



LESSONS FROM UKRAINE

WHY A EUROPE-LED GEO-ECONOMIC STRATEGY IS SUCCEEDING

Andrew Moravcsik

2015-16 PAPER SERIES

NO. 10



Transatlantic
Academy

© 2016 Transatlantic Academy. All rights reserved.

No part of this publication may be reproduced or transmitted in any form or by any means without permission in writing from the Transatlantic Academy. Please direct inquiries to:

Transatlantic Academy
1744 R Street, NW
Washington, DC 20009
T 1 202 745 3886
F 1 202 265 1662
E Info@transatlanticacademy.org

This publication can be downloaded for free at www.transatlanticacademy.org.



Transatlantic Academy Paper Series

The Transatlantic Academy Paper Series presents research on a variety of transatlantic topics by staff, fellows, and partners of the Transatlantic Academy. The views expressed here are those of the author and do not necessarily represent the views of the Transatlantic Academy. Comments from readers are welcome; reply to the mailing address above or by e-mail to Info@transatlanticacademy.org.

About the Transatlantic Academy

The Transatlantic Academy is a research institution devoted to creating common approaches to the long-term challenges facing Europe and North America. The Academy does this by each year bringing together scholars, policy experts, and authors from both sides of the Atlantic and from different disciplinary perspectives to research and analyze a distinct policy theme of transatlantic interest. The Academy was created in 2007 as a partnership between the German Marshall Fund of the United States (GMF) and the ZEIT-Stiftung Ebelin und Gerd Bucerius. The Robert Bosch Stiftung and the Lynde and Harry Bradley Foundation joined as full partners beginning in 2008, and the Fritz Thyssen Stiftung joined as a full partner in 2011.

On the cover: Ukrainian President Petro Poroshenko German Chancellor Angela Merkel, and U.S. Vice President Joe Biden at the 2015 Munich Security Conference. © Munich Security Conference

LESSONS FROM UKRAINE
WHY A EUROPE-LED GEO-ECONOMIC STRATEGY IS SUCCEEDING

TRANSATLANTIC ACADEMY PAPER SERIES

JULY 2016

ANDREW MORAVCSIK¹

Executive Summary	ii
Introduction	1
What is at Stake in the Ukraine Crisis?	2
Ukraine as a Western Policy Success	5
What Explains Russian Policy Failure?	9
What Lessons for the Future Can We Learn from the Success of the Western Response to the Ukraine Crisis?	13
Options for the Future: Can the West Sustain its Successful Europe-Led Civilian-Power Strategy?	29
Conclusion	32

¹ Andrew Moravcsik is a senior fellow at the Transatlantic Academy and professor of politics and international affairs and founding director of the European Union Program at Princeton University's Woodrow Wilson School of International Affairs.

EXECUTIVE SUMMARY

Over the past three years, the United States, Europe, and other Western allies have been unexpectedly successful at maintaining a unified, coherent, and effective policy to block Russian assertiveness. This is true even though proximity, intense interests, and the decision by Europe and the United States to rule out direct use of military force would appear to give Russia a decisive strategic advantage. While NATO deterrence remains an important background condition for Western success, the United States and Europe have employed primarily non-military policy instruments. Most important have been economic assistance to Ukraine, sanctions on Russia, diplomatic engagement, and, in the longer term, reductions in Western and Ukrainian dependence on the Russian economy. While U.S. involvement has been important, from the beginning Europe has shouldered the primary burden.

The West can sustain this success by heeding three policy lessons drawn from it. First, the major Russian threats in the region are economic and political, not military. The possibility that Russian President Vladimir Putin will launch a military strike at the rest of Ukraine, Latvia, or Poland remains remote compared to the far greater danger that pro-Western political and economic policies in Ukraine and other neighboring countries will collapse of their own accord, aided by Russian political and economic pressure.

Second, Western policy should continue to rely on non-military policy instruments aimed not at Russia, but at supporting third countries like Ukraine, as its successful policy has so far. The primary long-term response must be to reorient Ukrainian trade, energy, and financial flows westward, while encouraging political reform — but in the short-term, such steps are difficult. More important immediate Western policies to help secure Ukraine’s economic and political stability include economic assistance (without which the country would have collapsed long ago), trade agreements, economic sanctions on Russia, diplomatic pressure through the Minsk process, and a diversification of European energy sources. In contrast, NATO reassurance of allies such as Poland or Estonia remains secondary.

Third, the “indispensable” power in this effort remains Europe, led by Germany. Europe, the world’s leading civilian and geo-economic power, has paid by far the greatest costs to sustain Western support for Ukraine. It will continue to have the most intense interests, possess the greatest civilian power resources, and play the most critical diplomatic role. This suggests that the West should encourage, and accommodate, Europe’s unity, resolve, and leadership role in this area — beginning with a clear acknowledgement of the special role Berlin has played.

1 INTRODUCTION

Over the past three years, Western policy to block Russian assertiveness in Ukraine has been surprisingly successful. Europe, the United States, and their partners have maintained a unified, coherent, and effective policy. They have done so even though Russia's proximity and intense interests — as well as the consistent unwillingness of Europe and the United States to employ direct military force — appear to give Moscow a decisive strategic advantage. While NATO remains an important background condition for Western success, Europe and the United States have relied primarily on non-military policies: sanctions, diplomacy, and economic assistance to Ukraine. While U.S. involvement has been important, from the beginning, Europe has shouldered the primary burden.

The West can sustain this success by heeding three policy lessons the past two years offer. First, *the major Russian threats to its neighbors are economic and political, not military*. The possibility that Russian President Vladimir Putin will launch a military strike at the rest of Ukraine, Latvia, or Poland remains far smaller than the danger that pro-Western political and economic policies in Ukraine and other countries “in between” Russia

and the EU will collapse, aided by Russian political and economic pressure.

Second, *the key to success is to bolster geo-economic support for third countries like Ukraine*. The public debate focuses primarily on the coercive policies of NATO deterrence or economic sanctions. These are secondary. Far more decisive over the past two years has been economic and financial assistance to Ukraine, market liberalization, and diversification of energy policy — without which the country would have collapsed and fallen into Putin's hands. The long-term goal must be to further reorient Ukrainian trade, energy, and financial flows westward, and to encourage political reform — though in the short-term such steps are difficult.

Third, *in all this, the “indispensable” power in this effort remains Europe*. Europe will continue to have the most intense interests, possess greater civilian power resources, and play the central diplomatic role. It has paid the greater costs by far to sustain the West's support for Ukraine. The West should acknowledge, encourage, and accommodate Europe's unity, resolve, and leadership role in this area.

The major Russian threats to its neighbors are economic and political, not military.

2 WHAT IS AT STAKE IN THE UKRAINE CRISIS?

The primary source of recent conflicts between Russia and the West lies in a fundamental disagreement over the political and economic status of Ukraine and other third countries in the western part of the former Soviet Union.

The primary source of recent conflicts between Russia and the West lies in a fundamental disagreement over the political and economic status of Ukraine and other third countries in the western part of the former Soviet Union. Conflicts over other issues — Russian or Western domestic policies, global and UN issues, arms control, trade, or even Syria — are secondary. Russian and Western leaders publicly acknowledge that their respective visions for the future of these third countries are in many respects incompatible.¹

For Western governments, the ideal outcome would be for states of the former Soviet Union to evolve into prosperous market-oriented, democratic regimes able to control their own territorial sovereignty and cooperate with the West, especially Europe.² Western leaders believe that, given a free choice, countries like Ukraine, Georgia, Moldova, and Armenia will naturally evolve in this direction as they modernize. To further this evolution, the West proposes immediate economic liberalization, financial aid, and technical assistance — both bilaterally and through various types of links with the EU. They view this position as a principled defense of the right of such countries to choose their own international alignments. Western governments regard Russia's military activities in the former Soviet Union as violations of a "post-Cold War international order" in Europe that bans territorial revision by force, even if such changes are supported by local majorities and even if Western governments themselves have set some ambiguous

precedents in the recent past, for example in Kosovo.³

From the Kremlin's perspective, by contrast, the ideal outcome in states of the former Soviet Union would be pliable, corrupt, semi-authoritarian governments with strong economic, defense, and cultural links to Russia.⁴ Such regimes serve to preserve what the Kremlin publicly defends as its legitimate right to exercise influence, and even to intervene, in former Soviet republics in order to defend Russia's "privileged" strategic, economic, and ideological interests — the so-called "Medvedev Doctrine." Among these interests are the maintenance of economic cooperation on terms favorable to Russia and maintenance of a buffer zone of states in which Russia can act militarily to protect its national security. The Kremlin also asserts a deep cultural connection to Russian linguistic minorities in the region — a connection particularly strong in Ukraine, with centuries of common history. Maintaining control over this region is also a valuable domestic political objective for Putin himself, who has thus boosted his popularity ratings. Some argue that authoritarian rule in the region is also a goal in itself, since the demonstration effect of successful democracy among former Soviet states would delegitimize Putin's domestic rule. To defend its influence in the region, Russia employs a wide range of foreign

¹ This is clearest in the economic area. Štefan Füle, the EU commissioner for enlargement and neighborhood policy, was quoted in September 2013 as saying that: "You cannot at the same time lower your tariffs as per the (EU) DCFTA and increase them as a result of the (Russian) Customs Union membership." On this and more generally, B. Lo, *Russia and the New World Disorder* (London: Chatham House, 2015), pp. xx-xxi, 126.

² Western governments have accepted that Russian domestic politics cannot be altered from the outside, at least in the medium term. Lo, pp. xx-xxi.

³ Putin argues that Russia constantly raised the issues of EU or NATO enlargement, but no discussions were held with Russia over either issue. Neither seems to be, strictly speaking, correct. There is little record of Putin or Dmitry Medvedev officially raising this issue as a subject for negotiation, but the subject was discussed and Medvedev made a number of statements praising NATO activities. The West has never recognized Russia's right to have a formal say in such decisions. Putin recognizes the Western principle at stake: "Nobody has ever discussed this issue with us in the past two decades...[and when we raised it] all we heard was the same reply, like a broken record: every nation has the right to determine the security system it wants to live in and this has nothing to do with you." V. Putin, "Meeting with Heads of Leading International News Agencies," President of Russia, May 24, 2014, <http://en.kremlin.ru/events/president/news/21090>.

⁴ Lo, p. 109.

policy tools, primarily economic — discretionary trade relations, economic aid, energy prices, and financial concessions — but also including political support, diplomatic approval, and occasionally military intimidation.⁵

Until recently, nearly all Ukrainian leaders adapted themselves to these conflicting external pressures by adopting compromise positions between Russia and the West. We cannot know precisely what mix of security, economic, ideological, and domestic political interests led the Kremlin to view the situation in February 2014 as unacceptable and to seek to use military force to alter it. Yet it is clear that it was more than simply a traditional effort to assure Russian national security against deliberate — or misguidedly aggressive — Western efforts aimed at NATO enlargement, as the Kremlin itself and some realist commentators portray it.⁶

⁵ G. Friedman, “The Medvedev Doctrine and American Strategy,” *Stratfor*, September 2, 2008, https://www.stratfor.com/weekly/medvedev_doctrine_and_american_strategy; also Lo, pp. xx-xxi, 100-105, 107, 109-110.

⁶ J.J. Mearsheimer, “Why the Ukraine Crisis is the West’s Fault: The Liberal Delusions that Provoked Putin,” *Foreign Affairs*, September/October 2014, <https://www.foreignaffairs.com/articles/russia-fsu/2014-08-18/why-ukraine-crisis-west-s-fault>. Mearsheimer argues that the most essential conflict of interest between Russia and the West revolves primarily around national security concerns. He blames the EU for provoking the crisis. Yet this argument is almost entirely conjectural and the concrete evidence thin. The crisis arose over an EU Association Agreement and change in the ideological complexion of the Ukrainian government, not a shift in the Ukrainian military stance. Ukraine’s military policy did not change immediately prior to the conflict: its membership in the North Atlantic Cooperation Council and Partnership for Peace dated back to the early 1990s, while NATO membership had been de facto rejected by the West and shelved by the Ukrainian government. From a realist perspective, it is unclear why an EU agreement or a shift in domestic political ideology would trigger national security fears; in realist theory, such factors are, by definition, unable to motivate security policy. The proposed EU Association Agreement did contain a military security cause creating a system of consultations between Ukraine and the EU, but this was only a “soft law” obligation that simply replicates something that already takes place at a more intense level within NATO, imposing no legal restriction on either party’s military actions. (L. Zinyak, “Military Cooperation between Ukraine and the European Union under the Association Agreement and an Issue of State Sovereignty,” *Security and Defence* 1:2 (2014), p. 21; Draft Text of the Association Agreement, Title II, Articles

First, Western relations with Russia between 2009 and 2011, the period of the “reset,” were in fact relatively positive. It is difficult to explain this if all that is stake is a persistent conflict over military predominance. The Kremlin’s attitude changed only after 2011, when Putin replaced Medvedev and faced both popular protests and economic crisis — a sequence that suggests deep-set domestic motivations.⁷ Second, the critical events that triggered the crisis did not involve any immediate shift in Ukraine’s military alliance structure, but rather changes in foreign economic policy and domestic ideology. This is consistent with the longer-term record of relations between Ukraine and Russia, in which foreign economic issues, more than security issues, have triggered the greatest friction. Third, the EU Association Agreement did not, by itself, trigger a Russian military invasion, but simply a Russian offer of a package of economic threats and promises, which President Viktor Yanukovich accepted.⁸ The military intervention

4 and 5.) Even the argument that the West deposed Ukrainian President Viktor Yanukovich seems dubious. While EU officials raised issues about the state of Ukrainian democracy and even postponed signing the agreement because of Yanukovich’s increasingly authoritarian actions (such as jailing former Prime Minister Yulia Tymoshenko), ultimately Europe was prepared to do business with the Ukrainian leader (or not) on whatever terms he could sustain.

