



## **DOLLAR & SENSE: THE BROOKINGS TRADE PODCAST**

**“An update on Ukraine—security, economic, and humanitarian conditions”**

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*Guest:*

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*Episode Summary:*

A team of Brookings experts has just released the “Ukraine Index,” which presents security, economic, and political data to track the war’s course. One of the authors of the Index, Constanze Stelzenmüller, who directs the Center on the United States and Europe at Brookings, joins host David Dollar to discuss the Index and the latest data on Ukraine’s economic, security, and humanitarian conditions.

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**DOLLAR:** Hi, I'm David Dollar, host of the Brookings trade podcast *Dollar and Sense*. Today, we're going to talk about Ukraine, where Russia's invasion has been going on for more than a year now. My guest is Constanze Stelzenmüller, director of the Center on the United States and Europe at Brookings. Together with Brookings colleagues David Wessel and Mike O'Hanlon, she's produced a "Ukraine Index" to capture some elements of what is going on in terms of security, economics, and humanitarian issues. So, welcome to the show, Constanze.

**STELZENMÜLLER:** Thank you so much for having me on again, David. It's a pleasure.

**DOLLAR:** So let's start with this "Ukraine Index." Can you describe it for us and what do we learn from it?

**STELZENMÜLLER:** Sure. So, the "Ukraine Index" is based on some earlier models that Brookings did for the Iraq war and then for the Afghanistan war. And the "Iraq Index" and the "Afghanistan Index" went over years and built up a really rich trove of data to give some quantitative depth to what was a highly complex, and to many non-experts confusing image of what was happening on the battlefield, in Iraq and later and Afghanistan, and later in reconstruction and peacemaking, peacebuilding efforts.

And we thought that since this does not look like a war that will be resolved any time soon, and because there are so many moving parts to it, this—and and also, of course, because of the salience of this effort, this is the worst war in Europe since 1945 and probably the greatest both in quantitative and qualitative terms, the greatest efforts America has made in the postwar period since 1945 to support a nation fighting for its independence in Europe, namely Ukraine, against a Russian invasion. And we thought on all those counts, it is important and necessary to start collecting these data and contextualizing them.

**DOLLAR:** One element of the Index concerns economics, in particular exports and imports. So, I found this quite interesting. With the war raging, it's no surprise that Ukraine's exports are way down. They're down about 50%, which is probably a pretty good indication of what's happened to the economy in this in this terrible situation. But it's also interesting, their imports have held up and are basically at the same level as pre-invasion. And that leaves a large trade deficit of about \$3 billion per month, which means someone has to finance that. So, you know, who's providing aid to Ukraine and helping them sustain their consumption through all this.

**STELZENMÜLLER:** So, the source for this particular graph on the "Ukraine Index," which you can find on the Brookings website, if you Google "Ukraine index" and "Brookings," is the National Bank of Ukraine. And to be honest, since I'm not an economist, I'm responsible for the the political side of this index. I have to be speculative here. My my sense is that there is a huge amount of aid, both humanitarian and military flowing into Ukraine.

Basically, Ukraine is on life support in many ways and the Ukrainian economy is on life support, not least because because Ukraine, which is very rich in rare earths, in minerals and in grain, is being prevented from exporting much of its its production by by Russian bombardments and and by and by Russia preventing exports from Ukrainian harbors and the Black Sea. There is an exception being made for for grain supplies. But but even that agreement is up for renewal. And it's never quite clear whether the Kremlin is is willing willing to do this kind of thing. But I think that the bottom line here is without Western aid, the Ukrainian economy would, I think, be going belly up very quickly.

**DOLLAR:** It happens that the European Commission official, official responsible for rounding up the finance is a friend of mine from Beijing days. She was in Washington recently cajoling the IMF and talking with the United States. And she's trying to, you know, keep the European involvement. Europe's. The countries have put a lot of assistance into this. Do you think this coalition is going to get tired of the effort? I mean, is there any risk that that we we stop getting this kind of financial support for Ukraine?

