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# RUSSIA 2030: A STORY OF GREAT POWER DREAMS AND SMALL VICTORIOUS WARS

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## SUMMARY

- The Kremlin is pursuing an assertive foreign policy in the hope of establishing itself as a great power and securing a sphere of influence over its neighbours. This adventurism will increasingly be driven by a desire to win popularity and distract Russians from economic woes.
- This paper sets out how five key trends for Russian foreign policy and the eastern neighbours could play out over the next decade and beyond, and how Europe should respond.
- Russia will rely more heavily on military force. Its main focus will be Eastern Europe, where Ukraine, Georgia and Moldova are struggling to reform, while Belarus, Armenia and Azerbaijan are in limbo and largely dependent on Moscow.
- Europe should raise the cost of the Kremlin's wars of distraction, and maintain sanctions – but not force an economic collapse. It should increase support for reform in the eastern neighbourhood, with strict conditions on aid.
- The deep divides between the EU and Moscow will not be fixed in the short term – Europe should accept this, and use dialogue to make the relationship more predictable.

Russia will colonise the Moon in 2030. Cosmonauts will build a lunar base with a solar power station and a science lab, using long-range research rovers to explore the Moon's surface, and a satellite will orbit above, according to the Russian space agency.<sup>1</sup>

Back on Earth, it's anyone's guess what Russia will be up to in 2030. President Vladimir Putin, who turns 78 that year, may be long gone; or he may be starting his fourth consecutive term as president, having amended the constitution to do away with term limits. There will be five million fewer Russians than today. The economy will be larger, though not much. But what will Russia's position be on the international stage?

Predicting Russia's behaviour has always been difficult, but it has become even more so over the past few years. The 2008 war with Georgia, the 2014 intervention in Ukraine, and the 2015 Syria campaign caught policymakers and analysts off guard. Moscow has made an art out of surprising the world with audacious gambits on the global stage.

What is clear is that Russia has embarked on a more assertive and militaristic foreign policy in the last few years. Behind this assertiveness is a desire to revise the principles of the European security order, and re-establish Russia as a power to be reckoned with. In Georgia and Ukraine, Moscow sought to enforce a sphere of influence over its neighbours and prevent them from becoming members of NATO or the European Union.

<sup>1</sup> "Russia plans to build lunar base in 2030–2035 – space corporation", TASS, 5 April 2016, available at <http://tass.ru/en/science/867452>.

In Syria, Moscow wanted to shore up a regional ally and demonstrate that Russia was a great power that could project force beyond its near abroad.

But Russia's assertive foreign policy is increasingly being driven by a need to re-legitimise Putin's regime at home. In his first two terms as president, Putin's legitimacy derived largely from unprecedented economic growth. The drop in the oil price means this is no longer sustainable. Instead, Putin is seeking to divert attention from these economic woes and gain legitimacy by reasserting Russian militarism. The Kremlin sees an adversarial relationship with the West as serving its interests to some extent; a hostile world full of enemies provides a further pretext for its assertive foreign policy and tightening of domestic control.

The good news is that Russia is not seeking a full military confrontation with the West. Russia needs mid-level conflicts or crises, enough to build up a siege mentality and galvanise public support, but not enough to risk serious confrontation. The bad news is that mistakes and miscalculations happen, and the tension is unlikely to reduce unless the Kremlin finds an alternative model of legitimacy.

Could a change in the Kremlin buck this trend? Possibly. But a post-Putin leader is likely to be even more inclined to pursue foreign adventurism to legitimise his new regime. And, in any case, there are few signs that Putin is on his way out, nor are there any obvious alternatives waiting in the corridors. Economic recovery? Perhaps. But the Russian economy was booming in August 2008 when Russia fought a short war with Georgia. Domestic chaos? Maybe. But this could also create an even stronger incentive to focus on external enemies.

The countries of the “eastern neighbourhood”, particularly Ukraine, will continue to be the prime targets of Russia's adventurism. They will be caught between Russian ambitions, local elites' desire for power and wealth, popular desires for a better life, and the ambivalence of the EU and an increasingly distant United States.

By 2030, will the countries most credited for their pro-European stance – Georgia, Moldova, and Ukraine – still be struggling with reform as corrupt elites pillage state coffers and Russia consolidates its spoiler power? Will Russia still maintain its “peacekeeping” strategy towards Armenia and Azerbaijan, designed to keep them locked in a standoff over Nagorno-Karabakh and prevent them from diversifying their geopolitical options? Will Belarusian President Alyaksandr Lukashenka, who turns 76 in 2030, still be in power or have managed a succession?

Europe will of course be a different place in 2030. The traditional assumptions of its policy towards the eastern neighbourhood are already being turned on their head. This policy has been based on the assumption that adjoining states will gradually be transformed by adopting EU norms and values, but today it is the neighbourhood

that is transforming the EU. External pressures, including refugee flows and provocations from Russia, are changing Europe at its core.

A declining Russia trying to reassert itself, and increasingly willing to use force, does not augur well for stability or prosperity in the region. But there is nothing inevitable about this scenario. Key policy choices taken now, on issues such as sanctions against Russia or support for Ukraine, will have long-term consequences. Europe can take steps to raise the cost of Russia's diversionary wars, and, at the same time, strengthen Europe's relations with its neighbours, boost their resilience, and step up support for reform.

This paper will consider how Russia and the six countries of the EU's eastern neighbourhood could develop by 2030. Our methodology is to take current trends and assume that these will continue, unless something happens to change the direction of the trend, or throw it off course altogether. This is not an attempt to predict the future – indeed, the only statement we can make with certainty about 2030 is that there will be much that nobody has foreseen. Rather, the purpose of this paper is to better understand the outcomes that current trends might produce.

This paper sets out five trends and their key drivers: Russia's domestic problems, particularly economic, that create the temptation for diversionary wars; Russia's increased inclination to use military force; its effort to dominate the eastern neighbourhood; the prospects for Georgia, Ukraine and Moldova by 2030; and those of Belarus, Azerbaijan and Armenia. In each section, it considers the disruptive forces that throw these trends off course; and concludes by setting out broad principles for what Europe should do to manage the risks ahead.

## Trend I. Russia's domestic rut deepens, and the Kremlin uses war to distract the population

### *A sputtering economy*

The Russian economy will rebound from negative growth in the next couple of years, but growth will remain sluggish up to 2030 and beyond, averaging around 1 percent per year.<sup>2</sup> By 2030, Russia will have dropped five places to be the world's 15th largest economy.<sup>3</sup> These woes will be compounded by a shrinking population, predicted to drop by about five million to 139 million.<sup>4</sup>

Russia's economic troubles will be partly due EU economic sanctions linked to the Minsk peace agreement. Russia will

<sup>2</sup> “Economy: Long-term outlook: Russia”, the *Economist Intelligence Unit*, 24 July 2015, available at <http://country.eiu.com/article.aspx?articleid=773379661&Country=Russia&topic=Economy&subtopic=Long-term+outlook&subsubtopic=Summary>.

<sup>3</sup> “Long-term key trends”, the *Economist Intelligence Unit*, 27 May 2015, available at [http://pages.eiu.com/rs/783-XMC-194/images/EIU\\_GlobalForecasting2050.pdf](http://pages.eiu.com/rs/783-XMC-194/images/EIU_GlobalForecasting2050.pdf); and “What to expect in 2016”, the *Economist Intelligence Unit*, November 2015, available in slide 15 at [http://pages.eiu.com/rs/783-XMC-194/images/USOutlook\\_Webinar\\_Nov2015.pdf](http://pages.eiu.com/rs/783-XMC-194/images/USOutlook_Webinar_Nov2015.pdf).

