

## SOVEREIGN DEBT AS EMERGING CHALLENGE OF HYBRID WARFARE

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**Abstract:** The current dynamic security environment is shaped by various hybrid threats and risks of a military and non-military character. Emerging challenges in the public sector deficit covered via sovereign debt financing are increasingly open for hybrid influence. Diverse deficit budget financing resources, variable geo-economics poles and military oppositions convert the debt leverage to an effective manoeuvre for geostrategic actions against financial systems' stability. This article accepts and elaborates on the thesis that sovereign debt underwriting could be seen as a hybrid threat to the state's security.

**Keywords:** sovereign debt, hybrid warfare, financial security.

### Introduction

The economic and financial security is among the most important sectoral policies of the national security. Moreover, it is a significantly important element due to the fact that the economic factor is a decision-making one for ensuring national security.<sup>1</sup> Detected as a systematic event (as within its spread it affects lots of system participants), it is a phenomenon whose consequences directly define the development of the national security system. Economic and financial security aims to ensure financial system stability as well as to develop early alert measures about existing or possible risk developments affecting monetary policy, financial stability and business turnover, and to exercise permanent control on it.<sup>2</sup>

Among the various cases of economic and financial security implementation in practice the economic factor "sovereign debt" stands out. The evolution of the global economic crisis, combined with its predecessor, the US mortgage bonds crisis that began in 2008, as well as with its successor, the Eurozone sovereign debt crisis since 2009, denoted that debt is not only an economic or financial category.<sup>3</sup> Due to its interdisciplinary nature, it is being an element of the concept of experimental security science. Inasmuch as it directly affects the economic, monetary and financial security

of a sovereign state, it acts as a factor ensuring its economic and financial sovereignty.

Nowadays, issuing debt for pay-out of current budget deficit in the public sector (including military and defence costs) is neither a bad governmental behaviour nor a short-sighted financial and risk management model for generating a higher level of financial and economic security. On the contrary, prudent policy of budget deficit financing *via* sovereign debt issuance promotes economic growth and development and produces a value added in economy and international geo-economics relations. Moreover, it affects directly military capabilities transformation and supports defence policy development taking into account defence costs made by virtue of lending facilities. Last but not least, prudent sovereign debt policy plays a role in dismantling macroeconomic asymmetries and imbalances between different sovereign countries, state entities, and armies and military-political alliances respectively. Besides, sovereign debt is used as a non-conventional instrument for risk modelling within the Third Wave of Security<sup>4</sup> that leads to security economization.

Despite the above-mentioned, the non-controlled rising of current credit exposures and assuming financial obligations beyond sovereign states' financial capabilities creates real risks for systematic shocks in financial security, as well as for the national security system. The importance of the sovereign debt stability for the financial system's stability increases also due to the increased scale of the international financial markets and the increasing diversification of investment instruments traded at it (especially derivatives, swaps and futures). Financial collapse is the most frequent systemic event of that type. It may occur in various sectorial (vectors) modifications: devaluation of national currency unit and currency crisis, fixed currency rate settlement mechanism, gold, precious metals and foreign currencies reserves minimization, seignorage losses, domestic/international lending facilities reduction, worst balance of trade (net exports) and worse balance of payments, liquidity crisis and finally – insolvency. The latter leads to declaring a moratorium on regular interest and on maturity redemptions, which means a total loss of financial sovereignty.

In case of a systematically important event such as a financial collapse, for example, logically a collapse of the present economic model ensues. Replacing one regime with another generates risks and threats. Therefore, accumulation of (over)indebtedness should be defined as a significant systemic event (systemic shock) that threatens the smooth functioning of the public finance and national security system, including the defence and military sector. Taking into account the anthropocentric system as a factor, (over)indebtedness generates risks for the financial and economic security of the sovereign. At the same time, (over)indebtedness requires the adoption of new, wide and complementary identifying risk classification in experimental security science. For example, it could be as following: energy risk (energy security), cyber risk

(cyber security), military risks (military security), environmental/ecological risks (environmental/ecological security), transformation risk (transformational security), information risk (information security) etc.<sup>5</sup> Hereof, sovereign debt risk, sovereign debt security respectively, is undoubtedly an important element of economic, financial and national security with a synergetic effect of highest intensity.

