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Policy Brief

The Strategic Case for EU-Russia Cooperation

Joseph Dobbs

Dr Ian Kearns

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Introduction

Relations between Russia and the European Union are at their lowest ebb since the early 1990s. Since Ukraine's Euromaidan protests began in November 2013 and the annexation of Crimea early in 2014, there has been a great deal of public and expert debate on both sides as to the history, present state, and future of EU-Russia relations. Few, if any, would argue that we should attempt in the near term to return to the pre-2014 relationship but in the absence of that there is not yet a common vision on either the need for or the format of future relations. The rhetoric and reality of confrontation have gathered momentum despite the fact that both sides are paying a price. In this report, we try to get beyond the immediate, to take a look at both Russia and the EU's strengths, weaknesses, opportunities and threats and to ask what, if any, long-term rationale might exist for a more cooperative relationship between them.

We start by addressing, in chapters one and two, what we feel is lacking in this debate; namely an adequate appraisal, in the form of a SWOT analysis, of both sides' real strategic context and position, without which it is difficult to assess respective inclinations and disinclinations in any future bilateral relations.

What this analysis reveals is a Russia that, despite its many failings, is not as economically weak as some would claim, nor as militarily powerful as is often made out. The Russia that emerges still has terrific opportunities but also faces major threats. On the EU side the picture that emerges is of a European Union that, despite the exceptional opportunities provided by the

¹ Dr Ian Kearns is the Director of the European Leadership Network, and Joseph Dobbs is a Research Fellow at the European Leadership Network.

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world's richest single market and having some of the world's preeminent diplomatic powers as members, is facing great challenges in terms of its own internal unity, its sclerotic economic growth and a worsening threat environment from an arc of instability to the south and east.

The two SWOT analyses serve as a starting point for thinking about where the interests of the EU and Russia genuinely diverge and where, if immediate obstacles can be removed, they converge.

In chapter three, therefore, we outline how the absence of cooperation between Russia and the EU could see both sides' strengths diminished and weaknesses exacerbated, and perhaps more importantly, see both Russia and the EU miss important opportunities while leaving threats to both unmanaged.

Regarding the UK's recent referendum result to leave the European Union this report addresses the impact of a Brexit. The impact of the referendum result on the UK's relationship with the EU is as yet unclear, and as such this report continues to consider the UK as a member of the EU, as it is likely to remain for the near future.

Our case is not ignorant of the enormous hurdles still to be overcome before cooperation can progress, most importantly connected with Russian actions against Ukraine. It is however, focused on the medium to long term ways in which both sides could have their security, prosperity and global position improved by closer cooperation and explains why it is worth working at this important relationship despite the evident temptation to give up on it.

Finally, in chapter four, our paper outlines a pathway to EU-Russia cooperation. We present an eight point plan to get both sides to the stage where the strategic rationale for cooperation outlined in chapter three can begin to shape day to day relations rather than be overshadowed by them. Our recommendations are:

1. Both sides should take steps to prevent the relationship worsening further still through new military to military arrangements between Russia and EU member states, almost all of which are also members of NATO;

2. There should be a gradual lifting of EU sanctions on Russia in return for gradual but clearly evident implementation of the Minsk agreements;
3. Both sides should pursue a combined EU-Russian effort to provide assistance to all those affected by the conflict in Eastern Ukraine;
4. There should be selective EU-Russia engagement on a wide range of issues based on mutual self-interest. Here the priorities include continued cooperation on Syria, counter-terrorism and the prevention of WMD proliferation, plus cooperation on climate change, the Arctic, space and energy;
5. Governments on both sides should endorse and support more, not less, people-to-people contacts;
6. There should be the beginning of an open ended dialogue on the fundamentals of European order and on the competing narratives on what has gone wrong in the Russia-EU relationship;
7. Both sides should encourage high-level Track II dialogues while official channels are blocked or restricted for political reasons;
8. Both sides should make a commitment to active diplomacy in relation to the other, without preconditions. We specifically call for a summit to be convened between the EU and Russia in the second half of 2016. Suggestions that a summit would constitute either a reward for Russian behaviour or a sign of the EU's willingness to return to business as usual are not convincing. Diplomatic engagement is not a reward for anything but a necessity given the fact that the EU and Russia are neighbours, share the same strategic space, face many of the same threats, and by working together could improve the lot of all Europeans while still disagreeing about many things.

Chapter One: A SWOT Analysis of Russia

Strengths

Although Russia's economy is now in recession, suffering the effects of fallen energy prices and economic sanctions, it remains stronger today, in relative terms, than for much of the period since the end of the Cold War. In 2015, Russia's economy was valued at US\$1.33 trillion, placing it 13th in the world with 1.81% of global GDP, up from 0.78% in 2000.² Despite current difficulties this affords Russia a platform for some regional and global influence. Russia's reasonably large foreign currency reserves, standing at US\$387 billion in June 2016,³ and large sovereign wealth funds, moreover, amounting to US\$111.6 billion, have acted as something of a shock-absorber to global economic shifts and more recently to sanctions.⁴ Russia is not among the very top flight of economic powers but neither is it on its knees as many believed it would be by now.

Russia's **energy reserves** and exports remain the core of its economy and constitute its largest economic strength, and one of its most significant diplomatic tools. As of 2015, Russia holds the sixth largest proven oil reserves in the world (6% of global total), is the third largest producer of oil (12.4%), holds the second largest proven gas reserves (17.3%) and is the world's second largest gas producer (16.1%). Russia accounts for just under 20% of global gas exports, far ahead of its next two competitors Qatar and Norway on 12.1% and 11% respectively.⁵ Russia's energy reserves are in relatively more stable locations than their competitors in the Middle East and Africa, making it a relatively attractive supplier to some importers. Most recently Russia's energy strength has allowed it to negotiate huge deals with China to the east, and to account for 39% and 34% of the EU's 2013 gas and oil imports respectively.⁶

2 World Bank Data, <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>, accessed 14/04/2016

3 International Reserves of the Russian Federation, Bank of Russia, http://www.cbr.ru/eng/hd_base/?prtId=mrrf_m, accessed 14/04/2016

4 National Wealth Fund, Ministry of Finance of the Russian Federation, http://old.minfin.ru/en/national-wealthfund/statistics/amount/index.php?id_4=5830, accessed 14/04/2016; Reserve Fund, Ministry of Finance of the Russian Federation, http://old.minfin.ru/en/reservefund/statistics/amount/index.php?id_4=5817, accessed 14/04/2016

5 Statistical Review of World Energy 2015, BP, <http://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html>, accessed 14/04/2016

6 Energy Production and Imports, Eurostat, http://ec.europa.eu/eurostat/statistics-explained/index.php?title=Energy_production_and_imports&oldid=291870#Further_Eurostat_information, accessed

Russia is also the world's second largest arms exporter, accounting for 25.4% of global exports between 2011 and 2015 (an increase of 28.4% on the previous period), and currently accounts for 59.3% of China's arms imports, and 70.5% of India's.⁷

Russia's civilian nuclear program remains a significant asset, accounting for 18.6% of the national energy mix in 2015.⁸ The nuclear power-generation sector includes 35 reactors at 10 nuclear power plants, as well as an infrastructure supporting the full nuclear fuel production and utilization cycle. Importantly, the Russian nuclear program has a strong export dimension. In Europe, Russia has been providing nuclear fuel and other services to support the operation of Soviet - and Russian-built research and power-generation reactors in a number of countries, including Ukraine, Belarus and the EU members Finland, Czech Republic, Slovakia, Hungary and Bulgaria.⁹ Russia has bid to build new nuclear power plants in a number of Central European countries too. It is currently constructing an additional reactor in Finland and a four-reactor power plant at Akkuyu in Turkey,¹⁰ and - according to an agreement signed in 2014 - is to construct two additional units at the Paks 2 nuclear power plant in Hungary.

Russia is the fourth largest spender globally on defence, behind only the US, China and Saudi Arabia.¹¹ In 2015, its defence budget amounted to 5.4% of its GDP (US\$91.08bn).¹² This represented approximately 5.25% of global military spending, resulting from a 91.3% increase in its defence spending in the ten years between 2006 and 2015 (compared with an average global increase of 16%). Spending compared to NATO (US\$904.9bn in 2015) and NATO Europe

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7 Arms Transfer Database, SIPRI, <http://www.sipri.org/databases/armstransfers>, accessed 19/04/2016

8 Rosenergoatom: Nuclear share in Russia's energy mix has increased up to 18.6% from 17.2 in 2015, Rosatom, 14/01/2016, <http://www.rosatom.ru/en/presscentre/news/73171f804b4e9955bd82ff682f572934>, accessed 14/04/2016

9 Nuclear Power in the European Union, World Nuclear, April 2016, <http://www.world-nuclear.org/information-library/country-profiles/others/european-union.aspx>, accessed 14/04/2016

10 As of February 2016, the overall deterioration of the Russian-Turkish relationship did not have impact of the implementation of the agreement, see: Is this the end of Moscow-Ankara nuclear cooperation?, Bulletin of the Atomic Scientists, 13/01/2016, <http://thebulletin.org/end-moscow-ankara-nuclear-cooperation9059>, accessed 14/04/2016

11 Military Expenditure Database, SIPRI, http://www.sipri.org/research/armaments/milex/milex_database, accessed 14/04/2016

12 Ibid.

(US\$292.2bn) as a whole is relatively low. However, the Russian military has undergone significant reforms to make it more efficient, responsive and professional¹³ in recent years and has proven itself adept at modern hybrid warfare. Its annexation of Crimea and use of airpower in Syria have, according to many western commentators, highlighted Russia's increasing effectiveness, and reach, as a military power. Russia is also the possessor of one of the world's pre-eminent nuclear arsenals, with around 1780 deployed nuclear warheads, meaning progress on global nuclear disarmament and non-proliferation is more or less impossible without it.¹⁴

Geographic reach and population size mean Russia is also an important factor in several of the world's most important regions.

In terms of population Russia is the ninth largest country in the world, with 144.21 million people in 2015.¹⁵ The size of Russia's population allows it to be a relatively large consumer market, as the world's 16th largest importer of merchandise in 2013 for example, making the Russian domestic market a potentially very important one for a number of other major economies.¹⁶

To the west, an estimated 115 million people live in the European part of Russia, making it the largest country in Europe by population size. This figure represents 79.8% of Russia's total population, and accounts for approximately 16% of the total population of Europe.¹⁷ Russia also accounts for over 35% of the European landmass. Whatever the short term difficulties in Russia-West relations therefore, this fact, when combined with Russia's energy and military footprint, means Russia is indisputably a significant player in European and indeed, Euro-Atlantic relations.

13 Gustav Gressel, Russia's Quiet Military Revolution, European Council on Foreign Relations, 12/10/2015 http://www.ecfr.eu/publications/summary/russias_quiet_military_revolution_and_what_it_means_for_europe4045, accessed 14/04/2016

14 Nuclear Forces, SIPRI, <http://www.sipri.org/research/armaments/nuclear-forces>, accessed 19/04/2016

15 Not including the annexed Ukrainian territory of Crimea – Russian Federal State Statistics Service, http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/en/figures/population/, accessed 11/07/2016

16 For example, Russia was the tenth largest importer of merchandise in 2013, see World Trade Organisation Data, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=S&Country=RU>, accessed 14/04/2016

17 To calculate these figures Rosstat data, Turkish Census data and UN population data are used, and it included all Russian Federal Districts west of the Urals Federal District and three of the UFD's western most Okrugs, as well as data for Turkey's East Thrace as European.

To the east, deals with China and Beijing's 'One Belt, One Road' Eurasian infrastructure show that Asia's increasing economic power could benefit Moscow. Russia's leading role in the Shanghai Cooperation Organisation (SCO) and seat at the newly formed Asian Infrastructure Investment Bank (AIIB) indicates a potentially significant role for Moscow in Asian regional government. To the south, Russia has clearly shown in Syria that it remains a potent force in the Middle East, with the opening of Iran's economy potentially allowing it to further increase its presence in the region.

To the north Russia has and will continue to have a powerful role in the Arctic, a region that may become increasingly relevant for global trade and energy production in coming decades.¹⁸ Indeed, the US Geological Survey states that 10% of the world's known petroleum reserves are located in the region, the majority of which is in the Russian Arctic Zone (RAZ), and Russia believes that 41% of the region's undiscovered oil reserves and 70% of its undiscovered gas reserves are within its territory.¹⁹

Russia's demographic and geographic size and reach, its energy, defence exports and civil nuclear power strength, and its military power underpin what is also a **very significant Russian global diplomatic footprint**. This is institutionalised in positions in both European and Asian regional institutions, such as the OSCE, the SCO and APEC, and in its leading role in the United Nations Security Council and as a recognised Nuclear Weapon State under the terms of the Non-Proliferation Treaty but it is also evident in more *ad hoc* efforts to deal with some of the world's most pressing problems.

Russia has shown itself, for example, to be indispensable to the diplomacy surrounding climate change, the Syrian Civil War, the negotiations with Iran on the latter's nuclear programme, and the future of Ukraine. Russia's relative wealth has also given it a reasonably large role in international financial organisations, with the tenth most votes in the IMF (2.39%),²⁰ the seventh and ninth most votes in the World Bank's IBRD (2.82%)²¹ and IFC (3.82%)

18 The Emerging Arctic, Council on Foreign Relations, http://www.cfr.org/polar-regions/emerging-arctic/p32620#!/?cid=otr_marketing_use-arctic_Infoguide, accessed 14/04/2016

19 Russian Strategies in the Arctic: Avoiding a new Cold War, Valdai Discussion Group, September 2014, http://www.uarctic.org/media/857300/arctic_eng.pdf, accessed 14/04/2016

20 IMF Members' Quotas and Voting Power, International Monetary Foundation, <https://www.imf.org/external/np/sec/memdir/members.aspx>, accessed 14/04/2016

21 IBRD Subscriptions and Voting Power, International Bank for Reconstruction and Development, <http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IBRDCountryVotingTable.pdf>, ac-

respectively,²² and the third most votes in the newly formed Asian Infrastructure Investment Bank (5.93%).²³

Russia's **influence in its immediate neighbourhood** further allows it to influence the development of both continents in which it sits. The CSTO, CIS and the Eurasian Economic Union, while all beset by challenges, form a legal and political community placing Russia at the head of the post-Soviet space. Russia's influence is further secured by its support of break-away entities in so-called frozen conflicts in Moldova, Ukraine and Georgia.

