79	390.61	5.58	788.90	6.94
Morocco	253.57	89.18	–	70.91	21.84	435.50	2.65
Libya	15.39	401.37	70.45	–	0.08	487.30	3.83
Mauritania	20.58	6.20	24.00	0.08	–	50.86	3.30

Source: calculations made by ourselves from IMF data.

of borders with Algeria, it remains its main trading partner in the Maghreb with 58.22%, followed by Tunisia with 20.47%, followed by Libya with 16.28% and, finally, Mauritania with 5.01%. As for Mauritania, its main trading partner is Morocco with 47.18%, followed by Algeria with 40.46% and Tunisia with 12.19%. Its trade is almost zero with Libya (0.1%).

### 5.3. Relative commercial intensity index

To refine the results, we will analyze the index of commercial export intensity for each of the Maghreb countries. In this case, we will apply the indicator proposed

by Petri [1993 and 2006] who is the first author who expanded the previously explained calculations, thus allowing to evaluate the intensity of regionalization in a regional economic community, that he calls it “double relative measure of trade intensity” and has applied it to intra-Asian trade. The formula he used is:

$$IC = (X_{ij} \times X) / (X_i \times M_j) \quad (6)$$

$X_{ij}$ : exports from country  $i$  to country  $j$ ,

$X$ : world exports,

$X_i$ : the total exports of country  $i$ ,

$M_j$ : the country's total imports  $j$ .

Table 7. Trade intensity index for the five Maghreb countries (1990-2016)

	Algeria	Tunisia	Morocco	Libya	Mauritania
Algeria	–	7,18	4,96	0,33	10,05
Tunisia	8,54	–	4,34	46,91	4,79
Morocco	11,74	4,86	–	11,61	10,89
Libya	0,22	11,74	2,04	–	0,01
Mauritania	2,09	0,75	0,31	0,00	–

Source: calculations made by ourselves from IMF data.

– **Trade intensity is higher among border countries:** This is observed for the majority of countries. Their businesses are more intense with their neighbors.

– **Economic complementarity stimulates trade intensity between countries:** This is the case of trade between Tunisia and Libya, between Tunisia and Algeria. The relative intensity index confirmed the intense relationship between these two oil countries with Tunisia, especially from Tunisia to Libya. These are the highest indexes and have reached record levels.

– **The intensity of trade is also favored by the economic similarity:** Although there is no complementarity between the Tunisian and Moroccan economies and these two countries are not border, the intensity of trade is rather average.

– **Trade between two neighboring countries is weak when the two economies are specialized in primary products:** This is the case of Algeria and Libya, which specialize in hydrocarbons. The relative commercial intensity index is always less than unity.

– **Geographical proximity influences the commercial relationship between countries:** This explains the very high intensity, for example from Morocco to Mauritania. Developing countries, given their limited openness, have significant trade with neighboring countries (having a common land border).



– **Bilateral agreements stimulate trade:** High trade intensities between some countries of the same regional group, such as Tunisia to Libya or Tunisia to Algeria, can also be explained by bilateral agreements between these countries, such as the preferential partnership agreement between Algeria and Tunisia and also the free trade zone between Tunisia and Libya.

## 6. Conclusion

This article focused on the study of economic integration in the Maghreb. He sought to characterize it by looking at both the historical, geopolitical and economic aspects of the process of economic integration. Using various theoretical and economic analyzes, we tried to evaluate intra-Maghreb trade in a geopolitical context.

The Maghreb region does not yet seem to find the model of regional integration adequate to its particular economic and political conditions. Since its creation, the region has been undergoing a process of permanent rehabilitation in search of avenues of cooperation to adapt to the various external administrative, institutional, economic and political pressures that prevent the realization of Maghreb integration and interrupt process so far.

The country analysis for indicators of macroeconomic convergence has shown that the situation of the latter is heterogeneous in the Maghreb region. This situation of differentiation may represent a state of equilibrium when the surplus of some could contribute to the satisfaction of the needs of others. The aim of the convergence sigma measure is to analyze the coordination and harmonization of monetary, fiscal and exchange rate policies. The results showed a convergence trend for some indicators such as exchange rates and debt ratios and a divergence for others.

The evaluation of trade showed that the share of intra-regional trade expressed the low concentration of intra-AMU trade flows and a strong dependence on the outside world. Then, a more detailed analysis of trade between the Maghreb countries using the trade matrix, showed that Tunisia is the most integrated country in the Maghreb economic area. The observation of relative trade intensities also showed that economic determinants such as economic complementarity and economic similarity are stimulating factors for trade integration and that the importance of geographical proximity between Maghreb countries could make regionalization in the Maghreb a natural phenomenon.

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## **Ocena wymiany gospodarczej wewnątrz państw Maghrebu w kontekście geopolitycznym**

**Streszczenie.** W odróżnieniu od rosnącej globalizacji integracja regionalna (lub regionalizm) pojawiła się jako ambitny projekt niemal w każdym rejonie świata. Inicjatywa ta została podjęta zgodnie z poszukiwanymi celami i szczególnymi motywacjami każdej grupy gospodarczej. Maghreb jest regionem z ważnym potencjałem ekonomicznym, lecz nie w pełni wykorzystanym. Wspólnota Gospodarcza Maghrebu, obejmująca Algierię, Tunezję, Maroko, Libię i Mauretanię, posiada kilka zasobów, które mogą prowadzić do sukcesu, lecz jest także ułomna ze względu na warunki polityczne i instytucjonalne uniemożliwiające jego osiągnięcie. W niniejszym artykule na wstępie wyjaśniono pojęcia globalizacji i regionalizacji, następnie oceniono proces maghrebskiej integracji gospodarczej, koncentrując się na różnych próbach współpracy i warunkach politycznych uniemożliwiających unifikację. W końcowej części starano się wyjaśnić możliwości współpracy wewnątrz Maghrebu poprzez określenie sektorów wzrostu i harmonizacji polityk makroekonomicznych. Niniejsze opracowanie składa się z trzech sekcji. Pierwsza rozwija dwie koncepcje: globalizacji i regionalizacji. Druga przedstawia nieudane próby wewnętrznej współpracy oraz konflikty polityczne, z jakimi zmagają się państwa Maghrebu. W części trzeciej ocenia się sytuację gospodarczą i bada makroekonomiczne możliwości wewnętrznej współpracy Maghrebu.

**Słowa kluczowe:** globalizacja, regionalizm, współpraca, konflikt, Maghreb



Margherita Mori

University of L'Aquila, Italy

Department of Industrial and Information Engineering, and of Economics

orcid.org/0000-0002-1740-0815

e-mail: margherita.mori@univaq.it

tel: +39 086 243 48 74

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## Banking for Sustainable Development: A “Glocal Co-opetitive” Challenge

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**Summary.** This paper aims at discussing challenging issues that pervade the banking industry worldwide, with the “glocal” approach calling for attention as a must; what sounds especially appealing is the pursuit of an appropriate mix of competition and cooperation – or “co-opetition” – in sight of contributing to sustainable development. To this end, inclusive finance stands as a key ingredient and serious worries are fueled by the millions of people who belong to underbanked – and even unbanked – market segments. Based on these considerations, it seems that progress can be favored by designing a framework for analysis and disseminating best practices, while bridging the gap between theory and practice. The main findings act as a stimulus to suggest concrete proposals that also account for academic challenges; conclusions imply that banking on shared value can be expected to generate benefits in terms of sustainability, to society in a global-scale context and particularly to underserved consumers.

**Keywords:** “co-opetition”, “glocalism”, inclusive finance, sustainable development, underbanked market segments

### 1. Introduction

Upon setting the “2030 Agenda” with its Sustainable Development Goals (SDGs), back in 2015, the United Nations (UN) recognized “that eradicating poverty in all its forms and dimensions [...] is the greatest global challenge and an indispensable requirement for sustainable development”; at the same time, member countries

committed to pursue “sustainable development in its three – economic, social and environmental – in a balanced and integrated manner” [UN 2015b: 5-6]. The 17 goals that were then adopted seek to complete what the Millennium Development Goals [UN 2000] did not achieve, to address additional challenges [Evans, van der Heijden 2014: 2-3] and to revitalize a Global Partnership for Sustainable Development, based on a spirit of strengthened global solidarity and on the needs of the most vulnerable, with the participation of all countries, all stakeholders and all people.

What sounds particularly challenging is the gap to be filled in terms of financial inclusion, that has gained momentum in line with the emerging philosophy centered upon banking on shared value: partnering for the achievement of the SDGs may prove rewarding to this end, thus unveiling the potential of “co-opetition” (as a combination of competition and cooperation) in the financial arena. Forward steps are still on the cards, though the link between sustainable growth and inclusive finance has been emphasized for quite a long time, as shown by the “Europe 2020” strategy that the European Commission (EC) set in 2010.

This paper deals with the concepts just outlined and aims at providing a framework for analysis in sight of contributing to sustainable development in a global-scale context; key issues have to do with improving financial inclusion of underbanked – and even unbanked – people, to the benefit not only of those who need to be better served by financial institutions but also of society at large. Conclusions draw upon best practices that can be replicated by mixing up the global perspective with the local one – according to the more and more widely shared “glocal” approach – while balancing competition and cooperation.

## **2. Relevant goals in the UN Agenda**

A quick look at the “2030 Agenda” is enough to devise statements of special interest in sight of better serving underbanked market segments and including unbanked people. The SDGs that this Agenda consists of encompass economic growth, sustainable communities, reduced inequalities, industry, innovation and infrastructure, as well as partnerships for the best results to be scored; all of these goals are accompanied by specific targets and are supported by actions to be taken in everyday life.

Some of the SDGs involve significant transformational change: Goal 8 focused on economic growth spells out that it must be inclusive and sustainable, just like industrialization (Goal 9), cities and communities (Goal 11); financial inclusion is mentioned whereby policies to be adopted are listed, based on the

commitment to improve it, and – to stress this point – the description of Goal 1 (“end poverty in all its forms everywhere”) implies equal access for everybody, “in particular the poor and the vulnerable”, to “appropriate financial services, including microfinance” [UN 2015b: 19]. Goal 5 too deserves special consideration as it aims at achieving gender equality, which leads to stress that women tend to result more financially vulnerable [Rawat, Dutta 2018].

For the SDGs to be reached, everybody should get involved and financial institutions – with banks spearheading their list – can be assumed not only to participate in the joint efforts that are requested but also to anticipate what should be done. By the way, this Agenda has acknowledged the need to improve their regulation and to better regulate financial markets, while the provision of financial assistance is supposed “to strengthen developing countries’ scientific, technological and innovative capacities to move towards more sustainable patterns of consumption and production” [UN 2015b: 12]; moreover, the commitment has been declared to “strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all” (again, Goal 8).

### **3. Insights into “Europe 2020”**

The link between the terms “sustainable” and “inclusive” had already been highlighted by forging “Europe 2020”, the strategic agenda that the European Union (EU) has been involved in since 2010. In this case, the ultimate objective was stated in sight of meeting three mutually reinforcing priorities, that call for smart, sustainable and inclusive growth; they had been selected in an attempt at helping Europe come out stronger from the global financial crisis that started in 2007.

According to the European Commission (EC), “sustainable growth” implies “a more resource efficient, greener and more competitive economy”; “inclusive growth” fosters “a high-employment economy delivering economic, social and territorial cohesion”. As far as “smart growth”, it is defined in terms of “developing an economy based on knowledge and innovation” [EC 2010: 3].

The economic perspective should not overshadow the financial one, that represents the other side of the coin. Focusing on finance, it is recognized that “the availability of easy credit, short-termism and excessive risk-taking in financial markets around the world fueled speculative behavior, giving rise to bubble-driven growth and important unbalances”; therefore, “Europe is engaged in finding global solutions to bring about an efficient and sustainable financial system” [EC 2010: 6].

## 4. Pursuing sustainable finance

The unique role that the financial system can play in order to support the real sphere of the economy fully justifies that no less attention is devoted to the concepts of “sustainable” and “inclusive finance”. No surprise that sustainable finance is looked at by stressing the imperative of improving its “contribution to sustainable and inclusive growth, in particular funding society’s long-term needs for innovation and infrastructure” [Thimann 2017: 3]; in a few words, the concept of “sustainable finance” is forged by mentioning “the provision of finance to investments taking into account environmental, social and governance considerations” [Sustainable Finance n.d.].

Environmental considerations have to do with the strong green finance component that can support a sustainable growth path, as shown by the relatively recent move to re-orient investments – and especially loans – towards more sustainable businesses; governance considerations draw upon a growing awareness of the risks that may affect the sustainability of the financial system and are closely tied to the need for mitigation strategies through appropriate guidance. It is meaningful that environmental challenges and sustainability risks have prompted the EC to rely on a High-Level Expert Group in developing a comprehensive strategy on sustainable finance as a part of the Capital Markets Union since 2016.

Turning to social considerations, it is worth stressing that “finance performs two key functions beneficial to households and firms: risk management and inter-temporal consumption smoothing” [Stein 2010: 5]. These functions allows to reap benefits that range from managing day-to-day resources to taking advantage of investment opportunities, just to highlight the most relevant needs that are usually satisfied by banks and other financial intermediaries, though underbanked – and especially unbanked – market segments continue to be a source of serious concern.

## 5. Towards a more inclusive financial system

Their unmet needs act as a stimulus to further financial inclusion: it “means that individuals and enterprises can access and use a range of appropriate and responsibly provided range of financial services offered in a well-regulated environment” [Financial Inclusion 2016]; a closely linked viewpoint emphasizes financial resilience as the declared, feasible capacity to survive financial shocks and to obtain money for unexpected expenses [Solarz 2017: 86]. To summarize, “inclusive finance strives to enhance access to financial services for both



individuals and micro-, small and medium-sized enterprises” [Inclusive & Local Finance, n.d.], as a way to reduce poverty, tackle inequality and foster growth.

Actually, there is remarkable empirical evidence that suggests a clear relationship between improved access to finance and reduced income inequality and poverty; as such, a more inclusive financial system can be said not only pro-growth but also pro-poor, which leads to focus on developing countries. There, more than elsewhere, access to financial services is crucial to strengthen the financial sector, as well as to improve the process of domestic resource mobilization, and higher levels of financial inclusion can make a significant contribution to social and economic development.

For the best results to be achieved, despite some criticism [Mader 2017], an increasingly shared view aims at promoting a more inclusive financial system worldwide by “intensifying the depth of outreach and providing services to marginalized groups, especially women, reaching beyond conventional microcredit to the people at the bottom of the economic pyramid” [Inclusive Finance... 2013: 2]. To this end, the set of most useful tools includes the extension of savings, credit, insurance and payment services, especially when the amount involved is relatively small; as far as the supply of these services, it comes natural to think of microfinance institutions, though their standard operating model has not met most optimistic expectations [Sherratt 2016], but even traditional financial intermediaries, such as banks, can play a crucial role by participating in the joint efforts that are needed.

## **6. Local, global, “glocal”**

Further useful insights can be gained by analyzing the “Addis Ababa Action Agenda” (AAAA) that the UN also adopted in 2015; the opportunity was provided by the Third International Conference on Financing for Development that dealt with cross-cultural topics, such as domestic public resources, domestic and international private business and finance, international development cooperation, international trade as an engine for development, debt and debt sustainability, technology, innovation and capacity-building. It was then recognized that “expenditures and investments in sustainable development are being devolved to the sub-national level, which often lacks adequate technical and technological capacity, financing and support” [UN 2015a: 11].

This statement invites to shed new light on the traditional trade-off between the local and global perspectives, which tends to be overcome by the more and more widely accepted “glocal” approach. As it can be easily argued, “glocalism”

combines local and global issues: what is “glocal” is proposed as “reflecting or characterized by both local and global considerations” [Glocal, n.d., English Oxford...] and “relating to the connections or relationships between global and local businesses, problems, etc.” [Glocal, n.d., Longman Dictionary...]; the pertaining *motto* implies thinking globally and acting locally.

Therefore, the value of “glocal” can be acknowledged by stressing that it provides “a succinct reminder of a simple but profound insight – in our networked world; what happens locally has a global impact, and what happens globally has a local impact” [Jones 2012: 3]. Such a unique character of “glocalism” can inspire a political design aimed at promoting development by integrating “the strong powers of global governance, that largely fail to realize the importance of cultural diversity and the strength of the local dimension, with the powers of local governance, often dangerously left to their own devices” [CERFE 2003: 2].

## 7. Cooperation, competition, “co-opetition”

There can be no question that the “glocal” vision applies to policy-making, which requires global cooperation and local implementation, thus making the relationship between globalism and localism the driving force to fight against socio-economic imbalances worldwide and foster sustainable development; it is not a case that the AAAA also calls for greater international cooperation “to strengthen capacities of municipalities and other local authorities” [UN 2015a: 11]. As far as financial firms, they need to cooperate – for instance in payment systems – among themselves and with other competitors, such as fintech companies, whereas the deep-rooted belief that competition is detrimental to stability has preserved the oligopolistic nature of the banking industry for a long time.

More and more competitive forces have emerged since when the liberalization process began in the US in the Seventies and continued in Europe later on [Carletti, Vives 2008: 2]. As a result, the trade-off between competition and cooperation too seems no longer clear-cut and the trend towards “co-opetition” – or cooperative competition – acts as a reinforcement, thus emphasizing the unexploited potential of the networked economy: a “co-opetitive” strategy implies cooperation between competing entities and can be undertaken in sight of creating synergies by partnering with competitors; a judicious mix of cooperative and competitive efforts is thought to be a good business practice, as it can favor the expansion of the market and the formation of new relationships [Coopetition n.d.].

For “co-opetition” to occur, at least a partial congruence of interests should exist: if this is the case, competitors may wish to cooperate in order to reach

a higher value creation compared to the value that would be created while struggling to achieve competitive advantages; “co-opetition” also favors effective knowledge sharing practices, which makes “co-opetitive” challenges even more attractive to both academics and practitioners.

## 8. The global partnership for sustainable development

A closer relationship between the logic of competition and the logic of cooperation has been stimulated by the difficulties that originated from the US subprime mortgage crisis. They have made even more evident the interdependence among countries, which sounds like an invitation to emphasize the approach followed by the SDGs and especially by Goal 17: it is based upon the Global Partnership for Sustainable Development, complemented by multi-stakeholder partnerships that are designed to mobilize and share knowledge, expertise, technology and financial resources; these inclusive partnerships need to be “built upon principles and values, a shared vision and shared goals that place people and the planet at the centre” and should be developed “at the global, regional, national and local level” [Goal 17: Revitalize...].

