

# Research Russia-Ukraine

## The underdog has the upper hand now – what's next?

- **Ukraine's successful counter-offensive is another demonstration of its army's resilience and strength against a much larger yet underperforming Russian army. Still, it is too early to say whether the conflict has reached a turning point.**
- **In this note, we keep our scenario of a frozen conflict in the short term but outline five alternative scenarios. We see little room for peace talks but we also consider escalation unlikely. Meanwhile, odds for Ukraine winning the war have increased.**
- **We do not expect sanctions relief but instead highlight that businesses should start to envision opportunities arising from the reconstruction and recovery in Ukraine.**

**Over the weekend, Ukraine launched a successful counter-offensive against Russia in the Kharkiv region.** The northeastern offensive followed a tactical disinformation campaign by the Ukrainian army two weeks ago regarding an offensive in Kherson region, in country's south. Turns out, the southern offensive was a trick and just as Russia was moving its troops to the south, Ukraine caught the Russians off guard in northeast where Russian troops subsequently panicked and fled. In less than five days, Ukraine managed to retake more territory than the Russian army could occupy in four months.

**While we think it is too early to call the latest events a turning point, we see a number of alternative scenarios to our main scenario of a frozen conflict in near term.** As a word of caution, the scenarios presented below constitute a simplification of a very complex situation. Furthermore, they are not necessarily mutually exclusive, but could overlap or follow each other, and something we have not been able to envision, could also play out. In addition, we stress that we are not military experts, but build our views on the vast amount of foreign policy and military analysis available in public sources.

### Alternative scenarios: Ukraine win is far from guaranteed

**1) Ukraine wins (medium likelihood):** In this scenario, Ukraine forces the Russian troops back behind the pre-war frontline in Donbass and claims a victory. Whether a complete or a partial retreat (the latter implying a trench warfare along the 2014-22 lines), is less important for the global power balances, as losing the now-occupied territory in Eastern Ukraine would mark a substantial defeat for Russia. We see such a scenario plausible as long as no sanctions are lifted and Ukraine continues to receive support from the West, and considering the latest events, the odds have improved. *Russia is clearly underperforming:* its casualties exceed the number from its decade long-war in Afghanistan, troops' morale is low and shortages acute. Same time, sanctions hamper Russia's ability to replenish its weapons stock, while allies continue to equip Ukraine's highly motivated army.

**2) Escalation (very low likelihood):** In this scenario, Russia's decision to deploy ever more brutal force leads to an escalation. *The number of war crime files against Russia already runs into tens of thousands* and as a further sign of them not sparing any means, after Russian troops withdrew Kharkiv over the weekend, reports emerged of them bombarding civilian infrastructure in the region, marking another illegal action.

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We still see a high threshold for an outright intervention by the West, as stakes are so high. Russia resorting to the use of tactical nuclear weapons could be seen as crossing the line by the West, but for the same reason, we think Russia is reluctant to go that far.

**3) Russian mobilisation and martial law (low to medium likelihood):** In this scenario, Russia implements a mass mobilisation of troops and martial law in an effort to step up its traditional warfare. We think the likelihood of such is higher than for Russia resorting to nuclear weapons, but we still see this as low probability as *Putin seems determined to avoid* such a highly unpopular move and *currently there is a strong public support (>70%)* for the ‘special operation’. *Research shows* that authoritarian regimes are more likely to endure long wars without suing peace than democracies are, and that societal mass mobilisation tends not to have a statistically significant negative impact on regime stability. Nevertheless, decisive and delegitimising defeats in the battlefield may change the game, and hence, in the current delicate situation where the Russian army has suffered massive defeats, we think Putin cares for the public opinion enough to avoid a mobilisation.

**4) A peace deal entailing territorial concessions for Ukraine (low likelihood):** In this scenario, Russia would express its willingness for peace talks and Ukraine would agree. The talks were suspended in May and we are doubtful a deal could be reached at this point. Although both sides likely want the war to end, yet, Russia is unlikely to withdraw without any territorial gains (e.g. Donetsk and Luhansk) as it would lose face, and considering the ongoing momentum in the battlefield, it is hard to see Ukraine giving in to such. Instead, *98% of Ukrainians believe they can win and 64% believe they will not cede any territory.*

**5) A palace coup in Kremlin (low to medium likelihood):** In this scenario, the Russian army and/or elite turns against Putin and orchestrates a coup d'état which descends Russia into chaos and allows Ukraine to make further advances in the battlefield. Speculations of growing discontent and mutiny within the Russian army and the government were doing rounds in social media over the weekend, but as long as it is rumours only, it should be treated as such. Lowering the chances of a coup, in a difficult situation, *the Russian elite has had three options: to fight, flee or freeze.* The first two options could end very costly, and hence, many have opted for the third, effectively leading the system into a ‘political paralysis’. Then again, we think a coup is something that cannot be predicted, and if or when it happens, the Hemingway law of motion is likely to apply: “How did Putin’s regime fall? Two ways – gradually, then suddenly”.

## Sanctions to remain in short term

Whatever happens in the battlefield in the short term, we do not expect the West to lift sanctions imposed on Russia any time soon. We do not think the Western countries are willing to negotiate with President Putin at any point, and hence, it would require a new government in Moscow or strong reconciliatory actions by the Russian government towards Ukraine (e.g. financing reconstruction) for the West to even start considering loosening sanctions. Meanwhile, Russia is likely to continue weaponise energy, causing pain to Europe in the short term, but also making itself redundant in the long term.

## Reconstruction to require massive investments

*In a joint assessment released last week,* the Government of Ukraine, the European Commission and the World Bank estimate that the current cost of reconstruction and recovery in Ukraine amounts to USD349 billion. This figure will continue to grow as long as the war drags on. The reconstruction phase will bring plenty of opportunities for businesses. However, before that day comes, in order to make sure that day comes, the West should continue to support Ukraine by all available means.

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