HYBRID WARFARE AND THE CHANGING SECURITY LANDSCAPE IN THE EURO-ATLANTIC AREA

POLITICAL AND ECONOMIC IMPLICATIONS

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ABOUT THE PROJECT

The research paper was prepared within the project: Economic NATO (Economic Impact Assessment of Georgia’s integration into NATO), supported by Open Society Georgia Foundation (OSGF).

The project aims at (1) providing the policymakers with reliable analysis and forecast concerning the economic impact of NATO membership on Georgia; (2) enriching the quality of discussions in the public sphere with reliable economic analysis concerning Georgia’s Euro Atlantic integration; (3) raising awareness about the economic benefits of Euro Atlantic integration among key domestic actors – policy-makers, the civil society and the media.
**ABSTRACT**

The shape of Europe’s future is forged today on its eastern front – frontline of democracy. The emerging democracies there are confronted with a variety of problems (in the range from democratic institution building to national security), which are similar, but in different degrees affecting statehood of the individual countries.

Russia’s resurgent expansionism played a catalyzing role in identifying strategic shortfalls and tactical gaps is expanding, supporting and defending European democracy. Georgia, Ukraine, Moldova, and other frontline states, are under the worrying pressure of military aggression, occupation and annexation of territories, information warfare, economic crisis, absence of the coherent are determined to build stable, free, prosperous societies, based on the universal values of human rights and dignity. For the statehoods of Georgia, Ukraine, Moldova, and other frontline states, this is an existential struggle. For the New Eastern European members of the EU and NATO there are first major test of Transatlantic Unity in defending its Allies and for the old founders of the Euro-Atlantic family of democracies fundamental bearing and attractiveness of the idea of Europe whole, free and at peace has been challenged.

In parallel with the hardcore security challenges, consolidating public opinions and strategic communications for forming coherent strategy and policy choices is a major shortfall.

Russia’s growing pressure against the free institutions of the Western world can only be countered by the sustained and vigilant application of counterforce, based on proactive strategies by the free world united around its fundamental principles of freedom and human rights. Under the current circumstances, this report suggests the unified policy recommendations to galvanize the support for the Western policy course by the people and the government, and help promote the liberal ideas at the heart of the western democracies as a way to counter the intensifying or increasing Russian propaganda against the West.
In economic terms, Georgia’s dependency on Russia is the strongest through trade and remittance channels, therefore it presents an important source of foreign currency inflow in Georgia. Russia is a highly unstable and politicized market, thus is quite vulnerable for Georgia’s private sector. In short, Georgia’s dependency on Russia through trade ties is not to be neglected. There are two ways that the government of Russia can use its lever – through yet another embargo or through worsening trade conditions by introducing new trade restrictions in the framework of Eurasian Customs Union (ECU). However, prolonged economic slowdown in Russia, due both to sanctions and to declining oil prices, leads to natural decline in exports to Russia and remittances from Russia.

**INTRODUCTION**

The emergence of a revisionist Russia and its employment of hybrid means for attaining strategic objectives have challenged the traditional Western concept of warfare. Moreover, these developments have revealed the vulnerabilities of Western security institutions to counter those challenges and exposed the inherent weaknesses of the current security architecture in the Euro-Atlantic area. Though neither the concept nor the essence of hybrid warfare is completely original, it bears characteristics that are peculiar to Russia’s new warfare model. The challenges posed by the weaponization of non-military means in a modern day conflict are distinctly of 21st century in nature.¹

Though the nature of the warfare has arguably never changed and “people fight today for the same fundamental reasons the Greek historian Thucydides identified nearly 2,500 years ago, fear, honor and interest,”² the character of conflict keeps evolving. A new form of conflict, labeled as hybrid warfare, can exploit the weaknesses of the Euro-Atlantic security architecture as it elevates the importance of non-military means to the same level as military means. In some instances, one

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² McMaster, H.R. The Pipe Dream of Easy War, July 20, 2013.
may argue that non-military means are even more instrumental in subjugating “disloyal” neighbors in the post-Soviet area or turning a major security alliance like NATO into a “paper tiger” than military methods. The reason is fairly simple. Capitalization of non-military means on the one hand allows a country like Russia to manipulate the globalized world from inside3 and on the other hand it exposes the inability of the Western security institutions to counter those threats the way its predecessors did during the Cold War.

The emergence of hybrid war as a new form of conflict fundamentally alters the current security landscape and poses numerous questions not only about the nature of threats we are facing but also about the ability of the existing security institutions to counter those challenges. It undoubtedly will have a significant impact on the ongoing debate on NATO enlargement, but more importantly on the credibility of the idea of extended deterrence and the ability of the alliance to counter those challenges effectively. As The Economist’s recent publication clearly articulated in assessing the challenges facing the alliance: “all the strength of the world’s mightiest military alliance will not amount to much if its members cannot agree when an aggressor has actually stepped over the line.”

