



## Russia: A Test for Transatlantic Unity

Marie Mendras, Nelli Babayan, Chris Miller, Andrew Moravcsik, Ulrich Speck,  
Angela Stent

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# RUSSIA

## A TEST FOR TRANSATLANTIC UNITY



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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: Russian President Vladimir Putin (L), Ukrainian President Petro Poroshenko (R), German Chancellor Angela Merkel (back to camera), and French President Francois Hollande (center, background) hold a discussion during the Asia-Europe Meeting (ASEM) in Milan, Italy, October 16, 2014.

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# RUSSIA: A TEST FOR TRANSATLANTIC UNITY

May 2016

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# 1

## Introduction

*Stephen F. Szabo, Executive Director*

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**T**he Russian challenge to the West has been the topic of the 2015-16 fellowship year at the Transatlantic Academy; this report is the result of the work of the Academy fellows over the past eight months. This study follows upon the previous fellowship years, which were devoted to examining challenges to the liberal order both at home in North America and Europe and in the emerging, less-Western world. Russia was already a consideration in the previous fellowship year, which dealt with the role of religion in foreign policy and covered President Vladimir Putin's instrumentalization of civilizational conflict through the use of traditional values and the Russian Orthodox Church. The Academy believed a closer look at the broader challenge posed by Putin's Russia was needed following its annexation of Crimea and actions in Ukraine. These actions, combined with an increasingly aggressive set of measures to influence public opinion and politics within the West, pose a real threat to the values of an open society and to the European order.

Given the mission of the Academy to bring together academics and policymakers from both sides of the Atlantic, we took as our focus the transatlantic dimension to this broad challenge. While many studies have been done of various aspects of the nature of Putin's policies and the possible dangers they may pose, few have taken the perspective of the Western alliance as a whole. Too often, the focus in the United States has been on what U.S. policy and strategy should be, with little regard for European perspectives and contributions. This frequently has led to a tired debate over the lack of burden sharing by European allies and an ill-informed view of what Europe has been doing in response to the damage done to the Western security order. On the European side, there has been a general impression that the United States either has done too little and is disengaging from Europe as part of a Pacific pivot, or that it is too eager to use the crisis to create a new confrontation with Russia.

As a number of the papers that are highlighted in the report point out, the Western response to Russian aggression has in fact been robust and effective, and Western unity has been critical to limiting the damage created by this incursion. There has been a transatlantic division of labor between a geo-economic Europe with its much larger economic and energy stake in its relationship with Russia, and a United States that has used the weight of its military power to reassure its European allies and to bolster deterrence. Europeans are indeed more directly threatened by Russian military actions in Ukraine and the Baltic States, but have also paid a much heavier economic price for sanctions than have Americans. The United States also has a vital stake in the stability of the European security system and broader liberal order. This has been a case, at least so far, of equitable burden-sharing and partners in leadership.

The Transatlantic Academy fellows came together in September 2015 and were in residence at the Academy in Washington, DC until June 2016. They were joined by a number of shorter-term fellows, who brought perspectives from think tanks and government. They engaged in a number of workshops and a joint study trip to Europe and held weekly *jour fixes* to develop both their individual papers and a collaborative memo included in this volume titled "Russia: A Test for Transatlantic Unity," which offers some policy ideas for the incoming U.S. administration and for key leaders in Europe. During their year in residence, Russia became directly engaged in the war in Syria, confronted NATO ally Turkey, and took intimidating actions in

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the Baltics. The West struggled to promote a fulfillment of the Minsk agreement, maintained a sanctions regime, and took steps to reassure NATO members in Eastern Europe. Academy fellows traveled to Berlin, Brussels, London, Rome, Kyiv, Moscow, Warsaw, Philadelphia, Austin, and other cities and organized workshops on Russian military modernization and hybrid warfare, the evolving Russian relationship with China, the Russian-Turkish relationship, and the state of Russian elites and decision-making, among other topics.

What follows are the collaborative memo written by the six full-time fellows and short summaries of the longer individually written papers. The full texts of the individual papers are accessible via hyperlink for published papers; several are still forthcoming in the next two months at the time of publication.

The group memo, “Russia: A Test for Transatlantic Unity,” is the product of intensive discussions among the six full-time fellows and offers a number of lessons and policy recommendations for Western policymakers. They consciously set a short-term (two- to four-year) time frame, which is the one of greatest relevance to policymakers. A new U.S. administration will take office in January 2017, with crucial elections in France and Germany following later that year. Sanctions will be up for a number of renewals over that period, and the Western solidarity that has been a success story to this point will be tested. The Minsk agreement will still need to be fulfilled and the political stability of Ukraine will hang in the balance. The West now has a stake in Ukraine that it did not have before Russia’s intervention and will have to maintain its strategic focus in the face of “Ukraine fatigue.”

For the individual research summaries, we open with three papers dealing with the nature of the Russian military and hybrid warfare challenge. Marek Menkiszak, the OSW Visiting Fellow for the fall term, looks closely at the war in Ukraine and how it fits into Moscow’s long-term strategy. Margarete Klein, Bosch Public Policy Fellow, writes on the extent of Russian military modernization, its achievements and deficiencies, and the implications for NATO and the military balance in the region and beyond. Stefan Meister, a visiting fellow with the Academy, examines the role of Russian propaganda and Moscow’s disinformation campaign in Europe, arguing that while it may be a sign of Russian weakness, it needs to be taken seriously and countered within the West.

Continuing on the topic of Russian policy, Angela Stent offers an assessment of Russia’s turn toward China, arguing that it is a pragmatic and tactical move rather than a precursor to a closer alliance. China provides some cover to Russia in the wake of Western sanctions but has a far greater economic stake in Europe and the United States than it does in Russia.

The next four essays look at parts of the West itself and its reactions to Russian actions. Ulrich Speck provides a case study of how Europe and the North America worked together to contain the impact of Russian aggression in Ukraine. He labels it a surprising success story that limited the damage but has not resolved the conflict. Led by Chancellor Angela Merkel of Germany, the transatlantic community unified on a tough sanctions regime and sent a strong message to Moscow of resolve and the importance of maintaining core international norms, especially territorial integrity. He poses the larger question of whether this legacy of coop-

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eration will carry over more broadly into successful transatlantic cooperation in the future. Andrew Moravcsik's essay on the lessons from the Ukraine crisis concurs with Speck's assessment that the West has been surprisingly successful in blocking further Russian assertiveness and points to the primacy of geo-economics and non-military policy instruments in this response. This was a case where Europe led, with the United States playing a supporting role. Moravcsik contends that this approach should serve as a paradigm for future Western strategies. Moravcsik also warns of the perils of changing course from this successful approach. Hannes Adomeit, another Bosch Fellow, raises questions about the long-term durability of this approach in Germany, noting a "changed atmosphere" since the fall of 2015 with the influx of refugees into Germany and other developments and citing the government's controversial agreement to the construction of a second Nord Stream gas pipeline with Russia. While Germany has taken in the lead in crafting the Western response to Russia's aggression in Ukraine, its leaders and public are deeply divided on where to go from here. Nelli Babayan, in her analysis of the countries between Russia and the EU and foreign policies toward them, sees illiberalism as the winner, with authoritarian leaders deftly playing off the West against Russia. She argues for a clear and consistent Western approach toward Eastern Partnership countries that emphasizes conditionality, engagement in dealing with frozen conflicts, and the strengthening of border controls.

The two final essays by Chris Miller and Marie Mendras point out some key vulnerabilities in the Russian system. Miller points to major changes in European energy markets that have substantially reduced Russia's dominance and the long-term impact of Russia's repeated use of non-energy trade policy as a political weapon. The deterioration of Russia's economic leverage has important implications for its role in the Eastern Partnership countries and beyond. Mendras examines the impact of the Ukraine crisis and Putin's confrontational policy on Russian elites, arguing that the president has broken his social contract with influential groups. She sees a growing conflict between these elites becoming more acute and raising questions about the longer term viability of the Putin system.