Russia's **rocket and space program** may also prove a strong point both militarily and economically as space become more central to many aspects of life on earth. In 2013 Russia was the only country other than the United States to spend more than US\$10bn on its space program, recording a 32% increase in local currency spending over the previous five years, in the context of the first global decrease in space spending in 20 years.²⁴

Building on the legacy of the Soviet space program, Russia has maintained a strong position in areas such as development of rockets, satellite launches, and remains vital for the operation of the International Space Station. It will also be a go-to partner in any ambitious projects aimed at exploitation of resources in space. GLONASS, Russia's space-based navigational competitor to GPS, has set up partnerships with both China and India in recent years.^{25/26} Inauguration of the Vostochny cosmodrome in the Russian Far East in 2016 decreases the dependence on Kazakhstan's Baikonur and could draw down the costs of space launches. Russia is among the countries which use space for military purposes (communication, targeting, reconnaissance) but it has voiced its opposition to further weaponisation of space and supports development of legal measures in this area. At the same time, its research and

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22 IFC Subscriptions and Voting Power, International Finance Corporation, <http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IFCCountryVotingTable.pdf>, accessed 14/04/2016

23 Scott Morris and Mamoru Higashikokubaru, Doing the Math on AIIB Governance, Center for Global Development, 07/02/2015, <http://www.cgdev.org/blog/doing-math-aiib-governance>, accessed 17/09/2015

24 Global Spending on Space Decreases for First Time in 20 Years, Euroconsult, 13/02/2014, <http://www.euroconsult-ec.com/node/141>, accessed 14/04/2016

25 Russia, China to set up joint venture to promote satellite navigation services, Tass, 14/11/2014, <http://tass.ru/en/non-political/759729>, accessed 14/04/2016

26 Russia's GLONASS Union may set up \$100 million joint venture in India, Tass, 11/12/2016, <http://tass.ru/en/economy/766435>, accessed 14/04/2016

technological potential would put it in a strong position if a decision is made about development of space or anti-satellite weapons.

Weaknesses

Russia's **most pressing weakness is the economic crisis brought on by the global oil price collapse and sanctions.** Russia's economy contracted by 3.7% in 2015,²⁷ and based on IMF and World Bank projections moved into 13th place globally in 2016.²⁸ The rouble has lost 47.26% of its value against the Euro between July 2014 and July 2016.²⁹ This weakness, while triggered by specific events in the short term is also a reflection of broader structural weaknesses in the Russian economy.

The Russian economy's most fundamental weakness is its **over reliance on the energy sector.** Russia has only five companies in the top 500 globally and three of these are in the energy sector. This compares with 30 companies in the top 500 for the United Kingdom, 25 for France and 20 for Germany.³⁰ Given this, it is no surprise that the recent collapse in oil prices has had a serious impact on the energy sector in Russia and on Russian state tax revenues. The reality facing leaders in Moscow is that oil and gas sales account for 68% of Russia's total export revenue, leaving the country vulnerable to decisions taken by foreign governments like that of Saudi Arabia, developments in the US shale sector, or to any future breakthrough in renewable energy technologies.³¹

The problem of Russia's dependence on energy is compounded by problems of endemic corruption, the absence of any effective rule of law, a US\$48.26bn

27 Russia's 2015 GDP dropped 3.7% - Federal Statistics Service, Tass, 02/02/2016, <http://tass.ru/en/economy/854032>, accessed 14/04/2016

28 World Bank Forecasts, <http://www.worldbank.org/en/publication/global-economic-prospects/summary-table>; IMF Forecasts, <http://www.imf.org/external/pubs/ft/weo/2015/update/02/pdf/0715.pdf>, both accessed 14/04/2016

29 Bank of Russia Statistic, http://www.cbr.ru/eng/currency_base/daily.aspx, accessed 14/04/2016

30 The World's Largest Companies in 2015, Forbes, 06/04/2016

31 <http://www.eia.gov/todayinenergy/detail.cfm?id=17231>, accessed 19/04/2016

drop in net foreign direct investment inflows between 2013 and 2014,³² and capital flight of around US\$210 billion in 2014 and 2015.³³

Moreover, Russia spent only 1.19% of its GDP on **research and development (R&D) in 2014**, placing it 24th in the world, lagging behind an EU average of around 1.94%. Between 2000 and 2014 the EU increased its share of GDP spent on R&D at a far faster rate than Russia.³⁴ With Russia's productivity already significantly lower than the EU's – US\$22.71 per hour worked compared to US\$46.76 – and the increasing importance of new technologies in a fast evolving global economy, Russia's lack of R&D spending is a weakness that must be overcome.³⁵

Russia's **economic attractiveness** to so-called rising powers is also unlikely to strengthen in the current climate. As countries like China and India seek to maintain their growth levels, economic relations with the West will remain their primary focus. In 2015 the US accounted for 18% of China's exports compared to Russia's 1.7%.³⁶ Russia's shortage of capital and sanctions-perpetuated instability may further dissuade investors from rising powers from getting involved in Russia. Major deals, like Russia's gas agreement with China, for example, have already been subject to lengthy delays due to the absence of capital.³⁷ Other investors will take note, and may worry about ultimate return on investment in current conditions.

Russia also is facing **demographic challenges** over the coming decades, similar to those faced by many other European countries. While Russia's birth-rate has improved somewhat in recent years, potentially reducing the

32 World Bank FDI Inflows Data, <http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>, accessed 14/04/2016

33 External Sector Statistics, Bank of Russia, <http://www.cbr.ru/eng/statistics/?PrtlId=svs>, accessed 14/04/2016

34 Research and Development Spending Data, OECD, <https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm>, accessed 14/04/2016

35 GDP per hour worked, OECD, <https://data.oecd.org/lprdy/gdp-per-hour-worked.htm>, accessed 14/04/2016

36 Bilateral Trade in Goods, OECD STAT, http://stats.oecd.org/Index.aspx?DataSetCode=BTDIXE_I4, accessed 05/07/2016

37 Katya Golubkova and Denis Pincuk, Kremlin pivot to China slowed as projects delayed, Reuters, 27/08/2015, <http://uk.reuters.com/article/2015/08/27/uk-russia-china-projects-idUKKCN0QW15T20150827>, accessed 14/04/2016

severity of the demographic crisis forecast by some,³⁸ Russia will likely soon be classed as an aged society.³⁹ This ageing, and soon to be aged population, is even more startling when one considers that Russian men have a life expectancy at birth of only 63 (73 for women). This figure hasn't changed since 1993, and is five years lower than the global average, ten years lower than the European average, and men can expect to live as long in Botswana, Ethiopia, Madagascar and Yemen.⁴⁰ The projections of Russia's demographic future, if proved broadly accurate, will reduce Russia's workforce as a percentage of the total population and increase the dependency ratio. This demographic change will place added strain on the country's social security and health services as well increased strain on state budgets.

Russia's **education system** performs relatively well globally, with the OECD ranking the schools as 34th in the world in terms of test scores for maths and science, but Russia lags behind much of Europe in this area too.⁴¹ While a relatively high proportion of Russians continue their education at a tertiary level,⁴² Russian universities' world rankings are low compared with Western and non-Western rankings alike giving them low scores. For example, China's Academic Ranking of World Universities (ARWU) ranks two of Russia's universities in the top 500 globally, compared with 192 for EU countries.⁴³ Russia's relative educational weakness, combined with its falling working-age population will make it difficult for Russia to maintain or increase its productivity and competitiveness.

Russia's geographic reach, described earlier as a strength, also brings with it a number of **challenges in the border areas**. Its enormous border with

38 Mark Adomanis, Yes Russia Has Demographic Problems, No They Are Not Worse Than Italy's, Forbes, 28/03/2016, <http://www.forbes.com/sites/markadomanis/2016/03/28/yes-russia-has-demographic-problems-no-theyre-not-worse-than-italys/#11a5be816ad9>, accessed 23/06/2016

39 The United Nations defines a country in which 7-13% of its population is 65 and over as "ageing", 14-20% as "aged" and 21% and above as "super aged". For more see UN Population Information Network, <http://www.un.org/popin/data.html>

40 World Health Organisation Life Expectancy Data, <http://apps.who.int/gho/data/node.main.688>, accessed 14/04/2016

41 Sean Coughlan, Asia tops biggest global schools rankings, BBC, 13/05/2015, <http://www.bbc.co.uk/news/business-32608772>, accessed 14/04/2016

42 Russian Federation Country Note, OECD, 2013, http://www.oecd.org/edu/Russian%20Federation_EAG2013%20Country%20Note.pdf, accessed 14/04/2016

43 Academic Ranking of World Universities 2015, Shanghai Jiao Tong University, <http://www.shanghai-ranking.com/ARWU2015.html>, accessed 14/04/2016

China, the potentially competing interests of the two states in Central Asia, and Russia's sparsely populated east is an increasing security worry. For example, China has a population of almost 1.4 billion, with 84.8 million living in the three provinces bordering Russia (6.3% of the total Chinese population in 2010), compared with the just 25.5 million living in Russia's entire Far East and Siberia (17.4% of the total Russian population).⁴⁴ China's far faster population growth over recent decades has seen this disparity grow, and will likely see it grow even further over coming decades.

Finally, in terms of this brief review of Russia's weaknesses, we turn to soft power. Soft power has become an increasingly useful tool in international relations,⁴⁵ and will continue to be one in a more multipolar world. Russia's soft power is not however, as strong as that of many Western actors. It might at the moment be said to benefit, in some parts of the world at least, from an attraction to the kind of populist, strong man form of authoritarianism that President Putin represents. While evident, however, the reach of this appeal is limited. And a 2012 ranking by the UK's Institute for Government done in conjunction with Monocle, taking into account business and innovation, culture, government, diplomacy and education, ranked Russia only in 28th place globally in terms of soft power (two places lower than in 2010) and behind 14 EU Member States.⁴⁶ A more recent 2016 survey, by Portland Communications, ComRes and Facebook, ranked Russia 27th in the world in terms of soft power, behind 16 EU Member States.⁴⁷ This weakness presents a challenge for the exercise of Russian power in a world where the military instrument is obviously still relevant but also has its limits.

Opportunities

The greatest opportunity for Russia would be to pursue cooperation with both Europe and Asia in tandem, and become an important Eurasian hub or 'bridge power' in a common Eurasian space. This would allow Moscow to demon-

44 To further break this down in the six Russian Federal Subjects bordering China there are around 5.55 million people, and in ten Chinese Prefectures there are 16.22 million people. Sources: Rosstat and the Chinese Census of 2011

45 See Joseph S. Nye "Soft Power: The Means to Success in World Politics", Public Affairs, 2004

46 Jonathan McClory, The New Persuaders III: A 2012 Global Ranking of Soft Power, Institute for Government, 2012, http://www.instituteforgovernment.org.uk/sites/default/files/publications/The%20new%20persuaders%20III_0.pdf, accessed 14/04/2016

47 The Soft Power 30, Portland Communications, 2016, <http://softpower30.portland-communications.com/ranking>, accessed 01/07/2016

strate the value of its geographic reach to both its eastern and western neighbours. Russia has potential in both arenas, and the potential to pursue a truly multi-vector foreign policy. With the establishment of the Eurasian Economic Union (EEU), and its potential integration into China's Silk Road, Russia also has the opportunity for its regional integration project to become a linchpin in a developed Eurasian space.

Increasing **engagement with Asia** and its rising wealth, notwithstanding some of the challenges already touched upon, gives Russia the opportunity to diversify its economy and political outlook away from a reliance on the West. Energy deals, increased trade and arms transfers could continue to strengthen Russia's bilateral relationships in the region. The Shanghai Cooperation Organisation,⁴⁸ the Asia Pacific Economic Cooperation Forum,⁴⁹ the Asian Infrastructure Investment Bank⁵⁰ and on a global level the BRICS Forum,⁵¹ all give Russia the chance to secure its place in emerging non-Western institutions.

China however, represents Russia's biggest opportunity in terms of emerging markets. Moscow has already made significant efforts to capitalise on this opportunity by pursuing deals to export energy and arms.⁵² China's development needs energy resources, and China needs high-tech weaponry if it is to feel secure in what it sees to be a hostile region. At the political level, Beijing and Moscow are also united in an opposition to US hegemony, with China needing Russia's support to help create strong non-Western institutions.

Russia's '**pivot eastwards**' arguably also got off to an earlier start than that of the West, and its head start has given it stronger opportunities. A shift in Moscow's orientation is already being observed, with Dmitri Trenin, for exam-

48 Joseph Dobbs, The Shanghai Cooperation Organisation: A non-western G10 in the making?, European Leadership Network, 12/09/2014, http://www.europeanleadershipnetwork.org/the-shanghai-cooperation-organisation-a-non-western-g10-in-the-making_1891.html, accessed 14/04/2016

49 Shaun Breslin, APEC Summits show how hard it is to define the Asian region, Chatham House, 12/11/2014, <http://www.chathamhouse.org/expert/comment/16217>, accessed 14/04/2016

50 David Dollar, China's rise as a regional and global power: The AIIB and the 'one belt, one road', Brookings, Summer 2015, <http://www.brookings.edu/research/papers/2015/07/china-regional-global-power-dollar>, accessed 14/04/2016

51 Alexander Gabuev et al, Why do Brazil, Russia, India and China need BRICS?, Carnegie Moscow Center, 08/07/2015, <http://carnegie.ru/eurasiaoutlook/?fa=60636>, accessed 14/04/2016

52 Joseph Dobbs, Are Russia and China Friends or Frenemies?, Financial Times, 10/12/2014, <http://blogs.ft.com/beyond-brics/2014/12/11/guest-post-are-russia-and-china-friends-or-frenemies/>, accessed 14/04/2016

ple, arguing that Russians are considering a “Greater Asia” from “St Petersburg to Shanghai”.⁵³ This is a change in approach from the post-Soviet era of “Greater Europe” in which the common space was hoped one day to extend from “Lisbon to Vladivostok”.⁵⁴

The opportunities to the east notwithstanding, Russia’s position vis-à-vis the rest of Europe still leaves it with a massive opportunity to secure economic relations with one of the world’s largest, most stable and most prosperous markets. The European Union, if partnership relations can be reached, could provide Russia with a stable energy market, a source of much needed capital, and a stable situation at its western borders. Moreover, the cost of producing and transporting energy to Europe is far lower than to China, making it a far more attractive destination for Russian energy exporters in an era of low oil prices. The EU further represents a wealthy consumer market of 506 million people (and rising), worth \$16.23 trillion (22.1% of the world’s economy), a figure that will decline relatively but increase absolutely in coming decades.

Russia’s short term economic weakness and difficult current trajectory should not therefore mask some **serious underlying economic potential**. For example, China’s natural gas consumption has risen by 632.7% since 2000,⁵⁵ allowing Russia already to sign high profile deals potentially worth hundreds of billions of dollars. If Russia can source the necessary capital to develop its eastern gas fields, then it will be able to greatly profit from China’s continuing expansion. Moreover, if Russia can better develop its gas pipeline and LNG infrastructure in the Far East, then the potential to further develop economic relations with South Korea and Japan also exists. It is also interesting to note that Russia’s agricultural, medical and logistics sectors have been able to attract significant recent investment of US\$10bn from Saudi Arabia,⁵⁶ and

53 Dmitri Trenin, From Greater Europe to Greater Asia, Carnegie Moscow Center, April 2015, http://carnegieendowment.org/files/CP_Trenin_To_Asia_WEB_2015Eng.pdf, accessed 14/04/2016

54 Ivan Timofeev, ‘From Lisbon to Vladivostok’ how the notion of a Greater Europe is at risk, Russia Beyond the Headlines, 12/12/2014, http://rbth.co.uk/opinion/2014/12/12/from_lisbon_to_vladivostok_how_the_notion_of_a_greater_europe_is_at_r_42187.html, accessed 14/04/2016

55 Statistical Review of World Data 2015, BP

56 Andrey Ostroukh, Saudi Arabia to Invest up to \$10 Billion in Russia, Wall Street Journal, 06/07/2015 <http://www.wsj.com/articles/saudi-arabia-to-invest-up-to-10-billion-in-russia-1436198674>, accessed 14/04/2016

Chinese money has also gone into agriculture in recent years.⁵⁷ Russia is also now the third largest shareholder in the Chinese led Asian Infrastructure and Investment Bank (AIIB), at 5.93% (behind China and India), which indicates the chance Moscow has to be a significant player in the Asian economy, although this will require greater Russian capital. Exploiting its vast regional diversity is often identified as a key opportunity for Russia's modernisation,⁵⁸ with former Finance Minister Alexei Kudrin identifying certain regions' efforts to attract and develop industrial output as a model for wider Russia.⁵⁹

The Arctic opening is a further opportunity for Russia in a changing world.⁶⁰ Rich energy resources, while expensive to extract, are a clear economic opportunity in the long term and Russian analysts widely see the melting of Arctic ice as potentially bringing "considerable economic gains from the development and expansion of the Northern Sea Route."⁶¹ Low oil prices will limit the region's attractiveness in the short-term, but as technology develops the Arctic could vault into a position as one of the most important regions to Russia. Opening sea lanes could also bring strong opportunities to Russian ports in the region.⁶² The cost of doing business in the Arctic, however, already very high, will only fall if cooperation and stability can be maintained.