<sup>4</sup> “World Population Prospects”, United Nations, Department of Economic and Social Affairs, 2015, available at <http://esa.un.org/unpd/wpp/Graphs/Probabilistic/POP/TOT/>.

never fully implement the agreement. But it is likely that the EU will have eased or dropped sanctions by 2030 anyway, under pressure from member states who want to restore trade relations with Russia. An easing of sanctions would remove Moscow's incentive to withdraw from Ukraine, creating another dangerous frozen conflict in Europe.

But the impact of sanctions will continue to hamper Russia's economic recovery, multiplied by the effect of continued low oil prices. The IMF estimates that 1–1.5 percent of Russia's 3.7 percent economic contraction in 2015 was due to sanctions. If sanctions continue, the lack of investment will have long-term negative consequences and could lead to a loss of 9 percent of GDP in the medium term.<sup>5</sup>

Yet the biggest problems of Russia's economy are structural. Russia has failed to modernise or diversify, and is unlikely to do so in the near future. Corruption, weak rule of law, and mismanagement discourage foreign investment. Prioritising domestic production to compensate for lack of imports – import substitution – does not work (with the exception of the agricultural sector), as there is scant access to capital. Serious reform would require painful measures that the Kremlin is loath to take, especially ahead of the 2018 presidential elections. Putin, meanwhile, has shown himself to be uninterested in economic issues.

Russia built on its economic good fortune in the 2000s with some sensible reforms, such as the flat tax and reserve fund; but now it does the opposite. A vicious cycle of foreign policy adventurism, protectionism, and cronyism destroys economic growth. Russia has become what liberal ex-Economy Minister Herman Gref has called a "downshifter" or "loser state". The economy has been so demarketised that it is hard to see where forces to drive recovery would come from. In trying to reboot the economy, the Kremlin will continue to pursue "modernisation projects" such as its Strategy 2030, launched last year. But most will turn out to be white elephants and founts of corruption, like Skolkovo – "Russia's Silicon Valley" – the Sochi Olympics, and the 2018 World Cup finals.

Russia's economy will remain intimately tied to the oil price. Today, about two thirds of export revenue comes from oil and gas,<sup>6</sup> and about 45 percent of the state budget comes from oil revenue.<sup>7</sup> This reliance on oil and gas will continue, despite plans to reduce it by 2030.<sup>8</sup> Russia will benefit from rising global gas consumption, especially by China and India.

<sup>5</sup> "Russian Federation: 2015 Article IV Consultation—Press Release; and Staff Report", International Monetary Fund, August 2015, available at <http://www.imf.org/external/pubs/ft/scr/2015/cr15211.pdf> (hereafter, "2015 Article IV Consultation", IMF).

<sup>6</sup> "Russia Economic Report: The Long Journey to Recovery", the World Bank in the Russian Federation, April 2016, available at [http://www.wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2016/04/15/090224b08429dcfe/1\\_0/Rendered/PDF/Russiaoreconomiojourneytoorecovery.pdf](http://www.wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2016/04/15/090224b08429dcfe/1_0/Rendered/PDF/Russiaoreconomiojourneytoorecovery.pdf) (hereafter, "Russia Economic Report", the World Bank).

<sup>7</sup> "2015 Article IV Consultation", IMF.

<sup>8</sup> "Energy Strategy of Russia For the Period Up to 2030", Ministry of Energy of the Russian Federation, 2010, available at [http://www.energystrategy.ru/projects/docs/ES-2030\\_\(Eng\).pdf](http://www.energystrategy.ru/projects/docs/ES-2030_(Eng).pdf).

Russia believes that the US has driven down the global oil price for geopolitical reasons. Some of its geopolitical moves will be designed to try to push the price back up. But, in the short term at least, Russia is battling realities that will keep the price low: global slowdown, renewable energy, the return of Iranian production, the ease with which US shale production could take off again if the price crept back up, and geopolitics in the Middle East.

### *A fraying social contract*

Since Putin became president in 2000, his implicit social contract with the Russians has relied on steady improvements in their quality of life. For eight years, Russians experienced tremendous economic growth fuelled by a high oil price. The average monthly salary leapt from \$60 in 1999 to about \$940 in 2013.<sup>9</sup> In 2002, a quarter of Russians lived below the poverty line; ten years later, about 10 percent did.<sup>10</sup> Putin's popularity never dropped below 60 points throughout this period.<sup>11</sup>

But now this social contract is fraying because of economic woes. The Russian economy contracted by 3.7 percent in 2015 and is expected to shrink again in 2016.<sup>12</sup> The proportion of Russians living below the poverty line is expected to rise to 14.2 percent in the year.<sup>13</sup> Even if the price of oil rebounded to \$50–60 per barrel, it would be impossible for Russians to enjoy the same improvements in their quality of life as during the 2000s.

The Kremlin's response has been to shift from a legitimacy model that relies on continuous economic growth to one that relies on nationalism, foreign adventurism, and the existence of external enemies. As the economy struggles, the Kremlin's strategy is to appeal to voters through foreign adventures – "small victorious wars"<sup>14</sup> – in Crimea and Syria.

These wars not only generate legitimacy and divert attention from the economy, but also provide a rallying point for the population and reinforce the narrative that Russia is back as a great power. The annexation of Crimea illustrates how this new model of legitimacy has replaced the economic growth model. Putin was polling just above 60 percent – his lowest rating ever – in November 2013. Following the annexation in March 2014, this rating shot up to above 80 percent. This level of approval has survived the sanctions and drop in the price of oil.<sup>15</sup>

The challenge for the Kremlin is how to sustain this form of legitimacy. A drop from 80 to 60 percent would signify

<sup>9</sup> Kirill Rogov, "Can Putinomics survive?", European Council on Foreign Relations, June 2015, available at [http://www.ecfr.eu/page/-/Can\\_Putinomics\\_survive\\_3.pdf](http://www.ecfr.eu/page/-/Can_Putinomics_survive_3.pdf).

<sup>10</sup> "World Development Indicators", the World Bank, available at <http://databank.worldbank.org/data/reports.aspx?source=2&country=RUS&series=&period=> (hereafter, "World Development Indicators", the World Bank).

<sup>11</sup> "Indexes – Assessment of situation in the country", Levada Center, April 2016, available at <http://www.levada.ru/eng/indexes-0> (hereafter, "Indexes", Levada Center).