Russia will remain a power to reckon with in Europe and the scope of constructive cooperation will remain very limited. Contacts with Russian civil society must be strengthened to the extent that they can be, given the Putin regime's obstruction of such contacts. Russia expertise must be rebuilt in both Europe and North America after a sharp post-Cold War decline. Western unity vis-à-vis Russia should be the top priority of leaders in the transatlantic community during a time when it will be tested.

I would like to thank Ted Reinert for his work on the Academy's publications including editing, Jessica Hirsch for all of her excellent support of the Academy's work, Alexandra Martin and Djordje Milosevic for their research assistance, and our partners at GMF who assisted on this publication, in particular Rachel Tausendfreund, Christine Chumbler, and George Marshall. All of us at the Academy wish to thank our partners, who are listed on this report, for their continuing support of our work, without which this transatlantic dialogue would not be possible. We would also like to thank those who contributed to our deliberations in a variety of workshops and conversations over the past eight months.

# Conflict in Ukraine



## Surprising Solidarity on Ukraine

Since the annexation of Crimea, the transatlantic partners have successfully acted together to contain the Ukraine conflict. The European Union and the United States displayed an unexpected degree of unity and resolve in response to Russia's military actions in Ukraine. These actions have ironically strengthened the perception that Ukraine is a vital foreign policy interest for the West.<sup>1</sup>

Dealing with Russia in the coming years, the transatlantic partners need to continue building on their unity for at least three reasons. First, Russia's tensions with the West are likely to continue over the next couple of years. Second, given its current actions and rhetoric, Russia is likely to continue to pressure its neighbors in order to discourage them from exercising sovereign choices over domestic and foreign policy. Third, the Kremlin will continue to try to undermine transatlantic unity on issues such as sanctions.

Yet, Russia's attempts will not succeed if the West stays on the course it has recently adopted: unified transatlantic action, continuous support for good governance in countries such as Ukraine, Moldova, and Georgia, and close coordination between European capitals, EU institutions, and Washington.

## The Russia Challenge

The main Russian challenge to the transatlantic community is the Kremlin's resort to force against its neighbors and the resultant threat to European security.

### **Ambitions**

- Russia seeks Western acceptance of its claim to predominance in the post-Soviet space. In practice, this means limited sovereignty for Russia's neighbors and Russian veto power over their right to choose whether to align with the European Union or NATO.
- Russia seeks an end to what it perceives as Western strategy to promote "color revolutions" and regime change.
- Russia seeks to establish itself as a counter-model to what it depicts the "decadent" West. Moscow disputes the concept of universal values.
- Russia seeks to increase its influence in Europe and the United States by eroding unity on Ukraine, weakening the European Union's ability to act effectively, and undermining transatlantic security cooperation.

Today, Russia poses a heightened security challenge to Europe, with provocative military activity directed at members and partners of NATO.

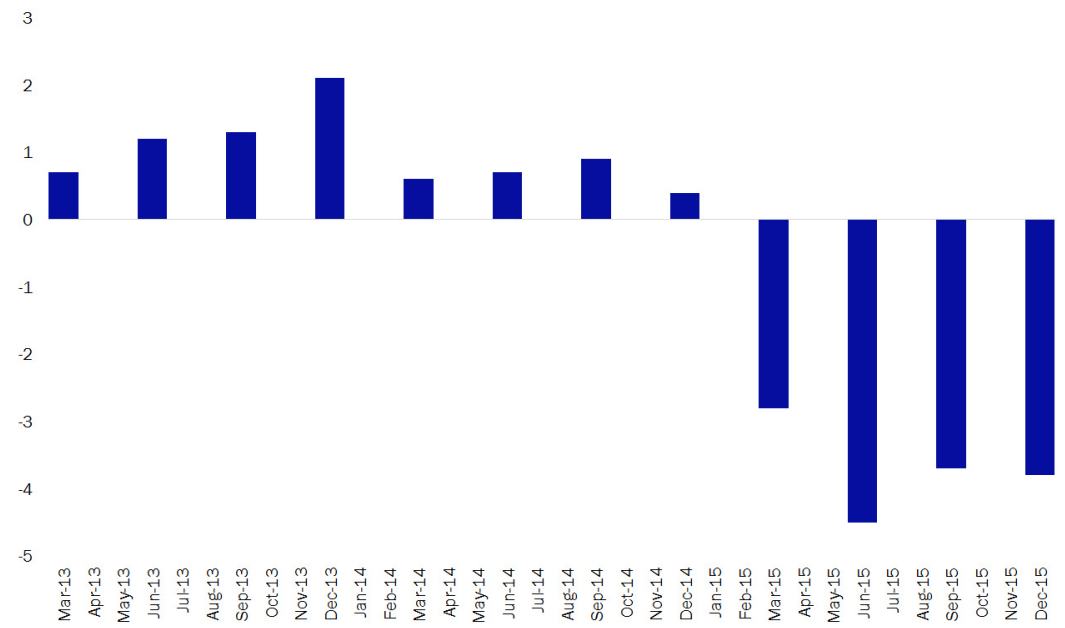
### **Capabilities**

Despite the scope of its foreign policy ambitions, Russia's capabilities are limited, given an undiversified and contracting economy, demographic decline, corruption, failure to build the

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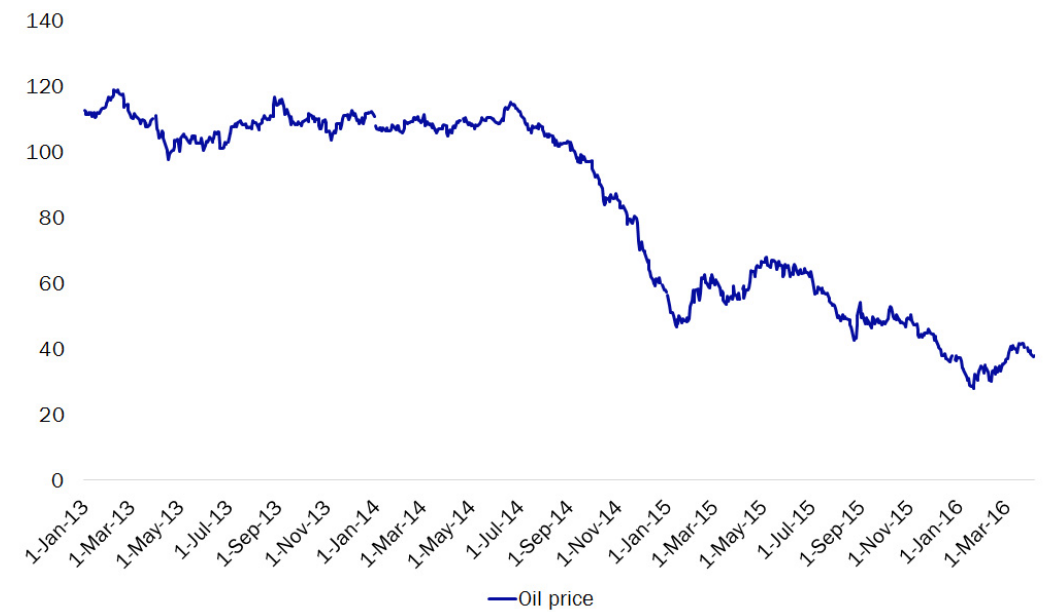
<sup>1</sup> We define the West in this memo as the European Union and its member states plus the United States, Canada, Japan, and other European NATO members.