Consequently, several questions on this issue are relevant for further consideration:

- How can we define hybrid challenges? Are they new or forgotten old phenomena? Why does it matter?
- How has Russia’s military thinking evolved during these recent conflicts? What impact does it have or will it have on Euro-Atlantic security architecture?
- What role does the NATO membership process play in strengthening the abilities of the aspirant countries to counter these modern challenges, especially, the risks posed by the weaponization of non-military means in a modern day conflict?
- How vulnerable is Georgia in those challenges and how can it counter the increasing importance of the non-military means in modern warfare?

4 How the NATO’s Article 5 works, The Economist, March 9, 2015
The study of hybrid challenges is instrumental for setting a stage for a comprehensive analysis of the NATO integration process, especially, in light of a broader conceptualization of “security” that encompasses not only the traditional “hard” factors but also “soft” or non-military areas of security which so often elude policy-makers and broader public deliberations. It also allows us to focus more intensively on the changing character of modern day conflict, where non-military means play an increasingly important role. Consequently, analysis of the changing security landscape in Euro-Atlantic area undoubtedly complements the study on Economic NATO, the purpose of which is to enrich the quality of discussions in the public sphere on possible implications of the Alliance’s enlargement process.

**Defining Hybrid Warfare**

The blurring of lines between the different modes of warfare and the risks it poses to the credibility of the Euro-Atlantic security architecture is one of the major challenges we are facing today. The changing character of the conflict, often defined as hybrid warfare, has become a new buzzword that needs to be demystified in order to identify the ways of countering this challenge. Numerous security analysts acknowledge that “the evolving character of conflict that we currently face is best characterized by convergence—the convergence of the physical and psychological, the kinetic and non-kinetic, and combatants and noncombatants.”5 More importantly, the evolving character of warfare has transformed from concept to reality as we witness the increased number of conflicts, unfolding in the Euro-Atlantic area, which do “not fit neat Western categories of war.”6 How original is the concept of hybrid warfare and why it challenges the Euro-Atlantic architecture, are two main questions we attempt to answer in the following chapter.

The concept of hybrid warfare has been derived from the analysis of the recent year conflicts where we have witnessed the deliberate blending and blurring of

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5 Hoffman, F.G. Hybrid Warfare and Challenges, JFQ / issue 52, 1st quarter 2009, 34
modes of warfare for attaining a strategic objective. Frank Hoffman, in his analysis of the various forms of contemporary conflicts defines hybrid threats as following:

*Hybrid threats are - any adversary that simultaneously employs a tailored mix of conventional weapons, irregular tactics, terrorism, and criminal behavior in the same time and battle space to obtain their political objectives.*

He also acknowledges “the problem with the hybrid threat definition is that it focuses on combinations of tactics associated with violence and warfare (except for criminal acts) but completely fails to capture other non-violent actions.” I fully concur with Hoffman’s identification of the problematical aspect of hybrid warfare’s definition. Characterizing hybrid warfare as a combination of regular and irregular means, covert and overt actions and traditional and non-traditional security threats puts it in a mode of a warfare that has been witnessed many times throughout mankind’s history. What renders hybrid challenges distinctly new phenomena is increasing the importance of non-military means. This is a modern form of a warfare that primarily focuses on attaining strategic objectives without resorting to physical conflict, especially, at the initial stages of the conflict.

The pattern of the Russian behavior in its neighborhood is conceptualized in the so called “Gerasimov Doctrine” that will be analyzed in detail in a later chapter. Written as an article in an obscure Russian defense journal by Valery Gerasimov, the Chief of the General Staff of the Russian Armed Forces, the “doctrine” accentuates the dwindling importance of military means for achieving political objectives of the warfare. This distinct characteristic of hybrid conflict, where non-military means play a paramount role for achieving strategic objectives, seek to undermine the foundations of the state in order to render application of the military means unnecessary for defeating an adversary. As James Sherr rightly notes, hybrid means of contemporary conflict are “designed to cripple a state
before that state even realizes conflict has begun.” There are a number of characteristics that makes Russian hybrid war in its neighborhood distinctive rather than the combination of regular and irregular means witnessed many time in history.

First, Russia’s hybrid warfare is characterized by deliberately blurring the borders between war and peace. Obscuring the borders between the state of war and the state of peace enables Russian leadership to “subvert and destroy states without direct, overt and large-scale military intervention.” In contemporary conflicts, war starts much earlier than when the first bullet is fired. This changing pattern of the warfare was put in motion by Russian leadership years before Gerasimov. During the Russian aggression of 2008 in Georgia, the EU’s fact-finding mission clearly identified that the military operation per se “was only the culminating point of a long period of increasing tensions, provocations and incidents,” implicitly acknowledging that conflict started long before the first bullets were fired. The subsequent aggressions in Crimea and Eastern Ukraine have clearly shown that Moscow is increasingly concentrating on new forms of politically focused operations in achieving its strategic objectives.