The described above is not a hypothetical situation with minimum probability of happening in practice. It is the way of how the global evolutionary process has fared since the 1990s indeed. We are acting as coevals and direct participants at the end of liberal capitalism era as well as of the end of capitalism era, in general. The last is based on three system postulates: single monetary issuing centre, private acquisition of bank interest profits, and uncontrolled debt issuance for covering current budget deficits. The slogan of such an obviously exhausted civilization model could reasonably be formulated as “One debt writes off another.” The latter is a systematic crisis in security with irreversible consequences for economic and financial security.

Meanwhile, the total international indebtedness has been rising nowadays.<sup>6</sup> Generating debt security becomes an increasingly important determinant and factor of economic and financial security. Obviously, the last stage in the era of liberal capitalism will be marked by the debt stigma and its consequences for a long period of time. We are participants in an active transformation process where international financial and economic relations framework is reshaping, but debt is converting from pure politics to broadband geopolitics, from simple economy to fabulous geo-economy, from a means of autonomy and independence to a means of influence and control, pressure and domination. Specifically, all the implicit integrating properties of debt both as a concept of finance theory and security theory define the main characteristics of the sovereign debt paradigm (Figure 1) being a synergy of all systematically important elements of national security, namely: asymmetric conflict of civil nature, hybrid threat; differential function of selected or imposed civilized model of development and financial slavery as a form of colonial exploitation.<sup>7</sup>

### **Sovereign Debt as a Hybrid Threat**

Taking into account the first pillar of the sovereign debt paradigm—an asymmetric conflict of civil nature—we should keep in mind that as such the debt is a strategic financial superiority (domination) and even a psychological ascendancy by a lender to a borrower due to the current economic weakness of the latter and his incapability to guarantee his own security with all the available resources by himself. Actually, it is a typical situation of geopolitical dependence by reason of financial dependence (a



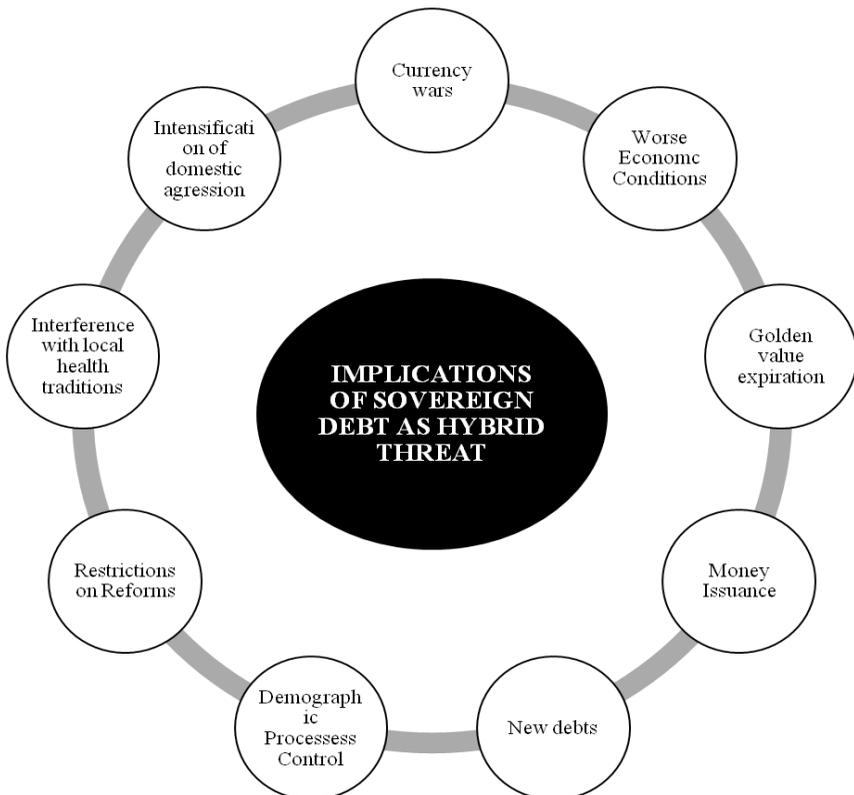
**Figure 1: Sovereign debt paradigm matrix.**