**Figure 1: Russian GDP Growth**



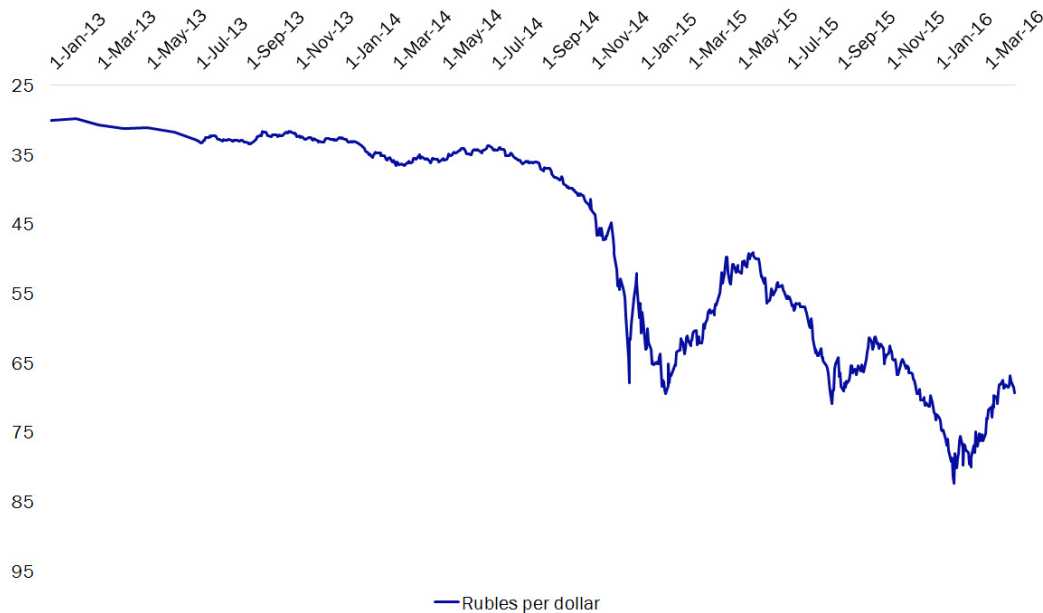
Source: Rosstat

**Figure 2: International Oil Price (US\$ per barrel Brent crude)**



Source: Bloomberg

**Figure 3: Russian Ruble - U.S. Dollar Exchange Rate**



Source: Bloomberg

institutions of modern governance, brain drain, crumbling infrastructure, and lack of international friends and allies.

Nevertheless, Russia's size, unity of decision-making, nuclear arsenal, modernized armed forces, permanent seat on the United Nations Security Council, abundant natural resources, and cyber capabilities enable it to project power and exercise influence beyond what its limitations would suggest.

- Russia's armed forces have improved since the 2008 Russia-Georgia war, and a military modernization program is underway. Although Russia's military remains far inferior to that of NATO, it remains the predominant military power in the post-Soviet space and can project power in its neighborhood. Russia is also one of the top three most cyber-capable states, giving it the capacity to launch distributed denial-of-service attacks, jam communications, and attack critical infrastructure and defense systems.
- Russia remains a nuclear superpower and increasingly relies on the threat that it could use its nuclear forces to project power. Russian officials increasingly talk about the possibility of limited nuclear war — a potent tool of intimidation.
- Russia is a leading global producer of oil and gas. While falling oil prices, the shale revolution, and alternative energy sources have diminished its ability to use energy to dictate the terms of trade, it nevertheless retains leverage over parts of Eastern and Southeastern Europe, and the EU overall will continue to import 30 percent of its gas supplies from Russia.

- 
- Russia uses state-controlled media to promote its narrative and confuse reporting about its actions abroad. Russia continues to exploit business, intelligence, and other networks, which often date back to the Soviet era but have adapted to modernity, as tools of influence in Europe and Eurasia.

Russia's ability to act as a spoiler, including its U.N. veto power, forces the West to engage with it on global issues. Even though Russia's capabilities are circumscribed, its capacity to destabilize its neighborhood and beyond should not be underestimated.

### Western Interests

The Transatlantic Community has four major interests with regard to Russia. Western countries generally would like to see a Russia that:

1. Respects the state sovereignty, territorial integrity, and foreign policy choices of its neighbors in the post-Soviet space, and does not use military means to threaten its neighbors.
2. Behaves as a constructive partner on other regional and global issues, such as the situation in Syria and Libya, non-proliferation, and international institutions and lives up to its agreements in regard to the European security order.
3. Reliably supplies energy to and trades with Europe in a transparent and open market manner.
4. Is well-governed, pluralistic, economically open, and respectful of human rights.

The greatest immediate concern for the West and greatest source of potential conflict with Russia has been Moscow's policies toward its neighbors. Countries should be free to choose their own international and domestic policies, including pursuing European integration.

Over the past two decades, U.S. and European policies to encourage the modernization of the Russian economy and polity have failed. The United States and most European governments have concluded that they can do little to influence the evolution of Russian domestic affairs.

While Western countries have common major interests with regard to Russia, that nation is a unified actor and the West is a diverse collection of democratic countries, with different geographies, economic interests, strategic cultures, and historical experiences with Russia, which limits its capability to act in a unified manner.

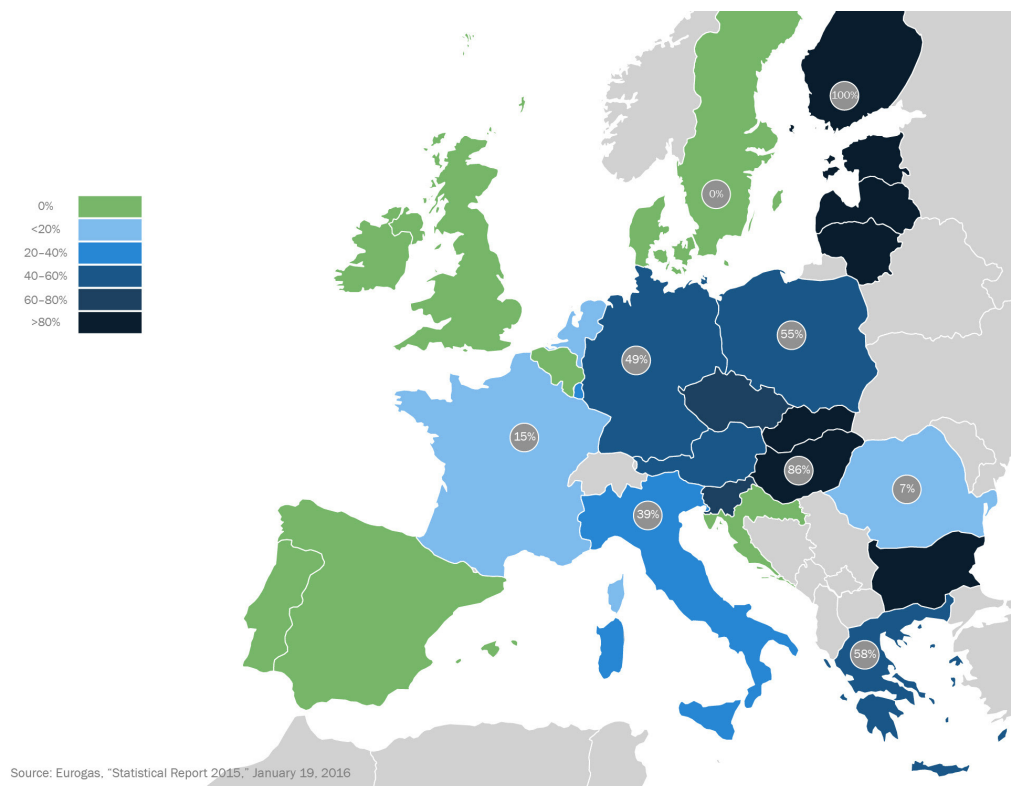
### Contested Issues

Over the near term, the most contested issues between Russia and the West are likely to be Ukraine and the EU's eastern neighborhood, the Syrian war, and economic and energy relations.

#### *Ukraine and the EU's Eastern Neighborhood*

Over the next two years, this region is likely to be the focus of continuing conflict. Russia has spent the past decade undermining efforts in the region to reform domestically and integrate with the West.

**Figure 4: EU Member States' Gas Dependency on Russia (2014)**



Though Russia's military push into Ukraine has come to a halt, the Kremlin remains committed to subverting Kyiv's post-Maidan government. Beyond the annexation of Crimea and the war in Donbas, Russia deploys a wide variety of tools against Ukraine, including cyber attacks, trade sanctions, diversion of energy flows, disinformation, long-standing relations with corrupt oligarchs, and refusal to restructure debt. Economic and other non-military levers against Ukraine have the potential advantage to Russia of being less likely to trigger an immediate Western response.

