

Economic coercion as a means of hybrid warfare: The South Caucasus as a focal point

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Abstract

The rapidly changing security environment has brought a plethora of non-military measures to the fore. These measures have completely changed the nature of hostilities by giving them a hybrid character. With regard to the South Caucasus region, the chasm among the political courses pursued by particular states makes the overall region more susceptible to diverse external threats of a political, economic, military and cultural nature. This paper focuses on the economic component of the hybrid warfare in the South Caucasus region. The issues are considered from a security point of view and not from an economic perspective. The vulnerabilities of particular nations in the region to economic coercion are highlighted in the paper and suggestions for improving them made. The authors underscore the regional unity in the South Caucasus as a prerequisite for eliminating or at least mitigating economic dependence and healing the “regional fracture” that has lasted for decades.

Keywords:

hybrid warfare, economic dependence, economic coercion, economic leverage, economic power

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Introduction

The basis for conducting hybrid warfare is the synchronous use of multiple means of violence tailored to specific vulnerabilities throughout the spectrum of social function to create synergies of effect. The vulnerability could be in any critical function (sector) of the state and thus give the “attacker-country” the opportunity to take advantage of the conditions and to exploit them, depending on the means at its disposal (Hadzhiev, 2020). As suggested by PLA Colonels Qiao Liang and Wang Xiangsui, this is called an “unlimited war”: “*The principle of war is no longer to use the military power to coerce the enemy into submitting his will, but to make the enemy accept his interests by any means (military and non-military)*” (Dayspring, 2015, p. 28). Against the backdrop of this approach for maintaining strategic interests in hybrid warfare, the effectiveness is no longer measured by how lethal the weapons are. Any aspect of peaceful societies, whether it is political or non-political, military or non-military can be used as a weapon for waging war (Dayspring, 2015, p. 28). In a globally networked world, the economy is inextricably linked to national, as well as international security and affects the wider geopolitical areas of any country (Retter *et al.*, 2020). Various aspects of the presented problem have been studied by several researchers. For instance, Christopher Chase-Dunn (1975) examines the effects of a nation’s dependent stance in the world economy on its economic development. Mihail Dudin *et al.* (2018) tried to study the economic security of the state as a system and presented the international experience in this regard. Richard N. Cooper (2004) introduced the concept of “economic power”. Sung Chull Kim (2019) explained a linkage between economic asymmetry and coercion. According to the author, economic asymmetry ends up with coercion, which in turn makes small states vulnerable to the intervention of great powers. Hiba Hafiz (2016) tries to evaluate the theories of coercion. According to the author, any relationship that might be economically exploited for the benefit of some over others constitutes the concept of economic coercion. Drury (2005) highlights the main differences between economic sanctions and economic coercion. The author presents the instruments and goals of economic coercion. Calha (2015), Carment (2018), Iskandarov and Gawliczek (2020a, 2020b), Piriyevev *et al.* (2022), Rukomeda (2018) have delineated the characteristic features of hybrid warfare, however have not paid enough attention to economy related issues. The literature review shows that even though the economic security has been the subject of different research, economic coercion as a component of hybrid warfare has not been widely studied and nor has the political impact of economic asymmetry been thoroughly examined.

The purpose of this paper is to examine the vulnerabilities of the South Caucasus countries against economic coercion and put forward proposals for eliminating them. The article aims to answer the following questions:

1. What impact does economic coercion have on any state against the backdrop of hybrid threats?
2. What coercive tools are applied against the South Caucasus countries?
3. What vulnerabilities are there in the South Caucasus that undermine the regional unity?
4. What measures have to be taken in order to mitigate the economic dependence in the region?

The region has both strong and weak points that should be taken into account when speaking about economic coercion. For instance, the region has the capacity to reduce

the dependence on foreign actors, which can be considered a strong point, while external actors have enough leverage to influence most sectors of the government in particular countries.

Although there are many different approaches and theories (e.g. realism, constructivism, Marxism, liberalism/idealism etc.) to studying international relations and giving meaning to current events and processes, the research is based on the theory of neoclassical realism. Because the theory of neoclassical realism allows us to explain the foreign policy strategy of states, it refers to issues at both the international and national levels (especially in terms of explaining and predicting the choice of foreign policy course). The research method used in the paper is primarily qualitative focusing on the case study of the South Caucasus region. We tried to underscore the vulnerabilities of particular nations in the region to economic coercion and identify pragmatic and realistic goals, as well as opportunities for healing the “regional fracture”.