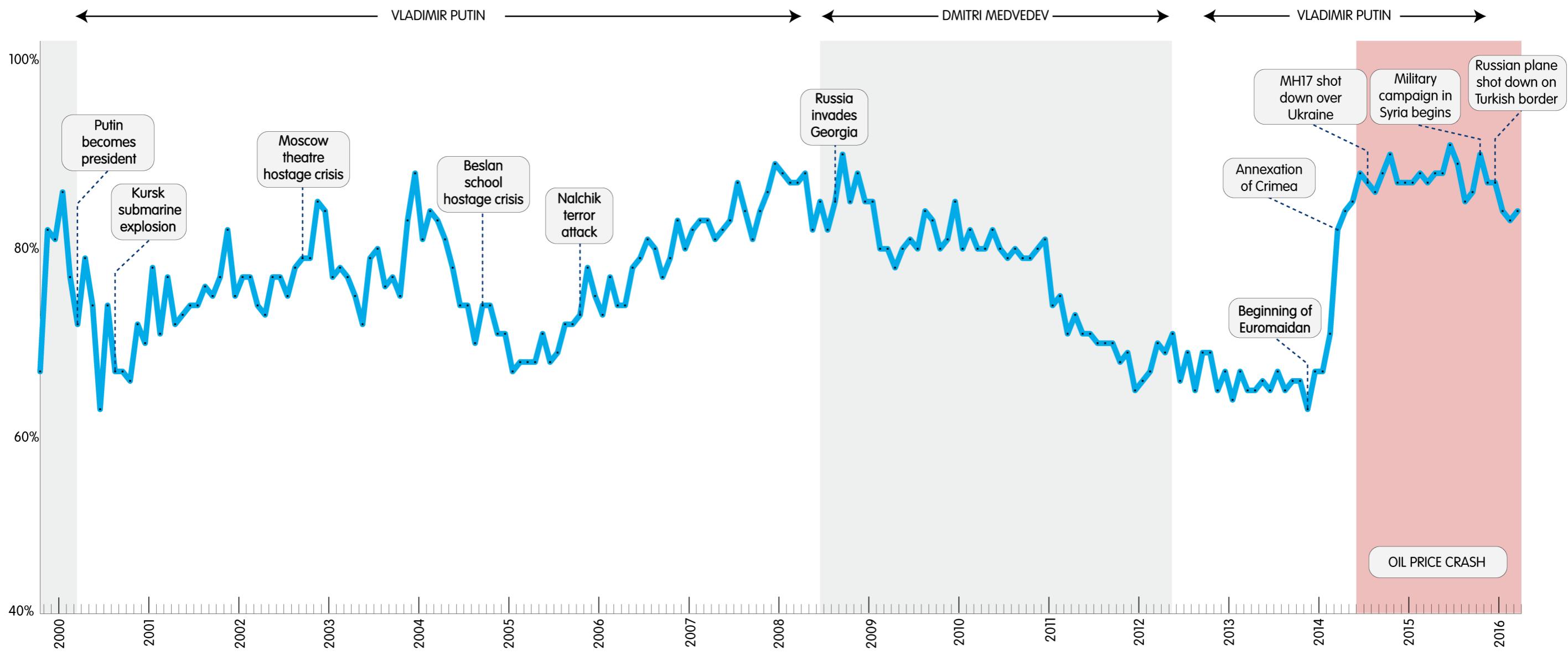
<sup>12</sup> "Russia Economic Report", the World Bank.

<sup>13</sup> "World Development Indicators", the World Bank.

<sup>14</sup> Russian Interior Minister Vyacheslav Plehve supposedly said before the war with Japan and the 1905 Revolution, "to avert a revolution, we need a small victorious war".

<sup>15</sup> "Indexes", Levada Center.

# Russian presidential approval ratings, 2000-2016



Source: Levada Center

a major blow to Putin's standing, so he needs to provide further diversions in order to maintain his approval rating at this "new normal" level.

But Russia's economic woes mean that its small victorious wars need to remain low-cost – as in Syria, which was reportedly paid for out of the military's 2015 training and exercise budget.<sup>16</sup> Russia does not have the means or desire to sustain high-intensity military conflict.

These wars have to be victorious – or at least sold as victorious. The partial withdrawal from Syria illustrates this. Russia's military intervention in October 2015

turned the tide of war on the battlefield. By March 2016, Putin could declare the Syria mission a success and announce the withdrawal of most troops. Russian television showed parades and medal ceremonies, and, in the public imagination, the military intervention was a success and now over – despite the real risk of a return to major hostilities and a sizable contingent remaining in Syria that continued the aerial bombardment.<sup>17</sup>

Diversionary wars do not have to be purely military or even foreign. The mere existence of enemies – real or fabricated, foreign or domestic – provides a diversion.

<sup>16</sup> "Russia's Syria operation cost over \$460 million – Putin", TASS, 17 March 2016, available at <http://tass.ru/en/politics/863079>.

For example, after the November 2015 downing of the SU-24 fighter, Russia launched a phony war, with state television showing Putin taking action – targeted sanctions, visa bans, and insults against Turkey. Domestic enemies, such as Caucasian jihadists back from Syria, can offer diversion too.

## What could stop the wars of diversion?

### 1. The economy recovers

A substantially higher oil price could boost the economy, allowing the Kremlin to again legitimise itself through economic growth – and provide more wealth for the elites. The Kremlin would see

less need to distract the population with foreign adventures, and could pursue a less aggressive foreign policy.

But while the need for distraction diminishes, Russia's ambition to revise the European security order and establish a sphere of influence over its neighbours would remain. Russia would still seek to assert itself as a great power.

Indeed, a drastic increase in the oil price could even embolden the Kremlin to project force externally. For instance, a few days ahead of Russia's war with Georgia in 2008, the price of oil reached a record level of \$145 per barrel – which did nothing to deter the invasion.

## 2. The economy collapses

Through mismanagement and corruption, and an inability to undertake necessary reforms, Russia's economy could implode. Global recession could force Russia to spend even more of its foreign exchange reserves than in the past two years, and ultimately default on its debt.

Economic collapse would create a dangerous and highly unpredictable situation. If sufficiently severe, it could force the Kremlin to retreat from foreign engagements, including diversionary ones, and focus on domestic problems. The Kremlin would rely on internal security forces to quell dissent and mobilisation against the regime.

But collapse could also create stronger incentives for the Kremlin to take risks in its foreign policy to divert a rebellious population. As a last desperate resort, the Kremlin could start a major conflict to stem rapid domestic breakdown.

## Trend II: Russia relies increasingly on force

What will Russia's place in the world be in 2030? While Russia aspires to be a global power, it will remain a regional one with limited capacity to project expeditionary force beyond its near abroad. Russia's relative decline will stand in sharp contrast with the rise of China as a global power. Moscow will not seek a major war with the West, but nor will it refrain from challenging Western interests or taking a hostile posture – especially as it sees some benefits in an adversarial relationship with the West. The risk of miscalculation and accidents will grow as Russia increases its reliance on military force.

### *Russia's vision of the world order*

Russia's primary foreign policy goals have nothing to do with its stated aims, such as "conservative values" or "protecting Russians abroad". Russia will continue to see itself as disadvantaged and even marginalised in a world order constructed without its consent. Russian propaganda constantly replays the theme that Russia was excluded from the post-Cold War order and has never been treated as an equal, but humiliated and betrayed by the West, including NATO's 1999 intervention in Kosovo and the expansion of NATO and the EU into the former Soviet space.

Russia will continue to try to rewrite the rules of the game in order to create an alternative European security order – a Grand Bargain or Yalta 2.0. Moscow sees itself as one of a few great powers – along with the US and China – that exercise control over their immediate neighbours while staying out of each other's neighbourhoods. Spheres of influence are fundamental to Russia's view of the world, and Moscow believes that European security should be the shared responsibility of the US and Russia. Its aspiration is to be a great power taken seriously by other great powers, in particular the US.

But how to achieve this? Moscow realises that Russia does not have the soft power to shape the world in its image. There are a few states that align with Russia because of its anti-Western stance, but these are states on the margins, such as Venezuela and Nicaragua. The days when Moscow could entice allies through ideology are over.<sup>18</sup> Instead of attraction and persuasion, Russia will rely primarily on hard diplomacy, economic inducements, military force, and other coercive measures – though these are expensive and limited in supply.