The European Union and the United States aim to stabilize Ukraine and the other countries in the EU's eastern neighborhood. This requires economic and technical assistance. Further political upheaval in the neighborhood beyond Ukraine is likely, potentially sharpening existing disagreements between Russia and the West. Both domestic politics and frozen conflicts could explode into new clashes.

### **Syria**

Russia has supported Bashar al-Assad since the beginning of the Syrian war with arms deliveries, financial aid, and diplomatic support at the United Nations Security Council. When it became apparent that the Assad regime might collapse, Russia launched sustained airstrikes

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and deployed ground troops in September 2015. Russia and the West have pursued significantly different goals in Syria.

Western goals in Syria are to achieve a cessation of hostilities, humanitarian relief, diminished refugee flows, the defeat of the self-proclaimed Islamic State and other terrorist groups, and replacement of the Assad regime with one that represents the broad interests of the Syrian population. For Europe, the refugee crisis has become a major issue. However, Western actions toward reaching these goals have been limited, with the U.S. government and others wary of being drawn into an intractable conflict.

Russia's main goal is to keep the Assad regime in power, though it has intervened militarily in the Syrian war under the guise of fighting terror. The Russians have made clear that they deem all anti-Assad groups, some of whom the United States and its coalition partners support, to be terrorists. If Assad is eventually eased out, then Russia wants to have a say in who his successor will be, so as to protect Russia's political and military assets in Syria, including its naval base at Tartus and its air base at Latakia. Russia's campaign also helps it reestablish a presence in the wider Middle East, regaining regional influence it lost after the Soviet collapse.

Russian actions have exacerbated the migrant crisis, destabilizing the European Union and its member state governments.

#### ***Energy and Economics***

Russia and the West continue to disagree over sanctions and the rules governing energy markets. EU economic and financial sanctions linked to the fulfillment of the Minsk II agreement are up for renewal in July 2016.<sup>2</sup> Energy links continue as Europe needs Russian natural gas and Russia needs hydrocarbon revenues. Yet a European gas market that is fragmented and opaque lets Russia extract higher prices for its gas exports and use energy for political gain.

Western sanctions against Russia are likely to be maintained in the near future. Russia will not relinquish Crimea, and the West's Crimea sanctions will remain in place. Russia has an interest in the removal of economic and financial sanctions linked to its military presence in eastern Ukraine though the link to Minsk conditions makes this difficult.

The Kremlin will continue to use energy to promote its political and economic goals, though its leverage has diminished in most countries. There are two main reasons why: a huge supply glut that has driven prices down and increased EU attempts to promote competition in European gas markets. The EU's efforts to create an Energy Union have made great progress in recent years.

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<sup>2</sup> On February 12, 2015, Russian President Vladimir Putin, German Chancellor Angela Merkel, French President François Hollande, Ukrainian President Petro Poroshenko, and OSCE Special Representative Heidi Tagliavini took part in talks in Minsk and agreed on a "Set of Measures to Implement the Minsk Agreements." These included a ceasefire starting on February 15; withdrawal of heavy weapons beginning on February 17 and completed within two weeks; the release of all prisoners, with amnesties for those involved in the fighting; the withdrawal of all foreign-armed formations, weapons, and mercenaries from Ukrainian territory, as well as disarmament of all illegal groups; and constitutional reform to enable the decentralization of the rebel regions by the end of 2015 and the restoration of Ukrainian border controls with Russia, to be completed by the end of 2015. Like the failed Minsk Protocol of September 5, 2014, "Minsk II" was signed by the trilateral contact group comprising representatives from Ukraine, Russia, and the OSCE, and by the representatives of the two rebel regions in eastern Donbas. The document can be read in Russian at <http://www.osce.org/cio/140156> and in English at <http://www.cfr.org/ukraine/package-measures-implementation-minsk-agreements/p36118>.

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## What is To Be Done?

The main challenge for the United States and Europe over the next couple of years is to maintain their successful cooperation and present a united front when dealing with Russia over the Ukraine crisis. That means maintaining the sanctions regime unless there is serious and demonstrable progress in implementing the Minsk agreement. This may become increasingly difficult for several reasons:

- Pressure from some EU member states to begin to ease sanctions, given different strategic concepts toward Russia that favor accommodation and business and economic interests that favor trade and investment. Elections and referenda in several major European countries could also change the political calculus on Russia.
- A United States focused on a contentious presidential campaign where several popular candidates have engaged in isolationist rhetoric, telegraphing uncertainty about the foreign policy of the next administration.
- Growing “Ukraine fatigue” due to political infighting and slow progress on reforms in Kyiv. A lack of willingness by governments and international organizations to spend money and other resources on Ukraine given competing priorities.

While EU sanctions are likely to remain in place until the end of 2016, it is possible that EU unity will not hold beyond December, especially if Europe is forced to confront new regional crises or faces intensified internal disagreements. It is also possible that certain Western countries may begin to loosen sanctions enforcement.

If Brussels does begin to relax sanctions and Washington does not, Russia’s preferred option — dealing with individual states bilaterally — may once again become the norm. In the same time frame, the outcome of the U.S. 2016 presidential election could have a major impact on U.S. policy toward Europe and Russia in ways that could affect the alliance’s ability to cooperate on Russia policy going forward. A Donald Trump victory could lead to a U.S. rapprochement with Russia and call into question the future of the transatlantic alliance.

Russia’s domestic trajectory and the sustainability of its economic and political system is an additional uncertainty. The alliance must be prepared to deal with unexpected developments in Russia.

Despite a range of economic and political stresses facing Europe and the United States, those nations have so far responded successfully to Russia’s actions in Ukraine. Moving forward, we recommend Western governments:

- **Maintain Western unity:** Carry on with the present transatlantic strategy including burden sharing with the Europeans paying a higher price for sanctions and the Americans offering more military reassurance to allies.

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- **Continue to insist on Minsk implementation:** Maintain linkage between sanctions on Russia and the fulfilment of the Minsk process, endorsed by the European Council and U.S. government statements, with Ukrainian control of state borders being the key criterion.<sup>3</sup>
  - **Continue the sanctions regime:** Maintain contingency plans to toughen sanctions in order to discourage Russia from further offensive military action, and communicate this clearly to the Russia leadership.
  - **Maintain Crimea sanctions** until the status of the peninsula is resolved under international law.
  - **Consider Ukraine a long-term investment in European stability:** Western governments should continue to prioritize supporting the Ukrainian government's program of economic restructuring and political and legal reforms. Europe cannot be isolated from Ukraine's challenges, as the events of the past several years show.
  - **Work with the countries of the EU's eastern neighborhood to develop their security and border control capabilities:** Russian intervention is most effective in instances where governments lack effective security mechanisms.
  - **Continue diplomatic engagement with Russia to deal with the Syrian war:** The United States must maintain its talks with Russia to prevent unanticipated military incidents, and the transatlantic partners must work with Russia to bring the warring parties to the negotiating table. There should be a compartmentalization of Western policy toward Russia in the Syrian and Ukrainian theaters.
  - **Do not engage with Russia for the sake of engagement:** A new dialogue should only begin when there are concrete and constructive proposals on the table.
  - **Invest in training the next generation of Russia experts:** Since the Soviet collapse, the United States and European countries (Poland, Sweden, Finland, and the Baltic States excepted) have sharply curtailed support for Russian studies. In 2014, the U.S. Department of Education cut funding for university Russia/Eurasia studies programs by 40 percent. Western governments should recommit to investing in the next generation of Russia/Eurasia experts so that their countries are better equipped to deal with Russia. A German institute for the study of Russia and Eastern Europe being set up by the Federal Foreign Office to replace one closed in 2000 is a start.<sup>4</sup>
  - **Keep engaging Russian civil society:** Western governments and societies should maintain and intensify contacts through educational, professional, and other exchanges.