⁷ M. McFaul and S. Sestanovich, “Faulty Powers: Who Started the Ukraine Crisis?,” *Foreign Affairs*, November/December 2014, <https://www.foreignaffairs.com/articles/eastern-europe-caucasus/2014-10-17/faulty-powers>.

⁸ Initially Putin simply intensified his long-standing economic sticks and carrots to press Ukraine to reject the agreement and, instead, to establish tighter bilateral relations with Russia and join its Eurasian customs union. Yanukovich responded with a proposal whereby Ukraine would join only those Eurasian sectoral and regulatory arrangements that did not violate the EU Association Agreement — which would have rendered the Russian agreement largely meaningless. In the summer of 2013, Moscow rejected this compromise and imposed a temporary import boycott on many Ukrainian goods, including chocolate produced by Petro Poroshenko’s family firm. At the same time, Moscow offered Ukraine a generous package of economic and financial assistance in exchange for turning down the association agreement and renewing the lease on Black Sea naval facilities: \$15 billion in low-interest loans and a further discount on the price for Gazprom natural gas (pushing the original \$485 per thousand cubic meters down to \$268).

We cannot know precisely what mix of security, economic, ideological, and domestic political interests led the Kremlin to view the situation in February 2014 as unacceptable and to seek to use military force to alter it.

was provoked, instead, by the subsequent popular uprising in Ukraine that overthrew Yanukovich and led to a less pro-Russian government — which was not foreseen and initially resisted by Western policymakers. Fourth, while the invasion and annexation of Crimea might plausibly be explained in terms of Russian geopolitical interests (naval bases), economic interests (energy interests), ideological (pro-Russian sentiment) or domestic political (legitimation of the Putin government) factors, the invasion of eastern Ukraine seems harder to justify on purely geopolitical grounds. Overall, it is hard to escape the conclusion that the Kremlin sought to block the evolution of the Ukrainian economy and polity in a Western

direction either because closer relations with the EU would block Russia's use of economic instruments for exercising control and pursuing advantage in former Soviet states, or because this course is domestically legitimating for Putin and his regime.⁹

In a heavily resource-dependent economy like Ukraine, such payments could of course personally benefit powerful intermediaries, as well as the economy as a whole. Neither the EU nor the United States made an effort to match or top this scale of financial inducement and, indeed, imposed external financial austerity on Ukraine. Moscow also publically threatened that if Ukraine refused its offers and moved closer to the West, it might assist separatists and no longer guarantee Ukraine's eastern border.

⁹ These instruments work largely through informal means and thrive in corrupt, semi-authoritarian structures. Yet Russia has also formalized such structures; since Putin entered office in 1999, the Kremlin has pursued the Eurasian Economic Community (2000), the Single Economic Space (2003), the Customs Union (2007), the Common Economic Space (2012), and the Eurasian Economic Union (2015) — all schemes that were far less viable without Ukrainian participation, which Moscow has consistently sought to secure.

3

UKRAINE AS A WESTERN POLICY SUCCESS

Given the opposed objectives of Russia and the West, many Western observers dismiss the current situation in Ukraine — the invasion of Crimea and a “frozen conflict” in parts of eastern Ukraine — as an outcome favorable to Moscow. This reaction is understandable: Crimea remains firmly part of Russia, while Ukraine’s sovereignty continues to be violated by military means in the Donbas. The 18-month war there, starting in March 2014 and ending in August 2015, was sponsored by Russia. It cost more than 9,000 lives, and sporadic killing still takes place.¹⁰ One does not have to be a idealist to wish things had been different.

From a more pragmatic perspective, however, the current outcome in Ukraine, a “frozen conflict,” is in many respects a failure rather than a victory for Moscow, and a positive outcome for the West. It is essential to remember that just two years ago, most observers — evidently including those in the Kremlin — expected Russia to prevail easily. Russia seemed to possess more than enough raw capabilities to do so: regional military predominance over weak Ukrainian forces, proximity across a long common border, and a large and restive Russian-speaking minority in Ukraine’s eastern provinces. The Kremlin was expected to pay any price and bear any burden to prevail, since it was fighting in its own neighborhood to assure economic prosperity, block NATO military expansion, and assure domestic regime stability in a region of considerable strategic, economic, and cultural importance.¹¹ The West, by contrast, had

ruled out a direct military response from the start, not least because it lacked a truly vital interest in Ukraine.

Yet, on balance, Putin did not succeed. While one might argue that Crimea was an achievement, when he sought to repeat a similar operation in eastern Ukraine by helping to form and back a separatist movement, the results were different. What ensued was at best a stalemate, in which Russia paid higher costs, reversed its military advance, trimmed its ambitions, and eventually reverted to economic and diplomatic haggling with the West. The result: Ukraine is further from the Kremlin and closer to the West today than it was in 2013.

Russia’s policy failure is evident in three key respects:

First, *Russia’s military was stalemated in eastern Ukraine*. In April 2014, one month after the Russian annexation of Crimea, the Ukrainian government and local militias began military operations against Russian-backed separatists in the eastern regions of Donetsk and Luhansk.¹² By late July, the separatists found themselves nearly surrounded in a small corner of eastern Ukraine, limited to parts of Donetsk and Luhansk *oblasts*. The momentum was reversed in August and early September 2014 when an estimated 7,000 elite Russian airborne troops backed by heavy artillery and air support flooded in to aid the separatists. These combined forces easily cut through Ukrainian military resistance.¹³ Within

... rity_after_the_2014_wales_summit_942. Peter Ludlow writes that European leaders believed at the time that “the increasing presence of Russian troops inside Eastern Ukraine confirmed that Putin would do everything that was needed to prevent the separatists’ military defeat.” P. Ludlow, “Appointing New Leaders and Dealing with the Ukrainian Crisis,” *Eurocomment – Preliminary Evaluation* (4/2014), p. 2, on Ukraine’s “certain defeat,” see p. 47, <http://www.eurocomment.eu/preliminary-evaluation-20144/>.

¹⁰ Office of the UN High Commissioner for Human Rights, “Ukraine: after two years of conflict, situation in east remains “grim” – UN report,” June 3, 2016, <http://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=20056&LangID=E>.

¹¹ Putin is reported to have told the president of the European Commission, José Manuel Barroso, “I can conquer Kiev in two weeks if I want to.” M.H. Caşın, “The Future of NATO and Atlantic Security after the 2014 Wales Summit,” Center for Foreign Policy and Security, October 24, 2014, http://www.hazar.org/blogdetail/blog/future_of_nato_and_atlantic_secu

¹² Petro Poroshenko won the presidential election in May and the Ukrainian government signed the EU Association Agreement in June, after committing to military activity against the separatists.

¹³ Ludlow, p. 45.

From a more pragmatic perspective, the current outcome in Ukraine, a “frozen conflict,” is in many respects a failure rather than a victory for Moscow, and a positive outcome for the West.

Crimea seems destined to remain a *de facto* part of Russia, but it is an exception, the only case of Russian territorial expansion in decades. Had Putin stopped there, his policy toward Ukraine might reasonably be termed a success. Yet he did not.

weeks they stabilized the front, regained some lost territory, and expanded separatist control along the Russian border south to the Sea of Azov. Yet, after a few weeks, the Russians stopped. This support conceded territory once controlled by separatists in Luhansk, leaving an area totaling about 3 percent of Ukrainian territory — too small to be genuinely self-sufficient or to achieve any other nationwide political objective. In September, Russia and the separatists began negotiating with the West. Subdued skirmishing continued for a while and Russian troops were bolstered to stabilize the situation. Yet within a year, an OSCE-monitored cease fire was in place, forces were withdrawn from the front, and heavy military equipment was removed. The war had effectively ended.¹⁴

Second, the Kremlin achieved few major political objectives in eastern Ukraine. To be sure, the Kremlin did pocket early and inexpensive gains in Crimea. Due to the prior presence of forces and local paramilitary support, that operation was quick and inexpensive, unfolding without a single reported casualty. The referendum was irregular and illegitimate, yet it nonetheless suggested that a substantial majority of Crimean residents — who are overwhelmingly Russian-speaking and have been part of Ukraine for only 60 years — supported the annexation. No realistic Western policy could have prevented this. Moreover, Russia gained material advantages: military control over Black Sea ports, some economic gains in the energy sector, including legal control over a swath of Black Sea undersea oil and gas reserves potentially worth trillions of dollars, and an assured route for a future South Stream pipeline that avoids both Turkish and Ukrainian territory. Western sanctions in response were narrow and tolerable. To be sure, none of this came for free. Estimates of the total

cost of integrating Crimea into Russia are about \$3 billion per year, nearly the size of the Crimean GDP. Yet still, Russians appear to view these as costs worth paying: annexation helped boost Putin's domestic poll ratings from a ten-year low of around 60 percent in 2013 to over 90 percent, dampening domestic opposition that had looked threatening just a few years before.¹⁵ Crimea seems destined to remain a *de facto* part of Russia, but it is an exception, the only case of Russian territorial expansion in decades.¹⁶ Had Putin stopped there, his policy toward Ukraine might reasonably be termed a success. Yet he did not.

We cannot know exactly what Putin and his planners hoped to achieve in eastern Ukraine — whatever broader objectives seemed feasible to Russia in early 2014, none were achieved. Did the Kremlin believe it could force Ukraine to again supplant the EU Association Agreement with membership in Russian economic association schemes? If so, they failed.¹⁷ Association with EU, blocked by Moscow in 2013, is now going ahead. Did the Kremlin expect that military defeat would lead the government in Kyiv to collapse,

¹⁵ The Data Team, "Vladimir Putin's unshakeable popularity," *The Economist*, February 4, 2016, <http://www.economist.com/blogs/graphicdetail/2016/02/daily-chart-4>. For a long-term view, see K. Simmons, B. Stokes, and J. Poushter, "2. Russian Public Opinion: Putin Praised, West Panned," Pew Research Center, June 10, 2015, <http://www.pewglobal.org/2015/06/10/2-russian-public-opinion-putin-praised-west-panned/>.

¹⁶ Crimea is the only case of Russian territorial expansion over the past quarter century; as Bobo Lo puts it, Russia is now a "post-modern" empire (the more common term would be a "neo-imperial" power) that seeks indirect control, not a classic empire that seeks to reconstitute the USSR. Lo, pp. 101-105. Also A. Grigas, *Beyond Crimea: The New Russian Empire* (New Haven: Yale University Press, 2016), pp. 132-135.

¹⁷ U.S. analysts, who focus almost exclusively on political-military affairs, tend to dismiss economic interest as a fundamental goal of states. There is considerable evidence that the conflict was, from the beginning, about who would have a dominant economic (and, therefore, domestic political) influence in Ukraine. This includes Putin's statement to Poroshenko about the EU Association Agreement: "renounce that and we can have peace." Ludlow, p. 47.

¹⁴ Center for Strategic and International Studies, "The Ukraine Crisis Timeline: May 25, 2015, Polling Data: Many in Southeast Ukraine See 'Novorossiya' as Myth," <http://csis.org/ukraine/index.htm#98>.

thereby reversing the February 2014 changes that triggered the crisis? If so, they failed again. Ukraine is now more anti-Russian than ever, and it is hard to imagine Ukraine turning back to Russia anytime in the foreseeable future, short of an outright implosion of the state and economy. Did the Kremlin seek to weaken the domestic federal structure of the Ukrainian state, gaining long-term decisive influence over Ukrainian domestic and foreign policies? If so, this does not seem to have happened. Did the Kremlin hope that Russian-speaking Ukrainians would rally to Russia and secure autonomy for Donetsk and Luhansk, or the creation a larger self-sufficient “Novorossiya” region? If so, Russia never came close.¹⁸ With the exception of Crimea, the separatist cause attracted only single digit support across southern and eastern Ukraine.¹⁹ In the late spring of 2015, Putin and the official Russian press dropped any mention of the Novorossiya concept and other idealistic goals. The rump separatist territory in Donbas is neither self-sufficient nor internationally recognized nor connected to Crimea. Did the Kremlin seek, as Ukrainian officials claimed, to defeat the Ukrainian army decisively and overrun the country? If so, they were dissuaded from doing so. Rather, the Ukrainian army is stronger than ever. If the Kremlin, least ambitiously, simply believed that maintaining perpetual medium-intensity conflict would render the Ukrainian government dysfunctional, and thereby block EU and NATO membership, it remains unclear

¹⁸ A. Gentleman, “Putin asserts right to use force in east Ukraine,” *The Guardian*, April 17, 2014, <https://www.theguardian.com/world/2014/apr/17/vladimir-putin-denies-russian-forces-eastern-ukraine-kiev>; R. Sakwa, *Frontline Ukraine: Crisis in the Borderlands* (London: I.B. Tauris, 2015), p. 9; A. Wilson, *Ukraine Crisis: What it Means for the West* (New Haven: Yale University Press, 2014), pp. 184-186.

¹⁹ P. Chaisty and S. Whitefield, “Support for separatism in southern and eastern Ukraine is lower than you think,” *The Washington Post: Monkey Cage*, February 6, 2015, <https://www.washingtonpost.com/blogs/monkey-cage/wp/2015/02/06/support-for-separatism-in-southern-and-eastern-ukraine-is-lower-than-you-think/>.

whether even this has occurred. The war has to some extent suppressed foreign investment and trade, but while EU and NATO membership were never realistic possibilities anyway, Ukraine is closer to both organizations now than in 2013.²⁰ Finally, there is no clear evidence that the intervention in eastern Ukraine further bolstered Putin’s political popularity beyond what the Crimean annexation had already achieved.