By 2030, China's rise might provide Russia with a powerful ally who is interested in organising the world into spheres of influence and is willing to gang up against the West. But even if China may see the world in similar terms, it is not a natural partner for Russia but a natural rival, particularly in Central Asia.

Russia will seek to cooperate with the West on issues, such as Syria, where it sees itself as having the upper hand or where cooperation fits into its "great power" narrative. Cooperation will be highly transactional and driven by a desire to be recognised as a great power and an equal. This means that being part of certain formats, such as the UN Security Council, the G20, and the G7, will remain crucial for Moscow. But the prospect of meaningful cooperation will be tempered by the Kremlin's assertiveness and revisionism.

Russia will continue to rely on subversive measures, such as propaganda and disinformation, as a central tool of statecraft. Over the next few years, it will expand its operations to split and destabilise Europe. Moscow will cultivate anti-establishment forces within the EU who see an attraction in Russia's illiberalism: the radical left and right, separatists, and even Islamist movements. This will provide the seeds for cooperation with the next generation of populist parties, like France's Front National or the Alternative for Germany (AfD). Russia will increasingly promote popular referendums on sensitive topics, such as the Dutch vote on the Association Agreement with Ukraine, to throw spanners into the EU machinery.

### *A revitalised military*

The use of military force will become more prominent in Russia's foreign policy. From its recent military adventures in Syria, Ukraine, and Georgia, Moscow drew the lesson that military force can be an effective foreign policy instrument to achieve diplomatic and political goals – and that the West is loath to counter Russian hard power with tough measures, let alone force. In Georgia, Russia managed to scuttle the country's prospects of NATO membership. In Crimea, it successfully annexed the peninsula through hybrid action. And in Syria, Russia managed to shore up an ally, reinsert itself as an indispensable actor in the political process, and gain the attention and recognition of the US. But Russia knows that military force has downsides and

<sup>18</sup> Bruce Stokes, "Russia, Putin Held in Low Regard around the World", Pew Research Center, 5 August 2015, available at <http://www.pewglobal.org/2015/08/05/russia-putin-held-in-low-regard-around-the-world/>.

risks: it is bogged down in Donbas, and is keen to avoid the same mistake in Syria.

The modernisation of Russia's armed forces since 2008 makes force even more attractive for Moscow. Most progress will be made not on modernising equipment and technology, but rather regarding organisation, structure, readiness, doctrine, and the professionalisation of the military leadership. Its effects will grow over time, as more officers and cadres undergo the much-improved military education, and military operations in Ukraine and Syria provide valuable lessons for the armed forces. In terms of equipment, the programme is being scaled back and is unlikely to be completed by 2030.<sup>19</sup>

The modernisation will include an increased capability to deploy expeditionary forces. But there are limits to this. Russia relies on local proxies for expeditionary operations, but, like the Americans and Europeans before them, often finds that such forces are unreliable, ineffective, or even working at cross-purposes. For example, the ineffectiveness of the "separatists" in Donbas (forces of local volunteers and private Russian fighters) meant the regular Russian army has had to take part in every major battle against Ukrainian forces.

Russia's military operations have also been constrained by the need to hold down the numbers of Russian casualties. Diversionary war only works if it does not entail too many dead soldiers.

These constraints will restrict further Russian interventionism to the post-Soviet space and parts of the Middle East and North Africa where Russia has close ties – Syria, Libya, maybe Egypt – and the Balkans.

Further afield, Russian military interventions will be limited in scale and focused on bolstering a local ally's capacities through air, maritime, artillery command and control, intelligence, and electronic warfare, as well as training.

NATO and the neighbourhood

But Russia's armed forces will continue to be primarily focused on NATO and the neighbourhood. Russia will not proactively seek a major war with the West – Moscow knows it cannot afford one and that the risk of nuclear confrontation is real. The Kremlin does, however, see an interest in projecting readiness to engage in a major escalation. This type of posturing – "we are willing to take more risks than you since we have less to lose" – is intended to intimidate the West and force it to make concessions.

The danger is that miscalculation or accidents could quickly spiral into military confrontation. In this respect, the lack of clarity on nuclear signalling and escalatory steps in the post-Cold War world is worrying. Direct military

<sup>19</sup> For more on Russia's military reforms, see Gustav Gressel, "Russia's quiet military revolution and what it means for Europe", European Council on Foreign Relations, 12 October 2015, available at [http://www.ecfr.eu/publications/summary/russias\\_quiet\\_military\\_revolution\\_and\\_what\\_it\\_means\\_for\\_europe4045](http://www.ecfr.eu/publications/summary/russias_quiet_military_revolution_and_what_it_means_for_europe4045).

aggression against NATO and pre-emptive nuclear strikes to deter the West from reclaiming Russian conquests was the script for several major Russian military manoeuvres between 2009 and 2015. Extensive nuclear signalling during the annexation of Crimea showed that these were not mere exercises.

### Pressure points

Over the next 14 years, pressure points and tensions will therefore multiply not only in Europe and the post-Soviet space, but also in the Middle East and beyond. Driven by a desire to rewrite the rules of the game and with a greater proclivity to use force, Moscow will pursue a foreign policy that in many instances runs counter to and challenges Western interests. This will manifest itself in frequent clashes over major foreign policy issues as well as greater gridlock in international forums such as the UN Security Council and the OSCE Permanent Council. A hostile relationship also serves the Kremlin's narrative of the West seeking to weaken Russia and topple its government.

The Kremlin will increasingly need medium-level conflict to win legitimacy. But as the Russian state is still weak, it can win smaller or more local wars – big enough to create a story and divert attention, but not so big as to be hard to fight. Medium-level threat makes people cling to Putin – hot war or actual disaster might provoke revolt.

Medium-intensity conflict also serves public relations purposes. Of course, nothing is *pure PR* – reality always bites back. But Russia's leaders can cope with the backlash from medium-intensity war. And to their mind, a few hundred dead in Donbas or Syria is medium intensity. Russian television doesn't show the Russian dead or the consequences of Russia's inaccurate bombing campaign. These are easily outweighed by the PR benefits: showing up the impotence of the West, showing off Russia's new military hardware, and even the late-invented story about protecting Christians in the Levant.

Options for medium-level, low-cost conflict beyond the eastern neighbourhood by 2030:

- **The Baltic Sea.** This region will remain a primary target for Russian action due to its strategic importance. Russia is unlikely to risk military activity that would prompt a Chapter V collective defence response from NATO. Instead, it could take low- or medium-intensity hybrid action that falls beneath the Chapter V threshold of armed attack. Russia will continue to intimidate the other littoral states with actions such as carrying out fake bombing raids, "buzzing" or flying low over NATO vessels, and submarine activity. This will be largely counter-productive, as it will only increase support for NATO in countries such as Sweden and Finland and push them towards membership.

- **The Balkans.** In the past two years, Moscow has begun openly challenging the region's move towards EU membership. It has forged a strategic alliance with Serbia and increased its support for Republika Srpska, the ethnic Serb part of Bosnia. The latter provides a low-cost opportunity for Russia to undertake hybrid action to undermine European objectives in the Balkans. Above all, this would avenge the humiliation of the 1999 Kosovo campaign – showing that “Russia is back” – and reprise the narrative of protecting Christians against Muslims.
- **Central Asia:** Alternatively, Russia could launch an aerial campaign in Central Asia. A succession crisis in one of the states could spark ethnic conflict, prompting Russia to intervene. Alternatively, fighting jihadists could be used as a pretext for a Russian military intervention, as in Syria.

