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SOVEREIGN DEBT REFORMING VERSUS HYBRID THREATS:
The CASE OF UKRAINE’S DEBT TO RUSSIA

Abstract. The present paper seeks to raise a few political questions on the current stage of Ukraine’s debt to Russia within the context of contemporary Post-Soviet hybrid threats and its impact on national economy modernization and macroeconomic stabilization. It mostly focuses on the (geo)economical dimensions of the Ukrainian passive debt management process and its (geo)political and military implications to the relations with Russia. The aims is to begin drawing what are deemed to be some geopolitical coordinates of sovereign debt as a hybrid threat which is rapidly rising not only within the case of Ukraine’s debt to Russia but also on the scene of modern national and international geopolitical and geoeconomical conflicts nowadays within the context of the worldwide debt crisis.

After the end of the Cold War and the shredding of the Iron Curtain the world has been challenged by various risks, threats and attacks in geopolitical aspect: terrorism and radicalism, climate changes, shifts in paradigms of governmental management, endless political reforms, ethnic and religious antagonistic contradistinctions, frozen and unfreezing (from time to time but always on the right geopolitically time) Post-Soviet conflicts, hybrid threats etc. Moreover, recent years have shown us undoubtedly how the last (hybrid threats) could be reframed in various new forms and lines. It also includes sovereign debt deals as part of the economic and financial security of the State under a record pile of global debt. The world has continued to borrow hand

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over fist since the global financial and economic crisis beginning adding nearly $60 trillion since 2007 in the process of pushing the worldwide debt load to $200 trillion, or nearly three times the size of the entire global economy. Thus, the complexity of the challenge of sovereign debt regular payments has also been brought to line in the era of macroeconomic imbalances combined with political and military conflicts.

Nowadays, issuing debt for payout of current budget deficit in the public sector is neither a bad governmental behavior 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. Last but not least, prudent sovereign debt policy plays a role in dismantling macroeconomic asymmetries and imbalances between different sovereign countries, state entities and military-political unions respectively. Besides, sovereign debt is used as a non-conventional instrument for risk modelling within the Third Wave of Security that leads to security economization.

Despite what is the above-mentioned, 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’s 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 systematical event of that type. It is being 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, seigneurage losses, domestic/international lending facilities reduction, worst balance of trade (net exports) and worse balance of payments, liquidity crisis and finally — insolvency. The lastly leads to declaring a moratorium on regular interest and maturity redemptions which means a total loss of financial sovereignty.

In case of a systematically important event as a financial collapse, for example, logically a collapse of the present economic model ensues. Replacing one political and economic regime with another generates risks and threats. Therefore, accumulation of
(over)indebtedness should be defined as a significant systematic event (systematic shock) that threatens the smooth functioning of the public finance and national security system, including the defense 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 risks (environmental security), transformation risk (transformational security) and information risk (information security). 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.

Given the unreasonable increase of geopolitical and geostrategic ambitions by some states, one can consider that sovereign debt appears as a form of latent, implicitly acting financial slavery 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.

An illustration of such an 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 Russian debt ($3 billion bond issue since 2013 with reached maturity in December 2015) as a response to Moscow’s unwillingness to find compromise on debt 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 (an insolvency at a next stage, perhaps). On the other hand, there is a geopolitical case of two States (a major central-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 and correlates.

What was the detailed assault pattern followed in the Ukrainian debt case — in terms of its «geoeconomical and geopolitical composition», or «texture», so to analyze? Was there only one well-coordinated economical attack and «assault»? Or was there a civil-military strike beforehand? Or after hand, 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, but informally the first executes its strategic targets for regional influence over the second by virtue of quiet asymmetric warfare (money lending). Thus, due to the investment operations described above Putin’s Russia put its hands on the financial agenda of Yanukovych’s Ukraine and predetermined the theater and shift of political centers in the Crimean Peninsula in 2014 for the annexation of the latter.

Undeniably, «Sovereign Debt War» like «Gas War» (typical one for the Russian — Ukrainian geopolitical relationships) goes ahead of «Territorial War» and real combats for the Crimean Peninsula’s annexation. Thus, Ukrainian Sovereign Debt becomes a means for colonial exploitation, regional and sub-regional domination. Obviously, the debt is going to be among the expensive exchange coins that will be traded in the war and military actions in the region for decades.

The extensive and cumulative research of the basic theoretical postulate described above briefly builds up the framework of multifactorial geo-economic appearance of sovereign debt in the 21st century. It brings a vision of a new mental model of modernization and changes the paradigm of governmental management.

References