The scientific and theoretical issues raised and analysed in the research work can play a basic role for future scientific studies in more specific areas. For instance, different models, such as the Baltic States and Nordic countries, might be comparatively analysed based on the theses presented in this paper. It will enable the future researcher to come to grips more economy related security threats that undermine regional unity in the South Caucasus region and make it more susceptible to external meddling. All these facts underscore the topicality of the presented problem.

Economic dependence as a trigger of hybrid warfare

Since at least the Athenian trade ban on Megara in the run-up to the Peloponnesian War, states have used economic leverage for achieving their strategic goals (Kustra, 2021). However, until the late 1960s, economic security was not a special research subject. Economic issues became more important subjects of national security in the late 1960s (Sperling and Kirchner, 1995). While it was previously praised as a way to force the target government to change its policies, critics have focused more on its repercussions for citizens than the government since the end of the 1990s. Against the backdrop of globalisation in the last couple of decades, the economy and national security have been inextricably linked. As stated by Edoardo Camilli (2016): *“One of the major concerns that relate economy with security is about the capacity of the former to transform wealth into power. Economy, in fact, can determine how much security a state is able to obtain; the richest the state the most military capabilities it is able to mobilize. Relative economic growth, therefore, plays an important role in determining the power of states, and thus their relative position in the system”*. Those connections represent both opportunities and potential internal and external threats for the national security of any country. According to Richard N. Cooper (2004), economic power is mostly used as an instrument to punish or reward other parties, depending on whether they respond in the way the stronger party desires. Having a strong economy is a very important tool for maintaining national security. However, if this power is used to advance the national interest of one country to the detriment of another, then it becomes economic coercion. Therefore, whether the influence of economic power in general is benign or malign is highly debatable and open to debate. As the vast majority of researchers claim that military power is no longer of great importance, the future nature of rivalry between different nations will hinge on the economic power (Cooper, 2004). Against this backdrop, economic security has emerged as an important strategic priority. “Threats to vital economic processes” have been cited as one of the six most urgent national security threats in the Integrated International Security Strategy (IISS) 2018–2022 (Retter *et al.*, 2020).

We will try to examine the political implications when a great power tries to economically affect small states.

Economic coercion is one of the most immediately applicable forms of hybrid warfare as an alternative to the use of force. In today's globalised world, economic relations are susceptible to manipulation for political goals (Ducaru, 2015, p. 6). The primary threat to the economic security of any country is the economic dependence. Economic security of the state in its turn is the main guarantor of the independence, sustainability and success as shown by Mihail Dudin *et al.* (2018).

The strategy of economic coercion as an element of hybrid warfare entails the activities of a hybrid attacker to capitalise on its economic superiority and the victim's dependence. Four types of economic coercion have been identified: foreign aid, monetary power, financial power, and trade (Nordby, 2019). Each of these "instruments" emanate from the dependence level of the country, which is coerced.

The impact of external actors' economic advancement on the sovereignty and independence of the South Caucasus countries is inevitable. In case this leverage is manipulated the impact ends up with economic coercion and ushers in the enhancement of its political influence. Coercion is the political act of a stronger country, forcing a weaker country to follow a particular path it prefers. Christopher Chase-Dunn (1975) underscores two kinds of international economic dependence, which is a case in point for the South Caucasus countries: 1) investment dependence; 2) the dependence on foreign credit. If only one aspect of the country's economy is fully supported by a foreign state, this type of economic dependence can only have a negative impact on that sector (Nordby, 2019). Of course, the donor country can direct the government to the desired change without harming other areas of the target country, but it does not always work. However, countries whose economies depend largely on foreign countries are more easily manipulated. For example, the Republic of Armenia, which has friendly relations with only two of its four neighbours (Georgia and Iran), hinges on Russia and Iran economically. The possibility of the Republic of Armenia leaving the Russia's yoke does not seem possible in the near and medium term. The results of the analysis of different regions show that the second type of economic dependence presented by Chase-Dunn is more dangerous. In fact, if countries can create a balance in investment and pursue a policy of diversification, the first type does not pose a threat at all. In this regard, the current policy of the Republic of Azerbaijan can be considered an example for the countries of the region. Thus, both in terms of attracting foreign investment to the country (especially in the oil sector) and maintaining the balance in the export-import ratio (by making certain concessions to foreign investors and applying the Green Corridor in the customs sphere); the Republic of Azerbaijan seeks to neutralise both threats by minimising the state's foreign debt. Sung Chull Kim (2019) justifies the vulnerability of any small state to coercion with three factors:

- (1) the concentration of trade;
- (2) non-transparency; and
- (3) reliance on external aid.