**STELZENMÜLLER:** I think it depends on what us. Where where exactly in the coalition you look. It seems to me that the European effort has been remarkably united. And and American leadership has been remarkable as well. And I think that it is absolutely clear and for this you need only look at one of the graphs in in our economics section on the the U.S. and Europe provision of foreign aid to Ukraine, which is explained in much greater detail and sourced from the Keil University tracker, it's very clear that U.S. leadership, both in military terms, humanitarian terms, and financial terms, exceeds that of of the Europeans and the EU institutions.

But still, if you look at the absolute numbers on the European side, they are remarkable as well. And and I think the reason why that is happening is is twofold. One, the Western allies have have made a very conscious decision. Their clearest red line is that this is not a battle that NATO will get engaged with. They will not participate with military means, much less with boots on the ground in Ukraine. So the, their ability to help is constrained to weapons deliveries and to financial support and humanitarian support.

But I think all European capitals and the Biden administration are profoundly aware, and it must be said in all fairness, large parts of the GOP, that this is a battle for the future of European security and that America has a first order strategic interest in this. Now, why did I say large parts of the GOP? Because there is a movement on the hard right of the GOP, the MAGA right. But also it's just been articulated a few days ago by one of the presumptive presidential candidates, Florida Governor Ron DeSantis, that Ukraine and Ukraine's survival is not a first order American strategic interest and should be left to the Europeans. I believe this to be a mistaken analysis. And I'm a German and not an American. But I still think that a sane analysis of American national interest suggests that if Russia were allowed to win, were allowed to subjugate and to destroy Ukrainian sovereignty. Much more would be on the line than just the future of Ukraine.

**DOLLAR:** Just for the record, Constanze, I agree with you on this one.

**STELZENMÜLLER:** Thank you, that's a relief, but not a surprise.

**DOLLAR:** Another important aspect of what's happening and captured by the index is the whole issue of refugee flows. I mean, this is a really important humanitarian part of the whole situation. So, could you summarize for us what's happening with refugees flows, what kind of numbers we're talking about and where are people going?

**STELZENMÜLLER:** Sure, happy to do that. And I do want to say here, because I'm about to quote research that one of our Center on the U.S. and Europe assistants, Sophie Roehse, did for me, that without our research assistants this "Ukraine Index" could not have come into being and it would not exist at this point. There's three of them: Alejandra Rocha, Mallika Yadwad, and Sophie Roehse. And it was Sophie who pulled together the refugee numbers for me.

And they really are astonishing. Let me throw a couple of numbers at you. The estimated pre-war population of Ukraine is just short of 44 million, according to the World Bank. Twenty percent of that have left their homes and. There are 5 million plus or minus refugees from Ukraine in Europe. There are just sort of 3 million refugees in Russia. In parentheses, that includes huge numbers of abducted, forcibly abducted children that have been put up for adoption without consent of their parents. The adults that have moved to moved to Russia in many in many cases are put through so-called filtration camps. So it's really questionable whether the refugee flows to Russia can be can be considered as voluntary in any way that is legally relevant. There are about 300,000, 400,000 refugees in Canada and the United States. So, in total, 8.4 million refugees have left Ukraine. Add to that a about 5 million internally displaced people and you come to 13 million, which is an astonishing number.

**DOLLAR:** Yeah, that that is really astonishing. And and of all those issues you mentioned, I find the abduction of Ukrainian children, forced abduction particularly horrifying. Russia faces really disastrous demographics. You know, like, like a lot of countries, they're going to have declining population, but it seems particularly acute for them. So, it's really awful to be stealing children essentially, and, you know, turning them over to Russian families. It's going to it's going to be a huge mess sorting this out no matter how well the situation turns out in the end, the war.

