

## *Chapter 9*

# **When Could We See the Normalization of Russia's Relations with the West?**

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Russia's ties with the West hit an all-time post-Cold War low after the annexation of Crimea and Moscow's catalytic role in the war in the Donbas in the first half of 2014. The Ukraine crisis put an exclamation mark on the fact that a quarter century after the end of the Cold War and the collapse of the Soviet Union, Russia and the West together had failed to create a new, stable European security framework in which all players felt that their interests were adequately met. The war in Ukraine came especially as a shock to Europe, as at times in the summer of 2014 and winter of 2015 the intensity of fighting and destructive consequences were as bad or worse than the continent had experienced since World War II.

The crisis was a long time in the making, with roots going back at least to the debates twenty years ago about NATO enlargement. In fact, the Russian narrative starts with their belief that in negotiating the reunification of Germany in 1990, Gorbachev was assured by the Bush I administration that NATO would not expand its military infrastructure east into former Warsaw Pact states, let alone former Soviet republics, as the Soviet Union still existed at that time. NATO's attack on Serbia in March 1999 struck a deep and enduring blow in the security psyche of the Russian political elite, showing they were virtually powerless to prevent Washington and its allies from taking actions in nearby countries that Moscow viewed as diametrically countering its interests.

Further enlargement of NATO and ballistic missile system deployments in Europe in the following decade only deepened Vladimir Putin's view that the existing European security system was illegitimate because from his perspective Russian interests were systematically ignored. He saw the West taking advantage of Russia during a period of historical weakness. While Western policymakers at the time claimed they were working very hard to integrate Russia into essentially Western institutions and norms, the bottom line is that the West was not

willing to allocate any decision authority to Russia in NATO. Then Russian President Dmitri Medvedev put forward a proposal in 2009 for a new European security architecture, but the proposal was poorly thought out and basically brushed aside by Washington and its European allies.

While the Russian list of grievances is long and familiar, Russian policymakers never seemed open to asking themselves the question why central and east European states looked west rather than east for institutional security guarantees. Of course, a long history of imperial and hegemonic behavior on Moscow's part had a lot to do with their choices, but a Russia in the 1990s waging a brutal war on its own territory in Chechnya and where democratic parties and politicians rapidly lost power also hardly served as a magnet.

Cataloguing all of the mistakes and misunderstandings over the past quarter century that extinguished our hopes and dreams for a "Europe whole and free" and the "belt of peace from Vancouver to Vladivostok" to the situation today that resurrects some features of the Cold War is not the goal of this chapter. But again, one clear lesson we all must absorb from this experience is that if Russia feels aggrieved and left out of key aspects of European security decision-making, neither Europeans nor Russians will ever really feel secure.

Further, what is most distressing about the current state of affairs is that the most successful aspect by far of post-Cold War Russian-Western relations, the deep economic integration between Russia and Europe, is gradually unwinding under the pressure of the West's economic sanctions against Russia for its violations of Ukrainian sovereignty. Western sanctions policy reverses nearly a quarter century's efforts to integrate Russia more deeply into Western and global economic multilateral institutions as well as much deeper and multifaceted bilateral economic ties with European states as well as the United States. The last significant achievement of the Obama Administration's *reset* with Russia was the successful conclusion of Russia's 19-year negotiations to accede to the World Trade Organization (WTO) at the end of 2012. Only a little more than a year and a half later, Washington was pushing its European allies and Japan hard to isolate Russia, mainly through punitive economic sanctions.

Russia has not helped its case by habitually criticizing its European partners as lackeys of Washington for supposedly acting in a manner

counter to their own interests, as viewed from Moscow. Not only were such comments interpreted as insulting by European leaders, they did not reflect the growing outrage in most European capitals with Russian policy in Ukraine and, to put it politely, the disingenuousness of Putin and his colleagues in not acknowledging any role of Russian armed forces in supporting the insurgents in the Donbass. Even Putin's most empathetic and effective European mediator, German Chancellor Angela Merkel, was repulsed by Putin's continuous lies and obfuscation. The dramatic achievement of post-World War II Russo-German rapprochement, whose roots date back to generations to the *Ostpolitik* of Willy Brandt in the late 1960s, has eroded significantly. A deep lack of trust permeates Russia's relations with the West today.