Therefore, energies should be devoted to “encourage and promote effective public, public-private and civil society partnerships, building on the experience and resource strategies of partnerships” [UN 2015b: 32]. All in all, Goal 17 lays out a way for Nations to work together to achieve all the other goals: not only the world is more and more interconnected, but also there is a growing consensus about the need to cooperate among the 193 countries that agreed on the SDGs; since their adoption, “the international development community has been looking at ways to tap into new funding venues, attract the private sector and build relevant private-public sector partnerships”, as the 2017 World Bank – IMF Annual Meetings allow to state [Pazarbasioglu 2017].

Yet, much room remains for progress: based on what has been achieved, it can be argued that “a stronger commitment to partnership and cooperation is needed”; the additional efforts to be undertaken “will require coherent policies, an enabling environment for sustainable development at all levels and by all actors and a reinvigorated Global Partnership for Sustainable Development” [Sustainable Development Goal 17, 2017]. Within this framework, banks are well positioned to make a significant contribution by driving the integration of environmental and social concerns into products and services, as well as by stimulating more sustainable approaches to business, for instance by privileging companies most involved in environmental and social issues, *ceteris paribus*, while granting loans.

## 9. Banks and the creation of shared value

To make a long story short, the post-2015 Global Partnership promises to unlock additional finance for development flows, within a context that also implies an increased commitment of the private sector to boost inclusive growth, job creation and environmental sustainability. Therefore, the debate on the 17 SDGs should provide support to meet the significant challenges that are posed to developed countries: they can be expected to transform their own society and economy in a more sustainable direction as well as to contribute more strongly to the global effort, in order to speed up the achievement of sustainable development in developing countries.

Focusing on banks, their pivotal role should encourage them to actively participate in the advancement of economic and social conditions in the area in which they are located – and ultimately in our global village as a whole – while developing policies and operating practices that enhance their competitiveness: although some authors contest the value of creating shared value [Crane et al. 2014], it could be hardly rejected that banking for maximizing returns to stockholders and furthering customer prosperity should be properly integrated with funding the growth of regional economies and financing solutions to global – or, better, “glocal” – problems. If some positive effects are to be attributed to the financial crisis that dates back to 2007, a strong stimulus to banking on shared value is one of them, possibly the most relevant.

To be polite, it is no longer time to deliver benefits that only a small elite group is likely to take advantage from and the banking industry should more explicitly recognize the immense potential of generating business by creating societal value in several ways; they can be summarized in terms of “reconceiving products and markets”, “redefining productivity in the value chain” and “building supportive industry clusters at the company’s locations” [Porter, Kramer 2011]. It seems evident that banks are still essential to foster the growth of every business, to finance housing and education and to enable the development of tomorrow’s clean energy infrastructure – to mention just a few key functions – but shared value opportunities should be pursued more aggressively.

## 10. Banking the unbanked and underbanked

Despite being shared value widely considered a strategic imperative for banks, leveraging its full power still requires a significant shift from the way in which

the majority of these institutions is currently run. If it is true – as it is – that they are supposed to get closer to society, the priority list should encompass unprecedented efforts to better satisfy the needs of a large share of the population: according to reliable estimates [Demirguc-Kunt et al. 2015: 4], two billions adults – more than half of those who work in the world – are unbanked, which means that they do not hold a bank account; this situation is most acute among low-income people in emerging and developing economies, though surveys by the Federal Deposit Insurance Corporation (FDIC) allow to state that an industrialized country such as the United States too has to cope with disappointing data as far as the recourse to banking services by households [FDIC 2016].

Serious worries also stem from the market segments that can be defined underbanked: they include people who have become blacklisted by major banks, are young consumers, want to avoid debt collectors, are fed-up with fees, are out of a job, had a bad customer experience, miss relevant documents and lack a permanent address, not only in rural but also in urban communities; to make the picture even more challenging, special thoughts should be dedicated to differently-abled people (such as wheelchair-bound and visually-impaired persons) who need customized barrier-free access to banks and their products. Everybody would be ready to express thoughts against discrimination, both legally and morally [Thomas, Ely 1996: 79], but it still abounds.

What fuels feelings of optimism is the growing concern among these intermediaries on behalf of households, as well as micro- and small-sized enterprises, to increase the share of fully banked customers. Better serving them is a “glocal co-opetitive” challenge that can benefit from a three-pillared approach: the first pillar involves consumer protection regulation and supervision by financial authorities, particularly on transparency and other aspects of market conduct; the second pillar has to do with strategic measures taken either individually or collectively and shaped by principles, standards, codes of conduct and guidelines, whereas the last pillar is centered upon enhanced financial capability of consumers, so as to make sound financial decisions and protect themselves from harm.

## **11. The financial arena as a huge laboratory**

Based on these considerations, it seems that progress can be promoted by designing a framework for analysis, addressing policy issues and disseminating best practices. To this end, it comes natural to emphasize the need to bridge the gap between theory and practice: actually, the financial arena can be looked at as a huge laboratory, with both physical and virtual features, despite being

experiments usually reserved to applied sciences and thus excluded from the methodological set available to finance; no surprise that useful findings can be obtained not only by carrying out a literary analysis but also by surfing the web, in order to survey how banks are contributing to financial inclusion and ultimately to the pursuit of the SDGs.

Lessons learned and success stories act as a stimulus to suggest concrete proposals that also account for academic challenges: for instance, improved financial education and literacy cannot be underestimated, in sight of furthering financial competence and thus reaching ambitious outcomes, such as those that underpin the path towards sustainable growth. There is consistent evidence that, at the micro-level, higher financial literacy is associated with increased awareness in saving and financial planning, more accurate money management, greater stock market participation and portfolio diversification, better product choice and lower chances of over-indebtedness; furthermore, effective financial education can help people to better plan and save for the long-term, including for retirement.

These findings explain why financial education is increasingly acknowledged as a strategic tool to improve individual decision-making and well-being [Ambuehl, Bernheim, Lusardi 2016], though costs may outweigh benefits [as cited in Romagnoli, Trifilidis 2013: 7]. In turn, improved decision-making and well-being can contribute to stability and sustainable growth, thus inducing to recognize potentially important implications for public policy: financial education, literacy and especially competence are closely tied to poverty reduction and financial inclusion; not only micro- but also macro-economic implications can be devised, that have to do with – among others – the development of sound and well-functioning financial markets, innovation and digitalization of finance, not to mention gender and migrant issues.

## 12. Evidence from the banking industry

It is therefore appreciable that more and more initiatives focused on the financial footprint of several SDGs have been developed at both national and international levels: success stories include the “Financial Education in Schools” program that is run by Italy’s Central Bank in line with international best practices [Bank of Italy 2015]; a series of videos have also been released – entitled “Economy and finance – it’s never too late” – that are aimed at fostering financial education among adults too and cover a wide variety of topics, such as investment risk and yield, wealth and indebtedness, insurance companies and pension funds [Bank of Italy 2017]. Institutional initiatives towards similar targets have been launched

in many other countries, as shown by the activities performed by the Financial Literacy and Education Commission (FLEC), established in USA under the Fair and Accurate Credit Transactions Act of 2003 [US Department of the Treasury 2018], and by the National Centre for Financial Education (NCFE) that has been set up in India to implement the country’s National Strategy for Financial Education [NCFE 2015].

Meanwhile, a growing number of banks have started to leverage their biggest asset – their core business – to address some of the world’s toughest challenges and are realigning their businesses to deliver shared value. Efforts to capitalize on new opportunities encompass those that pertain to the “EduCare Project” within the framework of sustainable development strategies of the BNP Paribas Group in Italy: the aim is to contribute to inclusive and quality education, as well as to promote lifelong learning, as implied by UN Goal 4; this initiative has been developed by investing in BNL’s free training courses in financial education that are offered to encourage greater awareness of the various personal choices [BNP Paribas 2016].

It is also worth mentioning the project denominated “Banking the Unbanked” that has been undertaken by Bank of Alexandria SAE – shortly AlexBank, the Egyptian subsidiary of Intesa Sanpaolo Group – and allows for three integrated lines of intervention aimed at customers who would have no access to traditional banking, in order to improve their living and working conditions: micro-deposits, that include new products at attractive rates, to encourage the culture of saving, and a dedicated debit card; expansion of micro business with a network of local supporting specialists; the creation of a mobile wallet platform for simple and safe banking transactions [Intesa Sanpaolo 2017]. This Group has also been involved in the “Loan for Hope” initiative that was launched in 2010 by the Italian Episcopal Conference in cooperation with the Italian Banking Association and was renewed in 2015, in order to support households in temporary difficulties with “social microfinance”, while “business microfinance” is dedicated to start-up businesses, young entrepreneurs and in more general terms to small and micro-enterprises.

### **13. The role of national and multilateral development banks**

Attempts at aligning customer prosperity and bank success with local and global growth raise issues that lead to emphasize the distinction between financial products and financial intermediaries, based on the provocative statement that

“banking is necessary, banks are not” [as cited in Amberber 2015]. In spite of this questionable viewpoint, that anyway is all but universally endorsed, a more intensive cooperation should be promoted between banks – especially national and multilateral development banks – and the private sector for many reasons, including the achievement of the 17 SDGs; to this end, a few steps can be identified [Pazarbasioglu 2017], starting with the supply of new products by national development banks for them to take on risks that the private sector is reluctant to bear.

Furthermore, these banks might channel funds more effectively by adopting explicit targets that force them to structure projects with the private sector; this sector can also be supported to become more comfortable when entering into a public-private partnership, provided that the banks at issues are close to decision-makers and have a deep understanding of the local political landscape. In other words, development banks can help to embed international priorities into national development goals, as well as to bridge the gap between urgent development needs and what the private sector is willing to invest in, by providing it with guidance on local dynamics and by designing projects with clear “private-sector type guidelines”.

In a few words, national and multilateral development banks can be considered instrumental in promoting sustainable development, for instance by substantially intensifying climate investments to support member countries’ efforts, and may help to create robust credit markets in emerging economies. However, a paradigm shift has been properly evoked on how development is financed, which requires to unlock the resources needed: billions in Official Development Assistance are supposed to be converted into trillions in investments of all kinds (public and private, national and global, in both capital and capacity) [From Billions to Trillions... 2015: 1-2]; not surprisingly, the significant potential of multilateral development banks was recognized by forging the AAAA [World Bank Group 2016] and talks have been under way for years to rethink the role of national development banks [UN 2006].

## 14. Conclusions

Undoubtedly, the SDGs make up a pretty big to-do list; the Global Partnership that has been crafted while adopting them may represent an extraordinary achievement in international relations and can be expected to drive real transformation in reducing poverty and inequality, thus contributing to put the global economy on track for long-term sustainability. To this end, the post-2015 development



agenda should continue to be based on the pursuit of concrete priorities, such as those that pass the test of being specific, measurable, achievable, relevant and time-bound; needless to say, targets applicable to developed countries should be realistically implementable and should have a transformative impact both at the domestic level and on the rest of the world.

For the best results to be achieved, research and education need to be properly combined with practice in order to create a unified foundation for sustainable development: research can be used to inform everyday decisions, public policies and analytical approaches; education stands as a key ingredient in fulfilling the generation pact, that implies the commitment to leave an equally sustainable – and an even better world – to future generations. Focusing on the financial industry, there is also wide room for directing educational efforts to adults, possibly within the framework of lifelong learning opportunities, as implied by Goal 4, that has already prompted programs designed to further financial competence and literacy in more and more countries.

While informal channels continue to satisfy financial needs, especially in fragile countries, banks – including national and multilateral development banks – are called to play once again a key role: despite some criticism, supporting arguments stem from a paradigm shift that has been gaining momentum in the last few years and that fosters banking on shared value. Given the enormous potential of creating social value through retail, commercial and investment banking, these intermediaries can be expected to contribute to a significant extent to sustainable development by meeting today’s “glocal co-opetitive” challenges, to the benefit not only of underserved segments – and particularly of unbanked households – but of society at large.

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## Bankowość dla ekorozwoju.

### Wyzwanie globalne w kontekście współpracy i konkurencji

**Streszczenie.** Niniejszy artykuł ma na celu przedyskutowanie wyzwań, które przenikają do światowej bankowości, celem zwrócenia uwagi na konieczność globalnego (globalno-lokalnego) podejścia, co szczególnie wyraża się w dążeniu do przyjęcia odpowiedniego połączenia konkurencji i współpracy („co-opetition”) – w kontekście przyczyniania się do ekorozwoju. W końcu to sytuacja finansowa jest kluczowym składnikiem budzącym obawy milionów ludzi w sektorach słabo nasyconych instytucjami bankowymi lub charakteryzujących się nawet ich brakiem. Opierając się na tych czynnikach, wydaje się, że postęp można osiągnąć, tworząc ramy analizy i udostępniania najlepszych praktyk, likwidując w ten sposób lukę pomiędzy teorią a praktyką. Głównym działaniem

staje się pobudzanie do przedstawiania konkretnych propozycji, które również są akademickimi wyzwaniami. Konkluzje sugerują, że bankowość oparta na wartościach może oczekiwać zwiększenia korzyści w warunkach ekorozwoju, odnosząc to do społeczeństwa w kontekście globalnym, a w szczególności do klientów niedostatecznie obsługiwanych.

**Słowa kluczowe:** konkurencja, współpraca, globalizm, ekorozwój, segmenty rynku słabo obsługiwanego klienta, finansowanie integracyjne

Sheila R. Breen

CEO SRBreen Writing & Consulting  
7803 North 12th Avenue, Phoenix, AZ 85021, USA  
orcid.org/0000-0001-7181-5969  
e-mail: sheilarbreen@gmail.com  
tel. +1 480 280 6211

## Achieving International Cooperation and Respect

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**Summary.** Reviewing historical conflicts through the lens of power and coercion reveals that there must be an alternative strategy if the world is to reduce conflict and promote peace. It will require countries to interact with each other from a position of mutual respect and to balance economic interests with humanitarian needs. To make such a change will require leaders, especially those with the most economic and political power, to have the courage to promote policies that respect the most vulnerable as much as those who are economically wealthy and politically strong. Politicians, military personnel, government and corporate leaders must address the complexity of underlying causes of conflict in order to create a world that can function with a balance of economic, political and humanitarian dignity for all. Teaching people strategies that help them address conflict in a mutually beneficial manner may help promote cooperation from early childhood so those who grow into powerful positions are more inclined to utilize those strategies to benefit society. Relatively recent changes in technology, especially artificial intelligence and the power of cyberwarfare, may be the catalyst to force change. Large armies have little effect on cyberterrorism. While technology certainly has the power to make our lives better, it also has the potential to either destroy us or make their lives impossibly difficult. Promoting governments that are truly representative of the people being governed, including ethnic and gender, will help achieve the balance that is needed. This does not mean that every person or group would have equal wealth or power, but would avoid the extremes that distribute both wealth and power to the few, at the expense of the many. Our survival may well depend on balancing what we can do with what we should do. This will require a recognition of the value of human life and working together cooperation, human rights, governance, wealth, power to prevent our own destruction.

**Keywords:** international cooperation, governance, human rights, respect, power

## 1. Introduction

Listening to the current leaders in Russia, China, North Korea and the United States, anyone might, rightly, believe that the entire world is imminently vulnerable to nuclear attack by one or more of these powerful countries. While the Cold War between the Soviet Union and the United States balanced on fear of mutual annihilation, the increasingly aggressive tactics of other countries has created a new dynamic, perhaps best exemplified currently by the verbal volleying between President Donald Trump and Kim Jung Un.

This is certainly not the first time in history that leaders have engaged in rhetoric and actions that threaten the delicate balance of power among powerful countries. History is replete with examples of strong countries controlling and exploiting weaker countries for their own benefit, sometimes exercising hubris and sometimes insistent that only they can be trusted to exercise power wisely. No matter which country is exercising the power, equilibrium occurs only when leaders treat each other with respect, even if they have fundamental disagreements. Of course, there are circumstances, such as the post-WWI aggression of Germany and Italy, where military intervention of other countries is justified. Even then, had the “losing” countries been treated respectfully, they might not have suffered such economic and military impotence that they started another World War.

## 2. Rethinking “survival of the fittest”

One attitude that leaders with political hubris often exhibit is that they think that they “deserve” to dictate policies and actions of other “weaker” countries. After all, if the weaker countries were led by leaders who were as strong and intelligent, they wouldn’t be “weak.” Another attitude is that weak countries (or leaders) need to be “punished” for something they did in the past. The economic, political and social health of the world requires that we rethink this version of “survival of the fittest.” Consider this description of evolutionary biology as applied to politics:

As our focus shifts from individuals and individual species as the unit of survival, to the collective of life – its complex dynamic interactions and relationships – we begin to see that collaborative and symbiotic patterns and interactions are of more fundamental importance than competition, as a driving force of evolution. Life’s key strategy to create conditions conducive to life is to optimize the system as a whole, rather than maximize only some parameters of the system for a few, at the detriment of many [Wahl 2017: 2].

Darwinian evolutionary biology is a more accurate reflection of pre-Victorian social practices than of natural reality [...] Biological, technological, and social progress, so the argument goes, is brought forth by the sum of individual egos striving to out-compete each other. In perennial rivalry, fit species (powerful corporations) exploit niches (markets) and multiply their survival rate (profit margins), whereas weaker (less efficient) ones go extinct (bankrupt). This metaphysics of economics and nature, however, is far more revealing about our society's opinion about itself than it is an objective account of the biological world [Wahl, quoting Weber, 2017: 8].

In a world where economic dominance is considered success, the political decisions that promote winning at all costs tips the scale into a very unhealthy position. The distribution of wealth moves to those at the very top of the scale and everyone else moves down, sometimes to the point that it is difficult to survive. Some of those who are “winners” in this scenario are unable to fathom how crime can rise, rebellion foment and the masses move to resist the policies that increase the gap between the “haves” and “have-nots.” The hubris exhibited by these leaders is inevitably countered by a nemesis, although it may take years for that to happen:

Positive self-image is psychologically healthy, and self-confidence, proper ambition and authentic pride are necessary qualities for any successful leader. However, in the hubrist these qualities morph into excesses, and the hallmark of hubris is contempt. The result is that – one way or another – hubristic leaders end up overreaching themselves and, as we know, the retribution served by Nemesis is likely to be severe [Sadler-Smith 2017: 1].