**STELZENMÜLLER:** It's not just a practical mess. It is a war crime. It is a war crime by any legal standards. And that is why, as as *The New York Times* recently wrote a couple of days ago, in fact, the International Criminal Court in The Hague is now investigating those forcible abductions and the Russian attacks on civilian infrastructure, both of which are prohibited under international law as war crimes that might be liable to accusation and and criminal pursued and at at at the International Criminal Court. That is legally possible because Ukraine has given consent for the ICC to do so. Russian consent is not required in this case because these is this is a conflict that is taking place on Ukrainian territory.

**DOLLAR:** Immigration is obviously controversial in quite a few European countries. So is there—I'm thinking of immigration in general—you know, is there a danger that

these flows of Ukrainians will essentially become less welcome or unwelcome as this continues on?

**STELZENMÜLLER:** So, remarkably, this extraordinary outflow of refugees ... remember the last time that Europe hosted such numbers of refugees was in the course of the Yugoslav wars of the first half of the 1990s. And I believe at the time Germany hosted 400,000. It now has about a million. And remarkably, these refugees have been treated with a great deal of openness.

Remember when when the Germans took in about a million Syrian refugees in 2015 and it turned out to be very difficult to get them into housing, into the labor market. That has actually since happened, but but it took a very long time for the German institutions to make that happen.

And one of the lessons from that era is a so-called temporary protection directive, TPD, that the European Union promulgated and implemented in March 2022. So, within two weeks of the of the Russian invasion. And that has made it possible for Ukrainians to attain legal status in the EU countries without having to go through a formal asylum procedure. That avoids long processing times, it avoids overwhelming the asylum system, and it gives them right to access housing, employment and education, social, and medical services. There are just short of 5 million such Ukrainian refugees that are currently registered for this temporary protection across EU countries, which is truly remarkable achievement. That is a complete flip from what happened with the Syrian refugees or nearly 30 years ago with the Yugoslavs.

**DOLLAR:** It's very speculative at this point, Constanze, but I would be interested in your thoughts about what share of these refugees are likely to go back to Ukraine, assuming that peace can be established and what share are likely to stay? I mean, is there a chance that a significant population will stay in the European countries that they've gone to?

**STELZENMÜLLER:** It wouldn't be accurate to say that there have been no issues about the reception of these refugees. On the one hand, there are, because so many of them are close to Ukraine, especially in Poland, and in per capita terms, for example, Estonia has taken in many more than even Poland or Germany. And the other thing that I think has made it easier for countries to absorb these refugees is the solidarity because of the clarity of Russian aggression. Many of them are, in fact, an overwhelming number, nearly 90% of them, are women and children, they have very high level of education and they're filling labor shortages. But at the same time, it has to be said that a lot of municipalities, certainly in my country, in Germany, are now saying we have real objective absorption difficulties and we need we need government help with this.

Will they stay? Do they want to stay? I think that really depends on one thing above all, and that is the outcome of the war and the timing of that outcome in Ukraine. In general, anybody who studies refugees and internally displaced people will tell you, based on decades of of statistical work and interviews, that refugees don't want to leave their houses, don't want to leave their homes, they want to go back. But the longer that they are away, the worse that their country of origin is just destroyed, the

economy is destroyed, the worse the conditions that they would face as they return, the greater the incentives are to stay. So, it's a push pull thing.

And I think that if you look at the interviews that the United Nations High Commissioner for Refugees, the UN organization, specialized organization, tasked with taking care of refugees worldwide, if you look at the interviews that the UNHCR has done, you can see clearly that the proportion of those expressing a desire to return has decreased, but it's decreased at very high levels. Initially, about 78% said they wanted to return, now you have 66% saying they want to return. That's still two-thirds. Right?

You know, I think that in the long run, Ukrainians would integrate really well in Europe. I heard stories recently on a trip to Portugal of, I was told by the foreign minister that about 80,000 Ukrainians had left Ukraine and gone to Portugal after the dissolution of the Soviet Union, and that they had integrated really well, learned Portuguese very quickly, had attained Portuguese nationality. And that was one of the reasons why Portugal took in another 50,000 during this war and had very high pro-Ukrainian polling numbers, which is interesting. Shows you that people are very mobile and that people can adapt and will change their identity as necessary.