### **A Conflict Nobody Wanted Except Perhaps Vladimir Putin**

It is important, if a bit baffling, to recall that the Ukraine crisis emerged essentially from European and Russian competition over Ukraine's economic trade orientation in the fall of 2013. Under pressure from Putin that included a \$15 billion loan as a carrot, Ukrainian leader Viktor Yanukovich reneged on his promise to move forward with signing a Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union (EU) in November 2013. This brought tens of thousands of Ukrainians into the streets in Kyiv to demonstrate in protest in Maidan Square, similar to what happened in the winter of 2004 after the alleged falsifications of presidential elections led to the Orange Revolution. These demonstrations continued through the winter until they exploded in violence on February 18, 2014, leading to the killing of approximately 100 demonstrators and further violence and ultimately Yanukovich's escape from his residence in Kyiv and virtual abdication from power four nights later.

For Putin, the fall of Yanukovich represented the complete and total failure of Russian policy in Ukraine that could have dire consequences for his own legitimacy as leader of Russia. For Putin and his circle in the Kremlin, such an outcome was unacceptable. Putin's ingenious response to this seeming debacle was the bloodless seizure of Crimea on February 27-28, 2014 and its annexation on March 18, an act that marked a watershed in Russia's transition to a highly chauvinistic strain of Russian nationalism that was nearly universally greeted with great enthusiasm by the Russian public as Putin's popularity jumped almost overnight

from about 60 percent to close to 90 percent. This was a remarkably striking case of a politician “making a silk purse out of a sow’s ear”. Even though the Kremlin keeps very close tabs on public opinion, there likely was some pleasant surprise at just how effective the Crimean escapade was in rallying support around Putin. The Western response consisted mostly of righteous indignation, threats of action, and very weak economic sanctions directed against some of the individuals and a couple of banks close to the Kremlin.

For Europe, the Ukraine crisis and subsequent civil war marked a tremendous blow to the values espoused by the European Union (EU) at a time when the EU was still dealing with the impact of economic stagnation from the global financial crisis, the ongoing Greek economic crisis, major rifts between better off and less well-off member states, and a bit later, a growing crisis over large numbers of migrants and refugees from Africa and the Middle East. The Ukraine crisis again exposed the schism between some of Europe’s leading powers such as Germany, France, and Italy versus newer member states located much closer to Russia such as Poland and the Baltic States. Great Britain and Sweden were also inclined to take a much tougher position towards Moscow.

Moscow, through a variety of mechanisms such as energy deals, support for conservative national parties critical of the EU and others, also increased its efforts to peel away various states from the growing anti-Russian European consensus after Crimea, most notably Greece and Hungary. And while Moscow’s arguments about the great losses for European business resonated in many quarters, the shoot down of MH-117 in July 2014 by a Russian Buk air defense missile controlled either by insurgent or Russian military forces in the Donbas sharply consolidated European public opinion, especially in Germany, to support stronger and deeper economic sanctions against Russia that exist to this day.

The Obama Administration was clearly caught flat-footed by Russian military action in Ukraine. The administration just two years earlier in 2012 had announced a “rebalancing” of U.S. military, economic, and diplomatic attention to Asia primarily in response to the rapid rise of China and concern over Beijing’s increasingly bellicose policies towards several of its neighbors over territorial claims. For nearly a quarter of a century, despite the Yugoslav wars of succession in the 1990s and Russia’s five-day war with Georgia in 2008, Washington’s political elite (as well as our older western European allies) for most intents and purposes viewed fundamental European security issues resolved with the end of

the Cold War. Coming to power in 2009, Obama's core goals were to end U.S. military engagement in Iraq and Afghanistan and to resolve the Iranian nuclear problem. The last thing he needed or expected was the "re-opening of the European security theater" thanks to a resurgent and bellicose Russia.