Due to the concentration of export commodities, any restriction on exports would cause serious damage to small economies, but would not cause much damage to regional or global powers. In bilateral relations, the degree of transparency of a small state's domestic policy affects its susceptibility to coercion. Relatively speaking, an opaque environment in a small state gives a great power ample opportunities to interfere in policy-making

processes and exert influence. Economically dependent countries are extremely vulnerable to external coercion ([Kim, 2019](#)).

Since the strong economy of each country is the trump card for fighting hybrid warfare, the first challenge is to overcome the economic disadvantages of the underprivileged by taking specific reforms. Non-kinetic hybrid strategies paralyse the state's ability to make decisions in adverse circumstances. If the nature of the threat changes rapidly and aggressively, new rules need to be adapted to avoid isolation, demoralisation and ultimate losses ([Sehgal, 2019](#)).

As far as the South Caucasus region is concerned, there are a plethora of vulnerabilities, which might be exploited by foreign actors. As Laurence Broers and Anna Ohanyan stated, the lack of historical cooperation and conventional interventions by external powers has perpetuated the disunity and "regional fracture" in the South Caucasus ([De Waal, 2021](#)). Economic dependence is one of the most necessary conditions for successful hybrid warfare in this region as well. The debilitation of the economy may lead to a direct fall of any country in the South Caucasus. Because the economy is one of the most important elements of national power. However, [Stephen M. Dayspring \(2015\)](#) claims that economic leverage should be used until it destroys the capabilities or willingness of the target country to resist, but not until the economic system is irreparably destroyed.

Economic coercion as a hybrid threat in the South Caucasus

In hybrid warfare, the aggressor, first of all, must be able to have "escalation dominance". This is a power-balanced concept when an attacker can assault a target at different escalation levels ([Minniti, 2018](#)). The crisis that occurred in early January of 2022 in Kazakhstan proves this. That crisis rendered the most prosperous and stable country of the Central Asia brittle and feeble. It also proved how the economy can be used as a tool to shake the whole country and undermine its national security. Therefore, all four types of economic coercion presented in this paper should be examined in the example of the South Caucasus countries. With regard to the first type, foreign aid, it should be noted that since the South Caucasus countries economically lag far behind developed countries, external sanctions can inflict pain on their economy. Economic destabilisation involving sanctions, threats to cut vital commercial ties, implicit or explicit economic coercion designed to weaken the targeted state lead to its manipulation. Apart from that, the balance of interests in the region between the West and Russia (and to some extent Iran and China) is one of the most sensitive issues. Poor economic performance and significant regional and international stresses on the South Caucasus region (with regard to Georgia's NATO aspirations, Azerbaijan's resounding victory over Armenia – Russia's linchpin in the region) and disunity among the nations make the region susceptible to external interference. Russian strategy in this regard is more conspicuous there.

From the late 1990s until the 2008 war, Russia had applied various hybrid warfare techniques to undermine Georgia's sovereignty and create favourable conditions for Moscow to take control of two breakaway regions. One of the main instruments of Russia's non-military warfare was economic coercion. In 1995, Georgian President Shevardnadze also expressed concern that Russia's increased growth could undermine the Baku-Tbilisi-Ceyhan (BTC) pipeline – an energy route bypassing Russia on the way to European markets. In September 2004, Moscow closed all means of transportation with Georgia, including Russian airspace. These steps were ostensibly aimed at collecting the debts of Georgian associations to investors, but in fact they were punitive measures for

Georgian associations with commercial interests of Europe and the United States. The transportation shutdown was followed by Gazprom's decision to double Georgian gas prices in December 2006. Of course, Russia did not confine its efforts to these measures. Through the restriction of Georgian consumer products, Russia tried to inflict economic pain on Georgia. In the spring of 2006, Russia banned the import of Georgian wine and some brands of bottled mineral water. These bans were soon followed by a complete embargo on Georgian goods. Apart from the embargo on Georgian imports, Russia used selective mass deportations of ethnic Georgians from Russia to show its dissatisfaction with Georgia's pro-western policies (Mouravi, 2016). As a result, the share of Georgian exports to Russia in Georgia's total export volume dropped from 17.8% in 2005 to 2.0% in 2008. Simultaneously, the share of Russian imports to Georgia dropped 15.4%, in 2005 to 6.7%, in 2008 (Papava, 2012). In December 2020, Moscow used the economic embargo as an instrument against Azerbaijan and imposed sanctions on some agricultural products (apples and tomatoes). Although the duration and scope of the embargo against Baku was not wide, this situation might be repeated in the future (Kommersant, 2020). It should also be mentioned that Russia endeavoured to wreak havoc on the Georgian economy by even resorting to a military campaign. On August 15, 2008, an economically important railway bridge in the Caspian Sea was blown up and a fire broke out in the Borjomi National Park, an important tourist destination, which in turn had a negative impact on the Georgian economy. The Georgian government considered the events an act of provocation and blamed Russia for them (Dayspring, 2015, p. 93).