## What could stop Russia using military force?

### *1. Disaster or defeat*

Reality bites back, to an unexpected and unmanageable degree. Russia's diversionary conflicts cause problems that even domestic media dominance cannot suppress, such as a humanitarian or military disaster on the ground. Or a major terrorist attack inside Russia itself. Or Russian forces suffer catastrophic losses in the field. Russia's assertive foreign policy could suffer the humiliation of a “Suez Crisis” moment, exposing the limits of unilateral action. This results in a retrenchment of Russian ambitions and power projection, and changes in the Kremlin.

Reality can still bite in Syria. Russia could end up bogged down in a scenario in which the ceasefire unravels, the rebels push back Syrian regime forces, and Russia feels compelled to reinsert itself militarily to demonstrate that the campaign was a success. But the resumption of Russia's bombing campaign does not produce any significant victories. Instead, Russia finds itself deploying additional ground troops. Eventually, Russia could end up bogged down – like the USSR in Afghanistan – and risk the loss of its current diplomatic gains.

This scenario could push Moscow to a more cautious foreign policy, with military force less prominent. Russia would be reluctant to send expeditionary forces abroad, and the projection of military force would be limited to trying to assert a sphere of influence over immediate neighbours.

### *2. Miscalculation leads to conflict*

There is always the possibility of a major conflict erupting from miscalculation. A misstep or a misreading of Western intentions and red lines could lead to a major clash. For example, underestimating NATO's readiness to defend the Baltic states could spark a strong and, from Moscow's

perspective, unexpected response. Misreading the other side is a real risk, as Turkey's downing of the Russian fighter plane demonstrated. Despite Turkish warnings that it would respond forcefully to violations of its airspace, Moscow did not expect that a NATO member would actually shoot down a Russian fighter.

### *3. Pushback from the West*

Other scenarios are much less likely. The first, that Russia deliberately opts for high-intensity conflict, is not likely unless internal decision-making patterns change – as a result of an intense leadership struggle, for example. Still, the Kremlin could misinterpret a crisis or a major political split within Europe as a chance to deal the final blow to the “EU/NATO-centric” European order and instigate conflict. The Kremlin, and wider circles of Russian experts, misread Western politics and EU/NATO decision-making on a regular basis. The chances of an unintended global conflict are remote, but not impossible.

Belated but muscular pushback by the West could be triggered by Russian action, such as a push to take the Ukrainian city of Mariupol. Currently, Russia's modus operandi is based on stopping below the threshold that would force EU member states and the US into a tough response. But miscalculations can happen. Moscow did not expect that Europe would impose such far-reaching economic sanctions after the intervention in Ukraine, and such an error could happen again.

## Trend III. Russia continues to target the eastern neighbourhood

Russia will continue its attempt to dominate its immediate neighbours, especially Ukraine. For Moscow, obedient neighbours are seen as essential to Russia's national security and ambitions to restore its great-power status. Its maximalist goal is a ring of friendly and loyal states taking their cues from Moscow. The minimalist goal is a ring of weak, dysfunctional states run by corrupt leaders, unable to reform or join NATO and the EU, and therefore subservient to Moscow.

Today, Moscow has not achieved its maximalist goals, but has ensured a high level of dependence from Armenia, Azerbaijan, and Belarus. This dependence is not absolute, however, as shown by how Belarus's Lukashenka plays Russia off against the EU and rejects Russian advances, such as the proposal for a Russian airbase in the country.<sup>20</sup> Even with its allies, Moscow's policies are destabilising because they seek too great a degree of control. Moscow will also continue to actively pursue its minimalist goals in Georgia, Moldova, and Ukraine, but is not fully reconciled to “losing”

<sup>20</sup> Damien Sharkov, “Russia to propose building airbase in Belarus”, *Newsweek*, 9 March 2015, available at <http://europe.newsweek.com/russia-propose-building-airbase-belarus-332453>.

the populations of these countries.<sup>21</sup> Moscow will not shift away from this strategy over the next 14 years.

The high spending on equipment of Anatoliy Serdyukov's years as defence minister (2007–2012) has given Russia an inbuilt hard-power advantage over its neighbours for the foreseeable future – though, as the Donbas conflict has shown, superior technology does not guarantee victory in either conventional or hybrid war. But Moscow will continue to use diverse methods alongside military pressure to achieve its aims: political pressure, regional institutions (such as the Collective Security Treaty Organization), hybrid warfare, information war, and cyber-attacks.

The Eurasian Economic Union (EEU) will remain one of the Kremlin's pet projects, designed to increase its geopolitical dominance over the neighbourhood. Moscow will seek to tie its members closer through political and economic integration, while keeping real decision-making powers with the Kremlin. There will, however, be some pushback, notably from Minsk.

Russia will continue to underwrite breakaway regions and frozen conflicts to serve its minimalist goal. Abkhazia, South Ossetia, and Transnistria provide strategic wedges into Georgia and Moldova respectively. They hold back reform and scuttle the prospects of NATO membership, as key NATO nations do not want to take in new members that have territorial disputes with Russia.

Russia does not maintain forces in Nagorno-Karabakh, unlike the other "grey zones" –entities that exist in limbo, de jure part of one country but de facto controlled by another. It may try to insert "peacekeepers" into the region as part of a peace agreement, however. Russia will continue trying to maintain the status quo ante, but will find it increasingly difficult to keep Armenia and Azerbaijan in strategic gridlock. Armenia is highly dependent on Russia and resents Moscow's neutral approach to the conflict. Azerbaijan's options are diversifying – in part because the shifting tectonic plates connecting the Middle East, Turkey, and the EU broadens its range of potential allies.

Of the six countries in the EU's "Eastern Partnership" initiative, Ukraine has the most strategic weight. Moscow will not achieve its maximalist goals in Ukraine; the conflict in Donbas will eventually freeze and join the ranks of Abkhazia, South Ossetia, and Transnistria as grey zones in the former Soviet space. This will somewhat reduce tensions, but create a volatile and unstable security situation. It will, however, enable Kyiv to shift resources away from Donbas and focus on other priorities. Russia will hold on to Crimea and continue to integrate it into

<sup>21</sup> 47 percent of Georgians see Russia as a real and existing threat, while 36 percent see Russia as a threat but an exaggerated one. Only 12 percent do not see Russia as a threat at all. See Laura Thornton and Davit Sichinava, "Public Attitudes in Georgia", National Democratic Institute, April 2015, p. 52, available at [https://www.ndi.org/files/NDI%20Georgia\\_April%202015%20Poll\\_Public%20Issues\\_ENG\\_VF\\_o.pdf](https://www.ndi.org/files/NDI%20Georgia_April%202015%20Poll_Public%20Issues_ENG_VF_o.pdf). In Ukraine, a poll from July 2015 indicates that 51 percent felt cold or very cold towards Russia, while only 16 percent felt warm or very warm towards Russia. See "Public Opinion Survey: Residents of Ukraine", National Democratic Institute, 16–30 July 2015, p. 28, available at [http://www.iri.org/sites/default/files/wysiwyg/2015-08-24\\_survey\\_of\\_residents\\_of\\_ukraine\\_july\\_16-30\\_2015.pdf](http://www.iri.org/sites/default/files/wysiwyg/2015-08-24_survey_of_residents_of_ukraine_july_16-30_2015.pdf) (hereafter, "Public Opinion Survey: Residents of Ukraine").

the Russian Federation, while the West sticks to its non-recognition policy and sanctions.