The causes of war are varied, but often involve economics, lack of respect and trust, or the sheer exercise of power. Whatever the causes, we live in a world with a continuum of violence that impacts all of our lives to some degree. It could involve armed conflict, tribal wars or even the impact of street gangs, especially in our cities. It is incredibly disheartening that the impact of war now largely affects civilians rather than combatants, and that there are children who have never experienced a day without listening to bombs dropping or shells hitting the walls around them. How will these children function in an adult world? What will be their perspective when considering the potential for peace and establishing a New Paradigm for international cooperation?

This violent environment not only adds to human suffering, but also contains the seeds of future conflict. All of what are now seen as ‘complex emergencies’ have their roots deep in long-running social, political and economic crises. Even those disputes that appear most surprising have clear antecedents [...] Pointing out the chronic nature of many of these crises is not a counsel of despair. What it does, in fact, suggest is that unless these underlying issues are addressed [emphasis added], future generations of children will live in a constant state of war. The response has to take place at many levels simultaneously: legal, economic and political [Children in war... 1996a: 1-2].

Consider various conflicts in the world today, Syria, Egypt, Lebanon, Pakistan, Nigeria, Israel, Palestine, Yemen, India and Mexico being some of the most notable. Violence seems to breed violence and it will continue in a downward spiral unless courageous people choose a different course, especially if they are the leaders of these violence-ridden areas of the world or they are military leaders in a position to help change the direction of their countries. Civilians can have an impact, however, and some of the most successful movements have been driven by civilians, not military leaders.

### 3. Movements toward international cooperation

One of the most successful international movements toward cooperation was developed by Henry Dunant in 1863. Dunant was a Swiss businessman who traveled to Italy with hopes of gaining support from Napoleon III for a business venture. He arrived at a village called Solferino right after a bloody battle between the forces of Napoleon III and those of Emperor Franz Joseph of Austria. After witnessing the horrible conditions faced by thousands of combatants who lay wounded or dead, and the impact of the battle on the local communities, Dunant wrote a book called *A Memory of Solferino* [Dunant 1862]. The book promoted the idea of establishing a group of well trained volunteers who would be available to help care for soldiers and alleviate their suffering during times of war. The book received much publicity and, through Henry's tenacious lobbying, the Swiss government sponsored a conference at which 18 representatives from 14 countries gathered in Geneva in August, 1864 to organize what became the International Red Cross.

During that 1864 conference, the discussion also included a how war should be conducted and development of rules that should govern the treatment of soldiers. This led to the formulation and adoption of the first Geneva Conventions [Convention 1864: 1]. Promoting the Conventions is a primary mission of the International Committee of the Red Cross. The conventions were completely revised in 1949, in the aftermath of World War II, and all states in the world have signed onto the basic agreements [The Geneva Conventions of 1949... 2014: 1].

While most countries honor the commitments made by becoming signatories to the Conventions, others have ignored them, or claimed that they don't apply. Another issue is that many of the combatants are rebel or insurgent groups that are not part of the government. As such, they have not agreed to the Conventions or protocols, and may not even know that they exist.



Another attempt at international cooperation was contained in The Treaty of Versailles, which ended World War I, included a provision that established the League of Nations. The principal mission of the League was to maintain world peace through collective disarmament and security, as well as the use of negotiation strategies to help resolve international disputes. While its goals were laudable, the League ultimately proved ineffective because it had no way of enforcing the terms of the treaty if the permanent members of the Executive Council refused to do so. There were 58 members of the League, which the United States never officially joined and the Soviet Union, Japan, Italy and Germany all left the organization in the 1930's [Tomuschat 1995: 77-78]:

In broad terms the decline of the League of Nations in the 1930s reflected the unwillingness or inability of Britain, France, and the United States to oppose the increasingly nationalist-imperialist and militaristic trajectories of Nazi Germany, Fascist Italy, and imperial Japan [Encyclopedia 2018].

The lessons learned from the structure and operations of the League of Nations were used to again form an international organization after World War II. The United Nations was established on October 24, 1945. It originally had 51 member states; there are now 193. This was not just an updated version of the League of Nations, but a completely new organization whose objectives are:

1. To maintain international peace and security, and to that end: to take effective collective measures for the prevention and removal of threats to the peace, and for the suppression of acts of aggression or other breaches of the peace, and to bring about by peaceful means, and in conformity with the principles of justice and international law, adjustment or settlement of international disputes or situations which might lead to a breach of the peace;
2. To develop friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples, and to take other appropriate measures to strengthen universal peace;
3. To achieve international co-operation in solving international problems of an economic, social, cultural, or humanitarian character, and in promoting and encouraging respect for human rights and for fundamental freedoms for all without distinction as to race, sex, language, or religion; and
4. To be a center for harmonizing the actions of nations in the attainment of these common ends [Charter I... 1945: 1].

While the United Nations impacts a broad range of areas of influence, its political effectiveness has been uneven largely because so much of the power lies with the 5 permanent members of the Security Council: The United States, Russian Federation, United Kingdom, China and France. Perhaps the development of a New Paradigm for international relations could help the United Nations

gain stronger influence by having more power vested with the General Assembly rather than controlled by the Security Council:

There's always been this huge contradiction between power and democracy. Power lying with the Security Council, arguably the least democratic organ of the U.N. Democracy, to the degree that you can have democracy where China and Vanuatu get the same number of votes. But to the degree that there's democracy at all, it's in the General Assembly, which doesn't ordinarily have the power to impose international law the same way as the council can.

I think that what could be done, though, is to change that balance of power without going through what people talk about the difficulties of amending the charter; that's certainly true. But beyond that there is the whole question of the efforts by the General Assembly. There's many, many precedents and possibilities within U.N. systems for allowing the General Assembly to have -to take on more power and disempower the Security Council to a large degree. That would go a great deal of the way towards democratizing the U.N. overall [Bennis 2006: 1].

While this strategy may address many issues among the member countries, the root causes of conflict must be addressed as well:

As Peter Hansen, United Nations Under-Secretary-General for Humanitarian Affairs, recently noted, "Given our awareness of the circumstances and conditions which generate marginalization and vulnerability, exploit differences and exacerbate tensions, one need not be an Einstein to determine that tackling root causes is the only answer if we're serious about preventing conflict [Children in war... 1996b: 1].

The United Nations impacts many of those causes, such as economics, education and culture, but not on a scale that is needed to make global change. However, even when countries blatantly disregard the terms of the Geneva Conventions or the directives of the United Nations, countries still benefit from working together toward mutual goals. Is it inevitable that countries stay in a perpetual competition that might ultimately result in the destabilization of entire countries, regions or the world? Do we have to tolerate leaders who are unable to change strategies and move toward a healthy balance of power, economic and social security among the people of the world? Of course not, but we have to have the courage and organization necessary to make the desired changes happen. They also have to be relevant to the countries and cultures impacted. Every country does not have the same priorities.

One method for creating change is to form alliances with great numbers of individual people around the world, not just political leaders, that create a critical mass leading to change. While this may have not been feasible in the past, technology and the massive numbers of people who use social media have completely changed this dynamic. Such tools can be used to convince people

that it is in their best interests to take action and that it will take a critical mass to make that happen. Many will not have the courage to do so. They fear retaliation for themselves or those they love, or they may be overwhelmed with the challenges of daily survival to focus on issues as large as global peace. However, the participants must have an interest in the cause and the opportunity to align themselves with a group of people who have the same interest:

This is what we call ‘flexible coalitional psychology’ – the ability to form strong bonds with various social groups but also to break those bonds and move on to other groups when we will benefit from doing so. This ability is a result of evolution. When individuals compete with one another, they often do so as part of groups that are designed in terms of shared culture traits, such as ideology, language, religious beliefs, or ways of dressing. Competition among culturally defined groups leads to what is known as cultural group selection, with some groups outcompeting others. This happens with everything from competing religions and nation-states to sports teams and small businesses. Because the welfare of individuals is often closely tied to that of the groups to which they belong, this puts pressure on individuals to identify successful groups and commit themselves to them [Cronk, Leech 2017: 6].

These strategies were used, to varying degrees of success, in many Middle Eastern and North African countries through a series of events that we collectively refer to as The Arab Spring. Beginning in 2010, large groups of demonstrators expressed political and economic grievances with their governments. They faced violent resistance by security forces but:

In January and February 2011, protests in Tunisia and Egypt succeeded in a matter of weeks in toppling two regimes thought to be among the region’s most stable. The first demonstrations took place in central Tunisia in December 2010, catalyzed by the self-immolation of Mohamed Bouazizi, a 26-year-old street vendor protesting his treatment by local officials. A protest movement, dubbed the ‘Jasmine Revolution’ in the media, quickly spread through the country. The Tunisian government attempted to end the unrest by using violence against street demonstrations and by offering political and economic concessions. However, protests soon overwhelmed the country’s security forces, compelling Pres. Zine al-Abidine Ben Ali to step down and flee the country in January 2011. In October 2011, Tunisians participated in a free election to choose members of a council tasked with drafting a new constitution. A democratically chosen president and prime minister took office in December 2011.

Massive protests broke out in Egypt in late January 2011, only days after Ben Ali’s ouster in Tunisia. The Egyptian government also tried and failed to control protests by offering concessions while cracking down violently against protesters. After several days of massive demonstrations and clashes between protesters and security forces in Cairo and around the country, a turning point came at the end of the month when the Egyptian army announced that it would refuse to use force against protesters calling for the removal of Pres. Hosni Mubarak. Having lost the support of the military, Mubarak left office on February 11 after nearly 30 years, ceding power to a council of senior military officers.

In the period of the euphoria that followed, the new military administration enjoyed high public approval, since the military had played a decisive role in ending the Mubarak regime. However, optimism was dampened when the new administration appeared hesitant to begin a full transfer of power to an elected government and when military and security forces resumed the use of violence against protesters. Confrontations between protesters and security forces became frequent occurrences. In spite of a multiday outbreak of violence in late November 2011, parliamentary elections proceeded as scheduled and the newly elected People's Assembly held its inaugural session in late January 2012.

Encouraged by protesters' rapid successes in Tunisia and Egypt, protest movements took hold in Yemen, Bahrain, Libya, and Syria in late January, February, and March 2011. In these countries, however, outpourings of popular discontent led to protracted bloody struggles between opposition groups and ruling regimes [Encyclopædia Britannica... 2015].

The long-term results of these rebellions have been mixed. Tunisia is relatively stable but suffering from unemployment and other economic issues that weren't addressed after the uprisings [Graham-Harrison 2018]. Syria, Libya and Yemen continue their bloody struggle against repressive governments 7 years after they started. One lesson to be learned is that rebellion works well for peaceful protests and where leaders honor the will of the people. However, it has been painfully evident in many countries that revolted during the "Arab Spring" that change may not happen, or may be very costly to the people, if the masses do not have the political and military support to enforce those changes [Micallef 2017].

#### **4. Civil-military cooperation and political cooperation**

To address situations where military support is needed to make and sustain change, countries can establish a cooperative system between a country's military and civilian organizations that can then be used to establish cooperative relationships with other countries. Ideally, cooperation for developing a respectful, cooperative system of interaction between and among countries is supported by all. This requires an understanding of differing points of view and the political will to reach a consensus on how these interests will be addressed.

Discussions about the most effective, efficient, and sustainable approach to resolving complex crisis situation share a long historical tradition [...]. However, an analysis of relevant publications in military and security policy or social science over the last few years clearly shows that different perspectives prevail. From a military viewpoint, the focus is typically on determining the right tactical approach, and the broader debates are only tangentially helpful. By contrast, the civilian side emphasizes that the resolution of complex crisis situations should primarily be obtained through civilian tools [Kasselman 2012: 17].

In a global world order, approaches to the resolution of complex crisis situations will only be successful if they address the complexity of the underlying causes as well as the international context. This applies in particular to long-term development contexts in order to guarantee that causes of conflict are thoroughly mitigated [Kasselman 2012: 21].

The issue of resolving underlying causes cannot be overemphasized. Reflecting on the result of The Arab Spring, the uprisings were brutal and driven by young people who had lost faith in their governments. They wanted “freedom, work and dignity” [Graham-Harrison 2018: 3] and none of them achieved all three. Another point of view is that Western governments supported and characterized these uprising as “pro-democratic” when that may not have been the point at all:

The reality is that the Arab Spring was never the popular democratic revolt that Western governments or the media made it out to be. In fact, the Arab Spring had little to do with democracy; although it certainly included some liberal-democratic groups. It was instead a reactionary movement led primarily by conservative, religious and Islamist elements against secular Arab regimes.

The Arab Spring represented a rejection of the secular, socialist, pan-Arabism, nationalist, military regimes that had come to power in the period from the 1950s through the 1970s, and which have since devolved into little more than corrupt, crony governments ruling by brute force and a pervasive security apparatus.

The modern borders of the Middle East are largely the legacy of the post-World War I European dissection of the Ottoman Empire. A series of treaties, beginning with the infamous Sykes-Picot agreement, divided up the Middle East with little regard to ethnicity, religion, culture or historical association. Indeed, many of those borders were determined by a scramble for the region’s oil wealth and a colonial policy of ruling by pitting various ethnic and religious groups against each other [Micallef 2017].

The young people who supported and participated in the uprisings wanted “freedom, work and dignity”. Perhaps they thought that their countries would be morphed into a Hollywood version of what life would be like after they overthrew the government. They probably didn’t understand that even the most powerful nations don’t provide jobs, freedom or respect without the people constantly demanding them. And how can it be that they have to fight for these things when it seems that other countries have more than they need?

[I]t is only rational to claim that no international cooperation is likely to emerge unless the vital national interests are taken into the consideration [...] And still, as long as the principal causes of such ‘global’ problems are concentrated in a small number of rich industrialized countries, calls for global cooperative efforts can hardly offer a solid basis for a more equal international order [Siitonen 1990: 55].

Individual, collective, political and military actions must coalesce to create meaningful and lasting change. It must begin with a discussion of political structures that drive conversations and decisions. For example, the political power in the United States is focused on capitalism and ensuring that businesses are able to make as much profit as possible, even at the expense of a healthy, balanced, society. A discussion in which quality of life for all people is considered as important as making money would balance this discussion and drive a redistribution of wealth. Similar discussions would need to be held between countries so the economically powerful countries balance their drive toward profit-making ventures with ensuring that less powerful countries receive benefits that will allow them to grow and provide economic opportunities for their citizens.

## 5. What are the barriers to this new paradigm?

The principal barrier to achieving balance, peace and respect among all people is Power. The economically powerful countries must determine that the New Paradigm is in their best long-term interests. There are already signs that the power structures of the past several decades are being challenged, despite efforts in countries such as the United States to maintain dominance, both militarily and economically:

U.S. imperialism is seeking to preserve and extend its supremacy against a backdrop of eroding economic strength and an increasingly fragile and unstable world financial architecture based on the privileged role of the dollar. And, importantly, this is occurring in a period of dynamic flux in the world system-in which new poles of power are appearing as cracks in U.S. global hegemony widen [Lotta 2008: 1].

There are many different levels at which geoeconomic and geopolitical changes are taking place; and particular historical factors are operating. But these are not random trends and events. At the deepest level, what underlies these changes is the nature and logic of the capitalist system: the compulsion to expand and maximize profit to gain competitive edge; the blind, anarchic growth, and the short-term horizons of capitalism and the inherent tension of a system in which production is highly socialized and globally interconnected, involving the interlinked and collective efforts of thousands and millions of wage-laborers, while the means of producing wealth, the wealthy that is socially produced, and even knowledge itself are privately controlled and deployed by a small capitalist class [Lotta 2008: 2].

The threat of a renewed Cold War between Russia and the United States has revived political dynamics that may impede the movement toward a world where cooperation and the economic and social health of the world is even discussed. In addition, China is a powerful player in these decisions and may not want to slow its momentum for the sake of long-term balance among nations.

It must be understood that a conflict or Cold War is not in the interest of either Russia or the West. However, there will always be great power rivalries in world politics, and misunderstanding or misjudgment might lead to policies that perpetuated this “Security Dilemma” between Russia and the West in the first place, and the resulting centrifugal force is pulling EU and the West apart as it struggles to chart a course....While this is not a new Cold War from any measurable angle, it is definitely a great power rivalry that has returned in the forefront. Careful policy and communication is needed to prevent it from escalation [Maitra 2018: 5].

Russia would like to return to a world of spheres of influence, with three great powers forming a global security directorate, while China wants a two-power world. Beijing is prepared to have Moscow as a junior partner but not as an equal. The Chinese leadership does not want confrontation with the US but finds it hard to see a way to a co-operative great power relationship [Sawers 2016: 2].

The current power structure in the world is being influenced by factors that may be beyond the control of any government. The influence of cyber warfare and interference in banking, elections and other areas may be the greatest factor that forces global cooperation and dialogue since even small countries have the potential for bringing the powerhouses to their knees if they are able to infiltrate key systems.

An approach is needed that puts global stability first. Strong defence is essential... What that requires is acceptance of each other’s systems of government, however much we may dislike them, and clear limits to hostile action to which all adhere. Cyber is a crucial theatre, where rules have to be agreed so that we do not threaten to bring down each other’s power grids or banking systems [Sawers 2016: 3].

## **6. Implementing the new paradigm**

Paul Meshanko, an organizational change expert, uses neurology to explain how our brains are influenced by how we are treated by others. When we are treated with respect, our brains literally charge up and perform at their highest levels. When we are treated with disrespect, the part of our brain that is capable of performing tasks is deactivated. The chemical balance in the brain may take hours to return to normal levels; meanwhile we are not productive until that happens [Meshanko 2013: 44].

If it is easier to treat people with disrespect than respect, then we need to start our movement toward a New Paradigm with a discussion of language. How we talk to each other and what kind of language we accept when others speak to us. A simplistic idea that might help create a critical mass of people who demand change could be creating a pervasive message on social media that

promotes, or even demands, respect and to which we hold each other, and our leaders, accountable. After all, whether it's a school bully or a political dictator, bad actors get away with bad behavior when others don't resist or intervene to stop it.