Moscow accused the United States of supporting the illegal coup in which Ukrainian President Yanukovich was essentially deposed by street demonstrations. This is not an accurate interpretation of U.S. policy. The Obama administration certainly did want the February 21st agreement signed by Yanukovich, the Ukrainian opposition, and the foreign ministers of Germany, France, and Poland to succeed. The failure of U.S. policy from the fall of 2013 to the fall of Yanukovich stemmed more from sins of omission rather than sins of commission. While the core of the problem was the dispute between the EU and Russia over Ukraine's economic orientation, the administration should have been more attuned to the danger of that dispute devolving into a binary choice for Kyiv of either Europe or Russia.

It should have been perfectly obvious to any reasonably informed observer that for a multitude of economic and political reasons, a unitary Ukrainian state would not be viable having to make such a stark choice, especially given Ukraine's deep economic and energy vulnerability. Neither the Europeans nor the Americans were willing to ante up adequate resources to address Ukraine's economic crisis, and while Moscow was willing to put far more funds on the table more quickly, they would not be adequate either. Yanukovich, and his predecessors, had made Ukraine such an endemically corrupted money pit that all resources plus remarkable Ukrainian political will to reform would be required.

As for what transpired between February 21–28, 2014, from the signing of the agreement to its nearly immediate breakdown to the subsequent Russian military takeover of Crimea, again the problem from Washington stems from sins of omission, a failure of intelligence, and a lack of minimal creative thinking. First, upon reading the February 21st agreement which called for holding early elections in 10 months for the next president of Ukraine, it should have been obvious to any reasonably informed observer that this would not be acceptable to the tens of thousands of demonstrators in the streets of Kyiv.

It has been reported that Obama did phone Putin after the agreement was signed. This was the right thing to do, but what would have been much more useful, indeed urgent, would have been for Obama to speak with Putin *after* the agreement had fallen apart. I am virtually certain this did not happen. And what the U.S. president should have said was something like this: “Vladimir Vladimirovich, WE have a very dangerous mess on our hands with the breakdown of state power in Ukraine, and WE need to work together with our European colleagues and friends in Ukraine to try to resolve this in a peaceful manner as soon as possible. I can assure you that neither did the United States play any role in supporting this illegal coup, nor did we hope that would happen, and we condemn those who violated the February 21st agreement.” There is no guarantee that this or a similar action could have prevented the total breakdown of relations beginning with the Russian seizure of Crimea, but we should have been very sensitive to how deep of a political blow this was to Putin and make every effort to reassure him that we saw it as our joint responsibility to maintain peace and order in Ukraine. But I fear that in too many circles in the administration, the fall of Yanukovych was viewed as our victory and Putin’s loss rather than our mutual danger.

### Today’s Dilemma and a Possible Way Forward

More than two years have passed since the Russian annexation of Crimea and the onset of the Ukrainian civil war. Russia remains under sectoral economic sanctions imposed by the United States, Japan, and the EU, and Moscow’s relations with its transatlantic partners remain in the deep freeze. Perhaps the only beneficiary has been Vladimir Putin’s domestic political popularity ratings, which remain around 85 percent,<sup>1</sup> but for the Russian people, the EU, the United States, and especially Ukraine, what has transpired has been an unmitigated disaster that is in the national interests of none of the key players.

Three developments over the past two years, however, are likely altering the calculus of leaders in Russia, the EU, and the United States, and may facilitate rapprochement first between Russia and the EU, and to a lesser extent between Washington and Moscow. First, after the suc-

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<sup>1</sup> ‘Approval for the performance of Vladimir Putin’, December 2015, Levada Center, Accessed: <http://www.levada.ru/indikatory/odobrenie-organov-vlasti/>

cessful Russian/insurgent offensive in January 2015 and the subsequent Minsk II agreement in February, violence in Ukraine has diminished considerably to something akin to a stalemate. Second, the Russian economy went into a tailspin in the latter half of 2014 mainly caused by a 50 percent reduction in the oil price and subsequent depreciation of the ruble by a similar rate. Economic sanctions also are a problem as Russian companies can no longer go to Western financial institutions to roll over debt. After a partial recovery of oil price and ruble value in the first half of 2015, as of this writing the oil price has tumbled to about \$30/barrel, its lowest level in more than ten years. Russia finds itself in deep recession as a result. Finally, the threat of the Islamic State's rapid growth in Syria and Iraq and elsewhere coupled with high profile terrorist attacks such as those in Paris in November, have elevated this issue to the top of the agenda for European, Russian, and U.S. policy-makers. Let us address the impact of these developments below.