Russia's large **population**, despite the question marks over the demographic trend, further gives it the opportunity to remain at the top table of world economies, if Russia can accomplish the very difficult task of raising its productivity. For example, if Russia in 2014 produced the same GDP per hour worked as the EU, its economy would be valued around US\$3.52 trillion, just behind Germany in the global rankings. There is no way around the fact that to grow

57 Cuin-wei Yap, China, Russia Prepare \$2 Billion Agricultural Investment Fund, Wall Street Journal, 08/05/2016, <http://www.wsj.com/articles/china-russia-prepare-2-billion-agricultural-investment-fund-1431080535>, accessed 14/04/2016

58 Diversifying Russia, European Bank for Reconstruction and Development, December 2012, <http://www.ebrd.com/news/publications/special-reports/diversifying-russia.html>, accessed 14/04/2016

59 Kudrin believes that diversification of Russian economy is possible, Tass, 14/03/2013, <http://tass.ru/en/archive/690879>, accessed 14/04/2016

60 The Emerging Arctic, Council on Foreign Relations, http://www.cfr.org/polar-regions/emerging-arctic/p32620#!/?cid=otr_marketing_use-arctic_Infoguide, accessed 14/04/2016

61 Russian Strategies in the Arctic: Avoiding a new Cold War, Valdai Discussion Group, September 2014, http://www.uarctic.org/media/857300/arctic_eng.pdf, accessed 14/04/2016

62 Marc Lanteigne, China's Emerging Arctic Strategies: Economics and Institutions, The Centre for Arctic Policy Studies, October 2014, <http://ams.hi.is/wp-content/uploads/2014/10/ChinasEmergingArcticStrategiesPDF.pdf>, accessed 14/04/2016

the absolute size of Russia's economy and its GDP per capita, while the workforce may shrink, will require a much more skilled and productive population. It is hard, in turn, to see how Russia can raise its productivity significantly without tackling structural problems in its economy,⁶³ its education sector and by increasing investment into research and development, so the opportunity may be missed unless the country changes course.

Threats

Russia fears **encirclement**. The perceived threat from western powers, most notably the U.S., NATO and the EU, attempting to diminish Russia's power both regionally and globally, attempting to 'surround' Russia strategically and undermine the current regime's internal position, is acutely felt and expressed in Moscow.⁶⁴ Russian actions in Ukraine, Syria and its threats to Sweden and Finland over their potential membership of NATO can be seen as counteractions to this perceived threat. In the Arctic, officials in Moscow fear that the melting ice caps will result in an increased US/NATO presence in the region, in particular in "a nuclear submarine fleet and sea-based ABM systems in the Arctic Ocean with the capability to intercept Russian ballistic missiles and launch a preventive strike."⁶⁵

Despite the very positive rhetoric with regard to China emanating from the Russian leadership, in reality Russia is also under **threat of Chinese influence and even domination**. Details of the pricing of Russia's large gas deals with China have not been made public but it is a reasonable assumption that given Russia's somewhat isolated position internationally and financial need at the time of signing, the deals would have been favourable to the Chinese. This illustrates a wider challenge for Russia: as its relationships with western countries have deteriorated, its need for Chinese markets and Chinese capital, coupled with the demographic imbalance in China's favour, leaves Russia weak in efforts to build mutual cooperation and exposed to significant Chinese penetration economically, demographically and ultimately, politically and strategically. It is not a surprise that, since the Ukraine crisis, Russia has been

63 Vitaly Klintonov et al, How Russia Could be More Productive, McKinsey Quarterly, September 2009, http://www.mckinsey.com/insights/economic_studies/how_russia_could_be_more_productive, accessed 14/04/2016

64 Olga Oliker, Unpacking Russia's New National Security Strategy, CSIS, 07/01/2016, <http://csis.org/publication/unpacking-russias-new-national-security-strategy>, accessed 14/04/2016

65 Russian Strategies in the Arctic: Avoiding a new Cold War, Valdai Discussion Group, September 2014, http://www.uarctic.org/media/857300/arctic_eng.pdf, accessed 14/04/2016

more amenable to Chinese goals in non-Western development banks and to its efforts to purchase high-tech weaponry. Nor is it surprising that Russia is keen to be involved in, but also strategically challenged by, the entire Chinese Silk Road project as it relates to central Asia. The threat of becoming a junior partner is real.

Russia, like many western states also faces a threat to its international standing and influence from the ongoing process of power diffusion in the international system. Russia will have to increasingly compete for influence in international affairs with emerging powers, such as India and Brazil, as well as China. For as long as it is on its current economic trajectory, this is going to become more and more difficult for it over time, eventually threatening Russia's relative influence and ability to shape outcomes across a range of different arenas from the Middle East to the Arctic.

Should the West succeed moreover, in building strong relationships with rising powers itself, Russia's interests could potentially be side-lined and the country become isolated. This is a concern articulated by Russian experts.⁶⁶ A Russia left out of both a European system and an Asian system that cooperate together would leave Moscow marginalised and severely diminished in influence regionally and globally. With its huge markets, stronger soft power and broader reach, the West is arguably in a far better position than Russia to develop relationships with the countries that will shape the twenty-first century. Should Europe and China reach agreement on the development of Beijing's proposed "Silk Road" in a way that limits Russia's transit role,⁶⁷ and should the U.S. successfully secure its interests in Asia without triggering a conflict with China, then Moscow runs the risk of being politically marginalized and reduced to being largely a source of raw materials fuelling the rise of new powers.

At home, Russia faces the **threat of political instability**. As recent events around the Euro-Atlantic area have shown, and as the next chapter of this paper describes with regard to the EU, it is not alone in this but it does face significant challenges specific to its own environment and context. Ultimately, while Vladimir Putin's control over Russia appears strong in 2016, the centralisation of power in the hands of a small elite leaves Russia vulnerable. The

66 Alexander Dynkin, *Russia's Strategic Global Outlook 2030*, IMEMO, 2011, <http://espas.eu/orbis/sites/default/files/generated/document/en/IMEMO.pdf>, accessed 14/04/2016

67 Alessandro Arduino, *The New Silk Road*, May 2014, ECRAN, http://eeas.europa.eu/china/docs/division_ecran/ecran_is114_paper_91_the_new_silk_road_alessandro_arduino_en.pdf, accessed 14/04/2016

weak democratic legitimacy of the current elite means the impact of an underperforming economy could fuel a dangerous cycle of dissent and repression, and escalating nationalist sentiment and demonization of the West could be used as a possible way out of the crisis for the regime.

Recent increased centralisation has led some Russia watchers to observe that Putin and his Moscow elite are losing control over the periphery. Threats particularly emanate from the North Caucasus, from where radical separatists have carried out a number of attacks, including the 2002 Dubrovka Theatre hostage crisis and the 2004 Beslan school siege, in an effort to achieve independence from the Russian Federation. It is here, in particular in the Chechen Republic, that challenges to centralisation have been evident, with the largesse granted to Ramzan Kadyrov and his Grozny administration deemed a worthy concession in return for stability.

These events have coincided with Russian concerns relating to the involvement of Islamic State in the Caucasian republics of the Russian Federation.⁶⁸ The defeat of the largely secular Ichkerian Republic paved the way for an Islamist-linked insurgency in Chechnya that, due to its rejection of Ichkeria's nationalist base, spread to the neighbouring republic of Dagestan. The rise of the Islamic State in Syria and beyond threatens to further fuel breakaway forces in the region and reignite a threat that may to some seem contained.

Part of the challenge here relates to Islamist extremism writ large.⁶⁹

The rise of Islamic State has seen it subsume the Caucasus Emirate, the organisation to which a number of Russian jihadists had previously belonged. Russia has its own version of the foreign fighter problem too, since a number of Russian citizens have joined IS, an estimated 2,400 by September 2015.⁷⁰

Russia's direct intervention in the Syrian civil war demonstrates the continuing relevance of turmoil in the Middle East to Russia's domestic security. Indications that Islamic State may have been responsible for the downing of a Russian airliner flying from Egypt to St Petersburg in October 2015, and

68 Mairbek Vatchagaev, One Year Later: Islamic State Continues to Expand Inside Russia, Jamestown, 14/04/2016, http://www.jamestown.org/programs/nc/single/?tx_ttnews%5Btt_news%5D=45318&tx_ttnews%5BbackPid%5D=24&cHash=d9b12b550300d74fd61af6b94401bea1, accessed 14/04/2016

69 Is this the end of the Caucasus Emirate?, Open Democracy, 29/06/2015, <https://www.opendemocracy.net/regist-gente/is-this-end-of-caucasus-emirate>, accessed 14/04/2016

70 Moscow says about 2,400 Russians fighting with Islamic State: RIA, Reuters, 18/09/2015, <http://www.reuters.com/article/us-mideast-crisis-russia-islamic-state-idUSKCN0RI0PG20150918>, accessed 31/05/2016

the ability of IS to target civilians in cities like Paris, shows both how IS has targeted Russia in the past and how it could target Moscow or St Petersburg in future.

Moreover, the extent of Russia's military and civilian nuclear program and consequently large amount of nuclear materials accumulated may also make it a target for terrorists and criminal groups. Although Russia has made considerable progress regarding the physical security of its facilities and materials, concerns are still being expressed by outside experts regarding the insider threat, linked to the quality of personnel vetting processes and procedures of reaction to suspicious behavior.⁷¹

The **nuclear threat facing Russia** further emanates from traditional state-to-state tensions. A recent survey of views of analysts of nuclear issues noted that the risk of nuclear war between Russia and the West is arguably at its highest point since the end of the Cold War.⁷² Over the next decade and beyond, the potential collapse of political stability in East Asia – most notably in North Korea – and in South Asia between India and Pakistan, could also bring about open and possibly nuclear conflict in Asia with serious consequences for Russia also. Although President Putin has from time to time referred to Russia's nuclear arsenal as a source of its security, in reality Russia is just as threatened by the erosion of the international non-proliferation regime, the possible re-nuclearisation of security in the Euro-Atlantic area, and the proliferation of nuclear weapons to more states in more unstable regions as anyone else.

Finally, in this brief review of Russia's threat environment, we turn to the issue of climate change. Some in Russia believe warmer temperatures associated with climate change will increase Russia's agricultural output, and open up new oil fields for exploration. Others that international efforts to reduce greenhouse gas emissions by moving to renewable energies potentially pose a threat to Russia's energy sector.

However, these narratives about the possible benefits of climate change to Russia and the threat to its economy posed by efforts at climate change miti-

71 NTI Nuclear Security Index, <http://www.ntiindex.org/countries/russia/?index=sabotage>, accessed 14/04/2016

72 Robert Berls Jr and Leon Ratz, *Rising Nuclear Dangers: Assessing the Risk of Nuclear Use in the Euro-Atlantic Region*, Nuclear Threat Initiative, October 2015, http://www.nti.org/media/pdfs/NTI_Rising_Nuclear_Dangers_Paper_FINAL.pdf?_=1443443566, accessed 14/04/2016

gation are more than balanced by the down-sides for Russia of climate change itself. The risk of melting permafrost destroying critical pipeline infrastructure is just one of many domestic implications Moscow should consider.⁷³ Flooding should also be a concern for Russia with floods on the country's Black Sea coast killing 171 people in 2012, and its Far East region suffering the largest floods in centuries in 2013.⁷⁴ This may be just a small sign of what lies ahead.

Climate change also threatens to destabilise Russia's neighbourhood, which in turn would have a significant knock-on impact on Russia itself. The profound impact that climate change is expected to have on Central Asia's agricultural sector⁷⁵ for example could cause socio-economic instability in an already fragile region with strong links to Russia, and generate enormous migration flows or increased regional reliance on China, to Russia's disadvantage. Slightly further afield the impact of climate change on a number of critical Asian states, including India and China, threatens economic development that Russia relies upon to fuel its desired pivot eastwards.

73 Maria Sharmina and Christopher Jones, Discounting the Future of Climate Change in Russia, Open Democracy, 22/01/2015, <https://www.opendemocracy.net/od-russia/aria-sharmina-christopher-jones/discounting-future-of-climate-change-in-russia>, accessed 14/04/2016

74 The heat is on to meet the climate challenge, Russia Beyond the Headlines, 18/11/2015, http://rbth.com/politics_and_society/2015/11/17/the-heat-is-on-to-meet-the-climate-challenge_541363, accessed 14/04/2016

75 The Climate Challenge for Central Asia, World Bank, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/07/20/090224b08300ba64/1_0/Rendered/PDF/The0climate0challenge0for0Central0Asia.pdf, accessed 14/04/2016

Chapter Two: A SWOT Analysis of the EU

Strengths

In spite of significant challenges to the Eurozone in recent years, the European Union's **economy** is its major strength. In 2015 the EU had a combined GDP of US\$16.23 trillion, representing 22.1% of the global economy, ahead of the US.⁷⁶ Four European states, Germany, the UK, France and Italy, are ranked in the top ten global economies. 48 of the world's top 200 companies are based in the EU.⁷⁷ In 2014, the 28 member states of the EU accounted for 14.8% and 16.5% of global trade in goods and services respectively, ahead of the US and China.⁷⁸ The EU's collective trade bargaining on behalf of its 28 members gives it a powerful voice in the World Trade Organisation, and the ability to negotiate beneficial terms in free trade agreements. The EU is home to three of the top 20 financial centres in the world (with London ranked number one), and five of its cities are classified as "global leaders".⁷⁹ The EU is also a leader in production of high-tech products, with US\$690.2bn in high technology exports in 2013, ahead of China on US\$558.6bn and the US on US\$155.6 billion.⁸⁰ The size and wealth of the EU has allowed it to become the **lead trading partner to 80 countries worldwide, including Russia.**⁸¹

The **EU's standards of education** strengthen its economic power. EU Universities are some of the best in the world, only surpassed by those based in the United States. The 2015 Shanghai Academic Ranking of World Universities ranks 192 EU institutions in the top 500 globally,⁸² the Times Higher World Rankings based in London ranks 38 in the top 100,⁸³ and USNews ranks 27 in

76 World Bank Data, <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>, accessed 14/04/2016

77 The World's Largest Companies in 2015, Forbes, 06/04/2016

78 Trade, European Union, February 2016, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122532.pdf, accessed 14/04/2016