The social media campaign, and personal action, could change the behavioral expectations of people within communities all over the world. Imagine the impact of constantly having messages sent on SMS, text messaging or through Facebook and LinkedIn messages stated "Treat Each Other With Respect" or "You Deserve Respect", "Don't Be a Bully". Reprogramming our own expectations of behavior will affect the way we treat others and allow ourselves to be treated.

Another strategy is to change how future leaders think about conflict. One of the initiatives promoted by the United Nations Education, Scientific and Cultural Organization (UNESCO) is a Peace Education program for schools that hopes to grow peace through educating children on strategies that will help them address disagreements without resorting to violence:

Education for non-violence and peace includes training, skills and information directed towards cultivating a culture of peace based on human rights principles. This education not only provides knowledge about a culture of peace, but also imparts the skills and attitudes necessary to defuse and recognize potential conflicts, and those needed to actively promote and establish a culture of peace and non-violence. The learning objectives of peace education may include an understanding of the manifestations of violence, the development of capacities to respond constructively to that violence and specific knowledge of alternatives to violence. Two fundamental concepts of peace education are respect and skills. Respect refers to the development of respect for self and for others; skills refer to specific communication, cooperation and behavioral skills used in conflict situations [UNESCO 2008: 3].

Education must be followed with actions that promote greater understanding in the world. It can't be focused as much on simply ending war, but also addressing the underlying causes of war. This change in focus was articulated well by former Deputy Secretary-General of the United Nations, Amina Mohammad:

We all know that there is no humanitarian solution to humanitarian problems. The solution is always political. And the protracted nature of current humanitarian emergencies means we must view them from a perspective of medium- and long-term resilience and development. We have to make the shift from delivering humanitarian aid to ending humanitarian needs.

To achieve this, development and humanitarian stakeholders must harness their diverse missions, mandates, capacities and resources towards the same goal. Rather than bridging the traditional gap, they must work together from the very beginning of a crisis, reducing risks and building resilience to prevent it from escalating [Mohammed 2017: 1].



## 7. Conclusions

After we teach children those strategies that effectively and respectfully address conflict, we can move to the university level and support peace studies. For example, each year, Rotary International selects up to 100 professionals from around the world to receive fellowships to study at one of six peace centers located throughout the world: Duke University and University of North Carolina at Chapel Hill (North Carolina, USA), International Christian University (Tokyo, Japan), University of Bradford (Bradford, England), University of Queensland (Brisbane, Australia), Uppsala University (Uppsala, Sweden) and Chulalongkorn University (Bangkok, Thailand). The programs at these centers are designed to train leaders in cross-cultural awareness, negotiation, peace and conflict research, leadership and public speaking. In just over a decade, there have been more than 1,000 peace fellows trained and they are influencing the world by serving as leaders in their local jobs, at international organizations and through their own foundations. The potential impact of replicating this model is infinite [Rotary International 2018: 1].

When we do focus on the same goal and commit resources to peace, we must also include a significant number of women in these discussions, plans and actions. When there is gender balance, groups make better discussions and are more likely to follow through with agreed-upon recommendations. The 2016 UN Women report “Facts and Figures: Peace and Security” made the following points:

- When women are included in peace processes there is a 20 per cent increase in the probability of an agreement lasting at least 2 years, and a 35 per cent increase in the probability of an agreement lasting at least 15 years.
- Between 9.5 per cent and 13 per cent of global military spending could eliminate extreme poverty and hunger by 2030, if funds were channeled to improve agriculture and rural infrastructure in poor communities.
- In 2015 alone, the world spent an estimated US \$34 billion on UN peace-keeping and humanitarian aid for victims of conflict and refugees.
- In the same year, experts also estimate that the total global cost of violence and conflict around the world was US \$13.6 trillion. This is a cost of more than US \$1,800 per person on the planet.

Finally, Peace is a decision. When committed, thoughtful people decide to stop fighting and decide to make peace instead of war, it can happen.

“Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it’s the only thing that ever has” – Margaret Mead.

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## Osiągnąć międzynarodową współpracę i uznanie

**Streszczenie.** Patrząc na historię konfliktów przez pryzmat siły i przymusu, okazuje się, że musi istnieć jakaś alternatywna strategia, jeśli świat chce ograniczenia konfliktów i ma promować pokój. Wymaga to od państw współdziałania z pozycji wzajemnego szacunku i równoważenia interesów gospodarczych z potrzebami człowieka. Aby to osiągnąć, trzeba będzie wymagać od przywódców, zwłaszcza mocarstw politycznych i gospodarczych, promowania polityki szacunku wobec najbardziej zagrożonych, ale i wobec państw silnych politycznie i gospodarczo. Przywódcy polityczni, wojskowi oraz korporacyjni powinni zwracać uwagę na kompleksowość przyczyn konfliktów, aby stworzyć taki świat, który mógłby funkcjonować w warunkach równowagi gospodarczej, politycznej i poszanowania ludzkiej godności. W procesie uczenia ludzi strategii, które pomogą im rozwiązywać konflikty w sposób wzajemnie korzystny, pomocna może się okazać promocja współpracy już od okresu wczesnego dzieciństwa, ponieważ ludzie w okresie wzrastania są bardziej podatni na przyswajanie strategii korzystnych dla społeczeństwa. Ostatnie zmiany w technologii, a zwłaszcza sztuczna inteligencja i broń cyfrowa, mogą stać się katalizatorami wprowadzenia zmian. Duże armie mają niewielki wpływ na cyberterrorystyczny. Technologie zaś mają możliwości uczynienia życia lepszym lub niezmiernie trudnym. Popieranie rządów rzeczywiście reprezentujących ludzi, uwzględniających pochodzenie i płeć, powinno pomóc w osiągnięciu rzeczywistej równowagi. Nie oznacza to, że każda osoba lub grupa będą miała ten sam poziom dobrobytu, ale zostaną usunięte różnice wpływające na podział dóbr i siła oddziaływania nielicznych kosztem wielu. Nasze przetrwanie w znacznej mierze zależy od równowagi pomiędzy tym, co możemy, a tym, co powinniśmy zrobić. Wymaga to uznania wartości ludzkiego życia oraz współpracy na rzecz praw człowieka, rządzenia, dobrobytu, a także siły, która zdoła zapobiec zagładzie.

**Słowa kluczowe:** współpraca międzynarodowa, rządy, prawa człowieka, poszanowanie, siła



Oleksandr Shmorgun  
Ukrainian Academy of Science, Kiev  
World History Institute  
orcid.org/0000-0002-1077-7011  
e-mail: shmorgun1954@gmail.com  
tel. +38 0671 902 104

## The Crisis of the Modern Model of Globalization: the Search for an Alternative

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**Summary.** The article shows the stadium-civilizational leakage of the current system of global quasi-liberal monetarism (neo-liberalism) as an ideological basis of the social system, which is caused by a number of socio-economic crises, including the financial collapse of the late XX – early XXI century. The fundamental inability of such a model of global development to overcome the fundamental destructive trends, which sharply increased after the Second World War, was substantiated; reveals the real meaning of various technologically deterministic social utopias, which from the positions of post-industrial technological determinism also offer various recipes to overcome global problems of our time. It is shown that the real staged alternative to the crisis mainstream, aimed at humanizing the modern world, should be based on radical reformatting of the current global trend towards the revival of the national state on the basis of the restoration of ethno-national identity in its cultural and social and economic dimensions, as well as radical reformatting of various regional associations, including the EU, on the basis of a cumulative functional complement of national and supra-state institutes opposite only superficially inconsistent to global cosmopolitanism and ethnoreligious fundamentalism.

**Keywords:** globalization, crisis, globalization structure, reform, alternative

### 1. Introduction

In the second half of the XX century, amid unprecedented success of the scientific and technological revolution there was a powerful current of global futurology, whose representatives Walt Rostow, Daniel Bell, Jacques Ellul,

Peter Drucker, John Galbraith, Herman Kahn, Alvin Toffler and others predicted inevitably solution of major global problems – energetic, military, demographic, and derived – environmental, food, thanks to mankind’s transition from industrial capitalism to a qualitatively new technological mode of production, which they identified with the final establishment of maximum without crisis-free social order.

## 2. The crossroads of research

The new stage of world history for decades was defined as “post-industrial”, information society, and later, respectively, “nooeconomy”, “financial civilization” and even “post-capitalism” and “transindustrialism”. At the end of the XX century Manuel Castells in his famous trilogy *The Information Age: Economy, Society and Culture*, aiming to emphasize the dominant role of information as a major factor in today’s economy, even introduced the concept of “informational” and “network” society in which the dominant form property will become intellectual property.

According to these forecasts, with the help of a computer revolution, which will provide total automation of production processes and the “green” revolution with its large-scale melioration, chemistry, land reclamation, it will be possible to reach the standards of mass consumption for virtually all humanity, even considering that at least for other several decades, the number of people will grow and, according to forecast, in 2050 may reach more than 10 billion. Also, unanticipated successes in the field of medicine, pharmacology, electronic industry, cybernetics (up close to the creation of artificial intelligence, human development of outer space and industrial colonization of the solar system, and even contact with extraterrestrial civilizations) were also predicted.

It is no coincidence that one of the most celebrated Western futurists Toffler noted that the idea of the Samuel Huntington’s “waves of democracy” – the spread of the principles of democratic values on a global scale, which arose in the early 90’s of the last century, was inspired by his fundamental work, “The Third Wave”, which describes the technical and economic transition of developed industrial countries from agrarian and industrial to the post-industrial stage of development (from this is the origin of the term, which defined a similar form of social utopia – “technological determinism”).

And it seemed that in the future this trend of “crisis-free” sustainable development really became the dominant one. And the periods of instability of the modern economy and the world financial system were considered as “diseases

of growth”– the temporary phases of the legitimate cycles, which necessarily transform into the improvement of market conditions soon.

After all, even certain crisis phenomena due to the abolition of the gold dollar standard in the early 70’s XX century and the transition to so-called floating exchange rates, as well as the “revolution of prices” on energy, caused by a joint protest of the Middle Eastern countries against the support of the West, headed by the United States, the aggressive Israeli policy, which gave rise to certain imbalances in the world economy, further stimulated the launch of self-regulation and self-renewal mechanisms, and hence the further strengthening of the globalization mainstream.

After the same as the USSR, declared “Evil Empire”, did not withstand competition with the “world of capital” and as a result of its own internal unsolved antagonisms ceased to exist, and the Western world seemed to be precisely on the basis of the introduction of radical liberal “Reaganomics” and “Tetherism”, once again demonstrated their limitless economic adaptability, even to many skeptics from the former left wing (in particular, the former European “left”), the impression began to develop that the global market economy in its present form is indeed non-alternative.

However, the real overall trend of world development does not coincide with the socially utopian predictions of futurologists from the camp of post-industrial progressives. In fact, the degree of reduction in the profits received by TNCs as a result of the transfer of production to China and other countries with cheap labor and the addition of natural, human and even intellectual resources, which became possible due to the collapse of the USSR, as well as usurious lending to the eternal debtor – the so-called the world’s periphery, to which Ukraine also belongs, has already begun eclipse of the euphoria about the construction of another paradise on earth since the mid-1990s. In particular, the wave swept through the planet was not at all democracy, but economic cataclysms, at first, the most noticeable in the financial sector.

The expectations for the extraordinary profitability of the “fourth sector” of information technologies, which from the very beginning were partly partially exaggerated as a result of misunderstanding of the mechanisms of formation of additional value in the field of “high technologies”, and, in addition, partly deliberately inflated in order to obtain a surplus profit from rising prices, were not justified shares of the new sector of the economy. On the contrary, the massive use of new financial instruments of futures, derivatives, etc., along with the formation of the myth of unprecedented gain, which can be obtained from the “virtual”, “digital” economy in the new “financial civilization”, and hence the expectation of guaranteed high liquidity invested in it securities, led to the emergence of another gigantic financial pyramid. Thanks to the powerful advertising campaign

that proclaimed the “transition to the fourth sector of the economy”, in particular the creation of so-called dotcoms – mostly American Internet companies working on the World Wide Web, the first was the rise in prices for their shares, and soon the fall of the NASDAQ index, the collapse of prices and the massive bankruptcy of the most powerful American banks and insurance companies.

And during the next fall of financial markets in 2008 it became apparent that the new economic recession was only a manifestation of the comprehensive crisis of the existing model of world order, including its political and even spiritual-ideological components. Moreover, all attempts to revive demand and further stimulate the world economy by the traditional neoliberal “quantitative easing” scheme – the injection of additional trillions of emission dollars into the global financial market and the further promotion of the mechanism of long-term debt lending with the help of American “Treasuries” and “Eurobonds”, as well as mass purchases, including short-term Ukrainian and Russian government bonds for a predatory percentage, only worsen the situation. The issuing assets that were supposed to support the banks as the basis of the newest “financier” were mostly speculative markets, and the industry, in the face of the global trend of declining purchasing power of the population, inevitably declined.

Why did not the extremely optimistic forecasts of overcoming the global problems of our time, based on the achievements of the scientific and technological revolution, has not worked, and humanity has again plunged into a dangerous systemic crisis? The fact that the basis of the mechanisms for generating profits after the Second World War, when the European countries that were in ruins, agreed to use the dollar as the main or the oldest world reserve currency, the principles of the extremely consumer, conformist anti-creativity existence, which corresponds models of classic capitalism in the cycle of its civilizational fading. As a result, the exacerbation of military-aggressive expansionism, inextricably linked with the global financial parasitic mechanism of the so-called inequitable economic exchange, took place; which ultimately led to two world wars, the establishment in a globalized unipolar world of neoliberal (more precisely quasi-liberal) monetarism, and it became the main cause of the growing danger of nuclear apocalypse (Islamic terrorism, as well as the “right” and “left” populist radical movements that gaining momentum in the EU, to a large extent became nothing more than an inadequate response to the cosmopolitan challenge of transnational financial groups).

This anti-innovation trend of parasitic development has its origins in the creation of the Federal Reserve System, which actually led to the legalization of control over the US economy by the powerful banking and financial associations of Rockefeller, Morgan, DuPont, and others. As a result, the emergence of an unprecedented financial-stock speculative pyramid with the inevitable subsequent



fall of the financial market, the loss of millions Americans of their savings and the start of the Great Economic Depression in the United States, which became a catalyst for the Second World War. It is no coincidence that virtually all of the prominent American writers, from Ralph Emerson and Walt Whitman, and ending with Herman Melville, Theodore Dreiser, Mark Twain, O. Henry, Truman Capote, Jack London, Clive Lewis, William Faulkner, Ernest Hemingway, Robert-Penn Warren, John Steinbeck, Jerome Salinger and many others, warned in the works” from their humanistic and patriotic positions, of the “yellow devil”.

After the Second World War, when international financial organizations were created, the US dollar became the world’s payment instrument, and at the same time new financial tools and information networks appeared that created an opportunity for unprecedented intensification of fictitious financial assets development, a system of unequal redistribution of goods and services and the resources reached their final completion and gained a truly global scale.

The aforementioned mechanisms of neocolonial exploitation have been studied and described in detail by modern scholars such as Joseph E. Stiglitz in the book *Globalization and Its Discontents*, David Harvey – *A Brief History of Neo-liberalism*, Immanuel Wallerstein – *Historical Capitalism*, Noam Chomsky – *Profit over People: Neoliberalism and Global Order* and *The New Military Humanism: Lessons from Kosovo*, Paul Krugman – *The Great Unraveling: Losing Our Way in the New Century*, John Perkins – *Confessions of an Economic Hit Man*, Giovanni Arrighi – *The Long Twentieth Century: Money, Power, and the Origins of Our Times*, Michael Lewis – *Boomerang: Travels in the New Third World* and others.

The immediate consequence of the implementation of such a strategy by developed countries was not at all the onset of the promised 60-70-ies of the XX century of a society of universal welfare, but that despite all the above-mentioned optimistic forecasts, the gap in living standards between developed countries and countries of the “world’s periphery”, the number the population of which is rapidly growing, not only does not decrease, but, on the contrary, has already become frankly threatening (in the early 60’s, the ratio of living standards between the developed “golden billion” and “worker” to the rest of the world was 1:60, and in the 2000’s, according to various estimates, it was already measured in the proportion of 1:90 and even more).

As a result of the development of the loan trend that is being implemented by world financial institutions and the aggregate debt of developing countries, which in the late 80’s of the XX century amounted to about 1,8 trillion dollars, only in 2015 grew by 1,6 trillion dollars and ranges around the figure of 62 trillion dollars [Уитли 2016]. Global social injustice has become insane,

because the polarization of income as a result of the implementation of the neo-liberal strategy is unprecedented: 8,4% of Earthlings now have 4/5 of the world wealth, and 2/3 of the world's population share a miserable 3% of their assets. At the same time, the role of monopolies is steadily rapidly growing! [Жмеренецкий 2017].

Therefore, it has to be admitted that in many aspects of modern geopolitics and geoeconomics it is not about human progress, but rather a profound reaction, a return to the most archaic forms of genocide and aggression through modern financial instruments, the application of which, in one way or another, is supplemented by the notoriously famous “the gunboat policy”.

That is why, even one of the most well-known ideologues of neo-liberalism, G. Soros calls such an ideology and international practice of financial parasitism “market fundamentalism”, thus emphasizing the reactionary totalitarian nature of modern monetarism (in fact its destructive consequences are quite comparable to communism and Nazism).

If we talk about the chances for global structural changes, then we must admit: keeping the global status quo is still hindered the fact that the policy of obtaining super profits literally “for any price” on the principle of “money does not smell” boomerang hit the most developed countries. That is, the newest mechanisms of global neocolonial over-exploitation of borrowing countries greatly contribute to the transformation of powerful transnational lending bank institutions into shadow criminalized structures that have begun to steal American and European consumers and depositors themselves (for example, the loud criminal cases against Wall Street and the wave of bankruptcies of powerful western banks and investment funds caused by the mortgage crisis at the beginning of the XXI century). Total repayment, and, more simply, life in debt as a means of only temporary support for a decent standard of living “middle class” in the medium term leads to the inevitable loss of purchasing power of the population, falling household incomes and recession not only in the agro-industrial, but also post-industrial countries [США... 2015]. This, in particular, Colin Crouch writes in the writings *Post Democracy* and *The Strange Non-death of Neo-liberalism*.