subordination and obedience, in some cases) in practice. Economic uncertainty directly affects the economic (in)stability and fluctuations, transforming them into debt instability and financial dependence, respectively. In some cases, the latter could reach the dimensions of a sovereign debt war. On one hand, sovereign debt is a conversion operation of the lender by his function as “a creditor and a security provider” to his other function of “a controller and an agent of security,” done by multiplying his relative sovereignty and independence. On the other hand, sovereign debt acts as a form of transformation of the borrower from his role as “a user and a receiver of security” to his other role as “a debtor and a generator of insecurity” by reducing his relative sovereignty and independence.

The financial superiority and supremacy are extremely flexible and adaptive. It is difficult for some elements of the ‘grand strategy’ to be detected, or they are totally missing. Most often, in practice it is realized by exponentially applying different by nature and intensity heterogeneous hybrid tactics with conventional and unconventional resources: financial threats, economic speculations and manipulations, embargoed regimes, commercial warnings and trading restrictions, emotionally-psychologically harassments, technological and industrial-manufacturing risks, blackmailing, disinformation and information environment infiltration, inciting panic attacks, intimidation and stresses, promotion hatred and nihilism, and a variety of other means.

Covered by large financial resources and funds, and generated by the target's resources in some cases, hybrid tactics and pre-tactics stemming from sovereign debt could take various forms of expression in practice. They rarely could be increased in a linear way time proportionally. Instead, they have been more often implemented by controlled event activation, a fact or a phenomenon which is process determining as a "tipping point" and leading to an accelerated development process.

Despite the type and form that they may take, they could be systematized by a latency and a heterogeneity, with a high heteroscedasticity and an unconventional, often even an asymmetric character which offers "a hot peace" to its "victims" (see Table 1 and Figure 2).



**Figure 2: Sovereign debt paradigm matrix.**

Table 1: Practical implication types of hybrid threat.

No.	THREAT	TYPES OF PRACTICAL IMPLICATIONS
1.	<b>Speculative currency wars generation</b>	<ul style="list-style-type: none"> <li>• Devaluation/revaluation of national, international and collective currencies</li> <li>• FOREX manipulations</li> <li>• Market rumours trade</li> <li>• Currency arbitrage</li> <li>• Currency terror</li> <li>• Currency dumping</li> <li>• Currency stress by short sells manipulations</li> </ul>
2.	<b>Worsening the economic conditions instead of improving them and stimulating poverty instead of richness of people in credited states</b>	<ul style="list-style-type: none"> <li>• High rates of cyclical and frictional unemployment</li> <li>• High inflation rates</li> <li>• Currency instability</li> <li>• Increased money supply in circulation</li> <li>• High levels of trade and budget deficits</li> <li>• Stagflation</li> <li>• Lower taxes and duties incomes</li> <li>• Trade and commercial dumping</li> <li>• Trade embargoes and restricted quota for agricultural products import/export</li> <li>• Harder license and certification regimes</li> <li>• Low purchasing quality of the national currency</li> <li>• Limited disposable income and reduced market basket</li> <li>• Lower or missing savings</li> <li>• High social public costs (pensions, disabilities compensations, etc.)</li> </ul>
3.	<b>Golden value expiration</b>	<ul style="list-style-type: none"> <li>• Gold market price manipulations acting as a global geo-strategic reserve currency</li> <li>• Gold real value devaluation acting as a precious metal</li> </ul>
4.	<b>Increasing money supply in circulation</b>	<ul style="list-style-type: none"> <li>• Covering of liquidity deficit for expensive military adventures (Vietnam, Palestine, the Persian Gulf, Iraq, Afghanistan, Libya, Syria etc.)</li> <li>• Covering of liquidity deficit for diplomatic settlement of conflicts in the region of the Aden and Somali Bays</li> <li>• Inflation disruptions generation</li> <li>• Fake cash-controlled issuing</li> <li>• Hyperinflation</li> </ul>
5.	<b>Huge financial injections</b>	<ul style="list-style-type: none"> <li>• Lending money to economically failed states when it is clear that debt would not be repaid</li> <li>• <i>Cut-off</i> operations for the old debt and refinancing it by new one (debt spiral generation)</li> <li>• Debt repaid by nature – land/real estates, energy resources, sweet water etc.</li> </ul>