79 The Global Financial Centres, Long Finance, September 2015, http://www.longfinance.net/images/GFCI18_23Sep2015.pdf, accessed 14/04/2016

80 High Technology Exports, World Bank, <http://data.worldbank.org/indicator/TX.VAL.TECH.CD/countries/1W?display=graph>, accessed 14/04/2016

81 EU Position in World Trade, European Union, <http://ec.europa.eu/trade/policy/eu-position-in-world-trade/>, accessed 14/04/2016

82 Academic Ranking of World Universities 2015, Shanghai Jiao Tong University, <http://www.shanghai-ranking.com/ARWU2015.html>, accessed 14/04/2016

83 World University Rankings 2015-2016, Times Higher Education Supplement, <https://www.timeshighereducation.com/world-university-rankings/2016/>, accessed 14/04/2016

the top 100.⁸⁴ Moreover, some 36.9% of EU citizens gain a tertiary education, a percentage that has been rising consistently,⁸⁵ resulting in an average 17.6 years in education for EU citizens, ahead of Russia on 16 years.⁸⁶

The EU's **population**, at approximately 507 million, around 6.9% of the world population, is another strength. It is this that underpins the enormous internal EU market in goods and services. The EU's life expectancy for both men and women,⁸⁷ moreover, is higher than the global average with women expected to live 83.3 years and men 77.8 years.⁸⁸ The EU's population is also relatively wealthy with a GDP per capita of approximately US\$36,447, although this is lower than the OECD average of US\$38,442 and well behind the United States US\$54,629.⁸⁹

Collectively, and relative to others in the international system, the EU is also strong in military power. Europe's **defence is to large extent guaranteed by NATO**, of which 22 members are also members of the European Union, and NATO is the largest military alliance in the world. NATO countries spent a total of US\$904.9bn on their militaries in 2014. The majority of this expenditure came from the US, but European allies still managed to spend US\$292.2 billion.⁹⁰ Indeed, four EU powers are amongst the top 15 military spenders in the world, with the UK in fifth place, France in sixth, Germany in ninth, and Italy in 12th place.⁹¹ In terms of nuclear weapons, two European NATO Allies, the UK and France, have independent nuclear capabilities, and the US has nuclear sharing agreements, involving the deployment of B61 tactical nuclear

84 Best Global Universities, USNews, <http://www.usnews.com/education/best-global-universities>, accessed 14/04/2016

85 Smarter, greener, more inclusive?, Eurostat, 2015, <http://ec.europa.eu/eurostat/documents/3217494/6655013/KS-EZ-14-001-EN-N.pdf/a5452f6e-8190-4f30-8996-41b1306f7367>, accessed 14/04/2016

86 Education and Training Statistics, Eurostat, <http://ec.europa.eu/eurostat/web/education-and-training/data/main-tables>, accessed 14/04/2016

87 World Health Organisation Life Expectancy Data, <http://apps.who.int/gho/data/node.main.688>, accessed 14/04/2016

88 Life Expectancy at Birth, Eurostat, <http://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tps00025&language=en>, accessed 14/04/2016

89 European Union Data, World Bank, <http://data.worldbank.org/region/EUU>, accessed 14/04/2016

90 Military Expenditure Database, SIPRI, http://www.sipri.org/research/armaments/milex/milex_database, accessed 14/04/2016

91 The Military Balance 2015, IISS/Routledge

weapons in Belgium, Germany, Italy, the Netherlands and Turkey.⁹² Article 5 of the Washington Treaty stipulates that an attack on one Ally is an attack on all, providing collective security to all 28 NATO members.⁹³ The EU also has a solidarity clause, invoked for the first time by France in response to the terrorist assault on Paris in November 2015.⁹⁴

Although European states have many challenges in terms of duplicated effort and difficulties in generating genuinely deployable military capability, by global standards, they are militarily strong, not weak.

The **transatlantic link, in part enshrined by NATO, is another of Europe's greatest strengths.** While never without its tensions and frustrations for both sides, the transatlantic relationship offers Europe a close partnership with the world's preeminent economic, diplomatic and military power. This gives European states a source of added strength, particularly when it comes to dealing with security challenges to Europe's east and south. Economically too, the relationship is vital. In 2014 total trade between the EU and the US reached more than US\$700bn, with both sides representing the other's largest trading partner and largest source of FDI.⁹⁵

In addition to its strong economic and military position, the **EU's combined diplomatic footprint is enormous.** The EU's diplomacy is advanced by its prominent **role in international institutions** and fora and by the activities of its individual member states. Two current EU Member States, the UK and France, hold permanent seats on the UN Security Council. Four EU Member States are part of the G7 (with the EU holding a seat in its own right), and the EU sits in the G20 alongside four of its Member States. The EU represents its 28 members at the World Trade Organisation and in climate change negotiations.

EU foreign policy was also further strengthened by the Lisbon Treaty, which brought into existence the European External Action Service (EEAS) and resulted in the appointment of a High Representative for Foreign and Security Policy, a position currently occupied by former Italian Foreign Minister,

92 Nuclear Threat Initiative, <http://www.nti.org/country-profiles/united-states/>, accessed 14/04/2016

93 Nuclear Threat Initiative, <http://www.nti.org/country-profiles/united-states/>, accessed 14/04/2016

94 What is article 42.7 of the Lisbon Treaty?, POLITICOEurope, 11/17/2015, <http://www.politico.eu/article/what-is-article-42-7-of-the-lisbon-french-government-terrorist-attacks-paris-treaty/>, accessed 14/04/2016

95 EU in the US, European Union External Action Service, <http://www.euintheus.org/what-we-do/eu-us-facts-figures/>, accessed 14/04/2016

Federica Mogherini. The EU, while still finding its role has had some notable successes, In particular **its role in securing a nuclear deal with Iran** demonstrates the Union's potential. In international development, the EU is also the world leader, collectively serving as the largest aid donor, spending approximately 0.43% (€56.2bn) of gross national income (GNI) on aid, with a commitment to raise this to 0.7% by 2030.⁹⁶

The EU's diplomatic wing, the EEAS, has 139 delegations or offices around the world.⁹⁷ Many Member States maintain vast diplomatic missions, in particular the UK, France and Germany. In Beijing, Moscow, New Delhi and Washington, as well as a number of other critical capitals, all 28 Member States have embassies, alongside the EEAS's own mission. In total the EU and its Member States has around 57,000 diplomats deployed globally.⁹⁸

EU Member States also have **vast collective soft power**. A 2015 ranking by Monocle Magazine, taking into account business and innovation, culture, government, diplomacy and education, ranked 13 EU Member States in the top 25 globally in terms of soft power, with Germany ranked number one.⁹⁹ A more recent 2016 survey, by Portland Communications, ComRes and Facebook, saw 16 EU states in the top 30.¹⁰⁰ The EU's soft power allows it to better attract investment, tourism and strengthens its capacity to act diplomatically around the world.

The combination of the size of the internal EU market, Europe's military spending, the EU's diplomatic footprint, and its soft power has translated into significant EU influence in its own neighbourhood. This is in part demonstrated by the expansion of the organisation in recent years. Starting as an economic grouping between France, Germany, Italy and the Benelux countries, the enlarged European Union is now home to 28 members. The EU has established itself as an attractive model of economic development and

96 Development and Cooperation, European Union, http://europa.eu/pol/dev/index_en.htm, accessed 14/04/2016

97 European External Action Service, http://eeas.europa.eu/delegations/index_en.htm, accessed 14/04/2016

98 Mark Leonard and Hans Kundnani, Think Again: European Decline, Foreign Policy, 29/04/2013, http://foreignpolicy.com/2013/04/29/think-again-european-decline/?wp_login_redirect=0, accessed 14/04/2016

99 Monocle Soft Power Survey, November 2015, <http://monocle.com/film/affairs/soft-power-survey-2015-16/>, accessed 14/04/2016

100 The Soft Power 30, Portland Communications, 2015, <http://softpower30.portland-communications.com/ranking>, accessed 14/04/2016

major economic opportunity for countries in its neighbourhood. Iceland, Norway and Switzerland all participate in the EU's internal market, even though they are not members, while many less developed economies on Europe's periphery have signed preferential trade deals with the EU. Turkey has been a membership candidate since 1999, and while relations have been strained by the length of negotiations and other issues, its membership applicant status allows for closer ties between Ankara and Brussels. The European Neighbourhood Policy (ENP), and specifically the Eastern Partnership (EaP), have helped develop ties with countries for whom membership is either not a goal or not yet possible. While these projects are not without their many flaws,¹⁰¹ they give the EU notable strength in its relationship with its neighbours.

Weaknesses

Alongside its many strengths Europe has many weaknesses, exposed and compounded by the Global Financial Crash of 2008. The ensuing sovereign debt crisis in the Eurozone led to Greece, Ireland, Portugal, Spain and Cyprus all needing bailouts. The crisis, though not originating in Europe, was perpetuated by an economic imbalance within the Eurozone, excessive borrowing by some EU governments, and the structural flaw of a monetary union (i.e. the Eurozone) operating without a corresponding fiscal union.¹⁰² The Eurozone also suffered as a result of some countries, such as Greece, being admitted while not meeting what ought to have been the real economic criteria for membership.

In 2009, the most acute year of the economic crisis, the EU's economy shrank by 4.4% (compared to 2.8% in the US). Since then the EU's economic growth has been weaker than that of the US in every year between 2009 and 2014, except for 2011, with the EU's growth on average 1.3% lower every year.¹⁰³ The EU's productivity moreover, while relatively high in global terms (at US\$46.74 per hour worked),¹⁰⁴ is lower than the G7 average, and that of the United

101 Adam Hug (ed.), *Trouble in the Neighbourhood?*, Foreign Policy Centre, February 2015, <http://fpc.org.uk/fsblob/1681.pdf>, accessed 14/04/2016

102 Stephen Pickford et al, *How to Fix the Euro*, Chatham House, March 2014, https://www.chatham-house.org/sites/files/chathamhouse/home/chatham/public_html/sites/default/files/20140300FixTheEuroPickfordSteinbergIglesias.pdf, accessed 14/04/2016

103 GDP Growth, World Bank, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.Z>, accessed 14/04/2016

104 GDP per hour worked, OECD, <https://data.oecd.org/lprdy/gdp-per-hour-worked.htm>, accessed 14/04/2016

States. Weak innovation is also a major concern for the EU, indicated by the fact that residents of the EU filed only 108,450 patent applications in 2014 (of which 44.4% were filed in Germany), compared with 285,096 from the US, 265,959 from Japan and 164,073 from South Korea, despite the much smaller population in each of these states.¹⁰⁵

Within this wider economic picture, **the EU's lack of energy security is a further weakness.**¹⁰⁶ In 2015, the EU produced around 3.2% of the world's gas but accounted for approximately 11.4% of gas consumption. The same disparity is true in terms of oil with the EU accounting for near 1.4% of global production, and over 13.5% of consumption.¹⁰⁷ This production deficit has resulted in the EU relying on energy imports from its periphery, most notably from Russia. In 2013 Russia accounted for 33.5% of the EU's crude oil imports, and 39% of its gas imports,¹⁰⁸ and Gazprom accounted for nearly 30% of the gas consumed in the EU.¹⁰⁹ The dependence on Russian gas is most acute in the east, with some Member States relying on Russia for nearly 100% of their gas supplies. This gives significant power to Russian state owned energy giants, such as Gazprom and Rosneft, with the former being accused of manipulating prices and unfairly controlling pipelines.¹¹⁰ While there have been successes in developing Liquid Natural Gas (LNG) terminals, efforts to reduce this dependency on Russia will take a great deal of investment and time, with Russia remaining a critical supplier for the foreseeable future.

Despite the EU's overall population size being a strength the Union is now also facing **a demographic challenge that is undoubtedly one of its most profound long-term weaknesses.** Currently the EU is classed as an "aged" society, with over 14% of its population aged 65 and above. Based on analysis of UN population projections, the EU will become a "super-aged" society

105 Patent Applications, World Bank, <http://data.worldbank.org/indicator/IP.PAT.RESD>, accessed 14/04/2016

106 Jacques Lesourne, La sécurité énergétique européenne et les relations extérieures de l'Union et des pays membres, IFRI, 02/03/2015, , accessed 14/04/2016

107 Statistical Review of World Energy 2016, BP, <http://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html>, accessed 14/04/2016

108 Energy Production and Imports, Eurostat, May 2015, http://ec.europa.eu/eurostat/statistics-explained/index.php/Energy_production_and_imports#Data_sources_and_availability, accessed 14/04/2016

109 Russian Gas Imports to Europe – A Fact Sheet, Clingendael, <http://www.clingendaelenergy.com/files.cfm?event=files.download&ui=9C1DEEC1-5254-00CF-FD03186604989704>, accessed 14/04/2016

110 European Commission Press Release, 22/04/2015, http://europa.eu/rapid/press-release_IP-15-4828_en.htm, accessed 14/04/2016

(more than 21% aged 65 and above) by 2021, and by 2030 some 28.68% of the EU's population will be over 65. Meanwhile, the working age population (aged 20-64) will fall by 20.65 million by 2030, despite a 4.14 million (0.82%) increase in overall population. The EU's dependency ratio in 2014 was 281 people aged 65 and over for every 1000 aged 15-64, and EU projections predict that this will rise to around 390:1000 by 2030.¹¹¹ Unless significant and unpopular further increases in the retirement age are introduced across Europe, this is going to mean rising pension and health-care costs that can only be paid for either by citizens themselves or by an increase in the already sluggish productivity rate among those in work. Germany's total age-related spending as a percentage of GDP will increase by 3.9% percentage points by 2040 and nine other EU member states will face an above two percentage point increase, namely Belgium, Ireland, Latvia, Lithuania, Malta, the Netherlands, Austria, Slovenia and Finland.¹¹²

European countries are therefore facing a profound challenge to their established welfare models and social contracts while, to date at least, doing little to suggest they can muster either the political will to address the retirement challenge or the productivity levels of those still in work. The ultimate consequence could be declining living standards and fewer welfare benefits for citizens all amid what are perceived to be inflexible government responses, constrained in their nature by the need for fiscal harmonisation across the Eurozone.

While the national effects of Eurozone unity could be unpopular with citizens in some countries, disunity is also a major weakness across the EU. Many of the EU's strengths are predicated on the notion that EU countries work together. On many issues, such as external trade, this is the case, but on other critical issues is not. Within the Eurozone, the possibility of a Greek exit, or Grexit, has been much discussed. The Grexit debate was one of the most pressing illustrations to date of a growing disunity between northern and southern European countries inside the Union, and between the fiscally austere and those in favour of higher spending.¹¹³

111 Projected Old Age Dependency, European Union, <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tsdde511&plugin=1>, accessed 14/04/2016

112 The 2015 Ageing Report, European Union, August 2014, http://ec.europa.eu/economy_finance/publications/european_economy/2014/pdf/ee8_en.pdf, accessed 14/04/2016

113 Douglas Elliott, How might Greece fall out of the eurozone?, Brookings Institute, 20/02/2015 <http://www.brookings.edu/blogs/order-from-chaos/posts/2015/02/20-how-might-greece-fall-out-of-eurozone-elliott>, accessed 14/04/2016

Divisions over how to respond to the dramatic influx of migrants from the summer of 2015 have been another.¹¹⁴ The inability to work in unison weakens the EU's ability to deal with its problems, and limits its potential in terms of external relations. Moreover, the combination of an ageing population, (which might imply the need for higher rates of immigration to boost economic growth), with high levels of social and political antipathy to immigration inside many member states could pit the goals of future economic growth, social cohesion, and European solidarity against each other. This toxic mix could put the entire European economic and social model at risk while raising profound questions over the future of the whole European integration project.

