

Can Russia Transition to Peace?

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Executive summary

- Lifting sanctions against Russia without genuine political reform in Moscow would directly undermine Europe's core security interests. Strengthening our defence capabilities while simultaneously offering Russia greater leverage represents a huge contradiction.
- Putin's war economy has painted him into a corner, making it impossible for him to back down. His continued grip on power is now fully dependent on his ability to bankroll arms production and pay his troops. Without a steady flow of state orders for the war industry, the Russian house of cards will inevitably collapse. Europe has the means to target key vulnerabilities in the Russian economy, thereby undermining Putin's war economy and strengthening the continent's long-term security.
- Internal repression has been a precondition for external aggression. There is no going back from the repression that prevails in Putin's Russia today. Releasing this pressure cooker would involve great risks for Putin's political survival.
- A ceasefire in Ukraine merely affords Russia an opportunity to replenish its stockpiles of weapons, and to deploy and train troops. Any real peace on our continent will require regime change in Russia and an end to its aggressive policies. We must prioritise support for Ukraine. Russia must not be permitted to benefit from its aggression.

While the headlines are dominated by speculation about a potential settlement, temporary or not, of Russia's war against Ukraine, insufficient attention is being paid to whether Russia is even capable of returning to more peaceful relations with its neighbours. Russia may be interested in talking about a "peace agreement", but would it be capable of implementing any genuine conditions for peace? Russia today is fully dependent on large-scale repression and a war economy. This is now part and parcel of the Putin system, which means that dismantling these domestic factors would shatter Putin's hold on power. A supposed peace deal with Putin – aiming for a lasting cessation of hostilities – simply makes no sense; unless, of course, US President Donald J. Trump intends to provide him with a financial and political lifeline, thereby enabling him to continue to pursue his aggressive agenda on a wider scale.

An Economy Entirely Dependent on the War Industry

There has been a heated debate among independent Russian economists in recent weeks about what should count as indicators of the state of the Russian economy. Their judgement on which data to trust determines what they make of the economy as a whole and their assessment of its capacity to continue to fund war-driven production. Some predict an imminent economic crisis, while others argue that it can limp on for several years to come. The exchange of opinions has begun to resemble a public quarrel but beyond the points of contention, all economists are in remarkable agreement on one thing. Without a steady stream of state orders for the war industry, the state of the Russian economy will inevitably seriously deteriorate. Putin's Russia is fully reliant on money pumped into war-related production. This dependence has become structural, and there is no plausible scenario in which an end to state orders for weapons and war materiel would not lead to a deep crisis – a crisis so serious that it might eventually pose a threat to Putin's continued hold on power.

In other words, Putin may be increasingly reliant on war or ongoing, non-military aggression towards Europe for his own political survival. Despite all the disagreements among economists, they agree that Putin has no alternative but to continue rearmament. In practice, the Russian economy has been broken up into two sectors: a sector driven by war-related orders, on the one hand, and all other goods and services, on the other. The first is characterised by several structural bottlenecks, limited access to sanctioned components, high interest rates and a shortage of qualified labour. The second is also affected by sanctions and disrupted trade relations, expensive credit, and a shortage of labour that has led to inflated wage levels and high inflation. Particularly noticeable are the soaring prices of many foodstuffs and temporary shortages of basic goods such as butter. The shortage of labour has driven up wages, which in turn has driven up consumption, and many sectors cannot keep up with demand. This constitutes a highly unstable economy, driven by state investment and vulnerable to outside pressure. A reset of trade relations with the US would undoubtedly reduce a number of these vulnerabilities. The lifting of US sanctions is therefore at odds with the core security interests of Europe.