Second, in hybrid warfare non-military means of subjugating your adversary becomes as important, or in some cases even more important than military means. According to Gerasimov, “the role of non-military means of achieving political and strategic goals has grown, and, in many cases they have exceeded the power of force of weapons in their effectiveness.” This is the fundamental change we are witnessing in evolving character of modern warfare. Modern Russian strategy is based on an assumption that undermining the foundation of the statehood of an adversary can be best achieved through non-military means. This consequently renders the resort to military methods unnecessary. Though already “in Russia’s 2010 Military Doctrine, modern warfare is described as entailing the integrated

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11 Anonymous 2015, 1.
15 Ibid.
utilization of military force and forces and resources of a non-military character,”¹⁶ what we are facing today is not just integrated utilization of those means but a clear tendency of increasing reliance on non-military aspects of national power to attain strategic objectives. More importantly increasing the importance of relying on non-military means as a primary tool for subjugating disloyal neighbors has transformed from a concept to reality, as the record of Russian aggression in Georgia and Ukraine clearly demonstrated.

A third, and equally important characteristic of the Russian hybrid war is the application of military means of a concealed nature. In practice, this means Russian forces without insignia appearing in places like Crimea, with “hidden faces, hidden command-and-control, hidden orders, but undoubtedly activated to achieve state objectives.”¹⁷ The reliance on insignia-less forces in military operations enables Moscow to carry on an active campaign of denial, designed to disguise the extent of its military involvement. For example, in an appearance on Russian television on April 16, 2015, Putin publicly denied the presence of any Russian troops in Ukraine. Such sleight of hand also allows Russia to attempt to play the role of a “neutral mediator” in subsequent negotiations.

And fourth, Russia’s increasing reliance on non-liner means in achieving its strategic goals alters the usual pattern of irregular warfare. Throughout history, the inferior side of the conflict applied the unconventional methods for coping with the overwhelming superiority of its adversary by dragging the latter in a protracted conflict. In Russia’s aggression against Ukraine, instead of the inferior part using unconventional methods, now the superior part in the conflict is using them successfully.¹⁸ Russia’s increasing reliance on unconventional means against an inferior adversary represents a significant shift in a usual pattern of irregular warfare.

These characteristics notwithstanding, numerous security analysts question the relevance of the concept of “hybrid warfare” and consider it as an imprecise term,

¹⁷ Washington Post, March 9, 2014
¹⁸ Ine Eriksen Søreide, Defense Minister of Norway, at the Munich Security Conference 2015.
or as merely a label attributed to Russian actions in Ukraine, that simply denotes a combination of previously defined types of warfare, whether conventional, irregular, political or information. Leaving the debates on the originality of the “hybrid warfare” concept aside, there are two worrisome trends that Russia’s changing warfare methods reveal. First, Euro-Atlantic security institutions do not know how to counter the challenges posed by hybrid threats. The decision-making system of those institutions are extremely efficient when faced with easily identifiable military threats. When those challenges, however, are of non-military nature and, consequently, non-attributable it becomes much harder to shape the response and counter them effectively. As The Economist’s recent publication clearly identified: “all the strength of the world’s mightiest military alliance will not amount to much if its members cannot agree when an aggressor has actually stepped over the line.” And Moscow’s strategy is built exactly on exploitation of these weaknesses. Second, in Russian thinking non-military means clearly exceed the power of force of weapons in achieving its strategic objective, which is to cripple the foundation of state that renders application of military means either unnecessary or less relevant.

“GERASIMOV’S DOCTRINE”

Gerasimov’s article, published on February 27 2013 in a fairly obscure magazine “Military-Industrial Courier” bears special importance as it lays the ground for grasping the Kremlin’s new way of warfare, one that cannot be described as a military campaign in its classical sense. Coinciding in time with Russia’s annexation of Crimea, where Russian politicians, journalists, purportedly nongovernmental organizations, think tanks, insignia-less military, government agencies and the Duma were all acting from the same script to attain the common goal, this article clearly lays down the

19 Kofman, M. and Rojanski, M. A Closer Look at Russia's Hybrid warfare, Kennan Cable, No. 7 1 April 2015
20 How the NATO's Article 5 works, The Economist, March 9, 2015
21 Coalson, R., Top Russian General Lays Bare Putin's Plan for Ukraine, The World Post, September 2 2014
essence of evolving character of Russia’s warfare. It explains not just effectiveness of “unitary state” in mobilizing all instruments of national power but also the essence of the changing rules of warfare from the Russian perspective.

By analyzing the lessons of the Arab Spring, Gerasimov explains how “the rules of war” have changed and how “a perfectly thriving state can, in a matter of months and even days, be transformed into an arena of fierce armed conflict, become a victim of foreign intervention, and sink into a web of chaos, humanitarian catastrophe, and civil war.” This is achieved not necessarily with the use of hard power instruments but rather with the application of political, economic, informational, and other non-military measures exercised in close coordination with the protest potential of the population. Though explaining the lessons learned from the Arab Spring, Gerasimov unequivocally depicts the course of action unfolding in Ukraine and clearly lays down the rationale behind these types of operations. The strategic goal of these operations, according to Gerasimov, should be “to create a permanently operating front through the entire territory of the enemy state.” Or to put it differently, the creation of a web of chaos that turns your adversary into a dysfunctional state. This might explain the Russian strategy in the post-Soviet space the main objective of which is to turn “disloyal neighbors” into dysfunctional entities by crippling the very foundation of their statehood.