I mean, Ukraine is an extraordinarily rich and large country and if it were possible to negotiate or to find to end the war on terms acceptable to Ukrainians and see Ukrainians return to build up their country to reconstruct it, I think that would be a tremendous boon to the prosperity and to the security of Europe. And I think that's what we need to work toward.

**DOLLAR:** Yeah, as you say, Constanze, you know, achieving a durable peace is really the key here on this issue, many of the issues. If you got a durable peace, then that's the situation in which foreign aid actually works very well, because Ukraine was basically a wealthy country and had a lot of its infrastructure destroyed. But you can bounce back pretty quickly with a certain amount of foreign support, which Ukraine is very likely to get. And then if you start getting that kind of economic development going, then people are attracted back. I mean, we've seen this in a lot of cases. On the other hand, if you don't have a durable peace, then of course that's going to encourage people to stay in the new homes that they've relocated.

**STELZENMÜLLER:** Look, I think the the Western alliance has basically two choices here. And this is a really hard thing to say, I'll say it nonetheless. And it is the choice between two failed states on the Eurasian continent, or one. I believe Russia is on a dark downward trajectory for the foreseeable future. Putin and his KGB trained, crony thugs have essentially plundered the Russian economy and turned it into a kleptocracy. Right?

Hundreds of thousands of educated Russians, Russian elites have left the country since the beginning of this war. They, too, I think, are unlikely to come back if they look at the trajectory that their country is taking. But I do not see Russia becoming anything else than a slowly diminishing kleptocracy unless it both abandons its near imperial ambitions and develops a different form of governance. And that

presumably would be without the war criminal that's currently running it, right?, and his and his cronies.

Whereas Ukraine, I think, really has a choice. What we've seen in the past decade, ever since the uprising on the Maidan, is the creation of a genuine reformer generation. A generation of young Ukrainians who are remarkably innovative and adaptive, creative. Who have developed one of the best, if not the best armed forces in Europe, and who have a strong sense of national unity, and who are willing to do whatever it takes to save their country. If that kind of creative and transformative potential were unleashed on a peacetime Ukraine, the effect would be remarkable, given the given the tremendous natural resources that Ukraine has and its location on the Black Sea.

Pre-war Ukraine was the breadbasket of the world. It was also the steel mill of the Soviet Union in previous times. And again, as I said, it has it has really important rare earths that are necessary for much of modern high tech production. So, I think if all of that were brought to bear in a peacetime economy, Ukraine could contribute in an extraordinary way to the prosperity and security of Europe.

And let me add one one final point here. Ukraine is a is a Slavic country. Some of its citizens are Orthodox, some of it are Greek Catholic—this is complicated. But my point here is, this is a Ukraine that became a westward-facing, democratic market economy. That would be the single greatest threat to crony capitalism, the crony kleptocracy in Russia, that we could think of because it would show Russian citizens that it is possible to be a Slavic culture and live differently and live in peace with your neighbors. And in sovereignty and self-government and trade with the world without attacking your neighbors. That's the real threat to Putin here.

**DOLLAR:** So, last topic for you, Constanze, is let's talk a little bit about possible endgames for the war, the Russian invasion of Ukraine. Is there daylight among the different, some of the key Western allies on how this ends? And I would mention also in this context that China has offered a peace plan that quickly has been dismissed by the United States and and other European countries. So, you know, let's bring that into the mix.

**STELZENMÜLLER:** Yeah, those are two very important questions. Let me start with the Western side of this. I think that it is fair to say that the Western camp falls into basically two groups. There is what I've called in one of my *Financial Times* columns, the Axis of Prudence, which significantly includes both the Biden White House and the Chancery in Berlin. That camp thinks that it is necessary to give the Ukrainians enough weapons for them to not lose, but not so many weapons for them to perhaps escalate too quickly and thereby provoke the Russians into a counter-escalation.