More broadly, the Kremlin has also failed to alter international norms, rules, and perceptions. Russia’s efforts to create “frozen conflicts,” which it has done intermittently since 1992, are not viewed as any more legitimate than before. Only a handful of small states recognized the Russian annexation of Crimea in the UN General Assembly. Moscow avoided censure in the UN Security Council only through exercise of its veto. No other governments have subsequently cited or supported the legal precedent, nor does it seem likely that any will.²¹ Overall, Russia’s aggression accelerated, rather than impeded, Kyiv’s shift toward pro-Western domestic political alignment, as well as exacerbating Russia’s international isolation. Many governments now view Russia as a pariah.

Third, *with the insurgency in eastern Ukraine essentially over, Russia has now returned to*

²⁰ Grigas, pp. 132-133.

²¹ The international community drew a clear (ex post) distinction between Crimea and a case such as Kosovo. Others appear to use the phrase “post-Cold War order” to suggest that Russia violated an explicit commitment in the Budapest Memorandum of 1994, in which the United States, United Kingdom, and Russia reaffirmed their obligation to respect the territorial integrity of Ukraine, Belarus, and Kazakhstan, and to refrain from threats of force against them. These assurances were given in exchange for those three countries surrendering their nuclear stockpiles and joining the global nuclear Non-Proliferation Treaty (NPT) regime. It is fair to note that the United States does not view the memorandum as legally binding and has itself been accused of violating it by levying sanctions against Belarus (also banned in the memorandum), a legal interpretation Washington rejects. In any case, this is a much narrower argument, not about the stability of post-Cold War order generally, but about Russian obligations vis-à-vis three former-Soviet states.

Did the Kremlin hope that Russian-speaking Ukrainians would rally to Russia and secure autonomy for Donetsk and Luhansk, or the creation a larger self-sufficient “Novorossiya” region? If so, Russia never came close.

Every day that the cease-fire, weapons withdrawal, OSCE monitoring, and diplomatic discussions remain in place, it becomes harder for Moscow to relaunch armed conflict.

deployment of the same geo-economic and diplomatic instruments that it employed before the crisis began.

With the war over, Moscow's only remaining alternative has been to negotiate with Ukraine and Europe using energy, trade, finance, domestic political influence, propaganda, and diplomacy. This is not to say that relations with Russia are without conflict, but such negotiation does have the potential for progress.

The most important negotiations ongoing today are the so-called Normandy (or Minsk) process between Russia, France, Germany, and Ukraine, which began in June 2014. While Russia may initially have adopted negotiation over the status of eastern Ukraine as a tactic to divide the West, it has subsequently become Russia's best means to move an increasingly futile conflict toward settlement on acceptable terms. Russia and the separatists signed the first Minsk Protocol on September 15, 2014. Although the resulting cease-fire collapsed, the signing of the "Minsk II" Agreement on February 12, 2015 ushered in a period in which the front has stabilized and casualties steadily declined. Since September 2015, a fairly successful cease-fire has been in place. These negotiations succeeded in establishing a clear demarcation line and withdrawing heavy weapons from the front. Discussions now focus on issues such as federal elections, eventual Ukrainian control of the border, and the legal status of the separatist-controlled areas, tied to sanctions relief.

Whether or not Minsk will offer a path to full resolution is at best uncertain. Yet at the very least, this sustained Western diplomatic effort constitutes

a major humanitarian achievement by bringing conflict to a virtual standstill. Overall, fatalities have declined by 95-99 percent from the wartime average, and even more from the most intense moments of fighting in summer 2014 and early 2015 — and they continue to decline.²² Every day that the cease-fire, weapons withdrawal, OSCE monitoring, and diplomatic discussions remain in place, it becomes harder for Moscow to relaunch armed conflict.²³

²² Contrary to recent Western media reports stating that armed conflict in eastern Ukraine has revived, the authoritative monitoring report on casualties, published regularly by the OSCE, concludes that "the number of civilian casualties caused by armed conflict continued to decrease" and is now among "the lowest since the beginning of the conflict." Office of the United Nations High Commissioner for Human Rights, "Report on the human rights situation in Ukraine 16 February to 15 May 2016," June 2016, http://www.ohchr.org/Documents/Countries/UA/Ukraine_14th_HRMMU_Report.pdf. During 16.5 intense months of warfare from mid-April 2014 to the end of August 2015, 9,098 Ukrainians (among them 2,300 civilians) lost their lives, an average of about 550 casualties (140 civilian) per month. After the cease fire, the killing dropped drastically. The period from September 1, 2015 to May 15, 2016, the latest period for which data exist, saw a massive decline in military fatalities (to 18 per month) and just 59 "conflict-related" civilian fatalities (less than 7 per month). The rate of killing continues to decline. Even this overestimates mortality, because deaths increasingly result from explosive remnants of war (ERWs) or improvised explosive devices (IEDs) left in the conflict zone from the previous conflict period, rather than from small arms or mortar fire. See OSCE Report, pp. 12-13.

²³ As late as spring 2015, even sober analysts were predicting that Russia might ramp up the fighting and launch a full-scale invasion of eastern Ukraine if a favorable political accommodation were not forthcoming. No such agreement has been reached, and yet no invasion has occurred. Cf. Lo, p. 112.

4 WHAT EXPLAINS RUSSIAN POLICY FAILURE?

The great puzzle of the conflict in eastern Ukraine is why the Kremlin has achieved so little. We have seen that this cannot be attributed to Russia's lack of raw capabilities or its lack of apparent interest in a strategically important neighbor. Nor is it plausible to attribute the failure to Putin's purportedly short-sighted, impetuous, and aggressively opportunistic — even, some would say, irrational — personality. One often hears that he is a brilliant tactician but an erratic strategist, yet this seems inconsistent with his Ukraine policy. Putin may have miscalculated, but he was hardly unique in his expectation that Russia would prevail in eastern Ukraine. His tactics appears to have been deliberate and cautious. He proceeded carefully, exhausting less risky options at each step before escalating. He worked through the Ukrainian political process to elect favorable politicians, then tempted them with economic incentives and encouraged them to impose political repression. Only when these instruments failed did he turn to military coercion, starting with a relatively safe operation in Crimea. Even within the military realm, he has relied largely on separatists and mercenaries, using regular Russian troops sparingly and selectively in combat. It is thus difficult to avoid the conclusion that Russia's failure in eastern Ukraine stems from a characteristic problem that large countries encounter when engaging in limited wars against smaller opponents: they lack the necessary resolve to overcome determined local forces.²⁴

In the case of eastern Ukraine, three factors help explain Russia's relative lack of resolve and ultimate

failure: Ukrainian resolve, Russian casualty aversion, and Western support.

First, *Russian aggression sparked determined Ukrainian resistance*. The Kremlin clearly expected Kyiv to back down in the face of pressure and robust support for separatism from Russian-speaking Ukrainians. Yet rather than fold or split, Ukrainians responded in a firm and determined manner. Russian actions stoked Ukrainian nationalism. Polls show that a great majority of Ukrainians — including sizable majorities in Donetsk and Luhansk — opposed the separatist cause.²⁵ (By contrast, a large majority of Crimeans appear to have embraced their new status.) Ukrainian military and privately funded militias proved willing to fight hard and suffer several thousand fatalities and many more thousands of casualties over the course of the war. Kyiv would not and could not back down: today it is hard to imagine any pro-Russian domestic coalition coming to power.

Second, *Putin consistently refused to commit sufficient Russian military force to gain and hold Ukrainian territory against local opposition*. Putin's actions may seem unorthodox and unwelcome, but on closer examination his military tactics have been limited and cautious. Russia's cost-benefit calculations in using military force appear more casualty- and risk-averse than Western countries in their interventions elsewhere in the world. If this is true in Ukraine, where Russian interests are strong and its military power overwhelming, then we must assume that this constraint on Putin would hold even more strongly elsewhere.²⁶

It is difficult to avoid the conclusion that Russia's failure in eastern Ukraine stems from a characteristic problem that large countries encounter when engaging in limited wars against smaller opponents: they lack the necessary resolve to overcome determined local forces.

²⁴ The lack of will to fight among great powers relative to small ones, despite apparently important interests at stake and overwhelming power capabilities, is becoming the norm in a world where large countries pursue most wars for limited ends. This helps explain why since 1945, most wars have been won by smaller countries against larger ones. A.J.R. Mack, "Why Big Nations Lose Small Wars: The Politics of Asymmetric Conflict," *World Politics*, Vol. 27, No. 2 (January 1975), pp. 175–200; I. Arreguin-Toft, "How the Weak Win Wars," *International Security*, Vol. 26, No. 1 (Summer 2001), pp. 93–128.

²⁵ Lo, pp. 111, 261.

²⁶ This suggests that the Kremlin's risk-aversion stems from the fear of domestic Russian criticism and opposition to fatalities and the appearance of failure. The same is also true of Western governments, which remain consistently unwilling — even domestically unable — to pay the price in blood and treasure to defend countries like Ukraine militarily.

The entire eastern Ukraine war, according to U.S. State Department estimates, resulted in less than 400-500 Russian combat deaths over 18 months. Even so, the Kremlin appears to have viewed these fatalities as a major domestic political problem that called for an extraordinary — and revealing — effort at domestic suppression of information.

Crimea may appear an exception, but in fact it proves the rule. The annexation of Crimea, while an affront to international law, was as risk-free as a military intervention can be. Russian “little green men” fought skirmishes for six days without suffering a single fatality in circumstances where Russia already enjoyed a substantial military presence and large, probably overwhelming, local support.

In eastern Ukraine, the Kremlin seems to have been nearly as risk-averse, but less fortunate. Though Russia possessed clear military superiority and the 16-month war was short compared with recent U.S. and Western interventions, regular active-duty Russian forces were only briefly deployed on the front lines. Rather, the Kremlin initially sought to intimidate Ukraine by conducting exercises with 80,000 troops on its borders. When that failed and conflict began, Russia relied on “hybrid” military force, focusing on local paramilitary surrogates, volunteers, mercenaries, and other non-regular forces, such as regular troops released on temporary contracts. Even with Russian troops in support roles, delivering materiel or providing long-range air and artillery support, this approach proved ineffective against Ukrainian regulars, who threatened to defeat the separatists, clearly an unacceptable loss of face for Moscow.

This led to what we might term the Russian “surge”: the major military intervention of August 2014, when for the first time the Kremlin deployed organized elite units. Yet even then Putin deployed only 7,000 troops for just a few weeks of front-line conflict. Although they easily rolled back the Ukrainians and never had reason to fear a Western military response, the Kremlin never seems to have seriously considered a broader offensive on Ukraine. When serious conflict ended in September 2015, the line of engagement had changed little, and separatists controlled much less territory than they had a year before. The surge

seems more like a desperate measure to stave off an embarrassing defeat than a deliberate policy of imperial expansion. For a country and leadership reputed to have little regard for human life and an existential interest in victory, such tactics are remarkably timid.

The entire eastern Ukraine war, according to U.S. State Department estimates, resulted in less than 400-500 Russian combat deaths over 18 months.²⁷ Even so, the Kremlin appears to have viewed these fatalities as a major domestic political problem that called for an extraordinary — and revealing — effort at domestic suppression of information. The Russian effort sought to achieve a (faux) legitimacy at home and abroad by disguising their troops: the infamous “little green men.”²⁸ For most of the conflict, particularly in eastern Ukraine, Russia sought to employ local surrogates. The Russian troops used were almost entirely irregular, retired, younger, or volunteer troops of various types, rather than unified crack military units. Special legislation was pushed through to classify all information about “peacetime” military deaths a state secret. Those who lost family members reportedly received large compensatory payments paid in installments contingent on their complete silence.²⁹ Shortly before he was killed, Russian opposition leader Boris Nemtsov wrote a report alleging that 220

²⁷ *Sputnik*, “Nuland Claims 400-500 Russian Soldiers Killed in Eastern Ukraine,” March 10, 2015, <http://sputniknews.com/europe/20150310/1019307525.html>. The number of irregular or dual nationals may be greater.

²⁸ The Kremlin consistently justifies its actions, not always entirely implausibly, with arguments about national minority rights, indigenous support, referenda, and legislative invitations. All available evidence suggests that a large majority of Crimeans was sympathetic to union with Russia. Similarly, Russia took great pains to manage appearances by organizing a separatist movement in eastern Ukraine.

²⁹ R. Garver, “How Many Russian Soldiers Have Died in Ukraine?” *The Fiscal Times*, August 28, 2015, <http://www.thefiscaltimes.com/2015/08/28/How-Many-Russian-Soldiers-Have-Died-Ukraine-Glimpse-Bloody-Toll>. Stories such as this one detailing 2,000 Russian dead have not been confirmed.

Russian soldiers were killed in two big battles in Ukraine.³⁰

Third, *Russian intervention triggered resolute and united Western support for Ukraine.* The Kremlin turned Russian fear of Western involvement in the former Soviet space into a self-fulfilling prophecy.³¹ This result appears to have come as a surprise to Moscow. Some view these Western policies as provocative. Yet until well after the war began, direct Western support for Ukraine was modest and ambivalent. President George W. Bush did push for NATO membership for Ukraine and Georgia in 2008. Germany (along with France, Norway, Luxembourg, Spain, and Italy) blocked serious consideration of the idea, though a compromise text oddly stated that they “would join” NATO eventually. Ukraine subsequently dropped formal mention of this goal.