The central notion of Gerasimov’s doctrine is based on the concept that in modern warfare the main battle-space is the mind, and, thus, contemporary military operations will be dominated by information and psychological warfare. As those tools are most efficient in undermining enemy’s armed forces personnel and civil population morally and psychologically that eventually can render the resort to hard power instruments unnecessary. As a study from the Latvian National Defense Academy indicates: “The main objective is to reduce the necessity for deploying hard military power to the minimum necessary, making the opponent’s military and

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23 ibid
24 ibid
civil population support the attacker to the detriment of their own government and country.”26 Russia’s military operation in Crimea stands as a clear attestation of how the adversary’s military morale can be degraded to the extent that reaching political objectives becomes plausible without resort to overt hard power.

An equally important concept in the “Gerasimov Doctrine” is the notion of permanent war, since it denotes an idea of a permanent enemy.27 For Russia’s leadership the adversary in the current conflict is neither Ukraine nor Georgia, but rather the Free World with its values, ideology, political system and established security architecture. Consequently, Russia’s main objective is to reverse the gains of the post-Cold world order by challenging the role of the US in the expanded Euro-Atlantic security architecture. This overarching objective clearly explains the nature of those changes that Gerasimov puts forward in characterizing the evolving features of modern day warfare. Waging long term conflict requires the deliberate blurring of boundaries between war and peace as it allows Russian leadership to subvert pro-Western administrations in its neighborhood without direct and overt military intervention. Emphasizing the increasing significance of non-military means in attaining strategic objectives enables Moscow to challenge the decision making systems of Euro-Atlantic security institutions which are not designed to counter non-attributable security threats. The increasing reliance on military means of a concealed nature allows Russian leadership to carry on a campaign of denial designed to disguise the extent of its military involvement. All of these characteristics of modern warfare allow Russia to undermine the US role in European security architecture.

Gerasimov’s article contains numerous important ideas that are of great interest to military specialists and requires more comprehensive analysis. The notions highlighted in this article, however, are ones that explain the methods that Russian leadership employs to cripple the foundation of state sovereignty and to undermine the credibility of its adversaries without resorting to full scale, overt military intervention. These are the most imminent threats that Georgia faces today and,

26 ibid
27 ibid
consequently, the analysis of those challenges are of utmost importance for the latter’s national security. The threats posed by employment of non-military means to undermine the foundation of state and the ways of countering those challenges will be analyzed in detail in a following chapter.

**IMPLICATION FOR GEORGIA**

Two trends—Russia’s increasing reliance on non-military means to subvert its adversaries and new Georgian administration’s own “Russia reset” policy—have significantly altered regional dynamics in the Caucasus. Starting from October 2012, Tbilisi’s declared goal was to diffuse tensions in bilateral relations by normalizing economic, cultural and humanitarian ties with Moscow. The question, however, remains whether Georgia’s changing policy line leaves it more secure or more vulnerable in the face of the evolving hybrid threats that Russian leadership has been employing in the neighborhood. Recent polls conducted by reputable US institutions, National Democratic Institute (NDI) and International Republican Institute (IRI), as well as economic indicators clearly demonstrate that Georgia has become more exposed to hybrid threats and more vulnerable to Russia’s economic leverage as a result of Tbilisi’s changing policy line.

Notable changes have been observed in three directions: Georgia’s increasing dependence on Russia’s overly politicized market; a significant decrease in public confidence towards all state institutions, and the notable increase of pro-Russian sentiments in wider public that enabled openly pro-Russian political parties to become a part of the mainstream political discourse in Georgian domestic politics. These developments have made Georgia more susceptible to Russian influence and, more importantly, have left Tbilisi significantly exposed to hybrid threats.

The new administration’s policies have reversed Tbilisi’s long established policy line to make Georgia less economically dependent on Russia. Since 2012, the attempt to decouple major political disputes from economic cooperation has sig-
nificantly increased the share of the Russian market in Georgia’s overall trade. The export of Georgian products that amounted just 2 per cent of overall Georgian exports in 2012 has gone up to 10 per cent in 2015. After the removal of Russian bans on Georgian products in 2013, Georgia’s exports to Russia have quadrupled, increasing from $45.8 million USD in 2012 to $190.3 million USD in 2013 and further swelling to $274 million USD in 2014. Increasing access to the Russian market has a price, however. Georgian producers have become increasingly dependent on overly politicized Russian market that enables Moscow to increase its leverage over Tbilisi. These new economic realities provide Russia with substantial power to coerce Georgia through economic means, as it instituted a ban on Georgian wine and mineral waters in 2006.