And then there is the other camp, for which there are some proponents in other cabinet ministries in Germany, and particularly in Eastern Europe and Northern Europe, and I think in the UK, that says actually what the Biden administration's national security adviser, Jake Sullivan, has called "boiling the frog" bears risks of its own, namely the exhaustion of public consent and the exhaustion of, in fact, Ukraine itself. And that, in fact, it is important, it is the more prudent course, if you will, to give Ukraine enough weapons for it to make a major push so as to push back a Russian

offensive in the spring and summer and to regain control over the entirety of its territory.

A footnote to that is that I think most people make a reservation for Crimea where they're willing to entertain an international regime, sort of like the status of Berlin in the Cold War, whereby you do not accept Russian occupation, but you leave the resolution of the territorial sovereignty question to negotiations at a later date, simply because Crimea is so heavily securitized.

But otherwise, I think those are those are the two camps. And I have to say, to be completely frank, I myself belong to the camp that thinks that it is dangerous to lose too much time, that it is dangerous to exhaust Ukraine and it is dangerous to exhaust Western public consent, particularly since we have been very lucky in this winter with relatively warm weather and therefore gas prices went back down again. Industry was able to substitute, consumers were able to save, but there is no guarantee we'll have the same thing again next winter.

I think the safer course would be to attempt some kind of military resolution before the next winter. And why do I say a military solution? Because I do not think that, I do not see at this point either Kyiv or Moscow willing or able to come to the table for a peace negotiation. I, in fact, do not think that that the Russians have shown any signs of being willing to come to the table under any than their own conditions, which is unconditional surrender of Ukraine and Ukraine giving up its national sovereignty and culture. That is unacceptable not just to Ukraine but also to the West.

And the Chinese proposal to come to your last point, I think was ... disappointed many because it was couched in very vague generalities, spoke of respect for national sovereignty, was not willing to name Russia as the aggressor, and had very little concrete suggestions to make. At the same time, you know, Xi is about to visit Moscow. There are growing indications that the Chinese are not just supporting Russia indirectly by supporting Russian talking points about the war, but also willing to give them other means of support. And so that's another reason why the Chinese so-called peace plan met with little with little interest.

You know, is it important for at some point for there to be an international mediator? Yes. And other countries have expressed interest in that, such as Recep Tayyip Erdoğan's Turkey. But again, I think that we are still very far away from that.

And I do want to say if you if you travel in Germany like I do or in the rest of Europe, like I do with relative regularity, you see Ukrainian flags in many, many places hanging from public buildings and private housing. You hear Ukrainian spoken on the streets. And this war is very much a tangible presence for any European. And that's important to not forget. This is not something that is happening in a faraway country of which we know nothing. We all understand that this has a direct bearing on our own security interests and our prosperity. And this is literally, I think, the worst security threat to to hit Europe since 1945. That's that's where we are.

**DOLLAR:** I'm David Dollar and I've been talking to my colleague Constanze Stelzenmüller. You can look at the "Ukraine Index" on the Brookings website to get some real time sense of what's happening with key humanitarian security and



economic variables. But Constanze, I really appreciate the richness that you bring to the conversation that goes well beyond the data.

**STELZENMÜLLER:** And let me just say, if I may, that the “Ukraine Index” will be regularly, regularly updated every four or six weeks. So watch that space. There will be additional graphs and data as they are as developments on the ground warrant.

**DOLLAR:** And we’ll also bring Constanze back on a regular basis give us the rich texture of what’s actually going on. So, thank you very much.

**STELZENMÜLLER:** It’s been a real pleasure. Thank you so much.

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**DOLLAR:** Thank you all for listening. We release new episodes of *Dollar and Sense* every other week. So, if you haven’t already, follow us wherever you get your podcasts and stay tuned.

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Until next time, I’m David Dollar and this has been *Dollar and Sense*.