In fact, since the beginning of “Reaganomics” and “Tetherism” for a constant increase in spending, real incomes of American families either do not increase or even decrease. That is, the GDP of the country grows not due to the development of the real sector, but, on the contrary, the displacement of its sector financially. That is, the “golden billion” today is just a metaphor behind which the unprecedented polarization of incomes is hidden within the already developed society, since in the West the dismantling of the model of a social state is taking place.

### 3. Changing structure of globalization

It is important to note that such a lending way of life of the West became possible at the expense of artificially reducing the cost of commodity mass produced in regions with cheap labor. But the inclusion of the Celestial Empire into the global economic and financial (first and foremost, dollar) space and placing in this country the industrial production from the US and the EU in order to obtain surplus profits, to maximize the promotion of China, other East Asian and Latin American countries as a world-class low-cost retailer for the West eventually led to a decline in the quality of life and workforce in the most developed countries. After all, the superfluous working hands in the United States have been squandered out of the US itself; to which in particular, Patrick J. Buchanan's pays attention in the book entitled *The Death of the West: How Dying Populations and Immigrant Invasions Imperil Our Culture and Civilization* is easily replaced by the same emigrants and cause massive dequalification of American citizens. It was about these destructive processes with deep anxiety notified the newly elected President, Donald Trump, in his first speech before the Congress in the status of head of the White House.

In addition, such a source of obtaining a surplus is already practically exhausted. The unchecked issue of the dollar led to the global economic crisis caused by the mismatch of the money supply denominated in securities and the mass of commodity, and the decline in global purchasing power, again, leads to the curtailment of the real economy, which is described in detail in the fundamental studies of Donald Kalf *An Unamerican Business: The Rise of the New European Enterprise*, John C. Bogle *The Battle for the Soul of Capitalism*, Emmanuel Todd *After the Empire: The Breakdown of the American Order*.

Today, despite the World Bank's optimistic forecasts of a world GDP growth of 3.9% (and even 4% of GDP in the United States), the real situation is far from being declared. These indicators can be achieved to a large extent due to new methods of statistical GDP calculation, which falsify the real state of affairs, including because of the low inflation [Williams 2013].

In fact, in the United States on the background of a slight recovery in the economy driven by tax cuts and Trump's attempts to pursue a protectionist policy, household debt continues to grow rapidly and an already unprecedented external debt that toppled the mark of 21 trillion dollar has continued to grow [Hamilton]. The anti-crisis measures introduced by the American president are inconsistent and clearly inadequate [Смит Б., 2018]. As a result, the crediting of the US population in 2018 reached a record high of 13 trillion dollars, and,

for a stunning increase in deferred payments, the more severe become credit conditions [Дембик 2018].

For China, the strategy of economic dumping for the sake of increasing exports (which was achieved mainly due to non-compliance with environmental standards, and hence to over-utilization of non-renewable natural resources, that is, life at the expense of future generations) and ignoring elementary social protection, has also become disastrous. Extremely export orientation of the economy of the Celestial Empire as a result of the continuation of the global economic crisis, accompanied by a worldwide fall in purchasing power in developed countries, reduces the real pace of economic development. In addition, for the sake of preserving high employment, and hence political stability, the Chinese authorities have long been pursuing quasi-Keynesian policies of gigantic unprofitable investments, which, in essence, do not have a proper return.

The rise in price of labor force, primarily due to the long-term policy of “one family-one child”, also reduces the competitiveness of the business. All this has turned into disproportions of socio-economic development and has already led to a huge debt, comparable to American external debt [Николаев 2016]. In particular, by 2016, China’s debt has already amounted to about \$27.2 trillion, or 255% of GDP. This is still less than in the same crisis Eurozone (271%), Great Britain (266%), or long-stagnant in the neo-liberal “marsh” of Japan (394%). But the rate of growth of this debt is extremely dangerous, as at the end of 2008 Chinese debt amounted to only 147% of GDP [Вильдау 2016].

As for the EU, the pace of economic development of the United Europe not only did not reach the projected in the famous “Stability Pact” on average 6% per year, according to what had to be achieved due to the cumulative effect of the unification of the markets of national states and the implementation of a common economic policy on the basis of a single currency, but, in fact, there was an economic recession, from which the output is still not visible (real GDP growth rates did not exceed 3%, and even in the crisis year 2009 they even dropped to minus 4,1%; moreover, in the EU the GDP per capita is decreasing in general population)

The reason is that such an artificial deflationary economic strategy is primarily a profitable for bank capital, since it constrains the development of the real sector, pushing the money supply to speculative markets (to say nothing of the destruction of national industry under the guise of forming a pan-European division of labor market namely in Greece and other European countries). As a result, today a number of EU countries, and especially Italy, Spain, Portugal, Greece are in fact pre-defaulted. That is, proposed by I. Wallersteine, the division into the “core” of developed countries and the “periphery” of the “underdeveloped”

countries remains not only at the global level, but also has already re-emerged at the level of pan-European.

Moreover, it becomes increasingly evident that in the process of globalization of the economy, at least since the establishment of the Bretton-Woods system, insurmountable basic defects have been laid. After all, after the national currency of one country – the dollar was made the world reserve currency, on the background of obtaining usurious emission surplus, the deficit of the balance of payments of the issuer of the main international payment instrument began to grow naturally, which could not but suppress the real sector of the economy [Lebowitz 2018]. It is no coincidence that the question of exhaustion of the current model of capitalism raises, even at the last Davos forums.

It is very dangerous that, despite all the achievements of the scientific and technological revolution, for several decades there has been a deepening of the spiritual worldview crisis of the Western world, which spiritually destroys the most developed countries (this was actually stated by Trump in his inaugural speech). Due to the fact that the modern man is increasingly striving to replace the existence with comfort, possession, even in technologically developed countries there is an increase in “one-dimensionality” (Herbert Marcuse). Against this cautioned such prominent thinkers as Max Weber, Lewis Mumford, Herbert Marcuse, Emmanuel Mounier, Antoine de Saint-Exupéry, Aldus Huxley, Erich Fromm, Pitirim Sorokin, Aleksandr Zinoviev.

Even George Soros in the book *The Age of Fallibility: Consequences of the War on Terror* (2006), trying to understand “what is wrong with America”, concludes that the main drawback is the so-called consumerism, that is, consumption. Moreover, it is said, first of all, “the excessive inclination towards success – measured by money – to the detriment of the essential values”, as a result of which “America is defeated”.

The immediate consequence of the degradation of the system of Western values was the steady blurring of the titular Anglo-Saxon ethnic group in the US, which, as Huntington, who for some time worked as the coordinator of the National Security Council of the United States, writes in his latest work, *Who Are We? The Challenges to America's National Identity* (2004). This is what Buchanan writes in his works on Spengler-Apocalyptic names *Death of the West...* (2002) and *State of Emergency: The Third World Invasion and Conquest of America* (2006).

About the same danger, but in relation to the EU, more than fifty years ago Gunnar Heinsohn warned in a resonant study *Sons and world domination: the role of terror in the birth and decline of nations and somewhat later*, Theo Sarrazin in a catastrophic book with a very eloquent prediction the heading *Germany Is Doing Away with Itself*.

But, unfortunately, accustomed to extensively-parasitic profits, politicians and economists often do not see or do not want to see real defects of the existing system. In particular, in a recent interview, Soros, speaking about the “existential crisis” of Europe for the sake of overcoming it, calls for the preservation of open European and national European borders for emigrants and, following the regime of austerity forced all EU members to move to euro [Copoc 2018].

In fact, the main reason for the current European crisis is the loss of even the leading powers of their national identity, due to the false institutional model of the current EU, the opposite of the De Gaulle’s approach to the creation of a “Europe of the Motherlands”. As a result, EU political and economic institutions have recently been ineffective. This is primarily about assessing the work of the European Parliament, the European Commission, and the European Council of Ministers, who were not able to cooperate effectively. This is hindered by insufficient, and sometimes fictitious, collegiality in the process of electing these “branches of power”, lack of proper representation in their composition, lack of professional, moral, authoritative and endowed by the leadership qualities politicians, as well as often shady nature of making important decisions, as because of the wings in many respects the sham European political institutions, hired political marionettes are mostly run by representatives of parasitic-speculative capital.

The situation is worsening by the erosion of the titular ethnic groups cultural and religiously alien, and therefore not adaptive to European values, mostly radicalized Islamic emigrants [Шморгун 2017]. All this has already been understood in Eastern Europe and, as it is well known, despite the active protests of the same Emmanuel Macron and Angela Merkel, the Visegrad countries are desperate for resistance to cosmopolitan politics, rather, not even “Brussel bureaucrats”, but shadow transnational plutocrats aimed at transforming citizens and patriots on passive consumers.

Against the backdrop of the loss of the highest humanistic landmarks, which at the time was created by the West itself, today there is an unprecedented corruption of the Western elites, most of which are in fact dependent on the Moscow regime, which gives rise to the desire of the leaders of the same Visegrad group to use the Kremlin to strengthen its economic positions.

Moreover, the activity of the current global system of legitimate virtual-financial fraud, which, like a special type of weapons of mass destruction, not only takes tens of thousands of lives every day in the “underdeveloped” countries, but also steadily worsens the standard of living in the old and new worlds themselves, as much as possible contributes to Putin’s regime in the construction of ideological fakes, about Russia, which alone opposes Western hegemony. As in the days of the USSR, even in the part of the unburied Western intellectuals, there is an illusion that Vladimir Putin, who is already called the modern Che

Guevara [Pomerantsev 2016], really opposes the world bankcracy, whose actions sometimes range from gangsterism to the aggressive policy of erasing national borders (although In fact, by and large, the present Moscow regime is itself largely a product of the “reformist activity” of the West, which in fact imposed a post-Soviet indemnity for defeat in the Cold War, relying on the Yeltsin and other comprador clans).

In addition, despite the loss of the highest humanistic landmarks created by the West at that time, there is now an unprecedented corruption of the Western elites, most of which are on the maintenance of the Moscow regime, which is why even the independent leaders of the same Visegrad group also have the temptation to use the Kremlin to strengthen their economic positions.

Recently, in the world media, a new post-industrialist proclamation is once again proclaimed – the onset of the “fourth wave”, “the digital revolution”, “the fourth industrial revolution”, “nanotechnology”, the so-called fifth, and in the short term, the sixth “technological arrangements” etc. The main idea of this new round of technological progressism is to convince us that, due to the massive development of energy-saving technologies and non-traditional energy sources (wind power, solar panels, automotive electric motors and hydrogen fuel engines, finally thermonuclear fusion) it will be possible, in principle, to solve the global problems of modernity that are rapidly are getting worse. In particular, the well-known futurist Raymond Kurzweil predicts that already in 2028, solar energy will become so cheap and affordable that it will fully satisfy the total needs of mankind. As far as the more distant future is concerned, Elon Musk is concerned not only with interplanetary space flights to Mars, but also, according to physicist Stephen Hawking, who believes that it is quite realistic to be prominent in futurology, it is very likely that contact with extraterrestrial civilizations and even populated by humanity surrounding the cosmos.

Recently, simultaneously with the growth of the deficit of world dollar liquidity, due to the increase in Fed rates (leading to the outflow of currency from the world’s periphery, including the post-Soviet space in financial centers of the world) and awareness of the false anonymity of offshore accounts, whose owners are looking for a new “quiet harbor” is happening unprecedented informational promotion of the perspective of cryptography.

In fact, just as it was in the early 70’s of the XX century, unremitting advertising of non-waste energy-saving technologies (hydrogen, electric motor, cold nuclear fusion, controlled thermonuclear reaction, solar cells, etc.), assures that the total computerization of industrial processes is a panacea from the economic crisis. It is intended to hide the fundamental inability of the existing world order to cope with all the new threats generated, first of all, by the fundamental exhaustion of the type of anti-national globalism, due to which, by monopolizing the

processes of financial and credit intermediation, an over-consumption existence of a scanty part of mankind is providing [Шморгун 2018].

All this is very dangerous, because at the moment critical to the fate of mankind it will be created the illusion of the existence of effective means to overcome the systemic crisis in the situation of its rapid deterioration. Contrary to all these utopias, in the recently published jubilee report of the Club of Rome, it is right to criticize the assessment of the efficiency of the economy by the criterion of GDP growth, and it is noted that the latest technologies by themselves will not save us from a catastrophic environmental crisis. And most importantly – in the same document a clear conclusion is made: capitalism in its current form has already exhausted its innovative potential and needs to be replaced by a more humanistic social system [Weizsaecker, Wijkman 2018].

Consequently, it must be acknowledged that instead of the spread of the Huntington's "waves of democracy" and the Toffler's "waves" of post-industrialism, the division of the world into a hegemonic "world-system core" and "world periphery" was finally formed, not the "second" and even "third", but rather "third-class" world – a large number of countries of rogue states, to which today Ukraine already belongs. As for the myths about the boundless possibilities for the self-renewal of society, which, at the very core of its existence, put profits at any price (let us at least mention export the industrial capacities of the United States and Europe to countries with the lowest-cost labor force) and the creation of a global "welfare society", a significant by and large, it is nothing but a "covert operation" – due to which methods of modern exploitation are hidden, based on anti-innovation mechanisms of global financial alienation, not only an additional, but also a necessary product. At the same time, speculating on a global scale with unprecedented speed, for the most part, virtual capital has become possible in many respects thanks to the new possibilities of the so-called information or digital society, in particular the emergence of the phenomenon of electronic money and the secondary market of securities.

However, there is nothing fundamentally new in such mechanisms of alienation of additional profit. They were particularly widespread during the Napoleonic wars, when the Rothschild clan began to actively intervene in European geopolitical processes through financial manipulation [Шморгун 2013]. Already at that time, Karl Marx formulated the notion of "money fetishism", which meant the desire, through profitable-lending operations, to receive real resources and goods in volumes that far exceed the remuneration for intermediary financial services. All this was accompanied by an increase in utilitarianism and, as a consequence, amorality in the ruling circles, and gave rise to degradation in the value orientations of the entire Western society (as reflected in the world-famous works by Heinrich Heine, Honoré de Balzac, Guy de Maupassant, Emil Zola, Charles Dickens, William M. Thackeray).



The First World War, in spite of all the mutual colonial attacks of the great powers, was not in the least aroused by the conflict between the extensive model of profit, in which the bet on the export of loan capital was made, at the expense of the development of an innovative social system based on the human creative potential – capital social.

At the same time, the British economist John Gibson developed the notion of modern imperialism as “the epoch of decaying capitalism” before Nikolai Bukharin, Vladimir Lenin, and Rosa Luxemburg in a work with the eloquent title *Imperialism* (1902). *Financial capital. The Newest Phase in the Development of Capitalism* (1910) shows how the process of exporting financial capital acquires the character of special financial imperialism, inextricably linked to imperialism by the military [Шморгул 2015].

#### 4. Conclusions

It is at this time that there appears a powerful intellectual current whose representatives formulate the typological characteristics of the new social system, fundamentally opposition to the existing one. Hence the eloquent names, built on the opposition of the future civilization alternative to the reactionary past. First of all, it refers to the works of Ferdinand Tönnies *Community and Society*, Werner Sombart *Tradesters and Heroes*, Max Scheler *Bourgeois and Religious Worker*, as well as the study of the author of the famous two-volume work “*The Decline of the West...*” by Oswald Spengler under the title *Prussianism and Socialism*. An alternative to the stagnant capitalism of the era of financial imperialism, Werner Sombart also developed in his work *German Socialism*, Gustave Le Bon – *The Psychology of Socialism*, Karl Mannheim – *Conservatism. A Contribution to the Sociology of Knowledge*, Ernst Troeltsch – *The German Idea of Freedom*, Thorstein Veblen – *The Theory of the Leisure Class*, Joseph Schumpeter – *Socialism, Capitalism and Democracy*. An outstanding French sociologist Emile Durkheim in his studies on *The Division of Labour in Society* and *Suicide* writes about the neo-corporate social-Catholic system as a special “moral community” that generates a “dynamic thicket” of solidarity creation. In fact, they all oppose the patriotic-oriented corporate-solidarity system to the cosmopolitan hedonistic Anglo-Saxon ultra-liberalism of the financial and imperial constitution.

Moreover, it is important to note that the transition from industrialism to post-industrialism in the mode of “economic miracle” in France, Germany, Japan, and “Far Eastern tigers”, that is, the real transition from industrialism to

post-industrial society, took place precisely on the basis of this particular stadium alternative [Шморгун 2014].

As for the return to the state of creativity and consolidation, it is possible only for the revival of the modern ethno-national identity, which Ukraine has never gained, and developed countries that have begun the phenomenon of a political nation are now rapidly losing. In particular, if we talk about real global reforms and, indeed, the salvation of the Western world from a lumped ethno-extremist invasion, including an Islamic-fundamentalist class, then it needs not just a refusal to accept refugees, for most of whom no country in Europe will become a Fatherland, but to overcome a demographic disaster quickly approaching the US, Japan, the EU. And this involves the restoration of the role of the most important social center – the classical European nation-state, which will pursue a demographic policy on fundamentally different, from anti-social liberal extremism and right-wing populism, principles [Шморгун 2016].

In addition, in a situation when, in our eyes, the globalized world “sinks” under the weight of unresolved problems, the anti-crisis model of social development must be reformed in the direction of maximum institutional synthesis of geopolitical regionalism and a revived national state (which implies no rejection of the geopolitical unions of nations, and the rejection of the neoliberal principles of their formation, in particular the radical restructuring of the now highly cosmopolitanized EU, in which the nation states will not only be preserved but strengthened, while effectively cooperating with supranational economic and political institutions of the European Union [Шморгун 2011]).

Thus, the future of not only Ukraine, but also of mankind as a whole, will ultimately depend on whether healthy national forces will succeed, which will inevitably intensify against the backdrop of inevitable geopolitical fragmentation of the world on virtually all continents, consolidating on the basis of modern national values and to develop a strategy of socio-economic development, alternative to both dominant market-fundamentalist monetarism, as well as to nonconstructive religious-fundamentalist reaction to quasi-liberal technologicalized globalism.