Repression That Can No Longer Be Rolled Back

There is no going back from the repression that currently prevails in Putin's Russia. The country is centralised to an extent that has no parallel in Russian or Soviet history, outside of Stalin's time in power. The regional elites have been pushed back by appointed governors representing federal power, and there are really no mechanisms left to articulate or address local and regional discontent. The purpose of this widespread state repression is to push

back all opposition and force the population into passive acceptance of the decisions made far above their heads. Releasing this pressure cooker would involve great risks for Putin's political survival. The only way forward is to maintain or increase these levels of repression and to push back all tendencies towards discontent or independent organisation. For this reason, all grassroots initiatives today – regardless of direction – are met with mistrust by the state. Criticism is feared not only from liberal voices, but arguably more so from nationalists and right wing commentators. Internal repression is justified by both domestic and external threats. Russia seeks to cultivate an image of a besieged fortress to rationalise its domestic policies. Should a ceasefire be declared in Ukraine, the Russian state will still need to identify both internal and external enemies. If a US governed by Trump were to stop playing the main role of external enemy in Russian propaganda, and perhaps even come to be portrayed as a constructive and collaborative player, it is likely that liberal democracies in Europe would take on the role of Russia's main opponent.

The Mobilised

Various estimates have been produced across Europe regarding the timeframe in which Russia might regain its capacity to pose a wider threat, should a ceasefire provide it with respite. This commentary seeks to expand on these arguments by considering the issue from a domestic Russian perspective. Our estimate suggests that no more than 700,000 of those who enlisted to fight in Ukraine are still alive, and still have their arms and legs intact. As many have been killed or wounded. The ambition is to replenish forces with another 300,000 reservists. The ultimate objective, as outlined in a presidential decree issued in September 2024, is to bring the total strength of the Russian armed forces to 1.5 million service men. This would result in an army second only to China's in terms of size, exceeding those of both the United States and India. Current combatants have a relatively high average age; most are over 40 and, as a rule, are poorly educated. Today, they have a salary that far exceeds what they could earn from any other form of work, which is why many of them enlisted in the first place.

A review of data on new loans in the regions that account for a disproportionate share of enlisted soldiers shows an equally disproportionate share of new home loans and other forms of credit. This correlation suggests that those recruited have used the income from the war to improve their families' housing standards and general standard of living. Should they be demobilised, many will find it difficult to find a livelihood that makes it possible to pay off the loans. Demobilising these men – who are likely to be burdened by war-related trauma and skilled in the use of arms, and a proportion of whom have pre-existing convictions – would also present a substantial threat to public safety nationwide. The risk of widespread discontent from all of the above would come with a political cost to Putin. It will therefore be necessary for the Russian state to keep the men mobilised or provided for by some other form of state programme. Putin often talks about the war generating new elites. Behind this is the idea of advancing some former combatants within state-owned companies and the civil service. This plan presents major challenges, however, given the men's actual qualifications. A possible ceasefire would in the long run create a scenario in which Russia has an idle million-and-a-half-man army that is costing it money.

A Chance to Replenish the Granaries

In many Russian cities, shopping centres and other civilian structures have been converted into drone factories and other light industrial production linked to war needs. Focusing on

these changes gives a misleading picture of the Russian war industry – the general capacity to manufacture, for example, tanks and missiles, has not increased. On the contrary, Russia's military industry appears incapable of removing certain critical bottlenecks. The outside world's sanctions impose other limitations on the country's ability to rearm at the pace the authorities would have liked.

Russia's war in Ukraine has largely relied on Soviet stocks of old but robust war materiel. It is estimated that these will last for two more years before supplies start to run out in the granaries. There is therefore an incentive for Putin to agree to a temporary ceasefire. There are also strong incentives for Putin to ensure that sanctions are lifted and international isolation ended to speed up rearmament. Soviet military thinking, which has fostered today's Russian decision makers, was built on well-stocked warehouses. That the stocks are thinning should be something that worries them.

Only Regime Change Can Lead to a Less Aggressive Foreign Policy

Putin's hold on power has become entirely dependent on continuing confrontation with the EU and those of Russia's neighbours that refuse to comply with the conditions dictated by Moscow. His standing within the ruling elite is also contingent on the explicit strategic objective of re-establishing a Russian sphere of influence and securing its recognition by other global powers within a new multipolar world order. His political future is dependent on the continuation of a repressive apparatus within the country. Putin's Russia will continue to pose a serious threat to Europe's security for the foreseeable future. At best, we are entering a period of a new Cold War – a somewhat stable and predictable state of affairs – on our continent. The big difference from the previous Cold War is that Putin – unlike late Soviet-era leaders – does not fear war as a means, but has learned to see war as an opportunity. Nor does his Russia shy away from direct election influence, sabotage and non-military threats. Finally, Putin has not hesitated to use nuclear threats to back up demands for concessions from neighbouring countries and the outside world.