More controversial has been Ukraine’s relationship with the EU. Membership has never been seriously on offer. The issue heated up a little in 2013 when Russia pressured Ukraine to reject the EU Association Agreement and instead join the Eurasian Economic Union. Yet this did not — contrary to what many claim — create open conflict between the West and Russia.³² EU Association

Agreements are hardly special: Europe has signed one with nearly every country bordering the EU or the Mediterranean, as well as some further away.³³ Nonetheless, a few days before a scheduled “Eastern Partnership” summit in Vilnius in late November 2013, Yanukovych declined to sign the deal with Europe.

The matter would have rested with Yanukovych’s rejection — as it did with Armenia, which rejected an EU Association Agreement at roughly the same time — had the Euromaidan protest not unseated him. Euromaidan and the subsequent invasion of Crimea began to change Western attitudes. Yet, even so, European and U.S. policy changed little. Public Western assistance to the protesters remained verbal and diplomatic, but for some sanctions levied in the very last days of Yanukovych’s rule and modest informal aid to the protesters.³⁴ Even Russia’s forceful revision of the territorial status quo in Crimea resulted in only a relatively narrow Western response: bans on travel and asset freezes targeted on specific Russian individuals and suspension of Russia’s membership in the G8. Had Putin stopped there, the conflict between Russia and the West over Ukraine would have remained essentially symbolic.

Only when the Russian-assisted separatist conflict in Donbas began in March 2014 did Western governments begin considering the imposition of the broad-spectrum of financial and economic policies that remain in place to this day. Yet they moved slowly. For nearly six months after the war began, both the United States and Europe, still hoping for a negotiated solution, levied relatively modest “Stage 2” sanctions. Only in the late summer, after Russia escalated, did the West increase pressure by moving to (or close to)

The Kremlin turned Russian fear of Western involvement in the former Soviet space into a self-fulfilling prophecy.

³⁰ Center for Strategic and International Studies, “The Ukraine Crisis Timeline: May 28, 2015, Putin Classifies Peacetime Deaths a State Secret,” <http://csis.org/ukraine/index.htm#102>.

³¹ Authoritarian states often tend to be confused by the distinctive style of democratic governments, which tend to react slowly but then, once a certain line is crossed, react strongly and tenaciously.

³² This is the so-called “realist” claim about the origins of the Ukraine crisis, which is shared by the Russian government, but for which I can find little evidence. The only suggestive moment is one on September 5, 2014 at the Wales NATO summit when the “Big Five” — British Prime Minister David Cameron, French President François Hollande, German Chancellor Angela Merkel, U.S. President Barack Obama, and Italian Prime Minister Matteo Renzi — told off then-European Commission President José Manuel Barroso for “the Commission’s alleged mishandling of the Association Agreement which, it was said, lay at the roots of the current crisis.” Ludlow, p. 49.

³³ The local exceptions are Libya, where arrangements are currently suspended, and Belarus and Russia itself, which instead have Partnership Agreements.

³⁴ What may have been done covertly remains unclear. Wilson, p. 201.

“Stage 3” sanctions, massive economic assistance to Ukraine, and revival of the Association Agreement.³⁵ The Europeans remained more cautious than the United States, and continued to provide Moscow with options to defuse the crisis. Yet when this did not occur, economic and non-lethal military aid to Ukraine and a further strengthening of European and NATO defense followed. By the fall of 2014, despite continuing ambivalence in certain capitals, the West found itself united in support of Ukraine in a way that it had never previously been.

³⁵ Some argue that the Europeans acted only under the external impetus of the downing of Malaysian Airlines Flight 17 over Ukraine on July 17, 2014, or as a result of pressure from the U.S. government. Yet the EU decision to move to Stage 3 sanctions was taken at the EU Council meeting in Brussels the night before the Malaysian jetliner was shot down. It resulted from negotiations among all 28 governments in the European Council that had gone on since March in a context of intensifying internal pressure for sanctions. Action favored by a broad majority of member states led by Germany, France, the U.K., and Poland, as well as EU institutional leaders, had been held up only in order to secure the support of a few. Three weeks before, Merkel and other heads of state and government had agreed that unless a strict set of demands were met, they would consider Stage 3 sanctions. The Commission had been working on a sanctions package since March. A final part of the deal was that Federica Mogherini was named EU high representative for foreign affairs and security policy, thereby securing Italian support. The downing of the airliner simply accelerated subsequent implementation by a week. There is similarly little evidence to support the claim, repeated in U.S. media reports based largely on conversations with U.S. officials that EU sanctions resulted from U.S. pressure. While economic sanctions were roughly ten times more expensive for Europe than for the United States, and thus it is not surprising that Washington pressed for action and the EU moved slightly more slowly, EU support for sanctions resulted from a steady and organic process that increased over months. E. Bussière and G. Migani, *Les années Barroso, 2004-2014* (Paris: Tallandier, 2014), p. 220; Ludlow, pp. 2, 34, 42-43.

5 WHAT LESSONS FOR THE FUTURE CAN WE LEARN FROM THE SUCCESS OF THE WESTERN RESPONSE TO THE UKRAINE CRISIS?

There is no reason to believe that policy failure in Ukraine has led Putin to alter his long-term objective of increasing Russian influence and blocking the influence and involvement of the EU in the former Soviet Union. Yet the Kremlin has shown little ability to prevail militarily and has returned to primary reliance on economic and political instruments. We learn three basic things from this experience. First, the imminent threats from Russia are not military, but economic and political. Second, the most effective responses are not military but geo-economic — and the most important of the latter are not sanctions, but economic support for and trade liberalization with third countries, and energy policy. Third, the indispensable power in all this is a united, German-led Europe. In regards to the Ukraine crisis, Europe is close to 10 times more important than the United States in almost every measurable respect: aid, trade, energy, and diplomatic engagement.

Threat Perception: The Most Immediate Threats to Western Interests in the Region are not Military, but Economic and Political

What threats posed by Russia are most likely to thwart Western interests and values? Most analysts focus on the possibility of a Russian military attack on the West. Typical is the majority view of the U.S. Joint Chiefs of Staff, which labels Russia the “number one” threat to the United States. In this the chairman, Marine Corps Gen. Joseph Dunford, is backed by the vice chairman, Air Force Gen. Paul Selva, and Army Gen. Mark Milley. The latter maintains Russia earns this status because it possesses both “capabilities” and “intent.”³⁶ While the prioritization of Russia over

³⁶ “Russia should be considered the No. 1 threat to the United States for two reasons, its capability and its intent,” said Army Chief of Staff Gen. Mark A. Milley. ‘In terms of capability, Russia is the only country on earth that has the capability to destroy the United States of America,’ Milley said.... ‘It’s an existential threat by definition because of their nuclear capabilities.’... Milley noted that while neither he nor anyone else knows what Russia’s true intent is, his best guess at intent

China, violent extremism, or other threats is not unanimously shared in U.S. strategic circles, the belief that Russian aggression poses an imminent and high-priority military threat to NATO against which exceptional steps should be taken is nearly universal.

Yet the high priority some Western capitals place on deterring an immediate Russian military threat seems misplaced. While we can never dismiss entirely the possibility of a massive military strike on the rest of Ukraine or at NATO allies, the Kremlin’s track record over the past 25 years suggests that this is an extremely unlikely worst-case scenario. The obvious lesson from Ukraine is that Putin lacks the political will to fight a major war even under the most propitious of circumstances, that is, when Russia intervenes a few hundred kilometers from its borders, motivated by intense interests, possessed of unquestioned battlefield dominance, and unopposed by any Western military. The Kremlin’s casualty aversion, low tolerance for costly conflict, and striking suppression of information about the costs of war in Ukraine suggest that Putin is prepared to deploy military force only under what he perceives as relatively safe circumstances and for limited purposes.

is based on past behavior over the last few years - a reorganized military, increased capabilities and aggressive foreign policy.... ‘I see Russia as aggressive, not just assertive. They attacked Georgia; they illegally seized Crimea; they have attacked Ukraine...’ J.D. Leipold, “Milley: Russia No.1 threat to US,” U.S. Army, November 9, 2015, https://www.army.mil/article/158386/Milley__Russia_No_1_threat_to_US/; M. Fay, “The New Service Chiefs and the Politics of Threat Perception,” Niskanen Center, August 11, 2015, <https://niskanencenter.org/blog/the-new-service-chiefs-and-the-politics-of-threat-perception/>. Their naval colleague argues that Indo-Pacific threats rank higher. Dunford’s replacement as Marine Corps Commandant, Lt. General Robert Neller, places violent extremist groups roughly on par with Russia as a threat. J. Gould, “Aspiring USMC Chief: Russia Threat On Par With Radical Extremism,” *Defense News*, July 24, 2015, <http://www.defensenews.com/story/defense/policy-budget/congress/2015/07/23/aspiring-usmc-chief-russia-threat--par-radical-extremism/30574715/>.

The obvious lesson from Ukraine is that Putin lacks the political will to fight a major war even under the most propitious of circumstances.

In focusing on this type of overt but unlikely Russian military threat, analysts overlook a far more immediate threat to Western regional interests, namely that Ukraine will collapse of its own accord or under Russian non-military pressure.

Moscow's cautious behavior in Ukraine is consistent with the broader pattern of its engagement elsewhere. The Kremlin's operations have been brief, focused on regions near the Russian border, and targeted at weak opponents without strong allies. Since Afghanistan in the 1970s, they have relied primarily on support for local separatist groups backed by mercenaries and avoided commitments of large numbers of elite military personnel. In 2008, significant Russian ground combat in Georgia lasted less than a week. Unconfirmed reports suggests that several dozen Russian soldiers died, many in one ill-fated ambush, yet these modest losses were traumatic enough to trigger nearly a decade of military reform and strategic reassessment.³⁷ The costs of commitment in Moldova have been negligible: no casualties have been reported and little Russian military engagement has taken place for a quarter century. Moscow's recent behavior in Syria — a defense of its only long-term Middle Eastern ally — further supports the impression of casualty aversion: the official death count totaled only three soldiers, and even the most skeptical commentators believe it to be only in the low teens.³⁸ In this context, even the cautious stalemate in eastern Ukraine seems anomalous as a case of Russian overreach.

Eastern Ukraine, far from being typical of Russian "hybrid warfare," is exceptional. Ukraine is one of relatively few places "beyond Russia's borders

³⁷ M. Klein, "Russia's Military: On the Rise?," Transatlantic Academy, March 2016, <http://www.transatlanticacademy.org/publications/russia%E2%80%99s-military-rise-0>; also personal communication from Klein (June 9, 2016), who cites a remark by the deputy defense minister of Russia quoted in ITAR-TASS (February 21, 2009).

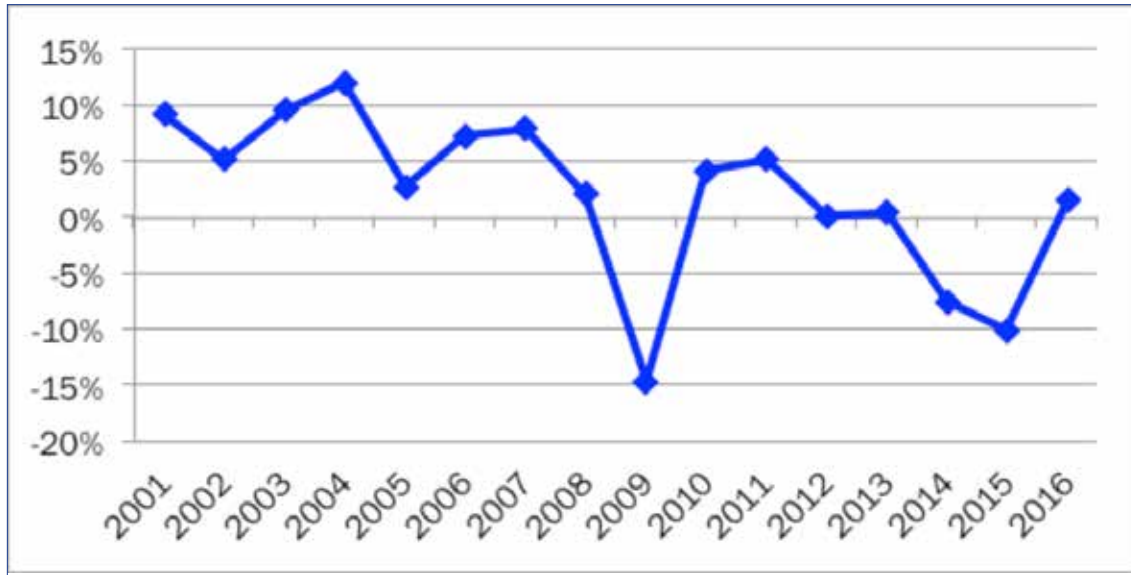
³⁸ J. Sparks, "Russia 'Hiding' Syria Conflict Death Toll," Sky News, July 4, 2016, <http://news.sky.com/story/1610413/russia-hiding-syria-conflict-death-toll>. There is similarly little evidence that significant numbers of Russian soldiers lost their lives in wars in Transnistria, Abkhazia, or Nagorno-Karabakh wars during or since the early 1990s, though in the latter case a significant number of fighters from Chechnya did fight on the side of Azerbaijan.

where Moscow can sustain an insurgency" — and even there the results were unimpressive.³⁹ If the Kremlin was unwilling to tolerate even modest expenditures of blood, treasure, and prestige to sustain a modest military advance in support of a majority Russian-speaking population in a small corner of Ukraine for a few weeks, why should we expect that it would attack even a weak NATO ally like Latvia or Estonia, let alone a heavily armed, strongly anti-Russian country without a substantial Russian minority, such as Poland? Current NATO forces and commitments appear to be generally adequate to the task of deterring the unlikely event of such an attack.