Faced with these challenges, the **EU political system is also often slow to act**, a major weakness in a rapidly changing world. On the two major crises of recent years, the migrant crisis and the sovereign debt crisis, EU leaders have struggled to cobble together lowest common denominator solutions that buy time but don't resolve fundamental aspects of either crisis. While this in itself is no mean achievement, with the EU existing in an increasingly volatile security and economic environment, the inability to respond swiftly and decisively to crises is a significant weakness.

EU Member States have further been **divided on critical foreign policy questions facing Europe**. In the east, for example, there is division over how best to deal with Russia. With regard to potential new members, the EU is divided as to whether or not to admit Turkey, and will be divided on whether or not to pursue membership negotiations with Ukraine or Georgia in future. More long-term, the lack of unity between the major EU players, namely the French, British and Germans, on how to engage with emerging powers like China is also a major weakness.¹¹⁵

Opportunities

If the EU can manage its very significant and perhaps existential challenges and act in a unified manner it **has the opportunity to be a more effective**

114 Europe's Migration Crisis, Council on Foreign Relations, 23/09/2015 <http://www.cfr.org/migration/europes-migration-crisis/p32874>, accessed 14/04/2016

115 Olivier de France and Nick Witney, Europe's Strategic Cacophony, ECFR, 25/04/2016, http://www.ecfr.eu/publications/summary/europes_strategic_cacophony205

actor on the world stage, an ambition envisaged in the 2016 EEAS Global Strategy.¹¹⁶

The complementarities of the EU, a developed consumer market and services economy with powerful intellectual capital, and emerging manufacturing powers in need of export markets and advanced technologies, strengthens the EU's position when it comes to building durable relations with emerging powers. Moreover, as emerging powers like China develop large surpluses, the EU can act as a relatively safe investment opportunity, if it can manage and overcome the weaknesses and challenges currently hindering it. In 2012, when excluding Hong Kong and Macao, 14.17% of China's FDI stock abroad was invested in the European Union, more than in the United States, and significantly more than in Russia.¹¹⁷ Across the BRICS economies, the EU accounted for 45.93% of all FDI stock in the host economies, and is host to 45.95% of all FDI from the BRICS economies.¹¹⁸

Through these engagements with rising powers, and the further pursuit of infrastructure development deals, trade deals and enhanced bilateral investment relations, the EU could also influence the terms on which the rising powers, China included, play larger roles in international affairs. China's Silk Road project and the Asian Infrastructure and Investment Bank provide early opportunities for EU-Chinese relations to develop.¹¹⁹

A potential Free Trade Agreement with **the United States could further give the EU the opportunity to increase its trade and by extension its growth rates**. One independent report argues that the EU would see a 0.5% annual increase in its GDP by 2027 if it were to secure a comprehensive TTIP.¹²⁰ Moreover, the combined force of EU and US trade would allow both sides to further position themselves as normative drivers of global trade. However, TTIP would not be without its negative impacts, with the possibility that a free trade zone between the US and the EU would disproportionately benefit

116 Shared Vision, Common Action: A Stronger Europe, EEAS, 28/06/2016, <https://europa.eu/globalstrategy/en/shared-vision-common-action-stronger-europe>, accessed 06/07/2016

117 Bilateral FDI Statistics, UNCTAD, <http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx>, accessed 14/04/2016

118 Ibid.

119 Alessandro Arduino, The New Silk Road, ECRAN, May 2014, http://eeas.europa.eu/china/docs/division_ecran/ecran_is114_paper_91_the_new_silk_road_alessandro_arduino_en.pdf, accessed 14/04/2016

120 Reducing Transatlantic Barriers to Trade and Investment, European Union, March 2013, http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf, accessed 14/04/2016

larger and “older” members of the EU possibly perpetuating problems related to the internal cohesion amongst the 28 Member States.¹²¹ Despite concerns however, TTIP offers the EU the opportunity to spur growth and strengthen its alliance with the US.

Europe also has the opportunity to control more of its own destiny when it comes to energy security. Energy policy is often dealt with at the national level, and there have long been calls to integrate Member States into an energy union.¹²² This energy union, if made a reality, would allow the EU to negotiate common prices, and make better use of its pipelines. This in turn would help reduce Russia’s ability to use its energy to influence the political decisions taken in EU Member States. Reliance on Russian gas can also be alleviated by increasing imports from Norway, and increasing Member States’ LNG import capacity.¹²³ Increased energy integration in the European Union would also reduce the costs of maintaining significant excess capacity in some Member States, harmonise prices across the EU, and decreasing the cost of renewables and decarbonisation.¹²⁴ This would also substantially increase the competitiveness of EU industry, which must currently compete with others in world markets while paying more for energy.

The EU even has opportunities with regard to migration. While the current migration crisis weighs heavily on policy makers in Brussels the economic benefits that hundreds of thousands and even millions of young migrant workers could bring to Europe over the next two decades could be enormous. Given the challenge facing the EU of an ageing population, the attraction of importing skilled workers to help EU countries remain competitive is economically obvious.¹²⁵ This opportunity comes however with the risks to social cohesion already mentioned and visible on TV screens every night and the opportunity will only be seized if the politics of immigration and social integration can be successfully managed.

121 A Fresh Start for TTIP, ECFR, February 2015, http://www.ecfr.eu/page/-/ECFR124_-_TTIP.pdf

122 Sebastian Dullien et al, A Fresh State for TTIP, ECFR, February 2015, <http://www.gmfus.org/publications/bolstering-european-energy-security>, accessed 14/04/2016

123 Vladislav Inozemtsev, Can Europe Survive Without Russia’s Natural Gas?, GMFUS, March 2015

124 Dieter Helm, The EU Energy Union More than the sum of its parts?, Centre for European Reform, November 2015, https://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2015/pb_helm_energy_9nov15-12259.pdf, accessed 14/04/2016

125 Demetrios Papademetriou and Madeleine Sumption, Shared Challenges and Opportunities for EU and U.S. Immigration Policymakers, Migration Policy, October 2011, <http://www.migrationpolicy.org/research/EU-shared-challenges-opportunities-eu-us-immigration-policymakers>, accessed 31/05/2016

Finally, individual EU member states or groups of states could further help the EU to seize global opportunities for deeper and mutually beneficial relations with other parts of the world or could help the EU to play a more constructive and influential role on the world stage. For the remaining period of the United Kingdom's membership, it has institutional partnerships with Canada, Australia, India and 49 other states through the Commonwealth. The UK also has a so-called 'special relationship' with the United States. France, Spain and Portugal have relationships with their global linguistic communities. Some smaller states can play important roles on specific issues. Finland, for example, plays a significant role in the Arctic, and along with Norway has a track record of being a respected conflict mediator. Many individual parts of the European body politic can add value and, if better coordinated with each other, could contribute to a more impressive and influential whole.

Threats

The EU faces significant external and internal threats. Some of these are specific and direct threats to Europe. Others represent threats to the international order that Europe has come to rely on and has benefited from in recent decades.

With regard to direct threats, there is little doubt that Russia's current behaviour in Eastern Europe falls into this category. Close military encounters between Russian and NATO country jets flying without their transponders activated risk the threat of serious military incidents. The risk of war and even nuclear war between Russia and the west is arguably at its highest point since the end of the Cold War.¹²⁶ The threat of Russia's use of hybrid warfare tactics is acutely felt in the Baltic States and beyond and while the reality of the threat may be doubted by some other EU members, Russia remains, on balance, high on the overall EU threat agenda.

Russia's control over more than a third of the EU's energy supplies further poses a challenge on its own. And there are widespread concerns that Russia supports, directly and indirectly, populist movements in Europe with the intention of fostering disunity within the EU. A US investigation has been

126 Robert Berls Jr and Leon Ratz, *Rising Nuclear Dangers: Assessing the Risk of Nuclear Use in the Euro-Atlantic Region*, Nuclear Threat Initiative, October 2015, http://www.nti.org/media/pdfs/NTI_Rising_Nuclear_Dangers_Paper_FINAL.pdf?_=1443443566, accessed 14/04/2016

launched into Russia's influence over political parties in Europe, with France, the Netherlands, Hungary, Austria and the Czech Republic all in focus.¹²⁷

Indirectly, Russia's influence on so-called frozen conflicts in Eastern Europe and the South Caucasus, and its strong role in the Middle East, show that Russia can take actions that threaten EU interests. Russia's emerging partnership with China also demonstrates its potential to undermine an international order shaped in the Western interest. Finally, Russia's vision of the common neighbourhood is at times directly at odds with that of the EU, threatening the EU's efforts to secure its interests in the Eastern European region.

Instability in the Middle East and North Africa also already poses a significant threat to the European Union. Threats to the regimes in Tunisia, Egypt and Libya, the potential for an even more protracted civil war in Syria and Northern Iraq, and the possibility of another escalation in the Israel Palestine conflict, all could further perpetuate the destabilising flow of migrants into Europe where the effect may be to increase domestic tensions and Euro-sceptic sentiment.¹²⁸

The EU faces a significant threat from transnational terrorist movements emanating from Europe's periphery but recruiting and operating within EU borders too. The situation in Syria poses a particular threat given the number of Europeans fighting with the Islamic State there. The risk of highly trained, extremely radicalised fighters returning to the European Union is grave.¹²⁹ Moreover, the world's unsecured nuclear material means any terrorist threat could also be a nuclear threat.

This is a challenging set of international circumstances for the EU to navigate both now and in the future and even more profoundly, it must attempt their navigation while managing new potential difficulties in the transatlantic relationship and the existential threat of its own break up.

127 Peter Foster, America to Investigate Russian Meddling in the EU, The Telegraph, 16/01/2016, <http://www.telegraph.co.uk/news/worldnews/europe/russia/12103602/America-to-investigate-Russian-meddling-in-EU.html>, accessed 14/04/2016

128 Europe's Volatile Southern Neighbourhood, Clingendael, April 2015, <http://www.clingendael.nl/publication/europe%E2%80%99s-volatile-southern-neighbourhood-policy-options-north-africa>, accessed 14/04/2016

129 Daniel Byman and Jeremy Shapiro, Be Afraid. Be a Little Afraid, Brookings, November 2014, <http://www.brookings.edu/~media/research/files/papers/2014/11/western%20foreign%20fighters%20in%20syria%20and%20iraq%20byman%20shapiro/be%20afraid%20%20web.pdf>, accessed 14/04/2016

While **the transatlantic relationship** remains strong, recent disagreements over European states' interest in the AIIB,¹³⁰ increasing US involvement in Asia which limits Washington's attention span for matters European,¹³¹ the controversial imbalance in US and European defence expenditures, and concerns in some parts of Europe over the terms of a Transatlantic Trade and Investment Partnership have shown that it is also under considerable strain. It was, close observers may argue, ever thus, but the diffusion of power to more powers internationally is complicating this picture in potentially worrying ways. The scenario of some Western countries choosing closer relations with rising powers over continued prioritisation of US-EU integration cannot be entirely excluded.¹³² US support remains critical to the EU's security and will remain so for as far into the future as one can see. Even in European 'led' operations in Libya and Mali, US military support was critical.¹³³ Any weakening of transatlantic cooperation could therefore threaten the ability of the EU to deal effectively with the other threats it faces.

External challenges like that from Russia or the migration crisis are also linked to a threat of potential break-up of the EU, because of the way they contribute to and help stoke discontent, disunity and division inside the European Union.

Few can doubt that that such discontent and division exists. Economic instability in Greece and the bitterness associated with several bail-out packages still poses a threat and a so-called Grexit from the Eurozone would serve as a blow to future economic and political cooperation across the continent. Perhaps even more starkly the vote for a Brexit in the UK showed just how deep discontentment with the EU runs in some places. The United Kingdom Independence Party's popular support furthermore, is in part based on the belief that the free movement of peoples inside the EU has impacted nega-

130 Thomas Wright, A special argument: The U.S., U.K., and the AIIB, Brookings, 13/03/2015, <http://www.brookings.edu/blogs/order-from-chaos/posts/2015/03/13-special-argument-us-uk-asian-infrastructure-investment-bank-wright>, accessed 14/04/2016

131 Judy Dempsey, NATO After Rasmussen and the U.S. Pivot to Asia, Carnegie Europe, 09/01/2014, <http://carnegieeurope.eu/strategieurope/?fa=54124>, accessed 14/04/2016

132 Nicholas Watt et al, US anger at Britain joining Chinese-led investment bank AIIB, The Guardian, 13/03/2015, <http://www.theguardian.com/us-news/2015/mar/13/white-house-pointedly-asks-uk-to-use-its-voice-as-part-of-chinese-led-bank>, accessed 14/04/2016

133 Luis Simon, Europe, the rise of Asia and the future of the transatlantic relationship, Chatham House/ International Affairs, September 2015, <https://www.chathamhouse.org/publication/ia/europe-rise-asia-and-future-transatlantic-relationship>, accessed 14/04/2016

tively on the lives of British citizens, and also in part on the belief that the EU is too bureaucratic, too undemocratic and too dictatorial. Similar views and political trends are visible across the EU,¹³⁴ perhaps most prominently in the Front National in France.

These problems are internal to the EU but there is evidence that such parties both receive Russian support and encouragement and that they exploit the migration crisis for political advantage. The internal and external threats to the EU are therefore linked.

The EU's ability to rise to any of the challenges outlined in this paper, or to seize any of its opportunities, has also been significantly threatened by the impending loss of the United Kingdom. The UK has one of the EU's best militaries, one of the best intelligence services, a diplomatic reach perhaps only challenged by France, a permanent seat on the UN Security Council, and a seat at the G7, the G20 and has the world's leading financial centre. Losing the UK means losing 15.94% of the EU's economy, and 12.77% of its population, but also means the EU losing significant global muscle. Brexit could well encourage anti-EU movements across the continent, further threatening the very existence of the EU, and setting back cooperation in Europe by decades. The success of peaceful separatist movements, for example in the Scottish or Catalan cases, could also test the European political environment and have serious and destabilising consequences for the EU as a whole.

Turning to the wider challenges facing the current international order, EU interests are further threatened by the global challenges of renewed great power competition, nuclear proliferation, climate change, and the development of new regional multilateral bodies whose existence is designed to undermine or by-pass more established institutions.

With regard to the first of these, over the next few decades, the EU may find its core interests deeply affected by any evolution of US-China relations, should these develop in the direction of competition and conflict rather than cooperation. Tensions between China and its neighbours over sovereignty in the South and East China Seas has the potential to escalate,¹³⁵ with the US po-

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135 Bonnie Glaser, Conflict in the South China Sea, CFR, April 2015, <http://www.cfr.org/asia-and-pacific/conflict-south-china-sea/p36377>, accessed 25/04/2016

tentially drawn in, in support of one of its allies in the region.¹³⁶ The instability caused by this, both geopolitically and economically, could be to the detriment of the EU's opportunity to develop productive relations with China in Eurasia, especially if the EU is forced to take a position in support of the US.