My personal reaction to the Russian seizure of Crimea on February 28, 2014 was a deep feeling of foreboding, a sense in my bones that a real disaster would unfold including the possibility of a broader war involving Russia and the West. First, I believed that Putin was driven to this action to a considerable extent by domestic political concerns in Russia. The Russian economy was already stagnant at near zero growth before Crimea, and Putin needed something else besides economic prosperity, which had been the foundation of his popularity and legitimacy for most of his rule, to rally the people to support his continuing leadership. And he found it. I also believed that he would feel emboldened to take further action in Ukraine because it would politically be very difficult for the West to mount a credible reaction that any further action would bring grave consequences for Russia.

And with the authorization for the destabilization and support for military action by insurgents in the Donbas, Putin acted on several miscalculations. Since Ukrainian military forces in Crimea remained in their barracks and did not respond to the stealthy Russian invasion, Putin and his cronies likely over-estimated how easy it would be to embark on similar actions in eastern Ukraine. He also likely overestimated how ethnic Russians in Ukraine would welcome Russian troops as liberating them from under the yoke of the Ukrainian government. Finally, he probably underestimated the unity and the force behind the Western reaction—albeit without the shoot down of MH-117, that unity and force behind Western reaction would have been far less.

It did require far more overt support of Russian military forces in September and again in January to secure more defensible borders for the so-called Donetsk Peoples' Republic and the Lugansk Peoples' Republic, but at that point the structure of a stalemate started to emerge over the winter of 2015. While most analysts in Washington expected Russia to continue to advance, by April I sensed that both for military and economic reasons, the risk of a further Russian/insurgent advance outweighed the reward. On the military side, the question emerged whether Russian/insurgent forces would seize the fairly large port city of Mariupol (population about 500,000) on the Black Sea as a major step towards creating the land corridor from Russia to Crimea, making supply of key resources like energy and water logistically much easier.

The danger, however, was multifold. One, the urban fighting in Mariupol would have been a gory bloodbath causing major losses on both sides, and for the Russians, you would still need to capture far more land for the corridor. Such an attack would undoubtedly have led the United States to supply lethal weapons to Kyiv which implied a very dangerous escalation of the conflict. And the escalation would have certainly led the United States and Europe to adopt far more punitive economic sanctions at a time when the Russian economy had just reached a shaky equilibrium that foresaw a contraction of the economy of 3-5 percent in 2015.<sup>2</sup> Such a contraction was unpleasant, but manageable; a further external shock could bring on a deeper contraction approaching 8-10 percent that would risk much greater social and political repercussions. It seemed to make sense for Moscow to resist the temptation of such an offensive, and the military stalemate on the ground endures to this day.

When Moscow seized Crimea, although Russian economic growth had stagnated to near zero, Russian financial reserves amounted to more than \$500 billion, and the oil price remained over \$100/barrel. According to the World Bank, the Russian economy contracted by 3.8 percent, inflation averaged over 10 percent, 2 percent more of the population fell under poverty levels (from 13 percent to 15 percent), and reserves fell to less than \$360 billion.<sup>3</sup> With the ruble/dollar exchange rate falling from a bit more than 30rr/\$ to more than 80rr/\$ consumption levels have

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<sup>2</sup> Kuchins A. C. and Mankoff J., "A Shaky Equilibrium in Ukraine," Center for Strategic and International Studies (CSIS), 29 April 2015, Accessed: <http://csis.org/publication/shaky-equilibrium-ukraine>

<sup>3</sup> Russia Overview, World Bank, Accessed: <http://www.worldbank.org/en/country/russia/overview>



fallen tremendously, and industrial enterprises dependent on imported parts and machinery have experienced deep supply chain disruptions.<sup>4</sup> With the oil price around \$30/barrel, the prospects for 2016 are grim, and we should not forget that parliamentary elections will take place in September.<sup>5</sup> Further budgetary cutbacks will have to be carried out to avoid cascading budget deficits. More calls will be made on reserves for Russian state companies to pay off debt and to ensure the liquidity of the Russian banking system.