In focusing on this type of overt but unlikely Russian military threat, analysts overlook a far more immediate threat to Western regional interests, namely that Ukraine (or other states in the region) will collapse of its own accord or under Russian non-military pressure. A collapse would undermine the legitimacy of the Kyiv government and might weaken the power of the Ukrainian state to resist or force Kyiv to accommodate with Moscow. If Ukraine were to collapse economically

³⁹ General Valery Gerasimov, chief of Russia's general staff — in describing U.S., not Russian, doctrine — defines hybrid warfare as "the use of special operations forces and internal opposition" to establish a "permanently operating front" inside enemy territory. M. Kofman and M. Rojansky, "Kennan Cable No.7: A Closer look at Russia's 'Hybrid War,'" Wilson Center, April 14, 2015, <https://www.wilsoncenter.org/publication/kennan-cable-no7-closer-look-russias-hybrid-war>. Any invasion of a country like Poland would therefore require that large numbers of crack Russian troops be deployed to conquer, hold, and administer territory against determined opposition, without local political or paramilitary support, which in turn implies a loss of blood and treasure many orders of magnitude higher than anything Russia has recently experienced. Even Russia's experience in Afghanistan during the 1980s — which is widely viewed, three decades later, as a trauma never to be repeated — would probably underestimate the cost. This would be a striking departure from the pattern of behavior Russia has established over the post-Cold War period. It is hard to see how, from the Kremlin's perspective, Russian regional military security, global prestige, economic prosperity, or domestic regime stability could plausibly be enhanced in this way.

Figure 1: Ukraine GDP Growth, 2001-2016



2016 rate projected. Source: Trading Economics, <http://www.tradingeconomics.com/ukraine/gdp-growth-annual>.

or politically, any discussion of military threats might well become irrelevant.

Ukraine is in many respects already a fragile state. Economically, severe macroeconomic problems threaten the current government — and democratic governance more broadly. Ukraine has faced repeated debt, financial, and energy crises. Ukrainian GDP growth has trended downwards since the global crisis of 2008-09 and war appears to have further dampened it. A weak government is likely to be incapable of implementing politically controversial domestic economic and political reforms, or striking international compromises — and is thus likely to remain perpetually vulnerable to Kremlin pressure.

Economic weakness begets political weakness. President Petro Poroshenko's job approval rating declined from 47 percent a few months after his election in May 2014 to 17 percent in August/September 2015 and to 10 percent in April 2016, which is considerably less popular than

his predecessor Yanukovich just prior to being ousted by the Euromaidan protests.⁴⁰ In December 2015, four months after the cease fire, 70 percent of Ukrainians believed politics was “going in the wrong direction” — nearly a record high. The electorate's major concern, and the strongest source of its dissatisfaction, is not national security, but economic performance and management. About 80 percent of the population believes that general and individual economic conditions are worsening. Inflation, the status of Donbas, monetary policy, unemployment, social protection, corruption, and industrial stagnation are the public's greatest concerns.⁴¹ A majority of Ukrainians believe that,

⁴⁰ J. Ray, “Ukrainians Disillusioned With Leadership,” Gallup, December 23, 2015, <http://www.gallup.com/poll/187931/ukrainians-disillusioned-leadership.aspx>; F. Weir, “For Ukraine's Poroshenko, a Growing Crisis Hits a Critical Juncture,” *Christian Science Monitor*, April 7, 2016, <http://www.csmonitor.com/World/Europe/2016/0407/For-Ukraine-s-Poroshenko-a-growing-crisis-hits-a-critical-juncture-video>.

⁴¹ Center for Insights in Survey Research, “Opinion Survey Residents of Ukraine,” November 19-30, 2015, http://www.iri.org/sites/default/files/wysiwyg/2015_11_national_oversample_en_combined_natl_and_donbas_v3.pdf, p. 6.

Figure 2: Job Approval Rating of Ukrainian Presidents (Percent approving of the job the leader is doing)

Viktor Yushchenko	
2008	17
2009	7
Viktor Yanukovich	
2010	46
2011	29
2012	28
2013	28
Petro Poroshenko	
2014	47
2015	17
2016	10

if they are forced to choose, prosperity is more important than democracy.⁴² Combined with long-term weaknesses of the Ukrainian state, which never broke entirely from the Communist system and remains subject to oligarchy and corruption, this threatens current arrangements. This type of dissatisfaction with economic adjustment helped triggered conflict in the former Yugoslavia in the 1990s: much of the initial break-up was fueled not by nationalism alone, but also by disagreements about how to distribute the crushing burden of international debt.⁴³ It is unsurprising that Poroshenko recently had trouble forming a government and implementing important policies.

The Kremlin has adapted to the military stalemate and fragile domestic situation in Ukraine by returning to the geo-economic tactics of pressuring Kyiv that it employed consistently before 2013.

⁴² See Center for Insights in Survey Research, p. 14-15, 20, 35. Also disapproval for then-Prime Minister Arseniy Yatsenyuk, a technocrat associated with economic management, was higher than that of President Poroshenko. pp. 8-9.

⁴³ S. Woodward, *Balkan Tragedy: Chaos and Dissolution After the Cold War* (Washington, DC: The Brookings Institution, 1995).

Over the past year, Russia has imposed a trade embargo, announced its intention to divert energy flows, and refused to restructure Ukrainian debt. Russia's own economic difficulties and ongoing military uncertainty impose additional costs on the Ukrainian economy. Russia has offered Ukraine membership in its various Eurasian regional economic cooperation schemes and cooperation in the aerospace industry in exchange for political concessions. These are the same instruments Russia has employed to pressure Ukraine and other states of the former Soviet Union since the end of the Cold War, including coercive trade policy against Ukraine (more strikingly since the Orange Revolution of 2004-05), cutoffs of natural gas (most notoriously in 2006 and 2009, when it affected EU supplies), as well as embargoes on agricultural, metallurgical, and manufactured goods. Moscow has also sought to manipulate incentives facing individuals and firms within specific industrial branches, including defense industries.⁴⁴

Policy Instruments: The Most Cost-Effective Tools Western Governments Possess vis-à-vis Russia are Geo-Economic Rather than Military, and Indirect Rather than Direct

Just as the primary Russian threat to Western interests are non-military, so the West's most robust and effective responses are non-military. In response to recent Russian aggression in Ukraine, the West has developed five major policies: extending economic aid to Ukraine, economic integration with Ukraine, optimizing EU and national energy policies, imposing economic sanctions on Russia, and deterring Russia militarily by enhancing NATO capabilities and providing bilateral military aid to Ukraine. Over the past year, pundits, policy analysts, and governments have given public attention to them in inverse proportion to their real importance, particularly in

⁴⁴ Grigas, pp. 110-111.

the United States. Attention is lavished on the last two instruments: sanctions and military deterrence. Yet the most important and effective among them are economic assistance and liberalization of trade and finance links.

The more general lesson is that the West's strongest and effective policy tools in situations such as this are geo-economic rather than military, and indirect rather than direct. That is they employ positive geo-economic tools of civilian power such as economic assistance, trade, and energy policy, rather than coercion. Moreover, they are not aimed at altering Russian calculations directly — a long-term and difficult task — but at bolstering smaller third countries like Ukraine that face Russian pressure, rendering them less vulnerable to Russian pressure. To sustain the success of Western policy, Western governments should continue to prioritize such policies. Let us examine each of the five policies in turn.

Economic Aid and Debt Finance

The most important and influential Western policy response to Russian aggression has been the provision of economic support in the form of aid and finance to Ukraine. This economic support is massive and its effect has been critical to keep the Ukrainian economy stable in the short-term. Europe and the United States currently supply Ukraine with a total of about \$10 billion a year in grants and loans, of which over 95 percent is economic, civilian, and technical, rather than military. Some is bilateral and some is from multilateral organizations like the EU or IMF. Without Western aid, Ukraine's economy would have already collapsed, gone bankrupt, and defaulted on its external debt. Instead, Ukrainian gross external debt appears to have plateaued for the moment at about \$12 billion, mostly owed to the West, and it has been intermittently extended or restructured. George Soros has estimated that this level of aid to support Ukraine will be required

for 5-10 more years.⁴⁵ Without economic stability, any discussion of military deterrence, economic restructuring, or political reform would be irrelevant.

Western governments and international organizations also employ aid as a tool of conditionality to press Ukraine to undertake structural reforms to dampen corruption and render its economy more competitive. Some important laws have been passed, notably the end of domestic energy subsidies, which totaled 7 percent of GDP and fueled oligarchic corruption — although it remains to be seen whether these will be implemented properly.⁴⁶ Yet much of the domestic reform agenda remains unfulfilled. The conventional wisdom among Western analysts and officials is that reform is essential to generate political legitimacy and stability, as well as more economic growth.⁴⁷ They encourage Western governments and international organizations to stand tough and even to withdraw financial assistance if necessary in order to force the Ukrainian government to reform and to fight corruption.

Such expectations may well be unrealistic. While in the very long term, domestic reform, like external liberalization, may bolster governmental legitimacy and stability, the experience of many developing countries suggests that it also generates wrenching and politically costly economic dislocation and dissatisfaction. It also challenges

⁴⁵ S. Rao, "Soros urges giving Ukraine \$50 billion of aid to foil Russia," Reuters, January 8, 2015, <http://www.reuters.com/article/us-ukraine-crisis-soros-idUSKBN0KH0NQ20150108>.

⁴⁶ On the optimistic side, see C. Miller, "Why Russia's Economic Leverage is Declining," Transatlantic Academy, April 2016, <http://www.transatlanticacademy.org/publications/why-russia%E2%80%99s-economic-leverage-declining>.

⁴⁷ E. Pond, "Ukraine: snatching defeat from the jaws of victory?" *Politics and Strategy*, September 28, 2015, <http://www.iiss.org/en/politics%20and%20strategy/blogsections/2015-932e/september-dc7b/will-ukraine-snatch-defeat-from-the-jaws-of-victory-a9c9>.

The more general lesson is that the West's strongest and effective policy tools in situations such as this are geo-economic rather than military, and indirect rather than direct.

Western governments may face a trade-off between pressing Ukraine hard to implement domestic reform, and keeping the Ukrainian state internally legitimate and externally solvent and stable, and are likely to decide in favor of the latter.

existing elites. Thus governments have a limited political ability and willingness to implement reforms. It is therefore no surprise that Ukrainian experts consider the greatest failure of the current government to be its lack of any tangible results in fighting or punishing corruption.⁴⁸ Moreover, donor governments are often reluctant to pull the rug out from under governments like Ukraine, particularly when they are geopolitical allies. Among other things, continued multilateral financing serves to avoid costly default on existing loans extended by Western banks. Western governments may face a trade-off between pressing Ukraine hard to implement domestic reform, and keeping the Ukrainian state internally legitimate and externally solvent and stable, and are likely to decide in favor of the latter. Knowing this, Ukraine's government will correctly discount the credibility of Western threats to withdraw aid, loans, and refinancing.

Economic Integration with the West

While aid keeps Ukraine solvent in the short term, the cornerstone of Western long-term policy vis-à-vis Russia is to combat Moscow's influence by strengthening third countries like Ukraine through granting them greater access to Western markets for goods, finance, and labor. This long-term Western geo-economic strategy aims to redirect Ukraine's financial trade, investment, and energy flows westward so as to link the country to a more prosperous part of the world economy. This would both insulate Ukraine from dependence on Russia and encourage domestic modernization. The EU is the key Western economic partner for these countries, and Moscow recognizes the long-term impact of links among them. Even without the

promise of EU membership, which is neither a politically nor technically viable proposition at the current time, this has an important impact.

It is not by chance that signature of an EU Association Agreement — which contains a provisions for free trade, visa liberalization, and investment — initially had a hand in triggering the crisis. Even before the agreement is fully in effect, a surprisingly rapid shift in the direction of Ukrainian trade and labor movements is already visible. In 2012, Ukraine sent 30 percent of its exports to Russia; today it sends 12 percent.⁴⁹ Visa liberalization and the opening of some European labor markets permit over 1 million Ukrainians to work in Europe (78 percent of those currently employed abroad). Their remittances back to Ukraine total \$7.6 billion a year (2014), a sum nearly as large as all foreign aid and lending to Ukraine.⁵⁰

The weak link in Western economic exchange with Ukraine remains private investment. The country has yet to attract high levels of inward foreign investment. Net flows into Ukraine remain negative, and it is difficult to imagine an economic recovery without outside assistance. So, while external economic liberalization is the decisive long-term element in the West's long-term policy, Ukraine's adjustment and accompanying domestic reforms remain disruptive and costly in the short-run. Russian boycotts, sanctions, and manipulation of debt, as well as uncertainty connected with the war, have further buffeted the economy. For this reason, large amounts of economic aid will remain essential for the foreseeable future.

⁴⁸ See the semi-annual poll of 50 experts by the Ilko Kucheriv Democratic Initiatives Foundation (DIF), "Політичні підсумки півріччя - опитування експертів" [Semi-Annual Political Results - Expert Interviews], July 22, 2016, <http://dif.org.ua/ua/publications/press-relizy/politichni-pidsumki-pivrichchja---opituvannja-ekspertiv.htm>.

⁴⁹ Miller; Grigas, p. 110.

⁵⁰ International Fund for Agricultural Development (IFAD), *Sending Money Home: European Flows and Markets* (Rome: International Fund for Agricultural Development, 2015), p. 19.