In addition, Russia will seek to keep Ukraine weak, using a broad range of "hybrid" methods. For the moment, the strategy is to use the Minsk agreement to insert the Donbas rebels into the Ukrainian body politic. But hotter warfare will also continue to put pressure on and destabilise Kyiv, as well as burning Ukrainian resources and the popular willingness to fight. An even bigger danger is that a still largely unreformed Ukraine offers Moscow all the channels it needs to promote corruption and use information warfare and political technology to turn Ukraine back in a pro-Russian direction.

In Moldova, Russia will actively try to ensure that pro-Kremlin parties are in power. Moldova is already in crisis. Its declaratively pro-European government is living on borrowed time. The government is opposed by strong and popular pro-Russian politicians but also pro-EU ones. So the government's lack of popularity does not automatically fuel pro-Russian sympathies. Russia is confident that the next elections will return its allies and proxies to power. Russia is likely to foment trouble if this does not happen; or if a new left-leaning and apparently Russophile government turns out to be as independent-minded or pragmatically pro-European as the Voronin governments from 2000 to 2009.

Belarus is another potential flashpoint. Russia's patience with Lukashenka's constant foreign policy manoeuvring (which he cannot give up, because it is the *raison d'être* of his rule) is wearing thin, but his regime is well-entrenched. Moscow will continue to pressure Minsk in various ways, but may find it has to pay too high a price to undermine Lukashenka, and does not have a geopolitical cover story ready to explain his ouster.

Russia's dominance over the Eurasian energy market will continue to erode. Victims of Russian energy blackmail will continue to diversify their sources. The paradoxical position may even be reached where transit states like Ukraine and the Baltic states will become freer from Russian energy than markets further afield, such as Germany. Belarus is the only exception – but its previously pro-Russian politics are predicated on cheap energy supplies. If one goes, so will the other.

## What could undermine Russia's sphere of influence in the eastern neighbourhood?

### 1. Ukraine gets its act together

The new government beats the odds and actually succeeds in making progress on reform. Or an unpredictable "black swan" event of equal force to those of 2014 – such as a hubristic Russian move against the cities of Kharkiv or Odesa, or the return of former President Viktor Yanukovych's supporters to Ukraine – could propel the country towards reform. This

would create domestic resistance against Russian efforts to undermine the government in Kyiv, and undercut support for pro-Russian parties.

In such a scenario, the Kremlin would continue or increase its efforts to destabilise Ukraine with a view to controlling it or keeping it dysfunctional. Using Donbas would remain an integral part of that strategy. But, at some point, the costs for Moscow could become too high, making the option of “freezing” the Donbas conflict to ensure that Ukraine never joins NATO more attractive.

But Russia’s strategy in Donbas could collapse. In this scenario, the terms of the Minsk agreement remain unfulfilled and sanctions continue. But the separatist authorities in Donbas become increasingly unpopular as they turn into mafia bosses, and are unable to repair a local economy that has suffered much more damage than Transnistria did during the short war in 1992. To save face, Moscow replaces its proxies with local oligarchs who find some sort of accommodation with Kyiv, but this causes conflict with the populist-nationalist forces who backed the 2014 revolt.

## *2. Russia miscalculates and there is a serious conflict on its borders*

The intervention in Donbas was based on the grave miscalculation that Russian speakers throughout eastern and southern Ukraine would rise up in support. This led to Russia getting bogged down in Donbas. Similar miscalculation could happen again. Russia could, for example, lose patience with Lukashenka’s balancing tactics in Belarus. Public opinion in Belarus has sided with Russia during the Ukraine crisis, while elites have moved in the opposite direction, concerned about threats to sovereignty and statehood.<sup>22</sup> Russia could take risky steps by banking on public opinion, and ignoring the potential for conflict with local elites. Russia could push too hard on the issue of a Russian military base in Belarus, on demands that Russian oligarchs take over local businesses, or on using its Belarusian flank to threaten the Baltic states.

A major setback for Russia in its efforts to dominate its neighbours would result in Russia looking for other means, including subversion and diplomatic and economic pressure, to control them.

When Russia sees that its hybrid attempts to destabilise Ukraine are not working, it could opt for conventional, high-cost war. However, this is unlikely. Russia decided against trying to take half of Ukraine by military force in 2014, because it lacked the resources for both the initial operation and subsequent control. It would only make such a move if the balance of domestic forces inside Ukraine radically changed, or if there were other gains in the neighbourhood and elsewhere to offset the risk.

<sup>22</sup> Dzianis Melyantsov, “The Ukrainian Crisis as seen by the Belarusian Leadership”, Eastern European Studies Centre, *BelarusInfo Letter*, Issue 2 (44), 2014, available at [http://www.eesc.lt/uploads/news/id728/Bell%202014%202%20\(44\).pdf](http://www.eesc.lt/uploads/news/id728/Bell%202014%202%20(44).pdf).

## *3. The US reengages with the region, and with Ukraine in particular*

After the presidential elections, an alliance between the Clinton administration and neo-conservative Republicans could lift Obama’s veto that already exists in Congress for providing lethal military aid and greater financial assistance to Ukraine. But the US could just as easily lose interest in Eastern Europe completely. A Trump presidency might face one of its first flashpoints in the region, as an emboldened Russia sees a golden opportunity in his “America First” policy and seeks to test its limits.

US engagement would have to be well-calibrated, so as to impose real costs on Russia and advertise the risks of any new temptation to easy-in, easy-out adventurism. A largely rhetorical US pushback might actually help Russia build a low-risk siege mentality. US disengagement would increase the temptation to gain low-cost propaganda victories.

## Trend IV. Georgia, Ukraine, and Moldova muddle through on reform

What will the neighbourhood look like in 2030? Will the three countries currently committed to a European path – Georgia, Ukraine, and Moldova – be any closer to Europe? In the long term, they will muddle through on reform, with plenty of setbacks.

The challenges are tremendous. Today, the three supposed “success stories” are in fact stuck in an equilibrium of partial reform. They have stopped halfway in their path towards democracy, the rule of law, and market economies. Post-communism is much harder to reform than communism was, as local elites and corruption networks have acquired the means of reproducing their power. Oligarchs and politicians control media outlets and manipulate politics. Inverted judicial systems protect the elite and undermine the rule of law.

Georgia, Ukraine, and Moldova are also locked in permanent cycles of tension, as local populations seek reform and an end to corruption, while elites continue to block it. Covert Russian support strengthens the position of conservative and corrupt elites – reform in 2010s Ukraine is much more difficult than it was for early 1990s Poland, with Russia now such a strong spoiler power. Elites only embrace minimal reform when they have to – paradoxically, when excess Russian pressure threatens their position. Historically, Ukraine has only reformed when it has been in crisis – in the mid-1990s, after the local financial crisis in 1998, and in 2014.

The West has not done enough to make sure reform is locked in when elites are no longer under pressure. This tension between the elite cycle and the long-term opening-up of Ukrainian society and growth of a powerful civil sector will continue to be the main source of Ukraine’s dysfunctional political and economic performance. Local elites may

increasingly embrace nativist local nationalisms and even embrace Russia's diversionary tactics to try to stay in power.