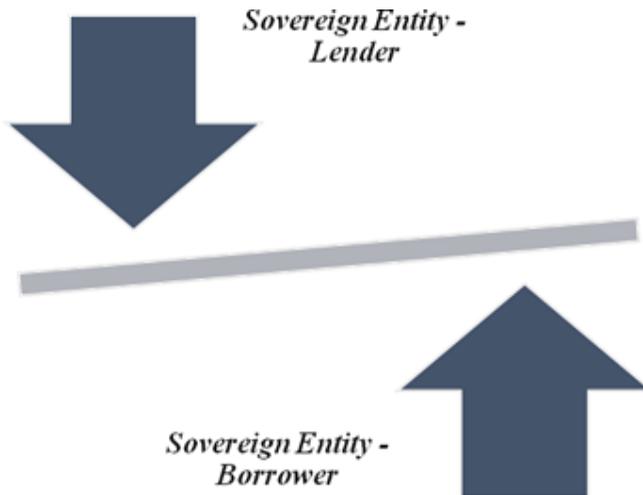
6.	<b>Control of demographic processes</b>	<ul style="list-style-type: none"> <li>• Limitation of the birth rate exponential growth</li> <li>• Manipulation of birth rate among ethnic groups</li> </ul>
7.	<b>Intensification of Sharia/ Islamic Finance</b>	<ul style="list-style-type: none"> <li>• Encouraging the establishment of Islamic banks and Islamic banking and financial networks (by a holding type) in Europe, the USA, and the Russian Federation</li> <li>• Encouraging the financial innovations portfolio of the traditional financial institutions by adding new financial products and services of a Sharia type</li> <li>• The Hawala System Usage</li> <li>• Establishing the Sharia/Islamic Advisory Councils to the Management and Supervisory Boards of the financial and credit institutions of Western type</li> <li>• Establishment of a new <i>ad hoc</i> payment, clearing and settlement system for “zakat” collecting by virtue of an international centralized Islamic organization</li> <li>• Natural markets and trade processes manipulation in investment, banking and financial activity by issuance of various prohibitory Islamic fatwas</li> <li>• Establishment of investment enclaves by ethnic symptoms according to the Sharia law</li> </ul>
8.	<b>Restrictions for reforms</b>	<ul style="list-style-type: none"> <li>• Freezing of any pension, social, educational and health reforms in order to save the <i>status quo</i> and to delay the development rate</li> <li>• Controlled farming of unemployed and socially dependent persons</li> </ul>
9.	<b>Interference with local health traditions and customs</b>	<ul style="list-style-type: none"> <li>• Control of vaccines</li> <li>• Encouraging the use of medical preparations that are unusual for the local geographic area and to which the locals’ human body is irresistible</li> <li>• Controlled contamination with infectious, rare or difficult to be threaten diseases</li> </ul>
10.	<b>Intensification of domestic aggression in controlled societies, sovereign states, nations and regions</b>	<ul style="list-style-type: none"> <li>• Generation of ethnic and ethno-religious conflicts</li> <li>• Stimulation of integration policy failure towards minorities</li> <li>• Sharpening of the socio-economic confrontation</li> <li>• Infiltration of the information environment (disinformation)</li> <li>• Creation of vulnerable social groups</li> <li>• Generation of problems due to worse socialization/ re-socialization of ethnal, religious and socio-vulnerable groups of people</li> <li>• Financing of deliberately created “empty” political entities (creation of a pool of suitable “young” parties) for changing the foreign and domestic line of political development policy of the lending country, overthrow of governments and/or specific “inconvenient” ministers</li> </ul>