Georgia’s growing economic dependence on Russia has become an important issue in Georgia’s domestic politics and foreign relations. On January 25 2015, Georgian Foreign Minister Tamar Beruchashvili, during her visit to the United States unequivocally mentioned that Georgia suspended an informal dialogue on trade with Russia. She expressed her wariness about the negative implications of furthering commercial ties with Moscow by stating that: “We see this market as a trap. It is a very unpredictable market. Any moment Russia can enact again an embargo.” Beruchashvili’s remarks prompted a domestic political crisis. A prompt response from Tbilisi repudiated the FM’s statement and the Minister of Agriculture, Danelia, attributed the Foreign Minister’s statement to a simple miscommunication between the latter and the journalist. Besides, highlighting the importance of trade relations with Russia, he reiterated the new Georgian administrations mantra of decoupling political and economic issues. Unsurprisingly, the Foreign Minister backtracked from her initial position. This unconventional exchange episode highlights two alarming trends in Georgian politics. First, the Georgian administration pursues its policy line in full realization of the risks associated with providing Moscow an additional source of leverage. Georgia’s policymakers are not falling into a trap, but

28 Kapanadze, S. Georgia’s Vulnerability to Russian Pressure Points. European Council on Foreign Relations. 2014.
29 ibid
are making a deliberate choice. Second, this episode clearly shows the incapacitation of one of the leading institution of the state. When the Foreign Minister is challenged by the Minister of Agriculture while making a statement on a foreign policy issue, it should not come as a surprise to see the erosion of credibility of this institution among its partners internationally and wider public domestically.

By removing all restrictions on Georgian agricultural products and mineral water in 2013, Russia managed to tie Georgia’s economy back to its market. This is just one leg of its strategy to fully employ the advantage of being an attractive market. Along these lines, it is possible that Russia, in time, will use another powerful instrument in its arsenal and fully remove the existing visa requirement for Georgian citizens. This will open the Russian labor market for Georgian citizens and will undoubtedly further increase the former’s soft power over Georgia’s population. The combination of these two factors—openness of the flow of goods and labor—may become a game changer in forming the favorable perception towards Russia among Georgian citizens, especially the rural segment of the population. This trend, as a side effect of the new Georgian administration’s “Russia reset” policy, has already become visible and reflected in NDI’s recent polls.

Russia’s successful employment of hybrid means in Crimea was partly predetermined by the weakness of Ukraine’s state institutions. As hybrid means are designed to cripple the state before full employment of the military means takes place, the solidity of state institutions acquire additional significance in countering the non-linier threats. Recent trends reflected in IRI polls (see in a following chart) clearly indicate that trust towards all state institutions in Georgia have significantly declined. Diminishing public confidence in state institutions means a weaker immune system against hybrid threats. The underlying reasons of this alarming trend require further analysis to reverse extremely dangerous developments. Whether the reasons lie in increasing public perception of informal and unaccountable leadership or poor performance of state institutions to handle populations’ most pressing issues is another subject of study. What matters in this context is that Georgia stands more vulnerable in front of hybrid threats as diminishing public confidence in its state institutions significantly increases the plausibility of further destabilization and unimpeded employment of non-linier methods by external actors.
An equally worrisome trend, observed recently, lies in a notable intensification of NGO’s and political parties with distinctly pro-Russian narrative within Georgia. Incorporation of the Russian narrative into the mainstream political discourse of the Georgian politics is a relatively new phenomenon. The 9th of May celebrations in Gori where thousands of Georgians rallied with Soviet and Russian flags and significant rise of support for the Moscow backed Eurasian Union are just the first signs of the increasing influence of the information campaign carried by pro-Russian NGOs and political parties. The rise of Eurasian Union supporters, up to 31 per cent, clearly indicates that the pro-Russian narrative has become an integral part of mainstream political discourse which has acquired a solid electoral base in Georgia. Hence, NDI polls have revealed another alarming trend –twenty percent of Georgians regularly watch coverage of news on foreign channels and an

32 NDI Polls, April 2015
absolute majority of this segment watches Russian TV channels as their preferred choice.\textsuperscript{33} Given the nature of Russian TV channels’ editorial policy, it should come as no surprise to observe how the Russian narrative is gaining hold in Georgia’s public domain. Consequently, the challenge we are facing today is a visible build-up of a pro-Russian electorate that will serve as base for successfully carrying on hybrid threats of a non-military nature. After all, as Gerasimov mentioned, for achieving strategic objectives Moscow does not need to rely on hard power instruments; the application of political, informational and other non-military measures in close coordination with the protest potential of the population can better serve Russia’s political objectives.

**Figure 2** National Democratic Institute Poll results, 2015

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<th>If yes, which TV channels? Accept all answers (q48) - of the 20% who watch coverage of news and current affairs on foreign channels</th>
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\textsuperscript{33} Ibid.
Consequently, Georgia’s increasing dependence on the Russian market, a notable decrease of public confidence in state institutions and the incorporation of a pro-Russian narrative into mainstream political discourse, significantly weakens Georgia’s immune system against hybrid threats. These processes have made Georgia more susceptible to increasing Russian influence and more exposed to hybrid threats, the main notion of which is based on subversion of adversaries through softer, non-military means. If these developments are not reversed, it should not come to anyone’s surprise to observe Russia’s strategic success in the region. What Moscow could not achieve in 2008 through military means can be attained through effective employment of non-military methods.