The protracted conflicts – Abkhazia, South Ossetia, and Transnistria – remain volatile and unpredictable, but ultimately stuck and without any prospect of resolution. Donbas and Crimea are likely to eventually end up in the same category. Russia could end up formally annexing South Ossetia. These conflicts will continue to hamper reform, block NATO accession, and remain national obsessions, holding local politicians hostage. Paradoxically, Moscow will be able to exploit both growing indifference towards the breakaway regions (Moldova's EU trade deal has shown the problems of coexisting with a completely unreformed Transnistria), and periodic nationalist attempts to regain them.

Faltering progress is the established pattern, and real political breakthrough remains extremely difficult to achieve. But tensions are guaranteed as local middle classes grow and globalise and are able to travel to Europe without visas. Free trade agreements with the EU will eventually translate into real economic growth.

EU membership will remain elusive. One exception may be Moldova, which is small enough to create less controversy if the EU wanted to demonstrate that the enlargement policy is still alive. However, there is growing scepticism in Europe over further enlargement, and reluctance to accept a country that does not control part of its territory.

## What could scuttle these countries' reform efforts?

### 1. A pro-Moscow government

Elections, revolution, a colour revolution – or its opposite – replace a pro-reform, pro-EU government with one that leans towards Moscow. This would fundamentally change the country's political orientation and undermine reform efforts. It would lead to an unstable situation, as the majorities in Ukraine and Georgia currently support joining the EU.<sup>23</sup> A counter-Maidan revolution placing a pro-Russian leader in Kyiv would plunge the country into domestic chaos. The West would need to be much better prepared to distinguish between real local anti-government forces and Russian provocation than it was in 2014.

A change of political orientation by Ukraine or Georgia would be interpreted as a major victory in Moscow for its policy towards the neighbourhood. Moscow would move quickly to consolidate its hold on a country that shifts its orientation, possibly including the deployment of troops to local bases.

<sup>23</sup> In February 2015, polls showed that 85 percent of Georgians fully or somewhat supported their country joining the EU. See "Public Opinion Survey: Residents of Georgia", International Republican Institute, 3–28 February 2015, p. 6, available at [http://www.iri.org/sites/default/files/wysiwyg/iri\\_georgia\\_public\\_2015\\_final\\_o.pdf](http://www.iri.org/sites/default/files/wysiwyg/iri_georgia_public_2015_final_o.pdf). In Ukraine, a poll from July 2015 showed that 55 percent of Ukrainians supported Ukraine joining the EU, while 14 percent supported Ukraine joining the EEU. See "Public Opinion Survey: Residents of Ukraine", p. 24.

## 2. The EU loses interest in the eastern neighbourhood

Riddled by its own crises and a populist anti-EU surge, Europe turns inward to concentrate on its own problems. Corruption scandals in Eastern Europe destroy public sympathy in the member states. Or recession in the EU destroys its attractiveness in Eastern Europe. Local states become insular and nationalistic, and local conflicts proliferate beyond those involving Russia. If the EU no longer had a strategy to harmonise laws in the region, the EU – or NATO – would need a security strategy. It would likely be forced to re-engage, or face new waves of migrants.

Europe's abandonment of its commitment to the eastern neighbourhood would mean that Ukraine, Georgia, and Moldova would try to rebalance between Russia and Europe. Moscow would seek to formalise its influence through institutions such as the EEU.

## Trend V. Belarus, Azerbaijan, and Armenia stuck in security limbo

The three other Eastern Partnership countries – Belarus, Azerbaijan, and Armenia – will remain largely stuck or in decline as they try to balance between the EU and Russia. Belarus and Armenia will remain in Russia's orbit; but Russia's declining resources will lead to growing tensions and threats by Minsk and even Yerevan to align with the West instead. Increasing tensions with Russia will result as leaders cultivate a more nativist Belarusian and Armenian nationalism.

Azerbaijan, hard-hit by falling oil prices, will diversify its foreign policy options, towards the US, EU, Turkey, and even China, and will be tempted to cash in on its years of defence build-up to make gains against Armenia and clamp down on domestic protest.

All three states face severe economic problems. As a major refiner of cheap Russian crude, Belarus has been dependent for years on Russian subsidies and a high oil price to maintain its outdated economic model. This paid for Lukashenka's version of a social contract, allowing him to remain a reasonably popular dictator. He is now in uncharted waters – having to rely on charismatic authority and national security arguments to stay in power.

Armenia did not receive the benefits it expected after it was strong-armed into joining the EEU in 2013, and its isolated economy is highly vulnerable to regional economic slowdown. Russian military presence is increasingly seen as a threat as well as an asset. Popular discontent will grow, as seen in the 2015 protests.

Azerbaijan has mismanaged its years of energy wealth and faces serious unrest. Its oil production peaked in 2010–11 and will continue its gradual decline over the next decade. But President Ilham Aliyev heads a strong and embedded

local clan system, much of which he inherited from his father. Local elites in a strong state will copy Russia's diversionary politics and be more likely to resort to diversionary war. In an effort to play the nationalist card and divert attention from the economy, Baku will from time to time instigate limited attacks along the Line of Contact, as was seen in April 2016.

Russia has always seen Belarus and Armenia in particular as "soft sovereign states" – any attempt by Minsk or Yerevan to assert genuine security sovereignty will be strongly resisted by Moscow.

## What could alter the geopolitical orientation of these countries?

### *1. A Maidan-style revolt installs a pro-European government in Armenia, Azerbaijan, or Belarus*

The same drivers underpinning the Maidan in Ukraine could propel the population to rebel against the establishment. This could be sparked by economic issues, as seen in Armenian protests over the price of electricity that turned increasingly political. A massive movement could put in place a more reform-minded government, leading to reorientation away from Moscow. Any such scenario is likely to be firmly resisted by the existing government and by Russia.

It would be difficult for Russia to install more reliable Moscow-loyalist leaders, as local elites are already seen to be pro-Russian and the population might resist a further shift in that direction. A long PR campaign would be necessary to unseat Belarus's Lukashenka or Armenia's Serzh Sargsyan.

### *2. Major hostilities break out between Armenia and Azerbaijan in Nagorno-Karabakh*

Domestic dynamics propel Baku elites to instigate limited attacks that are met with Armenian pushback. The fighting spirals out of control and the two countries end up in major hostilities. A decisive victory by one side would result in Russia losing leverage over one or even both countries.

### *3. Peace in Nagorno-Karabakh*

However, an agreement between Armenia and Azerbaijan over Nagorno-Karabakh could also reduce Russia's influence in the region, as more geopolitical options would open up for both sides. Russia would likely offset this by making sure that Russian peacekeepers were deployed as part of any settlement.

## Conclusions

The West faces many challenges in its Russia policy. The first is to recognise not only that there are fundamental differences between Russia and Europe over the basic principles of international order and acceptable behaviour, but also that Russia's growing foreign policy

assertiveness will be increasingly driven by the Kremlin's search for domestic legitimacy.

The paradox is that a firm response to Russia's misbehaviour to some extent plays into the Kremlin's hands. Heightened tension forces the West to take Russia more seriously and gives Russia the status it craves. This feeds the Kremlin's narrative of a hostile world, providing a domestic pretext for the slide towards militarism.