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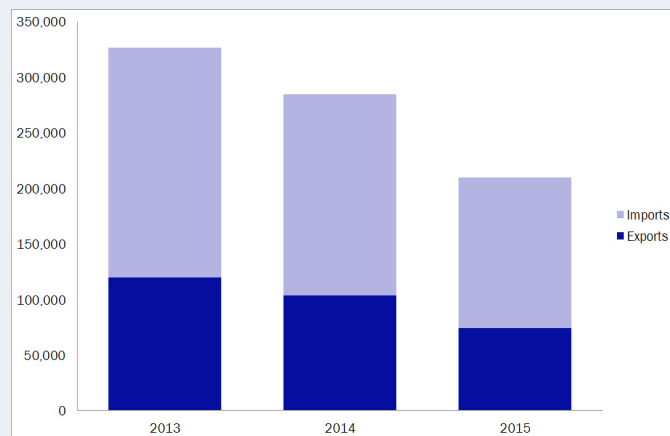
<sup>3</sup> European Council, "Conclusions – 19 and 20 March 2015," March 20, 2015, <http://www.consilium.europa.eu/en/press/press-releases/2015/03/20-conclusions-european-council/>; V. Nuland, "Testimony on Ukraine Before the Senate Foreign Relations Committee," U.S. Department of State, March 10, 2015, <http://www.state.gov/p/eur/rls/rm/2015/mar/238722.htm>.

<sup>4</sup> A. Rinke, "In response to Ukraine crisis, Berlin to launch new think tank," Reuters, January 27, 2015, <http://www.reuters.com/article/us-ukraine-crisis-germany-russia-idUSKBN0L028420150127>.

### Western Trade with Russia Contracting

EU and U.S. trade with Russia has dropped precipitously since the outbreak of the Ukraine crisis due to sanctions, the weakened ruble, lower energy prices, the weakened Russian economy, and other factors. EU and U.S. trade with Russia have contracted by comparable degrees, although EU trade with Russia is roughly ten times as large as U.S. trade with Russia. Total EU trade in goods with Russia in 2015 was worth €210 billion (roughly \$231 billion), down from €326.5 billion in 2013. Total U.S. trade in goods with Russia in 2015 was worth \$23.6 billion (roughly €21.5 billion), down from \$38.2 billion in 2013. U.S. trade with Russia represented 0.6 percent of the total value of U.S. trade with the world in 2015; EU trade with Russia represented 6.0 percent of total EU trade with non-EU member states the same year.

Figure 5: EU Trade in Goods with Russia (millions of euros)



Sources: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/russia/>; [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_122530.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122530.pdf)

### The Cost of Sanctions

- **EU:** The European Commission reportedly estimated the overall cost of sanctions on Russia and Russian counter-sanctions as -0.3 percent of EU GDP in 2014 and -0.4 percent in 2015 (€40 and €50 billion, respectively).<sup>1</sup>
- **France:** Cancelling the €1.2 billion contract to supply Russia with two Mistral amphibious helicopter carriers cost Paris cost “at least €1 billion,” as the government has to repay Russia money it already received, plus a penalty for breach of contract. The ships were later sold to Egypt for €950 million.<sup>2</sup>
- **Finland:** Finland’s Ministry of Finance forecast in 2014 that Russian GDP decline would reduce Finland’s GDP in 2014–15 by around 0.5 percent relative to its 2013 forecast, which would raise the unemployment rate by around 0.2 percentage points by the end of 2015.<sup>3</sup>
- **Germany:** Bilateral trade between Germany and Russia has been nearly halved since 2012, with German exports to Russia down to €20.2 billion in 2015. In 2015, the number of companies in Russia with German capital interest fell by 7 percent, to 5,583, while the number of branch and

<sup>1</sup> M. Szczepeński, “Economic impact on the EU of sanctions over Ukraine conflict,” European Parliament Research Service, 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).

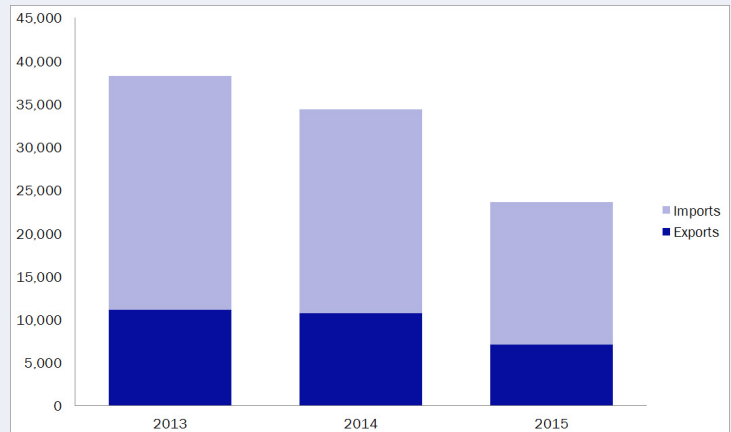
<sup>2</sup> Ibid.

<sup>3</sup> Ministry of Finance, Finland, “The economic effects of the EU’s Russia sanctions and Russia’s counter sanctions,” September 2014, [http://valtioneuvosto.fi/documents/10184/1058456/venaja\\_pakotteet\\_en.pdf/11184e4f-b00a-4474-9576-66c89d9e18ae](http://valtioneuvosto.fi/documents/10184/1058456/venaja_pakotteet_en.pdf/11184e4f-b00a-4474-9576-66c89d9e18ae).

representative offices of German companies in Russia shrank by nearly 24 percent.<sup>4</sup>

- **United States:** Sanctions forced oil giant ExxonMobil to suspend its \$700 million joint venture with Rosneft in the Kara Sea. Other U.S. companies, including oilfield service company Halliburton and heavy farm equipment producer John Deere, attributed lower profits and sales to sanctions.<sup>5</sup>

**Figure 6: U.S. Trade in Goods with Russia (millions of U.S. dollars)**



Sources: <https://www.census.gov/foreign-trade/balance/c4621.html>; <https://www.census.gov/foreign-trade/balance/c0015.html>

<sup>4</sup> Federal Foreign Office, Germany, "Russian Federation," March 2016, [http://www.auswaertiges-amt.de/EN/Aussenpolitik/Laender/Laenderinfos/01-Nodes/RussischeFoederation\\_node.html](http://www.auswaertiges-amt.de/EN/Aussenpolitik/Laender/Laenderinfos/01-Nodes/RussischeFoederation_node.html).

<sup>5</sup> R.M. Nelson, "U.S. Sanctions on Russia: Economic Implications," Congressional Research Service, February 4, 2015, <https://www.fas.org/sgp/crs/row/R43895.pdf>.

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## **Additional Recommendations**

The authors have diverse opinions on Russia policy but agree on the analysis and recommendations above. Below are some additional non-unanimous suggestions on how the West's conflict with Russia might evolve and what policies European and North American governments should follow.

### ***Set priorities in Minsk process***

The Minsk process as currently interpreted is unlikely to be implemented fully. The West must set priorities as it prepares for a negotiated solution. The major Western leaders understand Minsk as requiring Russia to undertake the following steps: 1) actually implement the Donbas ceasefire; 2) assent to elections in the Donbas, under Ukrainian law, that are free and fair and do not simply ratify the control of Russian proxies; and 3) return control of the Russian-Ukrainian border to authorities in Kyiv. Economic sanctions alone are unlikely to compel Russia to fulfill all of these steps, especially regarding the border, in the short term.

The West will likely end up compromising on some aspects of Minsk. If so, it should prioritize preserving Ukraine's European orientation, bolstering its domestic stability and limiting Russian influence in Kyiv. In particular, the West should avoid agreeing to elections in the Donbas or the reintegration of the territory into Ukrainian politics, without first assuring that Russia's forces or its proxies no longer play a major role.