Strategic Energy Policy

A third Western geo-economic instrument is strategic energy policy. Energy dominates Russia's exports to the West and Western investment in Russia. Access to energy exports and investment are the most powerful geo-economic tools that Moscow can deploy vis-à-vis Western Europe. Russia has little alternative but to sell its gas to the West, and it has fewer alternatives as a seller than Europe possesses as a buyer. For this reason, the underlying structure of energy interdependence appears to favor the West as a whole, not Moscow. Yet some individual countries face relationships of asymmetrical interdependence with Russia that create a risk that they will be isolated and singled out for Russian oligopolistic price hikes or energy embargos. To the extent that Ukraine and Western countries remain dependent on Russian energy, it is difficult for them to resist Russian policy.

The main aim of European energy policy should thus be to reduce the vulnerability of individual countries to such tactics by diversifying sources of energy and multiplying the means by which oil and especially gas can be transhipped via interconnectors and pipelines that accommodate reverse flows. This is particularly vital for smaller countries, such as Hungary and Slovakia, which remain relatively dependent on direct unique shipments of oil and gas from Russia, and which lack open access to the sea. To date, this policy has shown some success in Ukraine. In 2012, that country imported most of its energy directly from Russia; now it imports most of it via Europe. More broadly, since 2014, annual Ukrainian gas consumption has declined from \$11 billion to \$4 billion.⁵¹

The EU has spent billions to encourage the construction of interconnectors and reverse flow pipelines so all European countries will be linked

into the same network. Recent efforts to connect the Baltic States to the EU grid via Finland, Sweden, and Poland have raised their interconnectivity with the EU electricity market to approximately 22 percent.⁵² The Third Energy Package is increasing EU control over energy markets, and in 2012 the EU launched an anti-trust case against Gazprom. The EU has employed competition policy in an effort to limit the monopoly power of the Russian energy giant Gazprom, limiting its ability to respond to Western reselling of gas to Ukraine by reducing supply or raising prices.

Pushing Western energy policy further forward requires overcoming political and economic conflicts. Consider, for example, the debate over Nord Stream 2, a recent German-Russian proposal to build additional gas pipelines under the Baltic Sea. Given low energy prices, Nord Stream 2 may be economically questionable, and some suspect Putin of advancing it simply to divide the West or to create benefits for corrupt associates. Critics see it as a self-interested and hypocritical move by the German government, which opposed plans for previous pipelines that would have provided oil and gas directly to southern European countries. Within the German government, the Social Democratic (SPD) coalition partners are the project's most vocal advocates, and it may be that Chancellor Angela Merkel's support is a quid pro quo for the SPD's approval of costly sanctions. Yet Nord Stream 2 could have more serious consequences. It advances the Kremlin's plans to circumvent Ukrainian gas pipelines, from which Kyiv currently nets \$3-4 billion per year in transit fees. It would permit Russia to cut off Ukrainian supplies without raising German opposition. Moreover, alternative pipelines make it easier for Russia to cut off supply to any smaller state between it and Germany, whether to exploit its monopoly market power or wield political influence. This is surely one reason

The underlying structure of energy interdependence appears to favor the West as a whole, not Moscow. Yet some individual countries face relationships of asymmetrical interdependence with Russia that create a risk that they will be isolated.

⁵¹ Miller; Grigas, p. 110.

⁵² Wilson, p. 200.

Sensitivity to trade does not necessarily translate into usable political power. The nature of trade matters as well: it depends on the willingness and ability of the importer to substitute for the good in question.

why in March the leaders of nine EU member states (Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, and Slovakia) sent a joint letter to the EU Commission protesting against Nord Stream 2. It poses, they argued, “risks for energy security in the region of Central and Eastern Europe, which is still highly dependent on a single source of energy.”⁵³ Defenders of Nord Stream 2 respond that Ukraine and smaller states in the EU are already vulnerable to interruptions, and Nord Stream may in fact protect them from direct pressure by permitting trans-shipment of supplies through Germany. The transit fees Ukraine loses (which would be illegal in the EU) are often skimmed off by corrupt oligarchs into foreign bank accounts, so the country might well be better off without them.

Sanctions

Sanctions grab the headlines, gaining far more public attention than most other Western policies. Yet sanctions are the least effective and important of the West’s geo-economic tools. In response to the annexation of Crimea, the West put in place a limited sanctions regime, which aims primarily to restrict travel and freeze assets of a relatively small number of influential individuals in Russia, and to restrict Crimean trade. The sanctions put in place after the Russian invasion of eastern Ukraine are far more significant: they include restrictions on Western exports to and investment in Russia. The Kremlin subsequently imposed countersanctions on imports of Western goods, particularly agricultural products.

At first glance, trade sanctions appear an extremely advantageous tool for Western governments, whose economies are larger and more diversified than that of Russia. The resulting asymmetrical interdependence should, in theory, afford the West

⁵³ K. Beckman, “Can Nord Stream 2 Be Stopped?” *EnergyPost*, April 14, 2016, <http://www.energypost.eu/can-nord-stream-2-stopped/>.

considerable political leverage. The best measure of this is mutual dependency (asymmetrical interdependence) as a percentage of GDP: while only a small share of EU trade as a percentage of GDP (1 percent of both exports and imports) is with Russia, a much larger share of Russian trade (15 percent of exports and 10 percent of imports) is with the EU. With Russia 10-15 times more dependent on Europe than Europe is on Russia, any reduction in trade should have ten times more economic impact on Russia than Europe.⁵⁴ Researchers at the Russian Academy of Sciences concur when they estimate that the “potential adverse impact of sanctions on the Russian economy is estimated at 8-10 percent of GDP and that on the EU economy at some 0.5 percent of GDP.”⁵⁵

Yet sensitivity to trade does not necessarily translate into usable political power. The nature of trade matters as well: it depends on the willingness and ability of the importer to substitute for the good in question — and this helps explain the odd nature of the sanctions effort.⁵⁶ Western governments hardly imposed any restrictions on Russian exports, except the modest flows from Crimea. This is because 63 percent of those exports are energy products, and more than an additional 25 percent are raw materials, none of which the European governments have an interest in cutting off.⁵⁷

⁵⁴ R.O. Keohane and J.S. Nye, *Power and Interdependence* (Boston: Little Brown, 1977), Chapter 1.

⁵⁵ A.A. Shirov, A.A. Yantovskiy, V.V. Potapenko, “Estimating potential effect of sanctions on economic development in Russia and EU” (Unpublished paper, Russian Academy of Sciences, 2015), p. 16.

⁵⁶ Keohane and Nye call this “vulnerability” as opposed to “sensitivity.” *Power and Interdependence*, p. 10

⁵⁷ For an overview of the cost of EU sanctions, see European Parliament Research Service, “Briefing: Economic Impact on the EU of Economic Sanctions over Ukraine Conflict,” October 2015, [http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/569020/EPRS_BRI\(2015\)569020_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/569020/EPRS_BRI(2015)569020_EN.pdf). Russia provides 29 percent of imported solid fuels, 34 percent of imported crude oil, and 39 percent of imported natural gas consumed in Europe (13, 29, and 26 percent

Figure 3

Asymmetrical Trade Interdependence between Europe and Russia: Exports (2013) ¹				
	Export Share (% of total exports taken by this partner)	Openness (Total exports as a % of GDP)	Export Sensitivity (Exports to this partner as % of GDP, i.e. Export Share X Openness)	Asymmetrical Interdependence (Relative bilateral export shares as % of GDP)
EU (3 rd country trade)	8	12.6	1	15:1
Russia	49	30	15	

Asymmetrical Trade Interdependence between Europe and Russia: Imports (2013) ²				
	Import Share (% of total imports originating from this partner)	Openness (Total imports as a % of GDP)	Import Sensitivity (Imports from this partner as % of GDP, i.e. Import Share X Openness)	Asymmetrical Interdependence (Relative bilateral import shares as % of GDP)
EU (3 rd country trade)	8	12	1	10:1
Russia	44	23	10	

¹ World Bank, data from 2011-15 average. <http://data.worldbank.org/indicator/NE.IMP.GNFS.ZS/countries>, [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Trade_in_goods_and_services_2013_\(%C2%B9\)_\(%25_of_GDP\)_EU_world15.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Trade_in_goods_and_services_2013_(%C2%B9)_(%25_of_GDP)_EU_world15.png); <http://atlas.media.mit.edu/en/>.

² World Bank, data from 2011-15 average. <http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS> [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Trade_in_goods_and_services_2013_\(%C2%B9\)_\(%25_of_GDP\)_EU_world15.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Trade_in_goods_and_services_2013_(%C2%B9)_(%25_of_GDP)_EU_world15.png); <http://atlas.media.mit.edu/en/>.

Russian exports of gas to Europe actually increased by 8 percent in 2015.⁵⁸ Western trade sanctions barely touch imports, except from Crimea. The so-called sanctions regime is actually an embargo that bans a small range of Western exports of armaments and dual-use goods intended for the Russian military, as well as products essential

for oil industry investment.⁵⁹ These areas were chosen because they are militarily sensitive and economically vital, and because few substitutes are available. The restrictions on Western exports were expanded by Russia itself, which were imposed on Western agricultural imports to harm sensitive Western farmers and benefit its own producers.

Perhaps more significant have been Western financial and investment sanctions. Here again the intent is not to limit Russian exports, but to deny Russia Western exports (of capital). The sanctions limit access to Western primary and secondary capital markets for five major Russian majority

of the totals consumed in Europe, respectively). Eurostat, "Main Origin of Primary Energy Imports, EU 28 – 2013-2013," [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Main_origin_of_primary_energy_imports,_EU-28,_2003%E2%80%9313_\(%25_of_extra_EU-28_imports\)_YB15.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Main_origin_of_primary_energy_imports,_EU-28,_2003%E2%80%9313_(%25_of_extra_EU-28_imports)_YB15.png).

⁵⁸ Radio Free Europe / Radio Liberty, "Russian Gas Exports To Europe Increased 8 Percent In 2015," January 12, 2016, <http://www.rferl.org/content/russian-gas-exports-to-europe-increased-8-percent-2015-despite-sanctions/27482447.html>.

⁵⁹ The embargo is bolstered by U.S. restrictions on bilateral export credit, development finance, and insurance transactions.

As the immediate willingness of Russia to retaliate in kind suggests, authoritarian governments often manipulate the rents from sanctions levied against them to benefit privileged elites and domestic producers who welcome the import substitution effects that result from restricting foreign imports.

state-owned financial institutions, their majority-owned subsidiaries outside of the EU, three major Russian energy companies, and three defense companies. The Russian government will be forced to make up the shortfall through government funds. Limitations on financing in the oil sector and on access to certain sensitive oil-sector technologies and services used for oil production and exploration may, in the longer term, dampen modernization of the sector. Because sanctions are so costly to Europe, it is not by chance that they have loopholes. Subsidiaries of blacklisted Russian banks with over €20 billion are exempted in at least seven EU member states (including France, Germany, Austria, and Cyprus). So are activities under pre-existing contracts, and actions by Gazprom.⁶⁰

Other indirect financial effects hit European service exports. One example is Russian tourism in Europe, which is reported to have declined sharply in recent years due to the collapse of the ruble, bolstered by strong Russian government pressure on government and military employees not to travel in the West. This is a multi-billion euro industry, and this drop is particularly costly to those in the tourist industry because Russians spend more on average per day than members of any other major nationality. The number of Russian tourist stays in Spain, for example, increased by 412 percent from 2006 to 2013, but then fell by 13 percent in 2014 and reportedly by an even greater amount, perhaps up to 40 percent, in 2015. Italy and France have been hurt as well.

It is difficult to measure the overall impact of sanctions on Russia's welfare and its political will. The country suffered a recession in 2014 and the central bank was forced to give up defending the currency, which led to a steep depreciation of the ruble, a 2-3 percent annual decline in GNP, and

a proportionately greater decline in consumer welfare. Analysts attribute much of this to the concurrent fall in oil prices, but sanctions probably played some role. The Kremlin has aggressively deployed Russian foreign exchange reserves to shield businesses and the general population from the costs of sanctions, but these are being depleted. The Russian Academy of Sciences concludes with regard to the financial sanctions that in the short-term, "Russia will have to replace US\$160-200 billion shortfall in borrowings, while European financial institutions are exposed to annual losses of US\$8-10 billion from a reduction in interest payments."⁶¹ Many other financial effects are longer-term, such as the negative impact on the Russian oil industry, which is taking place over decades and cannot realistically be offset through Chinese or other investment.⁶²

The effect of trade sanctions on Russia is more ambiguous. As the immediate willingness of Russia to retaliate in kind suggests, authoritarian governments often manipulate the rents from sanctions levied against them to benefit privileged elites and domestic producers who welcome the import substitution effects that result from restricting foreign imports. They appear to have imposed modest and uneven short-term costs on Russia, which fall mostly on consumers, while for some producers and governing elites, the short-term balance may be modest, or even sometimes positive. Farmers have benefitted, for example, while Russian consumers have suffered higher inflation. Consumers have suffered from restrictions on travel to Europe, but travel in Russia has risen sharply, driving up hotel bookings and prices in cities such as St. Petersburg and Sochi. In the short-term, these types of benefits to local producers may strengthen the Kremlin politically. This import substitution effect is one reason

⁶¹ Shirov, Yantovskiy, and Potapenko.

⁶² Shirov, Yantovskiy, and Potapenko; Stent.

why sanctions rarely succeed in forcing a short-term reversal of policy.⁶³ The Kremlin's constant complaints about the sanctions suggest, however, that they are on balance unwelcome, and in the longer-term — say, from five to 20 years — trade sanctions might have a more significant and widespread negative effect.