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## Kryzys współczesnego modelu globalizacji: Poszukiwanie alternatywy

**Streszczenie.** W artykule omówiono stadium cywilizacyjnego zanikania obecnego systemu quasi-liberalnego monetaryzmu (neoliberalizm) jako ideologicznej bazy systemu społecznego, który wywołał

liczne kryzysy społeczno-ekonomiczne, włącznie z finansową zapaścią przełomu XX-XXI w. Fundamentalna niezdolność tego modelu globalnego rozwoju do przewyciężenia destruktywnych trendów, które ostro wzrosły po II wojnie światowej, została już dowiedziona. Ujawniono rzeczywiste znaczenie wielu technologiczno-deterministycznych utopii społecznych, które z pozycji postindustrialnego determinizmu technologicznego także oferowały różne recepty na rozwiązanie współczesnych problemów globalnych. Pokazano, że rzeczywistą alternatywą dla kryzysu głównego nurtu, opartą na humanizacji współczesnego świata, powinna stać się ta polegająca na radykalnym zreformowaniu współczesnych trendów globalnych, zmierzająca jednocześnie ku odrodzeniu państwa narodowego opartego na fundamencie narodowej tożsamości w jej kulturowym oraz ekonomicznym wymiarze. Powinna nastąpić również zdecydowana reforma różnych regionalnych stowarzyszeń, włącznie z Unią Europejską, na bazie kumulatywno-funkcjonalnego dopełnienia elementu narodowego, ponieważ ponadpaństwowe instytucje tylko powierzchownie odnoszą się do globalnego kosmopolityzmu oraz fundamentalizmu etnoreligijnego.

**Słowa kluczowe:** globalizacja, kryzys, struktura globalizacji, reforma, alternatywa

**Iryna D'yakonova**

Sumy State University  
Education and Research Institute  
for Business Technologies "UAB"  
orcid.org/0000-0003-4366-8062  
e-mail: i.diakonova@uabs.sumdu.edu.ua  
tel. +38 050 765 11 78

**Lyudmyla Pavlenko**

Sumy State University  
Education and Research Institute  
for Business Technologies "UAB"  
orcid.org/0000-0002-4724-7567  
e-mail: l.pavlenko@uabs.sumdu.edu.ua  
tel. +38 050 669 82 22

**Viktoriia Dudchenko**

Sumy State University  
Education and Research Institute  
for Business Technologies "UAB"  
orcid.org/0000-0002-0054-8362  
e-mail: v.dudchenko@uabs.sumdu.edu.ua  
tel. +38 099 747 12 31

**Olena Obod**

Sumy State University  
Education and Research Institute  
for Business Technologies "UAB"  
orcid.org/0000-0003-4395-8625  
e-mail: obod.olena@gmail.com  
tel. +38 050 132 75 72

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## **Modern Trends in the Integration of New Financial Technologies and Banking**

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**Summary.** The purpose of the article is to substantiate the theoretical and methodological provisions on the adaptation of the Ukrainian banking market to new financial technologies (fintech) under conditions of globalization. The development peculiarities of fintech industry with consideration for the elaboration and implementation of financial innovations have been investigated. The problems of the modern period of Ukrainian banking system reforming in the conditions of the long-term recession of the national economy have been determined. International experience of using adaptation models of new fintech foreign banks and their regulation system has been analysed. According to the results of the evaluation of the process of the formation of the fintech market in Ukraine, proposals have been made regarding the need for the classification of their products, in accordance with the segmentation of the market by the types of companies activities, which would contribute to the achievement of consensus in determining the overall definition of fintech and allowed to determine the relations between their individual types. We propose our own classification of fintech based on transactional and intertemporal models.

**Keywords:** fintech, banking services, financial services, fintech products, fintech market, banking, crypto currency

### **1. Introduction**

Globalization of financial system, intensive development of communication and information technology led to lifting of restrictions on the free capital flows

in the economy, enhanced the competition in financial markets, increased the importance of tools that can generate and sustain a competitive advantage of banking systems in highly concentrated and dynamically emerging markets. The role of financial technologies in increasing the competitiveness and efficiency of the functioning of the banking system as a leader of financial resources in the real sector of the economy is increasing.

Modern practice shows that traditional banking institutions should support the development of fintech in their own interests, because due to conservatism of corporate business culture, insufficient development of innovation infrastructure, high risks, imperfect regulation, inertial regulatory and legal framework and other factors, they have no opportunity to catch up the service level on their own with such a modern customer needs. In this context, there is a need to develop modern approaches to defining the concept of fintech and outlining the possible forms of cooperation of new players with banks in order to increase the efficiency, reliability and financial stability of the banking system.

Issues of innovation in the banking sector, the study of adaptation processes as a method of strategic planning and management of the bank are considered and covered in the writings of modern scholars and researchers. But despite the depth and serious level of processing of these problems, the findings require further analysis and development, since there is lack of ordering of the conceptual construct in the works, the features of the banking system of Ukraine of the modern period are not fully reflected.

The foregoing points out the need for further research aimed at solving problems arising in the context of globalization of new fintechs, and therefore it predetermines the choice of the topic.

## **2. Fintech as a new stage in the development of the industry: definition and sector classification**

Over the past ten years, the world has become actively involved in the emergence and spread of new currencies, technologies, business models and transaction forms in the wake of global economic shocks and the increasingly tight regulation of the financial industry. According to present knowledge, fintech as an area of innovation, start-ups and Internetization is rapidly gaining momentum. The number of fintech firms currently exceeds 12,000 worldwide.

Despite broad discussion of the undeniable influence of fintech on the world and domestic financial services markets and the economy as a whole, there is no general definition of this concept in the scientific literature. Instead, the

query “what is fintech” is currently among five most popular queries related to fintech, in Google’s search engine. So the research of the concept of fintech is extremely relevant.

The term “fintech” is used in various business contexts, often inconsistent and ambiguous. For a long time there were no attempts to find out the consensual meaning of this notion. Professor Patrick Schueffel [Schueffel (ed.) 2016: 45] from Fribourg’s School of Management derived the following definition: “Fintech is a new financial industry that applies technology to improve financial activities.” In its turn, the most authoritative source of British English language, Oxford Dictionary, determines fintech as “computer programs and other technologies used to support or activate banking and financial services”.

From the procedural point of view, the term “fintech” refers to new applications, processes, products and business models in the financial services industry, which may consist of one or more complementary financial services that are provided from beginning to end through the Internet. In his research on the evolution of financial technologies, Arner [Arner et al. 2015: 1-45] claim that the origin of the term can be traced back to the early 1990s, referring to the project “Financial Services Technology Consortium”, initiated by Citigroup to intensify efforts in the direction of technological cooperation. However, in fact, the term “fintech” was already used in 1972. In a scientific paper devoted to models of analysis and solving of daily banking problems, vice president of the bank Manufacturers Hanover Trust [Bettinger (ed.) 1972: 62].

Table 1. Analysis of the approaches to the interpretation of the definition of fintech

Criterion	Author	Definition
Technology	Abraham Bettinger 1972	Fintech is an acronym that stands out as financial technologies that combine banking expertise with modern science and computer management techniques.
	Lončarski 2016	Evolution and application of technology in finance that replace traditional business models in the market, opening up new risky horizons
Sector, area, industry	Miku 2016	A new sector of the financial industry that includes the full range of technologies used for trade organization, corporate business and retail services to the end user
	Wharton 2014	A branch of the economy, consisting of companies that use technology to improve the efficiency of financial systems
Finances	Hoši Zo 2013	The third way of doing financial activity in addition to direct financing through securities markets and indirect is through commercial banks.

Source: compiled by the author based upon Schueffel 2016: 43; Arner et al. 2015: 1-45.

As a result of the analysis the definitions of financial technologies can be divided into several groups, depending on the object with which the fintech is associated – see Table 1. Fintech market participants have the sole goal of finding new ideas and business models for introducing digital transformations into all aspects of a highly regulated financial services industry.

Their works also have common features: improved compatibility, simplicity and added value. However, it is distinctive features that make it possible to divide them into categories. Depending on a number of criteria, the research considers the most versatile and unique fintech types, and, along with this, we will suggest our own approach.

Similar to any sales area, fintech products can be divided into two types according to market segments. See classification of criteria taking into account the typology of fintech products on Figure 1.

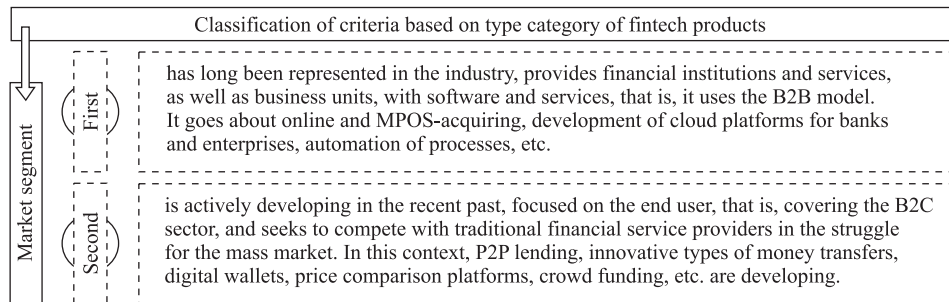


Figure 1. Classification of criteria of fintech products based on typology of their kinds

Source: own research.

However, it is impossible to limit the areas of development of fintech exclusively to the banking sector. For example, the structure of fintech market can be displayed by types of corporate operations as follows:

1. Carrying out payment transactions – systems of mobile and electronic payments and transfers (PayPal, M-Pesa), currency exchange, use of cryptocurrency as a means of payment, and so on. The group accounts for one third of all investments in the field of fintech. At the same time, the margin rarely reaches more than 2-3%, therefore, it seems possible to earn only on the mass effect. An example is companies PayPal and Ant Financial (formerly known as Alipay), which carry out transactions of almost 100 billion USD a month [Solodkiy 2017a: 44] and have succeeded due to close relationships with the world's largest trading platforms eBay and Alibaba.

2. Online intermediation which allows users to accumulate funds for further investing (Cashing Out Offline) and accessing to shared products (Lending Club,



Zopa). The segment concentrates almost 60% of the profits of modern banks and half of venture fintech investments. Most striking instance is the microfinance organization Wonga in the United Kingdom, which focuses on high-yield loans “till payday”. Already in 2012, the company reached a mark of over 100 million USD net profit [Solodkiy 2017b: 99]. Platforms of online lending to small business have significantly developed, since banks often see too many risks in this. Big financial institutions, on the other hand, take the challenge of striving to take their niche in the online P2P business, collaborating with existing projects (JPMorgan and OnDeck), or by creating their own platforms (Goldman Sachs). profit [Solodkiy 2017b: 100]. To ensure a high level of risk management P2P platforms usually help investors when making a decision to finance a certain project. For example, in Europe, most platforms use the automatic choice, and in Australia, China, Italy and Korea borrowers require to guarantee the reserve fund or charge a nominal fee of all funds raised. Crowdfunding Companies (Kickstarter, CrowDo, Companisto) are also included in this group, in particular, donation-based, rewards-based crowdfunding platforms, and capital crowdfunding platforms.

3. Data collection and analysis (Big Data). One example of the introduction of fintech in this segment is robo-advising, when selecting an investment portfolio is arranged by algorithms, offering the client an investment structure that corresponds to his investment preferences and risk profile, thereby reducing the annual maintenance costs from 1-2% common in the industry to 0,3-0,5% [Timko 2016].

4. This group of financial management and private capital management includes technologies that help shape the credit rating based on non-standard information about the consumer (Neft, Lenddo), application of budgeting and saving of personal funds (TrueBill, Clinc, Qapital, Seedly), capital management start-ups, market analysis and investment platforms (Robinhood, Ellevest, DigFig), as well as price comparison platforms (Saving Plus, Habito, CompareAsiaGroup by Goldman Sachs).

5. Insurance as one of the most traditional and conservative industries. Fintech is implemented through P2C Insurance (PolicyBazaar, Trov), applications for rapid property evaluation (Cover), assistive technology for maximum fast and accurate calculation of insurance payments (BigML, the Flow), road safety improvement start-ups (Zendrive), cyber insurance, etc.

6. Creation of new software, process optimization of Back and Middle Offices, Support Services and accounting, BaaS-platforms and open API (Yay-Pay, Copiny, FinReach, O2 Banking by Fidor Bank and Telefonica Germany). The search for the most accurate comparison criteria in scientific circles continues. Some economists come up with their own interpretations of financial

technology classification. In particular, Jose Antonio Gallego, director of Singular People Tools, sees it in the following [Gallego 2015].

I – sphere is aimed at the audience, which has traditionally been ignored by banks. For example, crowdfunding, social and P2P lending. Examples of successful companies are Kickstarter, LendingClub (private loan platform) and Compte Nickel start-up.

II – sphere includes substitutes for inefficient and/or expensive banking services. Such companies use new technologies and creativity, offering faster and cheaper customer service to the bank. For example, TransferWise (for private individuals), Kantox (for business clients) along with CurrencyFair and WeSwap.

III – sphere is the “samurai segment”, that is, it offers simple solutions to the eternal problems. Start-ups in this field offer absolutely similar services to banking ones. Examples include applications that recommend the most appropriate mutual investment funds for a client after they do a short survey (Wealthfront, Betterment, Future Advisor, Personal Capital).

IV – sphere is a “double agent”, that is, business models that are based on the use of existing infrastructure of banks. This type includes money transfer services using credit card infrastructure, mobile payments (Apple Pay, PayPal, Square, iZettle, Venmo), as well as Big Data analysis (Context Relevant, Data-minr, Antuit, Ayasdi). The author of the classification sees this area precisely as the greatest threat to the existence of traditional banks in the possibility of fintech work directly with the end user. Due to its more in-depth knowledge of customer behaviour, fintech start-ups can change the market by turning banks into purely/merely suppliers.

V – sphere is “invaders of cosmic space”, i.e. services that do not look profitable at first glance, but, if successful, can ensure the collapse of the banking industry as such. Virtual currencies and blockchain platforms are examples of this type of the segment.

Crypto currencies in this context are already beginning to crowd out traditional money. For example, Estonia is planning to launch its own e-currency – estcoin. All digital residents will be able to use this currency, who are about 22,000 people from 138 countries today.

Practically complete absence of regulators stimulates the spread of cryptocurrencies, although it increases the risk of fraud and manipulation. Besides bitcoins whose capitalization remains the largest in the market, ethers (or ethereums) are fairly popularity, whose cost is currently 238 USD, at the level of market capitalization at 22 billion dollars.

However, in our opinion, the last classification of fintech directions can not be called perfect, at least since it somewhat generalizes and underestimate the essence of some technologies, the application method of which could be more

diverse. For example, blockchain start-ups, the number and potential of which are constantly increasing, can be attributed to each of the following areas: the first – as a universal way to keep a record of the trades results on the stock exchange, the second – as a reliable channel of P2P lending, the third – as a means to fight corruption at the country level, and the fourth – as a method of improving the efficiency of banking payment systems.

The offered approach allows distinguishing two models in the context of financial technologies:

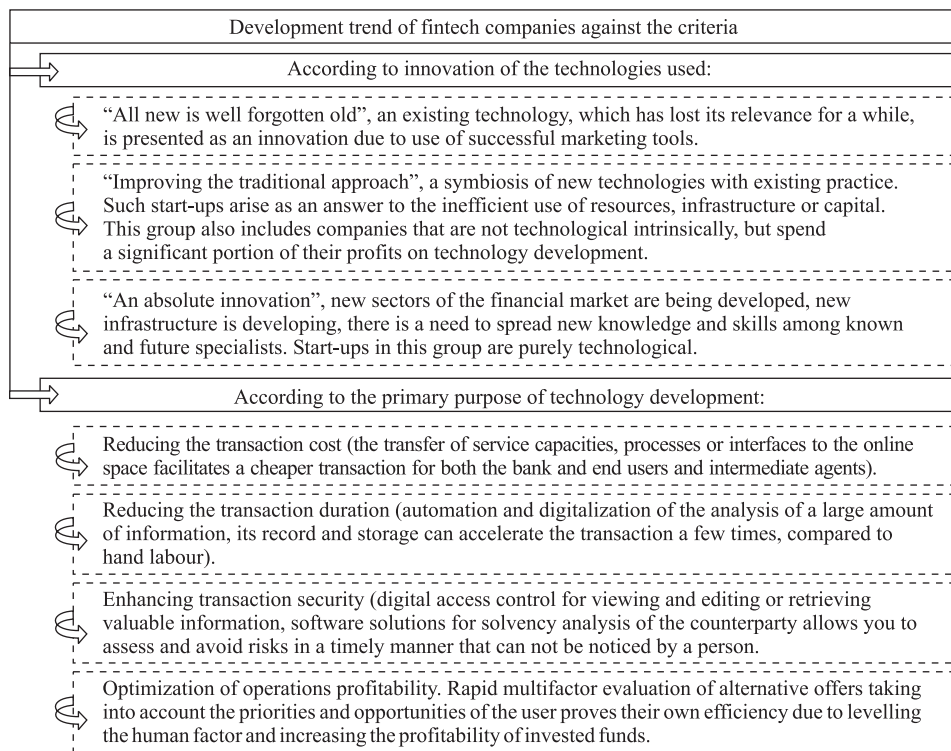


Figure 2. Classification of development trends of fintech companies, taking into account the criteria of innovation in the use of technologies and their primary purpose of development

Source: own research.

– Transactional, which is instant transactions (payments, settlements and exchanges, transfers and access to information, etc.). The transactional part of fintech is to provide or facilitate the exchange of knowledge between the parties, which became the jump start for its origin. Transactional innovations respond to the needs of their users immediately. PayPal, Stripe, Bitcoins and other payment solutions

have also modified trading platforms ranging from eBay to trading securities: Mint.com, Yodlee, Addepar.

– Intertemporal, which refers to operations that are stretched out in time (investing, insurance, lending, etc.). In this area, the product changes its value over time, as a rule, due to certain risks. Borrowers are now spending money, serving their debts in the future, using the services of LendingClub or Mintos. Similarly, customers are buying insurance coverage now to manage risks later.

In addition to the attempts to categorize the development directions of fintech companies in our work, we consider it relevant to pay attention to the following criteria. See Figure 2.

Traditional criteria are also naturally imposed on the classification of fintech directions. It is reasonable to consider their division into groups depending on the target audience: business clients, individuals, banks and other financial institutions, government agencies, countries and economies as a whole.

Institutional context of service providers based on fintech institutions are divided into: banking (as pioneer banks), non-bank (insurance companies, business representatives), innovative (start-ups) and global (countries and governments). In the broadest possible way, technology can be divided into: highly specialized (which can be used only for direct use), universal (used in a wide range of branches of the financial industry) and commonly used (which can be adapted and provide benefit outside the financial market).