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|  |  | <ul style="list-style-type: none"> <li>• Financing of media subjects and projects for propaganda and black PR purposes</li> <li>• Generation of panics and fears among the local population</li> <li>• Financing of street protests, riots and other similar activities</li> <li>• Manipulation of weather events and natural environmental processes</li> <li>• Strengthening of the psychological impact on people's feelings</li> </ul> |
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Thus, dynamic hybrid threats generated by virtue of transactions with sovereign debt or referencing indirectly thereto enhance some secondary synergetic effects of the sovereign debt leverage (Figure 3).

*Ergo*, it shows precisely the process of strengthening and balancing the system for security and defence as well as full utilization of economic potential of sovereign debt to ensure and strengthen the national security system via its synergetic effects. The following processes and phenomena could be identified and codified as such:

- Early identification of the economic weaknesses and vulnerabilities of a weaker sovereign entity (mostly, the borrower);



**Figure 3: The sovereign debt leverage.**

- Early identification of new global large economic players and possible lenders (BRICS members, the Four Asian Tigers or the Little Dragons, Turkey, petroleum sheikhs etc.) in order to minimize the negative consequences of their enhanced geo-economical ambitions against sovereign entities-borrowers;
- Drawing up a roadmap in order to overcome conjuncture economic and financial uncertainty and to increase both the security and defensive level;
- Intensification of the cooperation with international financial and credit institutions (the International Monetary Fund, the World Bank Group, the European Investment Bank, the European Bank for Reconstruction and Development, the Black Sea Trade and Development Bank, the International Bank for Economic Cooperation, the Asian Development Bank and others) for performing structural reforms instead of accumulating new debts, i.e. gaining security in lieu of gaining new debts;
- Quantitative checking for quality of financial liabilities in order to identify “toxic assets” and quickly release them or to execute remedial procedures if relevant;
- Implementation of effective policy for upgrading the enlightened model of economic development and security.

### **The Case of Ukrainian Debt to Russia as a Type of Hybrid Threat**

Given the unreasonable increase of geopolitical and geostrategic ambitions by some states, with the ambition to become global ‘poles,’ one could consider that sovereign debt appears as a form of latent, hybrid threat and a means of colonial exploitation at the beginning of the 21st century. In this situation, the sovereign state-borrower becomes a vassal of its lender, the financial feudal, figuratively speaking.

An illustration of such a paradigmatic case with large quantitative alterations is the current situation with Ukraine’s debt to the Russian Federation and its indefinite unilateral moratorium on any payments of the debt (\$3 billion bond issue since 2013 with reached maturity in December 2015) as a response to Moscow’s unwillingness to find compromise on its restructuring. On one hand, there is a payment and settlement problem of the borrower to its lender due to enormous macroeconomic imbalances and huge budget deficit (insolvency at a next stage, perhaps). On the other hand, there is a geopolitical case of two States (a major centrally-placed, dominating sovereign entity and a minor semi-peripheral dominated sovereign entity in a multi-polar, multi-centric world) settled in the broad patterns of a military and political conflict for (sub)regional influence and superiority; moreover, for political autonomy and economic independence, too. Thus, the dominating power (the major pole) balances

its interests and the dominated one (the minor pole) orbits around the first one. Notwithstanding the foreseeable geopolitical and military supremacy of the Russian Federation for a long time, the shifts in power of the Ukrainian State change the geopolitical architecture in the region for the time being. In addition, it generates new political formats and innovative approaches for a decision-making governmental policy as well as for solving a trivial economic theoretical problem by virtue of hybrid geopolitical measures.