According to Christopher Chase-Dunn, one of the most important dependent variables in comparing economies (or economic powers) is gross national product per capita (Chase-Dunn, 1975). Ivana Brkić (2020, p. 65) states that greater economic freedom results in higher GDP, which in turn leads to greater political freedom. GDP provides an overall assessment of any country's economy. Therefore, it would be relevant to compare the GDPs of all three countries in the South Caucasus region. Analysis of the last ten years shows that as far as GDP is concerned, Azerbaijan outstrips Georgia and Armenia by at least three or four times (Statista, 2021). For instance, the estimated GDP for Azerbaijan in 2022 is US\$ 54.725 billion, while Georgia and Armenia lag far behind with US\$ 19.688 and US\$ 15.060 respectively (PopulationU, 2022). That is the primary fact determining the foreign policy of Azerbaijan. Thus, Azerbaijan pursues an independent multi-vector policy, where Armenia is a member of Russian-led organisations (CSTO and EEU) and Georgia aspires to be a member of Western organisations (NATO and EU). With regard to the second type of economic coercion, monetary power is an extremely important tool for preventing external influence. Azerbaijan has long used its oil and gas reserves as a means to keep its own currency stable, even though the Azerbaijani manat lost its value almost twice after the price of oil plunged. Such systematic disruption, as stated by Grant Nordby, would be irreparably harmful to Azerbaijan's currency and economy (Nordby, 2019). Since Georgia and Armenia lack the resources to sustain their currencies, they are much more vulnerable to coercion. Taking this point into account, national debt in relation to gross domestic product (GDP) in Azerbaijan, Georgia and Armenia was respectively 28.88%, 54.25% and 62.15% in 2020 (Statista, 2021). These figures also show that Azerbaijan is the least susceptible country with regard to its national debt.

As far as the third type is concerned, Grant Nordby states that the exercise of financial power is not as free in its actions as monetary power because the government does not have sole power over foreign direct investment. However, financial power and monetary power are interconnected to some degree since both are related with the trading of currency-based assets. Theoretically, financial power is more dependent on the will of the public – in this case, corporations. Financial coercive measures affect various parts of the

economy (Nordby, 2019). Because of its natural resources, Azerbaijan is the only economically independent country in the South Caucasus. However, Russia is the main source of financial income for a large number of Azerbaijanis too, up to 2.5 million. According to Russia's Central Bank, remittances from Russia to Azerbaijan in 2021 amounted to over US\$ 1.133 billion (Interfax.az, 2022). Transparency International Georgia reports that Georgia's economic dependence on Russia increased in 2021. Thus, Georgia earned about USD 1.3 billion from exports to, and remittances and tourist inflow from Russia, amounting to 6.7% of the country's GDP in 2021 (Civil.ge, 2022). According to the Central Bank of Armenia, the volume of transfers of individuals from abroad to the republic amounted to \$ 1.898 billion, in January-November 2021, of which \$ 781 million fell to Russia (EADaily, 2022). Today, Moscow retains a strong grip on Yerevan. In 2016, 60 percent of the \$896.9 million transferred from abroad to Armenia came from the Russian Federation (Janashia, 2015). In 2019, \$ 1 billion 56 million of \$1.959 billion money transfer to Armenia was from Russia (Hergnyan, 2020). According to the World Bank Ease of Doing Business (EODB), Armenia also has the worst index among the South Caucasus countries. It has a 74.5 EODB score (rank-47), while Georgia enjoys 83.7 (rank-7) and Azerbaijan is in 34th place with a 76.7 EODB score (The World Bank, 2020).