Russia is not in imminent danger of a 1998-like default, but if current trends continue into 2017 and beyond, the danger of a deep disruption grows, and this could coincide with the next presidential elections scheduled for 2018. Throughout Tsarist, Soviet, and post-Soviet history, Russia has evinced a higher proclivity for non-linear events than most other great powers and European states, and the current trend of developments only increases the possibility of a Black Swan descending on the Russian motherland once again. Putin cannot control the oil price, still the most important factor for the Russian economy, but he can control to a great extent the insurgents in the Donbas, and certainly the incentives to stand down and reach a durable accord with Kyiv—so that Western sanctions are removed—are growing by the day. Whether a political miscalculation or not, supporting an insurgency in neighboring Ukraine seemed an affordable adventure for Moscow two years ago, but today it is not.

To put the economic and political situation in a broader historical context, since the first oil crises in the 1970s, during periods of high or rising oil prices, Soviet/Russian foreign policy has been more assertive and aggressive. This was the case from 1973-1985/86, and again from 2003-2014. During periods of low or falling oil prices that existed from 1985-2003, Soviet/Russian foreign policy has been more accommodating and moderate. The past year, 2015, stands out as an anomaly since the oil price for much of the year was falling, yet Moscow maintained a belligerent stance against the West. I think two factors explain this: 1) Putin's anti-Westernism has become the backbone of his domestic political consolidation so it is harder to move from it; and 2) it does take time for Russia's ruling elite to adjust to new circumstances, and they

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<sup>4</sup> Ostroukh A., 'Russian Ruble Falls to Record Low Against the Dollar on Weak Oil Price', *Wall Street Journal*, 21 January 2016, Accessed: <http://www.wsj.com/articles/russian-ruble-falls-to-record-low-against-the-dollar-on-weak-oil-price-1453391389>

<sup>5</sup> Russia Monthly Economic Development, World Bank, 19 January 2016, Accessed: *Russia Monthly Economic Developments*

were hopeful that the oil price fall in the second half of 2014 would be a shorter-term phenomenon. If the oil price remains in the \$30-\$50 range for 2016, I expect that Russian foreign policy would return to its historical patterns and become less bellicose and more accommodating to its Western partners, especially those in Europe.

Finally, major advances by the so-called Islamic State of Iraq and Syria (ISIS) in Syria and Iraq the past two years coupled with a large migrant and refugee challenge in Europe and a proliferation of terrorist attacks around the world claimed by ISIS have focused the attention of the EU, the United States, and Russia about the urgency of resolving the Syrian civil war and attacking ISIS strongholds. The entry of Russian military forces into Syria in late September, 2015 initially came under considerable criticism from the Obama administration and key European allies, but the terrorist attack in Paris on November 13 shifted the calculations about working together with the Russians. The key difference between the Americans and the Russians about the political future of Syrian president Assad remains, but each side has moved to a somewhat more flexible position so that Vienna peace talks are taking place. Both the Americans and the Europeans have made it clear to Putin that Russia will not get a special break on Ukraine because of Russian cooperation on Syria if, as many suspect, this was the sort of deal that Putin was seeking.

During the fall of 2015 a more cooperative spirit emerged among U.S., European, and Russian leaders about the urgency of working together to address the growing terrorist threats that we all face from ISIS. How successful these efforts will be remains to be seen. While U.S./EU/Russian cooperation is essential to have any chance of success, the diplomatic challenge of bringing together key regional actors including Iran, Saudi Arabia, and Turkey is actually far more daunting. One Russian friend in Moscow in November described this as “the diplomatic problem from hell.” In 2015 we did see one of the most successful diplomatic challenges of our generation, the Iranian nuclear program, successfully resolved, but Syria and the growing ISIS problem may well be more complex and difficult.