What was the detailed assault pattern followed in the Ukrainian debt case – in terms of its “geo-economical and geopolitical composition,” or “texture”? Was there only one well-coordinated economical attack and “assault”? Or was there a civil-military strike beforehand, or after, perhaps? Fascinatingly, what seems to have taken place was the progressive unfolding of a strongly hybrid action – Moscow is the large and generous pole which formally lends funds to its smaller geopolitical brother-pole Kyiv. Informally, the first one executes its strategic targets for regional influence over the second one by virtue of quiet asymmetric warfare (money lending). Thus, due to the investment operations since December 2013 (the majority of the sovereign bonds issued by the Republic of Ukraine was quickly bought on primary market and traded later silently by economic and legal entities, both private and corporate, residents of the Russian federation, or via capital of non-residents on its territory) Putin’s Russia put its hands on the financial agenda of Ukraine under Yanukovich. Thus, it predetermined the theatre and shift of political centres in the Crimean Peninsula for the later annexation in 2014.

What could be the lessons from this comparative illustration? First, “Sovereign Debt War” like “Gas War” (typical one for Russian and Ukrainian geopolitical relationships) went ahead of “Territorial War” and real combats for the Crimean Peninsula’s annexation, undeniably. Second, Ukrainian Sovereign Debt became a target for hybrid threat as well as new latent quiet form of hybrid warfare. Last but not least, it became a means for colonial exploitation, regional and sub-regional influence by Russia.<sup>9</sup> Thus, Sovereign debt is going to be among the expensive exchange coins that would be traded in the war and military actions in the region for decades.

## **Conclusion**

Nowadays, the collapse of the global homocentric political model together with relocation of one state by another acting as a leader on the world political scene (centre, periphery and semi-periphery), presumes an innovation of the civilized model of economic development. Moreover, it enforces a change in the mental and cognitive security concept. The decline of the previous geopolitical doctrine of mono- and bipolar geopolitical dominance and superiority is going to be converted or replaced completely by a new polycentric doctrine. This time, however, it will not be done by a

homogeneous geopolitical one as in 20th century but via a non-homogeneous geo-economical one. In the abstract, the experimental security science assumes that the security is going to be reshaped into a new, non-homogeneous geo-economic paradigm.

This global development model, a mental paradigm of new security level, is being preceded by all level significant transformations – starting from strategic geopolitical priorities domination towards strategic geo-economic priorities domination with lots of divergent non-homogeneous centres of action.<sup>10</sup> The leading determinants for strategic events in this non-balanced security environment are not going to be political and military-defensive priorities within a national or collective (union) format, but the geo-economic and financial capital interests aiming to conquer new untapped markets and unused areas of strategic energy sources. Thus, the ultimate goal of expansionary policy, well-known from history lessons, is the effective and efficient use of resources by some states at the expense of others. The latter includes placing the weak states under strong dependency of the powerful ones. Even at the cost of borrowed capital.

In addition to all the foregoing, the new global polycentric model would enable sovereign states to fight for dominance and possession of resources *via* geo-economic dependency *versus* the power of sword and gun. The various elements of the new type of dependency include energy dependency, sovereign debt dependency, irredentism and territorial claims, ecological and environmental dependency, trade and economic wars (hybrid wars), international financial and capital markets speculations, etc.

To summarize, the role, place, and importance of sovereign debt as a strategic factor of national security and defence should be explicitly noted in the context of the new global polycentric development model and the security environment it reshapes. First, it might be considered as a new asymmetric conflict of civil nature which delineates a new paradigm of economic and financial security of sovereign states. Second, pursuant to its ontological nature, sovereign debt might be interpreted both as a function of selected or imposed civilization model of development and desired defence capabilities package referring security science to geo-economic, geopolitical and geostrategic military order at the beginning of the 21<sup>st</sup> century. Third, sovereign debt might be moderated as a form of latent implicitly functioning contemporary financial slavery and as a means for colonial exploitation, taking into account geo-economical expositions and relations generated by it.

The extensive and cumulative research of the three basic theoretical postulates in experimental security science described above in details builds up the framework of multifactorial geo-economic appearance of sovereign debt in the 21<sup>st</sup> century. It

brings a vision of a new mental model of security in experimental science and in fact, namely the sovereign debt security paradigm.

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