In light of ambiguous evidence about their efficacy, one commonly hears that Western sanctions should not be thought of primarily as inflicting damage on the Russian economy in a bid to force the Kremlin to change current policy. Instead, sanctions signal Western unity and resolve by showing that Europe and the United States are willing and able to take costly coordinated action directed at Russia, whether or not those specific policies actually impose costs on the Kremlin.⁶⁴ This argument is highly problematic. If sanctions are relatively ineffective and direct military action has been ruled out, then what costly action do the sanctions credibly signal that the West would take in the event of Russian aggression?⁶⁵ Over time, moreover, costly but ineffective sanctions may actually undermine future action. The European Commission has estimated the overall effect of all sanctions and countersanctions at -0.3 percent of GDP for 2014 and -0.4 percent for 2015.⁶⁶ The gross losses to Europe in foregone trade and investment probably total around €100 billion per year, a very large sum in European countries, some of which sustain an economic growth rate smaller than that. Governments are likely to deplete

⁶³ E.H. Christie, "Sanctions after Crimea: Have they Worked?" *NATO Review* (2015). <http://www.nato.int/docu/Review/2015/Russia/sanctions-after-crimea-have-they-worked/EN/index.htm>.

⁶⁴ Christie.

⁶⁵ Perhaps the threat is to double down on economic sanctions by cutting Russia off entirely from global energy or financial markets. Yet it is at best unclear that current Western behavior signals this lesson to Moscow or to domestic publics.

⁶⁶ European Parliament Research Service, p. 4. Some other estimates are more positive, some less so, but they cluster around similar numbers.

political capital before achieving policy success. Overall, therefore, the case for sanctions appears to depend on making a credible claim that they impose costs on the Kremlin.

Military Deterrence

Among all the policies the West pursues, the least immediately relevant and effective, yet the one that receives the most attention in many Western capitals, is to bolster NATO deterrence. Today a "coalition of the willing" of NATO member states — the United States, United Kingdom, Poland, Germany, and the Baltics — is focused on making "persistent but not permanent" military commitments on NATO's eastern front. These include rapid deployment forces, pre-positioned military stockpiles, rotating mobile air and sea forces, long-range defensive forces against massed Russian attack, and intelligence assets. They have convinced NATO to move forward with the TACET (Transatlantic Capability Enhancement and Training Initiative) and the U.S. European Reassurance Initiative, which are encouraging NATO allies to spend additional billions to reinforce Poland, the Baltic States, and other NATO allies against potential direct Russian attacks. Defense spending is rising. The United States has proposed a (one time) quadrupling of funds for the "European Reassurance Initiative" from \$789 million in FY2016 to \$3.4 billion in FY2017. Nearly a year of preparation went into the July 2016 NATO Summit in Warsaw, widely viewed by the United States as the most important Western action against Russia.

Yet, despite its dominance in Western (especially U.S.) strategic debates, enhanced military deterrence is the least important item in the portfolio of policy responses to Russian aggression. Of course continued active participation in NATO remains a critical insurance policy against the possibility of a full-scale Russian attack against the Baltics or the West as a whole. However, policy is

Despite its dominance in Western strategic debates, enhanced military deterrence is the least important item in the portfolio of policy responses to Russian aggression.

From the start of the crisis, the military front has been in Ukraine, not a NATO ally, where the bulk of current NATO military preparations have had — and can have — relatively little impact.

made on the margins, and there is little evidence that additional enhancements to NATO deterrence add much to the West's security vis-à-vis Russia, let alone that of a country like Ukraine.

From the start of the crisis, the military front has been in Ukraine, not a NATO ally, where the bulk of current NATO military preparations have had — and can have — relatively little impact. Western governments unanimously ruled out direct military intervention in Ukraine as too costly and risky, given local Russian escalation dominance and limited Western interests. Unlike bolstering NATO, direct military aid to Ukraine does at least have a logical connection to this immediate threat. Yet most Western governments and publics reject such assistance as, on balance, ineffective, strategically provocative and, above all, unnecessary.⁶⁷ After all, as argued in detail in preceding sections of this paper, Ukraine stalemated Russian forces even without direct deliveries of lethal military assistance, and revealed Russian military policy to be surprisingly averse to high costs and risks, particularly with regard to the deployment of elite Russian military forces. Given this history, and a consistent track-record of Russian behavior elsewhere, the probability of an attack on Poland, the Baltics, or other NATO allies — to which its preferred tools of hybrid warfare are even less suited — is small.

When pressed, military analysts often concede that Russia is unlikely to launch an intentional attack. Some maintain, nonetheless, that the West

⁶⁷ Europeans critics fear that lethal aid would tempt Russia to preempt militarily, pushing Ukrainian forces back, and that it might place the Kremlin in a situation where a subsequent face-saving compromise would be more difficult. Military assistance to Ukraine lacks majority support in every major NATO country except Poland; it has less than 60 percent of the public support that economic assistance to Ukraine enjoys. K. Simmons, B. Stokes, and J. Poushter, "NATO Publics Blame Russia for Ukrainian Crisis, but Reluctant to Provide Military Aid," Pew Research Center, June 10, 2015, <http://www.pewglobal.org/2015/06/10/nato-publics-blame-russia-for-ukrainian-crisis-but-reluctant-to-provide-military-aid/>.

should worry about inadvertent escalation. They cite Russia's scattered overflight violations of the airspace of various Baltic countries, forays by spy planes across Europe to Britain, one border incident involving an Estonian organized crime investigator, buzzing of U.S. naval vessels, and similar high-profile events. The prevailing view appears to be that the danger is that a robust Western reaction to this type of incursion, akin to the recent Turkish downing of a Russian fighter, could lead to an incident that escalates. Certainly this is valid concern to which attention should be given. Yet we should neither overestimate this threat nor conflate it with deterring a direct attack. Such Russian activities have been occurring for many years without consequence and, if the recent case of the Turkish downing of a Russian plane is any indication, they do not escalate automatically. And if accidental war or highly irregular types of warfare, such as a cyber-attack, is the primary military threat posed by Russia, the current costly enhancement of high-tech NATO deterrence is not necessarily the obvious response.

European Leadership: The "Indispensable Power" Behind Western Policy Remains a United Europe Led by Germany

In dealing with Russia and Ukraine, the bulk of Western power and leadership comes from a German-led Europe. In almost every measurable area — trade, investment, finance, aid, even to a large extent, military might — Europe is the "indispensable" power. It possesses more intense interests, more powerful policy instruments, and more attractive international norms and institutions — and engages in the most intense diplomacy. In almost every area, *it provides about ten times more material might than the United States*: it trades ten times more with Russia, provides ten times more aid and finance to Ukraine, takes almost all of Russian energy exports, and possesses the essential ideological symbol of European integration. It

is Europe's sanctions, aid, diplomacy, and ideas that matter more than those of any other country or region. In every one of these areas, moreover, Germany has been Europe's most capable and committed government. Chancellor Angela Merkel has emerged as the West's leading statesperson in dealing with Russia — a fact that even U.S. President Barack Obama acknowledges.

This is not to deny that the United States plays an essential role, especially in the military area, where its long-term commitment to NATO is an important background condition for European stability. Unique U.S. military assets, including a global presence, high technology intelligence assets, and strategic nuclear capabilities, are useful in Europe. Globally, one might think of the transatlantic relationship in terms of a complementarity of burden-sharing, in which the United States provides a more robust military, while the EU has more robust economic, international institutional, and soft power resources.⁶⁸ Still, even in regional military matters, Europe plays a strong role. The special U.S. European Reassurance Initiative fund (\$800 million this year and \$3.4 billion proposed for next year) may seem like a lot. Yet this commitment is just a fraction of the \$10 billion Poland alone spends on defense annually.⁶⁹ Europe as a whole spends more than \$250 billion annually on defense, while the share of U.S. military spending specifically for Europe is \$60 billion,

⁶⁸ A. Moravcsik, "Striking a New Transatlantic Bargain," *Foreign Affairs*, July/August 2003, <https://www.foreignaffairs.com/articles/europe/2003-07-01/striking-new-transatlantic-bargain>.

⁶⁹ Over the next decade, Polish defense spending is projected to nearly double from more around \$9 billion to nearly \$17 billion annually. Average annual U.S. spending on European reassurance is roughly the same size as incremental annual increases in Polish spending. C. Balis and D. Kimla, "Poland's Defense: Facing Shifting Political Winds and Policy Revisions," Avascent Occasional Paper, August 21, 2015, <http://www.avascent.com/2015/08/polands-defense-facing-shifting-political-winds-and-policy-revisions/>.

most of which is placed in Europe to support U.S. missions elsewhere in the world.⁷⁰

However we assess NATO burden-sharing, its role in transatlantic relations and Western relations with Russia is universally exaggerated. Geo-economic influence, not military influence plays the decisive role on the margin in combatting Russian influence in places like Ukraine — and such influence is overwhelmingly European.

First and most important is Europe's preeminent role in regional trade and investment. The European Union is the world's largest trader and investor, and it has a unique impact on the economies of other countries, particularly in neighboring regions. Economic interdependence with Europe is becoming the most important geopolitical fact of life for both Russia and Ukraine. Like all governments in Eastern Europe, Ukraine has seen growing foreign economic exchange with Europe over the past two decades. While Ukraine has traditionally directed most of its exports to Russia and other parts of the former Soviet Union, the EU is now Kyiv's largest trading partner, accounting for about one-third (32 percent) of Ukrainian trade, more than twice as much as Russia (13 percent) and more than 15 times more than the United States (<2 percent). Both the Russian and U.S. shares are not just small but declining. This decline is due in part to politically motivated Russian embargoes, which are, over the long-term, self-defeating, because they undermine the very trade dependence of Ukraine on the Russian market that would be a precondition for their success and suggest that Ukraine's future in the Customs Union centered on Russia may be

⁷⁰ For the reasoning, see A. Moravcsik, "The United States is riding Europe's superpower coattails," *The Washington Post*, April 15, 2016, https://www.washingtonpost.com/opinions/the-united-states-is-riding-europes-superpower-coattails/2016/04/14/90b3dd98-0193-11e6-9203-7b8670959b88_story.html.

While Ukraine has traditionally directed most of its exports to Russia and other parts of the former Soviet Union, the EU is now Kyiv's largest trading partner.

Figure 4

Ukraine: Destination of Exports of Goods (percent) ³				
	Russia	EU28+CH	U.S.	Total
2000	23	30	5	\$16 billion
2012	24	35	2	\$74 billion
2015	13	32	2	\$48 billion

Russia: Destination of Exports of Goods (percent) ⁴				
	EU28+CH	U.S.	Ukraine	Total
2000	49	7	5	\$105 billion
2012	52	4	6	\$480 billion
2014	49	4	3	\$450 billion

Russia: Origin of Imports of Goods (percent) ⁵				
	EU28+CH	U.S.	Ukraine	Total
2000	49	7	9	\$105 billion
2012	49	4	6	\$480 billion
2014	47	5	3	\$450 billion

EU: Destination of Extra-EU Exports of Goods (percent) ⁶					
	U.S.	China	Russia	Switzerland	Rest of World
2002	23	7	6	8	56
2012	14	12	9	7	58
2014	15	14	8	7	56

³ Totals calculated from the Observatory of Economic Complexity, <http://atlas.media.mit.edu/>; D. Krasno-lutska, “Hidden Sting Drives up Costs for Ukraine in Russian Trade War,” Bloomberg, January 14, 2016, <http://www.bloomberg.com/news/articles/2016-01-13/hidden-sting-drives-up-costs-for-ukraine-in-russian-trade-war#media-2>; European Commission Directorate General for Trade, “Ukraine,” <http://ec.europa.eu/trade/policy/countries-and-regions/countries/ukraine/>; Office of the United States Trade Representative, “Ukraine,” <https://ustr.gov/countries-regions/europe-middle-east/russia-and-eurasia/ukraine>.

⁴ Observatory of Economic Complexity.

⁵ Ibid.

⁶ Ibid.

risky.⁷¹ The attractiveness of integration into the Western economic zone is such that all Ukrainian governments, even “pro-Moscow” ones, have sought to move closer to Europe economically.

The preeminent economic role of the Europe within Western economic and financial activity

⁷¹ For a detailed analysis, see Miller. Russia has sought to substitute Russian for Ukrainian production in various key industries, such as military, transport, and industrial equipment, which are subject to government procurement.

in the region is equally important with regard to Russia itself. Europe takes about half of Russian exports, more than 12 times more than the United States (4 percent) or Ukraine (3 percent).⁷² One implication is that the costs of Western trade sanctions on Russia — and, more importantly, Russian counter-sanctions on the West — are also 12 times higher for Europe than for the United States. When U.S. officials speak in favor of Western sanctions on

Russia, what they mean in effect is that Europeans should pay higher costs. We have seen that it is hard to calculate precisely how high the costs on Europe have been — estimates range from \$5 to \$100

⁷² This is in large part a function of the large role of energy in Russian exports. China takes about 12 percent of Russian exports, one-quarter of what Europe takes, and this cannot be increased rapidly.

Figure 5

EU and U.S. FDI Stock in Ukraine ⁷		
	EU28	United States
Investment 2012/3	€21 billion	< €1 billion

⁷ Observatory of Economic Complexity.