### **3. Analysis of international experience of using models adaptation of new financial technologies by foreign banks and their regulation**

The banking sector is becoming more dynamic, complex and versatile, including in consequence of the emergence of financial innovations, creating new opportunities for the implementation of the basic functions of the banking system. The role of financial innovations in increasing the competitiveness and efficiency of the functioning of the banking system as a guide of financial resources in the real sector of the economy is increasing. Partnership relations and integrated products, innovative hubs and labs, direct and venture capital investments, corporate and equity financing – worldwide banks have begun to use existing mechanisms to gain competitive advantages in the marketplace.

Among those who have already begun to invest in fintech, most are seeking strategic advantages for their main business, so the bulk of the funds is allocated

to companies the product of which can be integrated into a bank line is used as a new digital channel to attract new customers as well as one that can provide a better level of service and support. If recipients of the given funds are examined more detailed, the majority of transactions are focused on investments (online trading, robo-advisor management, property management, personal finance), online lending and blockchain. Directions of mobile money transfers and digital wallets or online banking are more restrained.

In practice, the experts' attitude to the possible prospects of cooperation with fintech was a subject of a study conducted jointly by LinkedIn, Capgemini and Efma in 2016. Surveys of more than 8,000 consumers were conducted in 15 countries and more than 100 interviews were conducted with top management. Respondents, among other things, were asked to agree or disagree with a statement regarding the essence of fintech. Figure 3 shows the proportion of managers that fully agrees with the proposed expression.

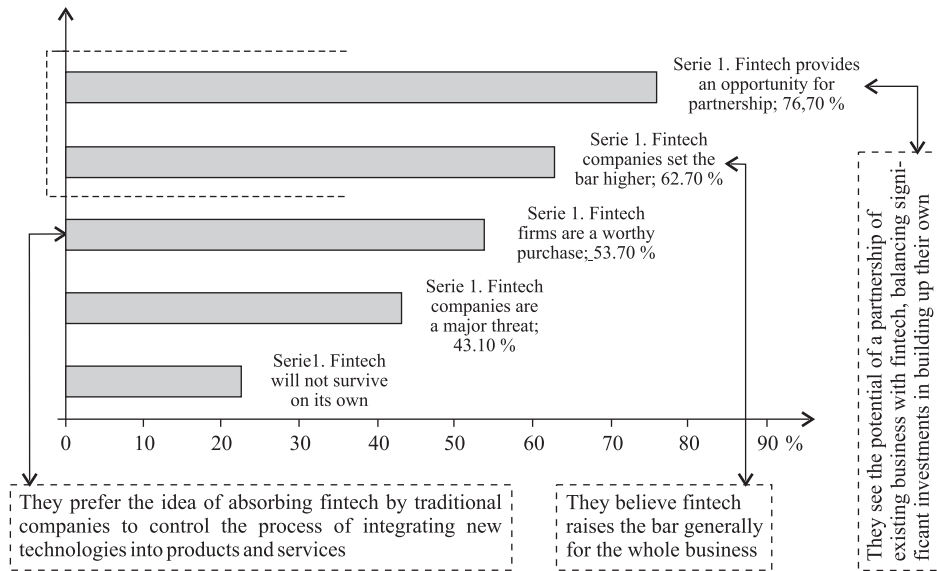


Figure 3. Study of the perception of the essence and the role of fintech, 2016

Source: World FinTech Report 2017.

A study conducted by the Life.Sreda foundation shows the current situation on the market for cooperation between banks and fintech start-ups. Therefore, according to the results presented in Figure 4, incubation programs are the most common form of such cooperation, and the opening of their own specialized units is the least popular event.

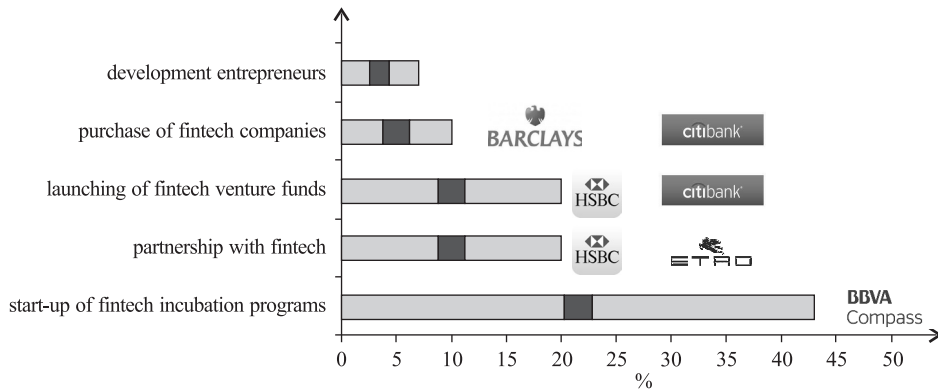


Figure 4. A study of cooperation between banks and fintech start-ups, 2016

Source: Solodkiy 2016.

So far there are several proven models of innovation adaptation. One of the most widespread in the world is the methodology developed by Capgemini [Applied Innovation...], which helps various organizations, and banks in particular, to set up and accelerate the process of innovation. The basic principle reflects main stages of the strategy: to discover, develop, implement and support new ideas, solutions, tools and methods based on a reliable management model. See Figure 5.

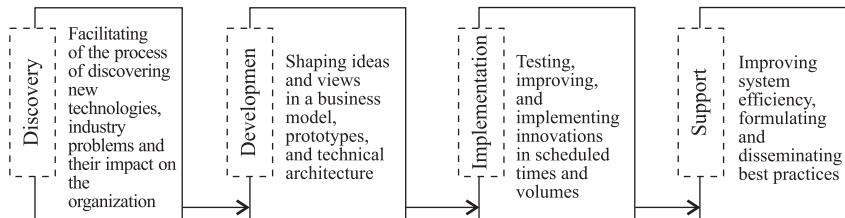


Figure 5. The process of implementing innovation, developed by the company Capgemini

Source: The World FinTech Report 2017.

Identifying innovations involves creating products and services based on new technologies and existing business information.

Bank BNY Mellon [Broom 2015] has developed its own model of innovation development, which consist in the following steps:

1. Identification of opportunities. Through close cooperation with the fintech community, BNY Mellon has identified specific areas of interest that have the potential to improve existing technologies.

2. Protection of the idea. By working closely with fintech companies, BNY Mellon is exploring the possibility of using new technologies in a safe test environment.

3. Strategic review of options for investing.

4. Innovation centres. As part of BNY Mellon’s aspiration to become a technology leader in the financial industry, the company creates innovative centres around the world that use new technologies to find new business approaches. The mission of the centres is to encourage a common, revolutionary thinking that will foster the development of talent and lead to innovation.

5. Fintech events. BNY Mellon organizes TechExpo in London to demonstrate diverse technological solutions and also actively collaborates with universities. These activities are aimed at encouraging creative thinking and aiming to help turn perspective ideas into a viable business through consulting and investment.

Bank of America is also looking for promising partnership relations, arranging annual Merrill Lynch Technology Innovation Summit, which aims to allow innovative entrepreneurs meeting with the team of the bank.

The growing number of online platforms offering banking services and therefore competitive pressure can lead to greater efficiency of traditional banks. Fintech companies do not only mean start-ups, they may even include the business that flourished in the period of the previous financial and technological revolution. With the lack of interior innovation potential, successful partnership between the bank and fintech platforms can enable improved risk analysis and offer the best service for a specific market segment (e.g., the retail loans). According to a survey by UBS [FinTech Credit 2017], about 22% of banks in developed countries have an affiliate agreement with the P2P lending platform. See Figure 6.

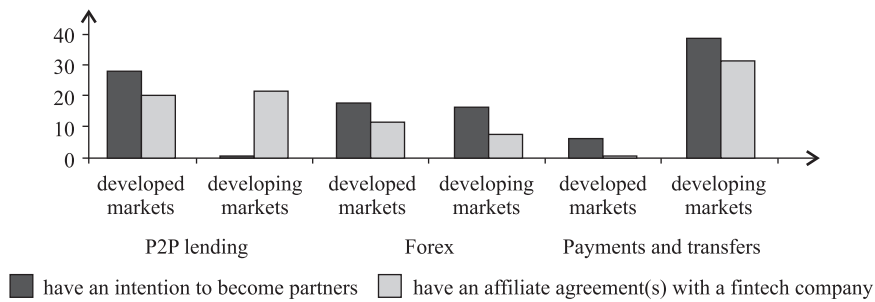


Figure 6. A study of the partnership relations of banks with fintech, %

Source: FinTech Credit 2017.

No bank from developing countries reported a well-established partnership in this area, but 23% of them intend to start cooperation in the future.

There are a number of models to adapt the innovations of fintech platforms by traditional banks. We will analyse which ones are reflected in the foreign financial markets.

1. Direct investment: Banks or entire holding companies in a number of countries provide equity financing for fintech platforms. In Japan, a holding company with a banking subsidiary has built a loan finance platform that provides its own funding. Some banks, in particular in the USA, provide debt finance to fintech companies or finance their loans directly as institutional investors through the purchase of loans or securitization.

2. Solving the problem of competition on the part of companies which use the latest financial technologies for banks can also be their merger. An example is an alliance between the largest bank holding JPMorgan Chase and online loan service OnDeck. JPMorgan refused to develop its own technology to supersess OnDeck, and at the same time did not wait until the start-up business grows to threatening sizes, instead they took the decision to come to a partnership compromise.

3. Acceleration and incubation as a form of cooperation between banks and fintech are very popular in Germany. Commerzbank Group, for example, manages several similar companies in the form of a main incubator and a garage start-up. Deutsche Bank is investing in billions of euros in digital technology and expanding its network of innovative laboratories in London, Berlin and New York. Sparkassenverband is working on new solutions for alternative payment transactions, and Berliner Volksbank has opened its own venture capital company (Berliner Volksbank Ventures). Deutsche Bank, together with Commerzbank, joined the international consortium R3CEV for the development of mid-term solutions for blockchain technology.

4. The implementation of the fintech banking concept. Key examples which implemented similar ideas include start-ups and financial companies like Bancorp, solarisBank and Basis, and banks such as BBVA, Citibank and Otkritie. Bancorp is the largest similar platform in the US, consisting of more than 100 non-bank financial service providers and operates 300 billion USD annually. solarisBank has a full banking license in Germany.

5. The development of own technological departments. According to Business Insider, 9,000 or about 30% of the 33,000 Goldman Sachs employees are engineers and programmers, which equals the total number of Facebook employees and even exceeds the Twitter or LinkedIn staff. The leaders of banks around the world have long been aware of the importance of technology. Celent estimates that global bank IT spending in 2015 reached nearly 200 billion USD, and increase by about 5% annually.



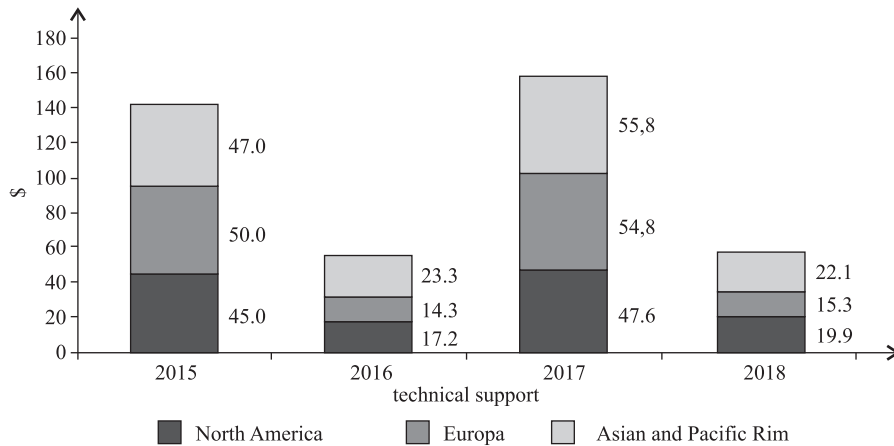


Figure 7. Bank expenditures for technical support and new innovations by regions, in billion dollars

Source: Digital Disruption 2016.

IT costs account for 10-15% of the bank’s total expenses and the share is growing. IT expenditures in the financial sector are almost 10 times higher than the total amount of capital placed in the financial industry.

However, the problem for existing banks is that they are not very effective in managing large IT projects. More than 70% of IT costs are technical maintenance associated with the maintenance of outdated systems. Only about 50 billion USD invested in 2015 was aimed at developing new ideas. See Figure 7 [Digital Disruption 2016]. Instead, fintech companies are much more flexible in developing new products. Besides, they have no problems integrating atrophied processes.

In the meantime, there are successful examples of self-sustaining innovation and financial support by banks. The Spanish BBVA Bank currently has 500 employees working in small scrum teams to develop new projects. The bank adapts flexible technology methodologies, promoting its own ambitious strategy for digital transformation, and declares its intention to position itself as an IT company.

There are also a number of initiatives that are not included in the above-mentioned forms of cooperation between banks with financial services. For example, MyIdea platform, created by BNY Mellon to organize space where employees can put forward ideas and conduct competitions to improve business processes; 36-hour Khakaton, launched by Bank Leumi, LeumiTech and Salesforce in Tel Aviv, with the goal of developing applications within Finte Technologies.

For example, in Australia, if it is a managed investment scheme, it can be subject to individual licensing and special regulatory mitigation; If the platform

provides consumer loans, it is subject to an obligation to obtain an Australian credit license and timely fulfill the relevant loan obligations. In the United States, credit fi tech platforms are regulated based on the type of activity. In addition, the products and services offered by the company may be subject to federal or state laws on consumer protection, securities and money laundering [Solodkiy 2017b].

South Korea opened the way for a more fruitful partnership of banks with fintech start-ups last year, by endorsing a law that included fintech in the area of financial activity. This allows banks and insurance companies to invest in fintech, as the state supervises that financial institutions buy shares only of companies in the same business sector.

Some countries are already thinking of separating the activities of fintech players and banks. For example, in Switzerland, the Federal Council initiated a series of discussions to introduce a new category of licences to fintech companies. It will be cheaper than a banking license, but it will have strict terms: working capital amounts should be relatively low (up to 100 million Swiss francs), and there is no the right to change the terms of operations. In other cases, regulation is identic as for financial intermediaries.

The European Commission has also announced the creation of a working group on fintech technologies, whose activities will focus on assessing the feasibility and implementation of financial innovation. Its competence will include the development of strategies for solving potential and existing problems in the field of fintech. The results of the group work will be used in the development of a comprehensive strategy of the European Commission on fintech technologies.

#### **4. Estimation of the creation process of the fintech market in Ukraine**

The introduction of new innovative developments can greatly simplify and accelerate the solution of many issues, achieving a result in a more efficient way. Banks are among the leaders in terms of the number of innovations introduced used by the general public. The technological innovations, initiated by banks, have a chance to find wide application, and also beyond the banking system.

It is too early to talk about a threat to traditional banking in Ukraine, at least of fintech, because of insufficient number of successful developments in this area. Most of the projects that are developing today are based on international experience.

Let us consider the different phases of technology development in the Ukrainian banking system. At the first stage (1991-1995), the banking system was

developed in the conditions of Ukraine's economic and political sovereignty. The developments at this stage include the adoption of the Law on Banks and Banking and the Concept of Electronic Money Transaction in Ukraine, the introduction of credit auctions on the American pattern for banks' access to NBU loans, the interest of international financial institutions, and the entry into the market of banking services of foreign representations banks. This period is characterized by high macroeconomic risks, the underdevelopment of the banking infrastructure, the imperfection of the organizational management structure and a low technological level of banking institutions and a lack of qualified banking personnel.

The second stage of innovative technologies (1996-2000) is determined by the conduct of monetary reform and adoption of the national currency. In 1998, for the first time the Internet banking system was launched by PrivatBank in Ukraine, which meant creating one of the promising directions for the development of the national banking system.

The third stage (2001-2007) is associated with the expansion of business activities and a range of banking products and services. In addition, there was an active expansion of foreign banks that already had sufficient innovative potential and pursued an aggressive policy that increased competition in the Ukrainian market. The growth of population welfare has led to the development of such a direction as retail banking. The increasing demand has allowed expanding the offer of innovative banking products, introducing innovative processes for assessing credit and market risks, and so on. The majority of banks were actively engaged in the automation of activities, but the shortage of skilled personnel was noticeable.

The fourth stage of innovation in the banking system of Ukraine (2008-2013) is marked by the impact of the global financial crisis and the overcoming of its consequences. The increasing competition forced banks to implement meaningful innovations of the fintech industry for the first time. For example, P2P lending, which is an alternative to traditional bank loans and deposits, provided access to cheap financial resources for small business development and economic stimulation.

At the fifth stage (from 2014 to the present time), the development of financial innovations is associated with the implementation of the Comprehensive Program for the Development of the Financial Sector of Ukraine until 2020 aimed at overcoming systemic problems in the financial sector and the Strategy for the Banking System Development by 2020.

To date, the integration of traditional and remote technologies is actively being implemented, the Internet and mobile banking are being implemented, aimed at preserving and expanding the client base, reducing transaction costs, reducing the complexity and cost of handling cash, the automatically controlling

of operational risks, etc. Instead, reducing the profitability of the banking business requires a reduction in IT infrastructure costs.

According to a survey of representatives of the banking sector conducted by Mastercard in Ukraine, 58% of the polled bankers noted that their bank is ready for the introduction and active use of fintech, and 71% of bankers consider it promising to track innovations and buy ready-made fintech solutions [Savenko 2017]. According to the results of the survey, Ukrainian banks are most interested in attracting fintech in the framework of analysis of large data and forecasting, remote banking, as well as digital wallets, payments and money transfers.

There is a remarkable practical implementation of the banks' intention to engage with fintech. For example, in 2015 FinTech Cluster was created by a Ukrainian venture hub, which involves merging banks, financial start-ups, and investment funds for the development of the Ukrainian Fintech Market. Its active participants include PrivatBank, Alfa-Bank, Raiffeisen Bank Aval and OTP Bank.