**ECONOMIC IMPLICATIONS FOR GEORGIA**

**Trade and Financial Channels**

Georgia’s economic links with Russia are the strongest via trade and remittance channels (f.3). In 2014 Russia was the third largest trade partner of Georgia, amounting to 7.4 percent of total trade turnover. Russia was the third largest export destination for Georgian goods, with total exports of 274.6 million US dollars representing 9.6 percent of total Georgian exports. Russia was also the fourth largest importer in Georgia, with total value of imports of 575.4 million US dollars and 6.7 percent share. Ongoing financial crisis in Russia already took its toll on bilateral trade. As of January-September 2015, Georgian exports to Russia have declines in absolute value, and the share in total exports dropped to 7 percent. Imports from Russia saw an increasing trend, total imports increased by 10 percent as compared to the first three quarters of 2014. Given the scale of the devaluation of Russian ruble (more than 100 percent), only 10 percent increase is very modest and can be explained only by the parallel devaluation of Georgian lari by about 30 percent. It is expected that Russian imports will remain on more or less the same level, because its attractiveness (cheaper price) is counterbalanced by lower price of Georgian lari, which is anticipated to stabilize at around 2 to 1 against the US dollar. Cheaper lari will decrease the appetite of Georgian consumers for imported products across the board.

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34 National Statistics Office of Georgia. Foreign Trade. www.geostat.ge
In short, Georgia’s dependency on Russia through trade ties is not to be neglected. There are two ways that the government of Russia can use this lever – through yet another embargo or through worsening trade conditions by introducing new trade restrictions in the framework of Eurasian Customs Union (ECU). As long as Georgia sticks with the current neutral political position in-between Russia and the West, yet another embargo on Georgian products is not likely. However, prolonged economic slowdown in Russia due both to sanctions and to declining oil prices leads to natural decline in exports to Russia. The outlook for Russia’s economy is for continued weakness, real Gross Domestic Product (GDP) growth is expected to contract by 3.8 percent in 2015. Of course, Georgia’s export constitute only an insignificant part in Russia’s total imports (roughly around 0.1 percent) and is composed of mostly wine, fresh fruit, and food products, items that are not highly sensitive in times of crisis. Given Russia’s latest ban on food products from EU countries, Georgian export should feel even less pressure. But if the economic crisis goes so far that ordinary Russians have to adjust their “family food basket,” Georgian exporters will also need to adjust.

Yet another threat to decrease Georgian exports to Russia is the newly created Eurasian Customs Union (ECU). The Union is still work in progress, however tighter border controls with non-customs union members since 2011, already had an impact and reduced imports from Russia’s non-member neighbors. According to the data, imports in 2012 from Azerbaijan declined by 1.4 percent, from Kyrgyzstan by 33.4 percent, from Tajikistan by 24.2 percent, 25.1 percent from Uzbekistan and from Ukraine by 10.7 percent. Apart from its economic vision, the Union has a clear political agenda and is championed by the Kremlin that seeks to re-integrate the Former Soviet Union (FSU) countries under its influence.

For Georgia Russia is an extremely important source of remittances, with total amount of capital inflows through this channel reaching staggering 5.9 billion US dollars since the 2000. Remittances are also the key channel for transmission of shocks from Russia to Georgia and other countries in the Caucasus and Central Asia (CCA). In 2014, remittances to Georgia from Russia amounted to 709.2 million USD, comprising half of total remittance inflow. 2015 saw a drastic decrease in the total volume of remittances to Georgia, in particularly those originating from Russia. Money transfers from Russia decreased by 41 percent which in monetary terms is over 322 million USD. The latter is partially due to the depreciation of Russian ruble, and loss of employment opportunities due to the economic crisis.

Despite the large-scale deportation of Georgians from Russia in 2006, the overall number of expulsion orders (around 4,600) and subsequent deportations (around 2,300) was negligible compared to the total Georgian diaspora in Russia (around 1 million by different estimates) and thus, could not have had any significant impact on the remittances. As the latest wave of recession started, Russian authorities once again increased pressure on migrant workers by introducing new regulations and exams for those willing to stay and work in Russia legally. Representatives of migrant associations believe that together with the devaluation of the ruble, stricter and more expensive regulations will encourage many migrants to leave. The large presence of Georgian migrants in Russia makes Georgia vulnerable to risks of surges in unemployment and

social tensions in the event that migrants are forced to leave Russia and return home. On the other hand, remittances affect the level of consumption, investment and bank deposits in Georgia. Remittances from Russia will most likely remain hugely important for a large part of the population in the years to come, and while not the single most important source of foreign currency inflows in Georgia, the importance of these flows cannot be underestimated.

As to the presence of Russian assets in Georgia and the region, according to the International Monetary Fund (IMF), direct cross-border lending from Russia is relatively small, while the asset share of Russian banks is significant in some countries. For example, among other countries, VTB bank has subsidiaries in Georgia.

**Energy ties**

One of the cornerstones of Russia’s ‘energy empire’ was the monopoly on supplying European markets with not only Russian, but Caspian and Central Asian energy resources. That is why Moscow strongly opposed the development of an alternative transit route for the Caspian, and potentially Central Asian, oil and natural gas through the Caucasus. Nevertheless, both Baku-Supsa and Baku-Tbilisi-Ceyhan oil pipelines and Baku-Tbilisi-Erzurum gas pipelines became reality in the past two decades. Although, Moscow was rather successful in bringing down the Nabucco project, envisioned as an extension of the Baku-Tbilisi-Erzurum line to the west till the Central Europe and to the east through Caspian Sea to Turkmenistan.