On the nuclear challenge, the potential collapse of political stability in East Asia – most notably in North Korea – and in South Asia between India and Pakistan, could bring about open conflict involving nuclear weapon use with all the catastrophic humanitarian and environmental consequences that would follow. Moreover, The EU is as threatened by the erosion of the international non-proliferation regime, which could see the number of nuclear powers rise, as any other actor.

On climate change, while it will be developing countries that most acutely feel the negative impacts in the coming decade, the EU will not escape the effects. Indeed, current migration flows to Europe may be significantly multiplied as the disruptive effects of climate change take their toll on Asia, the Middle East, and North Africa. More parochially perhaps, but none the less important for that, Europe will face the threat of increased flooding, diminished crop yields, weaker snowfalls in winter destinations, and retreating shorelines, all with costly economic consequences. The global economic disruption caused by the negative impacts of climate change will also impact EU growth prospects, increase the risk of competition over resources and potentially increase the incidence of armed conflict in inter and intra national politics.¹³⁷

As the Arctic opening continues, this region also may become a source of new threats. Any future **competition and tension in the Arctic**, brought about by the increased economic opportunity resulting from opening trade routes and accessible resources there, or by increased strategic competition with Russia, would be a significant threat to several EU Member States, and to the EU as a whole.

Finally, in this short review of the threats facing the EU, the **organisation is challenged by emerging regional multilateral bodies that undermine, or by-pass rather than reinforce, established international institutions.** From a UN Security Council that a large part of the world no longer sees as

136 For example see – EU sides with United States on South China Sea incident, Reuters, 30/10/2015, <http://www.reuters.com/article/us-southchinasea-usa-eu-idUSKCN0SO22G20151031>

137 The European Union in a changing global environment, European External Action Service, http://eeas.europa.eu/docs/strategic_review/eu-strategic-review_strategic_review_en.pdf, accessed 14/04/2016

representative, to an international financial system that developing nations see as unfair, most established international institutions are being challenged by the claims of rising powers. Organisations such as the BRICS forum, the Asian Infrastructure and Investment Bank (AIIB), and the Shanghai Cooperation Organisation (SCO) have also emerged to show that the emerging powers of the 21st century do not only have to play in and by the rules of 20th century institutions. The EU has to decide, fundamentally, whether it is a status quo power in relation to all this or whether it will attempt to welcome and work with the grain of change. If it gets this choice wrong, it could find itself on a collision course with many emerging powers.

Chapter Three: Strategic Rationale for Cooperation

In Chapters One and Two we have presented SWOT analyses of Russia and the European Union. In this chapter we turn our attention to the costs and consequences of the current confrontation between them and ask what that confrontation means for the strengths, weaknesses, opportunities and threats of each. In doing so, we address the question of whether a strategic rationale for cooperation between Russia and the EU exists, in both the short and long-terms, and if so, in what that rationale might be said to consist. The chapter continues to use the SWOT approach as the organising principle for the material that is presented.

Strengths Diminished

First, we address the issue of how the confrontation between Russia and the West is impacting on the strengths of both Russia and the EU.

Turning to Russia first, it seems clear that Russian strength is being diminished by the ongoing confrontation.

In current circumstances, Russia is likely to miss the big prize that would otherwise be within its reach, namely that of being a bridge power that uses its energy resources, military power, size and reach not only to connect the established markets of Europe with the growth markets of Asia but also to help shape the political and economic structure of the entire Eurasian landmass. This is primarily because Russia's economy is hamstrung by EU sanctions and reduced world market prices for energy. EU sanctions against Russia have "severely harmed Russia" according to President Putin,¹³⁸ with former Finance Minister Alexei Kudrin claiming that Russia's GDP is 1.5% smaller as a result.¹³⁹ As a consequence, Russia has a capital shortage that is slowing the pace at which it can develop its energy and other infrastructure projects in the Russian Far East. The European end of the possible bridge is burning and at the Chinese end, the bridge has yet to be built and can't be built any time soon without the help of western capital

138 Putin – The Interview, BILD, 11/01/2016, <http://www.bild.de/politik/ausland/wladimir-putin/russian-president-vladimir-putin-the-interview-44092656.bild.html>, accessed on 14/04/2016

139 Western sanctions cost Russia 1.5% of GDP – Alexei Kudrin, Russia Beyond the Headlines, 21/11/2015, http://rbth.com/business/2015/11/21/western-sanctions-cost-rusia-15-of-gdp-alexei-kudrin_542921, accessed 14/04/2016

In big picture terms, despite President Putin's apparent speed and flexibility in making tactical changes to Russia's foreign policy positioning, this would appear to leave Russia without a long-term national strategy for maintaining its status as a major power.

The implications of this overall reality are already becoming evident with regard to the specific areas identified in Chapter One as Russia's strengths.

For example, even with the leadership's strong commitment to defence, the speed at which Russia can continue with its military modernisation programme is being affected by the state's shrinking economy and budgets. In 2016 Russia's military expenditure is expected to increase by less than 1%,¹⁴⁰ falling far short of the high pace of growth experienced in recent years. The Ukraine crisis is also having a particular impact on Russia's military modernisation, according to Deputy Prime Minister Dmitry Rogozin, who has said that the non-delivery of parts from war-torn Ukraine is hampering the construction of new warships.¹⁴¹

Elsewhere, in late 2015, due to low oil prices and Western sanctions, the Russian government also made significant cuts to its space programme.¹⁴² In March 2016 Prime Minister Dmitry Medvedev cut funding for Russia's space programme by 30%, delaying a possible manned moon mission by five years and scrapping a potentially cost saving reusable rocket.¹⁴³

Russia's economic crisis and ongoing geopolitical tensions may also impact on its exports of civilian nuclear technology. The negative political climate facing Russian companies in the EU and wider neighbourhood could impact on Moscow's ability to secure new contracts, and present potential problems with existing contracts. Both Moscow and Ankara have issued veiled threats with regard to Russia's contract to build a nuclear power plant in Akkuyu,

140 Russian military spending to increase by less than 1%, Moscow Times, 26/10/2015, <http://www.themoscowtimes.com/news/article/russian-military-spending-to-increase-by-less-than-1-next-year/540362.html>, accessed 14/04/2016

141 Rogozin admits Ukraine crisis hurting frigate programmes, ISH Janes 360, 05/06/2016, <http://www.janes.com/article/52031/rogozin-admits-ukraine-crisis-hurting-frigate-programmes>, accessed 14/04/2016

142 Russia to rewrite space program as economic crisis bites, Reuters, 29/12/2016, <http://www.reuters.com/article/us-russia-space-idUSKBN0UC1CU20151229>, accessed 14/04/2016

143 Russia slashes space funding amid economic woes, Al Jazeera, 18/03/2016, <http://www.aljazeera.com/news/2016/03/russia-slashes-space-funding-economic-woes-160318042813889.html>, accessed 14/04/2016

Turkey, demonstrating the potential impact of deteriorating relations on what has been to date a successful Russian industry.¹⁴⁴

Russia is not, however, the only party being affected by the confrontation with the West. The crisis in relations with Russia is also raising fundamental questions with regard to the core strengths of the EU.

Just as economic sanctions are impacting negatively on Russia, so are they having a negative impact on the EU economy. Russian counter sanctions and the EU's own sanctions against Russia are expected by the European Commission to have cost the EU 0.3% of GDP in 2014 and 0.4% of GDP in 2015, with the impact being more severe in countries with a high economic exposure to Russia, such as the Baltic States and Germany.¹⁴⁵ This damage is being caused at a time of slow or non-existent growth in many parts of the Union.

The confrontation with Russia, moreover, is undermining EU unity. Behind the façade of unity with regard to the sanctions on Russia, the confrontation has exposed disunity and deep mutual mistrust among many EU member states on how they should approach the entire relationship with Russia. While sanctions have been consistently renewed, there is growing dissent amongst those EU Member States keen to return to a process of engagement with Russia. The EU is also divided on a controversial German plan to build Nord Stream 2, a Russian gas pipeline that will bypass the traditional Ukrainian route. The pipeline is strongly opposed by some in Europe.

The same tensions are impacting on the clarity of the EU offer to states in the shared neighbourhood, via the Eastern Partnership Programme. While some member states would quite like to see further EU enlargement to the east, others are fundamentally against this idea. In this climate the EU's influence in the region is beginning to diminish. In Georgia, long the most avidly European focused country in the Caucasus, reforms are losing steam leading

144 PUTIN AND ERDOGAN: TOO ALIKE TO GET ALONG?, Newsweek, 13/03/2016, <http://europe.newsweek.com/putin-and-erdogan-too-alike-get-along-436100?rm=eu>, accessed 14/04/2016; Angered by air strikes, Turkey's Erdogan warns Russia on energy ties, Reuters, 08/10/2015, <http://uk.reuters.com/article/uk-mideast-crisis-turkey-russia-idUKKCN0S20JA20151008>, accessed 14/04/2016

145 Economic Impact on the EU of sanctions over Ukraine conflict, European Parliament, 10/2016, [http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/569020/EPRS_BRI\(2015\)569020_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/569020/EPRS_BRI(2015)569020_EN.pdf), accessed 14/04/2016

to concerns that Tbilisi's turn westward is waning.¹⁴⁶ With regard to Armenia, the 2013 decision to join Russia's Custom Union and Armenia's joining of the Eurasian Economic Union in January 2015, demonstrates Yerevan's positioning closer to Moscow. Concerns with regard to the EU's relationship with its neighbours in the east come despite 13 years of the European Neighbourhood Policy (ENP) and seven years of the Eastern Partnership (EaP).

Similar tensions among Europeans are evident inside NATO. While all allies agree that NATO had to react to Russian actions in Ukraine and beyond, there are differences regarding the extent to which the Alliance should beef up its deterrence and defence posture in the East. A number of countries, with Germany in the lead, prefer to stick to the 1990s pledge of no permanent stationing of significant combat forces on the territory of Eastern members, and remain wary of calls to strengthen the nuclear deterrence posture of the Alliance. Some eastern European members would like to see a renunciation of the 1990s deployment restraints. Once again, Russia and how to relate to it is an issue that is dividing Europeans and undermining the strength that comes from European unity.

Moreover, as noted in the previous chapter, the close partnership between the European members of NATO and the EU with the United States, clearly a major strength, is also being tested by recent developments. Despite strong rhetoric on the importance of transatlantic unity in the face of Russian aggression and the need for strategic adaptation to meet the threat, tensions over transatlantic burden-sharing are once again coming to the fore. These are ever present in the transatlantic relationship and to some extent are being driven by Europe's inability to take independent action in places like Libya, but it is the need for significant investment to meet the perceived new Russian threat that is bringing the issue, and renewed tension over it, into sharpest relief. It is notable that – according to a 2015 Pew survey – only 49% of Americans had a favourable view of NATO.¹⁴⁷ At some point in future, this sentiment may translate into a re-thinking of the US involvement in European security by US decision-makers, regardless of the outcome of the US presidential elections.

146 Maciej Falkowski, GEORGIAN DRIFT: The crisis of Georgia's way westwards, OSW, 02/2016, http://www.osw.waw.pl/sites/default/files/pw_57_ang_georgian_drift_net.pdf, accessed 14/04/2016

147 Bruce Stokes, Views of NATO and its role are mixed in U.S., other member nations, Pew Research, 28/03/2016, <http://www.pewresearch.org/fact-tank/2016/03/28/views-of-nato-and-its-role-are-mixed-in-u-s-other-member-nations/>, accessed 14/04/2016

Weaknesses Exacerbated

If EU and Russian strengths are both being diminished by the current state of relations between them, then the weaknesses of both are being exacerbated too.

For the EU, the confrontation with Russia, particularly over how to handle Syria and the refugee challenge posed by the war there, for example, is combining with demographic decline and the toxic politics of immigration inside the EU to raise questions about whether, in the short term, the Union can actually survive in its current form. Longer term, this is also raising questions about whether the EU can find a politically viable way of using immigration as a solution to its aging population challenge. If it cannot do so, the EU may not be able to keep its economy growing. Relative decline may accelerate. It is perhaps for this set of reasons that some western policy-makers claim the refugee crisis, and financial support to populist parties inside the EU, have both been effectively 'weaponised by Russia to damage the EU by exacerbating the disunity within it.¹⁴⁸

The damage may not stop there. One other possible consequence of the refugee crisis for Europe is that, as several EU member states take tougher approaches to incoming migrants, instances of violence at the borders of the Union, should they become more common, may damage the EU's reputation and undermine its soft power. And the confrontation with Russia is also damaging the EU's energy security. The tension in the current relationship clearly exposes a number of EU member states reliant on Russian energy supplies to possible disruption, Bulgaria, Estonia, Finland, Lithuania and Romania most acutely.¹⁴⁹

The exacerbation of Russian weaknesses is, if anything, even more acute. Unless energy prices rise significantly, the current trajectory of EU-Russia relations is likely to condemn Russia's economy to long term stagnation and decline. Without EU capital and technology, the Russian economy will not be diversified and modernised and its state finances will slide deeper into crisis over time. This will weaken Russian power further. A specific consequence is

148 Josh Rogin, How Russia is 'Weaponizing' Migration to Destabilize Europe, Bloomberg, 24/03/2016, <https://www.bloomberg.com/view/articles/2016-03-24/how-russia-is-weaponizing-migration-to-destabilize-europe>, accessed 01/07/2016

149 Chi-Kong Chyong & Vessela Tcherneva, Europe's vulnerability on Russian gas, ECFR, 17/03/2015, http://www.ecfr.eu/article/commentary_europes_vulnerability_on_russian_gas, accessed 14/04/2016

likely to be a reduced Russian ability to control events in its near abroad, without resort to coercive measures. Russia's reputation and already limited soft power will be further diminished in Eastern Europe as a result, as radically increased pro-EU, and anti-Russian sentiment in Ukraine is already beginning to demonstrate.

Russia's already weak negotiating hand with China will also get weaker as a result of its confrontation with the EU and there is a risk that Russia could become economically and politically penetrated and heavily influenced by China. In 2016 thus far Gazprom has already accepted a loan of US\$2.17bn from the Bank of China, its largest received foreign loan to date, following on from China's increased stake in an LNG project in the Arctic.¹⁵⁰

Since Russia's actions in the Euro-Atlantic security sphere have provoked negative reactions in many of its western neighbours and among NATO members, it is further likely that far from becoming more secure in the West, Russia's sense of insecurity will only get worse as a result of current Russia-West tensions. Indeed it is possible that as the confrontation results in new deployments of military technology in the Euro-Atlantic area, particularly in Anti-Access/Area-Denial (A2/AD), that the vulnerability of both sides to a sudden military attack may increase.

The overall picture for both the EU and Russia becomes bleaker still when one considers that the current confrontation between them is adding direct costs to both, rather than bringing benefits.

Both Russia and the West are paying a significant price in terms of the increased cost of military deployments and exercises that are aimed at each other. They are doing so, as noted above, in difficult economic circumstances.

Russia's total military expenditure in 2015 was estimated to be 5.4% of GDP, an increase of 0.9% as compared with the previous year.¹⁵¹ Strained relations with Russia have prompted other European countries to also increase their defence spending at a time when few can afford it. Most Central and Northern European countries are doing this¹⁵² while the increased challenge from Russia has been used to justify increases in the UK and Germany.