But the cost of accepting Russia's transgressions would be even greater, as its domestic strategies push it to make stronger challenges to its neighbours than any normal calculation of national interest would justify. Russia is also aware of the risks of provoking too much conflict in its neighbourhood and the costs of even minor or medium diversionary wars. Effective pushback should make short-term intervention seem more risky to Russia, but Europe should be mindful of the danger of creating vicious circles of escalation.

Despite – or because of – this hostile relationship, dialogue and political contacts with Moscow will remain important. There are issues where Russia and Europe share common interests and cooperation is possible. There is also scope for technical cooperation. But bureaucratic exercises cannot magically reconcile the fundamental differences between Europe and Russia.

Dialogue must also be of the right kind. It should not just involve reiterating official points of view – on either side. It also has to be based on a common understanding of the facts, such as the presence of Russian troops in Ukraine. Without agreement on the basic facts, meaningful dialogue is impossible. Nor can dialogue be a synonym for "business as usual". Russia's transgressions in Ukraine are too serious for Europe to ignore or accept, even tacitly. It is therefore essential to stick to conditions for Russia's re-entry into key formats, such as the G7, on the steps it has to take in Ukraine. Dropping this conditionality would be rewarding Russia for misbehaviour.

The second challenge to the West is to take the sovereignty of the neighbourhood seriously. The failure to do this is what led to the current impasse. Europe should help Belarus, Armenia, and Azerbaijan to diversify their security options. But taking sovereignty seriously is also a challenge for local elites. Europe should tell the leaders of Ukraine or Moldova, and to a lesser extent Georgia, to take their state's sovereignty seriously, rather than treating it as a mere arena for promoting their business interests.

### *1. Counter the wars of diversion*

The West can do more to expose Russia's diversionary tactics. Governments should speak out when they see Russia instrumentalising foreign conflicts, or deploying false or hypocritical narratives.

The challenge with diversionary wars is that they are driven primarily by domestic factors, over which outsiders have minimal influence, rather than geopolitical factors. Europe can do little to affect the causes of Russia's economic woes, such as the low oil price or the shaky foundations of the Russian economy. The West has in the past tried to promote economic modernisation in Russia, but this largely failed. To succeed, any modernisation project must originate and be driven domestically rather than pushed from abroad.

Europe and the US control economic sanctions against Russia. But even if sanctions were dropped, Russia would still be intent on establishing a sphere of influence over its neighbours. Removing sanctions, or the threat of additional sanctions, would open up a space for further military action in Ukraine and remove Moscow's incentive to implement the Minsk agreement.

While these sanctions need to impose a substantial cost on Russia to be meaningful, they should not be so harsh as to break its economy. This would lead to a highly unpredictable and volatile situation in which Moscow would probably be more tempted to use force for diversionary ends. Europe should stick to its policy of maintaining sanctions as long as the Minsk agreement is not implemented, but also ensure that the sanctions are carefully calibrated – neither so harsh as to drive Russia to extreme measures, nor so soft as to be ignored.

## ***2. Deter Russian aggression***

In light of Russia's growing willingness to use military force, Europe's deterrence capabilities will become ever more important. This is not only about boosting NATO's military presence among the Alliance's eastern members, but also about strengthening Europe's resilience to hybrid threats. The purpose is to demonstrate a credible defence and deny Moscow low-cost opportunities to pursue hybrid operations. Exposed nations, such as the Baltic states, should be prioritised. The Balkans are also vulnerable.

This will leave Europe with a classic security dilemma. Building Europe's defences may be interpreted as an offensive move by Moscow and lead Russia to further increase its own military forces. This outcome is near-inevitable, since Russia will interpret defensive measures as offensive no matter what. However, failing to boost these capabilities would leave Europe exposed.

Moscow's use of force is a risky and costly strategy that can easily backfire, as is clear in Donbas where Russia miscalculated the local reaction and is now bogged down with no good exit strategy. Europe has an interest in ensuring that Moscow learns from the Donbas adventure that force is not effective. In this respect as well, it will be important to maintain sanctions as long as the Minsk agreement is not implemented.

Maintaining open channels of communication with Moscow will be essential to avoid deadly miscalculations that could

escalate tensions and lead to open hostilities. There may be little scope to find common ground or agree on key issues, but everyone has an interest in avoiding accidents. Here military-to-military, or political military-to-political-military contacts such as the NATO–Russia Council, will be increasingly important to avoid accidents that spiral out of control. These contacts will add greater predictability to a highly unpredictable situation.

## ***3. Aim for predictable coexistence in the eastern neighbourhood***

The eastern neighbourhood will continue to be a key determinant of Europe's relations with Russia. It is here that the fundamental differences between the two powers manifest most starkly.

Europe faces the challenge of dealing with a Russia that is willing to use hard power to dominate the neighbourhood. However, Russia's actions have often been counter-productive, especially in Ukraine and Georgia, pushing these countries further from Moscow's reach. Europe should do more to support these countries against pressure and interference. Russia will continue to use the frozen conflicts in the region to wield influence over its neighbours. Europe should try to limit the destabilising impact of these grey zones, but recognise that peacemaking efforts will not deliver a resolution to these conflicts as long as Russia does not want one – though they may prevent renewed fighting.

Peaceful coexistence with Russia may be the best that can be hoped for given the irreconcilable nature of the differences over the neighbourhood. Europe should agree to disagree with Russia, and focus on measures that will inject more predictability into the relationship.

## ***4. Support reform in the eastern neighbourhood***

In the end, the greatest challenge for Ukraine, Georgia, and Moldova will be reform, rather than Russia. Their European trajectory is not a given. The EU should maintain strong support for these countries and their pro-European governments. Helping them reform would bring stability and prosperity to the region – which ultimately would be in Russia's interest. But the EU must be much more frank and public about the conditions it places on its support. The slow-burning crisis in Moldova since 2013 shows the dangers of supporting a nominally pro-European government at all costs, a policy that has discredited the idea of Europe for many Moldovans.

Although EU membership is unlikely in the medium term for these countries, the EU should consider strengthening and expanding the scope of the Association Agreement to further integrate the region into European structures. At the moment, export quotas, particularly on agricultural goods, mean that Ukraine's trade balance with the EU has actually worsened since the trade agreement came into force in January 2016. Ukraine has a cheap and geographically

convenient work force, and the EU should press the authorities to do more to promote a rule of law to allow FDI to circumvent this problem.

### *5. Help eastern neighbourhood countries stuck in limbo*

Europe's ability to support reform in Armenia, Azerbaijan, and Belarus is limited at best, though it should be prepared to provide such support and closer association if the countries undertake the necessary reforms. But, at the same time, Europe should offer diplomatic support to strengthen these countries' sovereign capacities to determine their political and security alliances.

There is a risk that the Nagorno-Karabakh stand-off could escalate into a major war between Armenia and Azerbaijan that would have a destabilising effect for the region and Europe. The EU should take on a greater role in resolving this conflict by, for instance, becoming a co-chair of the Minsk Group.

The future set out in this paper is a bleak one – but it is not fixed. The decisions Europe takes now will have an impact on relations with Russia and the future of the eastern neighbourhood over the next decade and beyond. Russia's behaviour is not independent of Western choices and action.

Europe's policy should be based on the recognition that there will be an adversarial relationship with Russia in the long run. On the one hand, it should police the tripwires that might lead to even higher-intensity conflict. On the other, it should pull all the levers it can to reduce the intensity of Russian provocation.

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