*Chris Miller and Andrew Moravcsik*

### ***Stick firmly to the sanctions policy***

The West has set out clear conditions for the removal of the economic sanctions against Russia: the "full implementation of the Minsk agreement," which means the restoration of Ukraine's sovereignty and territorial integrity as far as eastern Ukraine is concerned. The West should stick to this policy, both to remain credible and demonstrate to Russia that the West is able to act forcefully if the European peace order is under threat; and to deter Russia from resorting to the use of military force in Ukraine again.

The sanctions regime is presenting Moscow with a clear choice: either respect Ukrainian sovereignty in the Donbas or accept economic pain. An offer to renegotiate the sanctions package would only support the view in Moscow that Russia can have it both ways: use military force to weaken and control Ukraine and maintain good economic relations with the West. As a consequence, Russia would double down on its efforts to undermine Western unity and to prevent Ukraine from building a decent state and a viable economy.

*Ulrich Speck*

### ***In the long-term, take prudent steps to strengthen reformers in Ukraine, but in the short- and medium-term, expect to face complex trade-offs between promoting reform and achieving political and economic stability***

Over the long-term, Ukraine's road to domestic stability, prosperity, and success lies through good government and economic reform. The West's short-term priority, however, is to help

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Ukraine to remain solvent, stable, and sovereign in the face of internal and external economic stress, Russian political and economic pressure, military threats, and unresolved political conflicts. While on the margins Western conditionality can help promote reforms, the forces of reform are weak in Ukraine and the political and economic survival of elites often depends on resisting reform. Comparative experience suggests that in conditions where reformers are not powerful and the international security interests of donor countries are engaged, external conditionality generally results in formal adoption of programs and measures followed by implementation failure in the face of popular discontent and elite opposition.

It would be self-defeating for the West to abandon Ukraine, or drive it to collapse, in an effort to force reform through. Because this “nuclear option” is not credible, Western leaders must develop “second-best” policies in the knowledge that conditionality may fail but support for Ukraine may still be in their economic and political interest. This may well mean continuing to fund Ukraine for some time to come even without satisfactory reform in place.

*Andrew Moravcsik*

***Strengthen the reformers in Ukraine by giving them a clear EU perspective and by sticking to conditionality***

The only way toward stability in Ukraine is reform. Only as a well-governed state with functioning institutions will Ukraine be able to satisfy the ambitions of its citizens and be capable of fending off Russian attempts to meddle into its internal affairs. Ukraine currently has a window of opportunity to reform that must not be wasted. In order to strengthen pro-reform forces, EU leaders should send a public signal that the door to the EU is open once Ukraine fulfills the criteria for EU membership. Such a signal could serve as a game-changer in the internal struggle between oligarchic networks and reformers. The West should also stick to strict conditionality: more support only for more reform. Domestic reformers have a weak hand; they need the West to push the country to implement reforms.

The goal of Western support is reform: setting in motion a process to make Ukraine self-sustainable as a state and as an economy. The costs of supporting Ukraine are considerable, but tiny as compared to the costs of spill-over effects if Ukraine is further destabilized.

*Chris Miller, Ulrich Speck, and Angela Stent*

# 3 Paper Abstracts

## Russia's Long War on Ukraine

Marek Menkiszak (OSW Visiting Fellow)

Russia's political leadership has pursued a consistent policy of pushing a reluctant Ukraine into Moscow-led Eurasian economic integration projects that are in fact geopolitical and aimed at establishing Russian strategic control over the post-Soviet area. Due to its size, potential, and historical closeness to Russia, Ukraine has been perceived as the key country for these projects.

While the annexation of Crimea was a success for the Kremlin, boosting popular support for the Putin regime within Russia, Moscow has failed in achieving its offensive strategic goals toward Ukraine. The regime failed to control Ukraine through President Viktor Yanukovich's government, so Moscow moved forward with the Novorossiia project to assume control over a large part of Ukraine. Now, facing Ukrainian resistance and economic crisis, Moscow has decided to de-escalate the war in Donbas to convince the West to relax sanctions. However, Russia has not changed its goal of ultimately bringing Ukraine under its control; it has only changed tactics and instruments. The objective remains to derail the process of Ukraine's integration into Europe and reform based on European standards. Russia wants Ukraine to fail since a successful transformation would pose a challenge for Moscow by providing an alternative model of development and integration in Eastern Europe, ultimately undermining the legitimacy of the Putin regime.

We must expect a long strategic game in and over Ukraine. The United States and European Union, rather than accommodating Russia, should pursue a three-fold strategy of "smart containment": continuing to pressure the Russian government, including through sanctions, while engaging the Russian people; offering targeted support for Ukraine and other Eastern neighbors, conditional on key reforms; and increasing Europe's resilience against negative Russian influence, including by developing the military capabilities of NATO members and non-aligned states. A free, stable, and prosperous Europe cannot be achieved without a successful European transformation of Ukraine, paving a road for a possible future transformation of Russia. For this, transatlantic policy coordination is essential.

<http://www.transatlanticacademy.org/publications/russia%E2%80%99s-long-war-ukraine>





## Russia's Military: On the Rise?

Margarete Klein (Bosch Fellow)

**A**fter the 2008 war with Georgia, Russia started its most radical and comprehensive military reform in several decades. Its goal is to transform an outdated mass mobilization army into combat-ready armed forces that are able to pursue a broader set of functions — from nuclear and non-nuclear deterrence to conventional warfare in local and regional conflicts to non-linear warfare and combating terrorism. The results are mixed. On one hand, Russia was successful in streamlining command and control structures, improving training, increasing the number of professional soldiers, and strengthening elite forces. Moscow consequently enhanced its capability for joint operations, inter-agency coordination, and strategic mobility. Russia also made progress in modernizing weapons and equipment. On the other hand, structural problems still set limits to Russia's military development. The defense industry is unable to deliver the requested amount and quality of modern weapons in due time and to agreed cost. More broadly, Russia faces demographic problems and — most notably — insufficient financial means with declining oil prices and the effects of Western sanctions.

Despite these limitations, Russia's operations in Ukraine and Syria clearly demonstrate that its armed forces are able to fulfill an increased set of functions. Particularly in regard to its post-Soviet neighbors, Russia can rely on its vast arsenal that, despite stemming from Soviet times, can still be used in combat operations. The intervention in Syria shows that Moscow is able to quickly deploy troops and hardware beyond the post-Soviet space and pursue limited expeditionary warfare based on air power. While Russia still lags behind NATO in quantitative and qualitative terms, it has enhanced its military capabilities on its western frontiers and can benefit from asymmetric strategies, quick decision-making processes, and strategic surprise. NATO should react with a double strategy. The Atlantic Alliance has to improve credible military reassurance for its eastern members. In parallel, NATO should promote confidence-building measures to avoid unintended military confrontation and maintain chances for cooperation with Russia in areas where the interests of both sides overlap.

*<http://www.transatlanticacademy.org/publications/russia%E2%80%99s-military-rise-0>*

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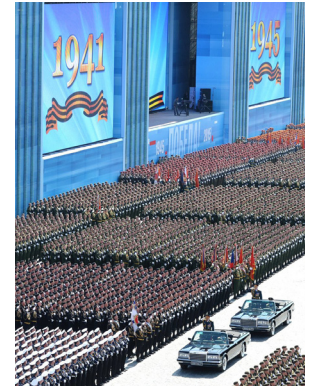
## Isolation and Propaganda: The Roots and Instruments of Russia's Disinformation Campaign

Stefan Meister

**W**estern scholars and politicians struggle to understand the elements of Russia's "hybrid warfare" and how to counter it. Means for "soft," non-military Russian influence in the post-Soviet sphere and the European Union includes export media such as the television broadcaster *RT* and the media platform *Sputnik*, the targeted expansion of informal financial networks, and funding and support for left- and right-wing populist political parties and organizations. A 2013 speech by the chief of the Russian General Staff described the new rules of 21<sup>st</sup> century warfare, in which political goals are to be obtained through the "widespread use of disinformation... deployed in connection with the protest potential of the population." It has also cracked down against foreign influence and dissent in Russia through restricting the work of Western NGOs and independent media. The Russian government claims it is merely copying the instruments and techniques that the West itself employs, and deems legitimate, to promote democracy in Russia and the post-Soviet states. This information warfare is an approach born out of weakness that provides more flexibility against a challenger with much greater economic and technological resources.