150 Atle Staalesen, China increases stake in Yamal, Barents Observer, 25/08/2015, <http://barentsobserver.com/en/energy/2015/08/china-increases-stake-yamal-25-08>, accessed 14/04/2016

151 The Military Balance 2016, IISS, Routledge 2015, p. 170.

152 Ibid.

The conflict in Ukraine is also bringing its own direct costs. The military costs of Russia's engagement in Eastern Ukraine may have approached 1 billion USD for the first 10 months of the fighting.¹⁵³ Between 2014 and 2015 Ukraine's exports to Russia and imports from Russia fell by 51% and 41% respectively.¹⁵⁴

According to Russian government estimates at the time of annexation, Crimea was expected to cost the Kremlin \$4.5 billion every year, which when added to a delayed 2.8 billion dollar bridge to connect the peninsula to Russia is a significant burden on Moscow's balance sheet. Furthermore, the International Crisis Group estimates the cost of Russia's support for the Donetsk and Luhansk People's Republics, if maintained at current levels, to amount to \$1 billion a year.¹⁵⁵

The EU, for its part, has felt compelled to pledge around 11 billion euros to support Ukraine's beleaguered economy.

Opportunities Missed

There is also no doubt that the current crisis in relations is preventing mutually beneficial cooperation in a number of areas and is resulting in a number of opportunities for both the EU and Russia being missed.

For example, there is a win-win available on energy relations if only both sides could manoeuvre the politics of their relationship into a position where it can be grasped. In the short term, for Russia, the EU represents the best chance of access to a stable energy export market and a steady flow of revenue to Russian state coffers. This is especially true since there are energy infrastructure problems in the Russian Far East and China, the other potential growth market, is undergoing a slowdown. Russian energy providers can reach the EU market today and with little by way of major additional capital investment. From the EU's perspective, despite moves towards renewable energies and non-Russian energy sources, Russia still represents the most

153 Maksymilian Czuperski et al, Hiding in Plain Sight: Putin's War in Ukraine, Atlantic Council, 15/10/2015, <http://www.atlanticcouncil.org/publications/reports/hiding-in-plain-sight-putin-s-war-in-ukraine-and-boris-nemtsov-s-putin-war>, accessed 14/04/2016

154 State Statistics Service of Ukraine, https://ukrstat.org/en/operativ/operativ2015/zd/ztt/ztt_e/ztt1215_e.htm, accessed 14/04/2016

155 Russia and the Separatists in Eastern Ukraine, International Crisis Group, 05/02/2016, [http://www.crisisgroup.org/~media/Files/europe/ukraine/b079-russia-and-the-separatists-in-eastern-ukraine.pdf](http://www.crisisgroup.org/~/media/Files/europe/ukraine/b079-russia-and-the-separatists-in-eastern-ukraine.pdf), accessed 14/04/2016

convenient source of energy for many countries in Europe. If the EU were to turn its back on Russian suppliers, this would not only damage Russia but European energy prices would likely rise, damaging the EU's economic competitiveness further.

A further mutual gain is also available on broader economic cooperation. Russia's energy dependent economy will need to be diversified and made more productive if the country is to thrive. The EU can provide Russia with the capital investment, technology, access to research and development and educational cooperation that will be necessary to make this happen. Without it, given that none of Russia's potential partners in Asia can offer all these things on the same scale as the EU, Russia will miss the opportunity to restructure its economy to meet the challenges of the 21st century.

At the same time, for the EU, a thriving Russian economy, as opposed to one contracting and mired in enormous structural problems, has the potential to be a major export market for EU consumer goods and services. Russia represents, after all, a domestic consumer market of 143 million people. Were the Russian economy to grow rapidly, it could serve as a major locomotive for the advancement of the economy of the whole European continent, helping the EU out of its current sluggish growth and, in some places, stagnation. Again, therefore, the current confrontation is coming at a high price.

The development of broad EU and Russian economic cooperation would also make it possible for the two sides to work together more easily on developing the economies of the countries in the shared neighbourhood. This is vitally important, and not only for the people who live there. It is in neither side's interest for Ukraine's economy to fail, for example, as the ensuing instability would impact both the EU and Russia financially, and increase migration flows in both directions, flows which have already seen 317 thousand Ukrainians relocate to Russia according to the UNHCR, with a further 275,000 estimated to be internally displaced within Ukraine.¹⁵⁶

The countries of the shared neighbourhood as a whole also represent an additional combined market of approximately 75 million people. If they can be helped by both the EU and Russia to develop, rather than be a venue for competition between the two, everyone would be a winner.

¹⁵⁶ 2015 UNHCR subregional operations profile - Eastern Europe, UNHCR, <http://www.unhcr.org/pages/49e48d4d6.html>, accessed 14/04/2016

Finally, with regard to missed economic opportunities, if Russia and the EU remain locked in confrontation, it is possible that neither will be able to fully seize the enormous opportunity presented by China's "One Belt, One Road" project to link the economies of the entire Eurasian landmass. While some in Europe might think that Russia could be isolated and by-passed as a transit route with little impact on European-Chinese relations overall, that is highly unlikely. China is actively factoring a positive relationship with Russia into its plans and even if Russia were isolated, it could choose to act as a considerable spoiler and disruptive influence on the project throughout central Asia. Those in Russia who dream of a Greater Asia to replace the tarnished dream of a greater Europe, however, are equally likely to be disappointed. The EU and China already engage in trade relations worth over \$1bn a day and China is interested in infrastructure and investments that link its economy directly to the EU and not only to that of Moscow or Minsk. China's One Belt, One Road policy could be a massive opportunity for both the EU and Russia but the opportunity will be missed or diminished if each decides to allow its confrontation with the other to limit or damage the prospect.

Threats Unmanaged

With regard to threats, it is clear that the confrontation is making it harder for each side to address them. This is because each is directing scarce resources toward the confrontation with the other and because several threats could be dealt with more effectively if the two sides worked together.

First, the current security situation in the Euro-Atlantic area is dangerous to both sides.

Basic principles of the European security system have been challenged following the Russian annexation of Crimea and its support for separatist forces in Eastern Ukraine. As the Russian and European narratives about the sources of the crisis differ considerably, there seem to be currently no common, universally accepted principles of European security to which all states in the Euro-Atlantic area subscribe.¹⁵⁷ That translates into more uncertainty at the political level; and results in national and alliance planning being based on worst-case scenarios of possible aggressive action of the other side, and increased militarization of Russia – West relations.

¹⁵⁷ See e.g. Back to Diplomacy, Final Report and Recommendations of the Panel of Eminent Persons on European Security as a Common Project, November 2015.

One of the most worrying features of the crisis has been the increased frequency and gravity of close encounters and incidents involving Russian and other European military and security forces. The European Leadership Network recorded 66 separate incidents in the period between March 2014 and March 2015.¹⁵⁸ Using a different methodology, the think tank Global Zero identified 146 incidents involving Russia and Western countries in the period between March 2014 and November 2015.¹⁵⁹ Most of the incidents can be described as routine or 'near routine' situations, for example the interception of the other side's aircraft in international airspace, reconnaissance flights, or observation of movements of the other side's navy.

However, some incidents have been of a much more serious nature as they carried a high probability of causing casualties or even a direct military confrontation. These included violations of airspace of NATO countries and partners, dangerous manoeuvres by Russian airplanes in the vicinity of aircraft and ships of NATO countries and its partners, and large-scale Swedish and Finnish submarine hunts within their territorial waters. In a November 2015 incident, the Turkish air forces shot down a Russian Su-24, causing the death of one of the crew-members, and causing a major and dangerous diplomatic crisis between a NATO state and Russia.

Another consequence of the crisis has been a notable alteration of military deployments and exercising patterns of Russia and NATO countries, with consequences for other European states as well. During 2014-16, a number of major decisions on troop and equipment build-up were taken by Russia to strengthen its forces in the European part of the country, and to enable military actions inside Ukraine and solidify Russia's control over Crimea.¹⁶⁰ Russia also increased the number and scale of its military exercises, which focused frequently on the areas bordering the NATO-protected area, Finland and Sweden. Many of these exercises were conducted without prior announcement. In 2015 alone, approximately 300,000 Russian troops, 1100 aircraft and 280 ships took part in such snap exercises organized throughout Russian ter-

158 Thomas Frear et al, *Russia West Dangerous Brinkmanship Continues*, European Leadership Network, 12/03/2015, http://www.europeanleadershipnetwork.org/russia--west-dangerous-brinkmanship-continues-_2529.html, accessed 14/04/2016

159 Nuclear Weapons Countries: Military Incidents, Global Zero, 14/12/2015, http://www.globalzero.org/files/military_incidents_updated_12.14.15v.2.pdf, accessed 14/04/2016

160 See: Major deployment decisions taken by Russia, directly linked to or relevant in the context of the 2014 crisis, European Leadership Network, http://www.europeanleadershipnetwork.org/medialibrary/2016/02/05/b380960e/Major%20Russian%20deployments%20TABLE_ELN.pdf, accessed 14/04/2016

ritory.¹⁶¹ The nature of these exercises and lack of advance notification made them especially destabilizing during a period of tension.

NATO has reacted to Russian actions by increasing, in turn, the number of its own exercises in the countries situated close to Russia and its overall military activity in these countries. According to NATO data, in 2014 it conducted 162 exercises under NATO's Military Training and Exercise Program (double the originally planned number), and 40 additional national exercises could also be counted as a part of the re-assurance measures.¹⁶² While in 2014-16 NATO troop deployments in Central Europe had a rotational character, the Alliance and its individual members (most notably the United States) started preparation for a more permanent framework for stationing equipment and military units in the region as part of its adapted 'modern deterrence' posture.

As a consequence, the situation in the Euro-Atlantic area has been developing along the lines of an action-reaction cycle similar to that anticipated in relationships characterised by a security dilemma, in which each side sees its own actions as purely defensive, but the other side perceives them as aggravating the situation. Additionally, a number of developments in military technology such as the increased use of longer-range precision strike conventional weapons, increased effectiveness of anti-access/area denial capabilities, or advances in cyber-warfare, are adding to instability by opening up the possibility of a sudden disarming strike. Finally, the existing arms control and confidence-building arrangements and mechanisms, which should have provided military predictability and stabilized the situation, have been either paralyzed (CFE) or proven largely irrelevant (Vienna Document).

The whole military to military relationship between Russia and the West is now a threat to both sides.

Secondly, both sides have failed in their attempts to respond effectively to the historic process of change underway in the Middle East and North Africa and both are paying a price. The EU and the West more widely has sought to support democracy movements that in many places are too fragmented or weak to provide stable government. It has also refused to negotiate with brutal dic-

161 Slide (in Russian) included in: Combat training building-up, Extended board session of the Russian Defence Ministry, 11/12/15, <http://eng.itogi2015.mil.ru/combat-training>, accessed 14/04/2016

162 The Secretary General's Annual Report 2014, NATO, January 2015, http://www.nato.int/nato_static_files2014/assets/pdf/pdf_2015_01/20150130_SG_AnnualReport_2014_en.pdf, accessed 14 January 2016.

tators like Assad while at the same time refusing to do what is necessary to remove them. The results have not been impressive.

The Russian strategy has fared little better, gaining increased credibility in the region. Where the West has ineffectually tried to support the forces of democratic legitimacy, Russia has supported those forces it believes can provide order. Most notably of course, and in direct opposition to western policy, this has included support for Assad. The problem is that just as the democratic forces have proved too weak to establish a new order in Syria, Libya and elsewhere, Assad himself has been shown to be too weak to provide order without direct Russian assistance. Neither the Russian strategy in support of order, nor the Western strategy in support of democracy, have worked.

As a direct consequence of these failed and contradictory strategies, both the EU and Russia face graver threats from the Syrian Civil War than they otherwise might. As already noted, the fragility of the EU has been exposed by flows of migrants fleeing to Europe from Syria and elsewhere, while Russia faces potential destabilisation of the Caucasus region and other parts of Russia where Islamist militants are seeking to gain a foothold. The Russian military intervention in Syria moreover, while being scaled back, has increased the risk of Russia and western powers being dragged into the Syrian civil war on opposing sides. The Turkey-Russia shoot-down incident of November 2015 and the simmering tensions in the Turkey-Russia relationship ought to have made this abundantly clear.

Third, and of course partially related in the form of Islamic State in Syria and Iraq, both Russia and the EU face a significant terrorist threat, as attacks in the EU and in Russia have demonstrated. Neither Russia nor the EU has all the intelligence and counter-terrorism capabilities it needs to deal with the threat by acting alone. Both face the challenge of home grown Islamist radicalisation and both have a 'foreign fighter' problem of nationals fighting for Islamic State in Syria and Iraq. At the EU level effective instruments to deal with counter-terrorism have not been developed and most of the operational cooperation is done at the state-to-state level and on an ad-hoc basis. This is often too constrained to be useful in foiling terrorist plots. If the EU, the UK after Brexit, and Russia could work together more effectively to deal with the terrorist threat, all would be better placed to contain and eventually overcome it.

Fourth, both EU countries and Russia are threatened by nuclear weapons.

Nuclear weapons remain a part of the Euro-Atlantic security landscape and if anything, the region is in danger of becoming more nuclearized rather than

less. There are thousands of nuclear warheads (strategic and tactical) in the European part of Russia, as well as U.S. B-61 nuclear weapons deployed in a number of European countries, plus UK and French nuclear forces. Whereas before the current crisis the discussion focused on the ways to reduce and ultimately withdraw US and Russian tactical weapons from European territory, we now observe a return of nuclear deterrence to Europe. From other European countries' perspectives, this process is driven primarily by Russian nuclear signalling, exercising and troubling rhetoric regarding the possible use of nuclear weapons.¹⁶³ In response, NATO has been working to review and adapt its own nuclear deterrence posture, with some suggestions going as far as deployment of nuclear weapons closer to Russia or working on new types of weapons. Moreover, Russia has called the rolling out of a US Anti-Ballistic Missile (ABM) system a "direct threat" to its nuclear deterrent capability.¹⁶⁴

Both sides also face a real threat from nuclear terrorism. Russia is an essential partner in meeting this threat as the possessor of the world's largest nuclear arsenal and stock-pile of nuclear weapon related materials, as well as nuclear civilian facilities. It has also been the source of many of the recorded incidents of nuclear smuggling. If it is not actively doing all it can to secure its arsenals and materials then the EU and other actors in the international system will face an increased threat from loose nukes or a self-made nuclear weapon falling into the hands of terrorists. For this reason if no other it is deeply worrying that Russia decided not to participate in the 2016 Nuclear Security Summit in Washington. Whatever Russia does however, it cannot solve this problem without the aid of many other actors, including the EU. The EU and its member states play an essential role in terms of assuring that their own nuclear materials and facilities are adequately protected from terrorism and sabotage. This is an especially acute challenge given the recent wave of terrorist attacks and speculation that the Brussels airport attackers had been keeping a nuclear plant under surveillance. The EU is also important in supporting countries in its neighbourhood in securing their stocks of materials through technical and financial support. Ukraine, Belarus, Moldova, Georgia and Armenia might be countries where the interests of Russia and the EU countries evidently coincide to assure the highest levels of nuclear security and prevention of nuclear smuggling.