Despite the failure of the Nabucco project, Georgia’s role as another transit hub is already recognized, not only for the energy resources, but for other types of cargos, as a part of the Silk Road east-west corridor. Recently, Russia’s largest state-owned oil company – Rosneft has expressed interest in Georgia’s transit capacities and purchased a 49 percent of the Petrocas Energy Group in December 2014\(^\text{37}\). It is too early to judge whether this is just an attempt of a publicly traded company to diversify its portfolio and invest in developing markets or an attempt to invest in a strategic field of the country considered as a backyard of Russian empire. Petrocas owns the oil retail

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37 Rosneft, 2014.
and logistics chain in Georgia, Armenia, and Azerbaijan, but more importantly, it is a co-owner of the Poti oil terminal. Petrocas and Rosneft plan to transport oil products to Armenia via Georgia and have ambitious plans for increasing cargo transit through Georgia. Despite the far-reaching goals, Rosneft is an uneasy investor, not only because it is sanctioned by the US and the European Union and because its controlling package (more than 69 percent) is owned by the Russian state, but also because it is violating Georgia’s law on the occupied territories. In 2009 Rosneft signed an agreement with the de-facto Abkhazian authorities which gave the company the right to explore Abkhazia’s Black Sea coast for oil and natural gas, the actions are illegal according to Georgian legislation.

Yet another threat to increase Russian presence in Georgia and the region comes from a new initiative of the Government of Georgia to consider increasing the gas supply from Gazprom, Russia’s state-controlled energy giant. As a matter of fact, in October 2015, the Vice Prime Minister and Minister of Energy and Natural Resources of Georgia Kakha Kaladze met with Alexey Miller, Chairman of the Gazprom Management Committee, to discuss the issues of Russian gas transit across Georgia and commercial supplies to the country.

At the same time, interest towards Iranian gas has been demonstrated by some Georgian politicians. As a matter of fact, Mr. Kaladze stated the possibility of beginning the supplies of Iranian gas to Georgia in 2016. According to the Minister Georgia has no alternative but to import gas from Iran via Azerbaijan or Armenia, while in the meeting with the President of Georgia, President of Azerbaijan confirmed the country’s readiness to increase the supply of gas upon request – stating that his country had enough resources to be supplying the neighbors for the next 100 years.

In the current state of affairs, Georgia receives gas from three different sources. Most of its gas suppliers Georgia receives from Azerbaijan (Socar State Azeri Company

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38 RFE/RL, Dec 2009
and Shah Deniz Pipeline – for being a transit country, Georgia receives Azeri gas at a favorable price, however has the possibility of increasing gas supply at a market price) and Gazprom, as a transit fee, supplies 10 percent of gas shipped by Russia to Armenia through the pipeline running via Georgia.

**Infrastructural Projects as a sign of country’s strategic vector**

Infrastructural projects, transportation and energy among others, can serve as the most revealing indicator of a country’s priority vector and economic development strategy. Georgia, as a potential “regional hub”, has two major directional economic activity vectors: east-west and north-south.

For the declared strategic goal in line with the Georgia’s Euro-Atlantic aspirations, east west vector should be the priority. The recent negotiations of the Government of Georgia regarding increase of gas supplies from Russia and Iran, might be considered as a sign of possible divergence from the declared path. While the north-south vector potentially could be an economically profitable dimension, providing access to the Russian European part, major reservations exist regarding interests of Russia to use economic levers for achieving its geo-political goals and ambitions in South Caucasus and further to the Iran and Middle East.

Apart from the upcoming energy deals, Russia is interested in increasing and improving the transport routes to Georgia. Moscow has been pushing the revival of Abkhazia railway for years now and, recently announced a new transport project – the Dagestan-Kakheti highway. Interestingly, the construction of the highway connecting Russia to Georgia started without the prior discussions and agreement reached with official Tbilisi. It has to be also stressed, that the project of rebuilding this road surfaced in the beginning of 2008 too. In Georgia, however, the reactions varied from negative and suspicious to almost welcoming. In case of increased hostility between the two countries, this highway, unlike the existing connecting routes, is not passing through the breakaway territory (Psou highway, Roki tunnel) and is not closed for a significant time.

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41 Vatchagaev, M., Planned Route from Dagestan to Georgia – Road of Friendship or of War? The Jamestown Foundation, 2014.
42 Georgia Today, Oct 2014
every year due to the weather conditions. Hence, it is rather logical to assume that it might be used for transporting both - Dagestani goods and military equipment.

Overall, the situation in the region is far from placid. The ongoing military confrontation between Russia and Ukraine represents a threat to the peace and to economic growth in the region as a whole. Increasing alienation of the two major powers in the region – Russia and Turkey – from the western values and international community also contains long-term risks for the region.

**ECONOMIC IMPLICATIONS – WRAP-UP**

Economic recession and possible political turmoil in Russia will not end quickly. It is expected to last more than a year and will affect Georgia and other countries in the region in many ways. Although another embargo from Moscow is not anticipated at this stage of Russo-Georgian bilateral relations, it is believed that Georgian exporters are much better prepared for such a scenario. Today, Georgian most of the export goods are more diversified and of a better quality. This does not apply to Georgian fruit and herb exports though.