It is essential to Europe's continued security to deter Putin's Russia with all available means and to maintain the restrictive measures that hamper the country's ability to rearm and replenish its stockpiles of war materiel. Russia's Achilles heel is its continued ability to pump new money into war production and into the wages of the armed forces. Striking at that ability requires not only that current sanctions are maintained, but that even more creative measures are devised to hamper Russia's ability to rearm and threaten European security. Russia is not invincible, but offensive, coordinated and strategic means are needed to protect our security. The United States must understand the crucial link between our security and the continued economic isolation of Russia.

The possibility of lifting sanctions is also one of the few tools available for the day Putin no longer has the ability to rule Russia and a successor is about to emerge. A successor will initially be considerably weaker than Putin. Putin's first terms in power gave Russian society economic prosperity without historical comparison in this part of the world, and he was perceived as curbing the violent crime and wave of terrorist acts that characterised the turn of the millennium. This forms the foundation of his political legitimacy and is the reason why a majority of the population perceive no alternative to his continued hold on power. Propaganda has been highly effective in depicting any alternative as chaos. A successor will take over a country in economic crisis and with strong internal tensions.

An opening up towards Europe in exchange for a liberalisation of Russia, accompanied by increased freedom of speech, political pluralism and a withdrawal of repressive laws, would be one of very few positive changes that such a successor could offer Russian society and the Russian elites. It would also be an opportunity to seek justice regarding Russia's war crimes in Ukraine. It would be disastrous if the Trump administration were to relinquish the leverage the West possesses to encourage Russia to become a less hostile and more pluralistic state without securing anything positive in terms of European security in return. We must keep this ace in our hand because it constitutes our main opportunity to stop an aggressive Russia in the long run. In the short term, we should focus on supporting Ukraine. Russia must under no circumstances be allowed to reap the fruits of its warfare and the bloodshed it has staged on our continent. There can be no lasting peace in Europe while Putin remains in power. He needs war – or at least a Cold War – to cling on to his position. However, he would happily settle for a ceasefire that gives him an opportunity to gradually subjugate Ukraine and rebuild his military capabilities. It would be a tragedy if the US gave Putin a lifeline, forcing Europe to abandon hope for a more secure future. If it is strength that Trump is impressed by, he has fundamentally misunderstood Putin's position.

The strength worthy of admiration lies in the resilience of Ukrainian society.

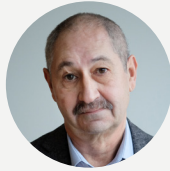
Recommendations

- In the light of the ongoing talk about “peace agreements”, a coalition of willing states must maintain as many of the sanctions and restrictive measures against Russia as possible. These are essential to: (a) hamper the country's ability to threaten Europe by military and other means; (b) undermine Putin's hold on power; and (c) retain a bargaining chip in relation to his future successor. Any lasting peace on the continent requires regime change in Russia. This would be a necessary – but not a sufficient – precondition for a less aggressive Russia.
- Europe must realise that it faces a long-term and structural threat from Russia that, at best, takes the form of a new Cold War. The Trump administration has made it clear that this threat is now Europe's responsibility. This requires not only rearmament on our part and the development of European defence and security cooperation, but also continuing measures to hamper Russia's ability to supply its war production and its armed forces. At this point, there is still a chance to bring the US on board and we should not miss that opportunity. The ability to pump money into the war economy is Russia's Achilles heel and our chance to defend ourselves.
- It is time to put Europe's long-term Russia strategy on the agenda. The US is considering Russia as a future trading partner. This represents a conflict of interests. Europe must, as a matter of utmost importance, restrict Putin's capacity to finance the war economy. We need to increase our understanding of developments within Russia, and to focus on actively undermining the Putin regime and its continued ability to threaten us.



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