### **How to Respond to a Kinder and Gentler Putin?**

Primarily because of growing domestic economic pressures, it is my expectation that Vladimir Putin will seek a broader political agreement

with Ukraine in order to have Western sanctions lifted sooner rather than later. Because of space limitations, this is the only hypothetical scenario we will pursue. If the Russians maintain the status quo, then sanctions will continue. If Moscow were to increase its pressure on Ukraine and/or violate the sovereignty of another neighbor, then certainly the West should respond in an appropriate manner.

First, we need to be ready to be flexible about the Minsk II ceasefire agreement. It served an important role in addressing certain urgent military and political exigencies nearly one year ago, but it is not likely to be the platform for a longer-term peaceful resolution between Moscow and Kyiv, as neither capital sees aspects of the agreement in its interests. It made sense to use Minsk II as a benchmark for extending or not extending existing sanctions in 2015, but I would caution against overvaluing Minsk II as the beacon illuminating our policy henceforth, otherwise we increase the risk of the Donbas taking on the status as an enduring “frozen conflict” that will similarly freeze our capacity for more creative and effective policymaking.

Ultimately a broader agreement addressing security, economic, energy, and political relations between Russia, Ukraine, and the EU will need to be negotiated, including a promise from the West that NATO will not consider the possibility of Ukraine's membership. The so-called principle that all states have the right to choose their security relationships/alliances is irresponsible. Certainly those states have the right to seek their security ties, but alliances, NATO in this case, is not required to accept their membership. NATO must clearly assess the extent to which a new member state actually enhances the capabilities and mission of the alliance as well as maintaining the credibility of Article V commitments to the new member states. For the foreseeable future Ukraine fails on both counts.

But hopefully with a broader and more sustainable resolution of the current ongoing crisis, then the United States and the EU can focus much more attention on assisting Ukraine to develop durable market and democratic institutions that are the best means to enhance the sovereignty of Ukraine. This is frankly the hardest aspect of the policy challenges, but has not gotten the attention it deserves partly because of consistent Russian efforts to destabilize Ukraine and partly because of Ukraine's own governance dysfunction. Once we achieve adequate progress on security and Ukrainian sovereignty, then we can return to a broader set of issues with our Russian partners such as reform of Euro-

pean security institutions including the OSCE, a remodeling of the CFE and other disarmament measures, but this agenda is beyond the scope of this chapter.

The current state of affairs with Russia so alienated from Europe, albeit as a result of their own actions, is unnatural, somewhat of an historical anomaly with only the early Cold War period having a similar dynamic. This alienation is especially debilitating for Russia that is far more economically dependent on Europe than vice versa. Strong economic integration with Europe is imperative if Russia will ever develop a more diversified and modern economy that adheres to high legal norms, guarantees property rights, and ultimately a more open and pluralistic polity. Given its geographic proximity to Russia, it is only natural that Europeans are more sensitive to the dangers of Russian aggression as well as to potential implosion. If I am correct that deepening economic problems in Russia shift the weight of concern from Russian aggression to implosion over the next year or two, then our policy response to Russia must undertake a rapid makeover as well. This will be easier for Europe than for the United States since there are major economic constituencies supporting strong ties with Russia.

As for the United States, normalization with Russia will be more challenging because of the relative lack of economic interest groups and the much deeper domestic political animus against Putin. Despite a seeming "bromance" with Republican presidential candidate Donald Trump, Putin should realize that dealing with Barack Obama in the coming year is likely to be the most fruitful course of action rather than waiting to take a chance on whoever is the next U.S. president. Obama is thoughtful, pragmatic, and does not have to worry about another political campaign. His relatively restrained reaction to Russia's military action in Ukraine and general bellicosity over the past two years should serve as evidence of this. His administration also continued to work effectively with the Russians on two major security and diplomatic achievements in this difficult environment: 1) the removal and disposition of all of Syria's chemical weapons arsenal; and 2) the Iranian nuclear agreement. It is not impossible to imagine that normalization of relations with Russia could be the final diplomatic achievement for Obama.