Long-term recession in Russian economy will have much broader impact on Georgia, than a feared ban on certain products. Recession leads to drop in trade, especially Georgian exports, remittances, and tourism. All three directly correlated with Georgia’s account balance and hence, to exchange rate of lari. Compared to last year, Georgia’s trade turnover with Russia is down by 40 percent, remittances from Russia are down by 45 percent. Furthermore, Russian recession has a domino effect in the region. Aside from Ukraine, crisis strongly influences consumers and investors in Central Asian countries, Armenia, Azerbaijan, and even Turkey.

Even though Russian attention is mostly diverted towards Ukraine and its EU/NATO aspirations, Georgia cannot be considered “safe” either. In fact, no country in the so called ‘Russian sphere of influence’ can feel secure from both, Moscow’s military and territorial expansionism and from the side-effects of its economic recession and possibly upcoming internal political turmoil. Russian officials continue voicing threatening
messages with regard to Georgia’s foreign policy course. Despite Tbilisi’s conciliatory rhetoric, it is hard to predict how long this fragile balance will last and what exactly can trigger an aggression from Russian side.

CONCLUSION/POLICY RECOMMENDATIONS

Among many competing priorities of global security democratic world is facing, solving European security challenge is the key for its future.

The emergence of revisionist Russia and its employment of hybrid means for attaining strategic and/or political objectives have challenged the traditional Western concept Europe whole and free and at peace, and the most important institutions for this concept – NATO and EU.

The weaponization of the non-military means as a “new form” of the achieving political goals fundamentally alters the current security, economic and political landscape and poses numerous questions not only about the nature of threats we are facing but also about the ability of the existing security institutions to counter those challenges. Though neither concept nor the essence of the Hybrid warfare is completely original, it bears characteristics that are peculiar to Russia’s new or well-forgotten old warfare model.

To deter and counter those threats, Georgia and it’s partners should develop well-coordinated and coherent strategic approach in multiple dimensions:

- Defense and Security;
- Economy, trade and development;
- Energy diversification and security;
- Democratic institution building
- Strategic communication and communication strategies.
- Education and people to people relations;

These efforts should be based on multilateral and bilateral strategic partnerships, fo-
cused on assessing the common pattern of the threats and challenges of new/old Hybrid nature for statecraft, economic development and national security, highlighting common approaches and potential for bilateral and multilateral strategic partnerships, developing arguments for consolidating joint approaches, highlighting agenda for countering Propaganda and necessity of Strategic communication - answering the key questions regarding the Euro-Atlantic integration: Why Georgia? Why Now?

Accordingly, policy priorities should be focused on several key areas:

**Democracy and Statecraft:**
- Foster national consensus-building on fundamental issues of foreign and security policy and statecraft through institutionalized and transparent mechanisms for coordination among executive and legislative branches of power and civil society organizations;
- Renew focus on strengthening the rule of law and democratic institutions, including an independent judiciary, effective governance and civilian control of the security sector;
- Cultivate and strengthen an environment that protects independent media outlets, freedom of speech and journalism;
- Strengthen “policy-driven” politics and stable political parties, rather than personality or clan-driven politics;
- Pro-actively strengthen judicial independence, political neutrality and impartiality to avoid charges of politically motivated prosecutions;
- Strengthen an open, fair and unbiased electoral environment, including by protecting media independence, to create the conditions for fully free and fair elections in 2016 (parliament) and 2017 (president).

**Good Governance:**
- Strengthen efforts to combat corruption at all levels – including introduction of greater transparency in government, and use of e-government where possible;
- Pro-actively adopt European enlargement-related legislation and regulations even in advance of closer EU association;
- Pro-actively develop interoperability with NATO and participation in NATO-led operations and exercises;
- Defense and Security:
• Implement a “whole-of-government” approach to security issues;
• Continue to reform, improve capabilities and interoperability, and strengthen transparency and coordination in the defense and security sector;
• Increase defense, counterintelligence and intelligence capabilities; Empowering law enforcement actions against the agents/actors of Russian hybrid warfare;
• Monitor, publicly expose, and take counter-action against Russian organized crime, intelligence, military, bribery, and propaganda activities;
• Incentivizing foreign investments;
• Effective implementation of the Association Agreement;

**Economy and Energy:**
• Continue to promote a business-friendly and investor-friendly environment to strengthen Georgia’s economy and maintain favorable links to the global economy.
• Diminish vulnerable economic and energy dependencies;

**Communication:**
• Increase personal responsibility and accountability of the Government members and elected politicians;
• Making implementation of the Association Agreement and DCFTA as the center/fulcrum of the policy
• Policy solutions for the outstanding human rights issues, particularly of the minority and vulnerable groups;
• Countering Russian media factor through effective strategic communication policy;
• Increase role of the parliament in policymaking. Streamline Strategic communication for consolidation of public support, including permanent and persistent informational campaign on existing real time context of the threats; benefits of the western choice for common citizens;
• Supporting permanent well-crafted information distribution network (bilateral, multilateral, international organizations) for providing partners with the real time information, intelligence, analysis and assessment on threats, methods and means of conducting hybrid warfare.