163 See e.g. Nuclear-Backed "Little Green Men", PISM, July 2015, https://www.pism.pl/files/?id_plik=20165, accessed 14/04/2016

164 Russia Calls New U.S. Missile Defense System a 'Direct Threat', New York Times, 12/05/2016, http://www.nytimes.com/2016/05/13/world/europe/russia-nato-us-romania-missile-defense.html?_r=0, accessed 01/07/2016

Chapter Four: A Pathway to EU-Russia Cooperation

This paper has outlined both Russia and the EU's strengths, weaknesses, opportunities and threats, and shown how these can either be amplified or diminished by cooperation. It has argued that, in mutual self-interest, there is a powerful strategic rationale for seeking a more cooperative relationship in the long-term, however difficult that may be. If not, the costs of confrontation will increase, threats will be less manageable, strengths will be diminished and opportunities will be missed. The fundamental question we turn to in this final chapter is how a path to a long-term future of cooperation can be pieced together out of the rubble of the adversarial and confrontational relationship of today. We suggest an 8 point plan as one way to approach the challenge.

1. Preventing the Relationship Worsening Further Still

It would be dangerous to assume that the relationship has already reached its nadir. Earlier in this report we outlined a potentially catastrophic mix of dangerous military incidents, exercise patterns and deployments that have a potential to make the confrontation worse and more dangerous than it already is. It is vital that both sides appreciate the risks being run and that, since almost all EU member states are also members of NATO, that European countries and Russia, together with the US and Canada, address those risks through meaningful dialogue. Such dialogue could take place in the NATO-Russia Council, in the OSCE, or at bi-lateral level between individual European countries and Russia but whatever the venue the conversation needs to happen as an urgent priority. The interests of both sides would be damaged by a direct military confrontation, intentional or unintentional in origin.

Moves to strengthen NATO deterrence in Eastern Europe are not only now inevitable but should be welcomed. However, in isolation, they are not enough of a conflict prevention measure and need to be complemented by other initiatives. A number of options are available to help manage the ongoing dangerous military incidents and broader military activities. These include:

- Development of effective and universal procedures and mechanisms to avoid military incidents between EU/NATO members and Russia. At present, there is no mutually agreed mechanism in place to maximize the probability of avoiding and effectively managing close encounters or incidents between their militaries. The existing bilateral arrangements between Russia and some European states on preventing incidents do not cover all relevant countries; they are

partly outdated, and may be inadequate to deal with some challenges brought by advances in military technology. It may therefore be necessary to either conclude additional bilateral agreements, or move towards preparing multilateral sub-regional or pan-European agreements on preventing incidents. There is also a strong case for bringing the Cooperative Airspace Initiative back into operation.¹⁶⁵

- Another option that could be pursued in parallel would involve working towards greater transparency of military activities through development of confidence-building measures between European countries. Ideas here include comprehensive exchange of information on major military exercises, deployments and other activities; broader participation of outside observers in exercises; and more effective procedures to deal with unusual military activities such as sudden concentrations of forces in border areas. Most of these measures could be introduced through the OSCE and via modification of existing arrangements such as the Vienna Document or Open Skies Treaty, where all EU members and Russia are participants.
- In addition the exercise of restraint regarding the strengthening of military posture along the EU – Russian border, including Russia refraining from introducing additional nuclear weapons in the area, is vital. Instead of the prolongation of the current action-reaction cycle between Russia and NATO regarding military deployment and activities, all sides could use the period after the NATO summit in Warsaw to pause any existing plans for putting additional military hardware in the border areas.

More generally, even the best devised mechanisms and detailed legal arrangements cannot stop deterioration of the EU-Russia relationship if there is no political will to follow military restraint and to avoid provocative behaviour. But there must be an effort to achieve a more stable strategic environment that is less at the mercy of events. Without such an effort, a major war in Europe is no longer unthinkable.

165 Thomas Frear, *Cleared for Takeoff: Dangerous Brinkmanship and the Case for the Cooperative Airspace Initiative*, European Leadership Network, 20/06/2016, http://www.europeanleadershipnetwork.org/cleared-for-takeoff-dangerous-brinkmanship-and-the-case-for-the-cooperative-airspace-initiative_3812.html, accessed 06/07/2016

2. A gradual lifting of EU sanctions on Russia in return for gradual but clearly evident implementation of the Minsk agreements

While some of the EU's sanctions were introduced in response to Russian annexation of Crimea, and these sanctions should remain in place indefinitely, the main focus of sanctions should be on using them as leverage to reach a satisfactory conclusion to the Eastern Ukraine crisis. It is unlikely that the current Russian leadership would return Crimea to Ukraine, but it can – without compromising its position at home – support resolution of the conflict in Eastern Ukraine.

On the EU side, there is little support for discontinuation of the sanctions regardless of developments in Ukraine. The question of reviewing their application has been linked most prominently with the implementation of the Minsk agreements, and this linkage is likely to be maintained. In a recent survey of ELN members,¹⁶⁶ 52% of those surveyed supported the notion that the EU sanctions should be gradually phased out in return for gradual progress on the implementation of the Minsk 2 agreements, whereas 33% expressed the view that the sanctions should be kept in place – and possibly enhanced – until the territorial integrity of Ukraine is fully restored. Only 15% supported unconditional removal of sanctions.

3. A combined EU-Russian effort to provide assistance to all those affected by the conflict in Eastern Ukraine

Even assuming that progress on resolving the conflict in Eastern Ukraine along the lines of the Minsk agreements can be achieved, the region will find itself in urgent need of assistance, from support to returning refugees and internally displaced persons, through de-mining and demobilization of armed groups, to re-building of infrastructure and development of the industrial and wider economic potential of the region. It is unlikely that Ukraine itself would find enough resources to engage in and finance such a major investment effort.

The European Union, in cooperation with the OSCE, UN, other international organizations and NGOs, can take a lead in helping to rebuild the region. The OSCE may also find it easier to act as an intermediary between Ukraine and

166 ELN Members Survey on EU Russia Relations, European Leadership Network, 06/06/2016, http://www.europeanleadershipnetwork.org/eln-member-survey-on-eu-russia-relations_3813.html, accessed 06/07/2016

Russia, which would most likely aim to stay involved in the affairs of parts of Donetsk and Lugansk regions, which it now de facto supervises. Under a new political framework, while the region would be controlled again by Ukraine but subject to special status, Russia could take part in the re-construction effort in some areas, as well as provide humanitarian assistance and work towards re-settlement of refugees currently living on its territory.¹⁶⁷ Longer term, it would be in everyone's interests to ensure that eastern Ukraine enjoyed productive economic relations with Russia as well as with the European Union.

4. Selective Engagement on other issues Based on Mutual Self Interest

Here, the emphasis should be on:

- Continuing and enhancing dialogue on Syria and the Islamic State as outlined in the latest position paper of the Task Force on Cooperation in Greater Europe.¹⁶⁸ The Syrian Civil War has demonstrated its ability to wreak havoc for the civilian population of Syria, and threaten Russia and the EU. Moreover, given both Russia and several EU Member States' roles in Syria and in international governance, it is clear that a workable solution will be next to impossible without cooperation and eventual agreement between Russia, the EU and other interested parties.
- Counter terrorism cooperation. Cooperation between European and Russian intelligence and law enforcement agencies will be difficult without a degree of mutual trust. It would however, given that both sides are afflicted by the threat of Islamist terrorism, help decrease the threat to people from Lisbon to Vladivostok.
- Cooperation on nuclear issues: Implementing the Iran deal; dealing with the DPRK; improving the security of nuclear materials and strengthening of the entire NPT regime and process are all important here.

¹⁶⁷ Some 1.2 million Ukrainian refugees stay in Russia — Federation Council vice speaker, TASS, 16/12/2015, <http://tass.ru/en/politics/844608>, accessed 11/07/2016

¹⁶⁸ Countering the Threats from the Middle East, Task Force on Cooperation in Greater Europe, 04/05/2016, http://www.europeanleadershipnetwork.org/countering-the-threats-from-the-middle-east_3720.html, accessed 17/05/2016

- Cooperation on reducing carbon emissions to address climate change.
- Engagement between the EU and the Eurasian Economic Union: It is in everyone's interest to think about how economies across the Lisbon-Vladivostok space, plus central Asia, India and China are effectively integrated.
- Further exploring the opportunities and threats associated with China's "One Belt, One Road" infrastructure project, with a particular emphasis on how it might impact EU-Russia relations, is therefore also important. In Moscow, officials should focus on how China's project could allow them to become a critical bridge power in a better developed Eurasia. In Brussels, officials should question how China's infrastructure development can bring prosperity to unstable regions and increase opportunities for European businesses. Both sides should acknowledge the other's important role in the long-term development of the project.
- Cooperating in the Arctic to protect critical environmental interests while simultaneously benefiting from increased economic activity in the region.

5. Governments on both sides should endorse and support people-to-people initiatives.

At the academic level groups like the University Consortium that brings together leading academics from the Euro-Atlantic space,¹⁶⁹ should be supported and grown by both sides where possible. Russia and the EU should also explore visa free travel to facilitate people-to-people contacts, especially and as a priority, among the young. This will be vital to combat any efforts to demonise 'the other' in EU-Russia relations.

6. Dialogue on the fundamentals of European order and on the competing narratives on what has gone wrong, without which, there cannot be an agreed Europe wide order, but only a Euro-Atlantic order and a Russia facing off against each other.

¹⁶⁹ For more on the University Consortium visit its website: <http://www.sant.ox.ac.uk/university-consortium>

The dominant western media narrative on the crisis in Russia-West relations is that, through its annexation of Crimea and intervention in eastern Ukraine, Russia has behaved aggressively and broken international law. The core policy challenge for the West is therefore seen as how to deter further such Russian aggression while trying to re-establish the status quo. In this narrative, arguments used by the Russian elite are dismissed as instrumental, developed for propaganda purposes only, and are unlikely to be genuinely believed even by Russian leaders themselves.

However, a recent report from the ELN,¹⁷⁰ based on a dialogue between a group of serious European and Russian thinkers and policy analysts, while certainly not producing agreement over Ukraine or Crimea, tells a more complex story. Participants in the dialogue agreed that the narratives of both sides reflect deeply held beliefs based on well-developed intellectual and legal perspectives and are not simply the instrumental products of official propaganda. The arguments of neither side, the group finds, can easily be dismissed.

The disagreement, moreover, is not only about individual cases but spans two fundamental conceptual axes. The first concerns disagreements over what sovereignty means at this stage of the 21st century and over who and what can legitimise interventions in the affairs of other states. Touchstone cases of disagreement here include the Russian interventions in Ukraine in 2014 and Georgia in 2008, but also Western interventions in Kosovo in 1999, Iraq in 2003 and Libya in 2011.

The second axis of disagreements is over the circumstances under which the territorial integrity of a state must be respected versus when and under what circumstances a legitimate self-determination movement must have its argument for secession from an established state recognised. While many in the West behave as though everyone in Europe agrees on such issues, with Russia the only outlier, the messy case of the recognition of Kosovo suggests otherwise, since even members of the EU were, and still are, split with some recognising Kosovan independence and some not.

The findings of this expert dialogue are important because they suggest the disagreement between Russia and the West is so fundamental that the current down-turn in relations will not be dealt with by a simple change in lead-

170 Competing Western and Russian Narratives on the European Order: Is there common ground?, European Leadership Network, 19/04/2016, http://www.europeanleadershipnetwork.org/competing-western-and-russian-narratives-on-the-european-order-is-there-common-ground_3649.html, accessed 17/05/2016

ership in any state. The dispute is about worldviews and is likely to last a very long time.

Moreover, while the annexation of Crimea should not be recognised and strengthened NATO deterrence is necessary, the core policy challenge facing Europe is arguably not the need to restore Europe to some static interpretation of the status quo prior to that annexation but to come up with a political process capable of managing what is in effect a long term process of historical change underway in Europe. Change since the end of the Cold War has already involved the break-up of Yugoslavia, the reunification of Germany and the dissolution of the Soviet Union. A number of other unresolved disputes and areas of tension in Europe remain. It is likely therefore that further challenges to the European order will present themselves in future.

Given the interests at stake and already outlined in this paper, for both Russia and the EU, this all suggests an urgent need to find spaces for a more fundamental dialogue between the two if things are to improve.

7. Maintenance of Track II dialogues.

There also is an important role here for credible track II dialogues. Non-governmental organisations across Russia and the EU should continue their critical role in maintaining dialogue and increasing understanding. Groups such as the ELN supported Task Force on Cooperation in Greater Europe, the OSCE's Panel of Eminent Persons, Carnegie Endowment for International Peace's EASI initiative and the Nuclear Threat Initiative's Building Mutual Security initiative all have a valuable role to play in having the conversations governments do not yet feel ready to have. Governments across Europe should engage privately with these Track II dialogues.

Groups like the Younger Generation Leaders Network on Euro-Atlantic Security (YGLN)¹⁷¹ which bring together young people working on issues related to Russia, Europe and the whole Euro-Atlantic region have found success in helping participants better understand each side's positions and should be emulated by those working on EU-Russia relations.

8. A Commitment to Active Diplomacy Without Preconditions

Finally, a point on diplomatic process. In our view Russia and the EU should convene a summit in the second half of 2016. Suggestions that a summit would constitute either a reward for Russian behaviour or a sign of the EU's willingness to return to business as usual are not convincing. Diplomatic engagement is not a reward for anything but a necessity given the fact that the EU and Russia are neighbours, share the same strategic space, disagree about many things, face many of the same threats, and by working together could improve the lot of all Europeans. Nor should summits be seen as the end point of a diplomatic process, only taking place when agreements are ready to be inked. Summits should be re-instated and take place regularly to discuss, at leadership level, the many issues on which Russia and the EU disagree as well as to conclude efforts to make significant agreements in many of the areas touched on earlier in this paper.

About the Authors

Dr Ian Kearns, iank@europeanleadershipnetwork.org

Dr Ian Kearns is the co-Founder and Director of the European Leadership Network (ELN).

Previously, Ian was Acting Director and Deputy Director of the Institute for Public Policy Research (IPPR) in the UK and Deputy Chair of the IPPR's independent All-Party Commission on National Security in the 21st Century, serving under co-chairs, Lord George Robertson and Lord Paddy Ashdown. In 2013 he co-edited *Influencing Tomorrow: Future Challenges for British Foreign Policy* with Douglas Alexander M.P., the Shadow Foreign Secretary. He also served in 2010 as a Specialist Adviser to the Joint House of Commons/House of Lords Committee on National Security Strategy.

Joseph Dobbs, josephd@europeanleadershipnetwork.org

Joseph Dobbs is a Research Fellow at the European Leadership Network, joining in 2014. His current research focuses on EU-Russia relations, and emerging security issues, such as Russia-China relations, the Eurasian Economic Union and long term trends.

Joseph is a member of the Younger Generation Leadership Network on Euro-Atlantic Security, and co-chair of its Economic working group. Joseph is also a contributor to Geopolitical Intelligence Services (GIS), a private consultancy for which he writes about Chinese political and economic developments.

He studied at the Universities of Oxford, Hong Kong and Liverpool, and worked at the European External Action Service and in domestic politics in the UK.

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