The possibilities for directly influencing developments in Russia from outside are limited. Europeans, on the other hand, are vulnerable to Russian influence with their open societies, and Russian efforts can help fuel self-doubt in increasingly fragile and fragmented Western societies. The EU can protect itself by reinforcing its own soft power and improving governance within Europe, standing firm on sanctions, improving its knowledge base on Russia and the other post-Soviet states, and taking steps to improve pluralism in the Russian-language media space. It should also come up with a serious offer for its eastern neighbors including an EU membership prospect. If reform efforts succeed in Ukraine, the impact could spread to Russia and other post-Soviet states. Moscow encourages destabilization, corruption, and weak states in order to maintain relationships of dependency. The EU has something much more attractive to offer the societies of neighboring countries. It should make greater use of its strategic advantage.

<http://www.transatlanticacademy.org/publications/isolation-and-propaganda-roots-and-instruments-russias-disinformation-campaign>





## Russia, China, and the West After Crimea

Angela Stent

Since the onset of the Ukraine crisis, Vladimir Putin has enthusiastically promoted ties with China as an alternative to Russia's adversarial relationship with the United States and Europe. Presidents Putin and Xi have lavishly praised each other and criticized U.S. "unilateralism." They have stepped up their military cooperation — conducting joint naval exercises in the Mediterranean last year — and signed major energy deals, such as the \$400 billion Power of Siberia Gas pipeline project. In 2015, they attended each other's military parades commemorating the 70<sup>th</sup> anniversary of the end of World War II, when no Western leader attended either. The rhetoric and optics stress close ties between two leaders who share a conviction that their countries were unfairly treated in the past. They are also uncomfortable with the current international political and financial order, which, they believe, denies them equal treatment in setting the agenda and determining the institutional rules.

Despite the intensification of Sino-Russian ties since the annexation of Crimea, however, this remains a pragmatic and instrumental partnership, not a prelude to a closer alliance. For Moscow, the partnership is designed to reinforce Russia's role as an independent center of global power, one of Putin's key foreign policy goals. It is also intended to confer success by association from a rising China to a Russia experiencing serious economic problems. China's support for Russia has served to legitimize Moscow's actions in Ukraine and Syria. Russia is a useful partner for China because it supplies China with hydrocarbons and advanced military hardware, supports China on all major foreign policy issues, and pursues a policy of non-interference in China's domestic affairs. While Chinese experts may privately express criticism of Russia's actions in Ukraine, publicly officials have adopted a policy of neutrality. In return, Russia has not commented publically on China's military activities in the South China Sea, although these actions have irked Russia's other Asian partners such as Vietnam.

China protects Russia from the full impact of Western sanctions and gives it continuing international legitimacy at a time when the West has sought to isolate it. Beijing has remained neutral as Russia has destabilized Ukraine used military force to keep the Assad regime in power in Syria. Nevertheless, China is unlikely to take actions that would contravene Western sanctions against Russia. Its economic interests in both the United States and Europe are significantly greater than are its economic interests in Russia. Ultimately, while the Kremlin seeks to overturn the U.S.-led global order and promote a tripolar world order, Beijing prefers to reform the existing order to suit its economic and geostrategic interests, and it regards the United States as its only true global counterpart.

*Link forthcoming*

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## The West's Response to the Ukraine Conflict: A Transatlantic Success Story

Ulrich Speck

**T**ransatlantic cooperation in dealing with Russian aggression in Ukraine has been a surprising success. European countries and the United States, together with partners such as Canada and Japan, have responded to that challenge with a high degree of unity and consistency. This has led to the idea of the West as an international actor, as the central pillar of the liberal world order, has experienced a renaissance.

By using surprisingly massive economic and financial sanctions as well as tireless diplomacy, the West has helped Ukraine resist Moscow's aggression. Russia's advance in Ukraine has been stopped in a joint effort by Ukraine and its Western backers. While the conflict remains far from being resolved, a process is now underway — based on the Minsk agreement — to at least limit the damage, supported by Western powers.

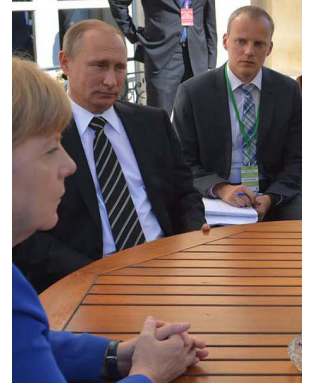
Furthermore, Europe and the United States have become deeply engaged in trying to help Ukraine to stabilize by building the institutions of a modern state. Reform in Ukraine is a crucial point of Western involvement in the conflict, as the weakness of the Ukrainian state is a key reason for its failure to resist Russian aggression.

At the same time Europe and the United States have sent a strong message to Moscow and other capitals — such as Beijing — that the West continues to support core international rules such as territorial integrity and sovereignty, and is ready to invest a considerable amount of energy in holding up these norms.

German Chancellor Angela Merkel played a central role in building this coalition and keeping it together. Germany has a particularly strong interest in stability in Eastern Europe and has moved into an informal leadership position in the EU since the euro crisis. Berlin and Washington, alongside Paris and Brussels, were the key Western capitals during the Ukraine conflict.

With the joint response to Russian aggression against Ukraine, Europe and the United States have set a precedent for a successful transatlantic cooperation on international conflicts. Whether this success story can become the starting point for a true renaissance of the West will depend on their ability and will to stay the course on Russia and Ukraine in the next months and years. More broadly, success will be determined by the willingness of the central actors to move from crisis management to long-term joint strategic planning on a broad range of international challenges.

*<http://www.transatlanticacademy.org/publications/west%E2%80%99s-response-ukraine-conflict-transatlantic-success-story>*





## Lessons from Ukraine: Why a Europe-Led Geo-Economic Strategy is Succeeding

Andrew Moravcsik

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, 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 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 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, as its successful policy has so far. The long-term response is to reorient Ukrainian trade, energy, and financial flows westward, and to encourage political reform — but in the short-term, such steps are difficult. The most 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. By contrast to such policies, NATO reassurance of allies such as Poland or Estonia remains secondary.

Third, 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 — and it has, by far, paid the greatest costs to sustain the West's support for Ukraine. This suggests that the West should acknowledge, encourage, and accommodate Europe's unity, resolve, and leadership role in this area.

*<http://www.transatlanticacademy.org/publications/lessons-ukraine-why-europe-led-geo-economic-strategy-succeeding>*

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## Germany's Russia Policy: From Sanctions to Nord Stream 2?

Hannes Adomeit (Bosch Fellow)

Until the fall of 2015, the German government under the leadership of Chancellor Angela Merkel, the three parties of her governing coalition, an overwhelming majority of the foreign policy community in Berlin, and German public opinion appeared to be solidly behind a firm approach toward Russia. German industry and commerce had largely appeared to have accepted the primacy of politics over economics and supported the policy of sanctions against Russia.

Since then, several developments have converged that give the impression of declining resolve and increasing restiveness in Germany about the sanctions regime. These include the lull in fighting in eastern Ukraine, the huge influx of refugees into Germany, rising impatience about the persistence of corruption and the slow pace of reform in Ukraine, and the perceived necessity of persuading Russia, like in the case of Iran and its nuclear program, to help find a “political solution” to the war in Syria and the fight against the self-proclaimed Islamic State group.

Visiting President Vladimir Putin in Moscow in October 2015, Vice-Chancellor Sigmar Gabriel made a case not only for the construction of the Nord Stream 2 gas pipeline per se but also for using it as a lever to improve German-Russian relations. Merkel has defended the pipeline as a “commercial project.” However, this should not be seen as a broad capitulation to pressures from German industry and commerce. The primacy of politics in German foreign policy is still in place.