In late September 2017 the National Bank, OTP Bank and the non-profit incubator "1991 Open Data Incubator" launched another incubation program for fintech start-ups "Open banking lab" [Open Data Incubator 2017a] in partnership with MasterCard [Open Data Incubator 2017b]. As part of the program, the banks provide third-party developers access to open (non-confidential) data and their own APIs. A test environment is created in which independent developers can test and enforce their authoring solutions. In addition, the bank allocates labour and financial resources in support of the program and provides remuneration for the winners. The authors of the best solutions for the project will receive a grant for development of 10,000 USD.

We will outline the general tendencies of fintech development in Ukraine. First, banks remain the main investors who are ready to invest in the development of fintech. Moreover, at the banking level there is a lack of separate budgets for innovation activities. These expenditures are mostly included in the budgets of several structural subdivisions. As of April 25, 2016, the following patents were registered for banking activities: 12 invention patents, 19 utility patents and 41 design patents [Yefremova 2017].

Secondly, the Ukrainian market is characterized by a lack of understanding of the extent of fintech influence, the scale and directions of investments, the number of fintech companies and the variety of their ideas. Recently, the launch of the NBU project "Promotion of Fintech Development in Ukraine" was announced. The development priorities were selected as in digital e-banking, e-payments, digital lending (P2P, B2P and lending to financial companies), insurance (car insurance, travel insurance).

It takes the area of remote banking the longest to develop on the territory of Ukraine. See Figure 8.

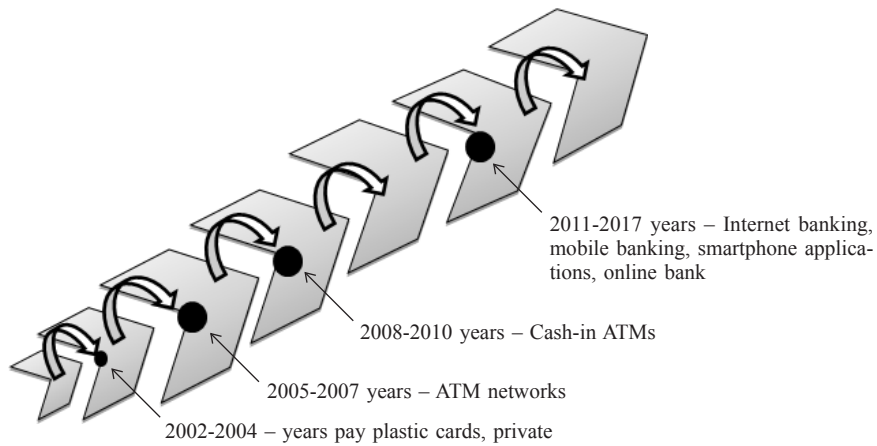


Figure 8. Evolution of Remote Banking in Ukraine

Source: own research.

PrivatBank, First Ukrainian International Bank, Alfa-Bank (Ukraine) remain the leaders in the “Internet-banking” rating for several years in a row. In particular, in 2010, Privat24 online bank was recognized as the winner of the “AWARDS Internet UA 2010” in the category “Internet payments” and “Best Internet Bank for B2C Customers”.

It should be noted that the average annual growth of Internet banking clients, according to estimates of various Ukrainian banks, is 10-30%. In 2014, PrivatBank had 12.6 million customers compared to 4.7 million in 2012 and 540 000 engaged customers in 2010. Alfa-Bank Ukraine increased the number of customers to almost 500 000 in 2014. However, while within the retail segment a minimum standard functionality has already formed, the lack of integrity and a systematic implementation of Internet banking for legal entities should be noted.

In the context of mobile banking, the leader is again PrivatBank, which offers a free service for devices running on Android and iOS, including the most popular app operations in Privat24. On average, the amount of mobile transactions per day is about 1.5 million UAH, and every tenth payment transaction is carried out through a smartphone. Mobile operators balance replenishment (76%) and money transfers (12%) are the most often operations. PrivatBank continues to improve technologically by introducing technology that allows owners of mobile devices with a built-in NFC chip to receive payments on contactless cards. In addition, the mobile version of Privat24 has a unique functionality – accepting payments from a card through a POS terminal. The bank was the first in Eurasia to implement this service.

It should be noted that to date, some services of PrivatBank are ahead of the market not only in Ukraine, but also in Europe. For example, cash withdrawal from an ATM without a card, international money transfer through the provision of access to your accounts by using a token, the ShareCreditCard service, as well as the mobile application MOSST Money Transfers (for the first time in Europe and the CIS, the Face ID authentication mechanism is implemented). With the receiving of the general currency license of the NBU in September 2017, this service began to expand into foreign markets.

Sky bank is planning to develop their remote banking system. They signed a cooperation agreement with the third largest fintech company in the world, Finastra [FusionBanking Essence... 2017]. The strategic replacement of the old systems by a solution by FusionBanking Essence will form a flexible and modern platform for improving the operational efficiency of the bank, enable it to sell innovative products faster and ultimately better serve its customers. Integrated capabilities will allow the bank to manage risk quickly, and the automatic processes will increase profitability.

Continuing the topic of introducing fintech innovations in Ukraine, the e-payment systems have to be mentioned. An example of the use of non-cash Internet technologies is the financial innovation of PrivatBank "Online Collection", which was recognized as the best innovation in the rating "Innovation in Banking Technology Awards 2011" awarded by "The Banker" magazine. This new technology allows solving the problem of cash transactions by adapting the simplest methods, in particular, keeping record for proceeds and their delivery, transfer to the bank. Today, this innovation is used by more than 2,000 Ukrainian companies.

For a long time, a constraining factor to the development of an electronic money system was the deficit of a regulatory framework. The first legal document aimed at settling the electronic payments process, which introduces European legislation, was the NBU Decree No.178 dated 25.06.2008, which secured the right to issue electronic money exclusively to banks and put forward the requirement to agree rules of work with the NBU within the electronic money system. The NBU Decree No.481 dated 4.11.2010 was more significant. It was aimed at improving regulation and the monitoring of activities related to the issue and circulation of electronic money in Ukraine. The country's position regarding the regulation and functioning of the electronic payment market was determined in 2012 with the approval of the Law "On Amendments to Certain Legislative Acts of Ukraine (regarding the functioning of payment systems and the development of cashless payment)". The law has considerably expanded the conceptual base in the field of payment systems, the functions of the NBU, the maintenance of the register of payment systems, the supervision, the right to establish the order of operations and the maximum amount of electronic money [Panteleeva 2012: 417-419].

Currently the issuance of electronic money, according to the legislation of Ukraine, is to be carried out by 20 banks, 9 of which are members / participants of the National System of Mass Electronic Payments (NSMEP). The electronic money market in Ukraine is growing yearly. As of 01.01.2016, the volume of issuance of electronic money increased to 30.692 million UAH, the total number of digital wallets was 40 million, of which 26.5 million are active, with the volume of transactions of 84,226 UAH on average [Electronic Money 2016].

According to the MasterCard study conducted in 2016, 72% of Ukrainians are ready to pay for goods and services with the help of mobile banking. PrivatBank, the first of Ukrainian banks, launched a payment bot “My payments” in Facebook, which helps to pay utility bills directly in the social network messenger. Subsequently, a similar start-up function was launched in Kyiv named CoinyPay.

P2P lending is starting to develop in Ukraine. Among the platforms that are not connected with banks, first of all, “uCredit P2P Microlending Service” should be mentioned. Given the weak level of protection of the creditors’ rights in Ukraine, the creators of the platform provide a wider range of services than standard foreign platforms offer. In addition to the analysis of borrowers’ solvency and the organization of payments, they also implement the procedure of debt collection and judicial proceedings in case of occurrence of delay. Besides, secured P2P lending offered by Advance Finance Alliance may have a chance to succeed in Ukrainian circumstances. Within the banks, PrivatBank allows to take advantage of this fintech direction. In the spring of 2016, it also launched the business financing service “KUB”, implemented on the basis of P2B lending. At the moment, the service has financed projects with a sum totalling about 1 billion UAH.

The closeness of urban and rural administrations can be named the main problems of national fintech start-ups because of the unwillingness to perceive fintech solutions in the region. This has become one of the reasons that most innovative ideas are created with an eye toward a foreign market where it is easier to find an investor. A major burden for development is also the lack of funding capital for implementing ideas, the culture of venture funds, the potential for selling innovative solutions or the ability to secure a business. A separate issue is cybersecurity, especially after hacking into Ukrainian financial institutions, blocking the websites of the Ministry of Finance and the State Treasury Service in June and December 2016, as well as the latest cyberattack on June 27, 2017.

Mobile operators and trading networks could become a threat to traditional banks in the Ukrainian market. However, the trust and positive experience when using fintech-based Internet shops has not wrestled down the need for banking institutions so far.

A more real danger for Ukrainian banks is represented by international institutions, which obtain new principles in the core of their activities, bringing most of the services from ATMs and offices to the screen of the smartphone.

The regulation of the NBU somewhat limits the possibilities for the introduction of financial services in Ukraine. All non-banking institutions are forced to open accounts, which does not let financial companies be independent from banks.

Although the PrivatBank's P2P lending initiative, a similar service from AFA, the project of mobile money from Kyivstar, the Monobank's mobile banking project have not had a significant success in the consumer market yet, they demonstrate a frank desire of the Ukrainian business to develop in the direction of fintech. It can be stated that the national banking system does not stand aside from the global innovation process in the banking sector and has sufficient potential for the active introduction of financial innovations that have shown themselves positively in the markets of other countries. However, the general processes of digitization of the economy need to be accelerated; otherwise, opportunities may become threats for Ukraine.

## 5. Conclusions

Over the past ten years, the world has become actively involved in the emergence and spread of new currencies, technologies, business models and transaction forms in the wake of global economic shocks and the increasingly tight regulation of the financial industry. According to present knowledge, fintech as an area of innovation, start-ups and Internetization is rapidly gaining momentum. The number of fintech firms currently exceeds 12,000 worldwide.

The term fintech is used in various business contexts, often in inconsistent and ambiguous way. For a long time there were no attempts to find out the consensual meaning of this notion. However, the term itself was used already in 1972. The definitions of financial technologies as a result of the analysis were divided into several groups, depending on the object, which fintech is associated with. Nonetheless, due to the impossibility of reaching consensus in obtaining a unified definition by expert analysis, due to the diverse nature of the phenomenon under study, it was considered more efficient to use the classification as a way of facilitating the perception of a general definition and the definition of relations between certain types of fintech.

Fintech products have been classified by market segments, and the fintech market structure has been differentiated by the types of companies' activities. In



addition, the study considered the division of financial technologies into the respective fields and groups in accordance with the views of the recognized experts of the international financial market. The study described the transactional and intertemporal models of fintech. Furthermore, the proposed approach enabled us to justify our own classification of fintech: depending on the degree of innovation of the technologies used, on the primary purpose of technology development, depending on the target audience, on the width of technology opportunities and the institutional context of service providers based on fintech.

Thus, it is proposed to define “Fintech” as a multi-vector, unique and comprehensive form of mutual influence of the newest technologies on the financial industry, which is characterized by quantitative and qualitative development through start-ups and increase of efficiency of service delivery.

The growing fintech competition is a challenge for banks – according to McKinsey calculations, they can lose about 29-35% of revenue in favour of new players. Instead, in recent years, the fintech representatives’ tendency to cooperate with traditional institutions is growing in order to create a synergetic effect and increase the mutual benefits in favour of higher quality and efficiency of services to clients. In our turn, we have summarized the forms that such cooperation takes: incubators, acquisitions, partnerships, the creation of venture funds, fintech departments or subsidiaries, a mixed form, fintech (neo) bank, remote bank.

The development of fintech start-ups in Ukraine faces a number of obstacles, but banks, due to a number of objective reasons, are not able to increase the efficiency of their activities on their own. It is such a controversy that leads to the need for their cooperation and the definition of common areas of development.

One of the potential areas for financial support may be the involvement of banks in the development of fintech ideas at the stage of conception and testing, as well as the creation of innovative financial hubs.

By developing a particular form of cooperation with a fintech company, the bank may commit a number of mistakes described by the author, but they can be prevented following the outlined principles for the introduction of financial innovations to banks (implementation, efficiency, value propositions, etc.).

A promising area of research may be the question of the right of fintech companies to open accounts for clients – individuals and legal entities, that is, to carry out genuine banking operations under the control and regulation of the National Bank and payment insurance in any stable organization. Such measures would lead to a bigger number of financial institutions in the market that would compete with each other, increasing the quality and reducing the cost of their cashless services.

Thus, it can be concluded that the development of cooperation between traditional banking institutions and the fintech industry representatives in the

long run can increase the level of customer service to a higher, more efficient and productive level. Such an alliance will be beneficial for the state and in the context of general social well-being as its activities will directly or indirectly address the problems of financial literacy and living standards.

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## **Współczesne trendy w integracji nowych technologii finansowych i bankowości**

**Streszczenie.** Celem niniejszego artykułu jest uzasadnienie teoretycznych i metodologicznych warunków przystosowania ukraińskiego rynku bankowego do nowych technologii finansowych (fintech) w warunkach globalizacji. Zbadano rozwój specyfiki przemysłu technologii finansowych z uwzględnieniem opracowania i wdrożenia innowacji finansowych. Określono problemy współczesnego okresu modernizacji ukraińskiego systemu bankowego w warunkach długotrwałej recesji gospodarki narodowej. Przeanalizowano międzynarodowe doświadczenia w przystosowaniu nowych modeli technologii finansowych przez banki zagraniczne i ich systemy regulacyjne. W nawiązaniu do wyników oceny procesu powstawania rynku technologii finansowych na Ukrainie przedstawiono propozycje wskazujące na potrzebę klasyfikacji ich produktów, uwzględniając segmentację rynku i rodzaje działalności przedsiębiorstw, co może przyczynić się do osiągnięcia consensusu w sprawie określenia ogólnej definicji technologii finansowych oraz pozwoli na ustalenie zależności pomiędzy poszczególnymi typami. Zaproponowano własną klasyfikację technologii finansowych opartą na modelach transakcyjnych i międzyokresowych.

**Słowa kluczowe:** fintech (technologie finansowe), usługi bankowe, produkty fintech, rynek technologii finansowych, bankowość, kryptowaluty



# Varia

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**Review of the book by Henry Kissinger,  
*World Order. Reflections on the Character  
of Nations and the Course of History*  
Penguin Random House, London 2015, pp. 432**

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The author is right, that: No truly global „world order” has ever existed (p. 2). Henry Kissinger is not only well known politician, but very influential personality as well. His experience is underlined in many publications including this one on the world order. Being many years in service as a Secretary of State he had an opportunity to be one of the creator of the American foreign policy. Such experience and point of view sounds in that book and it is obvious, because there is no possibility to avoid them from personal reflections.

Being not too much sophisticated I have to say, that the content and construction of that book show main areas of American interests and hegemonic position. A historic overview on the Past is important part of that book. Kissinger presents here not only today’s the United States approach but we can find his previous European experience, Bering in mind he had to imigrate from Germany to save his life threatened by the Hitler’s regime. His personal attachment to the European history and place of Russia is evident (especially in the Chapter 2). Larger overview made Kissinger in his important book *Diplomacy* (Simon & Schuster, New York 1994). For Europeans such a short indication must be surprised, especially for European bureaucracy, taking into account ambitions to be global player. However, nowadays, the European Union does not play such a global role as it was expected and emphasized within two last Strategies (Lisbon 2000, and Europe 2020), Kissinger without saling it in extenso has clear opinion on that.

Lions part of the book is dealing with the role of Islamic countries and China. China is for Kissinger main competitor for the international order and for the interests of the American hegemony. Very clear statement of this we can find already in his book *On China* (Penguin Press 2011). His opinion is underlined when writing „American leadership (Kissinger does not like the term „hegemony” J.A.H.) has been indispensable, even when it has been exercised ambivalently. It has sought a balance between stability and advocacy of Universal principles not always reconcilable with principles of sovereign noninterference or other nations’ historical experience” (p. 370). So it is evident statement, that without the U.S.A. there is no possibility to establish truly international order. Kissinger emphasizes, that „the affirmation of America’s exceptional nature must be sustained”. The President Donald Trump exactly is realising that mission challenging the Western European countries (mostly Germany and France). What more, Kissinger is underlying, that „A purposeful American role will be order cannot be achieved by any one country acting alone” (p. 373).

„World order” is valuable contribution to contemporary discussion on challenges for the entire international community. Those challenges have three major features such as dynamics, rivalry and uncertainty, that I have previously described in my papers. Kissinger’s book provided some new ideas to our discussion on going processes, that have to be undertaken into consideration with openness and full awareness by the scientific community. Looking for a sustainability we have to be ready for a large collaboration and it is one of the remarks we can make after the lecture of Kissinger’s book.

Józef Antoni Haber

The WSB University in Poznan  
Faculty in Chorzow  
orcid.org/0000-0002-4913-5534



**Review of the book by Francis Fukuyama,  
*Political Order and Political Decay: From the Industrial  
Revolution to the Globalisation of Democracy*  
Profile Books, London 2015, pp. 672**

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Francis Fukuyama's philosophy of Political Order was already presented in his book *The Origins of Political Order*, but what is truly linked with this book is a history of mankind. Fukuyama presents the growth and development of mankind from the dawn up to French and American Revolutions. It is nothing new that he is calling a mankind as a political Animals. That's why he is almost obsessed on the emergency for human being as it was described in his book: *The End of History and the Last Man* (Free Press, 1992), however this book is something like a clinical diagnosis of contemporary political landscape. All tensions in a modern World are the effect of contradictions of another approach to the dictatorships and liberal democracies. On the background of the U.S.A. and other well developed democracies, Fukuyama indicates how signs of decay have emerged.

The core of his book is his rather a political statement how to be successful government. Taking into account so many factors, that are recognized as necessary to govern and to be powerful, Fukuyama argues, that not as much as only three are key elements: a strong state, the rule of law and institutions of democratic accountability. It is nothing new in political life. So, I have to doubt, that without clear vision and strategy within changing, and competitive environment, could be possible to achieve required goals. Bearing in mind, that nowadays our international order is facing with contradictions of interests and

changing security geometry, Fukuyama's proposal is seems to be of theoretical importance than practical value. Nevertheless it is true, when we want to look into the Future we must not forget on the Past, where are our origins of behaviour, political education and last but not east, our systems of values.

**Józef Antoni Haber**

The WSB University in Poznan  
Faculty in Chorzow  
[orcid.org/0000-0002-4913-5534](https://orcid.org/0000-0002-4913-5534)

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