



## Ukraine-EU Economic Accord Marks a Turning Point

*Anders Åslund explains why Putin's threats of retaliation against Ukraine, Moldova, and Georgia will hurt the Russian economy and its reputation among potential investors.*

*Transcript of interview recorded June 27, 2014. © Peterson Institute for International Economics.*

Steve Weisman: Ukraine and the European Union have at last signed an Association Agreement, which was at the heart of the furor and controversy within Ukraine over the last year. Anders Åslund has been following events in the Ukraine intensively all along and done several interviews with me, Steve Wiseman. Anders does this agreement [signed June 27] have any hope of quelling the unrest in Ukraine?

Anders Åslund: I don't think that it will do that trick. But, this is a very important agreement. This is the real turning point and importantly also Moldova and Georgia signed Association Agreements with the European Union. So you can say that this was the turning point.

Steve Weisman: How upset is President Putin over these developments?

Anders Åslund: He must be pretty upset. This means that he has lost three countries to the European Union.

Steve Weisman: But materially, what does it mean for Russia? Or is it more a matter of pride?

Anders Åslund: I think it's more of a matter of pride. The damage that has been done to the Russian economy is primarily done by the Kremlin itself. Russia has now carried out lots of trade restrictions against these three countries. For Ukraine, one-third of its exports to Russia have stopped and that is mainly agricultural produce and steel.

Steve Weisman: Ukraine's exports to Russia?

Anders Åslund: To Russia.

Steve Weisman: What about Russian exports?

Anders Åslund: Russia has stopped selling its gas to Ukraine. So Russia's simply disqualifying itself as a decent trade partner and this means that Russia's foreign trade is declining. You can't undertake substantial trade sanctions against three close countries without costing yourself something. And, of course, this also means that foreigners are less interested in investing in Russia.

Steve Weisman: And it desperately needs foreign investment.

Anders Åslund: Not desperately but it needs investment. And the Russians themselves don't invest and the foreigners don't invest. So investment in Russia is declining and that is a drag on GDP.

Steve Weisman: Now there's supposedly a cease-fire in eastern Ukraine, but is it holding?

Anders Aslund: It has not held at all any day. We can see that Russian forces, and actually separatists, but very much Russian-supported, have not recognized the cease-fire and practice every single day. And this week 18 Ukrainians so far have been killed.

Steve Weisman: Putin has been saying that he wants the cease-fire to hold. Is this just a complete ruse on his part? What's his game here?

Anders Aslund: I think that President Putin has been completely consistent all the time. He doesn't want the Ukrainians to do anything and he wants his side to be allowed to do anything that it cares to do.

Steve Weisman: What is the danger of Russian direct intervention? It seems to have been a big threat, then receded, then returned, then receded again.

Anders Aslund: I think that President Putin keeps three options open. One is to actually withdraw. One is to continue to destabilize the Ukraine in the long term and one is to carry out an invasion. He appears to keep all three options open and there are strong reasons to suggest that he doesn't really know what he's going to do. This does not say anything very good about him or about the situation.

Steve Weisman: How do you think the new leadership of Ukraine is handling it?

Anders Aslund: I think that President Poroshenko has acted fast and well. In such a situation you need to do three things. You need to shore up your western support. You need to intensify the warfare and you need to go for a peaceful solution. He's done all three in quite a clever fashion.

Steve Weisman: Can he suppress this rebellion on his own without provoking an invasion by Russia?

Anders Aslund: This is really question to the Kremlin rather than to anybody else. Ukraine has some military impact but in various ways the Ukrainian forces have been utterly penetrated by Russians so that it's very difficult for the Ukrainians to know whom they can trust. And, of course, Russia has the possibility of throwing in troops. The West, both the United States and European Union, are amazingly reluctant to undertake any sanctions as if they did not realize that sanctions are a very cheap alternative to actual of war.

Steve Weisman: The Europeans are more reluctant than the US, according to some reports.

Anders Aslund: At the same time the United States is not doing anything either. The United States has excellent opportunities because of its extra-territorial reach to undertake financial sanctions and high tech sanctions and energy technology sanctions and the United States has not done it.

Steve Weisman: Thanks very much for the update.

Anders Aslund: Thank you.