Merkel's position on Nord Stream 2 notwithstanding, it is highly unlikely that German government policy will soon return to its pre-2014 approach to Russia. This is also true for Gabriel's Social Democratic Party (SPD). The SPD no longer talks about building personal and economic exchanges as a means to supporting a middle class that would promote democratic change in Russia; the contradictions between the theory and reality of Russia's development are too evident to be ignored. A significant improvement in German-Russian relations would depend on Russian implementation of the Minsk II agreement and a significant change in Russian domestic politics.

There is a wide-spread recognition that the authoritarian system that has emerged in Russia is controlled by a revisionist leader who is more unpredictable than the status-quo-oriented collective Soviet leadership under Leonid Brezhnev. Germany political leaders and public opinion, however, are deeply divided on the question of what needs to be done. Merkel's firm stance is increasingly challenged, and if the EU and the United States want Berlin to hold a strong line toward Russia, policies designed to buttress Merkel's position domestically and internationally are important.

*<http://www.transatlanticacademy.org/publications/germany%E2%80%99s-russia-policy-sanctions-nord-stream-2>*





## The In-Betweeners: The Eastern Partnership Countries and the Russia-West Conflict

Nelli Babayan

In the Russia-West conflict, it is not all about Russia. Policymakers and analysts often focus on Russian President Vladimir Putin, trying to anticipate his next move. As a result, it becomes easy to miss the unlikely winners and drivers of this confrontation. The domestic politics of the states in-between the European Union and Russia are a key driver, and one big winner, at least in the short term, is illiberalism.

It is not simply EU incentives or Russian pressure that influences the foreign policy orientation of these countries, but also their often less-than-democratic political and often corrupt economic elite constellations. This is seen in the countries of the Eastern Partnership, which have been at the core of Russia-West conflict: Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine.

Domestic elites can downplay their undemocratic practices by capitalizing on the ongoing rivalry between Russia and the West — note the case of the lifting of Western sanctions on Belarus in February 2016 despite Minsk's lack of progress on democracy and human rights. The bargaining power of some Eastern Partnership countries vis-à-vis the West seems to have increased, although their compliance with the rules and norms promoted by the West have not meaningfully changed or have in some cases even decreased.

Russia considers these countries within its core foreign policy interests, thus Western Russia strategy needs to involve a clear and coherent approach toward the Eastern Partnership countries. If the transatlantic partners want to achieve specific reforms in these countries, they need to provide commitments backed up by credibility, consistency, and (smart) conditionality, as well as continuous and clear communication. Western support to Eastern Partnership countries should continue, and even be enhanced in return for tangible political and economic reforms. However, conditionality should be differentiated and adapted to local conditions. The West should pursue further economic investment and closer security cooperation by providing technical assistance and expertise, especially in border control when necessary. At the same time, the West should more actively engage in negotiations over resolution of so-called frozen conflicts as they tend to dangerously heat up and threaten European security. Clear communication of the West's policies and principles, and the benefits of these for local communities, is important in an environment where there is significant support for the EU, but local media is constrained and Kremlin-controlled channels have wide reach.

*<http://www.transatlanticacademy.org/publications/betweeners-eastern-partnership-countries-and-russia-west-conflict>*

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## Why Russia's Economic Leverage is Declining

Chris Miller

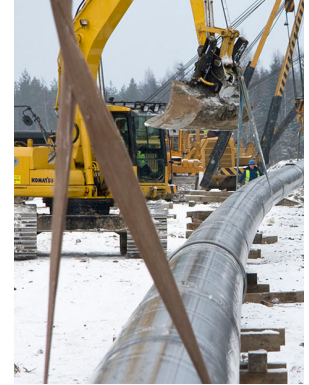
**D**espite the Kremlin's desire to reassert influence over its neighbors, Russia's economic leverage in Eastern Europe is declining. After over a decade of using trade and energy cutoffs to pressure its neighbors to accept its political aims, the Kremlin's tools of economic coercion are losing their effectiveness.

On the energy front, two factors are limiting Russia's ability to use gas as a political bargaining chip. First, the decline in oil prices and the global glut in natural gas production have caused energy prices to fall across Europe. This weakens the appeal of Russian offers of cheaper gas in exchange for political concessions. Second, Russian threats to cut gas supply to countries such as Ukraine are far less credible today. Better EU regulation combined with new energy infrastructure, such as interconnectors and liquefied natural gas facilities, are pushing Europe toward a more liquid and transparent gas market. These changes have reduced the role politics plays in Europe's energy sector, guaranteeing that Russia will remain a gas supplier, which Europe needs, but limiting the Kremlin's ability to subvert market rules.

In the trade of non-energy goods, too, Russia's ability to use threats of sanctions and boycotts against neighbors is declining. In the past, Russia imposed sanctions on countries such as Georgia, Ukraine, and Moldova when they deviated from the Kremlin's foreign policy line. Many such aggressive trade policies are still in place, but their efficacy in achieving their political goals has declined over time, and is likely to continue to do so. One reason is that non-Russian markets — not only the European Union, but also the Middle East and China — are becoming more important trading partners. A second reason is that producers in vulnerable Eastern European countries have learned to diversify away from reliance on Russian customers. The net effect is that Russia is now far less able to use trade sanctions to coerce its neighbors, because its importance as an export market continues to decline.

The deterioration of Russia's economic leverage is particularly important for the contested countries between the EU and Russia, notably Ukraine, Moldova, and Georgia. These countries are less at risk to Russian economic pressure today than a decade ago. Continuing to aid them in diversifying their energy supply and trade partners will help limit further the Kremlin's ability to meddle in its neighbors' affairs using tools of economic coercion.

*<http://www.transatlanticacademy.org/publications/why-russia%E2%80%99s-economic-leverage-declining>*





## Can Russian Elites Sustain Vladimir Putin's Confrontational Foreign Policy?

Marie Mendras

Russian elites are worried. The economic recession, Western sanctions, and semi-isolation of the past two years are endangering the personal and professional interests of most among the upper middle classes, scientific and cultural elites, top-ranking administration, and small and medium entrepreneurs. The new confrontational course in relations with Western countries undermines the Putin leadership's "contract" with elites and middle class: enrich yourselves and leave the rest to us. The good years are over. Even a rise in oil prices will not ensure return to steady growth and higher salaries anytime soon.

Do new uncertainties have an impact on elites' submission to the regime? Most of them remain loyal so far, but do not trust Putin's confrontational strategy. They have much to lose from further aggravation of the domestic situation, together with estrangement from the Western economies. Temporary exile is another response; the magnitude of the elites settled in Western countries and in Ukraine should preoccupy the regime. Political protest and economic resistance may gain momentum inside Russia.

The hyper-nationalist propaganda creates fear, xenophobia, and populist retrenchment in a large section of the public, but hysteria may be short-lived. People's emotions are volatile. Also, Russia is a diverse and uneven country, struggling with social inequalities and insecurity in the North Caucasus. High ratings for Putin in opinion polls are abundantly publicized to veil rising anxiety in upper echelons of society.

Elites beyond Putin's inner circle are excluded from the decision-making. They cannot express their opinions publicly about armed engagement in Ukraine and Syria, nor are they consulted about political legislation or economic choices. Who actually makes policy? Who implements decisions, with what means? Is anyone held accountable for failed implementation? Power rests in the inner circle and the *siloviki*. Regional governors, heads of ministries and administration, and military high command do not have a say, or only marginally. Conflicts between the various *siloviki*/oligarchic groups may become more acute and disruptive.

In struggling against the new odds, the Russian leadership is using three major instruments: foreign policy adventurism and nationalist propaganda; economic emergency plans, with prioritization of investment and spending in the immediately lucrative sectors of hydrocarbons, the arms industry, and agro-business; and semi-autarchy, served by repression, corruption, and intense media and Internet control.

Foreign policy as a distraction from domestic stagnation is a dangerous tactic; so is domestic retrenchment that alienates the most dynamic, innovative, and productive elements of elites and society. Western governments will continue to negotiate with the current leadership, but should also engage with alternative elites.

*Link forthcoming*

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## About the Authors

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