Figure 6

Aid and Loans to Ukraine – Two Year Total, 2014-15 ⁸		
	Total (U.S. Dollars, Billion)	Percentage of EU/U.S. Total
EU-28 Total	\$17.6	90.7
Bilateral	\$15.5	
Multilateral (IMF)	\$2.1	
United States	\$1.8	9.3
Bilateral	\$0.7	
Multilateral (IMF)	\$1.1	

⁸ Calculated from data in V.L. Morelli, “Ukraine: Current Issues and U.S. Policy,” Congressional Research Service, April 27, 2016, pp. 7-8, <https://www.fas.org/sgp/crs/row/RL33460.pdf>.

billion annually — but at the high end the cost may total nearly 0.5 percent of European GDP.⁷³

Europe’s dominant role vis-à-vis the United States is similarly visible in the area of foreign direct investment. The data clearly show that the United States plays a relatively unimportant role. It is not possible, however, to distinguish unambiguously between European and Russian FDI, because many Russian firms and individuals use Western countries such as Cyprus, Britain, and the Netherlands to channel investment back into Russia, Ukraine, and the rest of the former Soviet Union.

The same 10:1 relationship between European and U.S. influence and commitment is evident in the area of Western aid and loans to Ukraine. Total Western financing, bilateral and multilateral, totals around \$10 billion a year. Of this, Europe provides

about 10 times more than the United States (90.7 percent): almost \$9 billion comes from Europe, as compared to less than \$1 billion (9.3 percent) from the United States. Other Western countries give far smaller amounts, mostly through their IMF quotas.

Europe’s key economic role is also clear in energy markets. Russia has no medium-term alternative to selling its oil and gas to Europe. China is no substitute.⁷⁴ Europe may be dependent on Russian gas (31 percent of imports), crude oil (27 percent), and coal (24 percent). Yet Russia is even more dependent on the EU for exports of oil (88 percent), gas (70 percent), and coal (50 percent).⁷⁵ By contrast, Russia engages in almost no energy trade with the United States.

Finally, for many Ukrainians, Europe remains a unique ideological symbol of Westward alignment. It is not by chance that the EU trade agreement and connection with Europe served as an ideological “focal point” for the Euromaidan protests against domestic corruption and economic management in Ukraine. In Maidan, we saw the blue European flag, not the Stars and Stripes. Europe retains considerable power as a unifying symbol remains today. Recent public opinion analyses reveal that Ukrainians are quite critical of Poroshenko’s handling of almost all domestic and international issues. Yet they uniquely exempt “one bright spot,” namely his handling of relations with the European Union, which is approved by

⁷⁴ A. Stent, “Russia, China and the West after Crimea,” Transatlantic Academy, May 2016, <http://www.transatlanticacademy.org/publications/russia-china-and-west-after-crimea>.

⁷⁵ D. Francis, “Russian Ties to Ukraine Go Much Deeper than Gas,” *The Fiscal Times*, February 21, 2014, <http://www.thefiscaltimes.com/Articles/2014/02/21/Russian-Ties-Ukraine-Go-Much-Deeper-Gas>.

⁷³ Shirov, Yantovskiy, and Potapenko.

a majority of Ukrainians, including a plurality in the country's east. If Ukraine ever finds a stable geopolitical home, it will be as a state associated in some form with the EU. This is what Putin fears most, and yet it is hard to see what viable alternative exists except to join a small band of disparate Central Asian autocracies.

Given more potent power resources and more intense interests, it is not by chance that Europe has been far more engaged diplomatically with Russia over Ukraine than the United States. Ulrich Speck has counted the telephone and face-to-face conversations between Putin and Western heads

of state and government.⁷⁶ Again we see close to a 10:1 relationship favoring Europe: almost 8:1 in total meetings and 6:1 in one-on-one meetings. The Normandy Process, which is the primary negotiating forum between Ukraine, the West, and Russia, formally involves Russia, Germany, France, and Ukraine.

⁷⁶ U. Speck, "The West's Response to the Ukraine Crisis: A Transatlantic Success Story," Transatlantic Academy, April 2016, <http://www.transatlanticacademy.org/publications/west%E2%80%99s-response-ukraine-conflict-transatlantic-success-story>.

6

OPTIONS FOR THE FUTURE: CAN THE WEST SUSTAIN ITS SUCCESSFUL EUROPE-LED CIVILIAN-POWER STRATEGY?

Europe and the United States have succeeded in backing Ukraine so far by resolutely sticking to a civilian strategy. The West should continue to pursue this strategy, doubling down where necessary. Yet the very success of this policy may, ironically, threaten continued Western cohesion and thereby snatch defeat from the jaws of victory. Western governments may begin to squabble over the best way forward. Continued success in opposing Russian initiatives requires that Germany remain resolute in its support of Ukraine and opposition to Russia, European governments remain unified in backing Berlin's tough but flexible negotiating strategy, and the United States and other Western governments continue to line up in support of Europe's successful geo-economic strategy.

The continued success of Western policy faces three threats. First, opposition may arise from governments that prefer to spend their political and financial resources on a strategy of military deterrence rather than geo-economic support for those who oppose Russia. Second, opposition may arise from dissension among Western governments about how to conduct diplomacy with Russia — not simply from those who would appease the Kremlin, but from those who would take a hard line without any realistic hope of resolution. Third, opposition may arise if the political will erodes regarding continuing to provide the large economic resources required to keep Ukraine afloat, which are paid disproportionately by Europe.

Danger #1: The West may desert its geo-economic strategy in favor of military containment.

The first danger is that Western governments will pay less attention to the geo-economic strategy it has successfully pursued and refocus its attention and resources on NATO military deterrence. This would both split the West and

undermine its policy toward Russia. We have seen that a small “coalition of the willing” has established a “persistent but not permanent” military commitment to the eastern frontline states, including rapid deployment forces, pre-positioned military stockpiles, rotating mobile air and sea forces, and intelligence assets.

While defense is an essential component of a Western two-track strategy, the analysis above suggests that recent marginal improvements in NATO deterrent are essentially irrelevant to Russian military and political calculations. NATO does not propose to deter attacks on Ukraine, and does not need to, since Russia has signed a cease-fire in Donbas and does not, if we accept the analysis above, seriously threaten the Ukraine's heartland. Russia is already far too casualty- and risk-averse to attack a NATO ally, particularly those without Russian minorities. In any case, most new NATO policies are not primarily focused on hybrid warfare.

Some might object that modest investments in NATO reassurance are harmless. Analysts often advise policymakers that a particular issue is so important that governments should “do everything.” NATO's current policies, which involve a small number of countries and a modest increase in military commitment, seem reasonable. Yet politicians and publics, unlike policy analysts, recognize that time, money, and political will are limited. Trade-offs always exist. NATO conventional deterrence can divert critical attention and money away from more important things. Ritual criticism of Europe's unwillingness to spend 2 percent of GDP on defense, for example, is counterproductive if it encourages European governments to spend scarce money and direct attention away from civilian policies that are more vital to Western resistance to Russia. Last year, just the marginal increase in Poland's defense spending

Continued success in opposing Russian initiatives requires that Germany remain resolute in its support of Ukraine and opposition to Russia, European governments remain unified in backing Berlin's tough but flexible negotiating strategy, and the United States and other Western governments continue to line up in support of Europe's successful geo-economic strategy.

Often overlooked is the danger that Western governments, afraid of “appeasing” Russia, will retain the current inflexible “all or nothing” position with regard to the Minsk negotiations, placing Putin in a position where he has little face-saving motivation to reach a settlement with the West.

alone was hundreds of times larger than the \$5 million in development and humanitarian aid it gave Ukraine. We have seen that there are imminent dangers in Ukraine for which Western countries may be unprepared, in part because elite time and money is going into defense. And overemphasis on one threat can undermine NATO solidarity. A country like Italy, for example, might view sanctions more favorably if it felt NATO placed equal priority on likely events in Libya, which it quite plausibly argues pose a more likely and costly future security threat to core European countries than those in the Baltic States or Poland.

Danger #2: Western governments may be inflexible on sanctions.

The second threat is that Western governments will be inflexible, either underplaying or overplaying their hand with regard to sanctions. Though Western policy has been surprisingly united to date, and sanctions have been a key lever against Putin, they may soon split the West. It is widely agreed that the Minsk Agreement cannot be implemented as it stands; some compromise must be reached. Yet this requires that the sanctions regime be carefully manipulated in support of this goal.

One obvious and widely discussed threat is that sanctions will be relaxed too soon. Though many European governments, which bear the brunt of the costs, are unenthusiastic about sanctions, so far EU solidarity, bureaucratic inertia, and political will have assured their renewal.⁷⁷ Most European governments would probably support flexibility. We already see German politicians calling the sanctions into question and Italian Prime Minister Matteo

⁷⁷ Should the trade sanctions regime weaken, it is more likely to do so not through collective renunciation, but through lax enforcement by individual countries. This would probably leave financial sanctions, which are more centralized, in place.

Renzi encouraging full discussion of sanctions at EU meetings. This should not surprise us given the higher cost Europeans pay for sanctions and the fact that, in the long term, Europeans have to manage the social spillover of any renewed conflict in Ukraine. A long-term freeze in Russia-West relations is not in Europe’s interest, and low-level conflict could heat up again at little cost to Putin, causing humanitarian problems.

Often overlooked is the danger that Western governments, afraid of “appeasing” Russia, will retain the current inflexible “all or nothing” position with regard to the Minsk negotiations, placing Putin in a position where he has little face-saving motivation to reach a settlement with the West. Over the next year, a number of governments are likely to remain rigidly attached to the demand that sanctions not be relaxed unless all Western demands concerning eastern Ukraine are met. Such inflexibility may prove impractical and divisive. At some point, Russia is almost certain to refuse further concessions on implementing the Minsk Agreement without some interim Western *quid pro quo*. The Ukrainian government may cloud things further by refusing to comply with its own obligations, which are in any case ambiguous. Achieving a (second-best) negotiated settlement would then require some Western concessions.

Danger #3: The West could be too stingy on economic assistance to Ukraine.

The third and most worrisome threat is that the West will underfund economic assistance to Ukraine. Over the next few years, Ukraine is likely to face serious and ongoing economic crisis wrought by a combination of financial crisis, Russian trade embargo, shift of trade to the West, continued uncertainty in eastern Ukraine, and

insufficient structural reform. The danger here is that where more is needed, less may come.

To date Western debt relief and economic aid have kept the country afloat — and permitted it to resist Russia. Even so, economic growth remains negative, foreign direct investment anemic, and economic reform sluggish. Debt restructuring has not stabilized external accounts. The negotiations that decide Ukraine's future will not be with Moscow, but with businesses, international organizations, and governments in the West, with whom Ukraine has trade imbalances larger than with Russia. In addition, we must expect that Putin, having failed to influence Ukraine using military instruments, will try to achieve the same ends using economic and political ones. At the very least, he will make good on threats to call in Ukrainian debt and impose trade embargoes. If he does, Ukraine could immediately face an increase in external imbalances of around \$5-7 billion per year. As George Soros and others have argued, Ukraine will likely require much more economic support in the future (up to \$40 billion total) than it has received to date.

The major danger is not that Russia will conquer Ukraine, but that the West, having saved it from Putin's allies, will let it collapse economically and politically. Avoiding this fate is an expensive proposition, for which the West is currently unprepared, economically and politically.

Moreover, if Ukraine is to avoid internal instability, then conditionality attached to Western programs, combined with European trading opportunities, must be managed in such a way as to achieve results without bankrupting the country. These are the only external instruments available to encourage reform of Ukraine's oligarch-dominated economy and fragile democracy, short of criminal prosecution.

This issue threatens not only to challenge the political will of the West, but to divide it. The United States has been generous to Ukraine by its own standards of financial and foreign aid, but nonetheless accounts for a small percentage of economic support. It is difficult to imagine a Republican Congress upping the aid. Dealing with concurrent crises, Europeans are strapped for cash. It is easy to imagine that the West will squabble over and then underfund aid to Ukraine. Brexit, the migration issue, a potential crisis in the Mediterranean, or the possibility of a renewed euro crisis centered on Italy could limit the will to spend money on Ukraine. The last time reform efforts failed, after the Orange Revolution, a government willing to deal with Russia was voted back into office. It would be ironic indeed if the West were to help Ukraine defend itself from Putin's army, only to permit him to regain control through the ballot box.

The last time reform efforts failed, a government willing to deal with Russia was voted back into office. It would be ironic indeed if the West were to help Ukraine defend itself from Putin's army, only to permit him to regain control through the ballot box.

7 CONCLUSION

The stable European position has rested on the continued stability and commitment of the German government.

The future success of Western policy rests, above all, on the continued unity and resolve of the European Union. With crises over Brexit, migration, the euro, democratic legitimation, and globalization, the EU faces many challenges. Yet one of its clear successes has been its ability to maintain a common policy toward Ukraine and Russia, and commit serious resources to that policy. We have seen that no amount of activity by NATO, the IMF, or the United States or other individual governments can supplant the decisive geo-economic influence of a united Europe. The stable European position has rested, in turn, on the continued stability and commitment

of the German government. Germany is well suited to this role. It is comfortable in the role of a civilian power. It has traditionally been a generous provider of foreign aid, a liberal free-trading economy, and a supportive member of the European Union. It has traditionally been willing to engage diplomatically and economically with Russia in a flexible and understanding way. It has emerged as the leading economy in Europe, which gives it many tools with which to influence policy. A major priority of policymakers in Washington, Brussels, and elsewhere should be to facilitate Germany's continued ability to lead in Europe on this issue.

1744 R STREET NW

WASHINGTON, DC 20009

T: 1 202 745 3886

F: 1 202 265 1662

E: INFO@TRANSATLANTICACADEMY.ORG

WWW.TRANSATLANTICACADEMY.ORG