In an increasingly volatile global trading environment, the use of economic coercion by major powers to achieve political goals creates new business risks (Uren, 2020). The potential for economic coercion in trade is in favour of the importer because, in fact, they may choose any exporter for these products. Therefore, it is more difficult for an exporter to find alternative markets for their products (Nordby, 2019). This is not the case for Azerbaijan as an exporter of oil and gas, since it has a sheer market. In all other cases, all three countries are mainly importers. There are primarily five main actors engaged as a trade partner of the regional countries: the EU, the US, China, Russia and Turkey. Iran is also trying to expand its market share in the region. The US factor is particularly important for Tbilisi. However, two actors contract each other starkly: the EU and Russia. The EU's Eastern partnership initiative launched in 2009 allows the EU to finance projects that favour the promotion of European values in the region. This non-military impact is a problem for Moscow as it weakens Russia's historical proximity to post-Soviet countries. If funding to Eastern Europe was a problem, the expansion to the South Caucasus is considered unacceptable. This would mean the loss of control of the Black Sea for Moscow, the existence of a European outpost in the Caucasus and the possibility of access to Azerbaijani hydrocarbons for the EU (Lambert, 2017). Having compared the balance of trade in all three countries, it should also be mentioned that while Armenia and Georgia had a \$ 325 million (Imports in Armenia, 2021) and \$ 622 million (Exports in Georgia, 2021) deficit respectively, Azerbaijan had approximately \$ 2.9 billion (Exports in Azerbaijan, 2021) surplus in 2021.

As mentioned, Azerbaijan has gained ample opportunities for economic manoeuvres because of its abundant natural resources. In particular, Azerbaijan has successfully diversified oil and gas pipelines (Western and Northern routes). This reduces the risks that could arise for Azerbaijan against a background of accelerating complex global geopolitical and geoeconomic processes. However, while this factor reduces the impact of the economic component of the hybrid war, it does not completely neutralise it. According to Paul Brister, the goal of military strategy is to put the enemy in a dilemma and keep them in suspense while choosing targets to defend, which is a serious challenge in the modern era. Therefore, it is immensely difficult to extend operations to all targets which go beyond the military realm. Expanding operational reach is not only perceived from the viewpoint of physical distance, but also through the means of debilitating the targets by imposing economic sanctions (Dayspring, 2015). For example, according to Steven M. Dayspring, the target state's ability to protect a critical economic function might be

easily undermined by blocking the import of any critical resource (Dayspring, 2015). It proves the severity of the economic component of hybrid warfare against economically independent Azerbaijan.

Conclusion

Economic dependence is one of the primary reasons that cause fragile countries to give up their sovereignty in the face of hybrid warfare being waged against them. The most prevalent coercive tools that might be applied against the South Caucasus countries are import tariffs and export bans/restrictions, stopping foreign financial aid, which in turn debilitates the economy of particular countries in the region.

In the case of Georgia and Armenia, this factor serves as a trump card for a hybrid attacker to impose their will on them. This is particularly noticeable in Armenia, where Russia acts as a guarantor of its national security. The fact that Azerbaijan is endowed with natural resources, especially oil and gas, reduces its economic dependence, but does not prevent coercion by external actors. Unlike Georgia and Armenia, the diversification of both political and economic courses has enabled Azerbaijan to reduce its dependence. Because, in any case, economic dependence leads to economic coercion, and consequently to the manipulation of regional countries against each other. The Western economic strategy with regard to Russia means new challenges for Yerevan, which is more dependent on Moscow in the region. Taking into account the imposition of a Western embargo on Russia's oil and gas sector, it is clear what threats Yerevan will face, considering that Armenia, where 83% of borders are closed, satisfies the country's fuel needs mainly from Russia.

The economic solidarity in each country, as well as unity among the nations of the region, can ultimately improve the security environment in the region and might eventually mitigate the economy related threats posed by external actors. Therefore, there is a golden opportunity for Armenia to benefit from the new regional order established after the Second Karabakh War. Thus, all countries in the region can enjoy an advantage from the opportunities that arise from the November 10, 2020 statement, which will serve to expand regional cooperation and increase mutual trust. The ninth provision of this agreement states: *"All economic and transport connections in the region are being restored. The Republic of Armenia guarantees the security of the transport connection between the Western regions of the Republic of Azerbaijan and the Nakhchivan Autonomous Republic in order to organise the unimpeded movement of citizens, vehicles and cargo in both directions"* (Embassy of the Republic of Azerbaijan to the Federal Republic of Germany, 2020). Therefore, healing the "regional fracture" and maintaining unity and solidarity among the nations is quite possible. The Moscow-Washington crisis, due to the Russia-Ukraine conflict, increases the urgency for this transport and communication corridor (Zangazur).

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